

# ESG is Personal

## A Study of ESG Investing Preferences & Advisory Practices

Delivering a High-Confidence  
Sustainable Investing Experience



## Executive Summary

There's a yawning gap between investor interest in ESG and confidence that their portfolios reflect their interest.

**Despite high (and growing) global interest in ESG, only a fraction of investors are confident their portfolio is aligned with their values.**

65% of investors rate ESG factors as Important or Very Important in their investing decisions.

But only 20% of investors are highly confident their portfolio is aligned to their values.

**For a majority of ESG interested investors, there is a mismatch between their ESG preferences and their portfolio.**

55% of investors have a mismatch between their revealed preferences and the ESG composition of their current portfolio.

**Using a proprietary decision science-based profiling method, we discovered investors have highly individualized ESG preferences.**

We used an award-winning “revealed preferences” diagnostic to measure investors’ overall altruism and conviction toward 5 ESG themes.

Preferences vary widely, defying correlations to age, education, geography or net worth.

1 out of 4 investors show balanced weighting among the 5 themes; 1 out of 3 show a favored theme (with wide variability in which theme); the remainder prefer two themes strongly or show other patterns among the 5 themes.

**Financial firms that can bridge the ESG interest-to-confidence gap by delivering a personalized “closed loop” ESG experience stand to reap massive rewards in client advocacy, AUM and referrals.**

Only 1 of 7 Investors rate their ESG investing experience strongly.

Those who do show Net Promoter Scores 90+ points higher, 40% higher intent to shift walletshare and nearly double the referral rate compared to those who don't.

The key for advice providers: help investors discover their own unique ESG preferences and equip advisors to have clear, confidence-building ESG conversations.

## Why this study? And why now?

### We are in the middle of a Great Awakening.

Individual investors the world over are having epiphany moments, realizing they could be aligning their investments to their values, to help make an impact on the sustainability perils that surround them. But that's where they get stuck.

While many investors now have the intention, many are not sure how to take action – what they really want in ESG (or even what's possible) and how to align their portfolios accordingly. Investors feel unsure - overwhelmed by ESG terms, concepts and investing possibilities.

Meanwhile, advisors are having a hard time keeping up with a complex and fast-moving new domain in ESG. They, too, feel overwhelmed and ill-equipped to engage clients in conversations. Moreover, many are wary of wandering into values discussions with their clients.

**Investors (and the advisors who serve them) don't need more product choice; they need greater confidence in the choices put in front of them. But, so far, the industry is missing the same level of innovation in client education and diagnostics that it has brought to ESG product and ratings.**

We've set out to remedy that, bringing a client-centric lens and decision science-based method to study the client side of ESG – what are investors' true ESG preferences? What are their knowledge and attitudes to ESG? What are the strong and weak points in their current advisor ESG interactions? What are the ingredients of a winning ESG experience?

We thank our current partners, and welcome the chance to work with like-minded financial services firms that believe in putting clients first and delivering differentiated client experiences built with the latest in decision science and human centered design.

— the Capital Preferences team

## Study details

We conducted a unique study to map investors' sustainable preferences and identify drivers of highly-rated ESG experiences.

### Survey Population

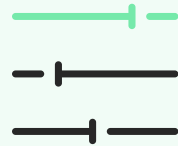
1,800

Investors in Australia, Hong Kong, the Netherlands, Singapore, the UK and USA

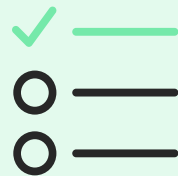


- Investable assets between USD\$50k \$5m
- Work with a financial advisor
- August 2021 and April/May 2022 survey period

### Survey Methods



Revealed preferences component



Survey component

### Measurements

#### ESG profile parameters

- Theme preference and conviction
- Altruism
- Negative screening preferences
- ESG investing style preferences

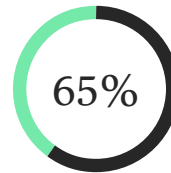
#### Survey data

- Demographics & finances
- ESG interest & knowledge
- Quality of client SI experience
- Advisor relationship strength

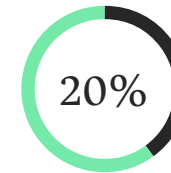
Despite high global interest in ESG, only a fraction of investors are confident their portfolio is aligned to their ESG values.

