# Perspectives from global investors

ESG Global Study – Fourth edition (2024)

**FOR PROFESSIONAL INVESTORS ONLY**
**Marketing communication**

# Contents

# Executive summary: 5 key takeaways

Our ESG[1] Global Study aims to shine a light on important trends among investors. This edition is no exception. Given the rise of artificial intelligence (AI), we set out to explore how investors think about AI in relation to ESG and gleaned valuable new insights. But beyond those, what hasn't changed compared to last year is perhaps more striking. Amid political and legislative challenges in the U.S. and elsewhere, evolving regulations and elevated geopolitical risk, a vast majority of the 1,130 investors surveyed remain committed to ESG.

Here are our **five key takeaways** from this year's ESG Global Study:

1. **ESG adoption holds steady in a volatile world.** ESG adoption remains at an all-time high globally and inches even higher in Europe, the Middle East and Africa (EMEA). This commitment to ESG stems from the need to ensure compliance with regulatory requirements, followed by investors' interest in managing financially material ESG risks and in finding ESG investment opportunities. Investors are less concerned about greenwashing[2] this year, which may also have contributed to the elevated level of ESG adoption.

2. **Investors lean in to multi-thematic strategies.** Half of respondents expect to increase allocations to multi-thematic ESG strategies over the next two to three years, compared to 42% that plan to increase exposure to single-thematic ESG strategies. Diversification and potential for better risk-adjusted returns are cited as core benefits of multi-thematic strategies, according to the study.

3. **Investors look to AI for help tackling ESG data challenges.** Consistency and reliability of ESG data pose the number one challenge to ESG adoption, the study shows. The rapid development of AI has given investors hope that this emerging technology might help solve the ESG data puzzle. Only 10% of respondents currently use AI to analyze ESG data, but more than half say they plan to do so in the future.

4. **The rise of AI brings new ESG investment risks.** Respondents point to a wide range of emerging AI-related ESG risks. Data protection and privacy top the list, followed by energy consumption and labour rights.

5. **Geopolitical and macro risks loom large as the world votes.** Geopolitical risks are seen as a significant headwind for ESG, though investors stay committed to ESG. Investors are also concerned that ESG-related policies and regulations may be subject to change as more than half of the world's population head to ballot boxes this year. High inflation and interest rates remain challenging for ESG strategies, for now.

1. *ESG is the acronym for environmental, social and governance.*
2. *Interpretations of what constitutes greenwashing can vary, but broadly the term relates to giving a misleading impression on the ESG or sustainability characteristics of a product, activity or organization.*

# Methodology/ Sample breakdown

## Methodology

**The Capital Group ESG Global Study was commissioned for a fourth year to gather the views of 1,130 global investors on ESG investing via an online survey conducted by CoreData Research during May and June 2024.**

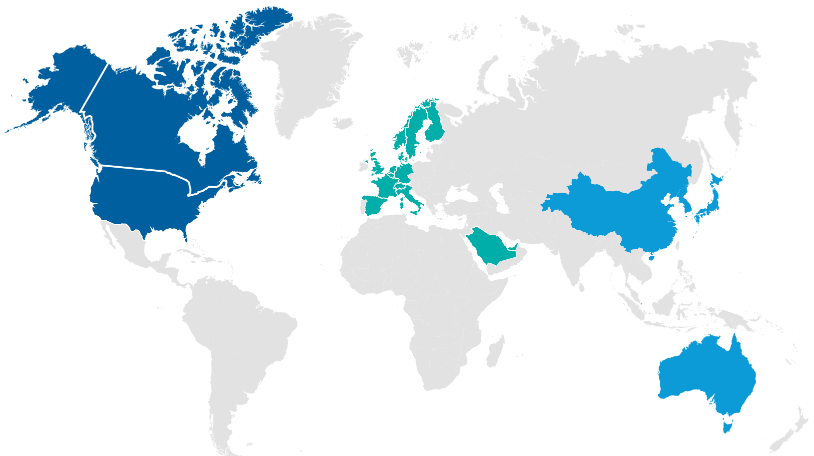
The sample includes 565 global institutional investors (pension funds, family offices, insurance companies, sovereign wealth funds, endowments, foundations) and 565 global intermediaries (fund of funds, discretionary fund managers, private banks, wirehouse broker/dealers, registered investment advisors and independent advisory). These investors were based in 24 countries from Europe, the Middle East and Africa (EMEA) (50%), Asia-Pacific (32%) and North America (18%).

Nine in 10 (90%) respondents of the study identify as ESG users or adopters, defined as investors that view ESG as central to their investment approach, apply ESG or consider ESG issues in their investment approach. The remaining 10% of respondents identify as ESG non-users, which means they aren't yet convinced about ESG, do not adopt or apply any ESG considerations in their investment approach and are unlikely to do so in the future.

## Sample breakdown

**1,130** global investors

**24** countries/regions



**North America**

**18%**

**12%** U.S.
**5%** Canada

**Asia-Pacific**

**32%**

**5%** Australia
**5%** China
**5%** Hong Kong
**5%** Japan
**5%** Singapore
**5%** South Korea

**EMEA**

**50%**

**8%** Benelux*
**5%** France
**5%** Germany
**5%** Italy
**5%** Middle East†
**5%** Nordics‡
**5%** Spain
**5%** Switzerland
**5%** U.K.

**Belgium, Netherlands and Luxembourg*
*†Kuwait, Saudi Arabia and UAE*
*‡Norway, Denmark, Finland and Sweden*

*Totals may not reconcile due to rounding.*

# Sample breakdown (continued)

| | | 2024 | 2023 |
|---|---|---|---|
| **Institutional** | Insurance company | 37% | 30% |
| | Pension fund | 32% | 43% |
| | Family office | 14% | 13% |
| | Foundation | 8% | 5% |
| | Endowment | 6% | 5% |
| | Sovereign wealth fund | 5% | 4% |
| **Intermediaries** | Private banks/Bank trusts | 28% | 20% |
| | Independent advisory/Individual wealth manager | 28% | 29% |
| | Fund of funds | 13% | 17% |
| | Registered investment advisor | 12% | 17% |
| | DFM*/Turnkey asset management provider | 9% | 9% |
| | Wirehouse broker/dealer | 9% | 7% |

*Totals may not reconcile due to rounding.*
**Discretionary fund manager*

| | | 2024 | 2023 |
|---|---|---|---|
| **Institutional** | Portfolio manager/Investment manager | 42% | 45% |
| | Chief investment officer | 22% | 12% |
| | Investment officer | 12% | 9% |
| | Investment director | 8% | 13% |
| | Investment consultant | 4% | 6% |
| | Fund analyst/Fund selector | 4% | 6% |
| | Research analyst | 3% | 3% |
| | ESG/Responsible investment specialist | 2% | 4% |
| | Other | 2% | 2% |
| **Intermediaries** | Chief investment officer | 19% | 14% |
| | Director/Head of asset class | 22% | 22% |
| | Investment team member | 55% | 62% |
| | Other | 4% | 2% |
| **Assets under management (AUM)** | **Total AUM** | **$55.6T** | **$52.9T** |
| | Less than $1 billion | 13% | 17% |
| | $1 billion to less than $5 billion | 17% | 24% |
| | $5 billion to less than $10 billion | 15% | 13% |
| | $10 billion to less than $50 billion | 20% | 18% |
| | $50 billion to less than $100 billion | 13% | 9% |
| | $100 billion to less than $250 billion | 9% | 7% |
| | $250 billion to less than $500 billion | 5% | 5% |
| | $500 billion to less than $1 trillion | 4% | 5% |
| | $1 trillion or more | 3% | 3% |

