High Level Expert Forum for Sustainable Finance

Co-creating the Future of Sustainable Finance.

13 & 14 December 2022

#HLEF2022

How to elicit sustainability (or social) preferences?

Rob Bauer, Professor, University of Maastricht

14 December, 08h30-09h15

GA n°894345

levelEEI

Innovative Methods to Elicit Sustainability Preferences

Rob Bauer, Professor of Finance **(joint work with Marco Ceccarelli, Katrin Goedker, and Paul Smeets)**

Maastricht University School of Business and Economics

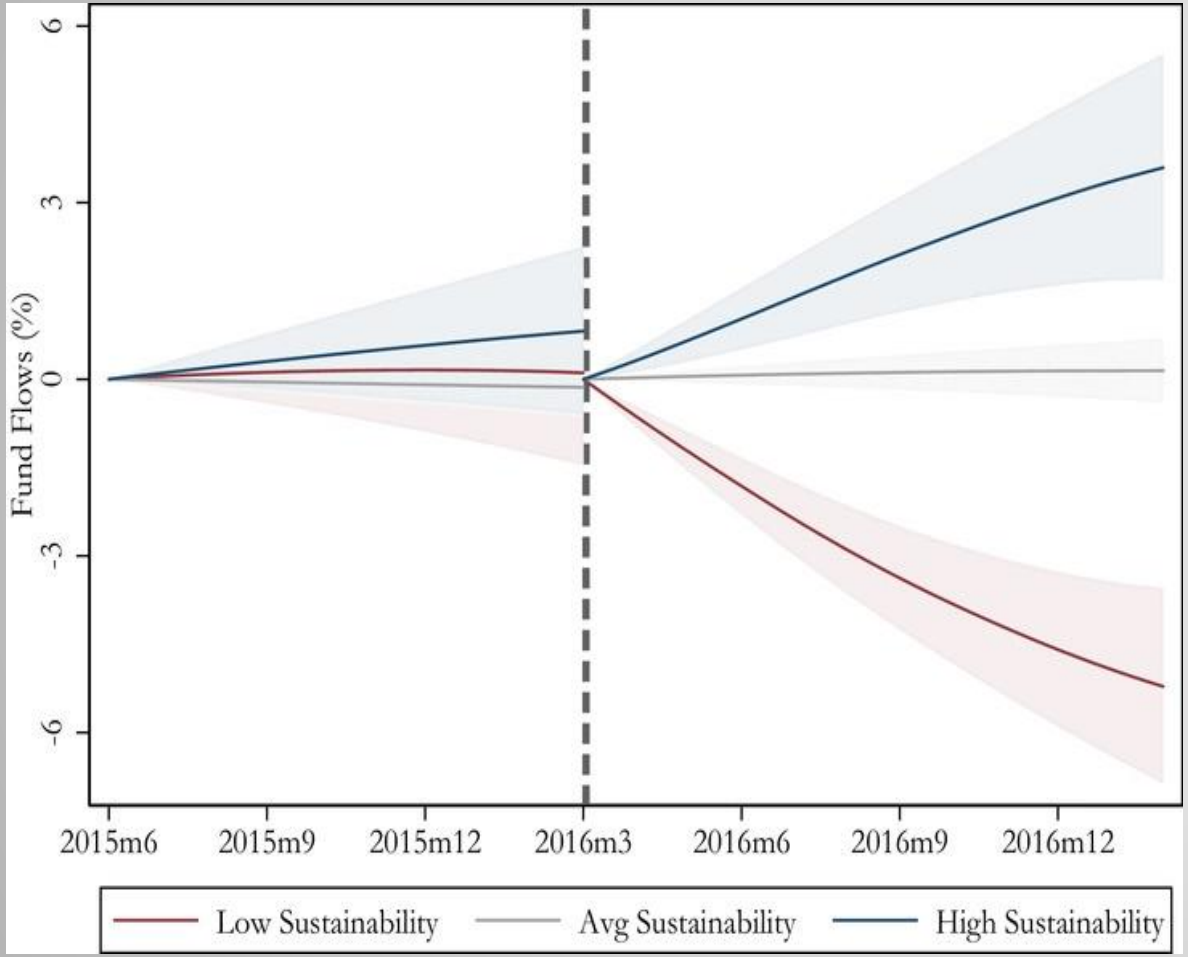
LEVEL EEI Consortium

Brussels, December 14, 2022

Content

- Maastricht team has been developing new techniques to elicit individuals’ sustainability preferences in financial services market.
- We will show a few examples of elicitation methods in the context of DB pension funds (Detailhandel, NL), DC pension funds (USS, UK and NN/Be Frank in NL), and mutual funds (Meesman, NL).
- Our research can inspire private banks, wealth management organizations, pension funds, and insurance companies in the sustainability preferences’ elicitation process.
- We will also show a few examples of follow-up activities by the organizations that we worked with.

In a mutual fund context there is choice: investors respond to sustainability ratings



Sizable fund flows in equities away from investors that visibly ignore and towards investors that visibly address sustainability (in general)

Source: Hartzmark and Sussman (2019)

"Do Investors Value Sustainability? A Natural Experiment Examining Ranking and Fund Flows", ***Journal of Finance.***

Pension funds

- Pension funds increasingly interact and communicate with participants on the topic of sustainability preferences.
- In many countries, it is mandatory to join a Defined Benefit (DB) or Defined Contribution (DC) pension fund.
- Board makes strategic decisions; increasingly on topics related to sustainability.
- In the Netherlands, pension funds pledged (soft law) to interact with their beneficiaries on the extent to which the fund should engage in sustainable investing.
- But: how to measure?

Today's topic mainly based on two papers

The Review of Financial Studies

Get Real! Individuals Prefer More Sustainable Investments

Rob Bauer
School of Business and Economics, Maastricht University and International Centre for Pension Management

Tobias Ruof
School of Business and Economics, Maastricht University

Paul Smeets
School of Business and Economics, Maastricht University

The United Nations' Sustainable Development Goals (SDGs) have created societal and political pressure for pension funds to address sustainable investing. We run two field surveys (n = 1,669, n = 3,186) with a pension fund that grants its members a real vote on its sustainable-investment policy. Two-thirds of participants are willing to expand the fund's engagement with companies based on selected SDGs, even when they expect engagement to hurt financial performance. Support remains strong after the fund implements the choice. A key reason is participants' strong social preferences. (*JEL* G02, G11, G20, G23, G28)

Received February 24, 2020; editorial decision February 1, 2021 by Editor Stijn Van Nieuwerburgh.

We are grateful to Pensioenfonds Detailhandel for enabling us to collect the data used in this paper, and we particularly thank Henk Groot, Henk van der Kolk, Andre Snellen, and Rene Upperman. We thank the editor Stijn van Nieuwerburgh and two anonymous referees for valuable suggestions and feedback; participants at the "Yale-RFS Conference on Real and Private-Value Assets," the conference on "Promoting Sustainable Finance" of the European Commission, the ICPM conference in Santiago de Chile in 2018, and the GRASFI 2019 conference in Oxford; and seminar participants at Maastricht University, the Max Planck Institute in Bonn, Netspar, Radboud University, and the University of Zurich. We are also grateful for valuable comments from Jaap Bos, Inka Eberhardt, Piet Eichholtz, Gianfranco Gianfrate, Katrin Gödker, Samuel Hartzmark (discussant), Peiran Jiao, Marten Laudi, Matthijs Korevaar, Joyce Mertens, Luuk Perik, Florian Peter, Thomas Post, Drazen Prelec, Paulo Rodrigues, Peter Schotman, Lidwien Sol, Martin Strobel, Colin Tissen, Matthias Wibral, and Leonard Wolk. This paper was financially supported by Inquire, Netspar (NL), the EU 2020 LEVEL EEI grant, and Call 2 for Proposals 2020 – EIT KIC Climate. Paul Smeets was supported by a VENI grant from the Netherlands Organisation for Scientific Research (NWO) [grant number 016.Veni.175.019]. Send correspondence to Paul Smeets, pm.smeets@maastrichtuniversity.nl.

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Measuring sustainable preferences of pension members

A methodological proposition and a case study of a UK pension fund*

Rob Bauer, Marco Ceccarelli, Katrin Gödker, and Paul Smeets†

October 20, 2022

Abstract

This report proposes an approach to measure revealed preferences for sustainable investing via a survey-in-the-field experiment that consists of an incentivized investment game. This approach helps to mitigate hypothetical bias concerns that are common in surveys of stated preferences. In the second part of this report, we provide evidence from a case study. We run an experiment with clients of a large UK-based pension fund and find a strong consistency between the revealed and stated preferences of respondents. Moreover, introducing moral wiggle room in the form of a conventional default option does not affect their choices, suggesting that the respondents' preferences for sustainable investing are strong.

JEL Classifications: C90, C93, D14, G23

*We thank Netspar for providing us funding for this project through the 2019 theme grant "How to elicit preferences for sustainable investments?" The project (part of LEVEL EEI) has also received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 894345.
†Rob Bauer: Maastricht University, r.bauer@maastrichtuniversity.nl; Marco Ceccarelli: Maastricht University, m.ceccarelli@maastrichtuniversity.nl; Katrin Gödker: Bocconi University, katrin.goedker@unibocconi.it; Paul Smeets: University of Amsterdam, p.m.a.smeets@uva.nl.

level EEI
Level the playing field for Energy Efficiency Investment products

Netspar

EUROPEAN
COMMISSION

Brussels, 21.4.2021
COM(2021) 188 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties:
Directing finance towards the European Green Deal

VI. SUSTAINABILITY PREFERENCES AND FIDUCIARY DUTIES

The Commission is today introducing the assessment of client's sustainability preferences in existing delegated acts under the Markets in Financial Instruments Directive (MiFID II)[17] and the Insurance Distribution Directive (IDD)[18], as a top up to the suitability assessment. Insurance and investment advisers will be required to obtain information not only about the client's investment knowledge and experience, ability to bear losses, and risk tolerance as part of the suitability assessment, but also about their sustainability preferences. This will ensure that sustainability considerations are taken into account on a systematic basis when the advisers assess the range of financial instruments and products in their recommendations to clients.

