

# **Smart Sustainability: 2020 global survey findings from asset owners**



**FTSE  
Russell**

# Contents

<b>3</b>	Introduction
<b>4</b>	Survey background
<b>6</b>	Section 1: Implementation and evaluation of ESG considerations
<b>9</b>	Section 2: Combining ESG and Smart Beta: “Smart Sustainability”
<b>12</b>	Section 3: Outlook
<b>13</b>	Conclusion
<b>14</b>	Appendix



# Introduction

This is the fourth year FTSE Russell has conducted and published the findings from our Smart Sustainability survey of global asset owners. With each passing year we learn more details about asset owners' awareness, attitudes and behaviors related to the combination of Sustainable Investment (SI) and smart beta, and we continue to adapt the questionnaire to accommodate emerging trends and areas of investment interest for our clients and the global asset owner community.

Back in 2017, when we first asked questions to ascertain if asset owners were thinking of applying sustainability considerations to smart beta, we were surprised to find out the degree to which ESG factors were being considered an option to accompany smart beta indexation—in 2017 over 40% of asset owners using or evaluating smart beta globally said they were looking to apply ESG considerations to a smart beta strategy. Now, nearly 60% of asset owners using or evaluating smart beta are using or evaluating the two approaches together.

This trend is reflected in our engagement with clients where we work with a growing number of asset owners who wish to integrate sustainability parameters—especially climate risk—into smart beta indexes. We call this Smart Sustainability and apply a consistent factor methodology across both risk premia factors and sustainable investment parameters.

Covid-19 has certainly focused investors on sustainability factors and, in addition, the recent social unrest has sharpened our clients' focus on factors

around social and diversity policies and their impact on markets and company performance. It is important to note that the annual survey was fielded in the run-up to the global Covid-19 pandemic. Depending on an asset owner's geography the questionnaire reflects the associated uncertainty and volatility differently, and should be interpreted as a pre-cursor to those changing markets and asset allocation decisions.

In these turbulent times, this year's survey results are a striking reminder that sustainable investment is becoming an ever more important consideration for asset owners, and that while regional differences persist, the gaps are narrowing with particularly rapid growth in North America.

- In Europe, sustainable investment is now firmly part of the mainstream, with 81% of EMEA asset owners expressing interest in applying SI/ESG considerations to smart beta (up from 73% last year).
- In North America, the share of asset owners that indicated similar interest jumped to 42%, from just 17% last year.

- Large asset owners are leading the charge; globally 80% of asset owners with an AUM of \$10 billion or higher are either evaluating or already implementing sustainability factors in their investment strategy.
- With COP26 and new EU regulations looming, climate risk tops the list of sustainability themes that asset owners focus on at 64%.
- Sustainable investment strategies continue to broaden, with a greater emphasis on more sophisticated approaches such as re-weighting based on SI and ESG factors (from 36% in 2019 to 55% in 2020) compared to more basic negative screening (64% in 2019 to 48% in 2020).

We hope you enjoy reading through this year's findings and welcome any feedback or questions you may have.

**Jaakko Kooroshy**  
*Head of SI Data & Methodologies,  
FTSE Russell*

# Survey background

The results included in this report are sourced from the FTSE Russell survey of asset owners, conducted in partnership with Radius Illumination. This year marks the fourth year we have covered the topic of sustainability/ESG considerations within the context of smart beta. We have expanded our coverage of sustainable investment in each of the past four years as interest in the topic has continued to grow.

The 2020 survey was conducted in January and February, with 139 global asset owners participating. The majority of participants were located in North America (37%), EMEA (37%), and Asia Pacific (21%).

A wide mix of organization types are represented, including government organizations (28%), corporations or private businesses (18%), unions or industry-wide pension schemes (12%), and non-profit organizations or universities (12%). The rest is a mix of insurance companies, sovereign wealth funds, health-care organizations and family offices.

Fifty-four percent of the asset owners who responded manage defined benefit plan assets, 26% manage defined contribution plan assets and 13% manage endowment or foundation assets. In some cases, respondents indicated management of multiple asset types. Participants also include asset owners with insurance general accounts, sovereign wealth funds and other types of institutional entities.

