

Sustainable Signals

Individual Investors and the COVID-19 Pandemic

SUSTAINABLE INVESTING

Four in five investors remained focused on sustainable investing during the COVID-19 pandemic. Although the economic downturn triggered a slight drop in interest since 2019—by 6 percentage points—we still find interest among 79% of all individual investors in our sample, and all-time high interest of 99% among Millennials.

The seismic events of the last two years also shifted investors' thematic priorities when it comes to sustainability. Public health and support for small businesses surged among areas of interest, while 50% of investors and nearly 75% of Millennial investors made investment changes—or plan to—in response to social justice movements.

At the same time, a greater portion of investors in our sample cited concern about the financial performance of sustainable investments.

Taken together, these trends highlight a significant opportunity for financial advisors and investment managers to proactively engage and support individuals on their sustainable investing journeys.

KEY INSIGHTS

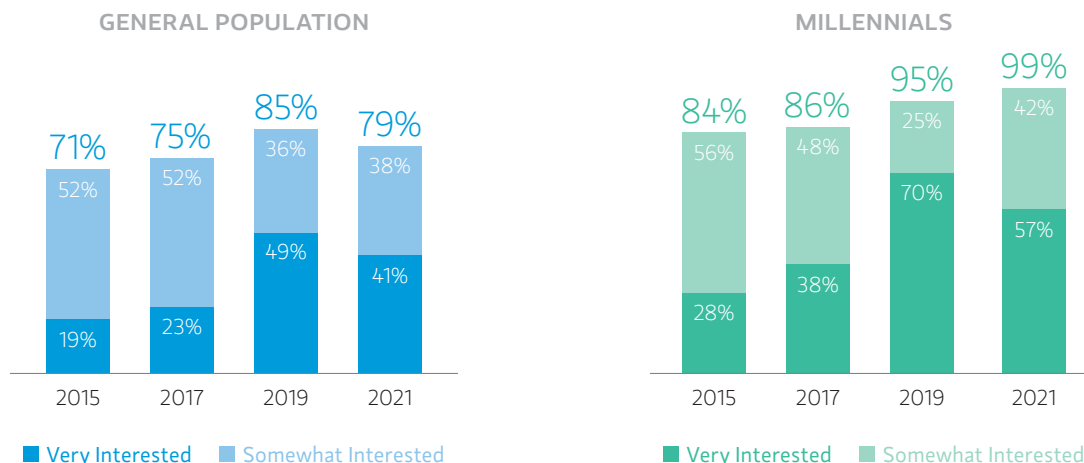
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FIGURE 1



Key Insights

1

2020's turbulence significantly impacted sustainable investing

- Amid economic concerns, overall interest dipped by 6 percentage points to 79% from 85% in 2019. Bucking the trend, Millennial investor interest rose by 4 percentage points to 99%.
- Public health and support for small businesses surged among investors' thematic priorities with 61% expressing 'more interest in the topics due to Covid-19'.
- In response to social justice issues, 50% of investors and 73% of Millennials made changes to their investment portfolios or plan to within the next 12 months.

79%

are interested in sustainable investing.

2

Climate change remains a top focus, especially for Millennials and investors with a positive economic outlook

- Eighty-eight percent of Millennials and 93% of individual investors who believe the economy is strong, expressed interest in climate-themed investments, compared with 74% of all investors.
- Amid rising concern about climate change, a majority of investors (60%) are equally interested in solutions that mitigate greenhouse gas emissions and support climate adaptation.

88%

of Millennials are interested in investments that address climate change.

3

Questions about sustainable investment performance persist

- More individual investors now believe sustainable investing requires a financial trade-off (70%) than in 2019 (64%), despite growing evidence to the contrary.
- Millennials believe in the trade-off myth (83%) more than any other age group (70% for all investors) yet remain the most interested in sustainable investing.

70%

believe sustainable investing implies a financial tradeoff.

4

Opportunities exist to better support individuals on their sustainable investing journeys

- Performance concerns are the biggest barrier investors cite (76%) to investing sustainably.
- Only a slight majority of investors (56%) say their advisors have asked about investment goals outside of financial performance.

76%

cite performance concerns are the biggest barrier to investing sustainably.



