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

74% agree

75% agree

“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

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

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

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

85% agree

68% agree

68% agree

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.’

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

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

Top ESG issues in order of importance

- Reducing Scope 1 and 2 GHG emissions
  - 64%
- Improving workforce and executive diversity, equity and inclusion
  - 51%
- Reducing Scope 3 GHG emissions
  - 39%
- Ensuring worker health and safety
  - 34%
- Addressing human rights in the supply chain
  - 34%
- Minimising the impact on biodiversity
  - 31%

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.

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.

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.

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.

The tradeoffs are real and managing investor expectations is critical.

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

PwC’s 2021 UK investor survey
Corporate reporting is the first port of call for investors trying to understand business performance and prospects – and the risks associated with them.

<table>
<thead>
<tr>
<th>Most frequently used sources of ESG information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Annual report, sustainability report</td>
</tr>
<tr>
<td>2. Investor presentations, earnings calls</td>
</tr>
<tr>
<td>3. Third party data providers</td>
</tr>
<tr>
<td>4. Press releases</td>
</tr>
<tr>
<td>5. Meeting with company executives or the board</td>
</tr>
</tbody>
</table>

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.

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.

Top characteristics investors are looking for in ESG reporting

- It explains the relevance of ESG factors to the company’s business model: 88%
- It provides detailed information about progress towards ESG targets: 85%
- It explains the rationale for environmental commitments made and detailed plans for how to reach them: 84%
- It explains the governance over ESG risks and opportunities: 81%
- It describes the impact the environment or society has on business performance: 76%
- It shows a link between ESG risks and opportunities and financial performance: 76%
- It describes the impact the business has on the environment or society: 76%
- It explains the rationale for social commitments made and plans for how to reach them: 76%
- It shows a link between ESG risks and opportunities and executive pay: 61%

% of respondents who think this characteristic of reporting is important.

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

- Good 20%
- Neutral 41%
- Poor 39%

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
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

71% agree

74% agree

76% agree

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?

<table>
<thead>
<tr>
<th>Entirely</th>
<th>2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant extent</td>
<td>19%</td>
</tr>
<tr>
<td>Some extent</td>
<td>46%</td>
</tr>
<tr>
<td>Minimal extent</td>
<td>30%</td>
</tr>
<tr>
<td>Not at all</td>
<td>4%</td>
</tr>
</tbody>
</table>

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

| Completely | 0% |
| Significant extent | 30% |
| Neither trust nor distrust | 33% |
| Minimal extent | 37% |
| Not at all | 0% |

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

65% agree

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?
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.

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

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.

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

79% agree

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

70% agree

It is important that reported ESG information has been independently assured

<table>
<thead>
<tr>
<th>ESG-related metrics</th>
<th>ESG-related narrative disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>79% agree</td>
<td>68% agree</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>ESG-related metrics</th>
<th>ESG-related narrative disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>74% agree</td>
<td>74% agree</td>
</tr>
</tbody>
</table>

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

83%

The assurance work is conducted using a recognised assurance standard

83%

The firm has appropriate quality management systems in place

83%

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

82%

% 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

21%

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

34%

I read them if I have a specific interest or concern

16%

I never read them

30%

% of respondents indicating they read assurance reports for these reasons

PwC’s 2021 UK investor survey
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

Publicly listed equity
Fixed income
Private equity
Physical investments (e.g., infrastructure, real estate)
Derivatives or other structured instruments

Equity investment horizon

Less than 2 years
3–5 years
More than 5 years

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

58% yes

Role

Asset manager
Analyst
Retail investor
Institutional asset owner
Governance professional
Other

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

Hemione Hudson
Head of Audit, PwC UK
hemione.hudson@pwc.com

Zubin Randeria
ESG Lead, PwC UK
zubin.randeria@pwc.com

Hilary Eastman
Head of Global Investor Engagement, PwC UK
hilary.s.eastman@pwc.com

Gale Wilkinson
Global Investor Engagement Manager, PwC UK
gale.wilkinson@pwc.com

Lynne Baber
Risk ESG lead and Reporting Advisory Lead, PwC UK
lynne.r.baber@pwc.com

Annie Gill
Stakeholder Engagement Senior Manager, PwC UK
annie.gill@pwc.com

Eloise Lavell
Stakeholder Engagement Manager, PwC UK
eloise.lavell@pwc.com