Asset owners with \$10 billion or more in total AUM account for 54% of responses, those with AUM between \$1 billion and \$10 billion account for 29%, and those with under \$1 billion in total AUM make up the remaining 17%.

The distribution of our asset owner sample has shifted from year-to-year across regions and AUM tiers. This can contribute to year-over-year changes in the results.

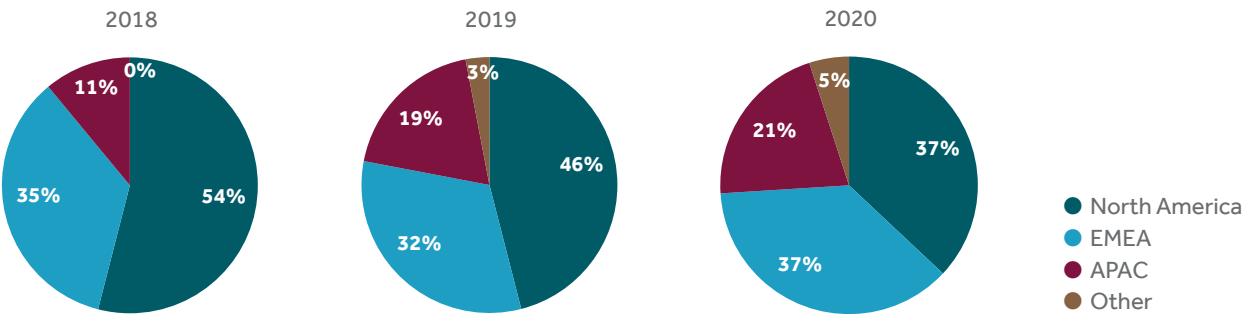
For the purposes of this survey, “smart beta” is defined as an investment strategy that applies an index-based investment strategy that is not traditionally market cap-weighted (i.e., fundamentally weighted, equal weighted, factor weighted, optimized, etc.).

For a sample size of 139, the margin of error is +/- 8% at a 95% confidence margin. Throughout the report, percentages may not total 100 due to rounding and/or because some questions allowed for multiple responses. (Allowance for multiple responses is noted as “multi-pick” in each exhibit footer).

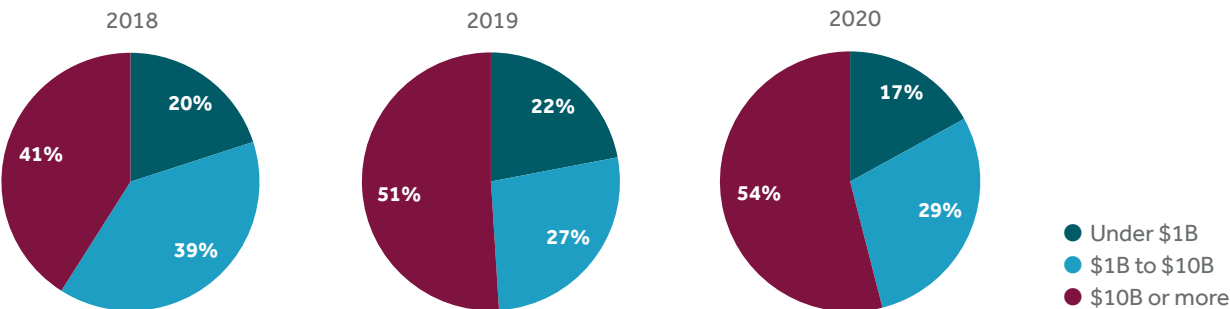
## Sample distribution by year for 2018 – 2020

