

PwC's UK investor survey

The economic realities of ESG



Investors are focused on how companies are managing environmental, social and governance (ESG) issues. Businesses need to pay attention and respond.

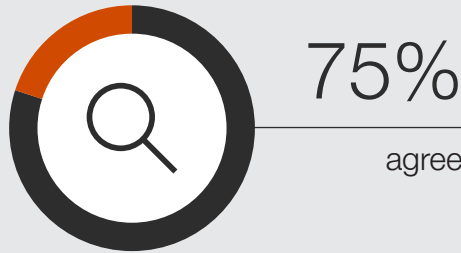
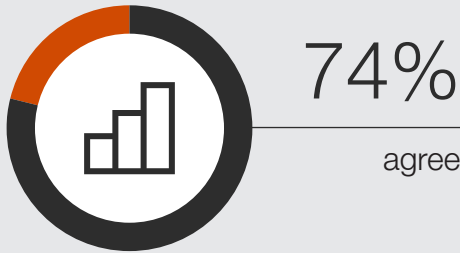
As part of our global investor survey we heard the views of 80 investors and analysts focused on the UK market and had in-depth conversations with 5 more. Here's what we learned.

Priorities, progress and performance: Investors want companies to focus on the ESG issues that are most important to their business

ESG is becoming a critical component of investment decision making.

How a company manages ESG risks and opportunities is an important factor in my investment decision making

I consider a company's exposure to ESG risks and opportunities when screening potential investment opportunities



People have been doing ESG long before it was called ESG. Many of these topics have been part of long-term investment thinking for quite a while, but perhaps haven't had that label.

Sustainable equities analyst

For ESG issues to be managed effectively, investors expect ESG to be a core part of a company's strategy.

Companies should embed ESG directly into their corporate strategy

85% agree

I'm more confident that companies are on top of ESG risks and opportunities if someone in the C-suite is accountable

68% agree

ESG performance measures and targets should be included in the executive pay arrangements

68% agree

Board directors are sufficiently knowledgeable about the ESG issues facing the company

50% agree

UK investors think tone from the top is critical, and many told us that responsibility for ESG should lie with someone in the C-suite. They see executive pay as a lever to encourage sustainable change. Another element is the skill set and experience the board brings, and investors aren't confident that directors have the requisite knowledge about ESG issues. As one portfolio manager told us, **'When investor relations has no clue on ESG questions, and you ask the board and they also have no clue, that tells you the story.'**

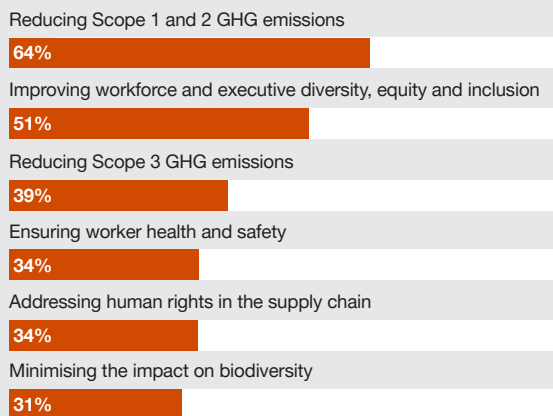


If companies align their CEO pay to their net zero commitments it shows that they're trying to make sure that, over the longer term, management is doing what they say they're doing.

Global head of ESG research

Investors are clear that reducing greenhouse gas emissions should be the top ESG priority for business.

Top ESG issues in order of importance



Respondents were allowed to select up to five issues to prioritise

UK investors understand that managing these issues comes at a cost, and think companies should make investments that address ESG issues relevant to their business, even if it reduces profits in the short term. And if done properly, this can be an investment in the future of the company that can be value enhancing.

79%

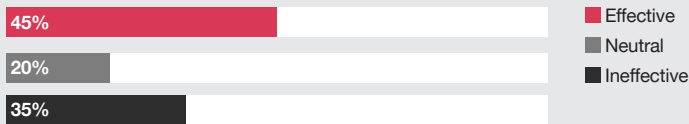
of respondents agree that companies should address ESG issues even if doing so reduces short-term profitability



Supporting change: Investors want to play a part in incentivising companies to take action – while protecting their investment

Capital allocation can be a critical lever that can incentivise sustainable business practices and punish those that aren't undertaking them.

How effective is the investment profession currently at shifting capital to companies that are making progress towards net zero?



ESG investing should focus primarily on companies or assets that require the most change on their transition to become sustainable rather than those that already are



Asset managers are making a difficult decision every day: should they back only sustainable companies or direct capital towards and use their influence as shareholders with those that require the most change to become sustainable?