For our part, we set out to study how couples make financial decisions as a household, with special attention to the role that risk preferences play. Investors the world over are awakening to the importance of sustainable investing goals – **two of every three investors now view ESG factors as important or very important in their investing.** It will be a major driver putting trillions of dollars of assets into play.

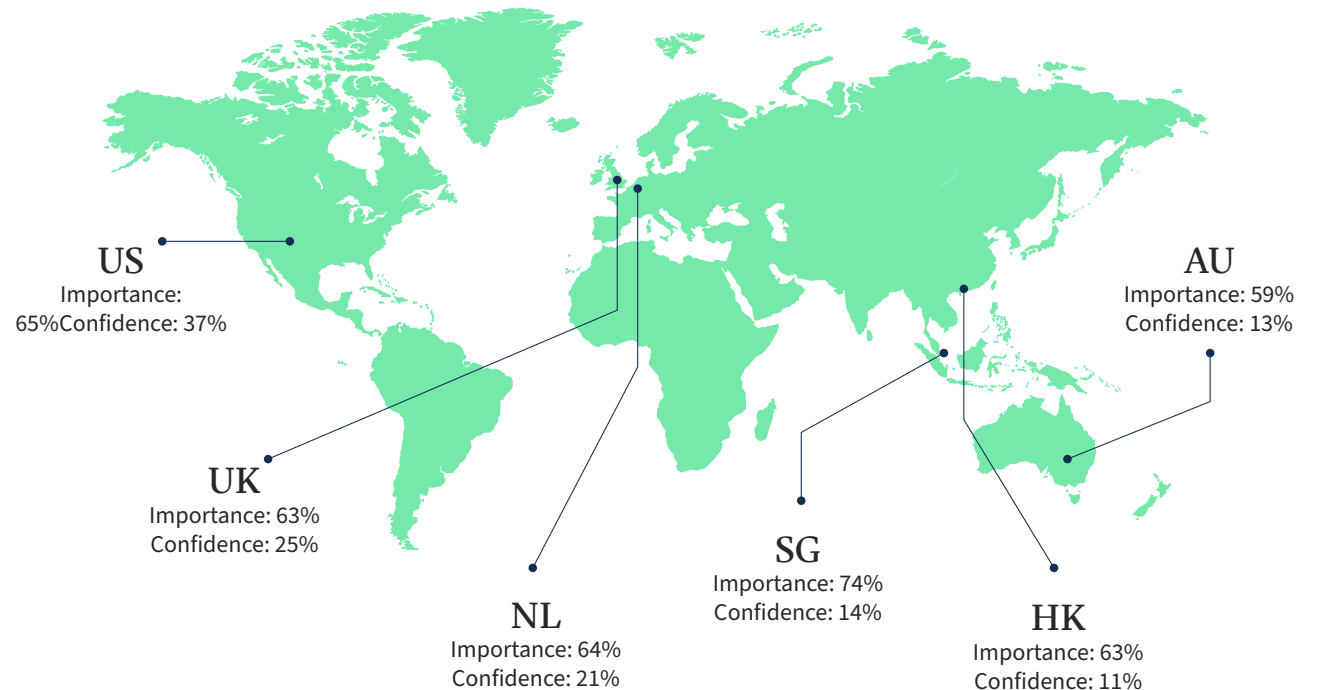
However, **only one in five investors has confidence their portfolio is fully aligned to their values.** There is a massive opportunity to retain and win clients for those firms that are first to close this ESG interest-to-confidence gap.



**65% ESG importance**  
ESG factors are important in my investing



**20% ESG portfolio confidence**  
Highly confident my portfolio is aligned to my values



## Investors struggle to know how to reflect their ESG values in their portfolio.

The reason for the high interest-low confidence gap is investors' lack of clarity about their own preferences.

Among investors with at least some interest in ESG, only 4 in 10 know how much of their portfolio is the right amount to invest in ESG funds, and even fewer have a sense of how Environmental, Social and Governance pillars should each be reflected in their portfolio.

The challenge is one of education (knowing what's possible with ESG) and discovery (learning what one's ESG preferences truly are).

## Preference Clarity Among ESG-Interested Investors

**"I know how much of my portfolio I want to be invested in ESG funds."**



**"I know how I want E, S and G pillars to be represented in my investment portfolio"**



n = 1,656 overall (Investors who are somewhat interested, interested or very interested in ESG; n = 277 in AU; n = 285 in HK; n = 259 in USA; n = 278 in NL; n = 273 in UK; n = 284 in SG. Source: A Study of ESG Preferences and Advisory Practices, Capital Preferences, June 2022.

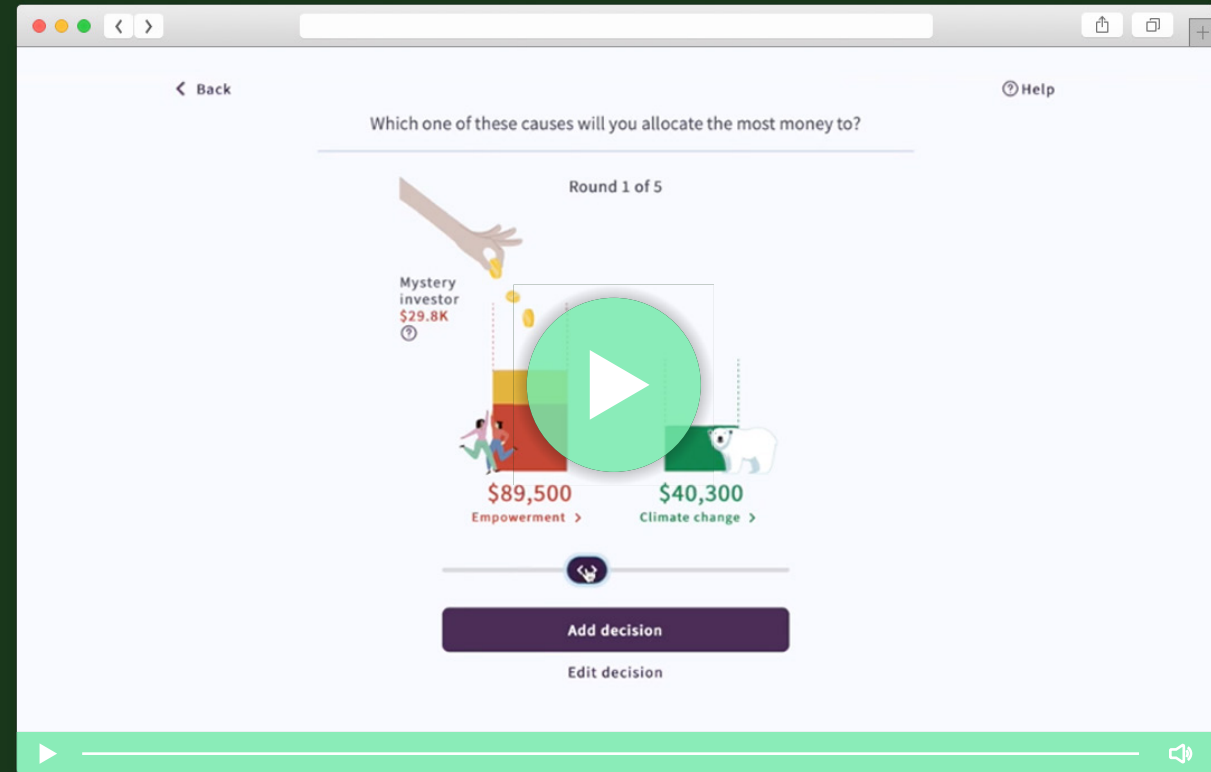
We used a proprietary decision science method to uncover investors' ESG preferences and convictions.

It's no wonder investors are unsure of their own ESG preferences.

To profile clients about ESG, advisory firms rely on dialogue half the time, and simple questionnaires another third of the time. Both methods are subject to noise and bias, especially when investors are just learning ESG concepts and what's even possible.

To get a clear, unbiased read, we administered an award-winning\* decision science based activity to investors, which educates them and reveals their ESG preferences through the decisions they make.

## How the Sustainable Investing Simulator Works



\* Capital Preferences' Sustainable Investing Simulator won the ESG category in Hong Kong Fintech Week's pitch competition, October 2021. Source: A Study of ESG Preferences and Advisory Practices, Capital Preferences, June 2022.

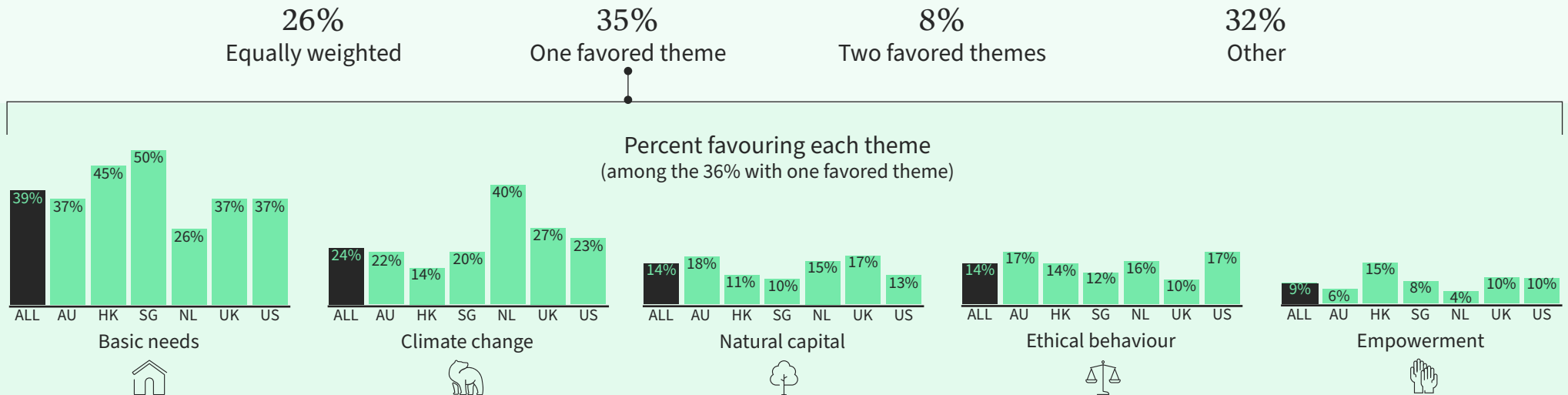
# Investors have widely varied ESG preferences

When we used a revealed preferences method to measure ESG preferences, it revealed a kaleidoscope of differences among investors.

1 in 4 investors prefer equal weighting among the five themes tested. About 1 in 3 have a favored theme, but that favored theme varies greatly across investors. The remainder favor two themes, or revealed some other preference pattern. First, know thy client - given this variability, advisory firms must first seek to more precisely understand their clients' ESG preferences

## Investors' ESG Preferences Distribution Across Five ESG Themes

(percent of investors)



n = 1,656 overall (Investors who are somewhat interested, interested or very interested in ESG).  
Source: A Study of ESG Preferences and Advisory Practices, Capital Preferences, June 2022.



# Every investor has a unique Sustainability Fingerprint.

Clients each have a unique fingerprint, which defies age, education or net worth.

A Sustainability Fingerprint™ is comprised of:

- Altruism score - Reflects how investors trade off their own (and family's) wellbeing vs. the wellbeing of society at large. This can be used to gauge how much value they put in ESG investing.
- Theme weighting scores - A utility score that shows conviction for each theme.

These mathematical parameters can be used to construct portfolios that include a tailored, utility-maximizing mix of ESG investments for each investor.



Female, 49 years old

Location: Melbourne, Australia

Altruism: 79

Best-fit ESG Investing style: Thematic



Male, 37 years old

Location: Manchester, United Kingdom

Altruism: 29

Best-fit ESG Investing style: Integrated



Female, 52 years old

Location: Singapore

Altruism: 52

Best-fit ESG Investing style: Balance of thematic and integrated



Basic needs Climate change Natural capital Ethical behaviour Empowerment

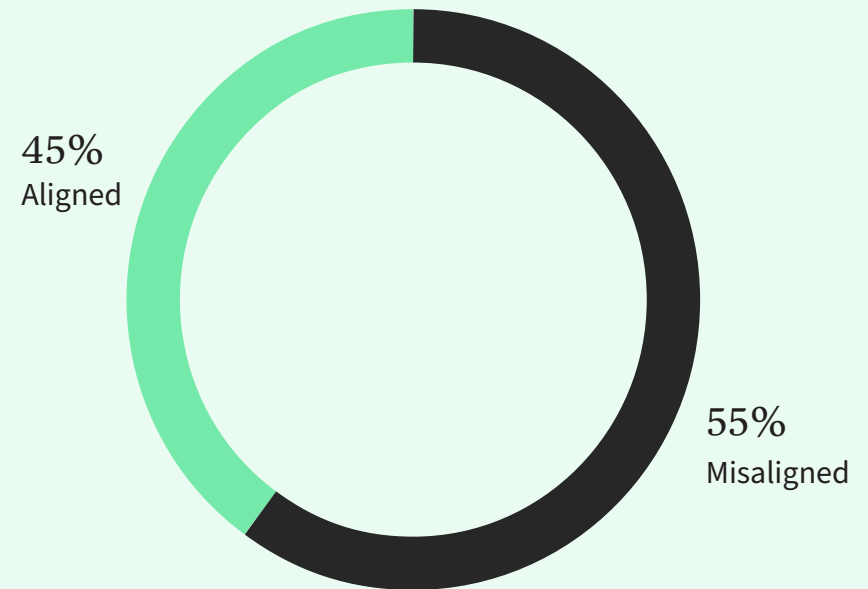
n = 1,656 overall (Investors who are somewhat interested, interested or very interested in ESG);  
Source: A Study of ESG Preferences and Advisory Practices, Capital Preferences, June 2022.

We estimate a majority of ESG-interested investors have a mismatch between their revealed preferences and current portfolio.

We can compare revealed preferences to stated portfolio composition to estimate how well-aligned investors' current ESG portfolios are to their preferences. Among investors with interest in ESG, **over half have current portfolios that are misaligned to their revealed ESG preferences.**

There's an opportunity for wealth management firms to help these clients better know their own preferences, and then fit portfolios to them, thereby boosting confidence and creating value.

ESG Preference-to-Portfolio Alignment  
(% of respondents)



When a strong ESG experience is delivered, investors massively reward their advisors with advocacy, walletshare and referrals. Yet, only 1 in 7 investors strongly rate their ESG investment experience.



| ESG Experience Rating                                    | Strong | Not Strong |
|--|--------|------------|
| Net Promoter Score                                       | 85%    | -13%       |
| Intent to add AUM in the next 12 months                  | 96%    | 71%        |
| Average number of client referrals in the last 12 months | 4.3    | 2.3        |

Improving the ESG investment experience provides a huge opportunity for wealth management firms to create value with a more client-centric (and less product-centric) approach to ESG.

