

Schroders



United Kingdom

Sustainability

Institutional Investor Study 2022



SCROLL TO EXPLORE

Marketing material for
professional clients only

UK Institutional Results – An Executive Summary



Claire Glennon
Co-Head of UK Institutional

“

This year’s Institutional Investor Study reveals that UK pension funds and insurance companies are some of the most sophisticated in the world when it comes to sustainable investing. Three-quarters of UK institutions have continued to identify the integration of ESG into the investment process as a preferred approach to sustainable investing, and now expect this as standard from their assets. However, the conversation is now starting to turn to impact and investing in strategies with a positive impact and importantly being able to demonstrate and report on positive impact. Furthermore, being able to identify evidence of real world outcomes with a measurable improvement for a company’s stakeholders is key for any engagement strategy. It seems that the next stage of the journey is Natural Capital and Biodiversity - and that pathway is reflected in the results of this Study.

We are pleased to see that 68% of UK institutions selected new investment opportunities addressing the energy transition as critical to encourage further adoption of sustainable investments. This is consistent with the conversations we have been having with clients and a view we support; investment in areas such as renewable infrastructure, thereby supporting the energy transition coupled with the potential for stable inflation-linked returns is proving attractive for both UK pension and insurance investors.

Following recent regulatory requirements for UK schemes to publish their climate risk disclosures by the end of 2022, pension schemes are increasingly focused on their net zero investment obligations. Our study shows that 45% of investors have already committed to a net zero target by 2050, the highest among all regions. But clearly, a majority have not yet set a committed path and this is something we are working with many of our clients on.

Given the continuing regulatory pipeline impacting on UK institutional investors, the requirement for enhanced reporting and transparency from asset managers, along with consistent and comparable data points, are of significant importance. This drive for consistency and transparency is highlighted as a key challenge for UK institutions, with more than half identifying this as critical.

We hope you enjoy reading this report on your peers’ attitudes to sustainable investing. We will be exploring the Study in more detail at our Autumn Conference later this year, alongside the results from our private assets study to be launched in October. If you have any questions, or wish to discuss any of the findings and the implementation of sustainability in your portfolios, please do get in contact with your usual Schroders representative.

Key findings from UK institutional investors

Demand for energy transition opportunities

When asked what would encourage investors to further adopt sustainable investments, 68% highlighted new investment opportunities addressing the energy transition. This demand for thematic investment opportunities around decarbonisation highlights the climate-focus of UK investors.



The journey to net zero is underway

45% of UK investors have made a commitment to reach net zero by 2050, compared to 37% globally.



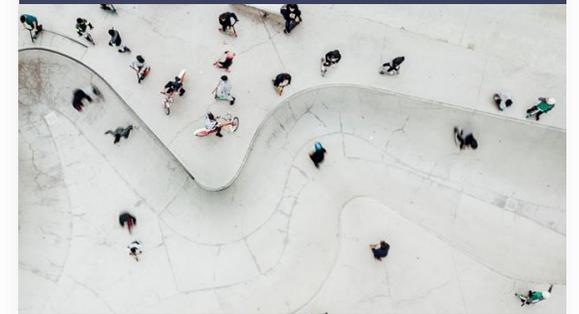
Making an impact through sustainable investments is key

For UK investors, the biggest driver for sustainable investing is a desire to positively impact society and the planet (62%).



Natural Capital & Biodiversity emerges as key engagement themes

Nearly half of UK respondents highlight natural capital as an important engagement theme for asset managers.



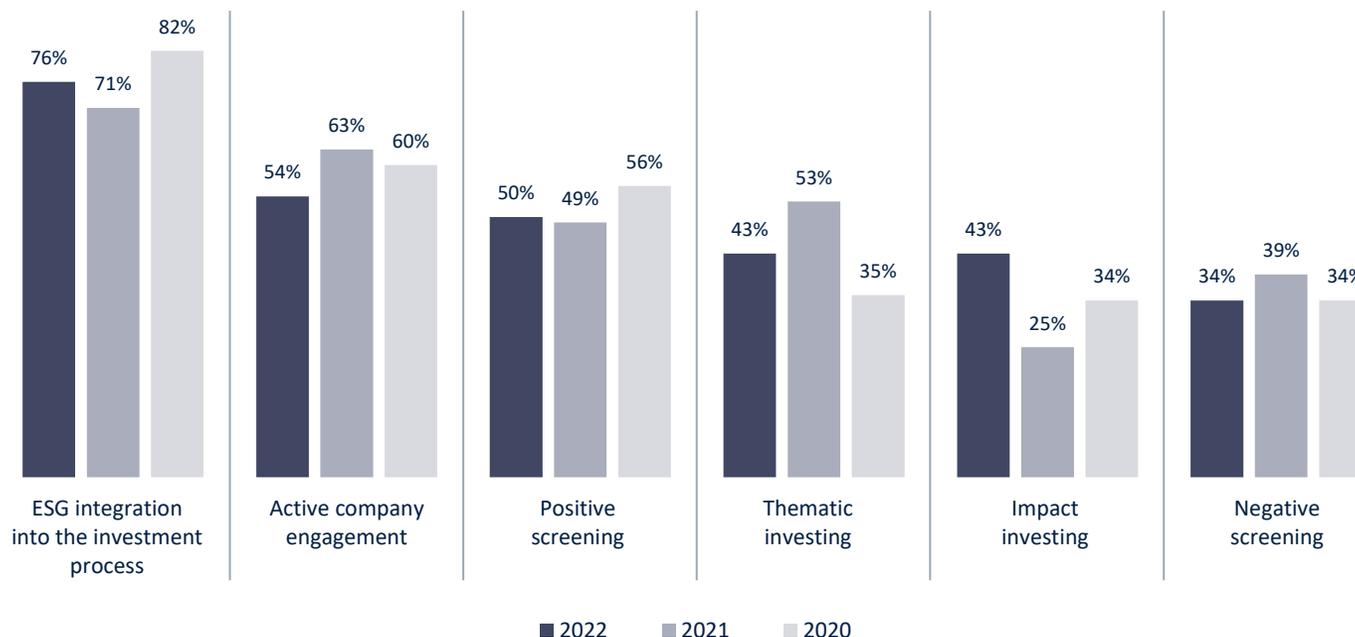
Understanding the impact of investments is on the rise for UK institutional investors

The widespread use of sustainable investing by UK institutional investors can be seen from the results of the Institutional Investor Study over the last four years.

