


UK Investor Survey 2022

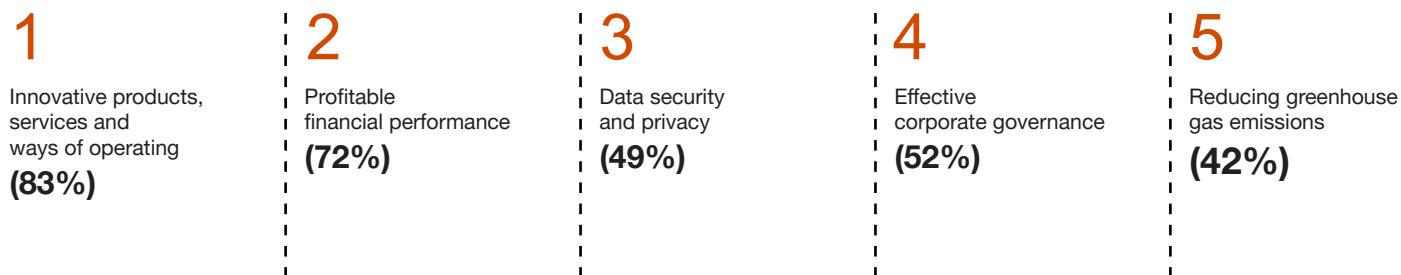
The ESG execution gap



In response to demands from investors, businesses have made significant progress on ESG commitments, but there's more work to be done. As part of our Global Investor Survey we heard the views of 99 investors and analysts focused on the UK market. Here's what we learned about their priorities and concerns

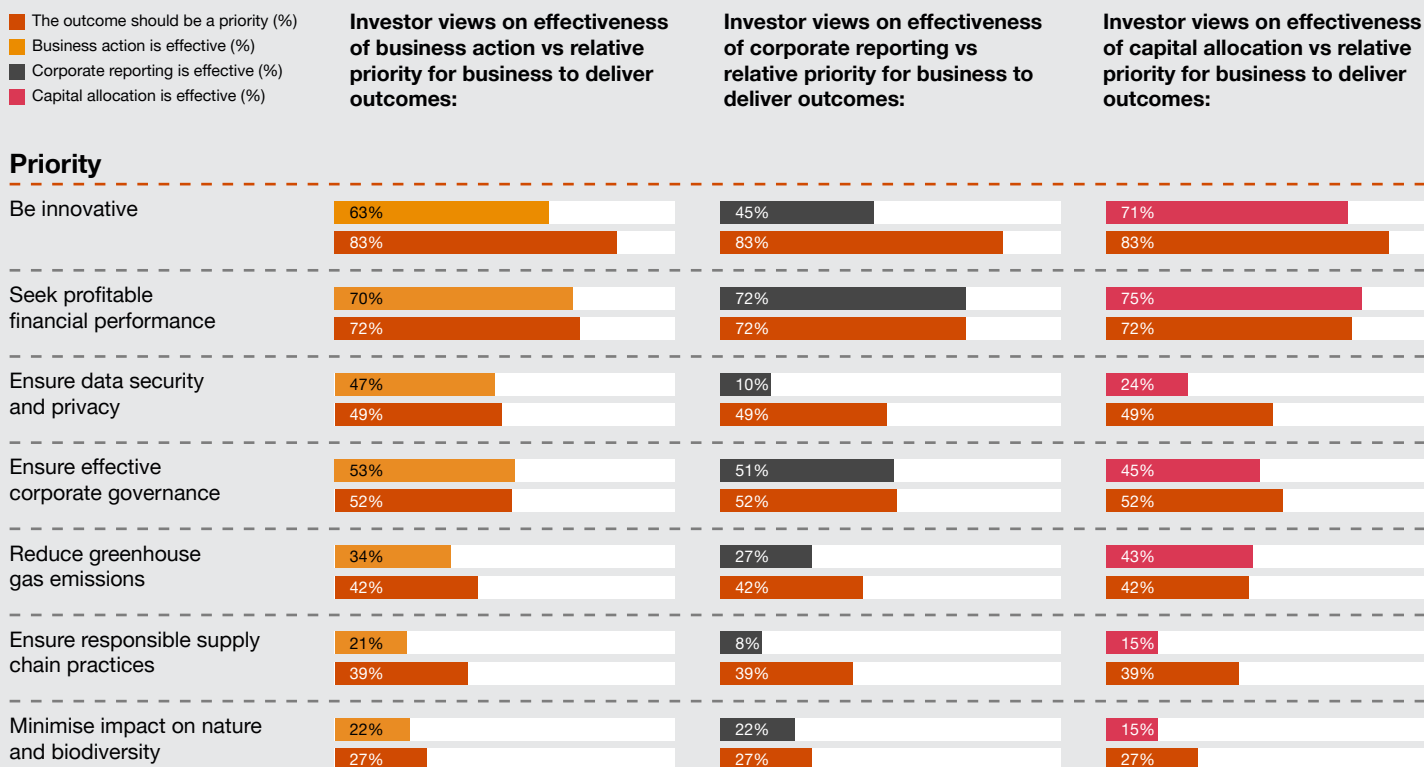
Priorities: Today's priorities and those on the horizon