METHODOLOGY

This report presents results from an online survey conducted by the Brunswick Group from May 6–27, 2021 on behalf of the Morgan Stanley Institute for Sustainable Investing. The sample size was 800 U.S. individual investors age 18 and older with minimum investable assets of \$100,000. The survey also included oversamples of 203 Millennials (aged 25–38).

This fourth edition of the Morgan Stanley Sustainable Signals individual investor survey further builds our body of insight and analysis and helps inform our efforts to promote sustainable investing.

In all our surveys, we define sustainable investing as the practice of making investments in companies or funds that aim to achieve market-rate financial returns while considering positive social and/or environmental impact.

2020's Turbulence Significantly Impacted Sustainable Investing

For the first time since Morgan Stanley began the individual investors Sustainable Signals series in 2015, interest in sustainable investing waned slightly amid concerns about the economy in the wake of the pandemic. Among all investors, 79% were interested in sustainable investing, a 6-percentage point dip from 2019 (Figure 1), while adoption of sustainable investing also fell 6 percentage points to 46%. Interest correlated strongly with investors' economic outlook, reaching 94% among those who view the economy as strong compared with 65% who view it as weak (Figure 2).

Millennial investor interest bucked the overall trend, rising to 99%—a 4 percentage point increase since 2019 (Figure 1), while Millennial adoption of sustainable investing remained steady at 67%. Given that Millennials make up the [largest generation in U.S. history](#)¹ and are set to [inherit \\$30 trillion in wealth](#)² from baby boomer relatives over the next two decades, these trends signal significant future growth in demand for sustainable investing.

In aggregate, investors continue to grow the share of their portfolios invested in companies or funds that seek to make a positive social or environmental impact—up 3 percentage points since 2019 and 18 percentage points since 2015 (Figure 3). Overall, despite the pandemic's unprecedented market disruption, sustainable investing remains among individual investors' top priorities.

FIGURE 2

Interest in sustainable investing correlates with investors' view of the economy

Total interest (%) in sustainable investing by economic outlook

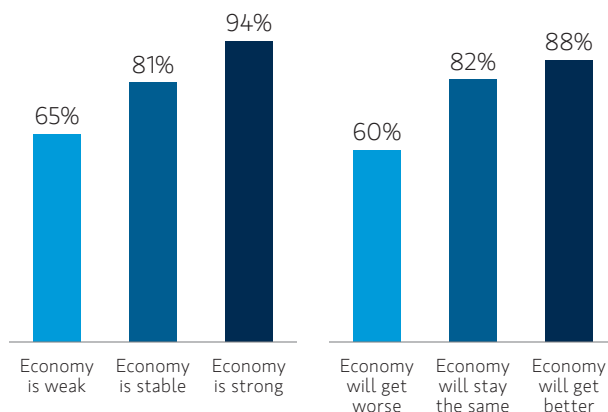


FIGURE 3

Investors' portfolios increasingly allocated to sustainable investments over time

What percentage of your portfolio is currently invested in companies or investment funds that seek to make a positive social or environmental impact?

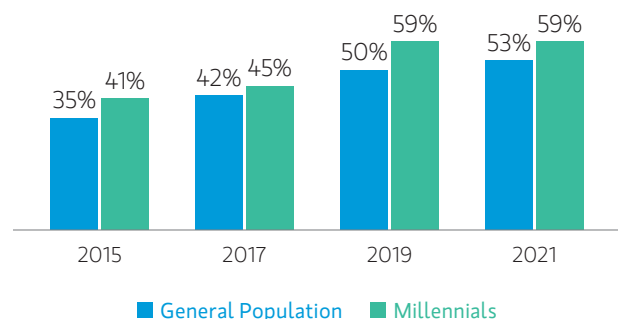


FIGURE 4

COVID-19 drove a shift in investors' thematic interests

To what extent has COVID-19 changed your interest, if any, in addressing the following sustainability themes through your investment activity?