*Totals may not reconcile due to rounding. All values in US dollars.*

# 01 | ESG adoption holds steady in a volatile world

# ESG adoption holds steady in a volatile world

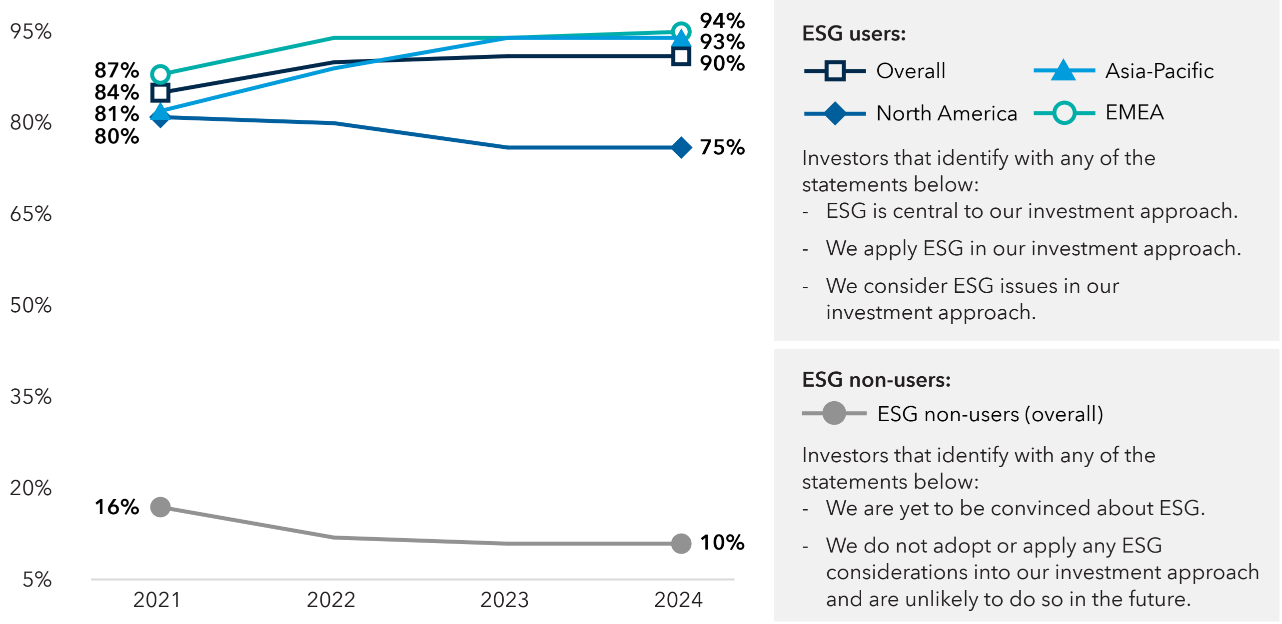
## ESG adoption stays at an all-time high globally and inches higher in EMEA

This year's study shows global ESG adoption remains at an all-time high. Nine in 10 (90%) investors in the study identify as ESG users – the same as last year.

This illustrates ongoing strong conviction in ESG as it enters a more mature phase of growth following its rapid evolution from niche to mainstream.

EMEA is the leader, with 94% of respondents adopting ESG – up one percentage point from last year. ESG adoption rates in Asia-Pacific (93%) and North America (75%) are unchanged from last year.

**Rising levels of ESG adoption since 2021**




## Regulatory compliance tops key drivers of ESG adoption

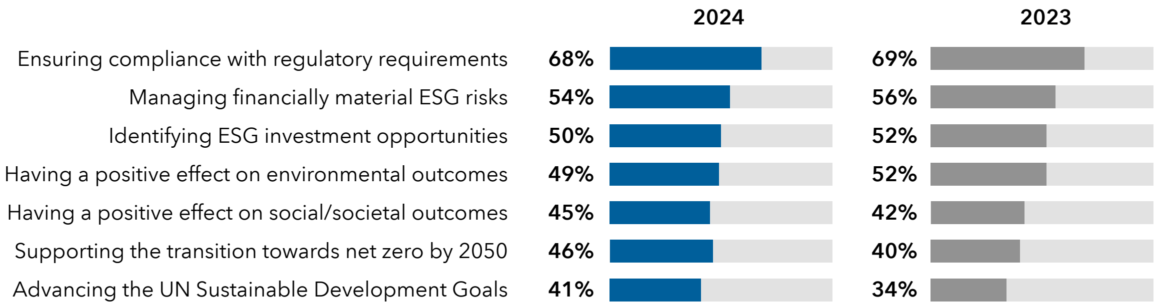
Regulation continues to be the dominant driver behind ESG adoption. Nearly seven in 10 (68%) say regulatory compliance is central to defining their ESG approach. This underscores the impact of ESG-related regulations that have been introduced around the world, led by Europe.

*"**Our approach to ESG is driven above all by regulation,**" says a portfolio manager at a German private bank.*

"Our approach to ESG is driven above all by regulation," says a portfolio manager at a German private bank. "Under EU regulations, we now have to ask clients about their ESG preferences at every meeting."

Managing financially material ESG risks and finding investment opportunities are also listed as important motivations. Nearly half (46%) of respondents see supporting the net zero transition as key to their ESG approach, up from 40% last year. The share of respondents that view advancing the United Nations Sustainable Development Goals (UN SDGs) as a key input in their ESG approach has also risen, to 41% from 34% last year. This suggests investors are increasingly targeting specific and measurable sustainability issues aligned with client values.

How investors define their approach to ESG




*% Significant (Absolutely central to our approach + Significant part of our approach)*

## Concerns about greenwashing are receding

Greenwashing is perceived as less prevalent compared to last year, which may also have contributed to the high level of ESG adoption, the study shows. About four in 10 (42%) global investors think greenwashing is prevalent within the asset management industry – the lowest level since our study started in 2021. Regulations and enforcement actions have helped, according to respondents.

"We are definitely seeing progress on greenwashing," says a portfolio manager at a Hong Kong pension fund. "And I think it's because stricter scrutiny has been put in place over the past few years to both prevent greenwashing and educate investors about issues arising from it."

> ***"I would say we're probably past the worst of greenwashing, but I think the pendulum has swung the other way … There's not a lot of bold statements made anymore,"*** *says an investment director at an Australian endowment fund.*

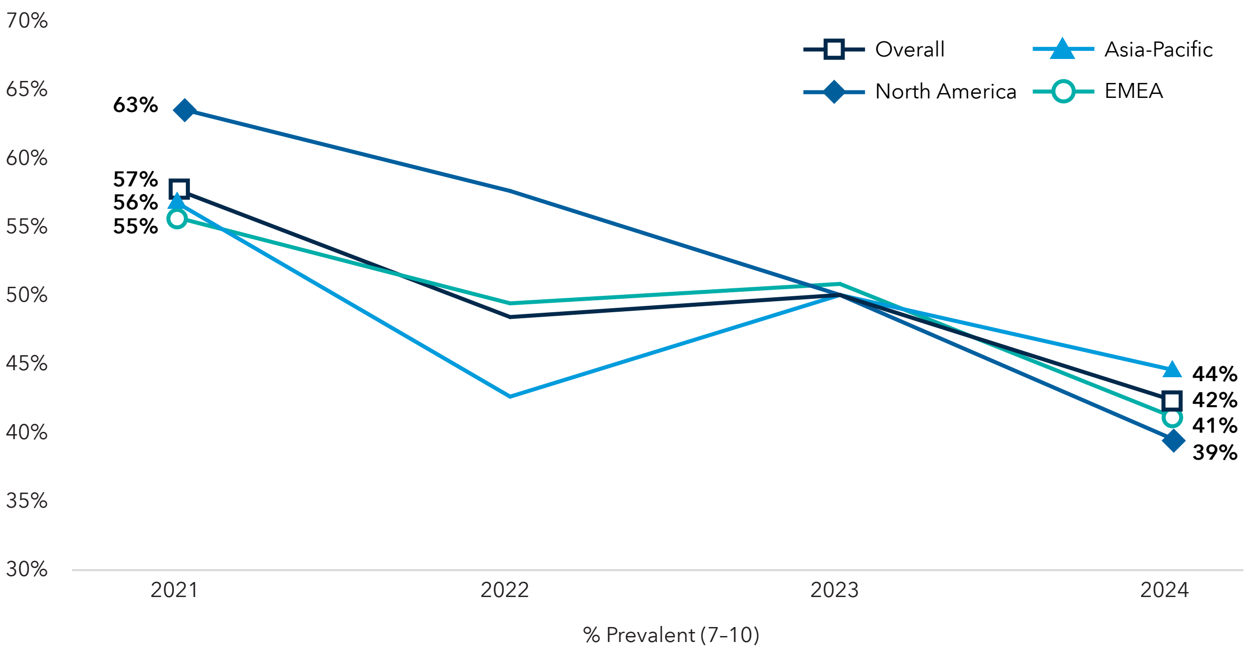
Yet investors have mixed views on where things may go. Some 40% of respondents agree that greenwashing isn't getting worse, and 18% disagree.

"I'm not sure we've seen much progress, to be honest, because there are still no labels that investors trust or trust enough. And that's still the biggest problem for me," says a portfolio manager at a German private bank.