### Exhibit 1

#### Region distribution



#### AUM tier distribution



# 1

## Implementation and evaluation of ESG considerations

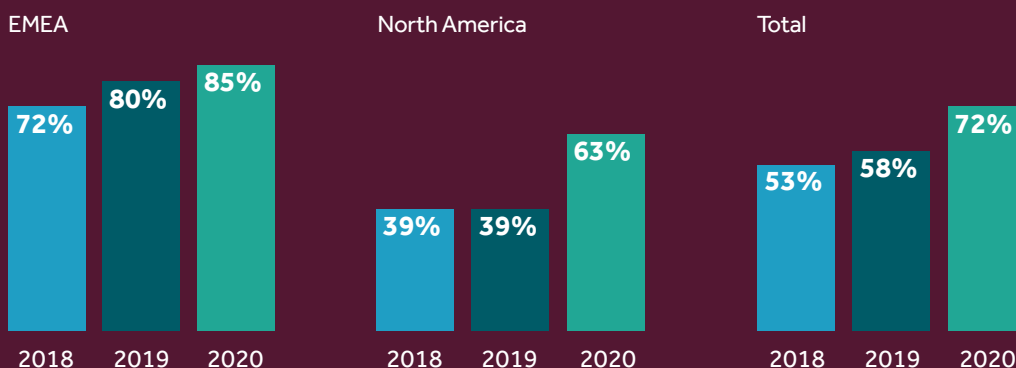
There has been a global rise in implementation and evaluation of sustainable investment considerations, with over seven in ten doing so globally in 2020. Regional differences between North America and EMEA are narrowing.

The 2020 rate of sustainable investment adoption and evaluation in EMEA (85%) remains higher than that of North America (63%). Notably, in North America the rate of implementation and evaluation increased from 39% in 2018 and 2019 to 63% in 2020.

Adoption and evaluation of sustainable investment/ESG considerations grew for asset owners across the AUM spectrum. Eighty percent of asset owners with AUM of \$10 billion or higher have adopted or evaluated SI/ESG considerations, compared to 66% of asset owners in the sample with AUM under \$10 billion.

### Exhibit 2.1

#### Sustainable Investment / ESG Implementation or Evaluation by Region

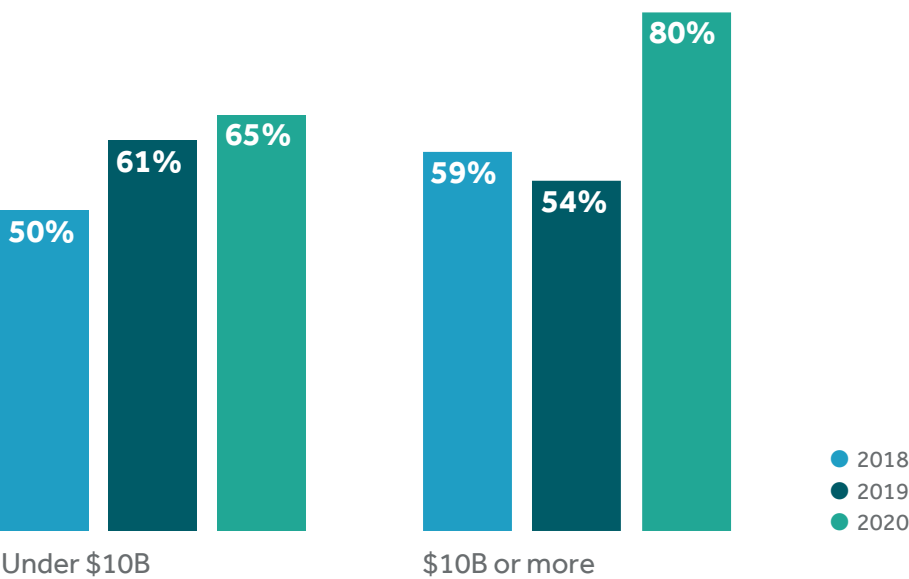


*Is your organization currently implementing or evaluating ESG/sustainability considerations in your investment strategy?*

*Sample size for Other regions not large enough to break out; respondents from these regions are included in total.*

Exhibit 2.2

Sustainable Investment / ESG Implementation or Evaluation by AUM



Is your organization currently implementing or evaluating ESG/sustainability considerations in your investment strategy?

Sample size for <\$1 billion and \$1-10 billion not large enough to break out; responses from these segments are grouped as <\$10 billion.

---

## Among those who are implementing or evaluating ESG/sustainability considerations, there is significant interest in fixed income (58%) and multi-asset (31%) applications.