Although inflation and the macroeconomic environment are today's towering risk factors, investors see them abating over the next five years. The threat of climate risks is expected to increase over that timeframe – along with threats related to cyber security. Innovation is seen as the number one priority to investors and this could help companies temper both cyber and climate risks, and even open up new market opportunities for fast movers.



The effectiveness gap

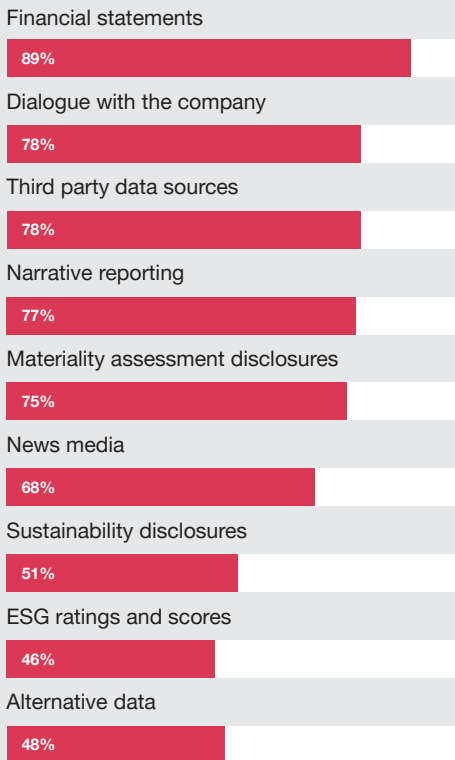
There is an execution gap between how well investors think a business is doing to deliver on some of the top priorities. A reporting gap also emerges, highlighting the challenge investors face in assessing how well a business is achieving them. This may explain why investors prioritise some information sources over others in assessing how well companies manage risks and opportunities, as highlighted below. If investors view corporate reporting as insufficient in helping them assess some of their top priorities for business to deliver, it is difficult for them to allocate capital to those priority areas.



The role of high quality information in building trust

Investors use a wide array of sources to get information about how companies manage risks and opportunities, with financial reporting topping the list.

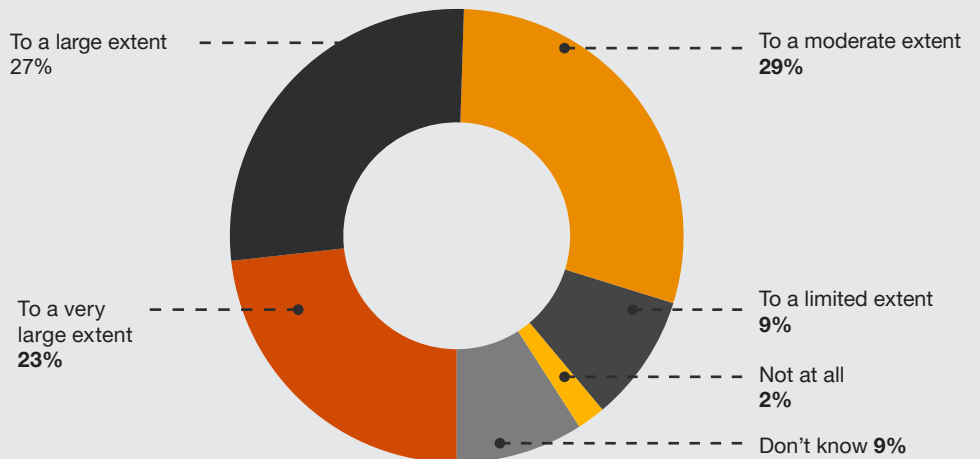
% of respondents who use the source to a moderate, large or very large extent in assessing how companies manage risks and opportunities



Investors' concerns about greenwashing erode trust in what companies say about how they are addressing the sustainability risks and opportunities facing their business. These concerns also make it difficult for the investment profession to allocate capital to where it needs to go.