But investors are able to shift capital towards companies making progress towards achieving net zero only if they have the information they need at their disposal to inform their decisions.



If you value having an investment, it's best to use your influence as an investor to get them to transform, stick it out with them. Divestment isn't always the answer – companies want to change and they need investor support to do so.

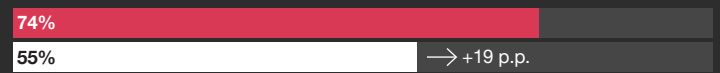
Governance professional

Investors will take action if they think a company is not doing enough to address ESG issues.

If UK investors think a company isn't doing enough about ESG, seeking change by engaging with companies is by far the most commonly used tool, both now and looking ahead. Encouraging sustainable change through inclusion of ESG targets in pay is another lever, and they will also use their power to vote and, if necessary, will vote with their wallet and divest.

- Likely to take this action in the future
- Have frequently taken this action
- GAP

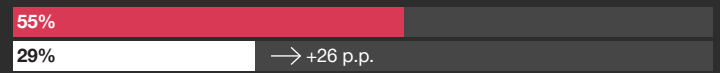
Seek to enter into a dialogue with the company



Seek inclusion of ESG targets in executive pay



Vote against the executive pay agreements



Vote against director appointments



Sell my investment (divest)



The tradeoffs are real and managing investor expectations is critical.

Investors are torn between what they view as a responsibility to the planet and society and their fiduciary responsibilities to their clients. Although UK asset owners and asset managers said they think it is worth companies sacrificing short-term profitability to address ESG issues, they don't feel the same way about the impact such actions may have on their investment returns.

I would be willing to accept a lower rate of return on investment in a company that undertakes activities that have a beneficial impact on society or the environment



- Agree 39%
- Neutral 21%
- Disagree 40%



Investors need to be able to have a frank conversation with management about how they see the future, the investments they are making and how they will be managing any trade offs to ensure the company is sustainable, viable and lasts into the future.

Independent analyst

Bringing investors along on the ESG journey: Investors have high expectations of reporting, but their information needs are not being met

Corporate reporting is the first port of call for investors trying to understand business performance and prospects – and the risks associated with them.

Most frequently used sources of ESG information

- 1 Annual report, sustainability report
- 2 Investor presentations, earnings calls
- 3 Third party data providers
- 4 Press releases
- 5 Meeting with company executives or the board

Investors look to companies to explain the meaning, relevance and effect of ESG issues on their business. If the market has the information it needs to factor into asset prices the expected payoff of a company's ESG investments, there shouldn't be a hit to returns – which means that investors don't have to sacrifice returns in an effort to do the 'right' thing.



There is a lot of virtue signaling without any substance behind it. I find that company reporting can be too positive and doesn't include the challenges that companies are facing. There needs to be balance.

Governance professional

Top characteristics investors are looking for in ESG reporting

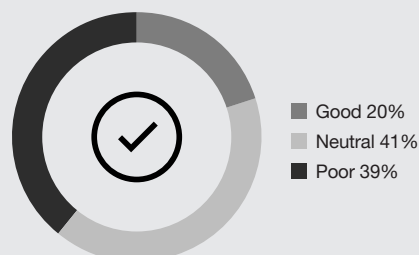


% of respondents who think this characteristic of reporting is important

Investors need better information about how companies are dealing with ESG issues.

Not only is the quality of information lacking about companies' plans for reaching environmental and social commitments made and their progress towards ESG targets, UK investors even struggle to get good information on areas as fundamental as the relevance of ESG factors to the company's business model.

How would you describe the current quality of ESG reporting?



Based on the average response to a series of questions on ESG reporting quality

Investors are making a clear call for standardisation, comparability and consistency in reporting to help them do their job more effectively.



We know from our investment process that there is limited comparability and data across companies, because of challenges in collecting data and the different ways of reporting similar data points. Frankly, I have a suspicion that the rigor applied to ESG data collection and reporting, and also possibly oversight is frankly much lower than it is for financial data.

Sustainable equities analyst

It is important that ESG reporting is prepared in accordance with a recognised non-financial reporting framework (e.g., SASB, TCFD, GRI)

My investment decision-making would be better informed if companies applied a single set of ESG reporting standards (e.g., similar to IFRS for financial reporting)

A company should prepare ESG reporting using a reporting framework in its entirety (where material), not a subset the company chooses

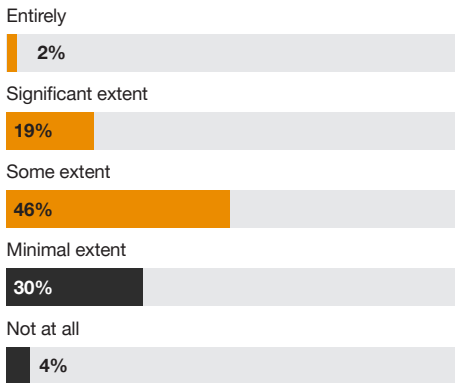


ESG ratings also play a part in informing investment decisions.