### 3 ingredients of a strongly rated ESG experience:

- 1. Clear and committed advisor**  
Advisor clearly explains ESG concepts and is committed to helping investor invest sustainably
- 2. High preference-to-portfolio confidence**  
Investor has high confidence their current portfolio fully reflects their values.
- 3. Closed-loop reporting**  
Investor receives regular updates that clearly show the sustainability performance of their investments on the ESG themes they care about most.

n = 1,259 investors who are at least somewhat interested in ESG and have had a conversation about it with their advisor; \*14% strongly rate their SI experience; 86% do not. Source: A Study of ESG Preferences and Advisory Practices, Capital Preferences, June 2022.

ESG’s “social currency” is an untapped opportunity for wealth managers to create client value, build brand and drive referrals.

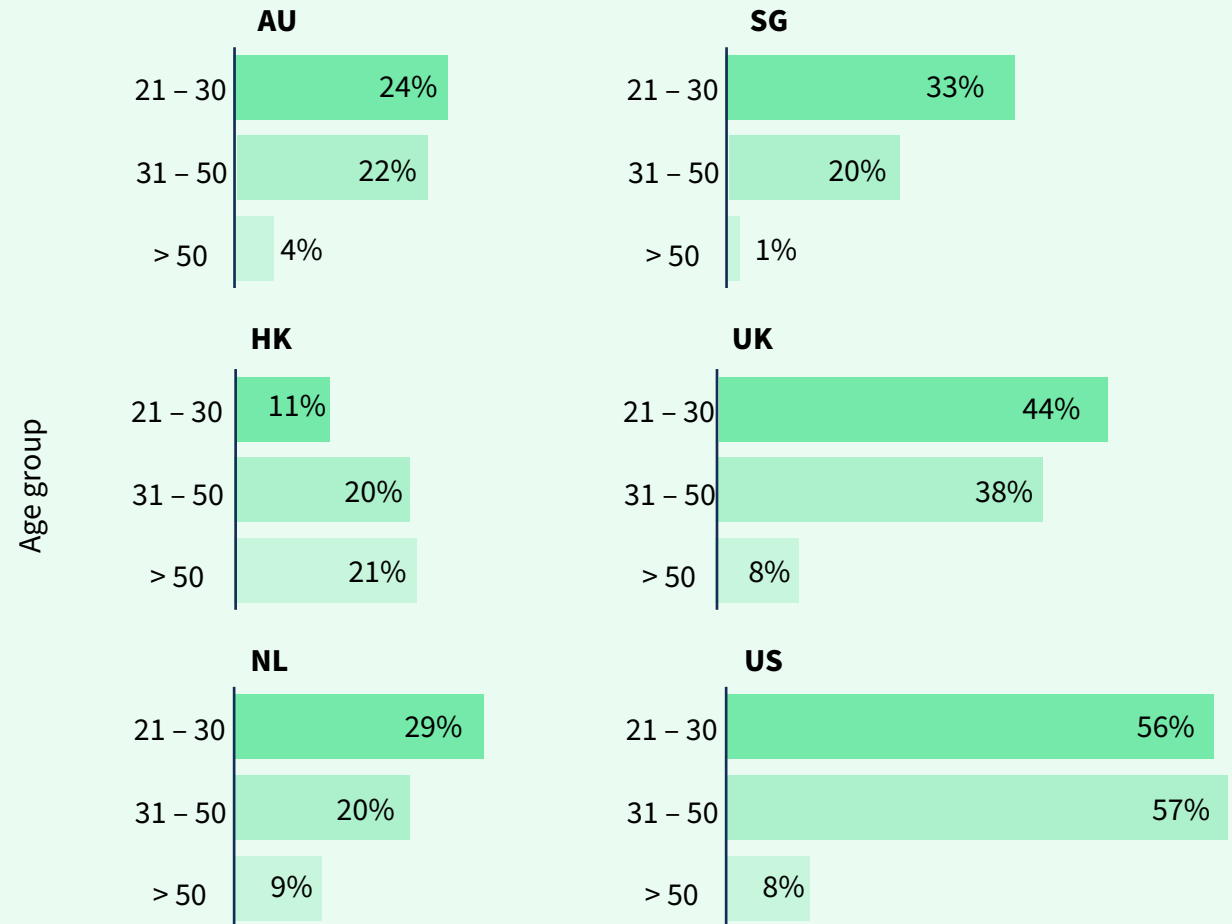
Gen Z, Millennial and Gen X investors show high interest in sharing their unique ESG Fingerprint with their social circle (especially those in the US).

There’s a large, untapped opportunity for advisors to make it easy for these clients to share their results to their social networks. In doing so, they could create value for clients while building brand and generating “social” referrals.

**Percent of Investors Highly Likely to Share ESG Preference Results on Social Media (by age group; percent answering 9 or 10\*)**

*\*Q: If there were a clickable button to share your unique ESG preferences and persona (i.e. the results from the Sustainable Investing Simulator) with your friends and family on your favored social media platform, how likely would you be to click it?*

*(Scale of 1 – 10; 1 = not at all likely; 10 = Extremely likely)*



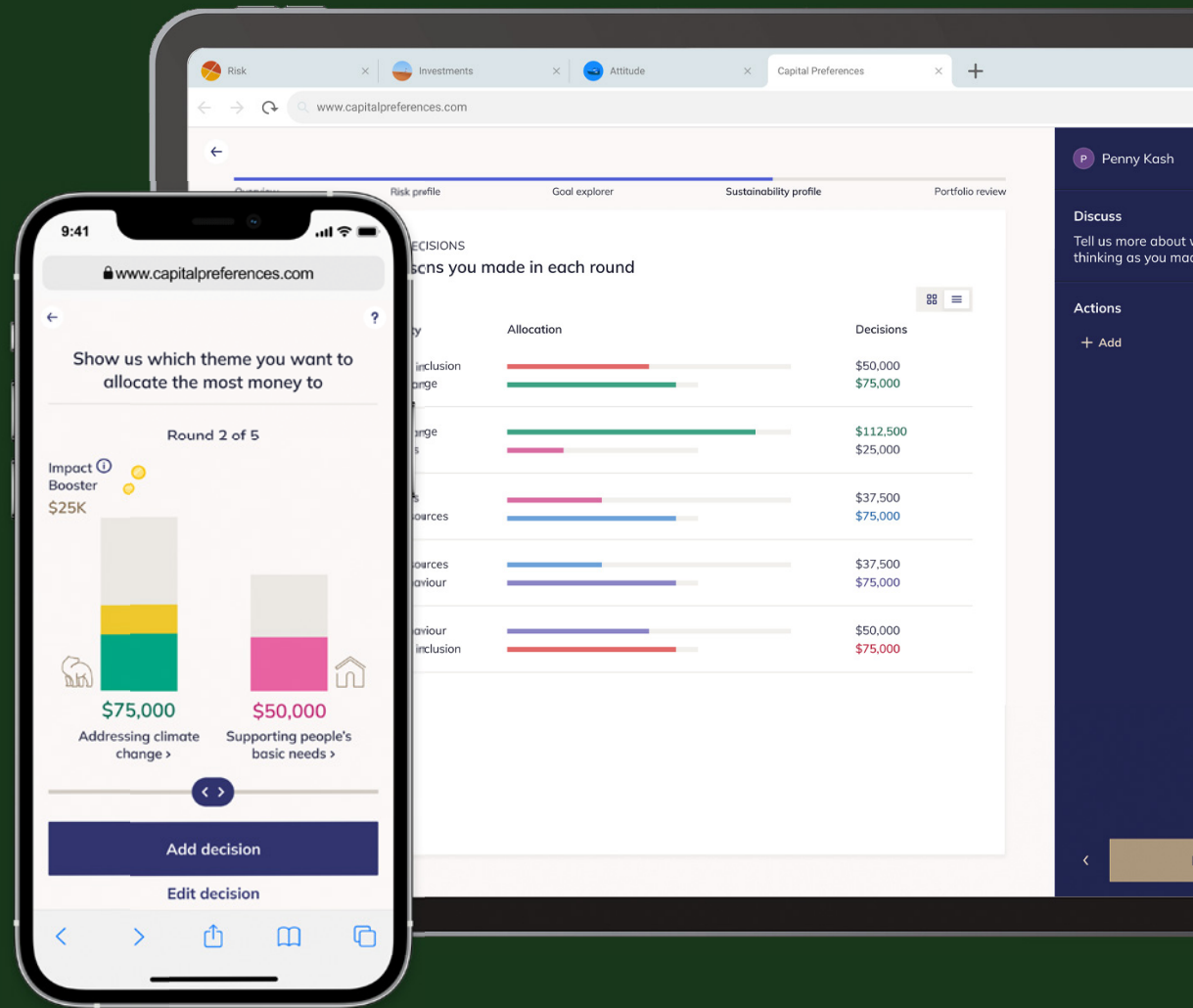
The key: Help investors discover their own unique ESG preferences, and equip advisors to have clear, confidence building conversations.

