COLLYER BRISTOW

ESG THE PRIVATE INVESTORS' PERSPECTIVE

YouGov

INTRODUCTION

The investment community has long provided private and socially driven investors with funds focused on responsible investing. The environmental, social and governance, ESG, agenda continues to gather pace driven by businesses and large institutional investors.

Yet private investors are increasingly taking their own investment decisions. They vote with their conscience and will invest in businesses that reflect their own values and desires for society.

Collyer Bristow recently commissioned market researchers YouGov to ask 501 private investors with at least £100,000 of investable assets for their views on ESG investment decisions and performance.

In this short report we explore how important the ESG agenda is to private investors, what drives their decision making, what aspects of the ESG agenda are most important, and the need for greater transparency in reporting.

This report includes the perspectives of private investors from across the UK with the majority of those participating based in London and the South East. Survey respondents were aged 18 and upwards, yet it is perhaps not surprising that most of those contributing to this report were aged over 45.

We believe this report raises interesting questions and challenges for both private investors, the investment management community, and, of course, the businesses in which we invest. We hope you too will find it interesting.

We would welcome your thoughts and observations.

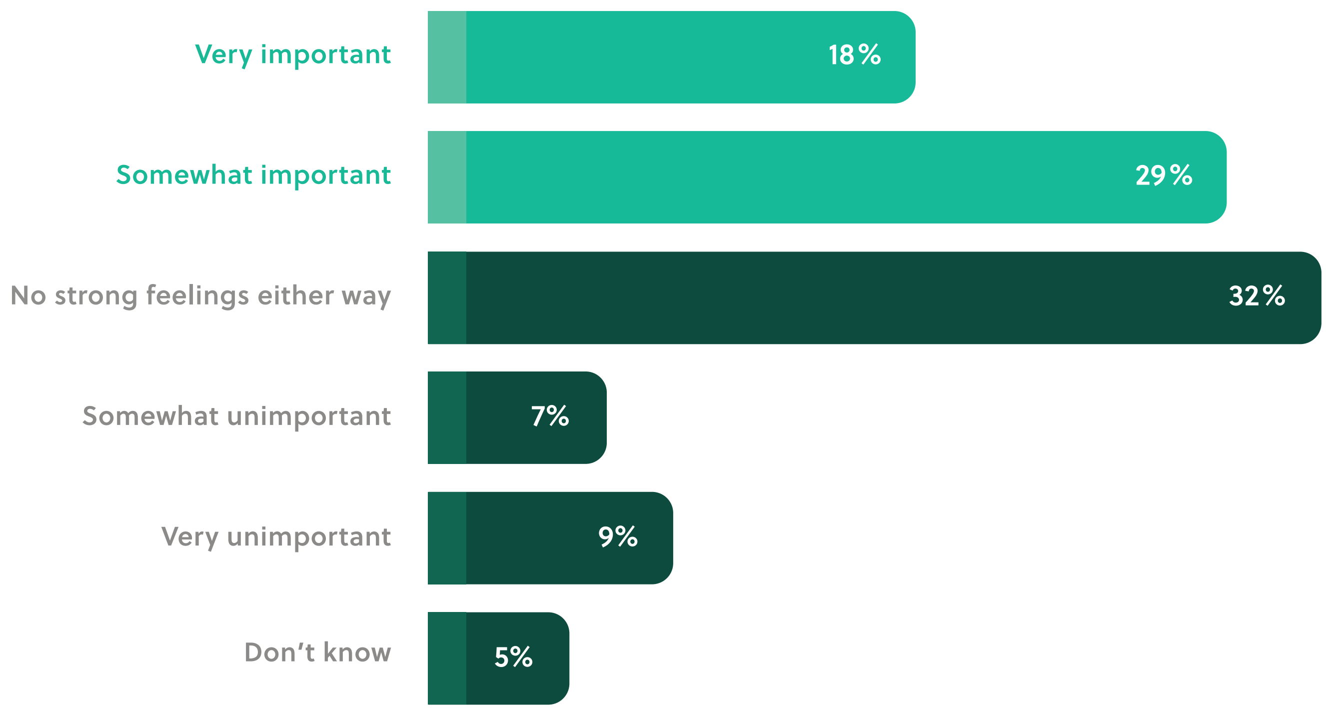
THE PRIVATE INVESTORS' PERSPECTIVE

The impact we have on our planet and on the communities in which we live and work is clearly visible and valued. The role we expect the business world to play increasingly echoes our own priorities and that is shaping investment decisions.