89% of respondents who invest in the UK suspect corporate disclosures still contain some greenwashing

% of respondents who think corporate reporting contains unsupported claims about a company's sustainability performance to this extent



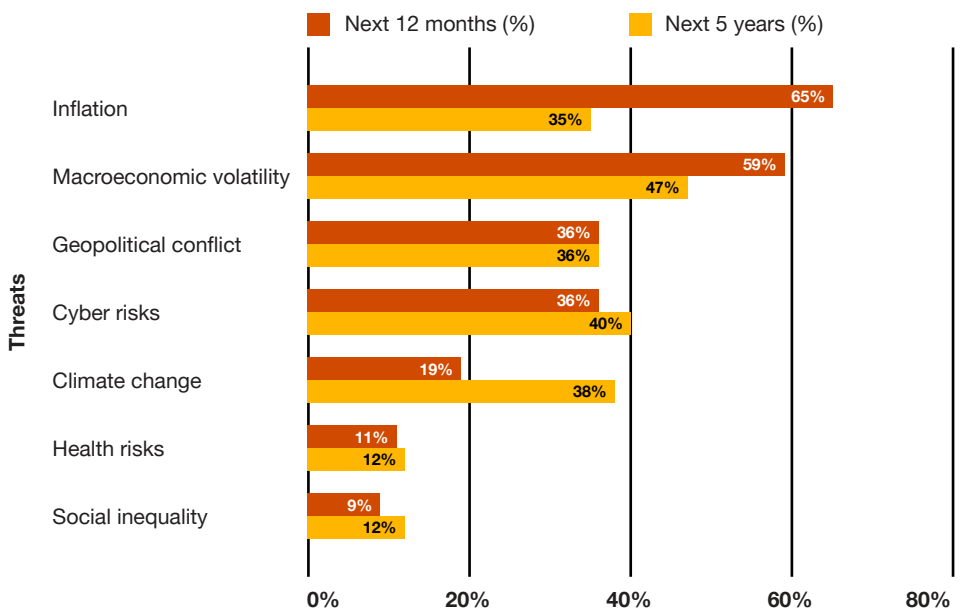
A lot of companies report things that are not material, not relevant to what they're doing but they're doing it because of the political pressure to be seen to be doing something and demonstrating something in the ESG space.

– UK based investor

UK investors recognise climate change as a growing threat

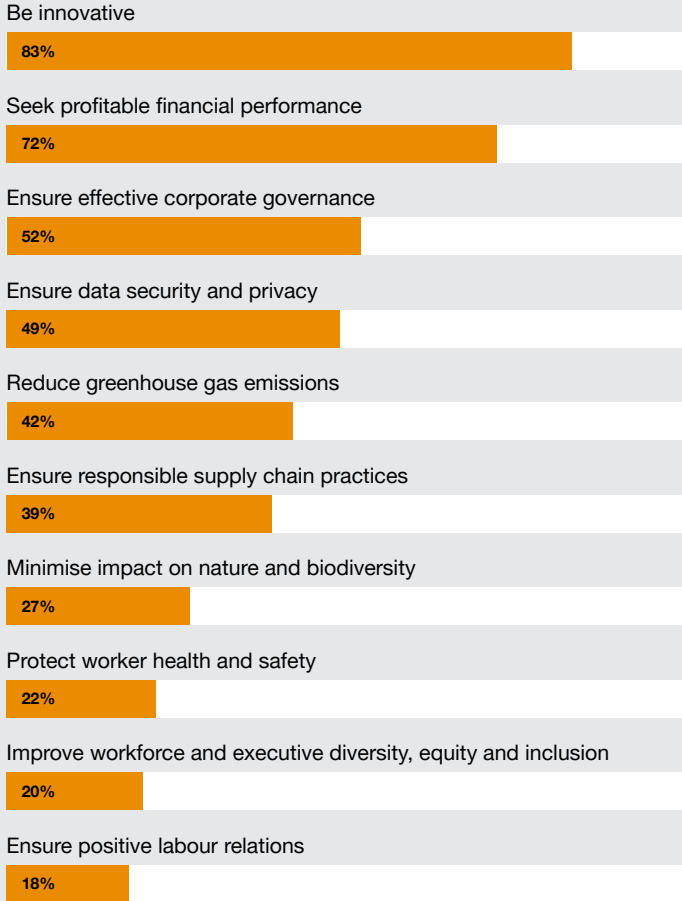
Investors are mostly concerned about the threats businesses face *in the near term from inflation and economic volatility. Climate and cybersecurity risks move up investors' list of concerns in the medium term.