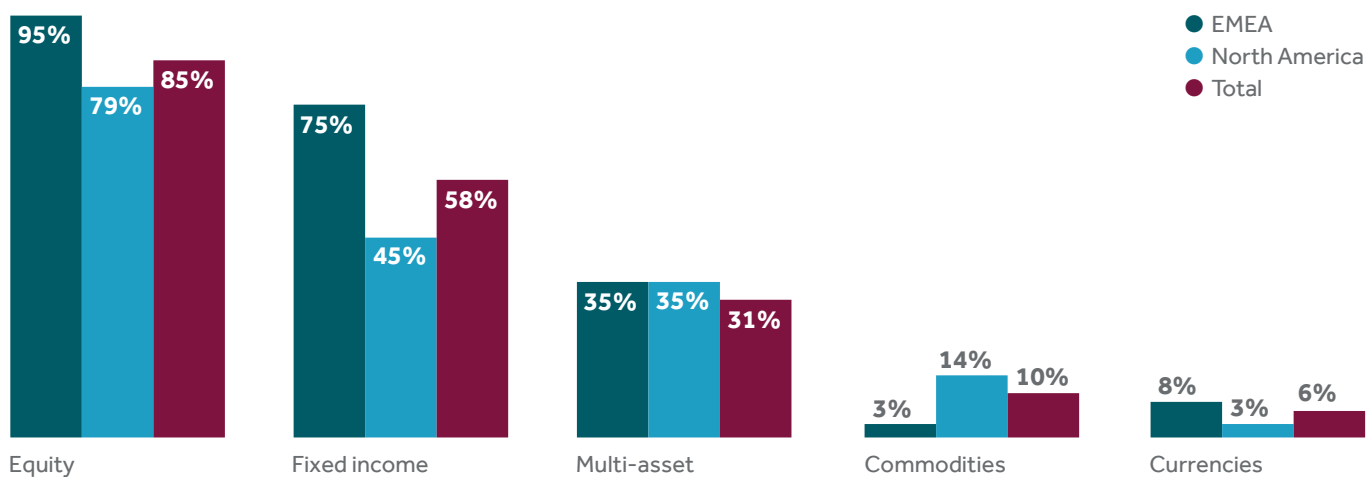
Fixed income applications, which have historically lagged equity market application of sustainable investment considerations, are particularly strong in EMEA where 75% of respondents are currently implementing or evaluating sustainability considerations for this asset class. In North America, 45% of respondents are implementing or evaluating ESG/sustainability considerations for fixed income investments.

About one-third of respondents globally are implementing or evaluating ESG/sustainability considerations for multi-asset investments. Interest in commodities application of sustainable investment considerations is stronger in North America than EMEA, with 14% of North American asset owners reporting evaluation or adoption. Less than 10% of respondents are evaluating ESG/sustainability consideration for currency investments.

---

### Exhibit 3

For which asset classes are you currently implementing or evaluating ESG / sustainability considerations?



Multi-pick. Segment = Currently implementing or evaluating ESG/sustainability considerations.

Sample size for North America is 29, below the preferred threshold of 30.



## Combining ESG and Smart Beta: "Smart Sustainability"

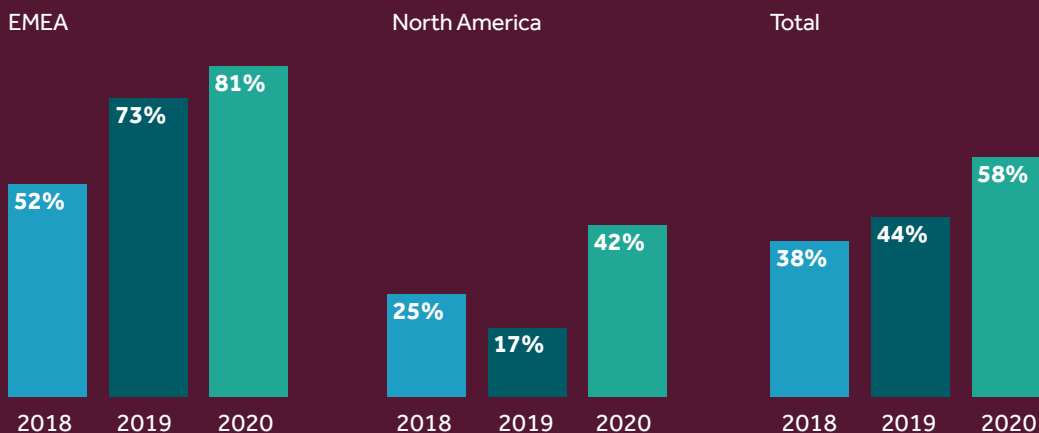
Among those who are using or evaluating smart beta strategies, an increasing share of global asset owners anticipate applying ESG considerations to their smart beta strategy of choice (58%, up from 44% in 2019).