Our survey clearly shows that the ESG agenda is an important issue for many private wealthy investors, with 47% saying it is 'very important' or 'somewhat important'.

The data suggests that the ESG credentials of a business appear to be more important to women than men – 56% of women participating in this study say it is 'somewhat' or 'very important' to them compared to just 39% of men.

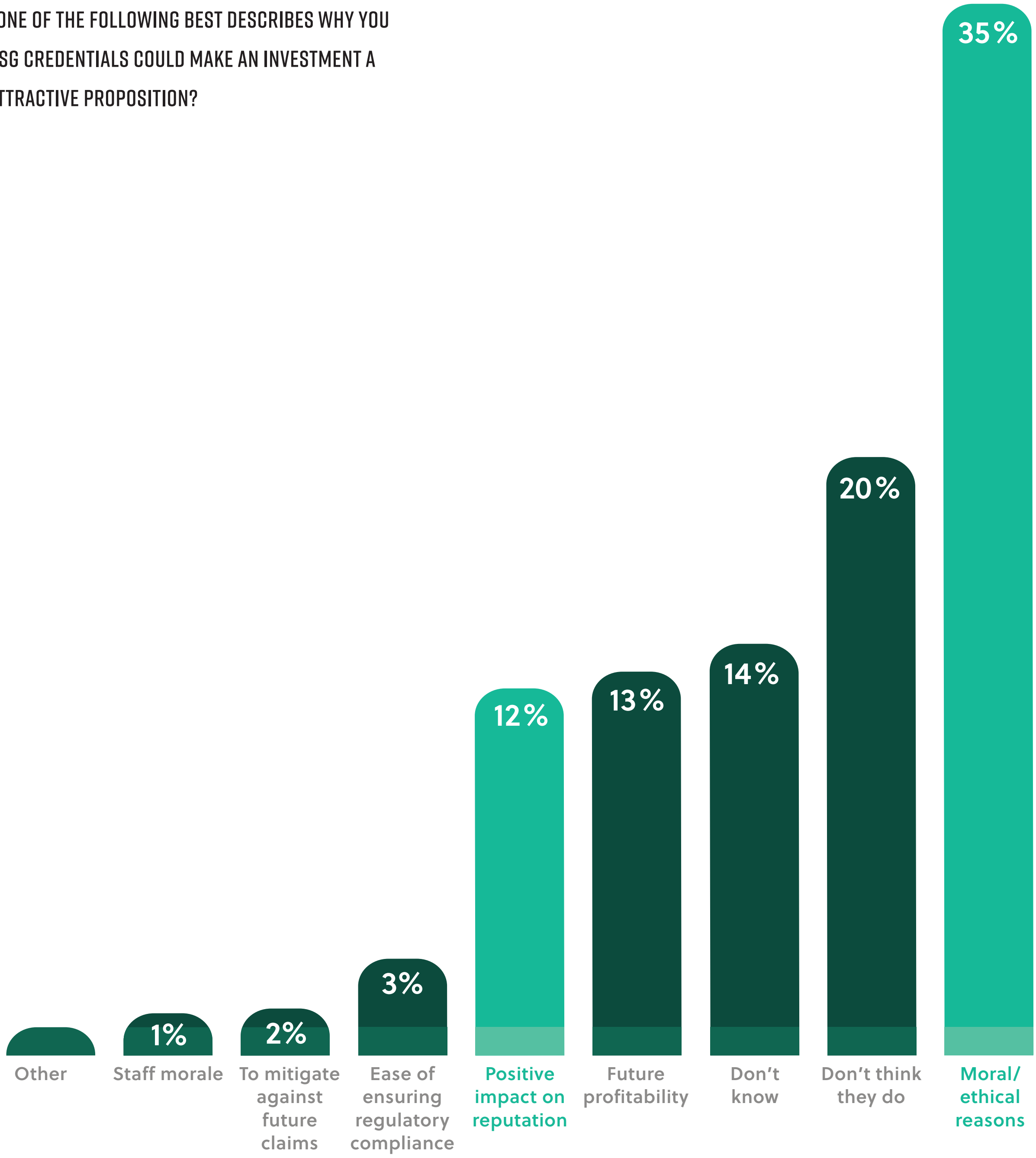
HOW IMPORTANT, IF AT ALL, ARE THE ESG CREDENTIALS OF A COMPANY - WHEN YOU ARE CONSIDERING MAKING AN INVESTMENT DECISION?