% of respondents who think companies will be highly or extremely exposed to the threat in the next 12 months or 5 years



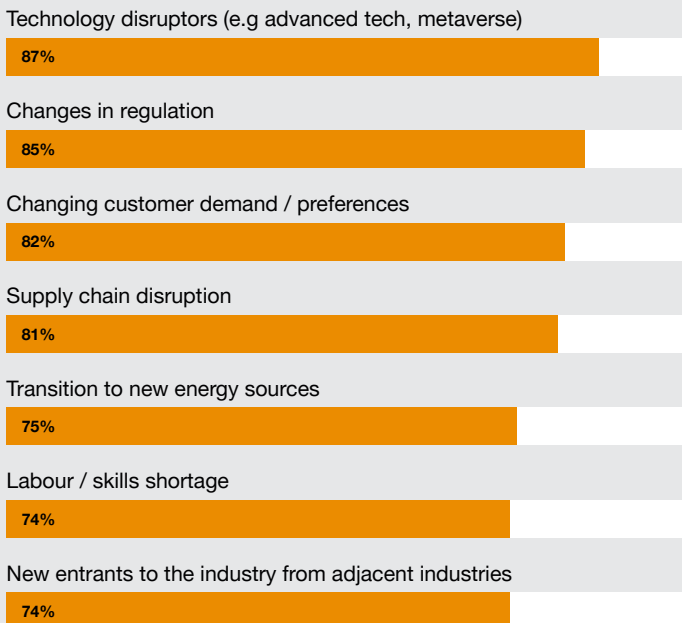
Investors have an expectation that businesses should prioritise being innovative and profitable. If a company can't adapt or runs out of cash, it won't survive long enough to address the other issues* it faces.

% of respondents who selected the outcome as a top five priority



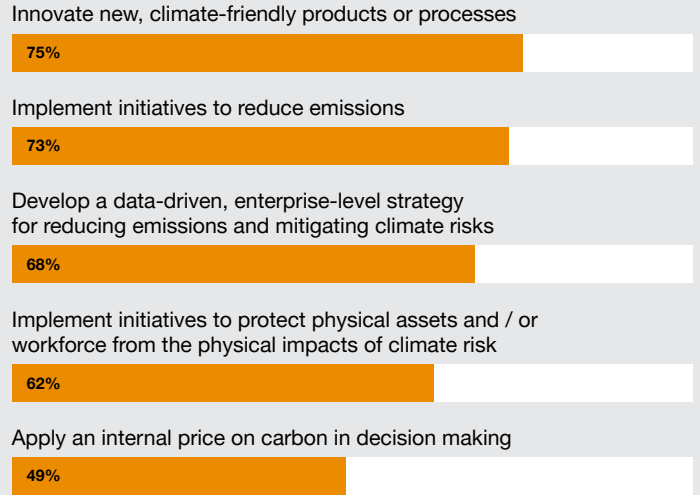
Changes in regulation and customer preferences top the list of disruptors investors think will have an impact on profitability over the longer term.

% of respondents who think these will have a large or very large impact on profitability in the next ten years

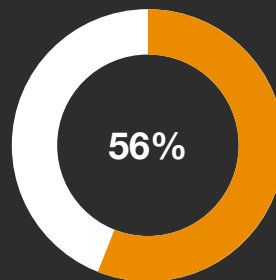


As exposure to the threat of climate change rises, investors have ideas for actions that companies can take to manage the risk effectively.

