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Investment Professionals vote 'ESG' and 'Sustainability' as top descriptions

With 16 descriptions, surely it's time to agree what to call it?

- **Over 350 investment professionals participated in global survey**
- **Majority of respondents were not RI professionals**
- **Top choice: 'Environment, Social and Governance' closely followed by 'Sustainability'**
- **Most disliked: 'non traditional', 'management commentary'**
- **Unpopular: 'non financial / non financial business reporting'**
- **The results are consistent across geographic regions and employment category (buy-side, sell-side or other)**
- **Respondents expect that the integration of ESG factors into mainstream investment decision making will be driven by clients, with benchmarking being the driving factor least likely to cause this change**
- **64% of all respondents view the benefits as being long term while 2% think it will be short-term**
- **Of the respondents who see this as being a long-term issue, twice as many see 'maximising upside benefits' as the principal motivation compared to those who see 'avoiding long term risk' as the motivation**

AXA Investment Managers and AQ Research today announced the results of a survey in which over 350 global investment professionals took part. The first of its kind, the survey was designed to identify the preferred terminology for the responsible investment sector. It drew responses from the buy and sell-side of the investment industry working within (44% of respondents) and outside (56% of respondents) the responsible investment arena.

An important obstacle to the integration of sustainability analysis into mainstream investment processes has been the lack of agreement amongst investment professionals about which term best describes the practice.

According to **Dr Raj Thamotheram, Director of Responsible Investment, AXA Investment Managers:** “Clients and mainstream colleagues don't have any difficulty understanding ethical screening or playing a particular theme like clean tech. Such consensus enables appropriate fund manager comparison and encourages them to remain faithful to their processes. But having found 16 different phrases to describe the kind of sustainability data that managers say they are now integrating into their mainstream analysis, it’s hardly surprising people are confused and that integration is not moving as quickly as it could! If we want mainstreaming to accelerate going forwards, finding one or two consensus terms that embody what integration is about would be a very good move."

Survey results confirm that such a consensus is forming. Investment professionals favour the use of the term ‘environmental, social & governance’ (ESG) as the preferred description of the new data that is integrated into mainstream research. ‘Sustainability’ followed closely as the next favoured description.

These results act as a timely signal to organisations in the sustainable investment arena that use or are considering using terms which currently lack support.

‘ESG’ and ‘sustainability’ emerged as preferred terms associated with integration from a selection of 16 choices, which included socially responsible investment’ (SRI), ‘extra financial’, ‘responsible investment’ (RI), ‘non-traditional’ and ‘management commentary.’

The preference for 'ESG' and 'sustainability' was consistent in Europe and North America, the two areas from which most respondents came (62% and 30% respectively).

William Russell-Smith, Managing Director, AQ Research, the independent research agency that received and analysed the data, commented: “The results come at a crucial time for the industry. It clearly needs to reach consensus in order to further develop the arena of sustainable investment. We are very grateful to all those who took the time to respond to this survey. This is a robust survey - drilling down the data by region and respondent profile shows the key results are consistent - and so we are confident this provides a sound basis for the industry to work towards the much needed consensus."

He added "There are growing calls for differentiated, non 'me too' research and also for more intelligent approaches to long-horizon investing, which necessarily means better assessments of uncertain long-term cash flows. So the organisations who want to profile in this space have a clear collective interest to create greater coherence in language as a necessary first step to demonstrating empirical evidence of adding value."

The survey results also demonstrate that integration is becoming a mainstream issue because of 'growing client interest' and 'changes in societal thinking.' Surprisingly, benchmarking - an implicit strategy underpinning many collaborative initiatives - is considered the least important driver of change.

In addition, 68% of buy-side respondents stated that the principal motivation for considering responsible investment factors was in order to catch the investment benefits over the long-term. Only 28% felt the motivation was to minimise long term risk while the corresponding figures from participants on the sell-side were 56% and 27% respectively.

Dr Raj Thamotheram concluded: "With investment service providers using different terminology for describing the same thing, there is unnecessary confusion amongst key agents driving change, including clients, their consultants, mainstream investment professionals and corporations. Equally, if the respondents are right, and the benefits of integrating responsible investment data are primarily long-term, this survey raises important questions about how investment professionals will be evaluated (and rewarded) for doing this work. The industry will have to shake off its preoccupation with short-term outcomes and weigh the quality of a fund manager's investment process in equal amount. This will be the only way to distinguish between those investment professionals likely to deliver the long-term benefits of integration and those who will not. Of course to do this, asset owners and their consultants will also need new competencies."