Some investors have observed the rise of so-called green hushing. This is a practice where companies deliberately downplay their ESG credentials and efforts around sustainability. The aim of green hushing is to try to avoid attracting accusations of greenwashing or, indeed, scrutiny from investors who might believe too much emphasis is being placed on ESG and sustainability.

"I would say we're probably past the worst of greenwashing, but I think the pendulum has swung the other way," says an investment director at an Australian endowment fund. "There was a massive reaction last year to regulatory intervention, and organizations have since been reticent to be ambitious with ESG goals and reticent to market them. There's not a lot of bold statements made anymore."

**Perceived prevalence of greenwashing within asset management since 2021**




*Share of respondents that perceive greenwashing as prevalent in the asset management industry. Rated on a scale of 0–10 where 0 = Not prevalent at all, and 10 = Extremely prevalent.*

"Greenwashing is not getting worse, the investment industry is just getting better at detecting it."

| | % Agree | % Disagree |
|---|---|---|
| **Overall** | **40%** | **18%** |
| Asia-Pacific | 46% | 18% |
| EMEA | 40% | 15% |
| North America | 32% | 25% |

## Investors believe ESG improves decision-making

Investors also believe that incorporating ESG enhances their investment decisions. More than half (56%) say their approach to ESG is driven by a belief that adding non-financial factors to investment analysis improves decision-making. This rises to six in 10 (60%) among EMEA respondents.

"We believe that when you include long-term ESG factors in investment decisions it helps you invest in companies and sectors that will benefit from being better positioned for the future," says a senior portfolio manager at a Dutch insurer.

ESG fund performance stays both a hotly debated topic and a major obstacle for ESG adoption. More than 40% of respondents expect ESG funds to have similar returns against benchmarks/traditional funds, and fewer respondents (28%) have conviction in long-term outperformance.

"I strongly believe ESG funds can outperform," says a senior portfolio manager at a Hong Kong pension fund. "We invest in emerging markets where we think we can make a positive financial and non-financial impact."

A portfolio manager at a U.K. wealth manager thinks ESG funds will deliver similar long-term returns to benchmarks. "On the one hand, you're reducing your investment universe, and one would expect that to weigh on performance. But on the other hand, ESG is another layer of checks and balances and risk management. And I think that helps mitigate and avoid dangers, which is a key part of the investment process. So, there's a quid pro quo and, in totality, performance will be similar."

**What value can ESG add?**

| | | |
|---|---|---|
| Our approach to ESG is driven by a belief that including non-financial factors within investment analysis leads to better decision-making. | Agree | 56% |
| | Neutral | 32% |
| | Disagree | 13% |
| Over the long term, ESG funds will deliver at least the same or similar investment performance to traditional funds. | Agree | 42% |
| | Neutral | 36% |
| | Disagree | 22% |
| Over the long term, ESG funds will deliver stronger investment performance than traditional funds. | Agree | 28% |
| | Neutral | 40% |
| | Disagree | 33% |

*Totals may not reconcile due to rounding.*

## Most investors expect to increase their ESG allocations

More than 90% of respondents say they increased or maintained overall allocations to ESG funds over the preceding 12 months. Additionally, more than half of respondents plan to increase ESG allocations over the next 12 months, in part due to increased client demands.

"Our ESG allocations have increased slightly and will continue to increase slightly," says a portfolio manager at a German private bank. "And the main reason is because clients are demanding ESG more and more. This is especially the case with the younger generation, which is definitely giving more importance to ESG."

This trend is playing out across asset classes. More than 40% of respondents report that they increased allocations to ESG equity (46%) and fixed income (44%) funds. Even more respondents have plans to increase allocations in each asset class over the next 12 months. Notably, investors are showing stronger interest in private market strategies as well as multi-asset strategies than last year, underscoring the ongoing expansion of ESG across asset classes.

A higher share (53%) of investors from Asia-Pacific has upped overall ESG allocations in the past year, compared to other regions (52% in EMEA and 41% in North America). Over the next 12 months, however, it's EMEA that has the highest percentage (61%) of investors planning to raise their allocations (compared to 56% in Asia-Pacific and 45% in North America).

A portfolio manager at a Dutch insurer says his firm increased allocations to ESG funds over the past year. He notes that regulations in the form of the EU's Sustainable Finance Disclosures Regulation (SFDR) played a key role. "We decided to redeem every position in Article 6 funds and replace them with at least Article 8. We want to have a certain minimum level of ESG integration into funds we invest in and that's why we redeemed the Article 6 funds."

Under SFDR classifications, Article 6 funds do not focus on ESG, though they do consider sustainability risks. Article 8 funds promote ESG characteristics and Article 9 funds have an explicit sustainable investment objective.

## Investment performance and strategic asset allocation drive reduced exposure to ESG

Overall, just 7% of respondents trimmed ESG allocations over the past 12 months, and the same percentage plan to reduce allocations in the next 12 months. Investment performance and strategic asset allocation are the top two reasons for reductions, each cited by about half of the investors.

**Allocations to ESG funds across asset classes**

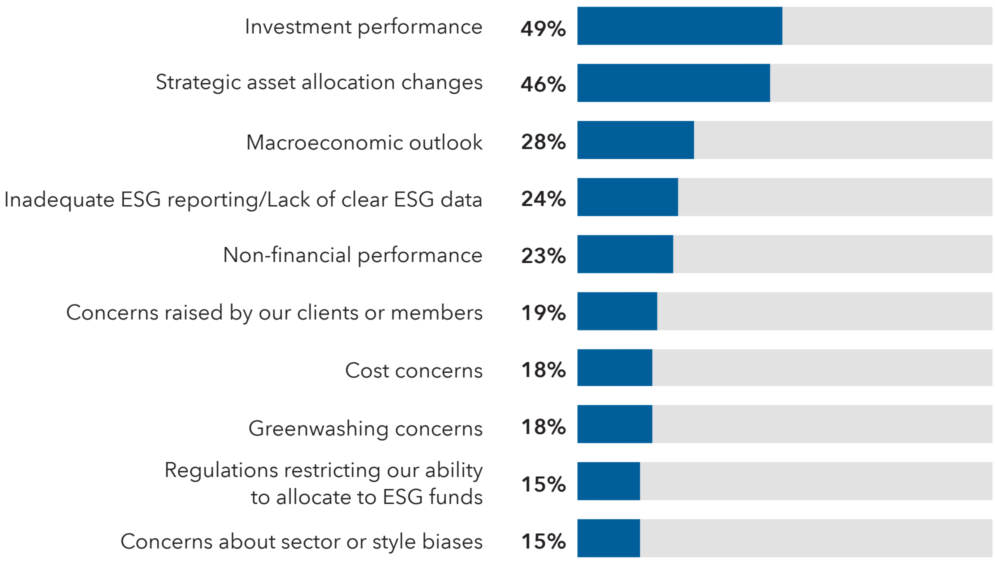
| | | Past 12 months | Next 12 months |
|---|---|---|---|
| **Overall** | Increase | 50% | 57% |
| | Stay the same | 41% | 36% |
| | Decrease | 7% | 7% |
| | Don't invest | 1% | 0% |
| Equity | Increase | 46% | 52% |
| | Stay the same | 43% | 41% |
| | Decrease | 7% | 6% |
| | Don't invest | 4% | 2% |
| Fixed income | Increase | 44% | 51% |
| | Stay the same | 45% | 37% |
| | Decrease | 7% | 8% |
| | Don't invest | 5% | 4% |
| Alternative/private | Increase | 34% | 47% |
| | Stay the same | 47% | 37% |
| | Decrease | 6% | 8% |
| | Don't invest | 13% | 8% |
| Multi-asset | Increase | 33% | 43% |
| | Stay the same | 45% | 41% |
| | Decrease | 8% | 7% |
| | Don't invest | 14% | 10% |

*Totals may not reconcile due to rounding.*

*The numbers on the table show the share of respondents that report to have taken the indicated action or plan to take the indicated action.*

In contrast, non-financial considerations featured less prominently in their decisions to trim ESG allocations, highlighting the importance of financial materiality when considering ESG implementation. For instance, only 23% of these investors cite non-financial performance (i.e., dissatisfaction with ESG outcomes) as the main reason to reduce allocations.