Winning firms won't leave the client and advisor ESG experience to chance. They'll deliver highly engaging and educational client experiences, coupled with guided dialogue tools for advisors, all backed by decision science for precision, personalization and compliance.

To learn more, contact Capital Preferences.

[Request a demo](#)

Advisor experience



Client experience

## About Capital Preferences

Capital Preferences is a personalization technology firm that uniquely understands and models human behaviour. Our purpose is to help individuals make more purposeful decisions with their time and money.

Our suite of profiling tools helps the world's top financial firms understand latent insights about their clients, spanning Risk, ESG, Goals, Spending, and Insurance preferences. We enable wealth managers to improve the quality of advice and create more personalized and engaging experiences.

We pride ourselves in our collaborative, agile spirit. We believe in working with customers to deliver breakthrough, client-centric solutions that differentiate your offering in a highly competitive marketplace.

To learn more, visit us at:

[capitalpreferences.com](https://capitalpreferences.com)

## Meet the minds behind Capital Preferences



### **Shachar Kariv, Ph.D.**

Co-founder and Chief Scientist,  
Capital Preferences

Benjamin N. Ward Professor of Economics, UC Berkeley



### **Dan Silverman, Ph.D.**

Co-founder, Capital Preferences  
Senior Principal Economist, Core AI at Amazon (sabbatical)

Rondthaler Family Professor at Arizona State University





## About revealed preferences

Revealed preferences has its roots in the Nobel Prize-winning work of Paul Samuelson in the 1940s. More recently, behavioral economics has contributed to the application of revealed preferences in real-world situations.

In the past 15 years, Professor Shachar Kariv's (UC Berkeley) research and innovations in experimental methods led to the practical application of revealed preferences in the financial services domain, first in understanding investor risk preferences.

Rather than filling out a risk tolerance questionnaire, investors complete a quick activity where they make tradeoffs between gain and loss at varying levels of investment risk. The method measures risk tolerance and loss aversion according to their mathematical definition in economics, enabling financial services firms to understand clients in dimensions and with precision simply not possible before.

These risk parameters are plugged into an expected utility framework, enabling each client to be positioned at her optimal spot along the frontier of a portfolio lineup.

Professor Kariv co-founded Capital Preferences in 2015 to carry forward the effort in developing and applying his experimental methods. Since founding, Capital Preferences has gone on to develop revealed preferences diagnostics for measuring clients' ESG preferences, goal priorities, spending (time) preferences and insurance preferences.

## About the Authors



### Pat Spenner

Pat heads marketing and strategy at Capital Preferences, driving go-to-market strategy, messaging and thought leadership. He is a co-author of **The Challenger Customer**, a Wall Street Journal best-selling book on B2B marketing and sales, and has contributed to Harvard Business Review and blogged for Forbes. Pat lives on New Zealand's South Island with his wife, four children and two overactive border collies.



### Nick Smith

Nick is a Research Coordinator and Analyst at Capital Preferences, focusing on research and product development. He has a passion for data. Nick is a graduate of University of Canterbury and lives in Wellington, New Zealand.



# Survey population characteristics