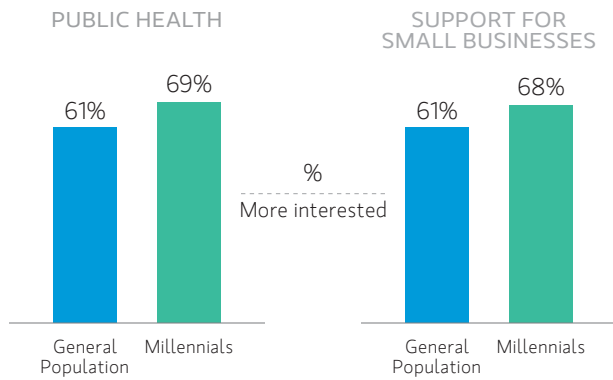
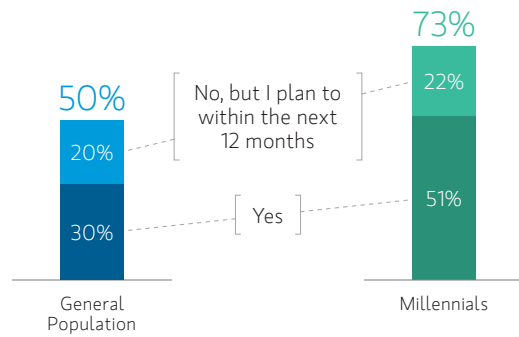


FIGURE 5

Social justice movements also spurred sustainable investing

Have recent social justice movements in the United States and globally compelled you to make changes to your investment portfolio to address issues of racial justice?

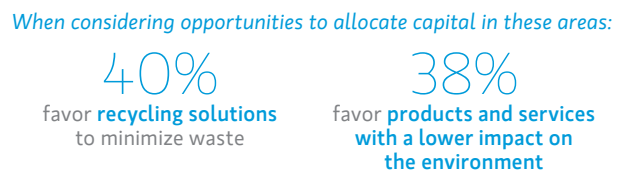
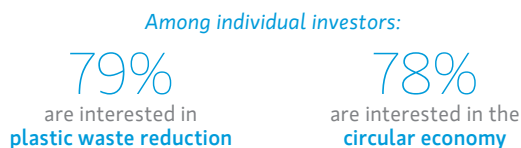


The pandemic also shifted investors' thematic priorities when it comes to sustainability. Interest in public health and support for small businesses surged with 61% of respondents expressing more interest in the topics due to Covid-19 (Figure 4). Public health was cited as the most common thematic priority at 82%, ahead of other common focus areas such as climate

change, plastic waste reduction and community development. In addition, the global and U.S. movements for social and racial justice drove new focus among investors, with 50% of all investors and 73% of Millennials making changes to their investment portfolios—or plan to do so within the next 12 months (Figure 5).

PRIORITIZING PLASTIC WASTE REDUCTION AND THE CIRCULAR ECONOMY

Reducing plastic waste and promoting the circular economy remain among individual investors' top thematic priorities. Seventy-nine percent of individual investors were interested in plastic waste reduction and 78% were interested the circular economy. Like in 2019, these topics garnered more interest than any other environmental theme, including climate change. When considering opportunities to allocate capital toward impact in these areas, 40% of investors favor financing recycling solutions to minimize waste, and 38% favor the development of products and services with a lower impact on the environment.



Climate Change Remains a Key Focus, Especially for Millennials and Investors With a Positive Economic Outlook

Addressing climate change remains top of mind for many investors, especially Millennials and those with a bullish economic outlook. Among individual investors who believe the economy is strong, 93% expressed interest in climate-themed investments, compared to 55% among investors who believe the economy is weak. Eighty-eight percent of Millennials expressed interest in climate-themed investments, 14 percentage points higher than the overall sample.

Amid rising concern about climate change, a majority of investors interested in climate change (60%) are equally interested in solutions that mitigate greenhouse gas emissions and support climate adaptation (Figure 6). Ninety-two percent

of investors interested in climate change also indicated that corporate reporting on sustainability, carbon footprints and commitments to reduce emissions are important to them when thinking about new investments (Figure 7).

FIGURE 6

Investors look to tackle climate change through mitigation and adaptation

Which of the following investment strategies are you MOST interested in?