Whilst returns on investment remains important, the influence investors see their cash having appears to be of greater importance to some: 35% of investors in this study said decisions are driven by moral or ethical reasons.

Interestingly, private investors also hint towards a more personal reason – with 12% suggesting ethical investments are made to enhance their own reputations.

WHICH ONE OF THE FOLLOWING BEST DESCRIBES WHY YOU THINK ESG CREDENTIALS COULD MAKE AN INVESTMENT A MORE ATTRACTIVE PROPOSITION?



DO ESG POLICIES LIVE UP TO INVESTMENT ACTIONS? – THE RISK OF INVESTOR CLAIMS

One of the biggest challenges facing investors is that it is very difficult to define what is meant by ESG investment policies. There is no legal definition of what a green or socially responsible investment constitutes. As such, it is difficult to tell whether an investment's ESG-credentials are being exaggerated or misrepresented. Such "greenwashing", where misleading information about the environmental standard of an investment is conveyed to investors, comes with the risk of investor claims. In the case of financial services firms, the FCA has indicated that taking action against organisations that have greenwashed will be high on its agenda.

Investors who provide equity to private companies on the basis of representations made about ESG credentials may have a claim for misrepresentation or breach of contract if the information provided before investment was incorrect or agreements reached as to how the company would operate are breached and affects the investment performance or causes the investor other loss.

Greenwashing may also give rise to claims by shareholders of listed companies, for losses arising (likely in the form of a decline in share price) because of purchasing, holding, or selling shares in reliance on untrue or misleading statements about ESG policies or credentials.

Moreover, companies should not view the "E" as the end of the road. Consideration must also be given to the "S" and the "G". This includes, for example, statements by companies about limiting their gender pay gap or how the company will be managed.

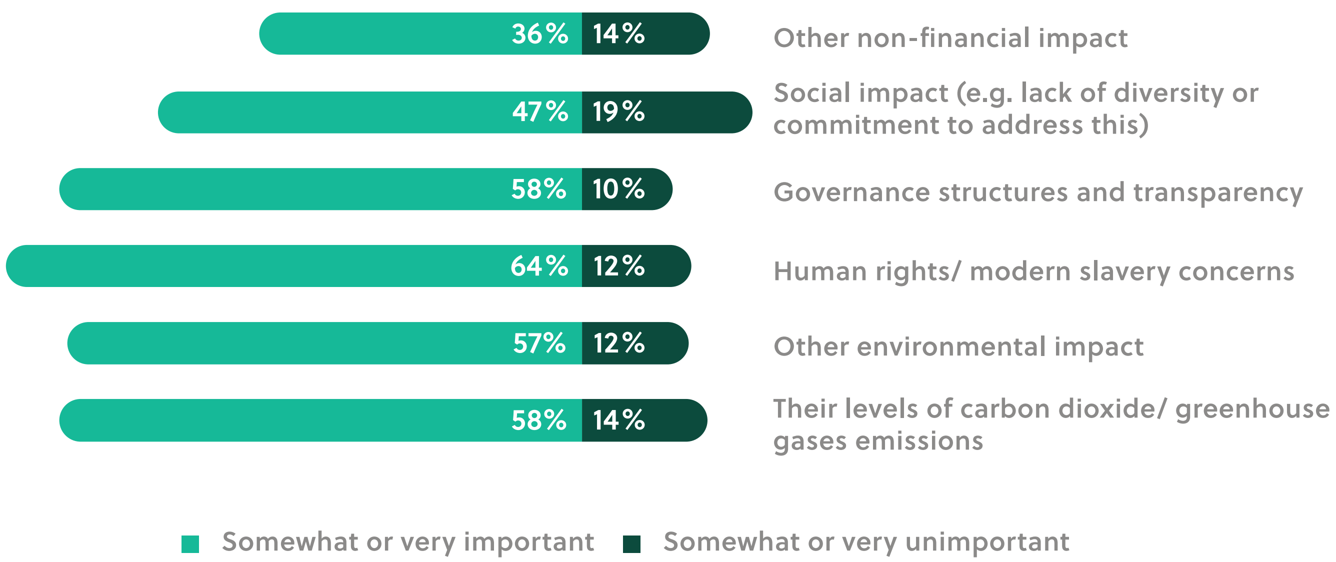
ESG is a very broad term and it is not entirely surprising to see businesses address individual aspects of the ESG agenda in varying degrees. For example, businesses often appear to make a greater play of their efforts to reduce their impact on the planet – the 'E' in ESG – when compared to the Social, the 'S', or Governance, the 'G', aspects.