Over 80% of EMEA asset owners using or evaluating smart beta expect to apply ESG considerations to smart beta, which is up from 73% last year.

In contrast, 42% of North American asset owners do, which has grown significantly from 17%.

### Exhibit 4

Do you anticipate applying ESG, climate or exclusion considerations to a smart beta strategy?



Segment = Have a smart beta allocation OR are currently evaluating/re-evaluating smart beta strategies OR are planning to evaluate smart beta strategies in the next 18 months.

Sample size for North America in 2020 is 26, below the preferred threshold of 30.

Sample size for Asia Pacific and Other regions not large enough to break out; respondents from these regions are included in total.

---

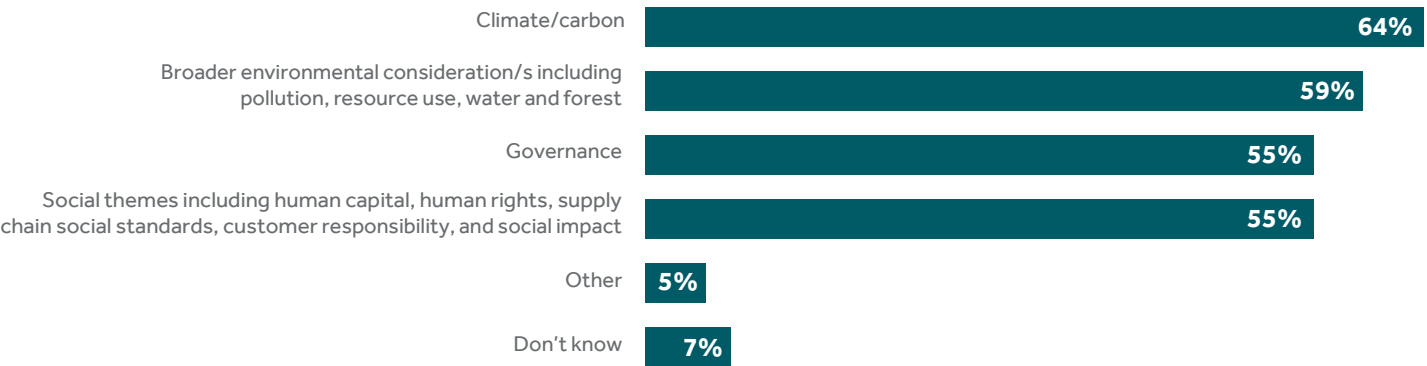
**Among those who anticipate applying ESG/sustainability to their smart beta strategy, climate/carbon is the top issue under consideration.**

Climate/carbon tops the list of sustainability themes that appear to be a focus at 64%, with environmental considerations close behind at 59%. Governance and social themes are also widely considered, with over half of respondents indicating such.

---

**Exhibit 5**

**What ESG/sustainability issues are you considering using in a smart beta and ESG allocation?**



*Multi-pick. Segment = Anticipate applying ESG/sustainability considerations to a smart beta strategy.*

---

## In 2020 there is a marked decline in interest in negative screens, coinciding with a growth in the more sophisticated approach of re-weighting based on ESG/sustainability criteria.