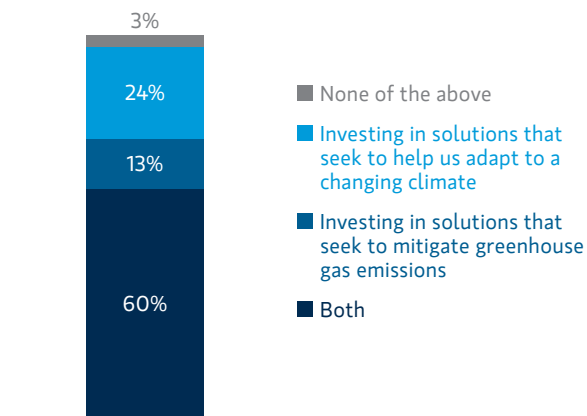
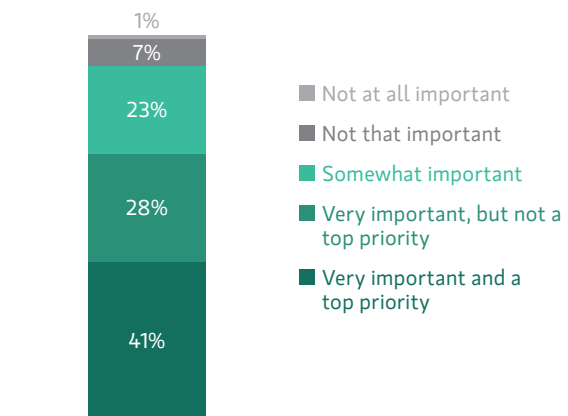


FIGURE 7

Corporate sustainability reporting helps inform investment decision making

When thinking about new investments, how important is a company's reporting on sustainability practices, carbon footprints and commitments to greenhouse gas emissions reduction over time?



Questions About Sustainable Investment Performance Persist

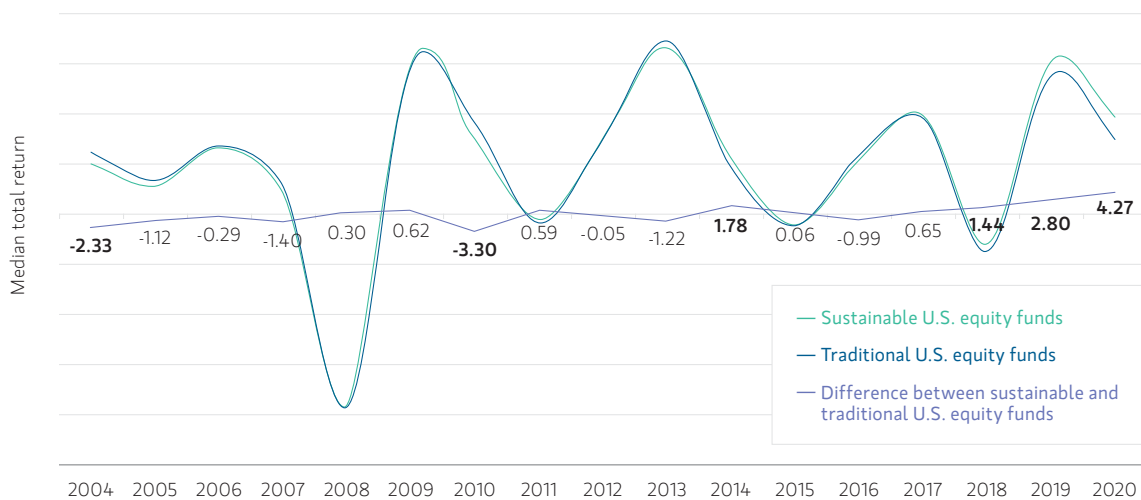
Individual investors continue to send mixed signals on how they view performance of sustainable investments. In 2021, more investors believed that such investments require a financial trade-off (70%) than in 2019 (64%). Yet, 80% also agreed that companies with leading ESG practices have the potential to generate higher returns and make better long-term investments.

Millennials have the strongest belief that sustainable investing requires a financial trade-off (83% in 2021 compared with 70% for all investors) even while their interest in sustainable investing reached an all-time high of 99%.

These performance concerns persist despite growing evidence to the contrary. Most recently, [analysis by Morgan Stanley](#) found that US sustainable equity funds outperformed traditional peer funds in 2020 by a median of 4.3 percentage points (Figure 8).