When asked about their preferred approaches to sustainable investments, over the last 3 years, UK investors have highlighted their preference is ESG integration into the investment process. ESG integration is now core to the investment process for institutional.

This year, we have seen a marked increase of preference around impact investing (43% in 2022 vs 25% in 2021), investing with the objective of achieving environmental and social benefits alongside financial return. Negative screening, or exclusions, is now the least popular approach while half say positive screening, or investing in the ‘best-in-class’ in a sector, is their preferred approach. Overall, these results show that UK investors are gradually making their way across the spectrum of sustainable investment approaches, from the simplest, such as screening, to greater use of more complex approaches.

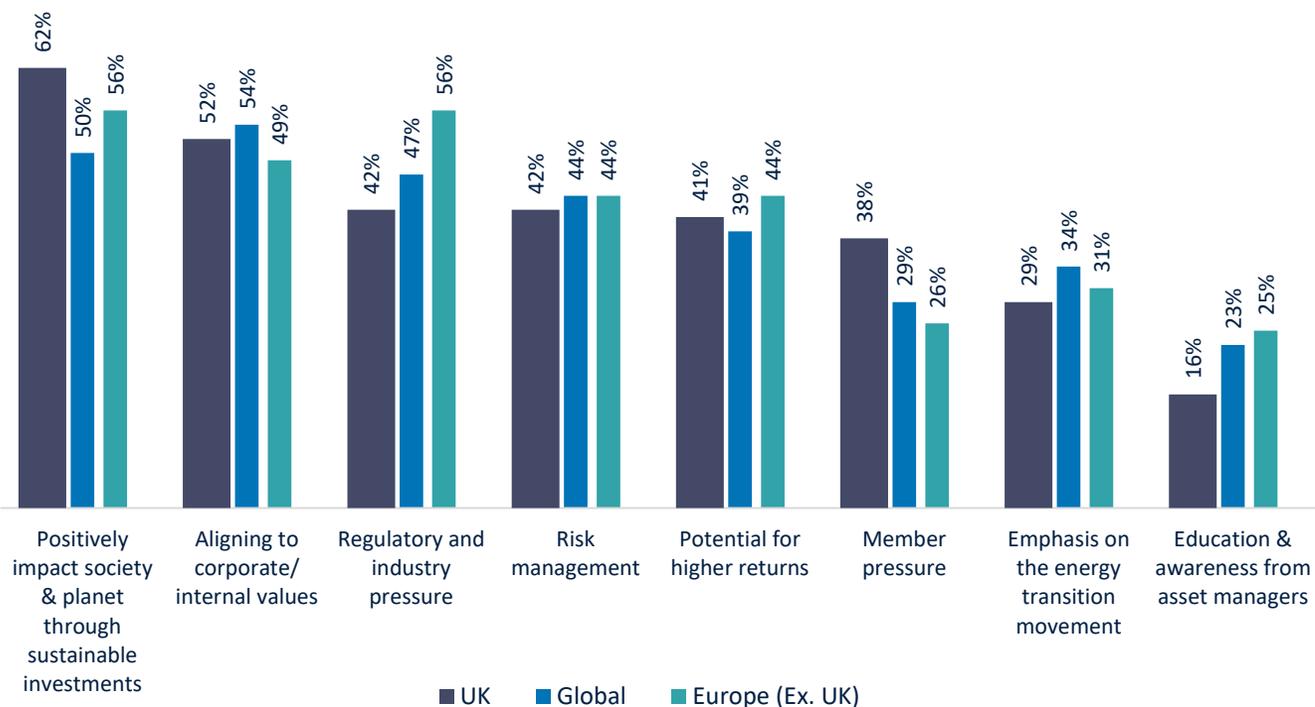
Q. What is your preferred approach to implementing sustainable investments?



UK respondents only. Respondents ranked approaches from 1-6. This graph showcases % Rank 1, 2, 3.

Desire to positively impact society and planet are key motivators to investing sustainably

Q. What is driving your sustainable investment focus?



For UK investors, the biggest driver for sustainable investing is a desire to positively impact society and the planet. This is ahead of aligning to corporate/internal values, regulatory and industry pressure and risk management. Interestingly, public or government pension funds are more likely to cite the potential for higher returns as a driver (63%) compared to other institutional types.

Compared to their peers around the world, UK investors share similar views on the main drivers for sustainable investing to their counterparts in Europe. Both regions place more emphasis on regulation and industry pressure as a driver for sustainable investing. This is unsurprising as several new regulations are now impacting European investors including the Sustainable Finance Disclosure Regulation (SFDR), Benchmark Regulation and the Taxonomy Regulation.

Member pressure is also a stronger driver in the UK than elsewhere (38% versus 29% globally). DC schemes in the UK are now around £500 billion in size, and is forecast to top £1 trillion by the end of the decade. This is significant because DC members are more active in directing their savings to positive change, with much greater sensitivity to ESG. According to Willis Towers Watson there has been a “step change” in the importance of ESG with 50% of schemes likely to offer ESG as part of their default option in the short-term.