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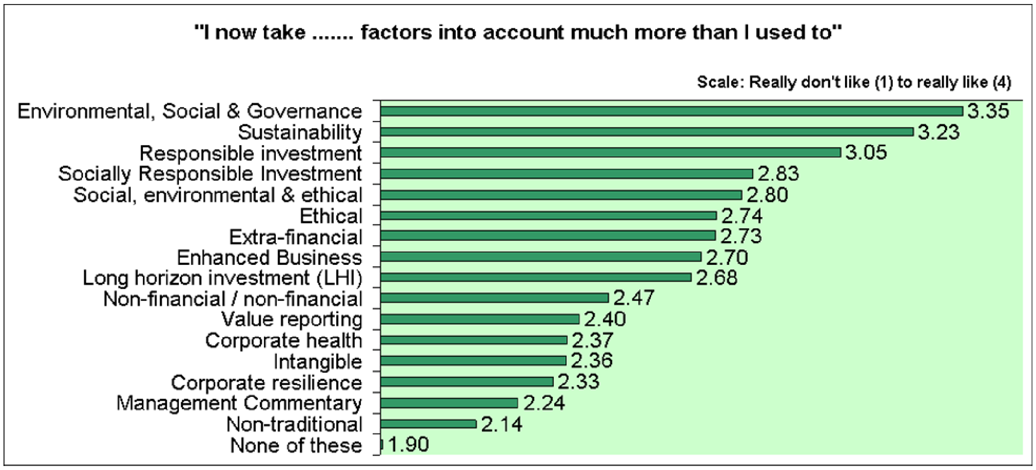
Additionally AQ Research organises conferences about the business of investment research around the world. Through its "Thinking Research" series of publications it expands on topical issues in this area. AQ has been analysing investment research since 1998.

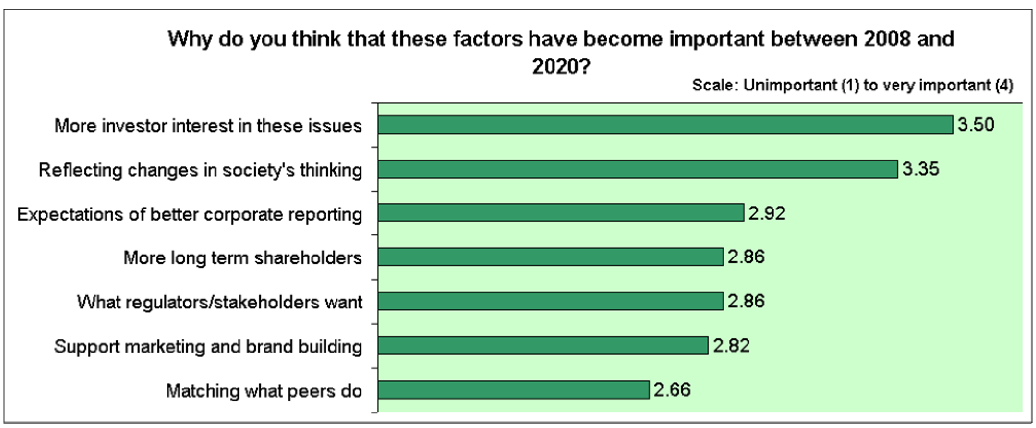
The Survey:
The survey, devised by AXA Investment Managers and AQ Research was publicised through FTfm and accessed by respondents through the AQ Research website. Respondents who completed the survey were from portfolio management, buy and sell-side research, wealth management, investor relations, public and corporate sectors, consultancy and independent research.

62% of respondents were Europe based whilst 30% were US based. European respondents were broadly representative of the industry, but in the US there was a slight bias towards independent research providers.

After providing some demographic details (location, work function, gender, experience) respondents were asked to grade each description. A numerical scale ranked the responses for each description, 4 being the most popular and 1 least popular. By averaging the scores generated by each description, the overall popularity of each was measured:



A similar approach was used to assess why this area is becoming more important:



Respondents were also asked to select the principal motivation for paying more attention to these factors: