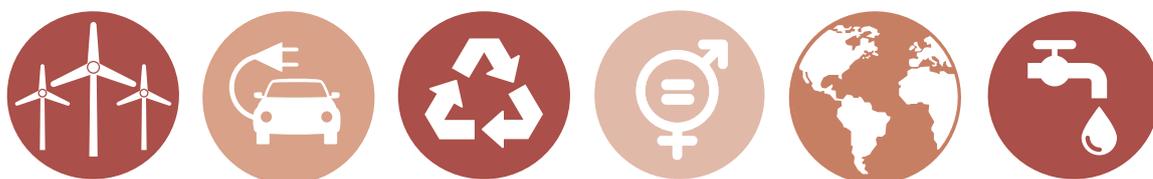


# UBS Investor Watch

Global and China insights: What's on investors' minds / 2018 Volume 2

# Return on values



Most sustainable investors  
expect better performance,  
bigger impact

Every day, wealthy investors make spending, philanthropic and even career decisions to help make the world a better place.

But when it comes to investing, few investors act with the same sense of purpose—yet.

For our latest *UBS Investor Watch*, we surveyed more than 5,300 investors in 10 markets on sustainable investing. We found that, while some investors understand the basic concept, confusion about sustainable investing terms, its various approaches and even its impact, is widespread. For example, investors make little distinction among the three major sustainable investment approaches: exclusion, integration and impact investing (to make this easier, we included a glossary here).

Better education often leads to higher adoption. Sustainable investors, for example, were influenced by multiple sources, including professional Advisors, family, friends and media. Nine in 10 cite an Advisor's impact on their decision to invest sustainably.

Adoption of sustainable investing varies dramatically across markets. For example, the emerging markets of China and Brazil indicate they have the highest rates of adoption, while only 12% of US investors have any sustainable investments.\*

Few investors expect to sacrifice returns when investing sustainably. In fact, 82% believe the returns of sustainable investments will match or surpass those of traditional investments. Investors view sustainable companies as responsible, well-managed and forward-thinking—thus, good investments.

Should investors prove to be right, more companies will likely adopt sustainable practices. **Perhaps then, the world will be a better place indeed.**

## Glossary

### **Sustainable investing**

Integrates societal concerns, personal values or an institutional mission into investment decisions

### **– Exclusion**

Excludes companies or industries from portfolios where they are not aligned with an investor's values

### **– Integration**

Integrates environmental, social and corporate governance (ESG) factors into traditional investment processes, seeking to improve portfolio risk and return

### **– Impact investing**

Invests with the intention to generate measurable environmental and social (E&S) impact alongside a financial return

\*Defined as at least 1% of assets allocated to sustainable investments.

# 1

## Wealthy investors are motivated by sustainable values, yet don't apply them to investment decisions

Creating a better planet is extremely important to 65% of the world's wealthy investors. In pursuit of this goal, many investors deliberately base their spending decisions, lifestyle habits and even career choices on the values they hold dear. For example, 69% of wealthy investors willingly pay more for products and services from companies whose practices they support.

However, not nearly as many investors apply their values to their investing. Currently, only 39% hold sustainable investments in their portfolios, defined as at least 1% of their investable assets.

### Investors see improving the world as a top priority

---

65%

believe it is highly important to help create a better planet

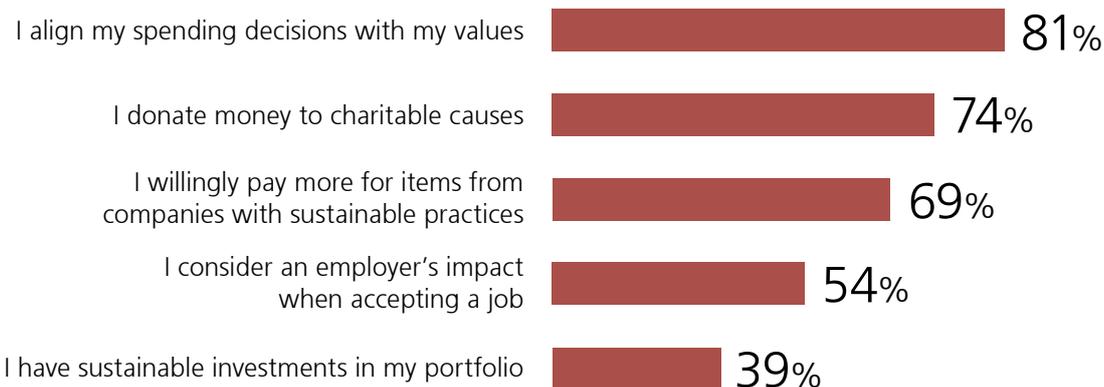
but

only  
39%

say they have sustainable investments in their portfolio

### Personal values drive major decisions

---



“ I always recycle the products I use, donate money to charities and participate in sustainable projects whenever I can. ”  
– **Brazil, Female, 33**

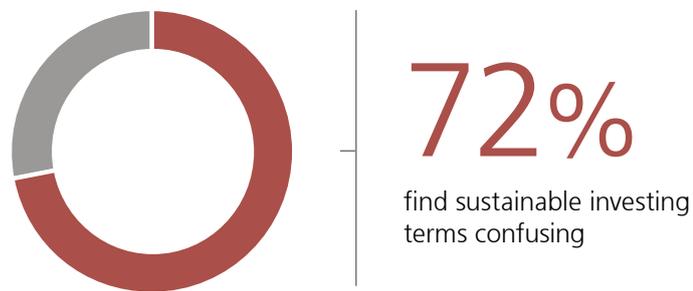
“ Without sound environmental protection, any individual cannot survive on this planet, even if he or she has all the wealth in the world. ”  
– **Hong Kong, Male, 50**

# Confusion about sustainable investing holds investors back

Confusion about sustainable investing is likely preventing widespread adoption. Seven in 10 investors (72%) find the language of sustainable investing perplexing—and less than half are very familiar with the term itself.

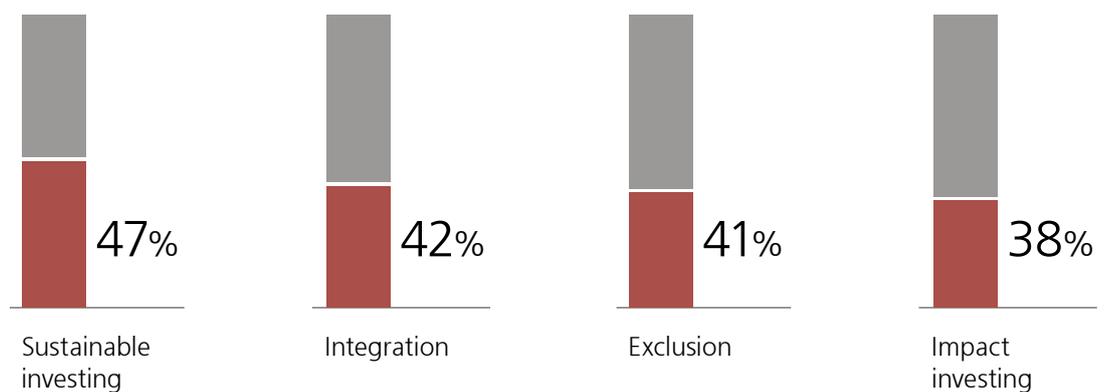
Moreover, investors make little distinction among the major approaches to sustainable investing: integration, exclusion and impact investing.

## Sustainable investing terms confound investors



## Limited knowledge of sustainable investing concepts

Percentage very familiar with each



“ Limited knowledge and lack of awareness about sustainable investing kept me away from it. ”  
– **Switzerland, Male, 68**

“ I feel that the concept of sustainable investing is still not very well known. ”  
– **China, Male, 32**

# 2

## Sustainable investing varies significantly by market

Adoption of sustainable investing is substantially different across markets. Investors in China, Brazil and the UAE are the most likely to say they own some sustainable investments, while investors in the US and the UK lag far behind the rest of the world.

When investors engage in sustainable investing, it's generally with a significant portion of their portfolios: The average allocation across all markets is 36%. For example, among sustainable investors, the US actually has the highest average allocation (49%), indicating that while few Americans invest sustainably, those who do are committed to the approach.

### Broad divergence in adoption of sustainable investing

*Percentage of investors with at least 1% of their investable assets in sustainable investments*

|             | Percentage who say they are invested sustainably | Average allocation to sustainable investments |
|-------------|--|---|
| Overall     | 39%  | 36%   |
| China       | 60%  | 46%   |
| Brazil      | 53%  | 44%   |
| UAE         | 53%  | 31%   |
| Italy       | 51%  | 31%   |
| Germany     | 42%  | 29%   |
| Singapore   | 35%  | 27%   |
| Switzerland | 35%  | 29%   |
| Hong Kong   | 34%  | 41%   |
| UK          | 20%  | 38%   |
| US          | 12%  | 49%   |

“ These types of investments impact me on a personal level. I can help resolve environmental and social issues that we are currently facing today. ”

– UAE, Male, 36

“ Understanding the various factors that are a part of the investment can sometimes prove to be very difficult. ”

– UK, Female, 50

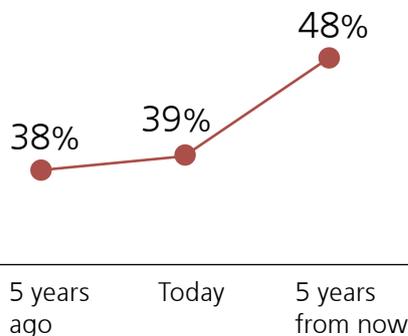
# Sustainable investing has strong momentum

Adoption of sustainable investing is expected to grow significantly, from 39% of investors today to 48% over the next five years. Additionally, many investors expect to increase the allocation of sustainable investments in their portfolios.

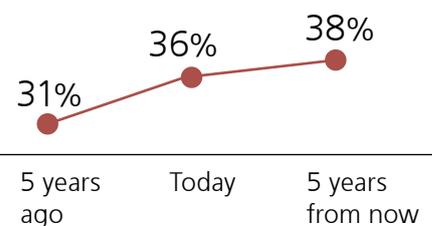
In fact, 58% of investors expect sustainable investing to become the standard approach to investing in 10 years. Investors in the UAE, China and Italy are the most convinced sustainable investing will be mainstream. Only one-third of investors in the US and the UK agree.

## Increasing adoption of sustainable investing

Percentage of investors with sustainable investments

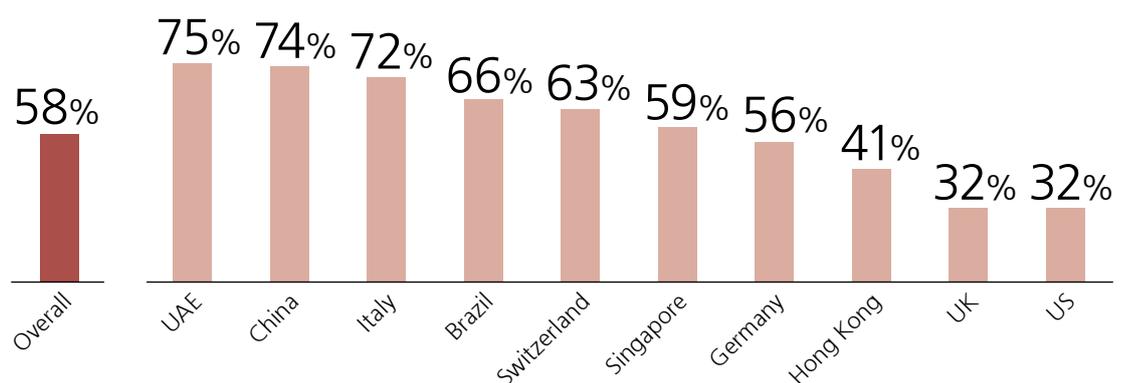


Average allocation to sustainable investments



## Investors expect sustainable investing to become the new standard

Percentage who agree sustainable investments will be the new normal in 10 years



“ Sustainable investing should be a healthy trend that any responsible investor pays the highest attention to. ”  
 – Hong Kong, Male, 50

“ Sustainable investing will inevitably emerge as mainstream. ”  
 – China, Male, 32

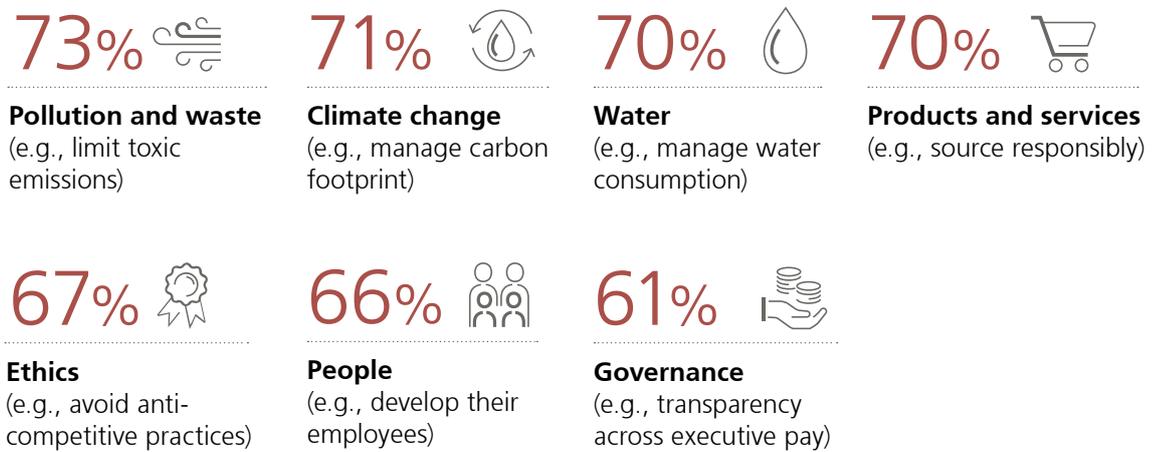
# 3

## Sustainable investors are highly focused on environmental impact

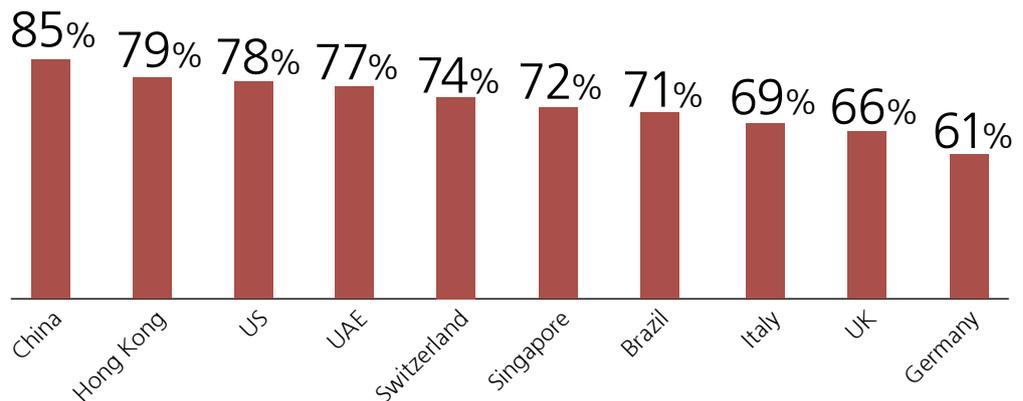
Companies' policies and practices with respect to pollution, climate change and water are highly important to sustainable investors. Most investors, particularly those in China and Hong Kong, are focused on addressing environmental issues in their portfolios.

Sustainable investors also focus on the products and services companies produce, the way they treat their employees, governance and ethics.

### Sustainable investment focus areas



### Primary focus on pollution and waste



“ I am concerned about water, which is a fundamental and vital resource that we must preserve. ”

– **Germany, Male, 34**

“ I am passionate about improving climate conditions. Air pollution has become a very common problem and I want to make an impact. ”

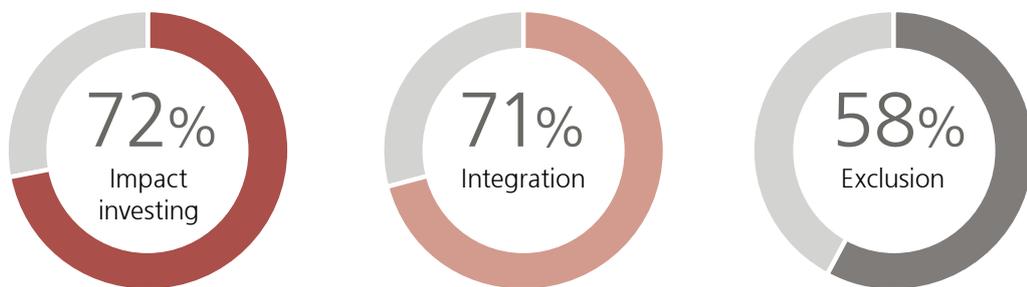
– **UK, Female, 50**

# New sustainable strategies are attracting more investors

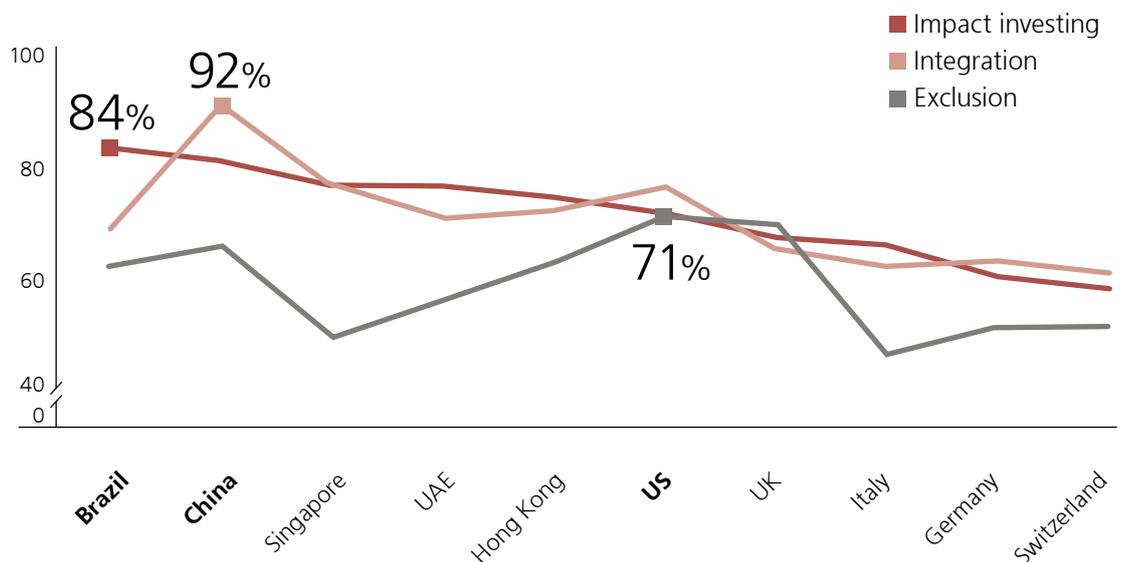
In the past, much of sustainable investing focused on excluding certain companies from a portfolio. Now, more sustainable investors are drawn to integration and impact investing. The integration approach seeks to include companies that have positive sustainability policies. Impact investing enables investors to support a specific cause while seeking a financial return.

Investors in Brazil are most likely to seek out impact investments, while those in China are most likely to take an integration approach to sustainable investing. Exclusion still holds the greatest appeal in the US.

## Adoption of sustainable investment strategies



## Sustainable investment strategies differ by market



“ Sustainable investing focuses on institutions committed to the well-being of future generations, the environment and respect for human rights. ”

– Brazil, Male, 34

“ To me, sustainable investing means avoiding companies that have no interest in improving our world. ”

– US, Female, 55

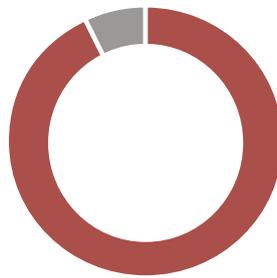
# 4

## Sustainable investors see no trade-off between personal values and returns

Sustainable investing has fostered a long-running debate: whether investors must sacrifice returns to invest according to their values. The overwhelming majority of sustainable investors believe no such compromise is necessary. A full 93% believe sustainable investments will generate equal or superior investment returns when compared to traditional investments. Three-quarters (75%) of investors without sustainable investments agree.

Sustainable investors view sustainable companies as good investments, based on stronger business practices, better management and visionary thinking.

### Sustainable investors see no need to sacrifice returns



# 93%

of sustainable investors believe they are not giving up performance

### Why investors choose sustainability

Percentage who agree with the following



“ A company with its management focused on presenting a socially responsible offer is appealing. ”

– **Brazil, Male, 41**

“ Sustainable investing considers social issues and gives a return on investment. It’s about making that balance work for you. ”

– **US, Male, 45**

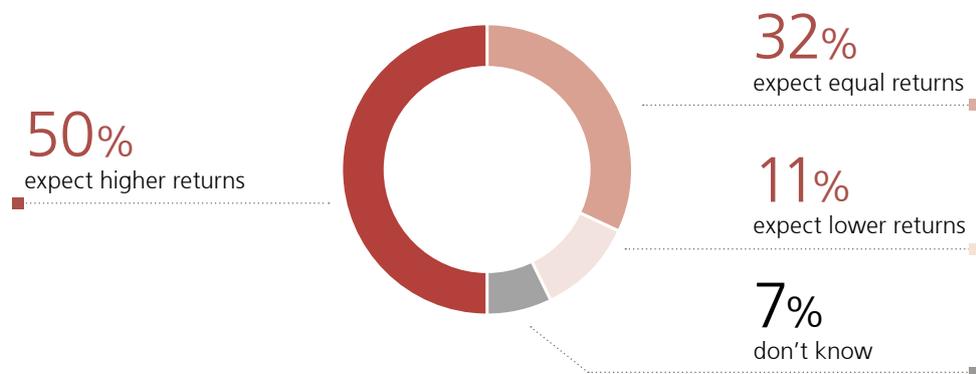
# Across markets, investors expect dramatically different returns from sustainable investing

Half of wealthy investors believe sustainable investments will outperform traditional investments. Another third of investors (32%) expect the same performance from both. Only 11% believe sustainable investments will underperform traditional investments.

Return expectations vary significantly across markets. For example, in Brazil, where the adoption of sustainable investing is relatively high, 77% of all investors believe sustainable investments will outperform traditional investments. In the US, only 19% of investors expect sustainable investments to generate higher returns.

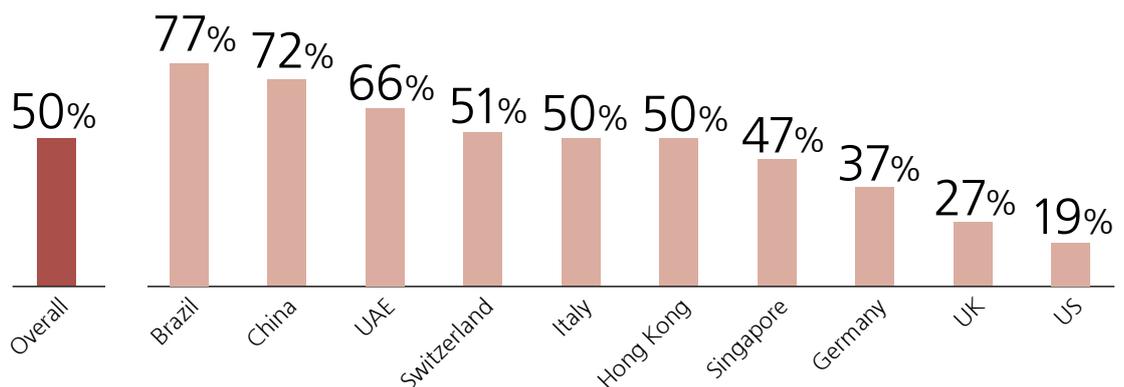
## Investors are optimistic about sustainable returns

Return expectations for sustainable investments vs. traditional investments



## Expecting outperformance

Percentage of all investors who expect sustainable investments to outperform



“ Sustainable investments benefit the investor and bring positive influence on the society. They help optimize an investment portfolio. ”

– **China, Male, 36**

“ Sustainable investments generate better returns by giving us a more financially secure and sustainable future. ”

– **UAE, Male, 38**

# 5

## For non-adopters, unknown impact is the main deterrent to sustainable investing

Among the 61% of investors with no sustainable investments, 72% say measuring impact is difficult. Many investors wonder: If they exclude a company's stock from their portfolio, will the company be prompted to change its objectionable practices? If they invest in a fund that provides capital to female entrepreneurs, do those women grow their businesses faster?

Many investors (68%) who resist sustainable investing believe the options are not firmly established, pointing to short track records and a lack of well-known sustainable companies.

### Why some choose not to invest sustainably

---

Percentage who agree with the following



**“** I'm relatively interested in sustainable investing but I need more information. Why are investments sustainable, and exactly how do they measure returns? **”**

– **Singapore, Male, 37**

**“** There are no past records or proven results where it is clear that this investment strategy is doing well. **”**

– **Italy, Male, 50**

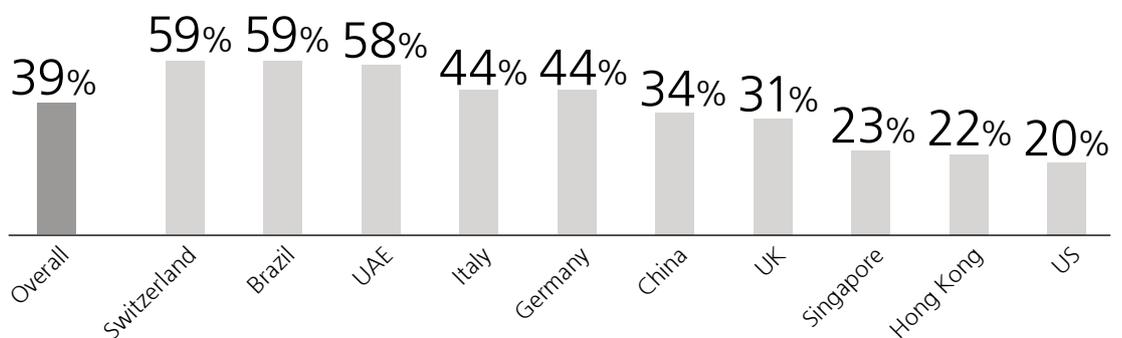
# Despite barriers, many non-adopters are interested in sustainable investing

Among investors who do not currently invest sustainably, four in ten are highly interested in doing so. This interest varies significantly by market and is particularly strong in Switzerland, Brazil and the UAE, less so in Singapore, Hong Kong and the US.

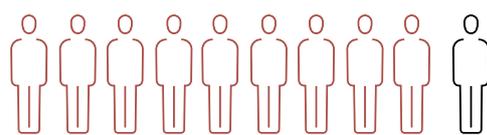
Advisors are instrumental in driving higher engagement among non-adopters. For example, nine in 10 sustainable investors cite an Advisor's influence on their decision to invest sustainably, followed by family and friends.

## Many non-adopters are highly interested in sustainable investing

Percentage of non-adopters who express high interest in sustainable investing



## Advisors are main influencers of sustainable investing



**9** out of **10**

say an advisor impacted their decision to invest sustainably

“ I am interested, but tend to have an advisor do my investing. They go for the best return for their investors. ”

– US, Male, 58

“ I like the idea of sustainable investing, but do not have much inclination to investigate. ”

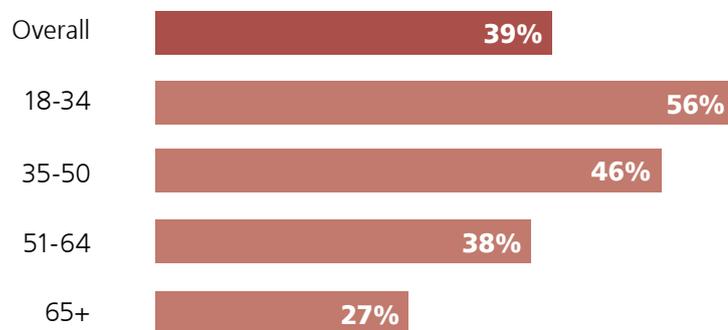
– US, Female, 59

## Younger investors are more engaged in sustainable investing

Younger investors (18-34) are the most likely to be very familiar with sustainable investments and to already have them in their portfolios. Seven in 10 of these younger investors expect sustainable investments to outperform traditional investments, compared to only one-third of investors who are age 65+.

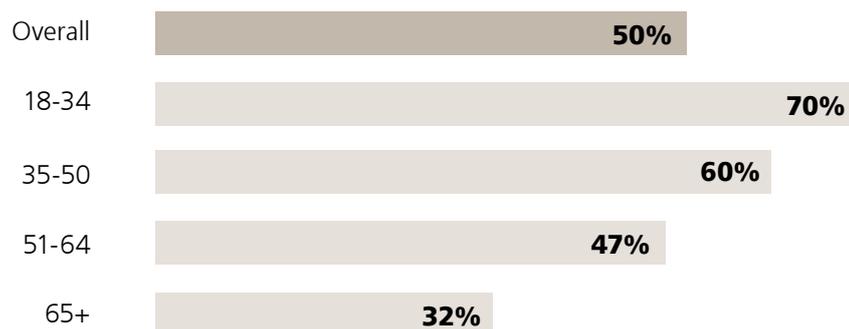
### The majority of younger investors have sustainable investments

Percentage of investors with at least 1% of their investable assets in sustainable investments



### Younger investors are bullish on sustainable investment returns

Percentage of investors who expect sustainable investments to outperform traditional investments



“ Sustainable investing gives me a good financial return with associated inner peace. I am able to sleep soundly knowing that I’m improving society’s future. ”

– **Switzerland, Male, 34**

“ I feel better when I know I’m doing my best to save future generations and Mother Earth. ”

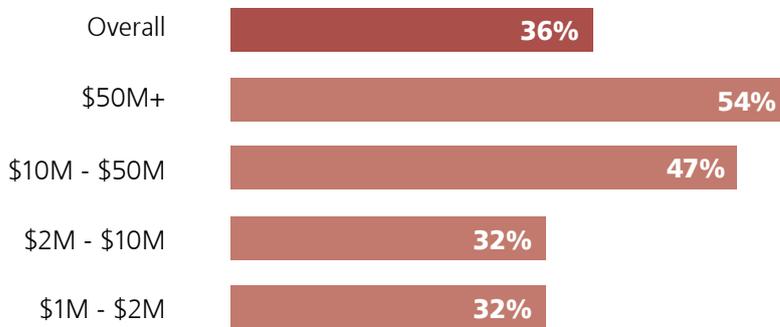
– **Singapore, Female, 28**

# Wealthiest investors are most bullish on sustainable investing

The wealthiest investors are most likely to have sustainable investments in their portfolios, and to have significantly higher allocations to these products. They are also much more likely to believe sustainable investments will outperform traditional investments.

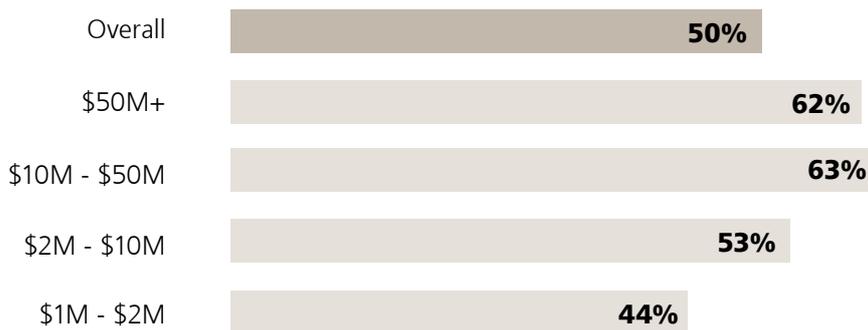
## Wealthier investors have higher allocations to sustainable investments

Average allocation to sustainable investments



## Wealthy investors expect strong performance from sustainable investments

Percentage of investors who expect sustainable investments to outperform traditional investments



“ Sustainable investing has given me peace of mind. I am not doing it for the recognition or reward, but for my satisfaction and well-being. ”

– Italy, Male, 64, \$10M-\$50M

“ The satisfaction of doing something positive for society along with the secure nature of sustainable investments is a major benefit. ”

– UK, Male 50, \$50M+

**About the survey:** UBS Global Wealth Management provides financial advice and solutions to wealthy, institutional and corporate clients worldwide. As part of our leading research capabilities, we survey global investors on a regular basis to keep a pulse on their needs, goals and concerns. Since 2012, *UBS Investor Watch* tracks, analyzes and reports the sentiment of high net worth investors.

*UBS Investor Watch* surveys cover a variety of topics, including:

- Overall financial sentiment
- Economic outlook and concerns
- Personal goals and concerns
- Key topics, like aging and retirement

For this edition of *UBS Investor Watch*, we surveyed more than 5,300 high net worth investors (with at least \$1 million in investable assets). The global sample was split across 10 markets: Brazil, China, Germany, Hong Kong, Italy, Singapore, Switzerland, UAE, the UK and the US. The research was conducted between June 2018 and August 2018.

This material has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and is published solely for information purposes. No representation or warranty, either express or implied is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the developments referred to in this material. This material does not constitute an offer to sell or a solicitation to offer to buy or sell any securities or investment instruments, to effect any transactions or to conclude any legal act of any kind whatsoever. Nothing herein shall limit or restrict the particular terms of any specific offering. No offer of any interest in any product will be made in any jurisdiction in which the offer, solicitation or sale is not permitted, or to any person to whom it is unlawful to make such offer, solicitation or sale. Not all products and services are available to citizens or residents of all countries. Any opinions expressed in this material are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or divisions of UBS AG or its affiliates ("UBS") as a result of using different assumptions and criteria. UBS is under no obligation to update or keep current the information contained herein. Any charts and scenarios are for illustrative purposes only. Historical performance is no guarantee for and is not an indication of future performance. Neither UBS AG nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this material. UBS specifically prohibits the redistribution or reproduction of this material in whole or in part without the prior written permission of UBS, and UBS accepts no liability whatsoever for the actions of third parties in this respect.

© UBS 2018. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