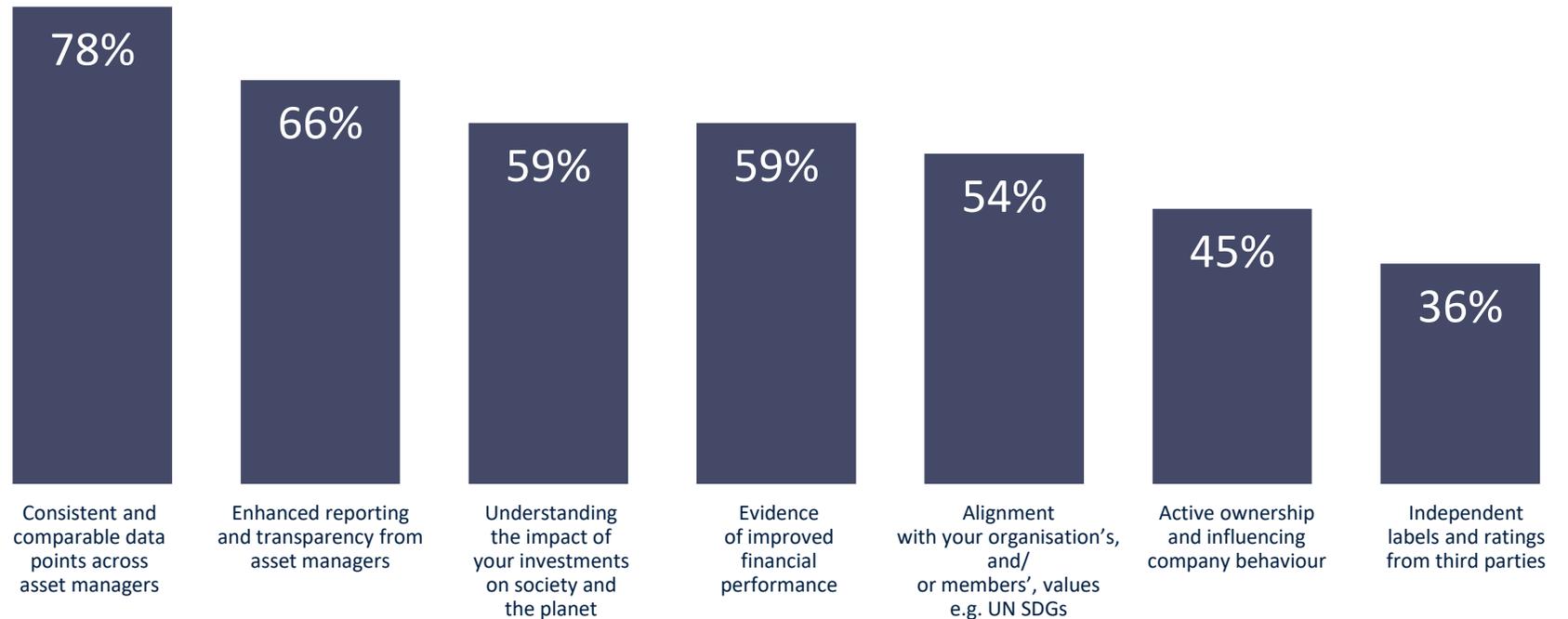
Making positive impact should not come at the expense of financial returns

Making an impact should not come by sacrificing returns though, according to UK investors.

When asked about important aspects of investing sustainably, 59% say evidence of improved financial performance is important to them when investing sustainably.

However the most important category for our respondents was to have more consistency and comparable data points across asset managers.

Q. When investing sustainably, how important are the following to you?



UK respondents only.

The need for consistency across the asset management industry is key

Over three-quarters (78%) of UK investors cite consistent and comparable data points across asset managers (vs. 72% globally) as very important when investing sustainably.

The evidence is clear that investors want to see not only more transparency from asset managers but also greater consistency and comparability in the information that the industry provides. Regulations like the Task Force on Climate-related Financial Disclosures (TCFD) and forthcoming Sustainability Disclosure Requirements (SDR) can help address this, but it's clear that achieving consistency in those disclosures is on top of UK investors' mind.

Evidence of improved financial performance (59%) and understanding the impact of their investments (59%) are of equal importance to UK institutions when investing sustainably.



78%

Consistent and comparable data across asset managers as very important when investing sustainably

66%

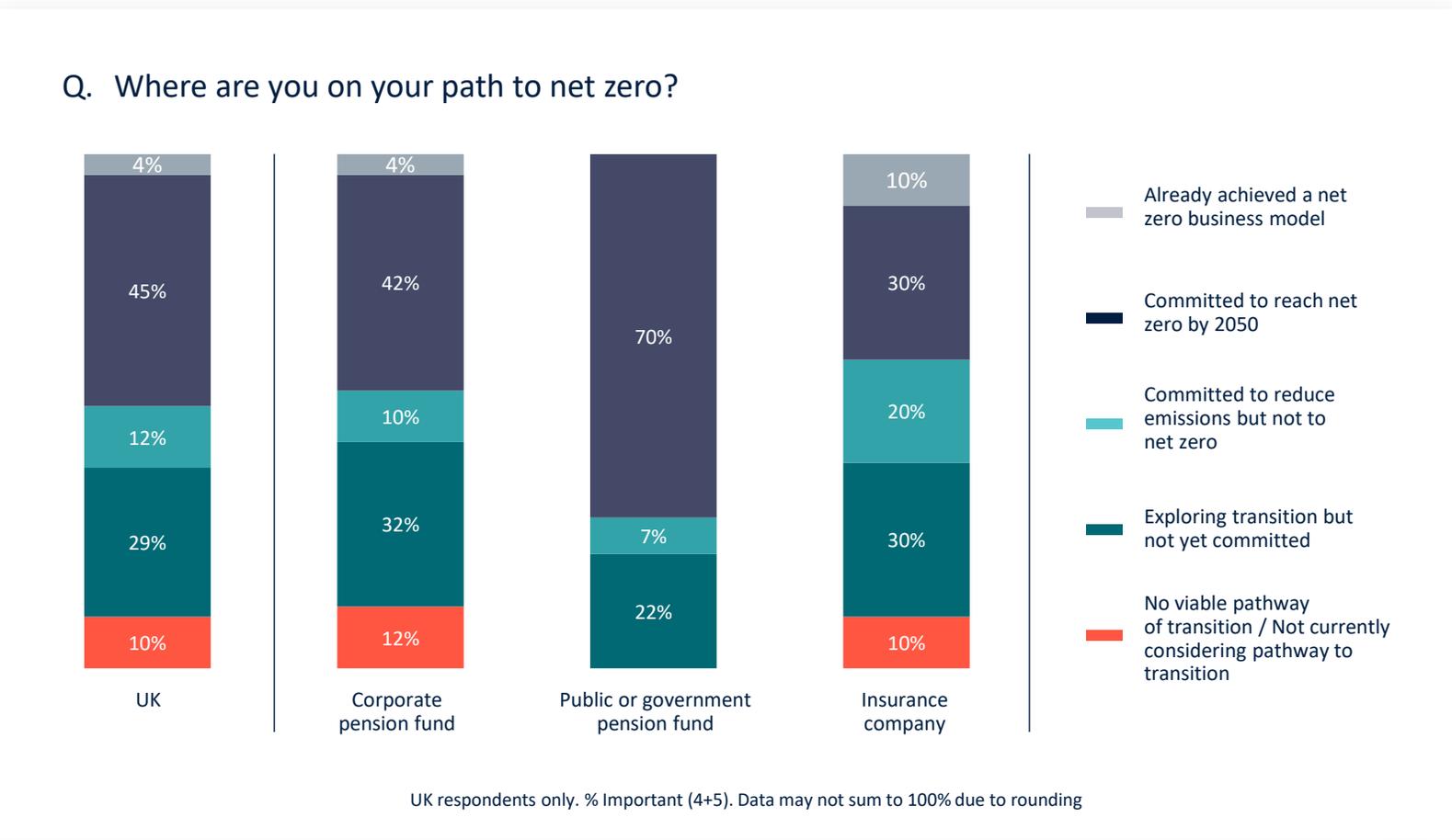
Enhanced reporting and transparency from asset managers as very important when investing sustainable

Commitment to net zero is strong amongst UK institutional investors

Following commitments from governments around the world which are intended to limit climate change and its impacts, many investors are now pledging to reduce the carbon emissions associated with their investment portfolios. The UK is among the leaders, with 45% of investors making a commitment to reach net zero by 2050, compared to 37% globally.

By institution, 70% of public or government pension funds are committed to reaching net zero by 2050, ahead of corporate pension funds (42%) and insurance companies. Almost a third (32%) of corporate pension funds are exploring whether they can make a commitment to net zero and 4% claim that they have already achieved a net zero business model.

45% UK institutional investors committed to reach net zero by 2050



Commitment to net zero is strong amongst UK institutional investors



“

Previously, I think that many companies were greenwashing, but there has been a real change in the last year or two and people are genuinely interested in the impact they are making.

I find that our investors are asking questions about net zero and our ambitions for achieving that, for example. That’s great and how it should be. And there is political pressure on meeting targets now. Quite rightly, because unless there are specific targets laid out, I am sure that many would ignore the parameters that we have to work within.

UK public or government pension fund,
investment team member (real estate),
AUM US\$50bn to 100bn

Transparency and frameworks key to help UK institutions on their net zero journey

“

Understanding how an asset manager calculates the impact of a portfolio on the climate is useful.

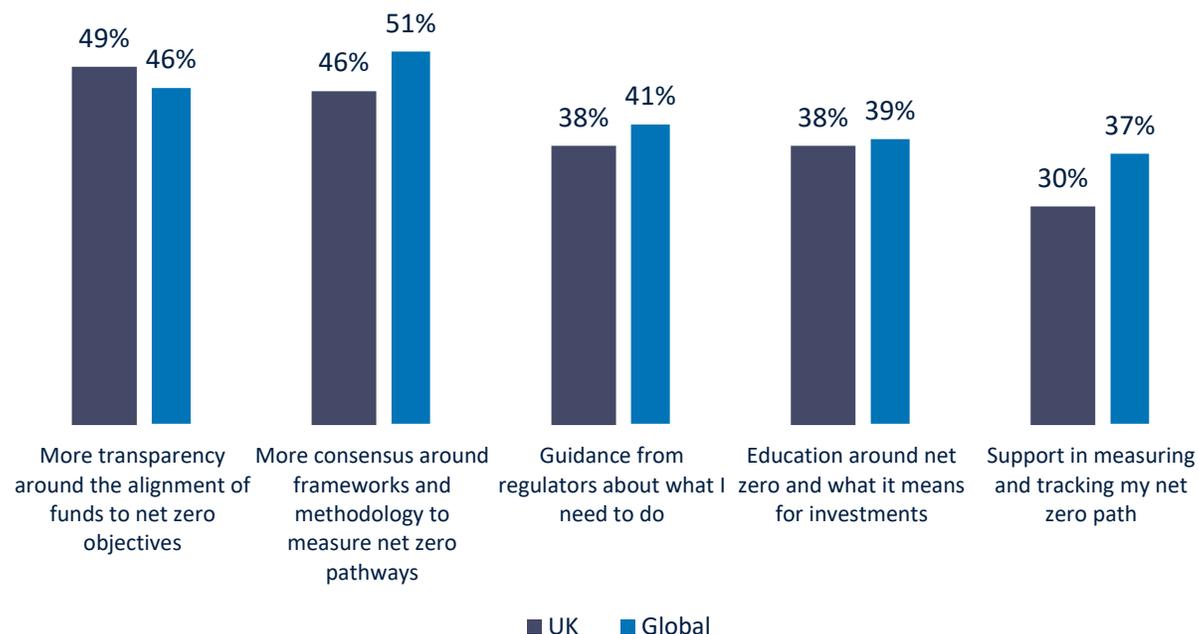
Because each asset manager might do it differently, and if you are going to report to your members, you need to know that there has been a consistent way of measuring this.

UK corporate pension fund, portfolio manager, AUM US\$50bn to 100bn

The theme of transparency is seen again in this year’s findings, this time in regard to making the net zero journey smoother. Almost half (49%) of UK investors call for more transparency around the alignment of funds to net zero objectives, while almost as many (46%) want to see more consensus around frameworks and methodology to measure net zero pathways.

The same percentage (46%) of corporate pension funds also want guidance from regulators on what they need to do, while 42% of corporate funds want education around net zero and what it means for investment.

Q. What would help you on your journey to net zero?



Options ‘None of the above’ and ‘Other’ not included.