**Reasons for cutting allocations to ESG funds over past 12 months**



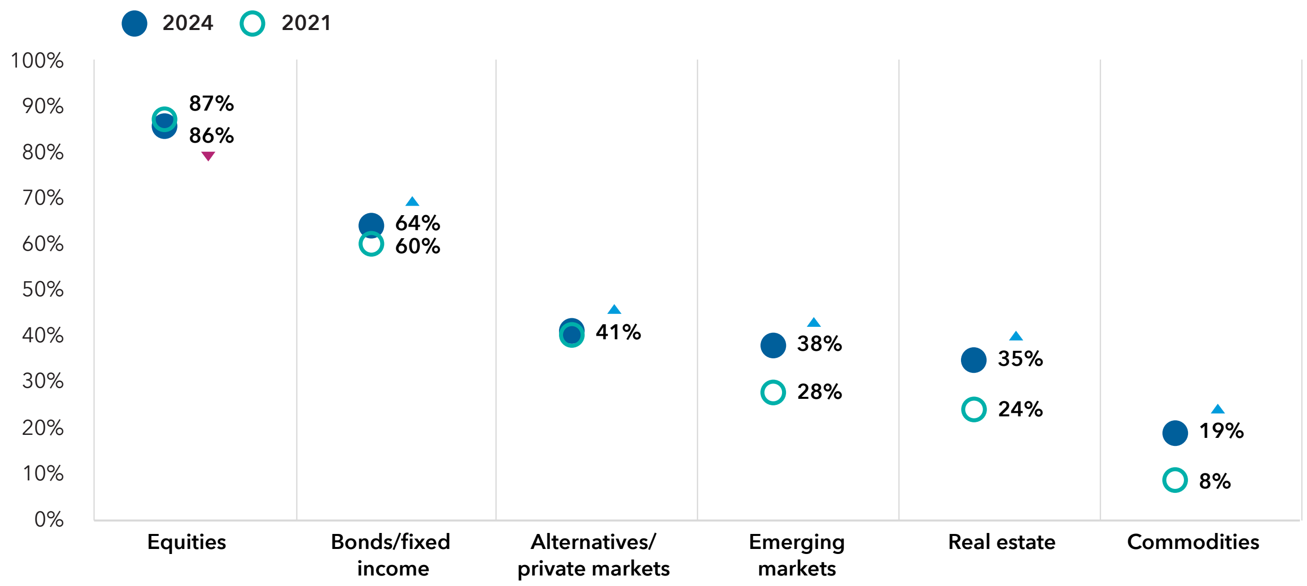

*Up to three answers allowed.*

## Equities are still most popular, but other asset classes are catching up

Equities (86%) remain the dominant asset class for implementing ESG and are more popular than in 2023 (81%) and on a similar level to 2021 (87%). Bonds (64%), the second-most used asset class, have increased their share compared to both 2023 (58%) and 2021 (60%). The same holds true for emerging markets (38%), real estate (35%) and commodities (19%), all of which are more popular than last year and 2021.

Interestingly, the trend data for private markets is taking a different path. Although investors have shown a growing appetite since our first ESG Global Study in 2021, it is the only asset class in this year's study where usage has dropped from a year earlier. This may be due to the broader market environment, in particular, higher interest rates. The illiquidity premium (effectively, the "extra" compensation that investors receive in private markets because assets are not as readily sellable as public equity and credit) has been relatively low as a result.

## Asset classes used to implement ESG – 2024 vs. 2021




*Multiple answers allowed.*

## ESG integration still most widely used, but screening and thematic strategies gain traction

ESG integration is again the most popular approach, though the share of respondents opting for it (58%) is slightly lower than last year's 60%. More investors are deploying screening strategies – both negative and positive – compared to last year. In addition, more investors are opting for thematic ESG investing.

Increased usage of screening strategies suggests investors have clearer parameters about the types of companies and sectors they want to invest in and avoid. Positive screening/best in class is most popular in EMEA (52%), while negative screening is most popular among the Asia-Pacific investors (63%).

Meanwhile, a greater share of EMEA investors use thematic ESG investing than last year (58% vs. 50% 2023), showing rising interest in specific sustainability causes.

### Top approaches to incorporating ESG in investments

| | 2024 | 2023 | 2022 | 2021 |
|---|---|---|---|---|
| ESG integration | 58% | 60% | 59% | 67% |
| Negative screening/exclusion | 54% | 52% | 40% | 55% |
| Thematic ESG investing | 53% | 49% | 49% | 50% |
| Best in class and/or positive screening | 48% | 41% | 41% | 55% |
| Impact investing | 44% | 45% | 47% | 41% |

*Multiple answers allowed.*

*ESG integration focuses on the incorporation of material environmental, social and governance considerations into investment analysis and decision-making. Negative screening or exclusion refers to an investment approach that excludes certain sectors or companies/issuers on the basis of environmental, social and/or governance criteria. Best in class is an investment approach that focuses exposure to companies/issuers that are leaders in their particular sector or industry when it comes to meeting predefined ESG criteria. Positive screening is an investment approach that includes or tilts toward companies/issuers that meet predefined ESG criteria or score highly on selected ESG issues. Thematic ESG investing is an approach that targets specific ESG themes or trends. One commonly accepted definition for impact investing is from the Global Impact Investing Network (GIIN), which defines impact investments as investments made with the intention to generate positive, measurable social and/or environmental impact alongside a financial return.*

# 02 | Investors lean in to multi-thematic strategies

# Investors lean in to multi-thematic strategies

## Half of investors plan to increase allocations to multi-thematic strategies

Investors' appetites for exposure to a diverse set of investment themes has fuelled demand for multi-thematic ESG strategies.

Half of respondents plan to raise allocations to multi-thematic strategies over the next two to three years. Appetite for multi-thematic strategies is greater in Asia-Pacific and EMEA, where 55% are set to raise allocations, compared to North America (30%).

Investors point to several potential benefits of multi-thematic ESG exposures compared to single-thematic funds (though it's worth noting that 42% of respondents plan to increase allocations to single-thematic strategies). The top three perceived benefits of multi-thematic strategies are diversification, the potential for better risk-adjusted returns and broader ESG impact. In addition, nearly a third cite the potential benefits of lower volatility and reduced style bias.

More Asia-Pacific investors flag the potential for better risk-adjusted returns and broader ESG impact, while lower volatility is a bigger pull for North Americans.

"I think multi-thematic funds are becoming more popular partly because it's difficult to say what single theme would be the best investment option," says a senior investment officer at a U.S. foundation. "These funds also provide some diversification and, one would assume, a lower level of risk due to reduced volatility."

### Allocation changes to ESG thematic strategies over next 2-3 years

| | | Overall | North America | Asia-Pacific | EMEA |
|---|---|---|---|---|---|
| **Single-thematic ESG strategies** | Increase | 42% | 23% | 38% | 50% |
| | Maintain at current level | 43% | 47% | 51% | 38% |
| | Decrease | 4% | 8% | 4% | 4% |
| | We do not allocate | 11% | 23% | 8% | 9% |
| **Multi-thematic ESG strategies** | Increase | 50% | 30% | 55% | 55% |
| | Maintain at current level | 35% | 40% | 34% | 34% |
| | Decrease | 5% | 6% | 3% | 5% |
| | We do not allocate | 10% | 24% | 8% | 6% |

*Totals may not reconcile due to rounding.*

### Perceived benefits of multi-thematic strategies over single-thematic strategies

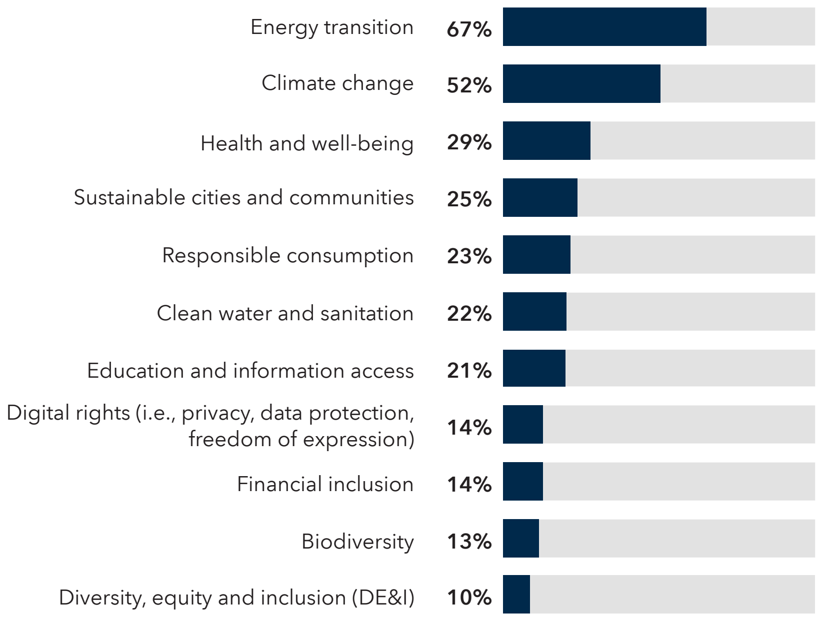
| | Overall | Region: North America | Region: Asia-Pacific | Region: EMEA |
|---|---|---|---|---|
| Diversification/lower concentration risk | 64% | 64% | 61% | 66% |
| Potential for better risk-adjusted returns | 50% | 46% | 54% | 49% |
| Broader ESG impact | 49% | 49% | 55% | 46% |
| More efficient method of accessing multiple ESG themes | 37% | 35% | 38% | 37% |
| Lower volatility | 31% | 39% | 28% | 32% |
| Reduced style bias | 31% | 21% | 30% | 35% |
| Adaptability to changing market conditions | 28% | 32% | 26% | 28% |