That is a mistake. Many investors are looking for businesses to address all aspects of the ESG agenda. Governance, and particularly transparency of governance, and social concerns are equally as important as environmental and climate concerns.

These issues are shared almost equally between male and female investors with one notable exception – the lack of diversity. Just 39% of male investors see this as 'important' or 'somewhat important' against 57% of female investors. It is also interesting to note that women investors see carbon emissions and other environmental concerns of greater importance than their male counterparts.

Considerable efforts have been made to reduce gender inequality in the workplace, yet female investors seem to believe that more is still needed.

HOW IMPORTANT, OR UNIMPORTANT WOULD EACH OF THE FOLLOWING BE TO YOU WHEN ASSESSING THE ESG CREDENTIALS OF AN INVESTMENT OPPORTUNITY WITH A COMPANY?



AGE MATTERS

Our research shows very clear and differing attitudes towards the ESG agenda depending on age. Put bluntly, investors aged under 35 appear to expect organisations to hold higher ESG standards than investors aged over 35.

Our survey asked investors whether they agree that they would be more likely to invest in a company that made greater disclosures compared to one that did not. 61% of investors aged under 35 agreed with that statement. Conversely, only 49% of respondents aged 35 and over agreed that greater ESG disclosure would make them more likely to invest.

The picture is, however, more nuanced. The concerns of investors appear to change with age. Younger investors appear to value the E, environmental, and the S, social, over the G, governance, whereas older investors hold greater store in governance and transparency.

Investors aged under and over 35 cite human rights/slavery as their most importance concern, but differ otherwise. Investors aged under 35 say carbon emissions are the second most important factor, with investors over 35 saying that a company's governance and transparency is more important.