I use ESG ratings and scores in screening potential investment opportunities

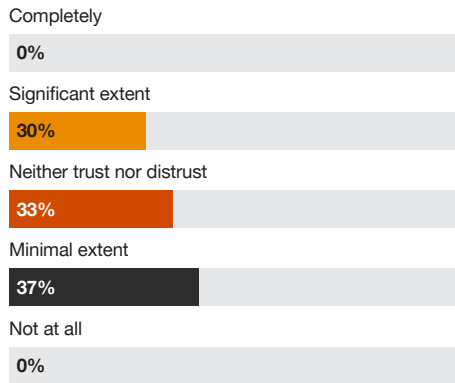
65% agree

To what extent does your investment analysis pertaining to ESG issues rely on external ESG ratings and scores?



While many investors rely on ESG ratings in their investment screening and their ongoing analysis, a significant minority place little trust the information they are getting.

To what extent do you trust the ratings and scores provided by ESG ratings agencies?



The data challenge is massive, and it's not easy because the reality is, the way that ratings providers operate, the scoring is basically a black box. It's very difficult to engage with them or to understand how they get their underlying scores. That's why we created our own data platforms.

Global head of ESG research

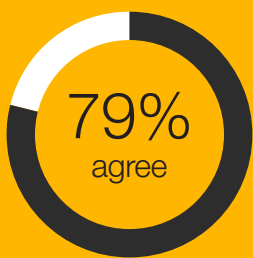


Auditing in the spotlight: Investors have more confidence in the information they use when it has been independently assured

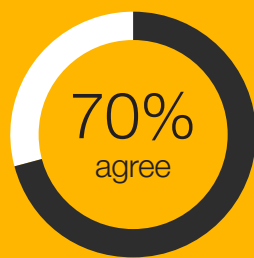
A fundamentally important quality of good reporting is its reliability.

UK investors trust ESG information more when it has been assured. They value independent assurance on metrics and KPIs more than on narrative disclosures given investors' intense focus on numbers in their daily work. They also don't want companies to pick and choose the parts of reporting that they get assured.

I place more trust in the ESG information if it has been assured



Companies should be required to obtain assurance on all material ESG information, not on a subset that the company chooses



It is important that reported ESG information has been independently assured

ESG-related metrics



ESG-related narrative disclosures



Companies' disclosures of ESG information should be assured at the same level as a financial statement audit (i.e., reasonable assurance)

ESG-related metrics



ESG-related narrative disclosures



In our interviews, investors expressed uncertainty about whether it's evident which parts of reporting have been assured, let alone the type of assurance that has been provided. But they were clear: many prefer a reasonable assurance level – that is, the same as the financial statement audit – on company ESG reporting.



The reality is, for ESG data points to be used more in an investment process, reliability is key. To get there, the overall standards of data collection and assurance need to improve.

Sustainable equities analyst

Investors have high expectations of an organisation providing assurance on ESG reporting.



Regulation of auditors helps with accountability. Otherwise, I have no one to make a complaint to if I think something's not right.

Analyst

UK investors expect assurers to be subject to an ethical framework that reinforces their independence, integrity and objectivity. They also prioritise assurers having experience in applying assurance methodologies and standards and having appropriate quality management systems in place. Also critical is expertise in what's being assured.

The firm and its employees are subject to regulated ethical standards and independence requirements



The assurance work is conducted using a recognised assurance standard



The firm has appropriate quality management systems in place



The assurance work is conducted by a team that collectively has expertise in both providing assurance and the subject matter covered by the assurance



% of respondents who think these attributes of an assurance provider are important



Investors find value in assurance reports as a way to find out if there is something they need to know.

