



PwC's European 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.

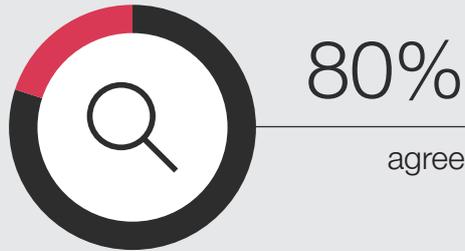
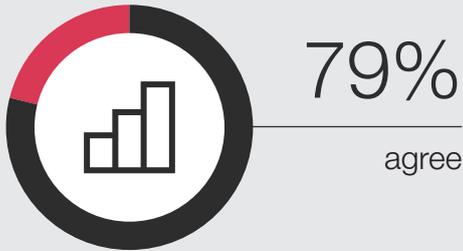
As part of our global investor survey, we heard the views of 162 investors and analysts focused on European markets, and had in-depth conversations with 6 more. Here's what we learned.

Managing expectations: Investors want companies to prioritise progress on the ESG issues that are most important to their business

ESG issues are 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



Companies should be focusing on what really matters for their business specifically, and then explain why this matters.

Fund manager

To ensure ESG issues are 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

67% agree

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

70% agree

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

53% agree

European investors think tone from the top is important 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 particularly confident that directors have the requisite knowledge about ESG issues. As one ESG analyst told us, **'We are fine more or less with anyone in the C-suite [being responsible] as long as that person has the skills. Sometimes, you come across companies that put the responsibility on someone with no knowledge, and that would not be sufficient.'**

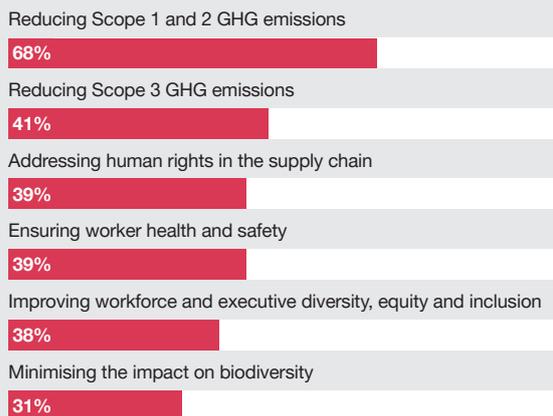


We want to see ESG KPIs and targets in the remuneration package, especially in the long-term package. Ideally it should have an impact on management remuneration of more than 20%.

ESG analyst

Investors are clear that reducing all 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

European 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.

78%

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



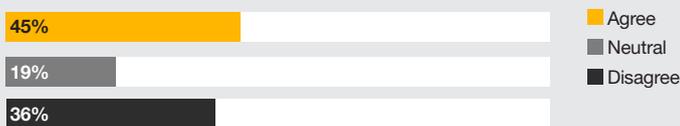
Seeking change: Investors want to play a part in incentivising companies to take action – while protecting their investment

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.



We work very hard to watch, try to understand and engage on ESG issues and risks in our investee companies. For us that's a major part of stewardship.

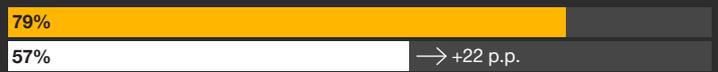
Portfolio manager

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

If European 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 investors will use. 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

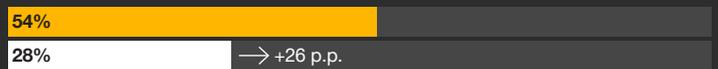
Seek to enter into a dialogue with the company



Seek inclusion of ESG targets in executive pay



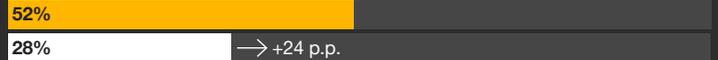
Vote against the executive pay agreements



Vote against director appointments



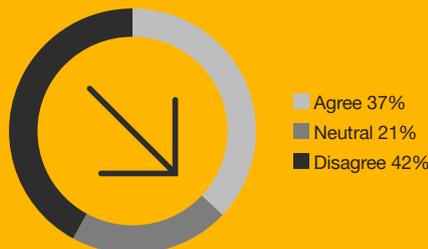
Sell my investment (divest)



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 responsibilities to their clients. Although European 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



We strongly believe that companies with sustainable products and services will have lower risk and higher returns in the long run. There is certainly a linkage between profitability, return, credit risk and sustainability, but it's not always obvious and sometimes takes time to see it.

Portfolio manager



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.



Companies definitely have to take the step forward by creating targets. They then need to tell the investment community, 'Alright, these are the steps I'm taking, I will be getting data for you, we are working towards it.' Then we would be able to see the company's progress.