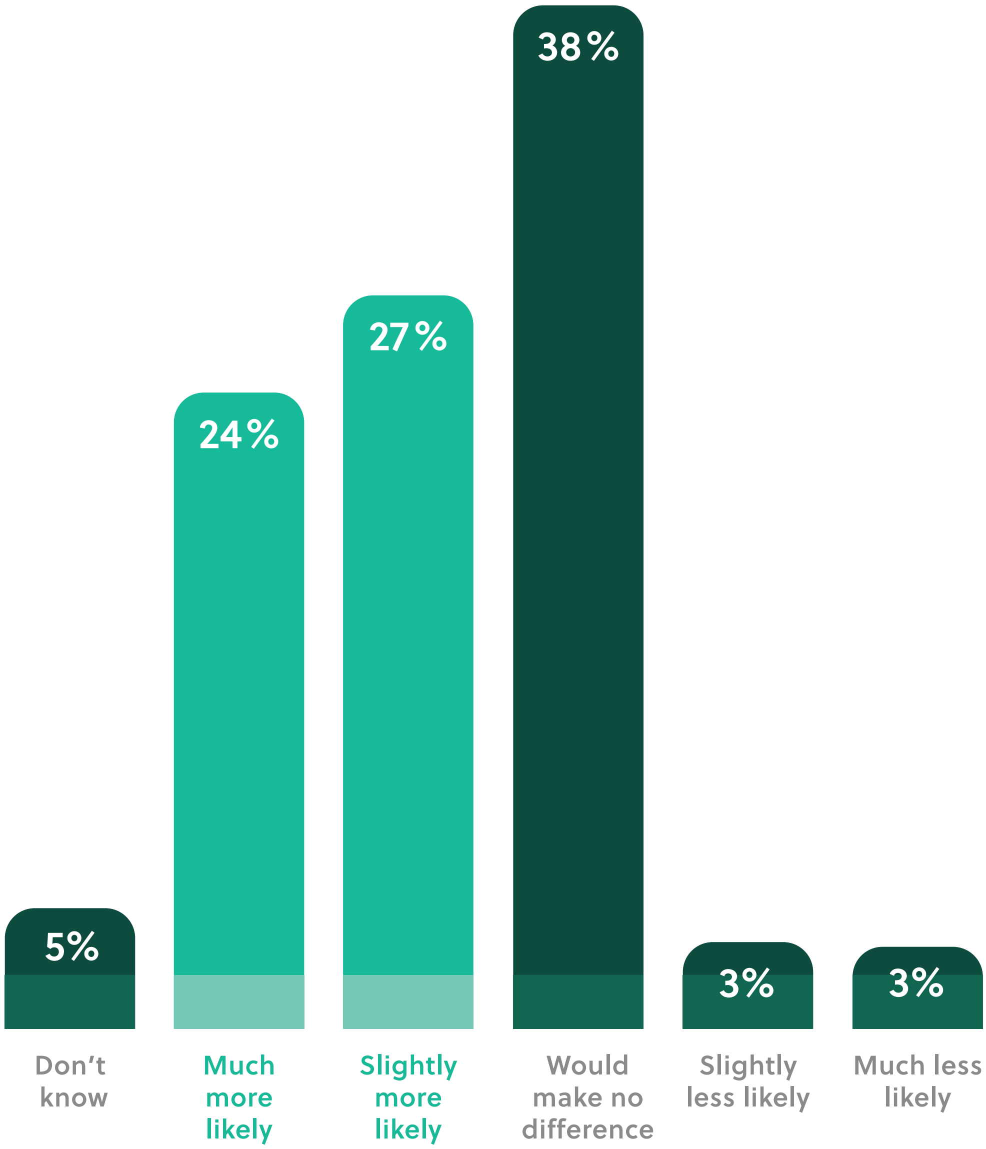
This research suggests that companies cannot ignore aspects of the ESG agenda or favour one aspect over another. If they do they risk alienating investors whatever their age.

The final two questions in our survey address the issue of reporting and transparency by businesses on their efforts to meet ESG requirements. They provide an interesting insight for businesses, the investment community, and regulators.

The majority (51%) of investors say greater transparency on the impact businesses have on the environment and climate would shape positive investment decisions. 47% also agree with the statement that 'Further ESG reporting requirements and greater transparency is needed in order to enable me to make more informed investment decisions with confidence'.