*Each number represents the combined percentage of respondents that chose the given answer as their first, second or third choice.*

## While "E" themes still dominate in fund selection, there's a sharp focus on "S" risks

Environmental investment themes have consistently been top of mind in our annual ESG Global Study, towering over other themes. But investors are targeting a broad range of ESG-related themes. Many of these themes are interlinked and interdependent, which likely explains the appeal of multi-thematic strategies.

**Most important investment themes when selecting ESG funds**




"Social issues are being overlooked in the debate on climate change."

**% Agree**

**47% Overall**
56% Asia-Pacific
45% EMEA
36% North America

*Each number represents the combined percentage of respondents that chose the given answer as their first, second or third choice.*

This year's study also makes clear that an increasing number of investors believe social issues are overlooked. In particular, there is concern about the energy transition's negative socioeconomic consequences and their disproportionate effects on particular communities and regions. This observation is most pronounced in Asia-Pacific, where over half of respondents agree that social issues are being neglected.

## UN SDGs continue to act as a North Star for many investors

An increasing number of investors view advancing the UN SDGs as key to their ESG approach, as mentioned earlier. The 17 SDGs set out by the UN encompass a diverse range of causes spanning the economic, social and environmental spheres – including climate change, hunger, poverty and inequality. Investing in funds targeting the UN SDGs can help gain exposure to multiple interlinked ESG themes.

> *"**The ability to tap into different SDGs around good health, thriving communities and gender diversity enables you to promote multiple positive outcomes,**" says an investment director at an Australian endowment fund.*

"The ability to tap into different SDGs around good health, thriving communities and gender diversity enables you to promote multiple positive outcomes," says an investment director at an Australian endowment fund.

The "one fund, multiple outcomes" feature of SDG-aligned funds are attractive to investors. EMEA investors are most interested, with half of them saying that making progress on the SDGs is highly significant to their ESG approach, up from 40% last year.

The UN goals are also seen as a valuable framework to measure positive contribution to sustainability. Investors point to aligning investee company products and services with the SDGs (47%) as a top consideration to determine if an investment makes a positive contribution to sustainability.

**Top considerations when determining if investments make positive contribution to sustainability**

| | |
|---|---|
| 47% | Alignment of investee companies' products and services with the UN SDGs |
| 44% | ESG performance of investee companies' operations (assessed using third-party ESG scores or frameworks) |
| 41% | Alignment of investee companies' products and services with third-party taxonomies (e.g., EU green taxonomy, SDI Asset Owner Platform) |
| 37% | Evidence of investee companies' transition to greater social/environmental sustainability and/or progress toward sustainability targets (e.g., Paris Agreement/Net Zero) |
| 32% | Proprietary calculation of net positive vs. negative sustainability contribution of investee companies' products and services and/or operations |

*Each number represents the combined percentage of respondents that chose the given answer as their first or second choice.*

## Investors increasingly favour a mix of leaders and transitioners

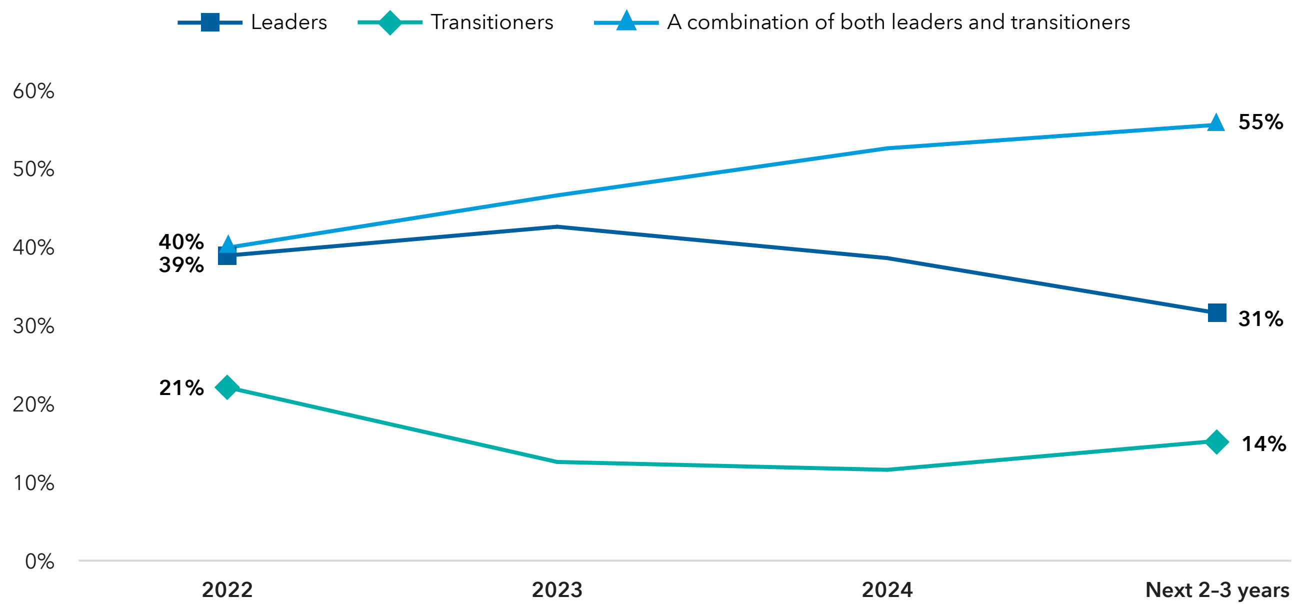
As the world moves toward a more sustainable future, some companies are leading the charge while others are in transition. There's growing recognition among investors that leaders and transitioners both play important roles – and that both types can bring opportunities. The share of investors favouring the mixed approach has risen for the second consecutive year, to 52%, beating the share of investors preferring investing in only leaders or transitioners. This trend could accelerate over the next two to three years, with 55% planning to invest in a combination of leaders and transitioners.

A portfolio manager at a state-affiliated investor in Asia says the strategy of investing in leaders and transitioners is principally one of "risk diversification and not putting all your eggs in one basket."

She goes on to note some of the risks of overly focusing on leaders: "The concern with leaders is some have grown their companies through existing government subsidies which have enabled them to scale up operations. But what remains to be seen is if they will continue to grow when these subsidies are removed or restricted."

Investors recognize the importance of active management when it comes to both finding transitioners with the potential to become leaders and helping them make that transition.

Types of companies in focus when allocating to ESG strategies




*Leaders: Includes "Leaders only" and "Mainly but not limited to leaders." Transitioners: Includes "Transitioners only" and "Mainly but not limited to transitioners."*

## Interest in biodiversity may be poised to blossom

Investors are looking to deepen their exposure to emerging areas in ESG. One theme gaining traction is biodiversity, amid growing concern about the erosion of natural capital and a deeper understanding of the resulting financial risks. The study shows that only a small share of investors has already included biodiversity within their investment policy, with a larger proportion working on it. Similarly, only 22% of respondents have invested in specific biodiversity funds, while 38% are in the process of doing so.

The most common step taken thus far on the biodiversity and nature front has been to engage external asset managers on the issue. This is another area where investors are leaning on the stewardship resources and analytical expertise of asset managers. A higher proportion of intermediaries (38%, compared to 33% of institutional investors) are in the process of engaging with external asset managers to discuss how biodiversity/nature is being addressed in funds. International initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD) are helping support development of biodiversity-related data metrics and could, ultimately, lead to widespread and standardized disclosures.