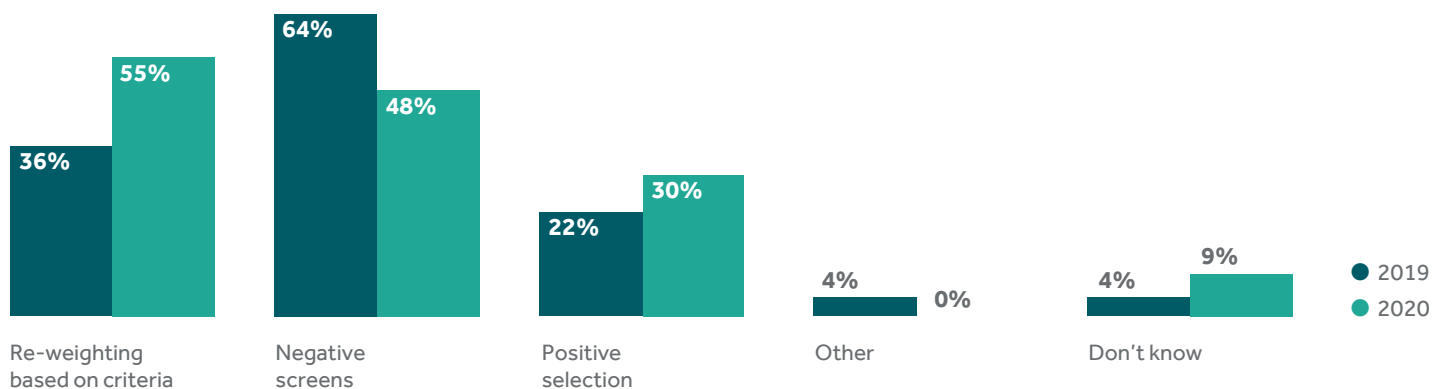
Interest grew to 55% in re-weighting/tilting approaches based on ESG/sustainability criteria alongside more traditional smart beta/risk premia factors.

Negative screening/divestment e.g. excluding fossil fuel industries or tobacco from investment portfolios, has declined to 48%, from 64% in 2019.

---

### Exhibit 6

What ESG/sustainability investment approaches are you using or considering using in a smart beta and ESG allocation?



*Multi-pick. Segment = Anticipate applying ESG/sustainability considerations to a smart beta strategy.*

# 3

## Outlook

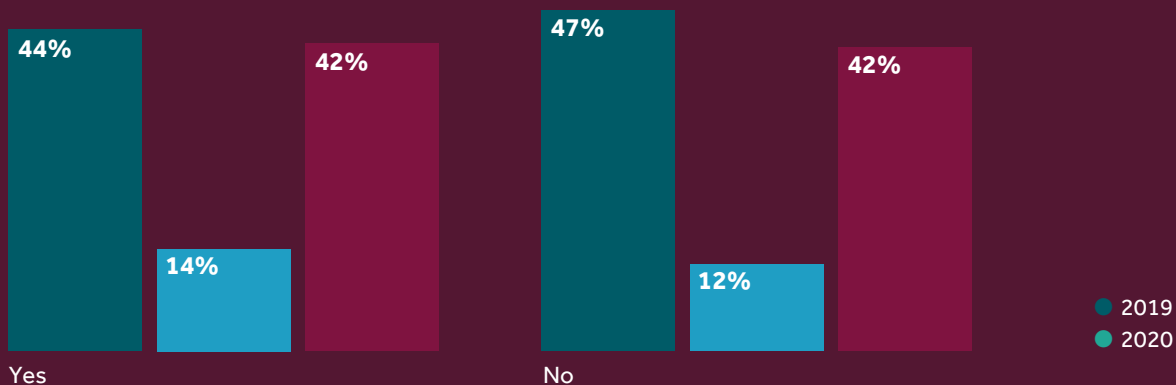
The outlook for “smart sustainability” remains strong.

Consistent with last year, nearly half of those who anticipate applying ESG/sustainability considerations to a smart beta strategy expect to increase their allocation to smart beta ESG

over the next year or two. Only 12% do not expect to increase their allocation, while 42% are undecided.

### Exhibit 7

Do you expect to increase your allocation to smart beta ESG over the next one to two years?



Segment = Anticipate applying ESG/sustainability considerations to a smart beta strategy.

# Conclusion

One of the key themes that emerged from our 2020 survey of asset owners was the continued growth in sustainable investment and ESG. With nearly three quarters of asset owners either implementing or evaluating ESG considerations in their investment strategies, the incorporation of data on an issuer's ESG performance into investment analysis has become mainstream.