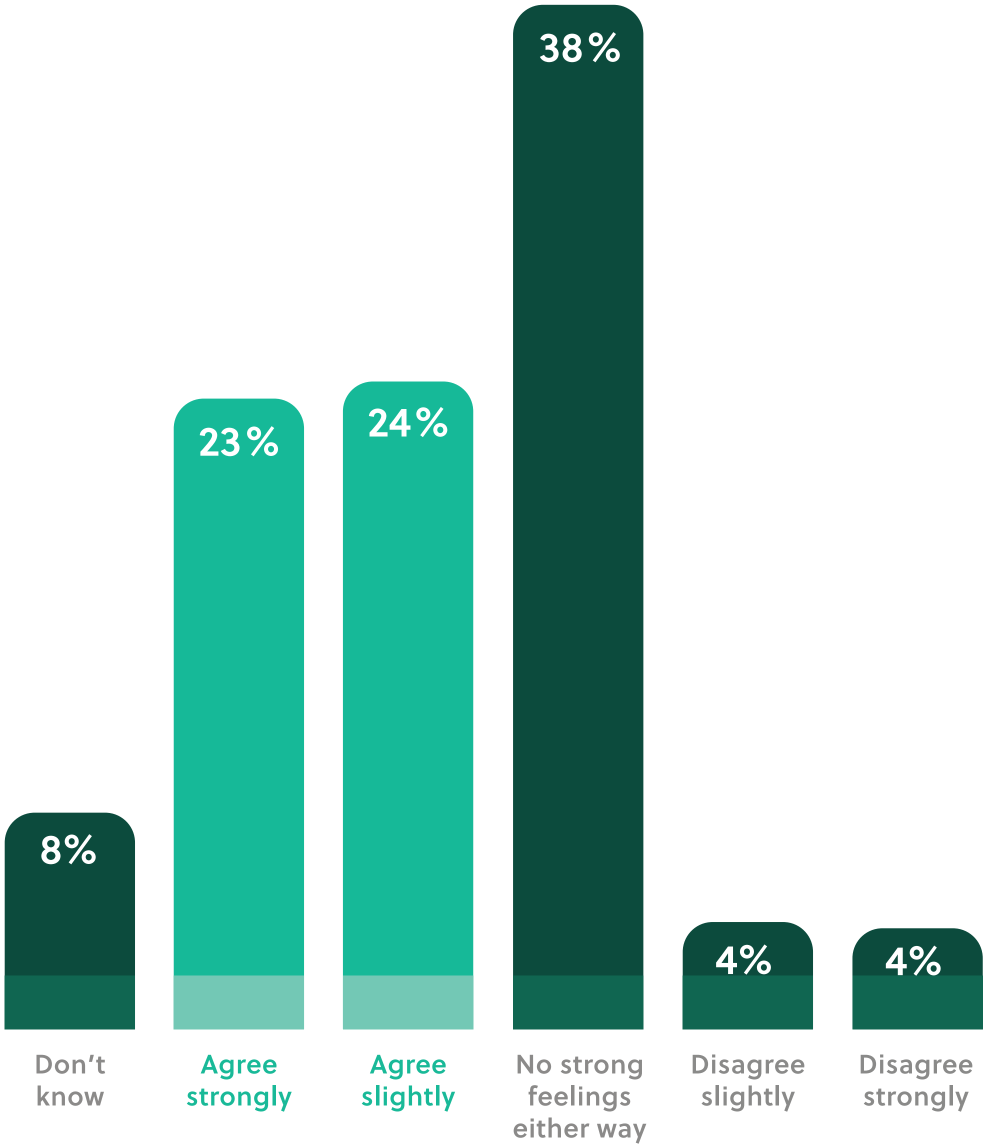
The question remains over whether businesses should be allowed to set their own reporting standards or whether regulations should be introduced to set minimum reporting standards?

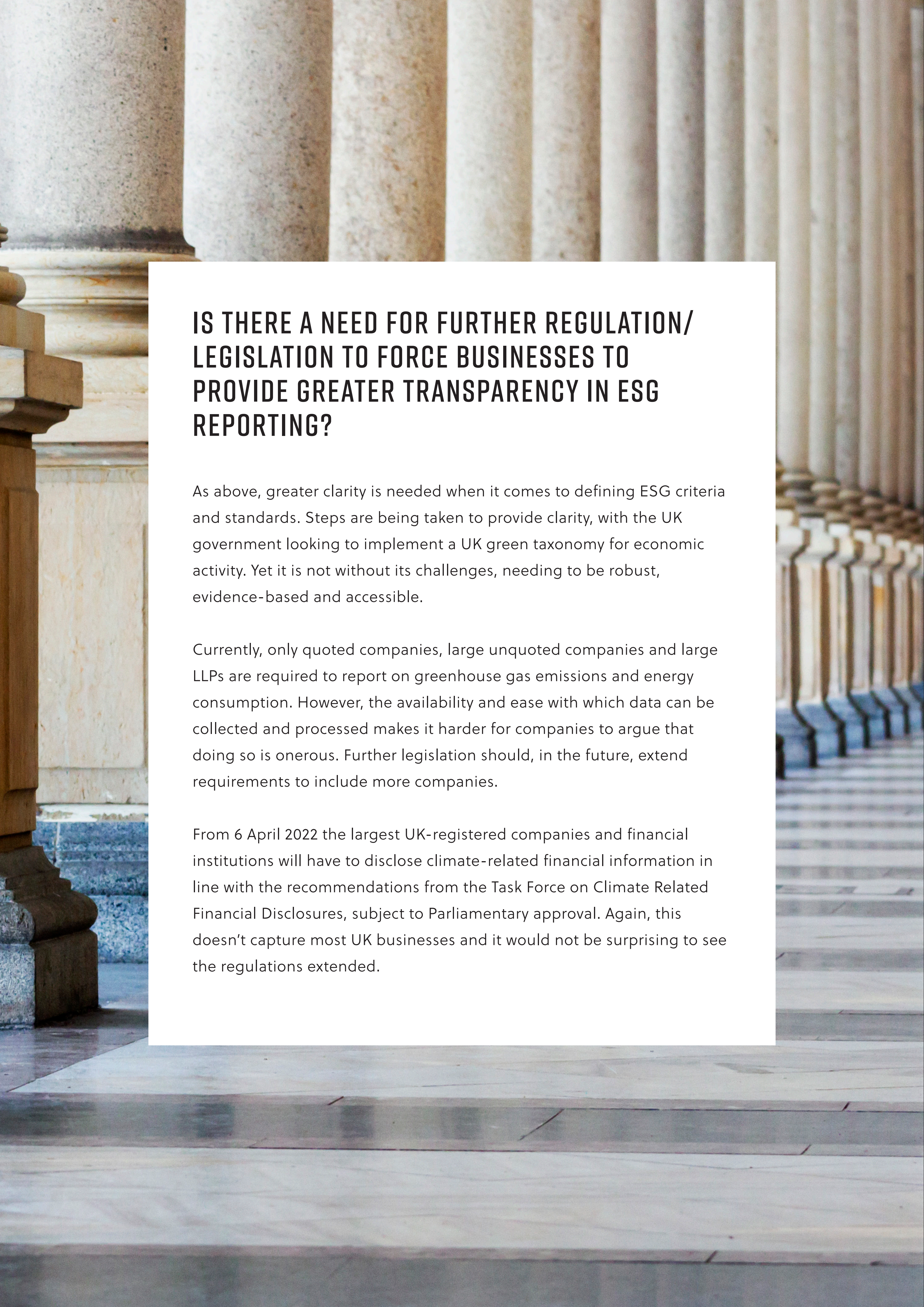
HOW MUCH MORE OR LESS LIKELY WOULD YOU BE TO INVEST IN A COMPANY THAT HAS GREATER DISCLOSURE/ TRANSPARENCY ABOUT ITS IMPACT ON CLIMATE CHANGE/ SUSTAINABILITY EFFORTS, COMPARED TO A COMPANY THAT DID NOT, OR WOULD THERE BE NO DIFFERENCE?