**Steps taken to incorporate biodiversity into investment decision-making**

| | | |
|---|---|---|
| Engaged external asset managers on how they are addressing biodiversity/nature in their funds | Already done | 23% |
| | In the process | 36% |
| | Not done and no plans to | 41% |
| Invested in funds/mandates that specifically target the issue of biodiversity/nature | Already done | 22% |
| | In the process | 38% |
| | Not done and no plans to | 39% |
| Included biodiversity and nature as a priority in our responsible investment policy | Already done | 20% |
| | In the process | 34% |
| | Not done and no plans to | 45% |

*Totals may not reconcile due to rounding.*

**2023**

**8%** had introduced a dedicated policy on biodiversity, with **15%** planning to do so over next two years.

**2024**

**20%** have included biodiversity as a priority in their responsible investment policy and **34%** are in process of doing so.

# 03 | Investors look to AI for help tackling ESG data challenges

# Investors look to AI for help tackling ESG data challenges

## Among ESG adoption barriers, data difficulties are most widely cited

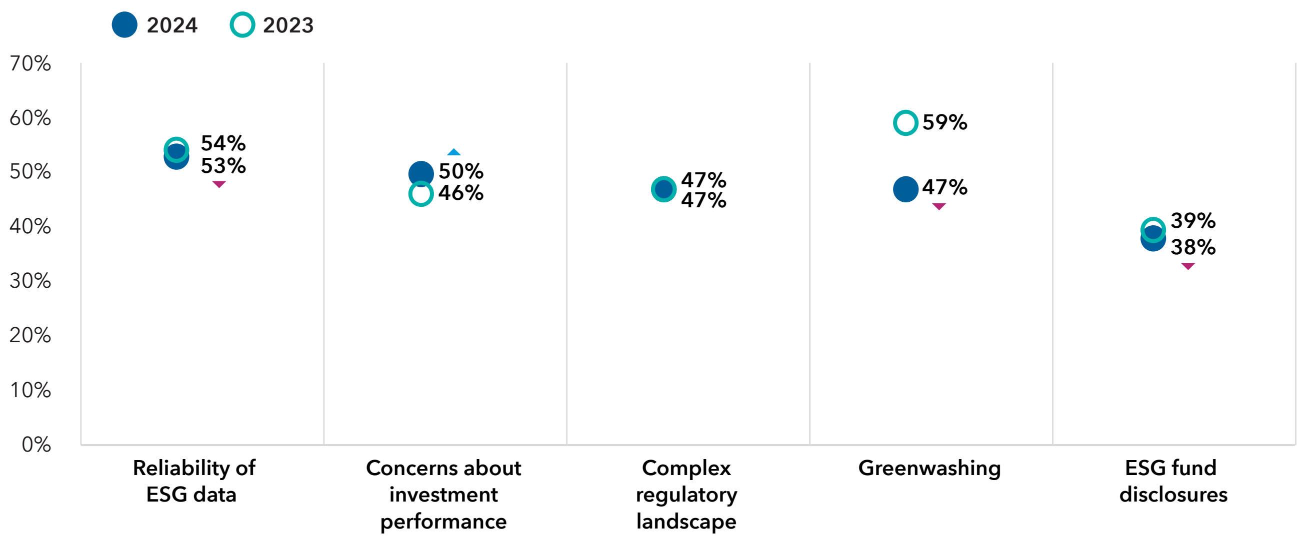
ESG data and analytics have improved over the years, but more than half of respondents still see consistency and reliability in ESG data as a significant challenge.

"I would say our number one challenge when it comes to ESG is comparability of data and standardization of data," says a portfolio manager at a U.K. wealth manager. "There are so many different standards, and everyone looks at things in such a different way. It's really difficult to get your head around."

ESG data has developed unevenly. Emissions data has improved greatly in volume and standardization, while "S" data still lacks quantification and comparability overall, according to the study. In fact, 53% of respondents believe quantification is the biggest challenge when addressing social issues in investments, followed by 52% of respondents citing the lack of comparable data disclosed by companies. Lack of transparency on social issues in supply chains is also cited as one of the biggest challenges when addressing social issues.

These measurement constraints are also front of mind for a portfolio manager at a state-affiliated investor in Asia. "With climate change and the transition, there are clear targets and clear measurability. But where are the metrics for social factors? What measures can we use to say this community or this demographic is being left behind?"

**Most significant challenges to ESG adoption**




*% Signficant challenge (7–10)*

*Rated on a scale 0–10, where 0 = Not a challenge, 5 = Moderate challenge, and 10 = Very significant challenge*

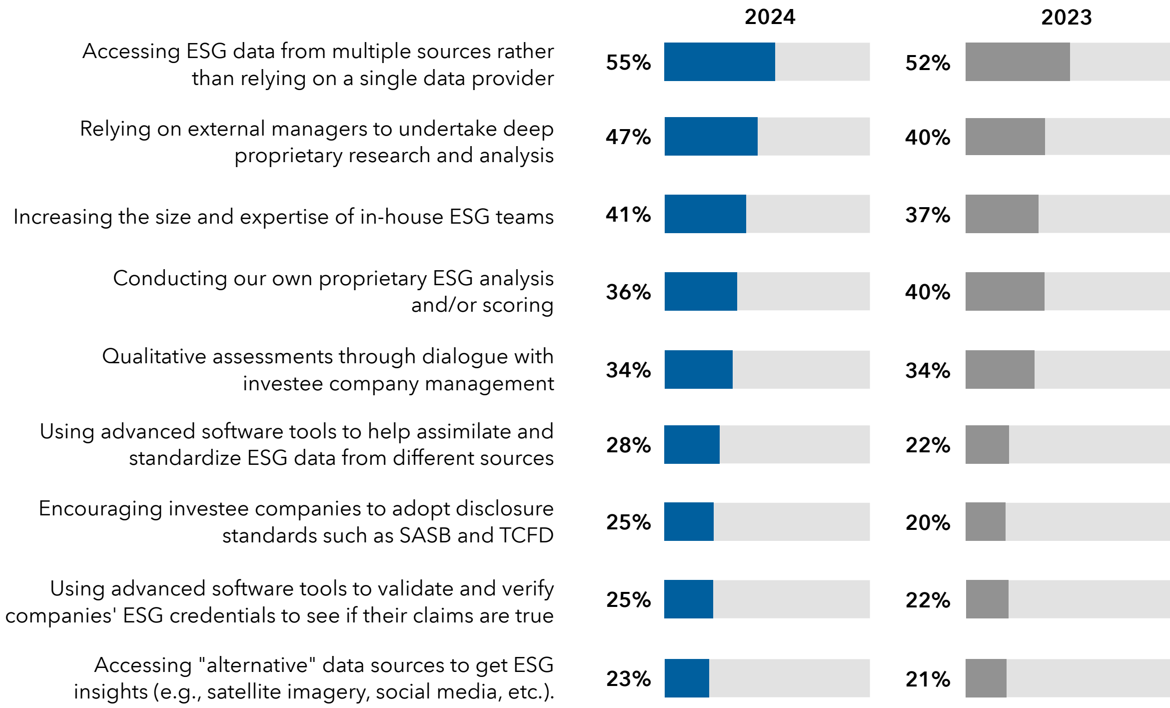
## More than half of investors plan to use AI to analyze ESG data

Investors are mainly looking to address the data challenge by accessing data from multiple sources (55%) and relying on the proprietary research of external managers (47%). They are also turning to technology for help. More are already using advanced software tools to assimilate and standardize ESG data and verify company ESG credentials.

Looking ahead, investors see potential in AI to help solve data challenges. Just 10% of respondents currently use generative AI to analyze ESG data, but 53% plan to do so in the future. Nearly 60% of Asia-Pacific investors plan to use AI, showing more enthusiasm than peers in North America (42%) and EMEA (54%). Investors agree that AI will be most useful for collecting data from diverse sources such as regulatory filings or sustainability reports, followed by automated reporting and data validation, all of which will likely help increase operational efficiency and reduce costs. Yet fewer investors see AI as suitable for more sophisticated work such as scenario analysis.

"I think there's a lot of unknowns with the capabilities that will come from AI, and that's why we aren't using it yet," says a portfolio manager at a U.S. registered investment advisor (RIA). "But I certainly see a future where AI is incorporated into our due diligence process and investment analysis."