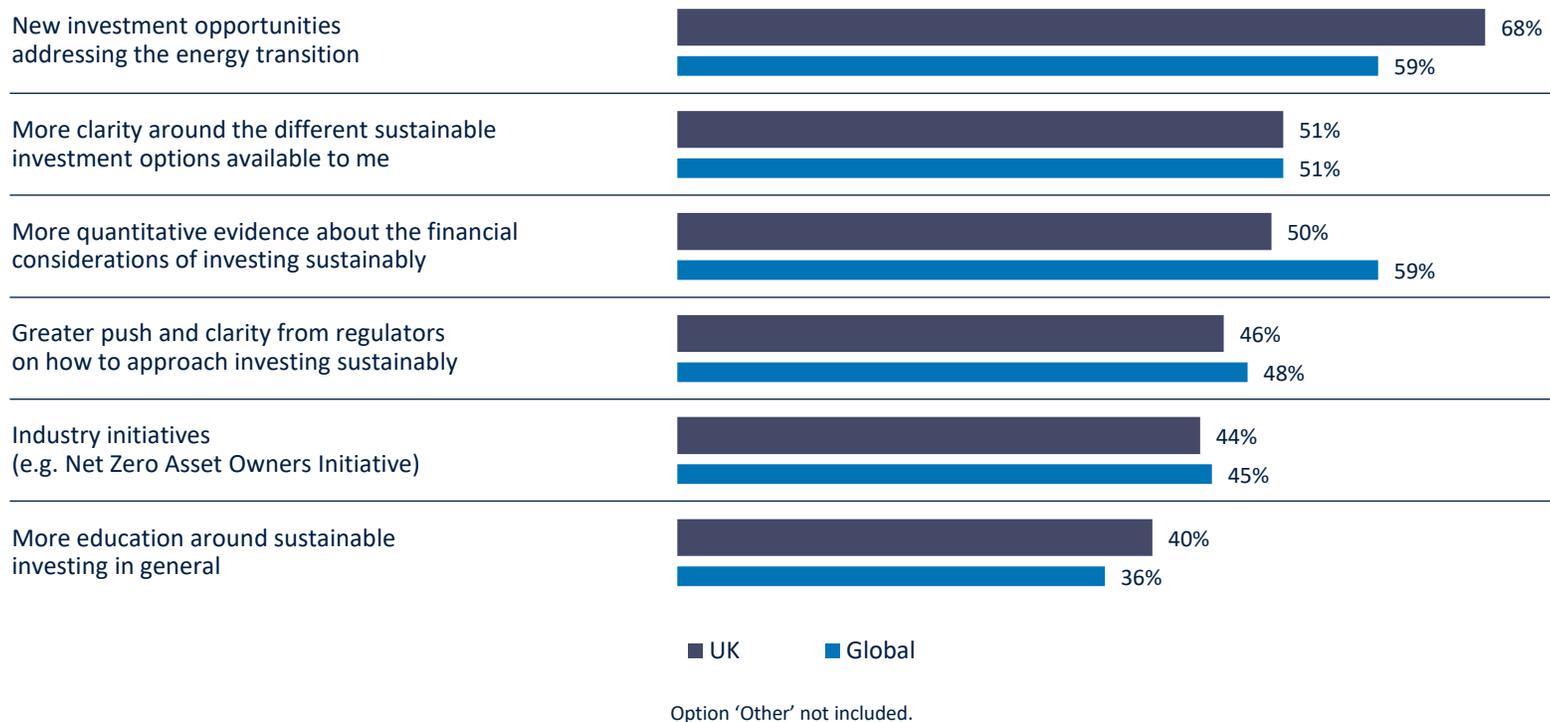
Demand for energy transition opportunities to increase further sustainability adoption

A significant finding on the determination of many UK investors to support a shift to a low-carbon economy is that over two-thirds (68%) agree that new investment opportunities addressing the energy transition would encourage them to invest more in sustainable investments, ahead of their peers in other regions (59% globally). This result is consistent for all sizes of UK investor and particularly high for public or government pension funds (85%).

68%

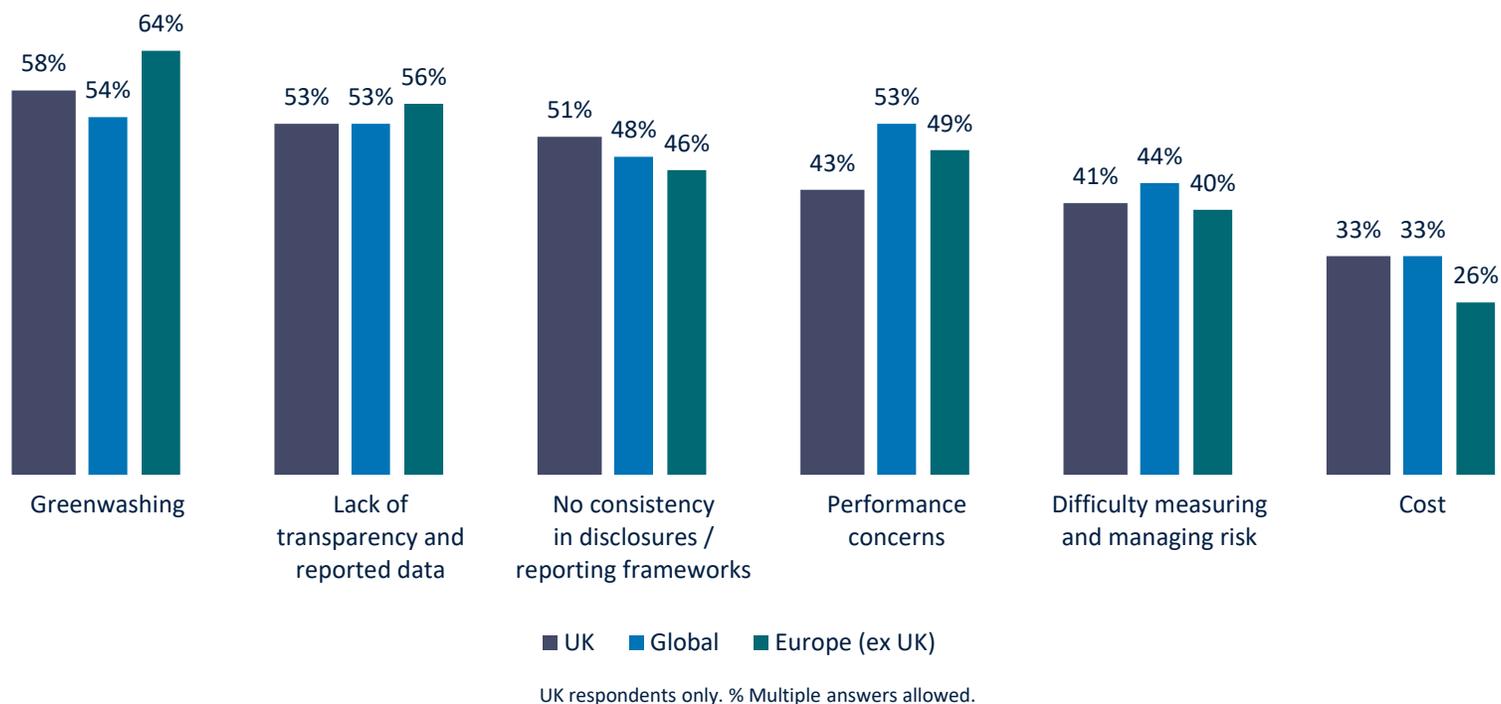
UK institutional investors would be encouraged by new investment opportunities addressing the energy transition