FIGURE 8²

The relative performance of sustainable and traditional U.S. equity funds shows no trade-off in financial performance from 2004–2020



Source: Sustainable Reality, Morgan Stanley Institute for Sustainable Investing

Opportunities Exist To Better Support Individuals on Their Sustainable Investing Journeys

While the performance of sustainable funds held up to the pandemic storm, a majority of investors in our sample continue to voice concerns about performance. Our findings point to an ongoing need for more guidance and information from investment professionals to provide individual investors with information.

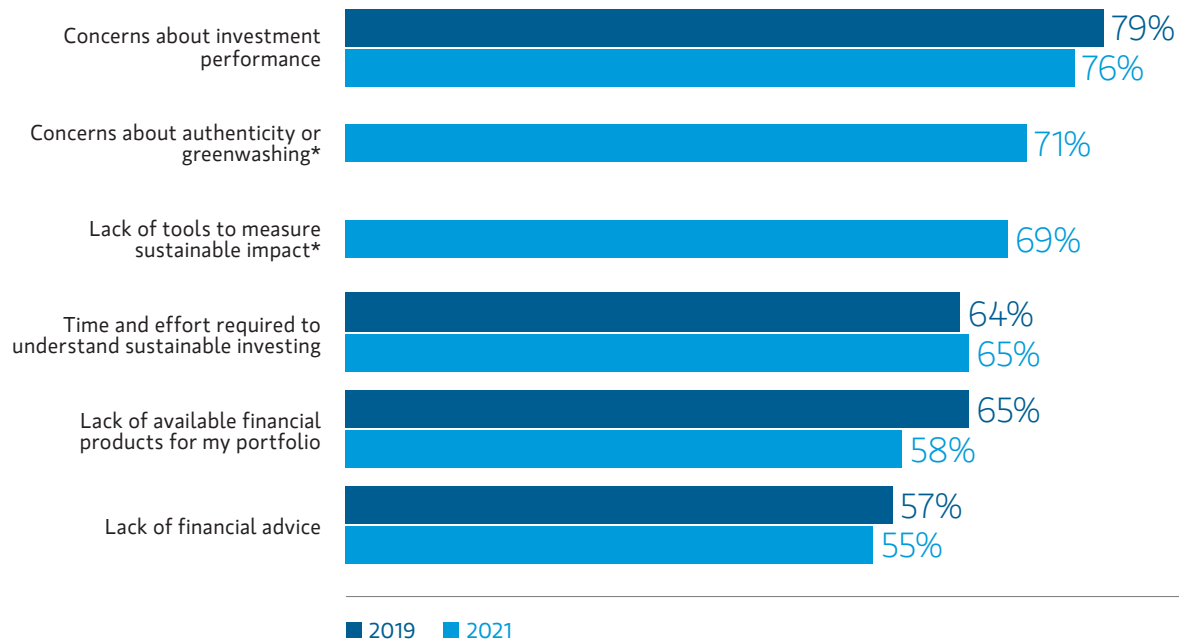
Performance concerns remain the biggest barrier cited by investors (76%) to investing sustainably, followed by concerns about product authenticity (71%) and a lack of tools to measure their dollars' impact (69%—Figure 9).

Since our surveys began in 2015, more than 70% of individual investors have expressed interest in sustainable investing each year. Yet, in 2021, only 56% said their financial advisors asked them about their goals outside

FIGURE 9

Opportunities exist to address barriers to sustainable investing

How significant are the following as barriers to including sustainable investing in your portfolio?



*New question as of 2021

FIGURE 10

Only a small majority of investors have been asked by financial advisors about impact goals

Has a financial advisor ever asked you about what matters most to you outside of your financial goals and objectives?

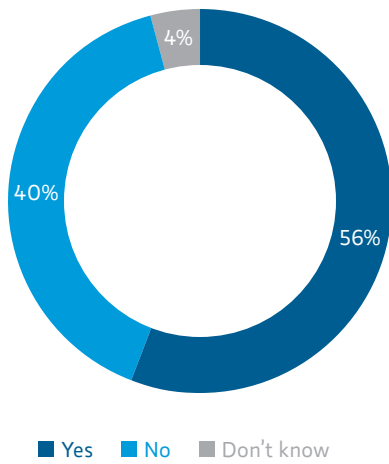
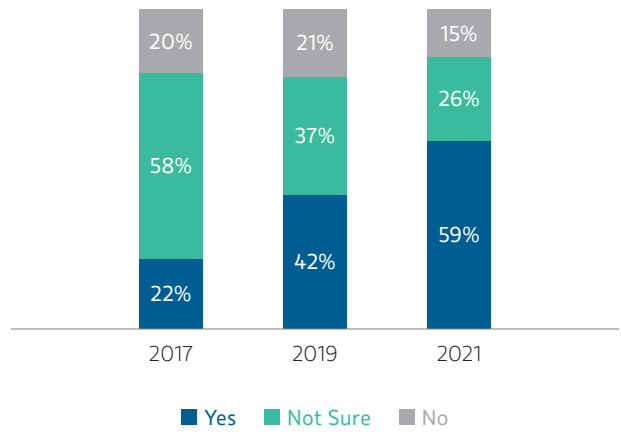


FIGURE 11

Rising awareness of sustainable retirement plan options offers opportunity

To the best of your knowledge, does your employer-sponsored retirement savings plan (for example: 401k, 403b, 457c) currently offer sustainable investment options?



of financial performance (Figure 10), and 50% reported receiving no information on their portfolio’s sustainability performance. Despite this, nearly two thirds of respondents (66%) indicated that they would like to receive an impact report alongside a quarterly financial report and 62% favored third party verification of the impacts of their sustainable investments.

Rising investor interest in sustainable options for retirement plans highlights the opportunities for investment professionals to better engage investors and develop targeted products. In 2021, 59% of investors reported knowledge of sustainable options (Figure 11), of whom 88% had selected them as part of their retirement plan. Of the 41% without or unsure of access to sustainable options, 69% expressed interest, signaling significant unmet demand.

Conclusion

Our survey shows that interest in sustainable investing was not immune to the turbulence triggered by the COVID-19 pandemic, with investors' economic concerns correlating with a slight dip in interest. Nevertheless, sustainable investing remains an important focus area for individual investors. It also helps drive Millennials' investment choices, with 67% already practicing it and 99% expressing interest, an all-time high.

However, there are opportunities for industry participants to do more to meet investor demand for sustainable investing. Our survey showed investors' desire to shift their thematic priorities in response to current events, with interest surging in public health, small businesses and racial and social justice issues. Yet, only 56% of respondents reported that their financial advisors had asked about their goals beyond financial performance. A significant majority of investors also want to be better informed about their portfolios' sustainability performance. Investment professionals could do more to educate clients about the historical performance of sustainable investments.

Overall, the future remains bright for sustainable investing as economies emerge from the pandemic cloud. Opportunities abound to harness investor enthusiasm, address their concerns around performance and help them make informed investment decisions.

Notes

- 1 "Millennials overtake Baby Boomers as America's largest generation", Pew Research Center, 2020 (<https://www.pewresearch.org/fact-tank/2020/04/28/millennials-overtake-baby-boomers-as-americas-largest-generation/>; accessed on September 5, 2021).
- 2 "What The Rise Of The Millennial Investor Means For A Sustainable World", World Economic Forum, 2021 (<https://www.forbes.com/sites/worldeconomicforum/2021/02/08/what-the-rise-of-the-millennial-investor-means-for-a-sustainable-world/?sh=26f5466c65cc>; accessed on September 5, 2021).
- 3 Data included in Figure 8 reflects findings from the Morgan Stanley Institute for Sustainable Investing's Sustainable Reality reports:
 - "Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds", Morgan Stanley, 2019 (https://www.morganstanley.com/pub/content/dam/msdotcom/ideas/sustainable-investing-offers-financial-performance-lowered-risk/Sustainable_Reality_Analyzing_Risk_and>Returns_of_Sustainable_Funds.pdf; accessed on September 5, 2021).
 - "Sustainable Reality: 2020 Update", Morgan Stanley, 2020 (https://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/3190436-20-09-15_Sustainable-Reality-2020-update_Final-Revised.pdf; accessed on September 5, 2021).
 - "Sustainable Funds Outperform Peers in 2020 During Coronavirus", Morgan Stanley, 2021 (<https://www.morganstanley.com/ideas/esg-funds-outperform-peers-coronavirus>; accessed on September 5, 2021).

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