**Approaches used to overcome ESG data challenges**




*Multiple answers allowed.*
*SASB: Sustainability Accounting Standards Board.*
*TCFD: Task Force on Climate-related Financial Disclosures.*

Nearly two-thirds of overall investors either use **(10%)** or plan to use **(53%)** AI to analyze ESG data.

More intermediaries **(66%)** say they use or will use AI to analyze ESG data compared to their institutional peers **(59%).**

**Areas where AI is expected to most aid ESG analysis**

| | Overall | Institutional | Intermediaries |
|---|---|---|---|
| Collecting/gathering data from diverse sources | 49% | 47% | 52% |
| Automated reporting | 43% | 42% | 44% |
| Data validation to assess quality of ESG data | 38% | 40% | 36% |
| Natural Language Processing to analyze text, gauge public sentiment about a company's ESG performance | 29% | 30% | 28% |
| Predictive analytics to forecast future ESG trends/ identify emerging risks and opportunities | 28% | 27% | 29% |
| Scenario analysis to evaluate potential impact of ESG-related events on companies or portfolios | 27% | 27% | 26% |
| Analyzing and synthesizing legislation changes across various jurisdictions | 24% | 26% | 22% |

*Totals may not reconcile due to rounding. Up to three answers allowed.*

# 04 | The rise of AI brings new ESG investment risks

# The rise of AI brings new ESG investment risks

## Impact of AI widely viewed as most material social risk

The AI boom has brought potential "S" risks associated with the technology into sharp relief.

Six out of 10 respondents see the social impact of AI as the most material "S" issue over the next 12 months. More than two-thirds believe that will likely be the case over the next three years.

Supply chain risks and data privacy and protection round out the top three in the list of social issues viewed as most material (likely to affect investment outcomes).

**Social issues viewed as most material to investments**

| | | |
|---|---|---|
| Social impact of AI | Next 12 months | **60%** |
| | Next 3 years | **67%** |
| Supply chain risks | Next 12 months | **55%** |
| | Next 3 years | **49%** |
| Data privacy and data protection | Next 12 months | **53%** |
| | Next 3 years | **51%** |
| Employee health and well-being/Treatment of workforces | Next 12 months | **44%** |
| | Next 3 years | **45%** |
| Diversity, equity and inclusion (DE&I) | Next 12 months | **38%** |
| | Next 3 years | **37%** |
| Human rights | Next 12 months | **38%** |
| | Next 3 years | **40%** |

*Each number represents the combined percentage of respondents that chose the given answer as their first, second or third choice.*

## Data, energy and labour rights figure prominently in AI-related ESG risks

Data protection and privacy, cited by three-quarters (76%) of respondents, is seen as posing the most material AI-related ESG risk for investments. This reflects investors' concerns over the fallout from data breaches and digital rights such as anonymity. The issue of labour rights/job displacement is viewed as another material social risk associated with AI.

"The potential for workforce reductions because of AI is probably the biggest risk," says an investment director at an Australian endowment fund. "And the privacy factor is also a big concern. It's like letting the genie out of the bottle because, once you start using it, the information you can gather is very powerful."

But a chief investment officer (CIO) of an Italian independent advisory firm thinks fears of AI-induced job losses are overblown.

"I understand that people are fearing they will lose their jobs, but history shows that innovation has created more jobs than were cancelled. Of course, some people will lose out, but if you look back over time, people had the same fears when Excel was introduced. Yes, some accountants were no longer needed but we gained a lot of engineers and software programmers. So, on a net basis, I don't think that AI is really a threat to jobs."

North Americans are most concerned about data protection and privacy (80%) but far less worried about labour rights/job displacement (38%).

AI's transformative potential is powered by high electricity consumption. It should come as no surprise that more than half of respondents view energy consumption and greenhouse gas emissions from AI as a material ESG risk in investing over the next two to three years. About a quarter of respondents point to AI-induced pollution and e-waste issues as a key risk.

**AI-related ESG risks that investors view as most material**

| Risk | Overall | Region: North America | Region: Asia-Pacific | Region: EMEA | Investor type: Institutional | Investor type: Intermediaries |
|---|---|---|---|---|---|---|
| Data protection and privacy | 76% | 80% | 79% | 73% | 75% | 77% |
| Energy consumption/Increased greenhouse gas emissions | 54% | 45% | 49% | 60% | 57% | 51% |
| Labour rights/Job displacement | 49% | 38% | 50% | 52% | 51% | 47% |
| Anti-competitive practices | 36% | 38% | 41% | 33% | 38% | 35% |
| Pollution and e-waste | 26% | 23% | 23% | 29% | 22% | 30% |
| Rights to non-discrimination | 23% | 20% | 29% | 20% | 25% | 21% |
| Increased water consumption | 18% | 18% | 16% | 18% | 17% | 18% |

*Each number represents the combined percentage of respondents that chose the given answer as their first, second or third choice.*

# 05 | Geopolitical and macro risks loom large as the world votes

# Geopolitical and macro risks loom large as the world votes

## Geopolitics and global elections are the most widely cited ESG headwinds

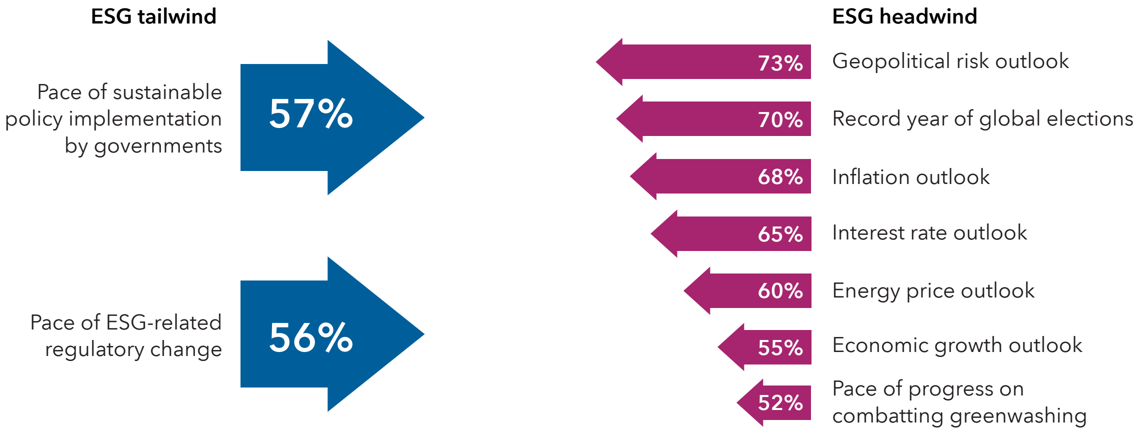
Nearly three-quarters of respondents see the geopolitical risk outlook as most likely to hinder ESG progress in 2024, against the backdrop of wars in Ukraine and Gaza and elevated tensions between the U.S. and China. Geopolitical risks could divert attention away from ESG and make international cooperation more challenging.

A record 4 billion people head to the polls in 2024,[3] which is viewed as another key headwind for ESG investing. Though more than half of respondents view the pace of policy implementation and regulatory change as supportive of ESG, they are concerned about stalled progress on the "green" transition. Only about a quarter of respondents expect elections in their regions to result in increased action from governments to deliver the net zero transition.

Elevated geopolitical tensions and ongoing wars have also prompted some rethinking of common approaches in ESG investing. A question that has been much discussed recently: Should the defence industry be excluded from ESG strategies if the industry helps with the self-defence of a sovereign and the protection of democracy? Nearly two-thirds of respondents agree that geopolitical tensions may lead to new approaches in industry or sector exclusions.

"With the Ukraine war, the armament industry has performed well, but we are not invested in these companies," says a portfolio manager at a Dutch insurance firm. "So, we suffered on the performance front but also had clients coming to us with new arguments about the need to invest in armament producers in order to defend democracy."