Q. What would encourage you to increase further sustainability adoption?



Greenwashing and lack of reported data are key challenges faced by UK institutions

Q. Which, if any, of the following specific factors do you consider a challenge of investing in sustainable investments?

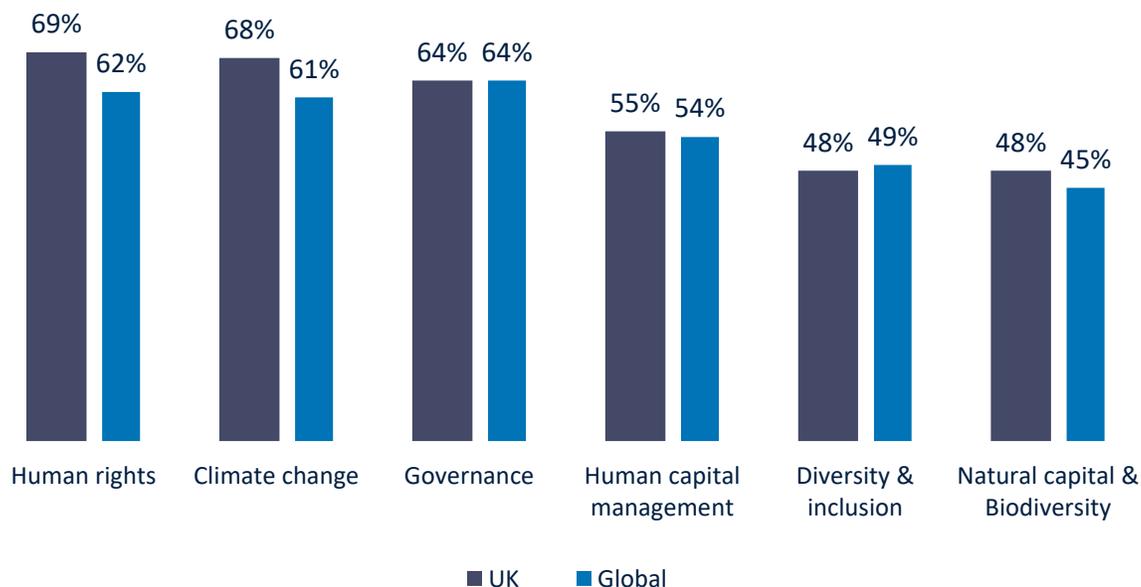


Greenwashing is seen as the biggest challenge of sustainable investing (58%). The point around data is raised again as the same proportion of investors in the UK (53%) as globally, see the lack of transparency and reported data as a challenge. Just over half of UK investors (51%) see a lack of consistency in disclosures and reporting frameworks as a challenge, compared to slightly fewer, 48%, globally. On the other hand, UK investors are slightly less inclined to see difficulty in managing and measuring risk as a challenge than their global peers.

Real world outcomes highlighted as integral for active ownership with human rights and climate being key factors

Human rights, climate change and governance are important engagement topics for investors globally and in the UK. 68% see climate change (61% globally) and human rights (69% versus 62% globally) as important topics for asset owners and asset managers for engagement with companies, while nearly two-thirds of investors (64%) both globally and in the UK see governance as an important engagement topic.

Q. Investment managers and asset owners are often able to engage with and influence the behaviours of the companies that they invest in. How important are the following to you?



“

Three or four years ago, we were a lot more focussed on governance, but now, we are very heavily focused on climate.

We run scenarios on what happens to our portfolios if there is a one or two degree increase in temperature by 2030 or 2040. It is very important.

UK corporate pension fund, portfolio manager, AUM US\$50bn to 100bn

Natural capital & biodiversity emerges as an engagement topic, in line with net zero commitments

“

Biodiversity loss is another important issue. Something we have been discussing it recently, but we haven't done it yet, is investing in woodland, buying land backing woods to preserve it. That would be a wonderful thing. On a smaller level, for example, we have bees in the roofs of our shopping centres, as well as natural meadows on green roofs.

UK public or government pension fund, investment team member (real estate), AUM 50bn to 100bn (US\$)

Nearly 50% of UK investors highlight natural capital & biodiversity as a top engagement topic for asset managers. This is the first year we included natural capital as an option; the fact that 48% of respondents already believe this is a key area to be engaging on highlights how quickly this topic is rising up in UK investors' agendas. This is unsurprising as natural capital and biodiversity can help investors meet two key goals as identified in this year's Study: to help them on their net zero commitments, but also to make a positive impact to both people and planet.



Almost
50%

of UK investors highlight natural capital & biodiversity is a top engagement topic for asset managers



About the Study

Schroders annual Institutional Investor Study analyses the investment perspectives of 770 global institutional investors on the investment landscape, sustainability and private assets. 120 respondents were from the UK.