PLEASE TELL US TO WHAT EXTENT YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENT:

FURTHER ESG REPORTING REQUIREMENTS AND GREATER TRANSPARENCY IS NEEDED IN ORDER TO ENABLE ME TO MAKE MORE INFORMED INVESTMENT DECISIONS WITH CONFIDENCE.



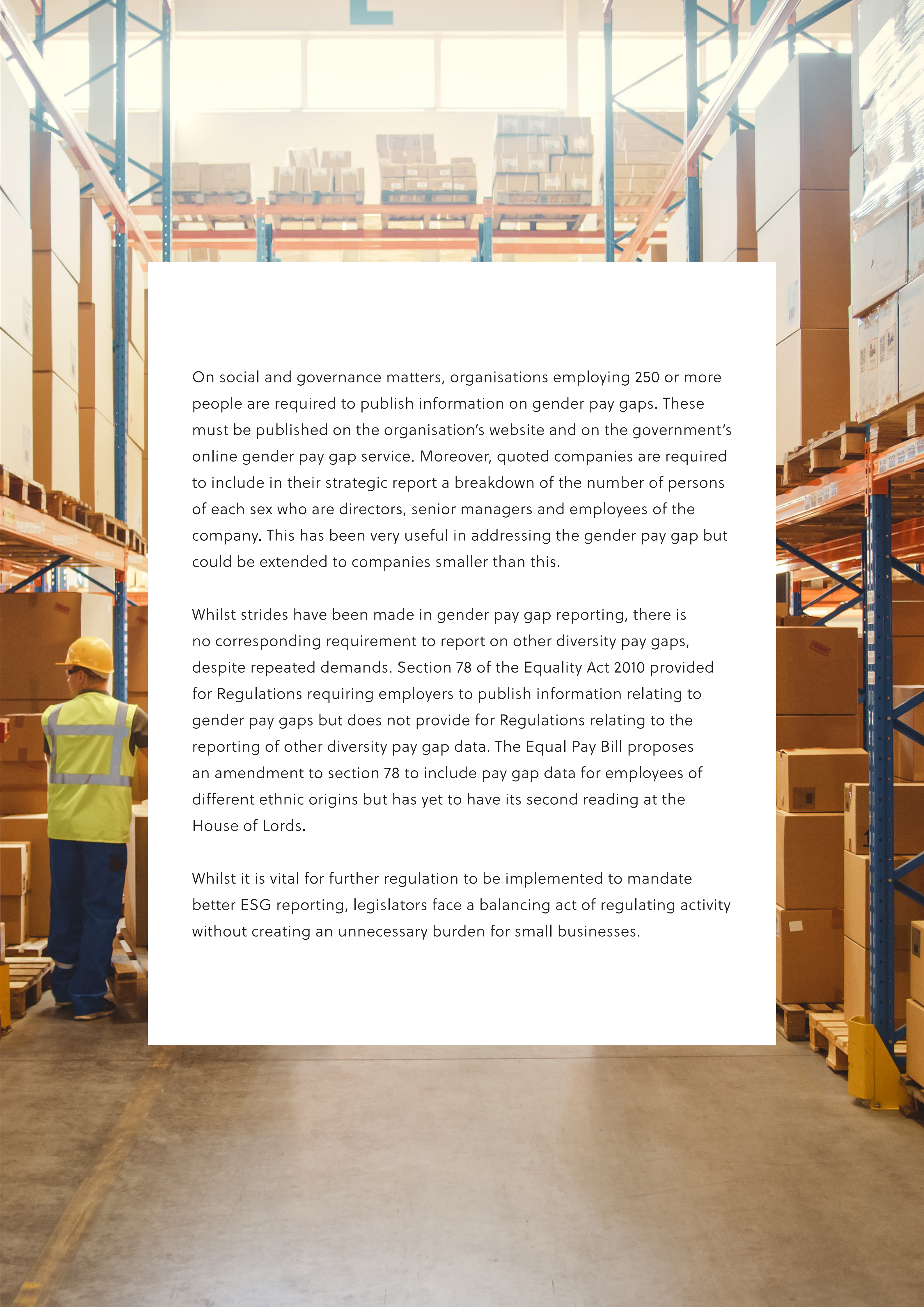


IS THERE A NEED FOR FURTHER REGULATION/ LEGISLATION TO FORCE BUSINESSES TO PROVIDE GREATER TRANSPARENCY IN ESG REPORTING?

As above, greater clarity is needed when it comes to defining ESG criteria and standards. Steps are being taken to provide clarity, with the UK government looking to implement a UK green taxonomy for economic activity. Yet it is not without its challenges, needing to be robust, evidence-based and accessible.

Currently, only quoted companies, large unquoted companies and large LLPs are required to report on greenhouse gas emissions and energy consumption. However, the availability and ease with which data can be collected and processed makes it harder for companies to argue that doing so is onerous. Further legislation should, in the future, extend requirements to include more companies.

From 6 April 2022 the largest UK-registered companies and financial institutions will have to disclose climate-related financial information in line with the recommendations from the Task Force on Climate Related Financial Disclosures, subject to Parliamentary approval. Again, this doesn’t capture most UK businesses and it would not be surprising to see the regulations extended.



On social and governance matters, organisations employing 250 or more people are required to publish information on gender pay gaps. These must be published on the organisation's website and on the government's online gender pay gap service. Moreover, quoted companies are required to include in their strategic report a breakdown of the number of persons of each sex who are directors, senior managers and employees of the company. This has been very useful in addressing the gender pay gap but could be extended to companies smaller than this.

Whilst strides have been made in gender pay gap reporting, there is no corresponding requirement to report on other diversity pay gaps, despite repeated demands. Section 78 of the Equality Act 2010 provided for Regulations requiring employers to publish information relating to gender pay gaps but does not provide for Regulations relating to the reporting of other diversity pay gap data. The Equal Pay Bill proposes an amendment to section 78 to include pay gap data for employees of different ethnic origins but has yet to have its second reading at the House of Lords.

Whilst it is vital for further regulation to be implemented to mandate better ESG reporting, legislators face a balancing act of regulating activity without creating an unnecessary burden for small businesses.

CONCLUDING THOUGHTS

The results of our survey show that ESG issues are important for many private investors. Whilst not yet for the majority of the survey participants the 47% figure shows that it is approaching that point. With greater regulation around this area in many industries, will come greater risk associated with ignoring these issues when deciding whether to make an investment and this may tip the balance for those not currently focussing on ESG credentials.

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