This action will empower retail investors to decide where and how their savings should be invested. This way, everyone will have a chance to make a tangible positive impact on the climate, environment and society if they desire to do so. The change will increase the demand for financial instruments and products with sustainable investment strategies and those that consider adverse impact on sustainability.

By amending existing rules on fiduciary duties in delegated acts for asset management, insurance, reinsurance and investment sectors, the Commission is clarifying the current rules to also encompass sustainability risks such as the impact of climate change and environmental degradation on the value of investments.

Motives to invest sustainably may vary

The Arbitrageur

The Talker

The Giver

Motives private investors?

The Journal of FINANCE
The Journal of THE AMERICAN FINANCE ASSOCIATION

THE JOURNAL OF FINANCE • VOL. LXXII, NO. 6 • DECEMBER 2017

Why Do Investors Hold Socially Responsible Mutual Funds?

ARNO RIEDL and PAUL SMEETS*

ABSTRACT

To understand why investors hold socially responsible mutual funds, we link administrative data to survey responses and behavior in incentivized experiments. We find that both social preferences and social signaling explain socially responsible investment (SRI) decisions. Financial motives play less of a role. Socially responsible investors in our sample expect to earn lower returns on SRI funds than on conventional funds and pay higher management fees. This suggests that investors are willing to forgo financial performance in order to invest in accordance with their social preferences.

Social identification may lead to loyalty

Social identification and investment decisions

Rob Bauer[1], Paul Smeets[*]

Maastricht University School of Business and Economics, Department of Finance (LIFE) and European Centre for Corporate Engagement, PO Box 616, 6200 MD Maastricht, The Netherlands

A R T I C L E I N F O

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JEL classification:
G11

Keywords:
Socially responsible investments (SRI)
Social identification
Mutual funds
Risk perceptions

A B S T R A C T

This paper investigates the role of social identification in investment decisions. Social identity is an aspect of self-image based on in-group preferences and a perception of belonging to a social group. We collected survey data from retail clients of the only two banks in the Netherlands that exclusively offer socially responsible investment products and savings accounts. Our data show that almost half of the clients invest exclusively at these banks, whereas the other half also holds at least one conventional investment account. Clients vary widely in the extent to which they identify themselves with socially responsible investments (SRI). Investors with a strong social identification allocate substantially more of their wealth to these banks, both in terms of euros invested and in terms of percentage of their total portfolio invested. Social identification also mediates the effect of expected returns on SRI. Our results further show that social identification is stronger among highly educated, younger and low-wealth investors.

IORP II 2023 Directive (EU Consultation April 2020)

Question 94: In view of the planned review of the IORP II Directive in 2023, should the EU further improve the integration of members' and beneficiaries' ESG preferences in the investment strategies and the management and governance of IORPs?

- Yes/No/Do not know.
- If yes, how could this be achieved, taking into account that IORPs are collective schemes whose members may have different views on ESG integration? [BOX max. 2000 characters]

EU Commission, in July 2021…..

EUROPEAN COMMISSION

Strasbourg, 6.7.2021
COM(2021) 390 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Strategy for Financing the Transition to a Sustainable Economy

{SWD(2021) 180 final}

EN EN

Aligning financial flows with the European Green Deal objectives requires further consideration of sustainability impacts in the strategies and investment decision-making processes of investors. On 21 April 2021, the Commission published six amending delegated acts, which require financial firms, such as advisers, asset managers and insurers, to include financially material sustainability risks in their procedures and to consider the sustainability preferences of their clients[50]. This will need to be complemented by further action for the 125 000 pension funds in the EU managing collective schemes on behalf of around 75 million Europeans[51]. To enhance their contribution to the Green Deal targets, it is critical that the fiduciary duties of investors and pension funds towards members and beneficiaries also reflect the inside-out ESG risks of investments as part of investment decision-making processes.

- The Commission will ask EIOPA to assess the potential need to broaden the concept of the 'long-term best interest of members and beneficiaries' and introduce the obligation to consider sustainability impacts in the pension investment framework. The aim would be to ensure that the framework better reflects members and beneficiaries' sustainability preferences and broader societal and environmental goals. In collaboration with the European Supervisory Authorities, the Commission will consider and assess further measures to enable all relevant financial market participants and advisers to consider positive and negative sustainability impacts of their investment decisions, and of the products they advise on a systematic basis.

Response Dutch pension funds

- Many funds use the survey instrument when asking beneficiaries about their preferences and beliefs regarding sustainable investments.

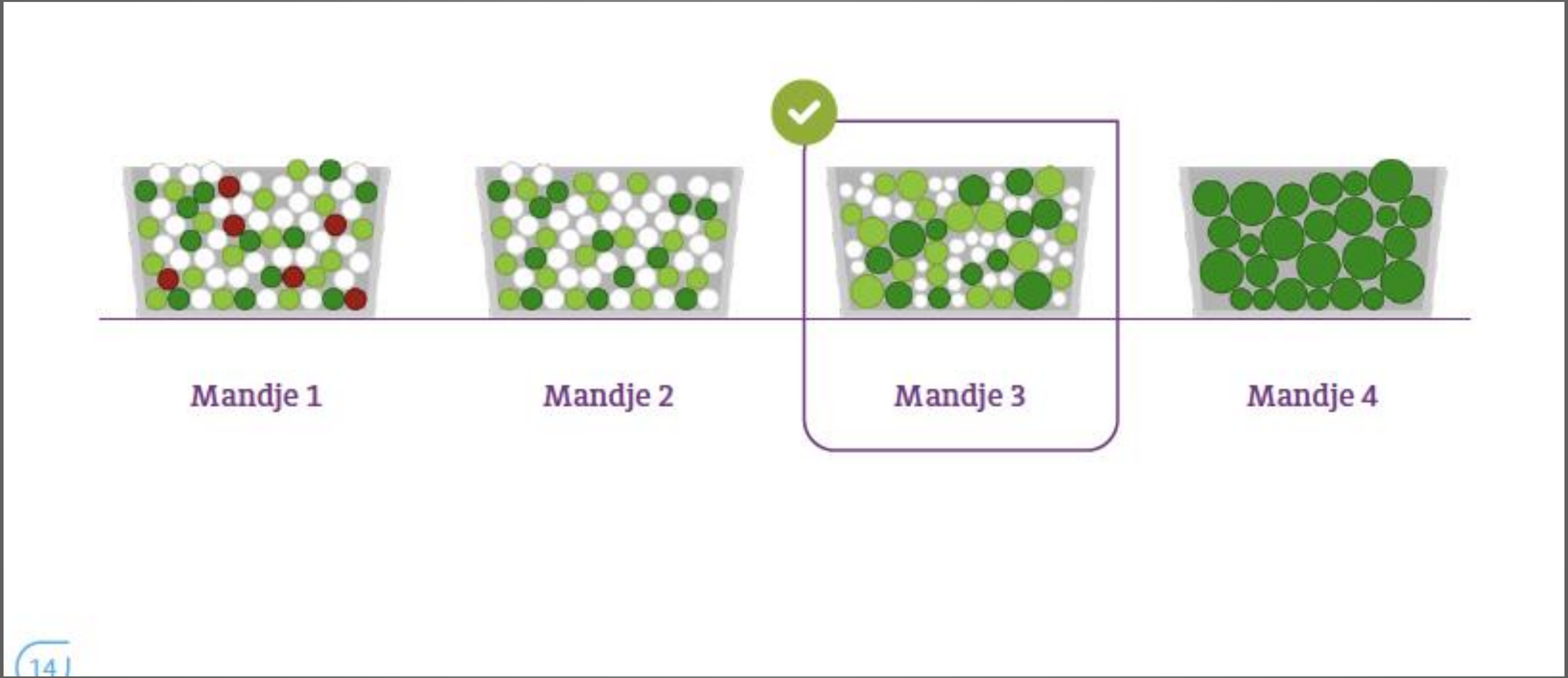
- Some funds have focus groups or ad hoc interviews with members.

- Some funds do not (directly) engage with their participants on the topic of responsible investments.

- Many potential pitfalls: social desirability bias (hypothetical gap), selection bias, representation bias, board bias etc.

- **Key objective: how to elicit participants' social preferences properly?**

An example: Philips corporate pension fund



Case study pension fund Detailhandel

- Pension fund for the retail sector in the Netherlands: defined benefit plan, 30-billion-euro AUM, more than a million beneficiaries, run by a small team of delegation experts.

- Investment program guided by realism: focus on high-quality governance of the strategic investment delegation process with almost exclusive focus on public and passive investments.

- In 2018, the responsible investment program could be characterized by a limited exclusion policy (controversial weapons), proxy voting based on internal voting guidelines, participation in collaborative vehicles and private engagement through an outsourced agency.

- Investment belief (publicly stated) that the "integration of sustainability can be implemented without compromising key portfolio characteristics (risk and return)".