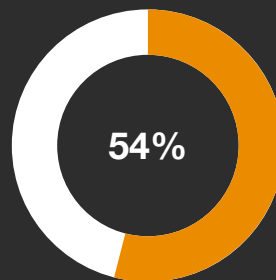
% of respondents who think these actions will be effective in preparing for the risk of climate change



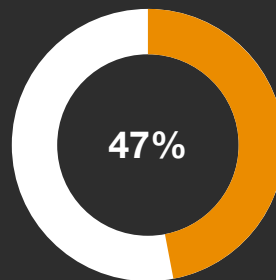
Investors think governments can play a part by implementing measures to incentivise sustainable corporate behaviour.



Think providing subsidies to companies that undertake activities or initiatives that address government sustainability priorities would be effective



Think imposing taxes on unsustainable activities would be effective



Think adopting corporate disclosure requirements that provide transparency on corporate actions taken to address sustainability related risks and opportunities would be effective

*Respondents could select up to five issues; the ten most chosen are shown here. Other options included improve corporate board diversity, ensure gender and racial pay equity, ensure tax transparency and reduce water use.

Investors value assurance as a way to give them confidence in corporate reporting on sustainability. Top of their list is reasonable assurance, which is the same level as the financial statement audit. They also want to know that a company has actually done what it says it has done, as well as that the reporting is in line with a recognised reporting framework.

% of respondents who get a moderate, large or very large extent of confidence from these

73%

value an independent reasonable assurance opinion (I.e. the level of assurance obtained in an audit of the financial statements).

68%

consider external certification or validation reports by a sustainability consultancy, certification agency or a professional services organisation that is not an auditing firm.

45%

gain confidence from an independent limited assurance opinion (a lower level of assurance than what is obtained in an audit of the financial statements).

41%

gain confidence from a review by the internal audit function.

% of respondents who would get a moderate, large or very large extent of confidence from these actions by an assurance practitioner

Assure that a company's management has done what they've reported that they've done

75%

Assure that the reporting is in line with a generally recognised reporting framework

74%

Assure the reporting as a whole, not a subset of what is reported

67%

Assure that the actions a company's management is taking to address the issues faced by the business are appropriate actions to be taking

68%

Assure that the reporting is in line with a reporting framework developed by the reporting entity

63%

The organisation that provides the assurance is less important to investors than the qualities they expect of the assurance practitioner. As the level of assurance gets more rigorous over time, investors will first look to understand the reasons for any qualified assurance opinions before they take action to sell their shares.

% of respondents who think these are important qualities for an assurance practitioner to have

Having access to (or the ability to access) experts with the necessary subject matter knowledge

76%

Being experts in applying professional scepticism and the ability to assess the reasonableness of management's estimates and judgements

71%

Being subject to regulation that requires independence and ethical standards

66%

The ability to assess and verify forward-looking information, including scenario analysis

69%

Having experience in performing audits of complex organisations (e.g. performing materiality assessments, checking for completeness, identifying the reporting boundary)

65%

Being able to have a comprehensive view of the business across all types of corporate reporting (e.g. financial statements, sustainability reporting, other narrative reporting)

65%

Being trained in using audit methodologies

66%

% of respondents who are likely or very likely to take this action if a company received a qualified assurance opinion on its sustainability reporting

58% view this as a way to understand the maturity of the company's sustainability reporting processes.

56% are concerned that the company's reporting processes and oversight are not sufficient.

55% seek more information from the audit committee of the company.

48% are concerned that there may be a problem in the business.

40% are concerned about the value of an investment in the company.

31% take no action.

13% Sell the investment in the company.

5% Take a short position in the company's shares.



If there is assurance on sustainability reporting, I think the purpose should be the same as the audit of the financial statements so that the reader can be comfortable that what's reported is reasonably accurate and relevant.

– UK based investor

Research methodology

In September and October 2022, PwC conducted an online survey in which we received responses from 227 investment professionals across 43 territories. The data in this article is based on the 44% respondents who covered investments in the UK (99 respondents). We also conducted 13 in-depth interviews with investors and analysts in five territories. The respondents to the online survey were spread across a range of industries, roles and specialisms, with assets under management ranging from US\$500 million to US\$1 trillion or more. 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.

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

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