I read them as a matter of course



I skim them to see if there is something I should be aware of



I read them if I have a specific interest or concern



I never read them



% of respondents indicating they read assurance reports for these reasons

Methodology

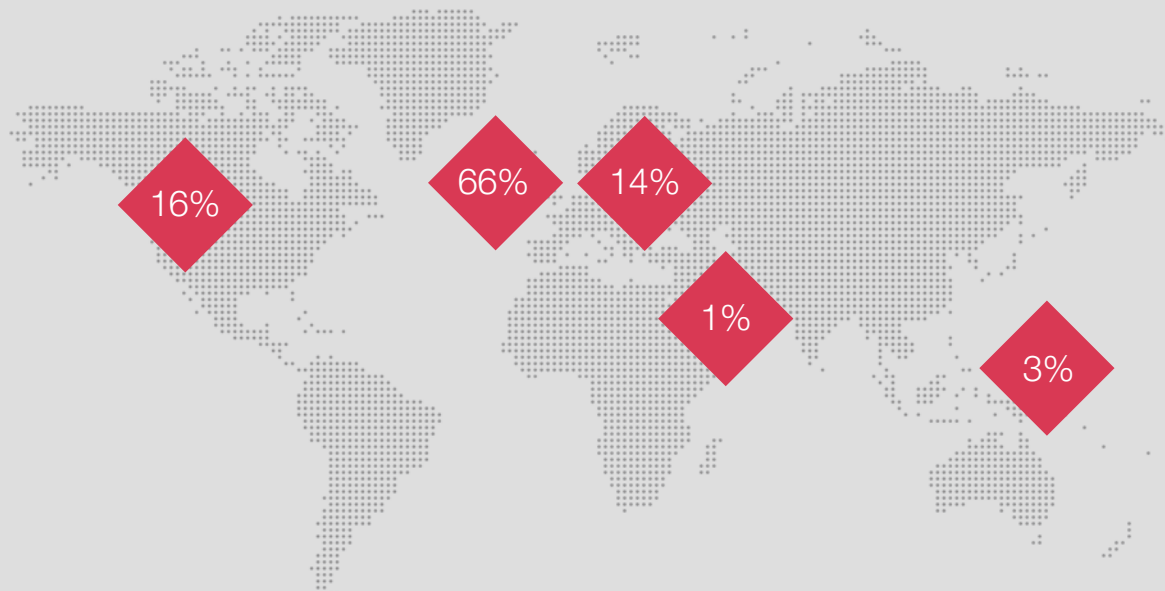
About our survey

In September 2021, PwC conducted an online survey in which we received responses from 325 investment professionals across 43 territories. We also conducted 40 in-depth interviews with investors and analysts in 11 territories. The respondents to the online survey were spread across a range of industries, roles and specialisms. The online research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services. The in-depth interviews were conducted by partners and staff of PwC.

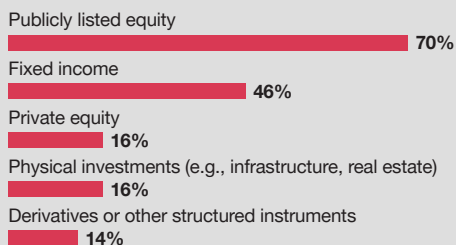
This report represents the views of 80 online survey respondents focused on the UK market and 5 in-depth interviews held with investors and analysts based in the UK.

Respondent demographics

Base location

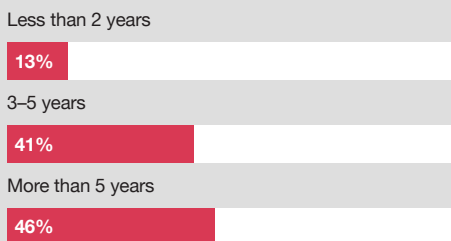


Asset classes



Respondents were asked to indicate which asset class they focus on and could select more than one response

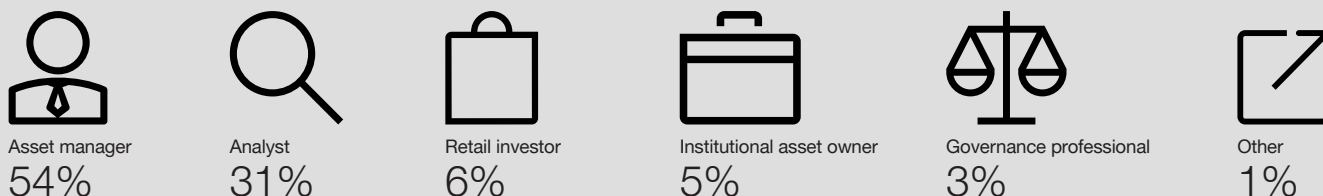
Equity investment horizon



Is your organisation a signatory of a responsible investing body or initiative (e.g., Principles for Responsible Investment)?



Role



Please note: throughout this document, due to rounding, percentages may not add exactly to 100%

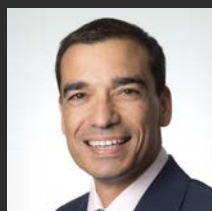
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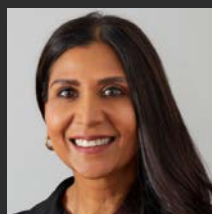
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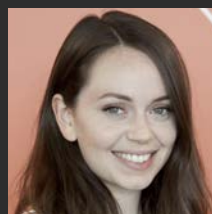
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