Guided by Beneficiaries' Preferences

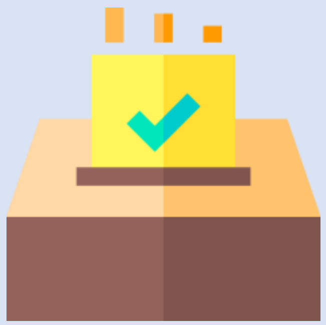
- PD approached Maastricht University Sustainable Finance Centre (ECCE) to conduct a field survey in 2018 (Study 1) among their participants. Second survey conducted in 2020 (Study 2).
- Inspired by upcoming hard and soft law, the board granted its participants **a real vote** on PD's sustainable-investment policy. Key question was whether the engagement program should be intensified (more engagements) and extended with a **fourth, additional SDG**.
- Close to 70% of participants (10% against) are willing to expand and intensify the fund's engagement with companies based on selected SDGs. Study shows that participants' strong social preferences drive this result even when they expect engagement to hurt the financial performance.
- Study 2, conducted in June 2020, shows that strong preferences remain stable and that COVID has a negligible impact.

Main question to participants

Do you want Pensioenfonds Detailhandel to add the fourth sustainable development goal 'Responsible consumption and production'?

- Yes, add
- No, do not add
- No opinion

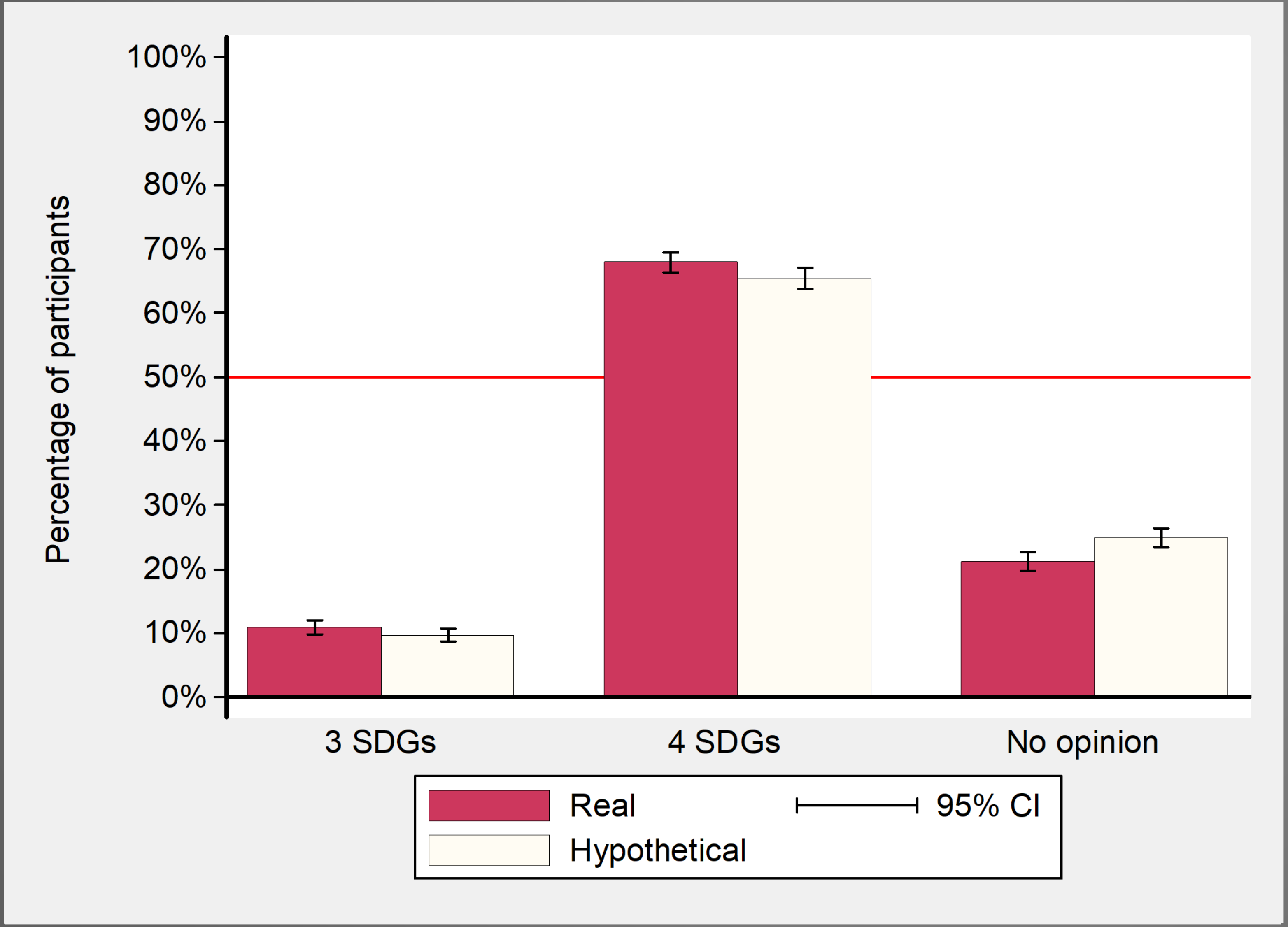
Real choice



- Voting
- 50% rule
- Choice is implemented

Which percentage chooses 4 SDGs?

Key result study 1: high support for extension



The Review of Financial Studies

Get Real!
Individuals Prefer More Sustainable Investments

Rob Bauer
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The United Nations' Sustainable Development Goals (SDGs) have created societal and political pressure for pension funds to address sustainable investing. We run two field surveys (n = 1,669, n = 3,186) with a pension fund that grants its members a real vote on its sustainable-investment policy. Two-thirds of participants are willing to expand the fund's engagement with companies based on selected SDGs, even when they expect engagement to hurt financial performance. Support remains strong after the fund implements the choice. A key reason is participants' strong social preferences. (*JEL* G02, G11, G20, G23, G28)

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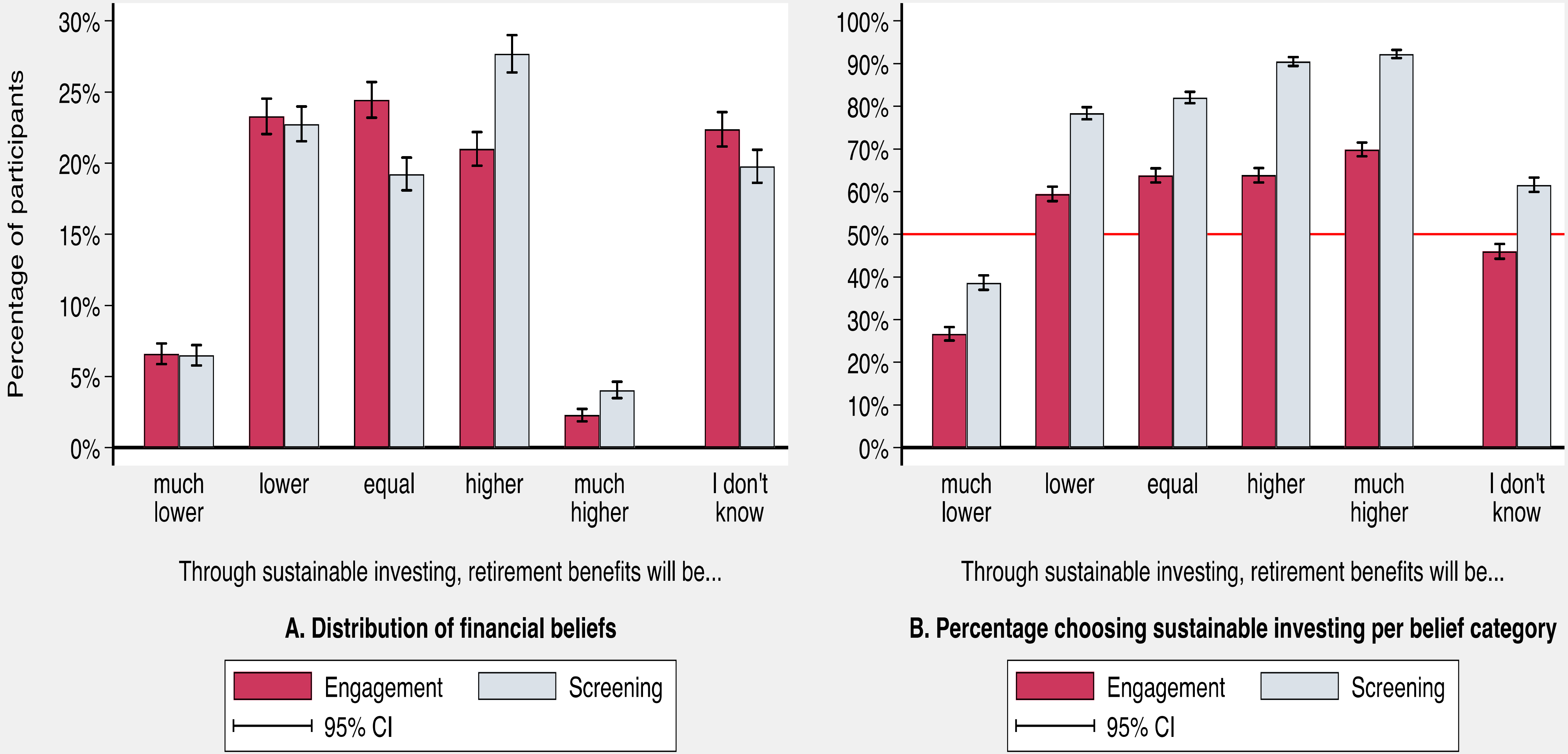
Second survey experiment in 2020, study 2

- In 2018, the board executed the vote one week after results were presented.
- Study 2's goal was to find out whether participants still like the choice (more engagement) they made in 2018.
- Board also integrated the four SDGs in an index portfolio strategy in developed markets **(without a vote)**. Additional goal was to find out whether participants also support this decision.
- This survey was conducted in June 2020. Therefore, we also integrated a few questions that can help us answer the question whether COVID has an impact on people's preferences.
- **Supports remains strong and COVID has a negligible impact.**

Beliefs versus preferences, study 2



Launch of SDG equity index (2020)

Case study

Pensioenfonds Detailhandel and FTSE Russell

FTSE Russell

February 2020 | ftserussell.com

FTSE Custom Developed ex Korea SDG Aligned Index

The FTSE Custom Developed ex Korea SDG Aligned Index ("SDG Aligned index") is a developed market equity benchmark launched in March 2019 that uses adjustments to constituent weights to create alignment with four of the 17 goals within the UN Sustainable Development Goals (SDGs) framework.