Regional differences in ESG usage that were so pronounced in 2019 are also levelling off: EMEA continues to lead the way with its enthusiasm for applying ESG considerations to smart beta, though North America is catching up. This year 81% of EMEA asset owners evaluating or using smart beta expect to apply ESG considerations to smart beta (up from 73%), while 42% of North American asset owners do (up from 17%).

In terms of ESG smart beta implementation, asset owners increasingly embrace the use of ESG re-weighting over negative screens, positive selection or other approaches.

We will continue to include sustainability topics in future surveys to monitor how this confluence of trends takes shape and matures over time.



# Appendix

---

## Organization type

	2018	2019	2020
Corporation or private business	20%	16%	18%
Government	36%	31%	28%
Non-profit, university	15%	14%	12%
Union or industry-wide pension scheme	10%	15%	12%
Other	20%	24%	30%

---

## Plan type

	2018	2019	2020
DB	67%	53%	54%
DC	36%	36%	26%
E/F	15%	14%	13%

---

**For more information about our indexes, please visit [ftserussell.com](http://ftserussell.com).**

© 2020 London Stock Exchange Group plc and its applicable group undertakings (the "LSE Group"). The LSE Group includes (1) FTSE International Limited ("FTSE"), (2) Frank Russell Company ("Russell"), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, "FTSE Canada"), (4) MTSNext Limited ("MTSNext"), (5) Mergent, Inc. ("Mergent"), (6) FTSE Fixed Income LLC ("FTSE FI"), (7) The Yield Book Inc ("YB") and (8) Beyond Ratings S.A.S. ("BR"). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, MTSNext, Mergent, FTSE FI, YB and BR. "FTSE®", "Russell®", "FTSE Russell®", "MTS®", "FTSE4Good®", "ICB®", "Mergent®", "The Yield Book®", "Beyond Ratings®" and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, MTSNext, FTSE Canada, Mergent, FTSE FI, YB or BR. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. All information and data contained in this publication is obtained by the LSE Group, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, however, such information and data is provided "as is" without warranty of any kind. No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or of results to be obtained from the use of FTSE Russell products, including but not limited to indexes, data and analytics, or the fitness or suitability of the FTSE Russell products for any particular purpose to which they might be put. Any representation

of historical data accessible through FTSE Russell products is provided for information purposes only and is not a reliable indicator of future performance.

No responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any error (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of the LSE Group is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing contained herein or accessible through FTSE Russell products, including statistical data and industry reports, should be taken as constituting financial or investment advice or a financial promotion.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index inception date is back-tested performance. Back-tested performance is not actual performance, but is hypothetical.

The back-test calculations are based on the same methodology that was in effect when the index was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

This document may contain forward-looking assessments. These are based upon a number of assumptions concerning future conditions that ultimately may prove to be inaccurate. Such forward-looking assessments are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially. No member of the LSE Group nor their licensors assume any duty to and do not undertake to update forward-looking assessments.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of the LSE Group. Use and distribution of the LSE Group data requires a licence from FTSE, Russell, FTSE Canada, MTSNext, Mergent, FTSE FI, YB, BR and/or their respective licensors.



## About FTSE Russell

FTSE Russell is a leading global index provider creating and managing a wide range of indexes, data and analytic solutions to meet client needs across asset classes, style and strategies. Covering 98% of the investable market, FTSE Russell indexes offer a true picture of global markets, combined with the specialist knowledge gained from developing local benchmarks around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for asset allocation, investment strategy analysis and risk management.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on index innovation and customer partnership applying the highest industry standards and embracing the IOSCO Principles. FTSE Russell is wholly owned by London Stock Exchange Group.

**To learn more, visit [ftserussell.com](http://ftserussell.com);  
email [info@ftserussell.com](mailto:info@ftserussell.com); or call your regional  
Client Service Team office:**

**Email** [info@ftserussell.com](mailto:info@ftserussell.com)

**EMEA** +44 (0) 20 7866 1810

**North America** +1 877 503 6437

### **Asia Pacific**

HONG KONG +852 2164 3333

TOKYO +81 3 4563 6346

SYDNEY +61 (0) 2 8823 3521