Head of ESG

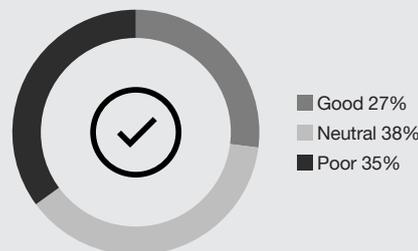
Top characteristics investors are looking for in ESG reporting



% of respondents who think this characteristic of reporting is important

Investors need better information about how companies deal 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, European 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.



I like standards, I like harmonisation, and I would love to have some guidance from the European Commission, because [otherwise] every sector or company would have its own prioritisation, and then you cannot compare.

Portfolio manager

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



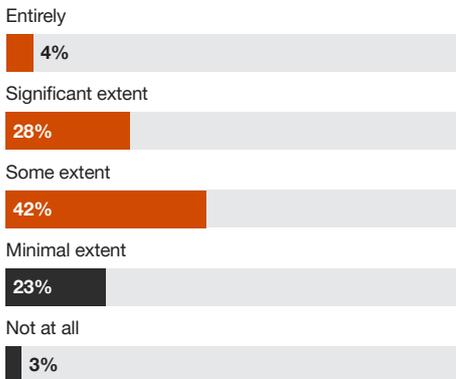
ESG ratings also play a part in informing investment decisions.

I use ESG ratings and scores in screening potential investment opportunities

70% agree

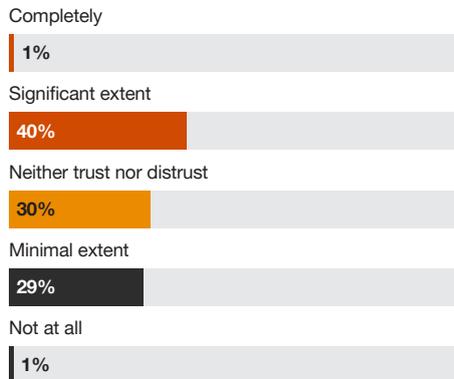


To what extent does your investment analysis pertaining to ESG issues rely on external ESG ratings and scores?



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

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



Before we buy and invest, we would have our own internal research on top, but we certainly rely on data providers because otherwise, with a universe of 20,000, it would not be realistic that we do all the work ourselves.

Portfolio manager

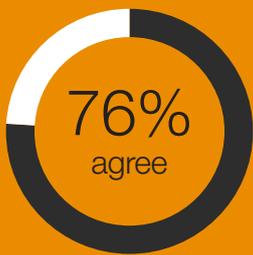


The need for trust: Investors have more confidence in the information they use when it has been independently assured

A fundamentally important quality of good reporting is its reliability.

European investors trust ESG information more when it has been assured. They value independent assurance on metrics and KPIs more so 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, European 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. European investors also need to consider their own regulatory reporting requirements, which will rely on being able to get reliable data from investee companies.



If assurance became standard, then we would clearly go with reasonable, especially when it comes to the reporting of data sets. For our own reporting, we have to come up with a CO₂ footprint of our investments; for that we clearly need data which we can be sure of.

ESG analyst

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

European investors expect assurers to have experience in applying assurance methodologies and standards, but that alone is not enough. They also prioritise assurers having appropriate quality management systems in place, as well as expertise in what's being assured. Also critical is having an ethical framework that reinforces the assurer's independence, integrity and objectivity.

The assurance work is conducted using a recognised assurance standard



The firm has appropriate quality management systems in place



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



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



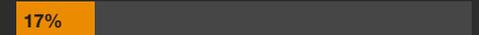
I read them if I have a specific interest or concern



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



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.

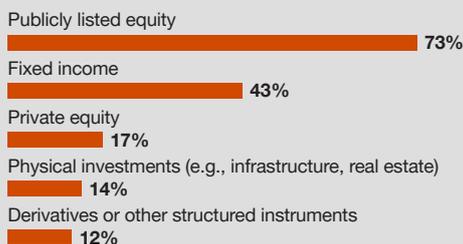
This report represents the views of 162 online survey respondents focused on European markets and 6 in-depth interviews held with investors and analysts based in Europe.

Respondent demographics

Base location

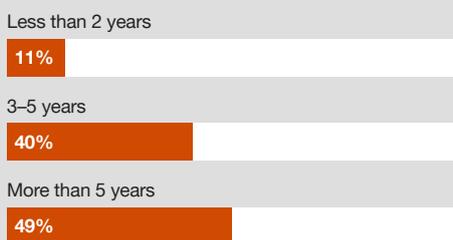


Asset classes



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)?

62% yes

Role


Asset manager
53%


Analyst
35%


Institutional asset owner
4%


Retail investor
4%


Other
3%


Governance professional
2%

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

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