Objectives

The objective of the index design was to create a simple, transparent way to align a broad (developed) market portfolio with specific aspects of the SDGs. The approach adopted was based on a detailed mapping exercise of FTSE Russell's sustainable investment research and the SDG framework.

The SDG Aligned Index was developed in collaboration with a PRI signatory, and one of the Netherlands largest pension funds, Pensioenfonds Detailhandel ("Detailhandel") and now forms the basis of a €5.8bn mandate (as of March 29, 2019).

The index was developed to support the implementation of Detailhandel's sustainable investment (SI) policy, which identifies areas of overlap between its SI objectives and the SDGs. Specifically, Detailhandel identified the following SDGs as relevant to its SI policy:

1. **SDG 8** – Decent work and economic growth
2. **SDG 12** – Responsible consumption and production
3. **SDG 13** – Climate action
4. **SDG 16** – Peace, justice and strong institutions

For Detailhandel in particular, the index is an important first step in helping align their entire investment strategy with their environmental, social and governance

(ESG) objectives and the SDGs while also retaining the characteristics of a passively managed broad market equity portfolio.

The following quote from Detailhandel's March 2019 press announcement provides the Fund's perspective:

"Detailhandel wanted to minimize risk in its investments while pursuing the highest possible returns in a sustainable manner. We created this unique SDG aligned index as an important first step to help make the entire portfolio sustainable in a way that aligns with the ESG themes and SDGs its members find important. Moreover, the fund trustees involved the members by allowing the choice of a fourth SDG (12) via a survey having already chosen three themselves."

The Index

This index provides institutional investors with a tool to align a passive equity portfolio with aspects of the SDGs.

The chart below provides further information on the four SDGs:

	8 DECENT WORK AND ECONOMIC GRPWTH	12 RESPONIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Company operations	Supply Chain: Social Labor Standards	Pollution & Resources Supply Chain: Environmental Biodiversity	Climate Change Carbon Emissions	Human Rights & Community Anti-Corruption
Company products/services			Green Revenues Fossil Fuel Reserves	

FTSE Russell's SI research assesses companies based on how they operate and what they produce, captured via our ESG Ratings and Green Revenues data models, respectively. The methodologies underlying these data models can be mapped to the 17 SDGs and their underlying targets to identify areas of alignment between FTSE Russell's sustainable investment research and the SDG framework.

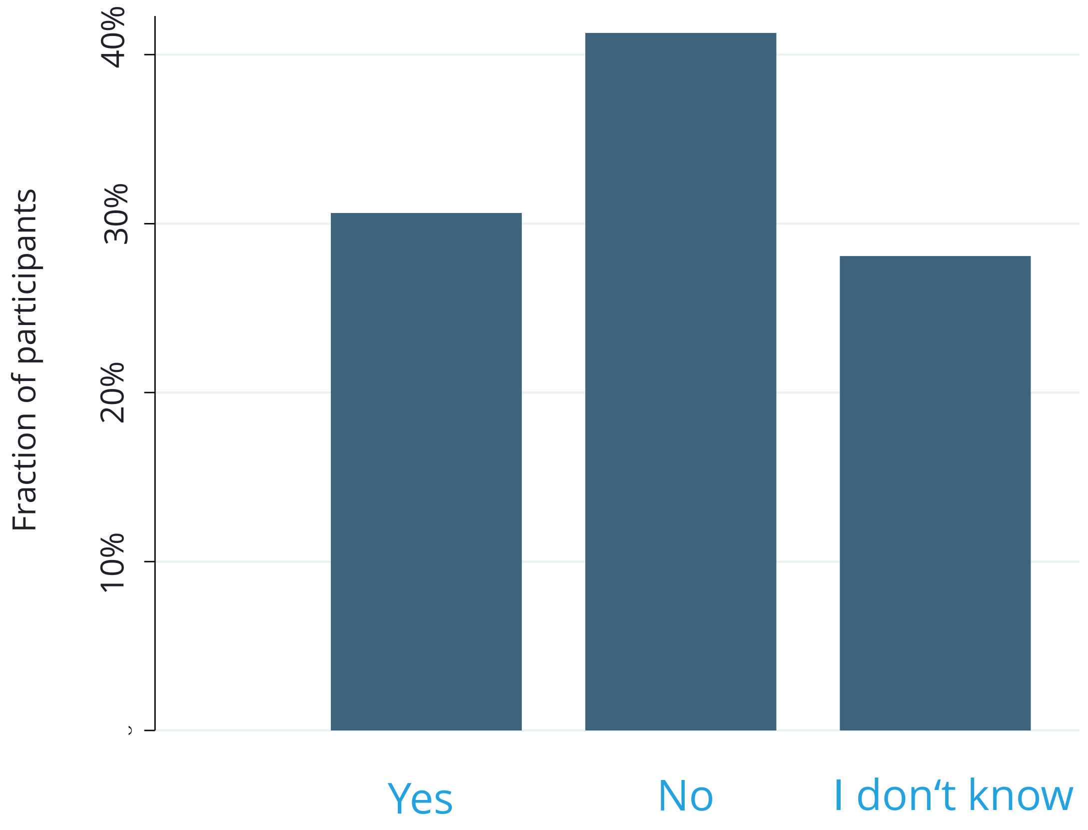
- To achieve alignment with the SDGs it is not sufficient to examine companies based only on their products/services or only their operations—a holistic assessment of both is required.
- Adjustments to constituent weights were achieved using "tilts" (over/underweights).
- Based on a combination of constituent-level ESG Theme scores as well as company exposure to the global green economy (using Green Revenues data).

“Impact” of these two survey experiments

- Integration of sustainability preferences in **Developed and Emerging Markets** equities portfolios (based on the same four SDGs and an additional focus on the portfolio’s GHG emissions).
- In 2022, the fund additionally started an **impact investing mandate** (1% of the AUM) consistent with these four SDGs (without involving participants directly but backed by the surveys).
- The fund commissioned a study to UM into measuring risk preferences of participants and how these **relate to sustainability preferences.**
- The fund continually searches for complementary methods to elicit preferences. Now, they are contemplating setting up **deliberative forums** (mini-publics) to have deeper interactions (beyond the survey) with participants on the sustainability topic.

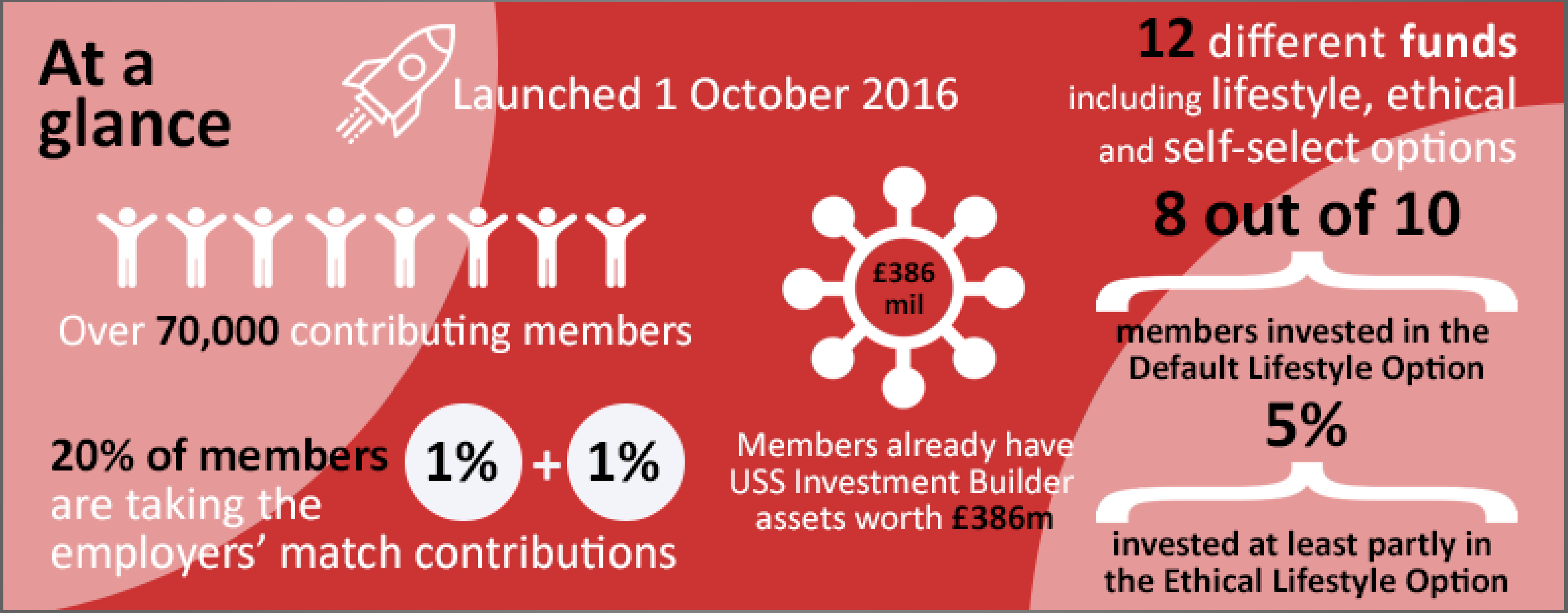
Risk preferences and sustainability

Should Pensioensfonds Detailhandel increase sustainable investment?

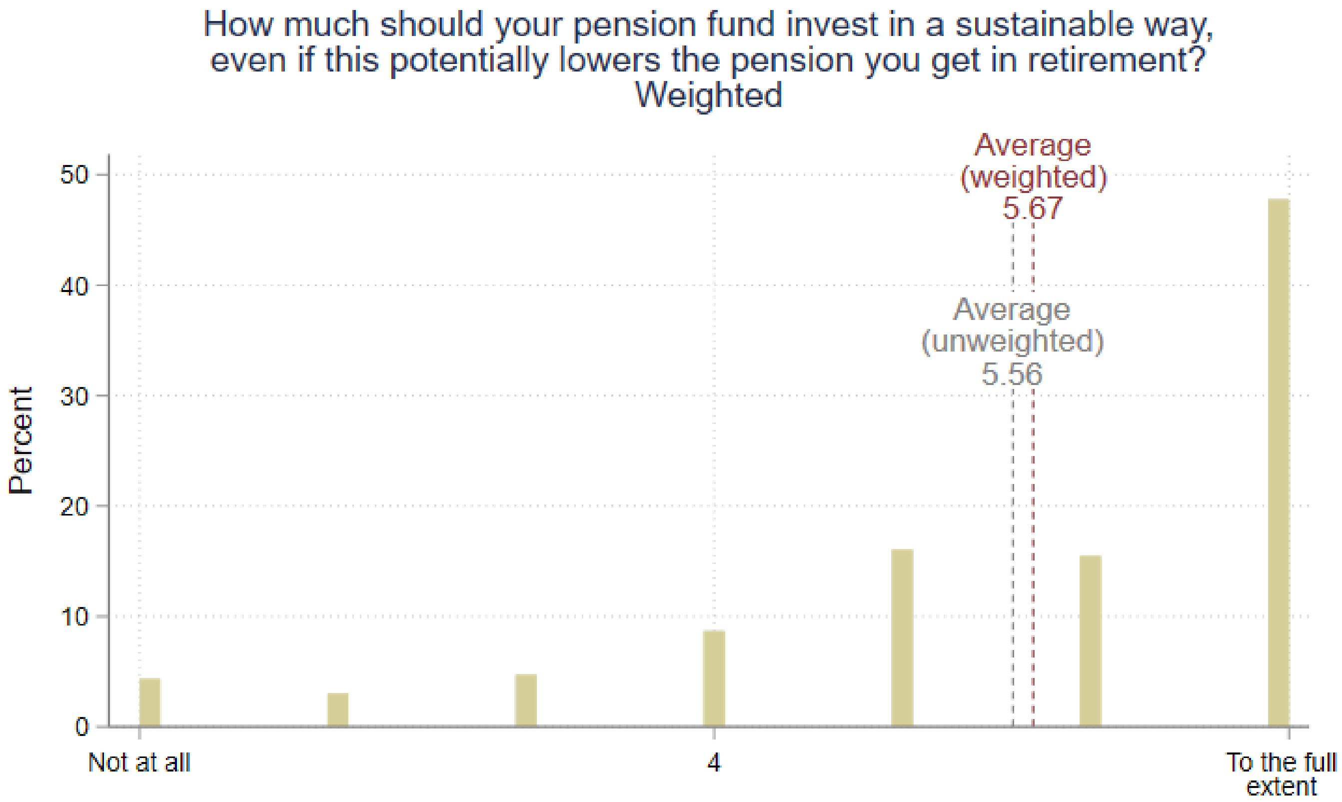


Question:
“Compared to the current situation, should Pensioenfonds Detailhandel invest in a more sustainable way, even if that means that your pension benefit may be lower?”

Project in DC space: USS (UK)



Stated preferences USS

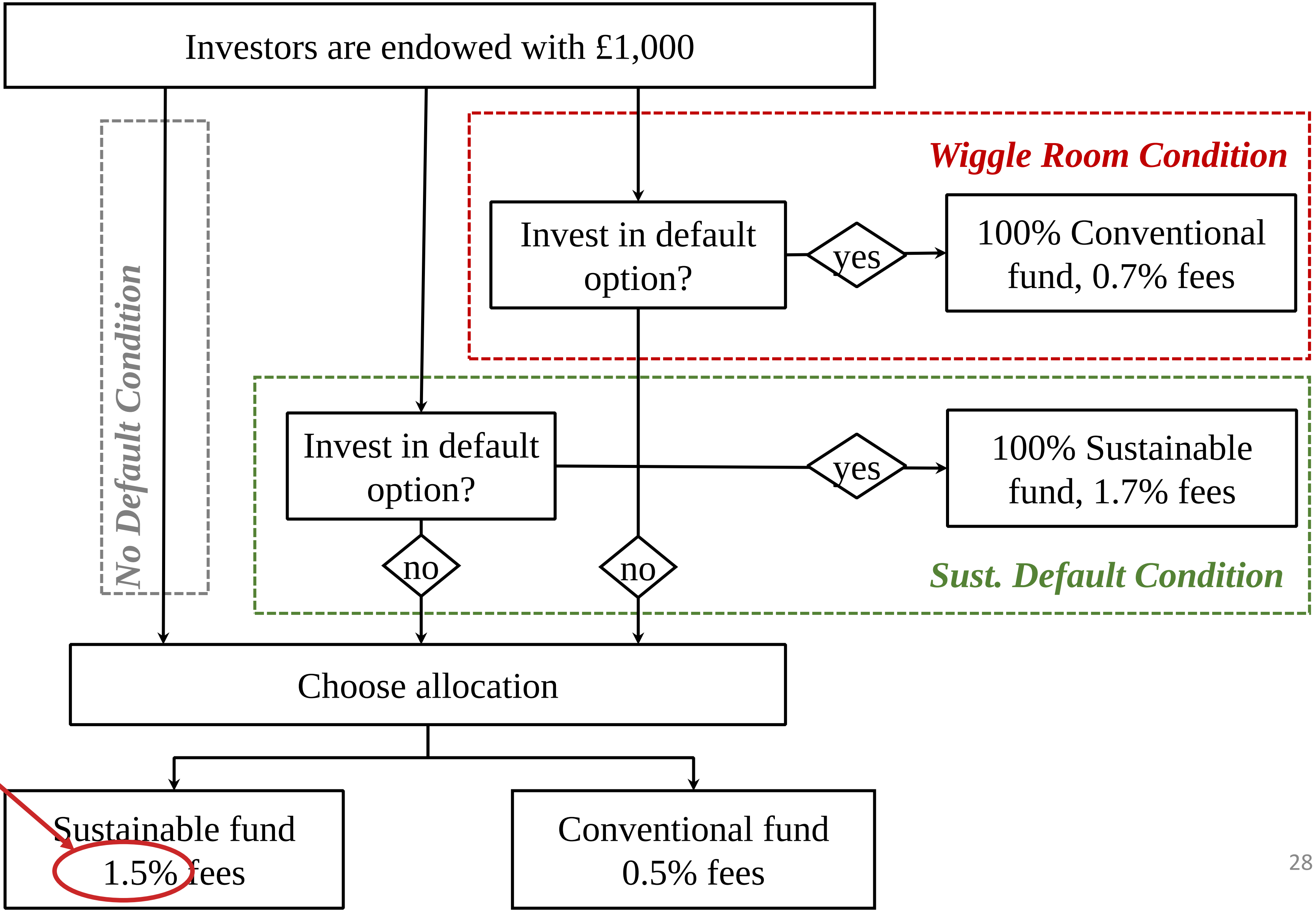


Members have a strong stated preference for sustainable investing.

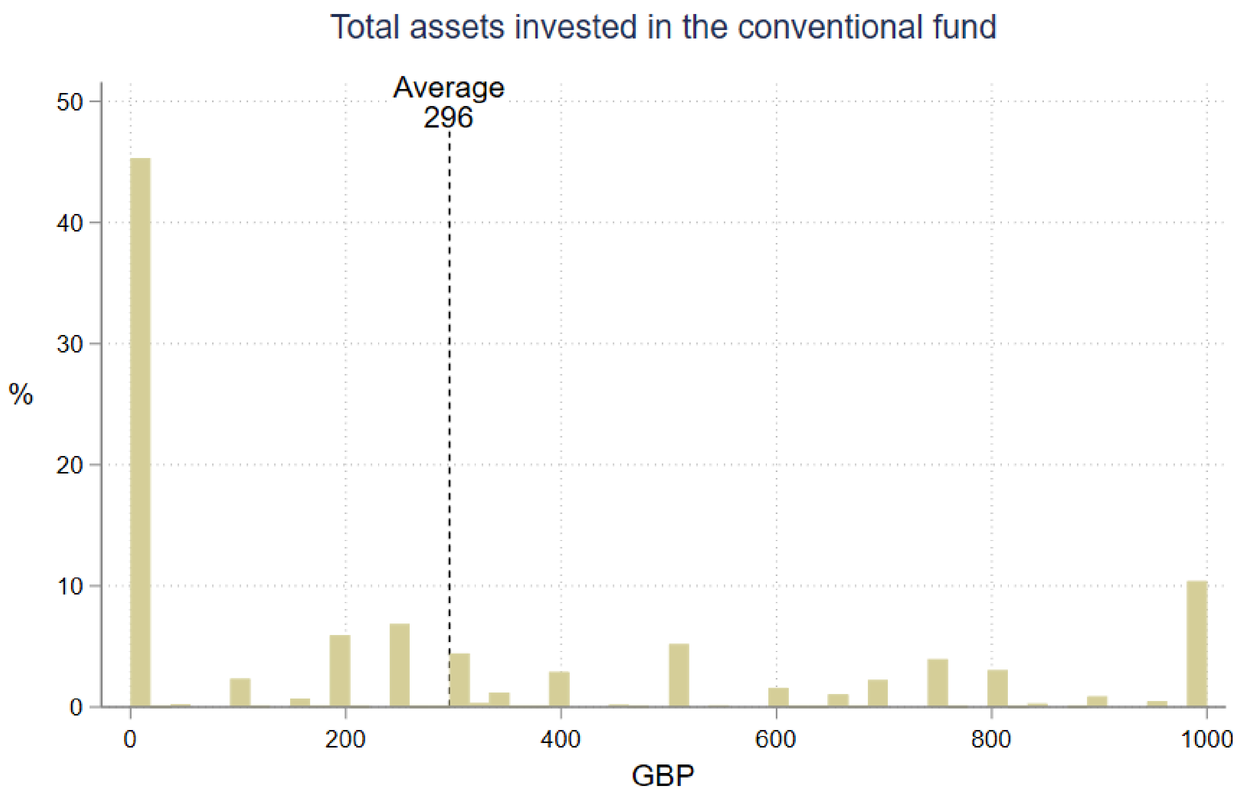
In this setting, the two align nicely together.

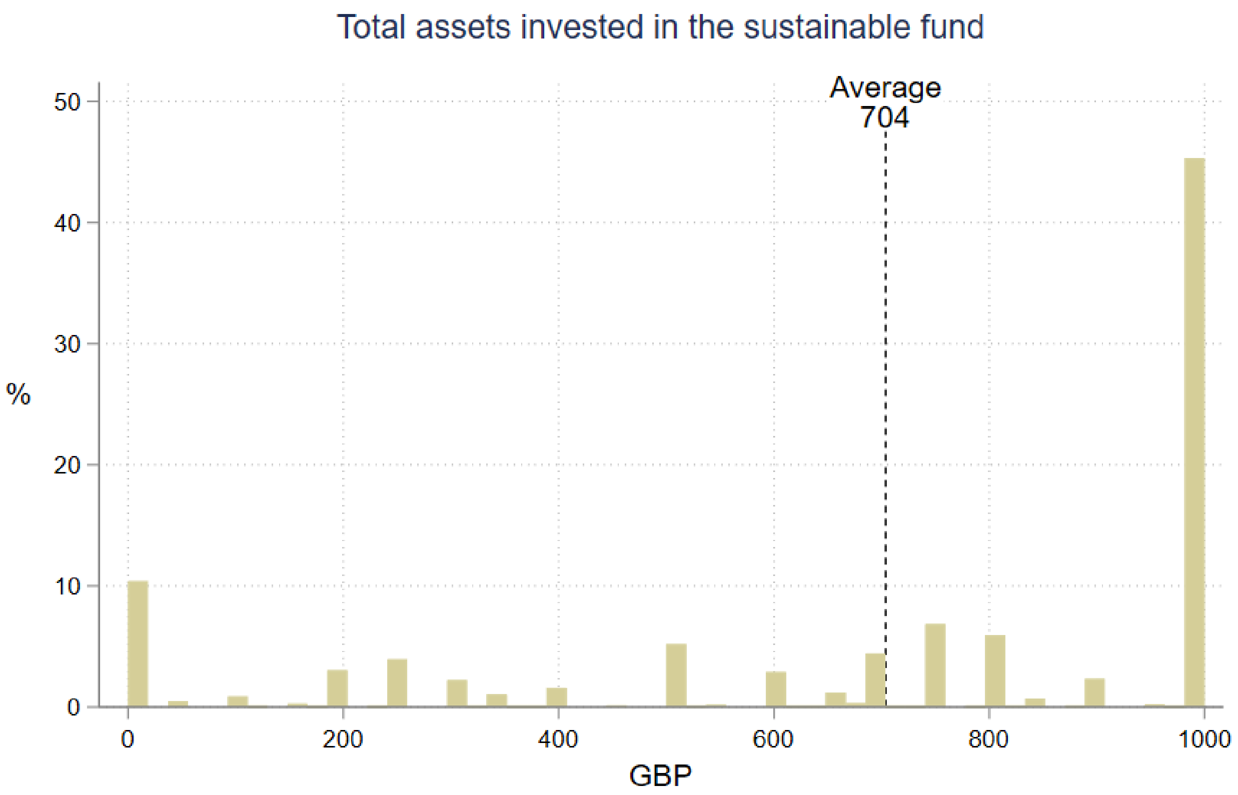
The Investment Game

Higher fees ensure there is a **trade-off** in investing in the sustainable fund.



Investment game results





Members have a strong preference for sustainable investing.

The average respondent allocates **70% of her assets in the sustainable fund**.

Investment game and real pension investments

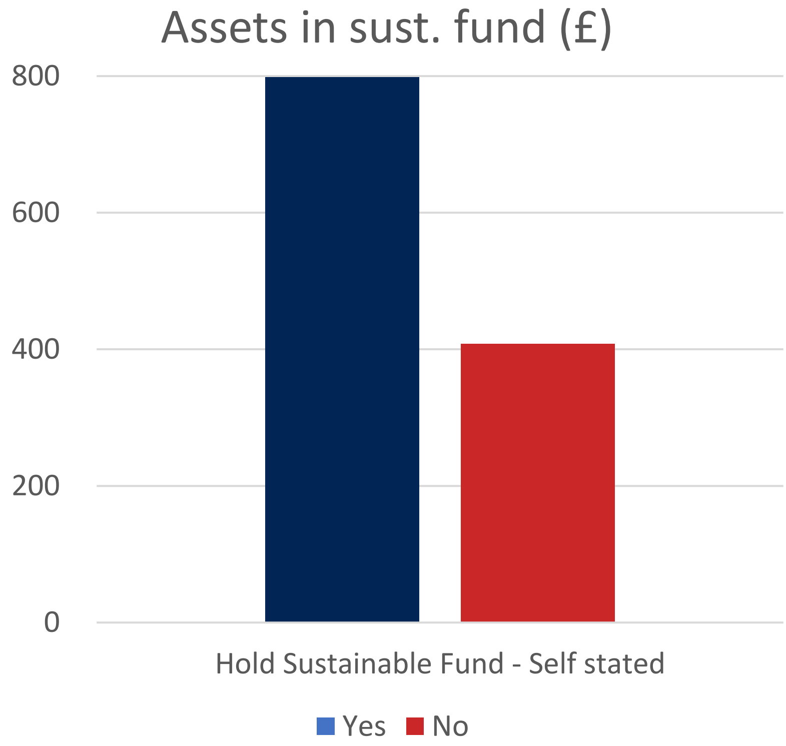
87% of participants invest at least £200 in the sustainable fund in the investment game.

In reality, only 8% of the fund's clients hold sustainable products. Why?

2. Limited awareness of members

64% of respondents **say** they hold investments in the Ethical fund.

Respondents are **not aware of their choices**



New Project: Mutual Funds (i.c. index)

- Meesman Index Investments (Netherlands)

- Investors generally are "**Ambiguity Averse**"
  - Risk: uncertainty with known probability distribution.
  - Ambiguity: **uncertainty with unknown probability distribution**.

- Why is it relevant?
  - Many potential probability distributions for future returns of a fund
  - Knowing that a fund has a **high ESG label may rule out some bad distributions**

- Caveat: Index investors might be different! They may not want to exclude stocks.

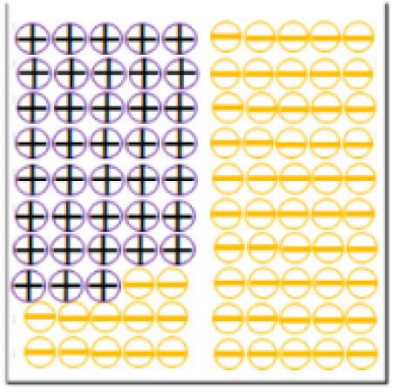
- We will measure general ambiguity aversion and perception of ambiguity with and without ESG labels

New Project: Mutual Fund (index)

Selecteer hieronder het vakje van uw voorkeur, of kies "Zie het verschil niet" als u ze even aantrekkelijk vindt. Dan wordt er willekeurig een bal getrokken uit de doos van uw keuze. U wint **100** euro als een **positieve ("+")** bal (positief rendement) wordt getrokken.

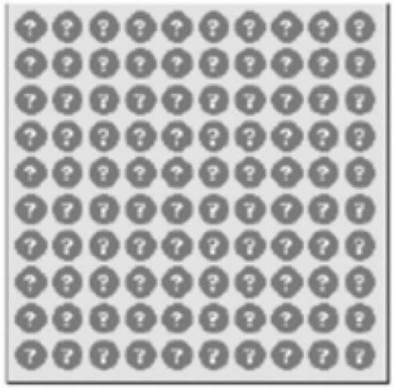
Lees de uitleg nog eens

Doos K



Kans	U wint
+ 38%	€100
− 62%	€0

Doos U



Kans	U wint
+ ?%	€100
− ?%	€0

◉ Doos K ○ maakt mij niet uit ○ Doos U

Volgende

New Project: Mutual Fund (index)

Kies uit de drie onderstaande beleggingsfondsen het fonds van uw voorkeur.

Keuze Vraag 12

Attribuut	Fonds 24	Fonds 25	Fonds 1
ESG Focus	***Lichtgroen***	***Donkergroen***	***Grijs***
Beheersvergoeding	0.5% per jaar	1.5% per jaar	0.5% per jaar
ESG selectie Strategieën	**Actieve betrokkenheid**: De beheerders van het fonds maken gebruik van hun stemrecht op algemene vergaderingen en kunnen in gesprek gaan met het management om het bedrijfsgedrag in een duurzame richting te beïnvloeden	**Negatieve screening**: Het fonds of de index sluit sectoren of bedrijven uit die niet als duurzaam worden beschouwd. Typische bedrijven die uit de portefeuille kunnen worden geweerd zijn tabak, alcohol, pornografie, controversiële wapens en bedrijven die internationale normen schenden	**Geen**
Rendement-Risico (Jaarlijks)	**Rendement:** 4% verwacht jaarlijks rendement; **Risico:** Tot **20%** verlies van piek tot dal (**max drawdown**)	**Rendement:** 4% verwacht jaarlijks rendement; **Risico:** Tot **20%** verlies van piek tot dal (**max drawdown**)	**Rendement:** 7% verwacht jaarlijks rendement; **Risico:** Tot **20%** verlies van piek tot dal (**max drawdown**)
Welk fonds heeft uw voorkeur?	○	○	○

New Project: DC fund arrangements provided by companies

[III. Employers' reasoning for the default plan]

Now we have a few questions about the pension savings plans offered to your employees.

According to our records, your employees can choose between the following four options:

- Plan Active (short description)
- Plan Passive (short description)
- Plan Sustainable (short description)
- Plan Self (short description)

Among those four pension savings plans, which one is set as the default plan at your company?

- ○ Plan Active
- ○ Plan Passive
- ○ Plan Sustainable
- ○ Plan Self

NN Group and Be Frank provide Dutch companies with pension plans varying in level of sustainability.

Concluding comments

- Pro-social preferences have a significant influence on many economic decisions as they are key to understanding what incentivizes people, also in the pension fund, insurance, mutual fund, and wealth management domain.

- Knowledge of participants' (or employees') preferences and beliefs about sustainable investments is valuable for suppliers of these services.

- Research shows that consumers of financial services who stronger identify (socially) with their service providers are more loyal customers.

- Particularly in a time when trust in the financial sector plummeted after the GFC and beyond, better understanding of beneficiaries' and clients' preferences and beliefs will help bring back confidence to the sector.

- **After all, trustworthiness is a financial institution's most valuable asset.**

Many outstanding questions

- Alternative ways to measure preferences? Field experiments (actual decisions) are probably the best way forward.
- Do people understand potential trade-offs?
- Financial and sustainability literacy?
- How to transfer preferences into pragmatic investment solutions?
- What is the role of fiduciaries (boards) in the decision process?
- How do sustainability preferences relate to risk preferences?
- Etc.

Afterburner

How can we prevent that consumers of financial services are lured into very expensive, active sustainability products as a result of smart and surveys by financial service providers..?

And, relatedly:

tinbergen institute

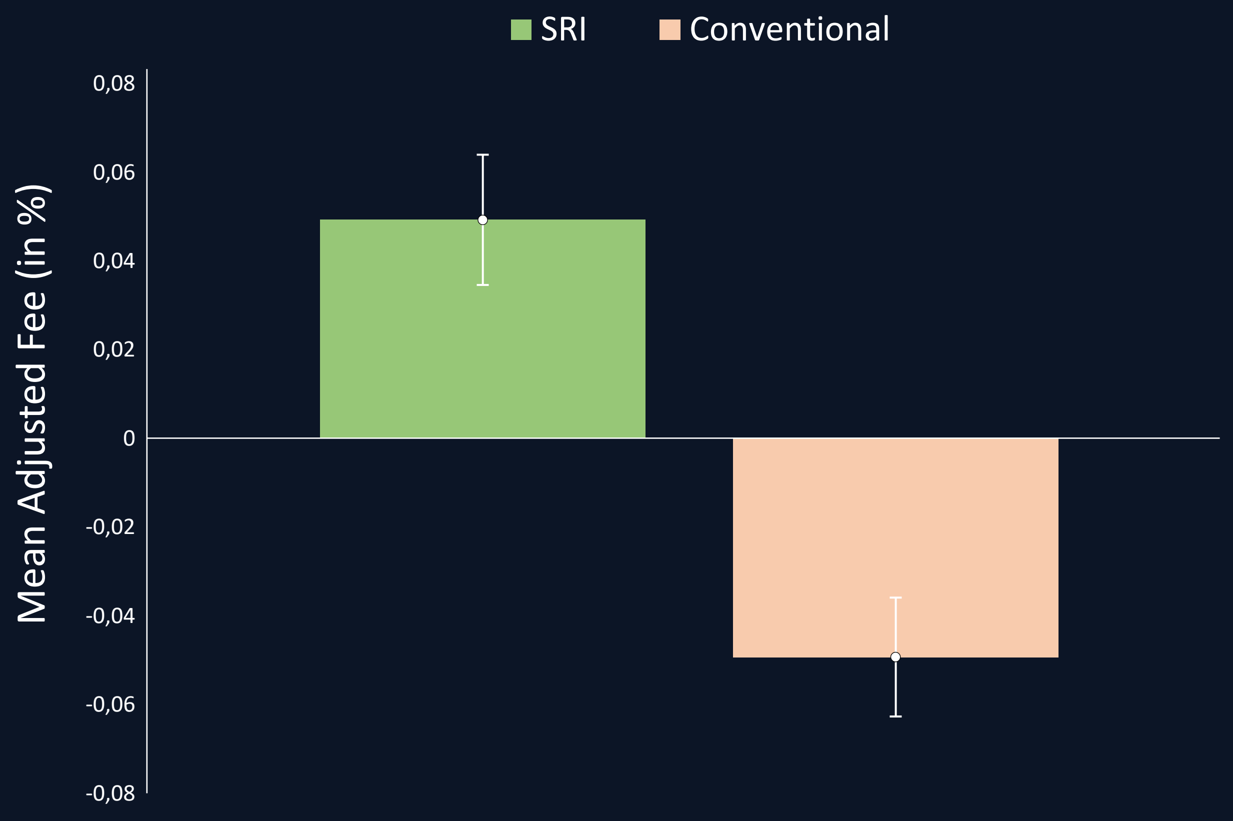
TI 2021-070/IV
Tinbergen Institute Discussion Paper

Do Financial Advisors Exploit Responsible Investment Preferences?

Utz Weitzel[1]
Marten Laudi[2]
Paul Smeets[2]

[1] Vrije Universiteit Amsterdam
[2] Maastricht University

Advisors Charge Sustainable Investors a Premium

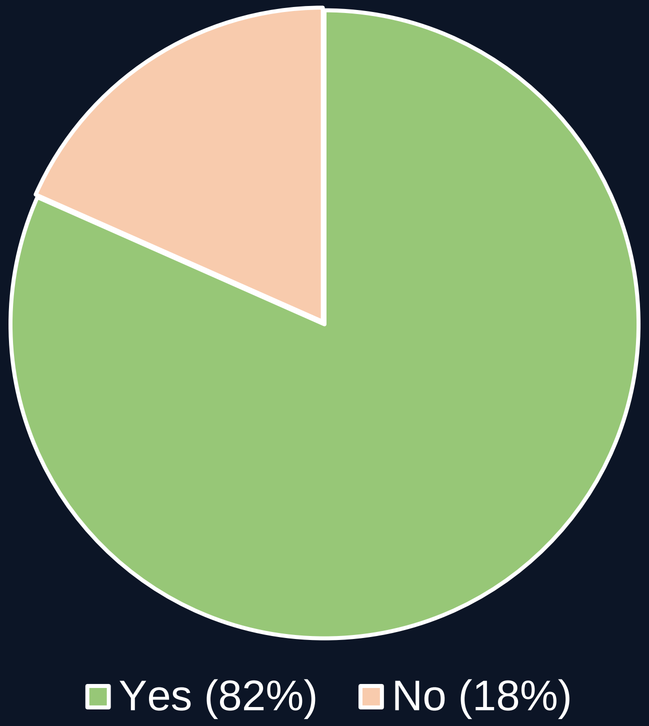


- Premium between **5.0 and 6.6 basis points.**
- Sustainable retail investors paid a premium of **at least $2.3 billion** in the US alone in 2020.
- SRI mandates increase the probability of having to pay a premium **by 6.3 percentage points**.
- If the premium is charged, it is **47.8 basis points**, on average.

Advisors do not charge sustainable investors with high financial literacy a premium

Regulators say our findings require policy intervention

“Do you think that the results from our research study require attention from regulators?”