**Perceived tailwinds and headwinds for ESG in 2024**




Only a minority of investors expect elections to accelerate governmental action on delivering net zero **(27%)** and addressing social challenges **(30%).**

*3. Ewe, Koh. "The Ultimate Election Year: All the Elections Around the World in 2024." Published December 28, 2023 on Time.com.*

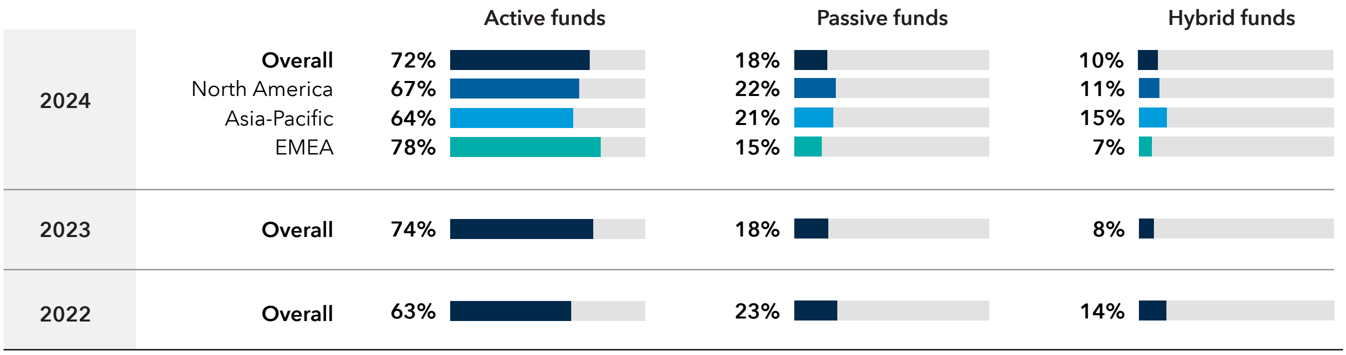
## Active management viewed as well-equipped to navigate geopolitical challenges

Evolving attitudes to industry exclusions such as defence could support the case for active investment approaches. It is more challenging for passive index funds to take such a granular view and capture evolving nuances since they are intended to replicate the benchmark.

Among respondents, nearly three-quarters (72%) say they prefer active funds to integrate ESG. Active funds are most popular in EMEA (78%). But a higher proportion of North American investors report that they now use active funds (67% vs. 63% in 2023).

Investors are also looking to active managers to help them navigate ESG headwinds. More than half (55%) say political headwinds to ESG strengthen the case for an active approach. This suggests investors value the ability of active managers to potentially take advantage of market opportunities and proactively manage risk, though active managed strategies may trail their benchmarks.

**Preferred approach to integrating ESG**




*Totals may not reconcile due to rounding.*

## High inflation and interest rates are still a challenge, for now

Macroeconomic forces also feature prominently on investor radars, with nearly seven in 10 expecting inflation (68%) and interest rates (65%) to generate headwinds. This reflects expectations of higher-for-longer interest rates amid sticky inflation, despite certain countries making progress on taming rising prices.

"Inflation is still the main driver of the current investment environment," says a portfolio manager at a Hong Kong pension fund. "And I think these war scenarios and geopolitical tensions are key factors driving inflation and the economic outlook."

> ***"Inflation is still the main driver of the current investment environment,"*** *says a portfolio manager at a Hong Kong pension fund.*

A portfolio manager at a state-affiliated investor in Asia says that rather than getting distracted by political noise, she is firmly focused on inflation. "I'm not sure how much politics and geopolitical tensions will decelerate ESG, but I think that inflation is the big battle right now."

Meanwhile, a portfolio manager at a U.K. wealth manager thinks lower inflation and impending interest rate cuts could present a tailwind for ESG investors going forward.

"I think rate cuts will be helpful … In particular, a lot of assets focused around the energy transition and renewable energy are reliant on having a low cost of capital. And that lower cost of capital is really beneficial because it helps improve return on investment."

## Investors stay committed to ESG

Our study shows these various headwinds are unlikely to blow investors off course as levels of ESG conviction remain strong. Nearly six in 10 (58%) respondents think investors will maintain a long-term commitment to ESG despite current geopolitical and macroeconomic headwinds. A similar proportion (57%) say their conviction in ESG has not lessened due to wars in Ukraine and the Middle East. Additionally, a majority (56%) agree their commitment has not ebbed amid the ongoing ESG debate and scrutiny by policymakers.

*"**It's about longer term considerations of transition and the impact of climate change, which is becoming increasingly visible,**" says a portfolio manager at a U.K. wealth manager.*

These findings indicate that investors recognize ESG considerations are long-term in nature. They are staying the course and not getting distracted by near-term political and geopolitical events.

A portfolio manager at a U.K. wealth manager attributes the ongoing conviction in ESG to the world's transition to a more sustainable future, alongside changing demographics.

"It's about longer term considerations of transition and the impact of climate change, which is becoming increasingly visible," he says. "And I think you've also got a generational shift in terms of younger investors who have a greater propensity to be more interested and engaged with ESG themes."

Underpinning this long-term commitment is a belief that ESG policies and regulations are moving in the right direction. A majority say the pace of sustainable policy implementation by governments (57%) and the speed of ESG regulatory change (56%) present net tailwinds that will support faster progress on ESG.

**Views on the impact of geopolitical turbulence on ESG**

| | Agree | Neutral | Disagree |
|---|---|---|---|
| Geopolitical tensions will result in new approaches to previous sector exclusions (e.g., defence). | 65% | 27% | 8% |
| Investors will maintain a long-term commitment to ESG despite current geopolitical and macroeconomic headwinds. | 58% | 29% | 13% |
| Our conviction in ESG has not lessened due to geopolitical events such as wars in Ukraine and the Middle East. | 57% | 31% | 13% |
| Political headwinds to ESG strengthen the case for an active approach. | 55% | 36% | 10% |

*Totals may not reconcile due to rounding.*

# Final thoughts

Overall, this year's ESG Global Study has underscored global investors' strong commitment to ESG in a volatile world. ESG adoption remains high despite rising geopolitical risks, the fluid political landscape and an evolving patchwork of regulation.

New themes and areas of interest have emerged. In their pursuit of diversification and better risk-adjusted returns, investors are showing greater interest in multi-thematic strategies. Many are also eyeing funds aligned with the UN SDGs as they seek exposure to multiple interlinked ESG themes.

As is true for many investors at present, AI is a focus among respondents in this year's study. They are taking tentative steps to use AI as a tool to tackle ESG's data challenges, hoping the new technology could help reduce operational complexity and costs. AI as an investment opportunity, however, has prompted greater deliberation of related ESG risks. Investors appear most concerned about data protection and privacy, energy consumption and rising greenhouse gas emissions, and labour rights.

With half of the world's population going to the polls in 2024, election outcomes and geopolitics more broadly are adding uncertainty to the outlook. That said, most investors are maintaining their long-term commitment to ESG, looking beyond near-term geopolitical and macro risks.

In varied ways, a majority of the more than 1,100 investors who participated in this year's study take a favourable view of ESG approaches built on active management. With an ability to adopt a more granular approach towards opportunities and risks, respondents view active managers as well equipped to navigate through difficulties and overcome challenges.


## Regulatory information

Statements attributed to an individual represent the opinions of that individual as of the date published and may not necessarily reflect the view of Capital Group or its affiliates. This communication is of a general nature, and not intended to provide investment, tax or other advice, or to be a solicitation to buy or sell any securities. All information is as at the date indicated and attributed to Capital Group unless otherwise stated. While Capital Group uses reasonable efforts to obtain information from third-party sources that it believes to be accurate, this cannot be guaranteed.

This communication is issued by Capital International Management Company Sàrl (CIMC), unless otherwise stated, which is regulated by the Luxembourg CSSF - Commission de Surveillance du Secteur Financier.

In Switzerland, this communication is issued by Capital International Sàrl, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

In the UK, this communication is issued by Capital International Limited, authorised and regulated by the UK Financial Conduct Authority.

In Australia, this communication is issued by Capital Group Investment Management Limited (ACN 164 174 501 AFSL No. 443 118), a member of Capital Group, located at Suite 4201, Level 42 Gateway, 1 Macquarie Place, Sydney, NSW 2000 Australia.

In Hong Kong, this communication has been prepared by Capital International, Inc. (CIInc), a member of Capital Group, a company incorporated in California, United States of America. The liability of members is limited. This advertisement or publication has not been reviewed by the Securities & Futures Commission of Hong Kong.

In Singapore, this communication has been prepared by Capital Group Investment Management Pte. Ltd. (CGIMPL), a member of Capital Group, a company incorporated in Singapore. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore. Neither has it been reviewed by any other regulator.

All Capital Group trademarks are owned by The Capital Group Companies, Inc. or an affiliated company. All other company names mentioned are the property of their respective companies.

© 2024 Capital Group. All rights reserved. **WF6705176 EAAU**


**capitalgroup.com**

CAPITAL GROUP™