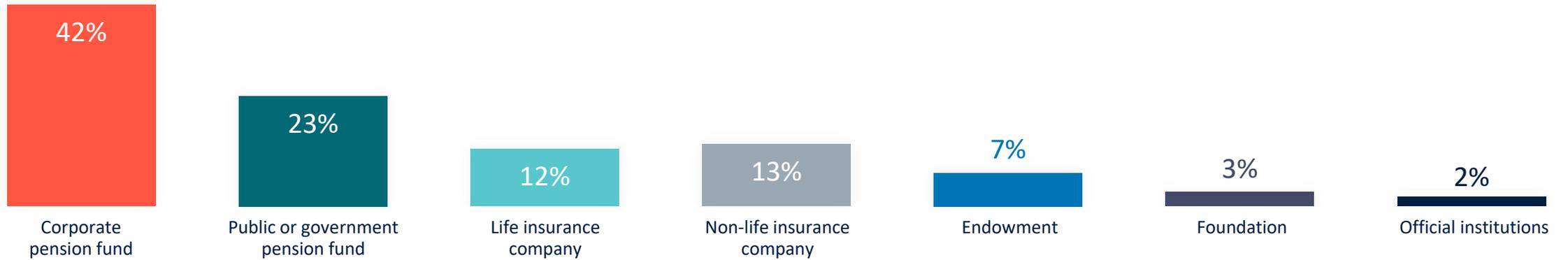
The respondents represent a spectrum of institutions, including corporate and public pension funds, insurance companies, official institutions, endowments and foundations, collectively responsible for US\$27.5 trillion in assets.

The research was carried out via an extensive global survey during March 2022.

Any opinions expressed reflect our Study and interview results as at the end of March 2022. They are not intended to be a forecast or guarantee of future results. Throughout the report, we complement our findings with commentary and insights from Schroders experts.

About the Study – UK respondents

Breakdown by institutional type



Assets under management (US\$)





Important information

Marketing material for professional clients only.

Investment involves risks. Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Exchange rate changes may cause the value of any overseas investments to rise or fall.

Schroders has expressed its own views in this material and these may change without notice.

This material is intended to be for information purposes only and is not intended as promotional material in any respect. The material is not intended as an offer or solicitation for the purchase or sale of any financial product. The material is not intended to provide, and should not be relied on as, accounting, legal or tax advice, or investment recommendations. Reliance should not be placed on any views or information in the material when taking individual investment and/or strategic decisions.

Information herein is believed to be reliable but Schroders does not warrant its completeness or accuracy.

Any reference to sectors/countries/stocks/securities are for illustrative purposes only and not a recommendation to buy or sell any financial instrument/securities or adopt any investment strategy. Insofar as liability under relevant laws cannot be excluded, no Schroders entity accepts any liability for any error or omission in this material or for any resulting loss or damage (whether direct, indirect, consequential or otherwise).

Not all strategies are available in all jurisdictions.

Schroders may record and monitor telephone calls for security, training and compliance purposes.

Schroders commissioned CoreData to conduct the sixth Institutional Investor Study to analyse the world's largest investors' key areas of focus and concern including the macroeconomic and geopolitical climate, return expectations, asset allocation and attitudes to private assets and sustainable investing.

The respondents (770 globally) represent a spectrum of institutions including corporate and public pension plans, insurance companies, official institutions, private banks, endowments and foundations, collectively responsible for US\$27.5 trillion in assets. The research was carried out via an extensive global survey during March 2022.

For readers/viewers in Argentina: Schroder Investment Management S.A., Ing. Enrique Butty 220, Piso 12, C1001AFB - Buenos Aires, Argentina. Registered/Company Number 15. Registered as Distributor of Investment Funds with the CNV (Comisión Nacional de Valores). Nota para los lectores en Argentina: Schroder Investment Management S.A., Ing. Enrique Butty 220, Piso 12, C1001AFB - Buenos Aires, Argentina. Inscripto en el Registro de Agentes de Colocación y Distribución de PIC de FCI de la Comisión Nacional de Valores con el número 15.

For readers/viewers in Brazil: Schroder Investment Management Brasil Ltda., Rua Joaquim Floriano, 100 – cj. 142 Itaim Bibi, São Paulo, 04534-000 Brasil. Registered/Company Number 92.886.662/0001-29. Authorised as an asset manager by the Securities and Exchange Commission of Brazil/Comissão de Valores Mobiliários (“CVM”) according to the Declaratory Act number 6816. This material is intended for professional investors only as defined by the CVM rules which can be accessed from their website www.cvm.gov.br.

For readers/viewers in Canada: Schroder Investment Management North America Inc., 7 Bryant Park, New York, NY 10018-3706. NRD Number 12130. Registered as a Portfolio Manager with the Ontario Securities Commission, Alberta Securities Commission, the British

Columbia Securities Commission, the Manitoba Securities Commission, the Nova Scotia Securities Commission, the Saskatchewan Securities Commission and the (Quebec) Autorité des marchés financiers.

For readers/viewers in Israel: Note regarding the Marketing material for Qualified Clients or Sophisticated Investors only. This communication has been prepared by certain personnel of Schroder Investment Management (Europe) S.A (Registered No. B 37.799) or its subsidiaries or affiliates (collectively, ‘SIM’). Such personnel are not licensed by the Israeli Securities Authority. Such personnel may provide investment marketing, to the extent permitted and in accordance with the Regulation of Investment Advice, Investment Marketing and Investment Portfolio Management Law, 1995 (the ‘Investment Advice Law’). This communication is directed at persons (i) who are Sophisticated Investors (ii) Qualified Clients (‘Lakoach Kashir’) as such term is defined in the Investment Advice Law; and (iii) other persons to whom it may otherwise lawfully be communicated. No other person should act on the contents or access the products or transactions discussed in this communication. In particular, this communication is not intended for retail clients and SIM will not make such products or transactions available to retail clients

For readers/viewers in Switzerland: Marketing material for professional clients and qualified investors only. This material has been issued by Schroder Investment Management (Switzerland) AG, Central 2, CH-8001 Zurich, Switzerland a fund management company authorised and supervised by the Swiss Financial Market Supervisory Authority FINMA, Laupenstrasse 27, CH-3003 Bern.

For readers/viewers in the European Union/European Economic Area: Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage. Issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registered No. B 37.799.

For readers/viewers in the United Arab Emirates: Schroder Investment Management Limited, located in Office 506, Level 5, Precinct Building 5, Dubai International Financial Centre, PO Box 506612 Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority. This material is not subject to any form of approval by the DFSA. Accordingly, the DFSA has not approved any associated materials nor taken any steps to verify the information and has no responsibility for it. This material is intended to be for information purposes only and it is not intended as promotional material in any respect. This material is intended for professional investors only as defined by the DFSA rules which can be accessed from their website www.dfsa.ae



Important information

For readers/viewers in the United Kingdom: Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at www.schroders.com/en/privacy-policy or on request should you not have access to this webpage. Issued by Schroder Investment Management Limited, 1 London Wall Place, London EC2Y 5AU. Registered Number 1893220 England. Authorised and regulated by the Financial Conduct Authority.

For readers/viewers in the United States: For financial professionals and consultant only. Schroder Investment Management North America Inc., 7 Bryant Park, New York NY 10018-3706. CRD Number 105820. Registered as an investment adviser with the US Securities and Exchange Commission.

Note to readers/viewers in Hong Kong S.A.R.: Issued by Schroder Investment Management (Hong Kong) Limited. Level 33, Two Pacific Place, 88 Queensway, Hong Kong. This material has not been reviewed by the Securities and Futures Commission of Hong Kong.

Note to readers/viewers in Indonesia: Issued by PT Schroder Investment Management Indonesia. Indonesia Stock Exchange Building Tower 1, 30th Floor, Jalan Jend. Sudirman Kav 52-53 Jakarta 12190 Indonesia PT Schroder Investment Management Indonesia is licensed as an Investment Manager and regulated by the Indonesian Financial Services Authority (OJK). This material has not been reviewed by the OJK

Note to readers/viewers in Japan: Issued by Schroder Investment Management (Japan) Limited 21st Floor, Marunouchi Trust Tower Main, 1-8-3 Marunouchi, Chiyoda-Ku, Tokyo 100-0005, Japan Registered as a Financial Instruments Business Operator regulated by the Financial Services Agency of Japan ("FSA"). Kanto Local Finance Bureau (FIBO) No. 90. Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type II Financial Instruments Firms Association. This material has not been reviewed by the FSA

Note to readers/viewers in Singapore: For Accredited and /or Institutional Clients only, where appropriate

Issued by Schroder Investment Management (Singapore) Ltd (Co. Reg. No. 199201080H) 138 Market Street #23-01 CapitaGreen, Singapore 048946. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore

Note to readers/viewers in South Korea: Issued by Schroders Korea Limited 15th Fl., Centropolis A, 26, Ujeongguk-ro, Jongno-gu, Seoul, Republic of Korea. Registered and regulated by Financial Supervisory Service of Korea ("FSS"). This material is provided for information purpose only and does not constitute any solicitation or offering of investment products.

Note to readers/viewers in Taiwan: Issued by Schroder Investment Management (Taiwan) Limited 9F., No. 108, Sec. 5, Xinyi Road, Xinyi District, Taipei 11047, Taiwan. Tel +886 2 2722-1868 Schroder Investment Management (Taiwan) Limited is independently operated. This material has not been reviewed by the regulators.

Note to readers/viewers in Thailand: This material has not been approved by the Securities and Exchange Commission which takes no responsibility for its contents. No offer to the public to purchase any fund will be made in Thailand and this material is intended to be read for information only and must not be passed to, issued to, or shown to the public generally. Schroder Investment Management

(Singapore) Ltd does not have any intention to solicit you for any investment or subscription in any fund and any such solicitation or marketing will be made by an entity permitted by applicable laws and regulations.

Note to readers/viewers in Malaysia: This material has not been approved by the Securities Commission Malaysia which takes no responsibility for its contents. No offer to the public to purchase any fund will be made in Malaysia and this material is intended to be read for information only and must not be passed to, issued to, or shown to the public generally. Schroder Investment Management (Singapore) Ltd does not have any intention to solicit you for any investment or subscription in any fund and any such solicitation or marketing will be made by an entity permitted by applicable laws and regulations.

Note to readers/viewers in the Philippines: THE SECURITIES BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE OF THE PHILIPPINES. ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION. Registration is exempted based on the Provision of the SRC. No offer to the public to purchase any fund will be made in Philippines and this material is intended to be read for information only and must not be passed to, issued to, or shown to the public generally. Schroder Investment Management (Hong Kong) Ltd does not have any intention to solicit you for any investment or subscription in any fund and any such solicitation or marketing will be made by an entity permitted by applicable laws and regulations. Issued by Schroder Investment Management (Hong Kong) Limited. Level 33, Two Pacific Place, 88 Queensway, Hong Kong. This material has not been reviewed by the Securities and Futures Commission of Hong Kong and the Securities and Exchange Commission of Philippines

Note to readers/viewers in Australia: This material has been issued by Schroder Investment Management Australia Limited (ABN 22 000 443 274, AFSL 226473). It is intended for professional investors and financial advisers only and is not suitable for retail clients.

Note to readers/viewers in Brunei, Cambodia, India, Papua New Guinea and Vietnam: For identified Institutions only. Issued by Schroder Investment Management (Singapore) Ltd (Co. Reg. No. 199201080H) 138 Market Street #23-01 CapitaGreen, Singapore 048946. The information provided in this workshop is not an advertisement or a product publication and it is for training purpose only.

Notice for readers in New Zealand: This material is provided for information purposes only. It is intended only for wholesale investors and is not suitable for retail investors. The issuer does not hold any license issued by the Financial Markets Authority and is not registered under the Financial Services Providers (Registration and Dispute Resolution) Act 2008.



Schroders

Sustainability – United Kingdom – Institutional Investor Study 2022