What do you think would be a suitable policy intervention?

- **Transparency:** 30%
- **Standardized Fees:** 25%
- **Consumer Education:** 17%
- **Other:** 21%

Workshop / Roundtable

- Discussion in two separate groups (sort of roundtable format) moderated by Marco Ceccarelli and Rob Bauer (University Maastricht): 45 minutes

- Report back in plenary session: 30 minutes

- We propose a list of questions to discuss

- Any other related topic or observation / comment can be brought to the table.

- Goal: we want to hear your (critical) thoughts about elicitation of preferences, potential innovative solutions, practical insights etc.

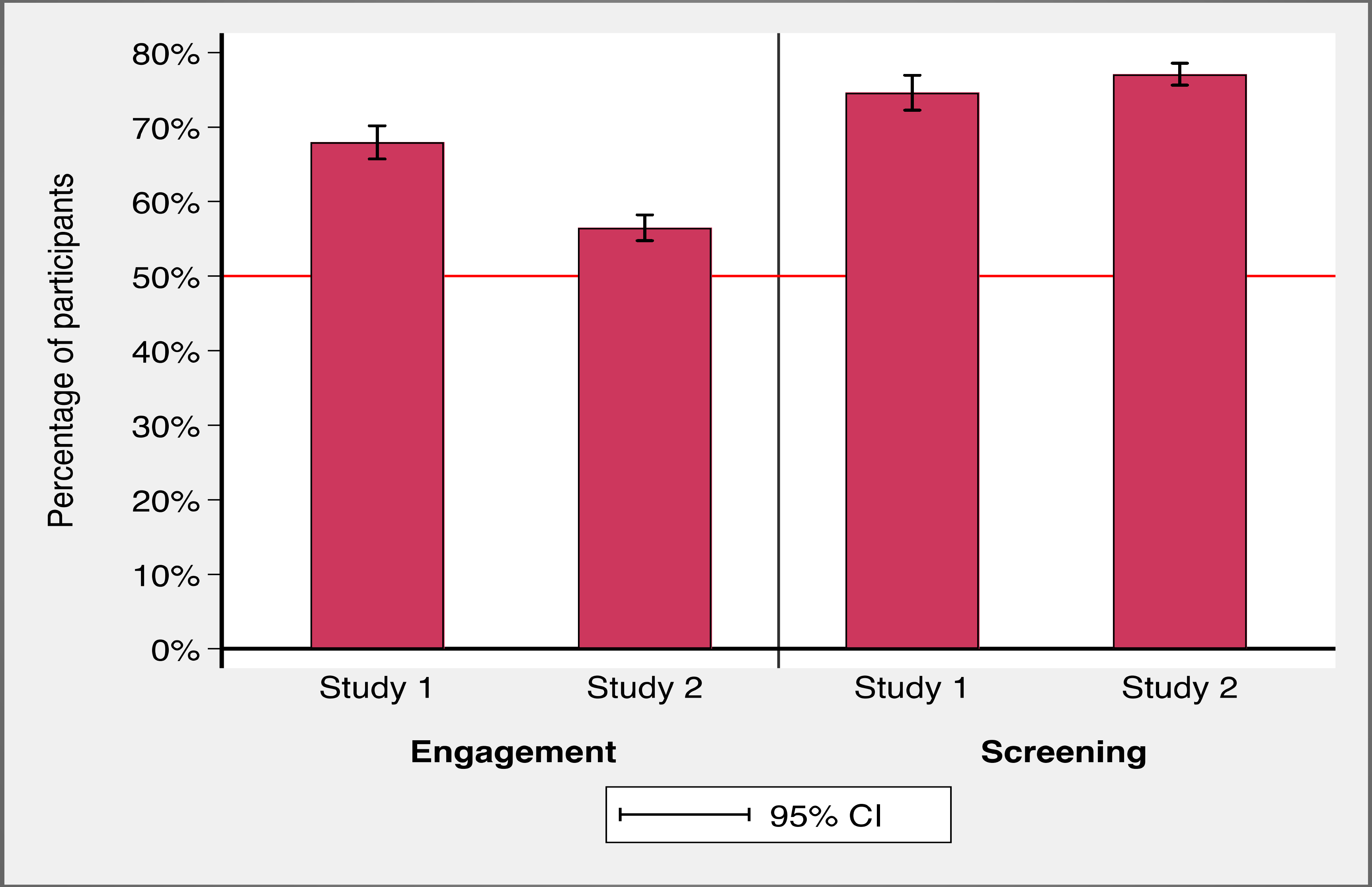
Key questions to discuss

- What (in your role and background) is the objective of measuring sustainability preferences of individuals?
- How do you elicit these preferences right now? Are you happy with the quality of measurement?
- What pros and cons are associated with elicitation of preferences (from different angles)?
- Do you (in your context) have any examples of innovative ideas for the elicitation of preferences?
- What did we learn from measuring risk preferences? And how are these preferences potentially connected to sustainability preferences?
- Any other related topic that comes to the table..!

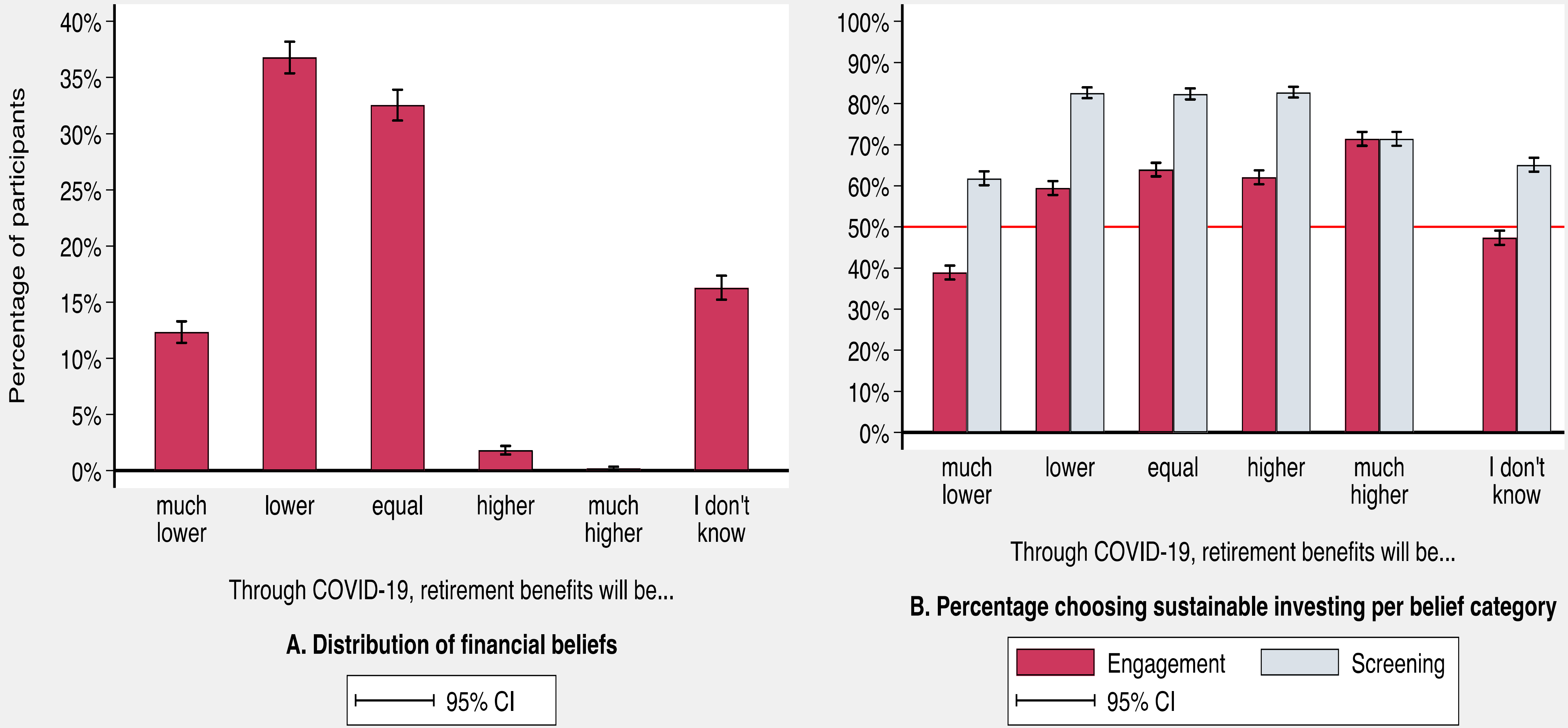
Practically

- At the start, make sure there is a notetaker who will report back the key discussion points to the plenary meeting.
- If you cannot reach consensus, the person with the birthday closest to December 25th will report back…!
- Have fun!

Engagement versus screening, study 1 and 2



Impact COVID?



Explaining engagement to beneficiaries

1. **Engagement based on four instead of three sustainable development goals**
   - In practice this means that Pensioenfonds Detailhandel will talk with **more companies**, **speak more intensively** about sustainability and **vote more often** at shareholder meetings about sustainability.
   - In 2018 there was a dialogue with 394 companies. In 2019 this number rose to **568 companies (+44 percent**). [Info button: Dialogue means that your pension fund starts a conversation with companies or votes at shareholder meetings.]
   - Pensioenfonds Detailhandel does not do this on its own. To enter into this dialogue more effectively, the fund established the Dutch Engagement Network, which represents two and a half million Dutch people.

Explaining screening to beneficiaries

2. **Investing more in companies that score higher on the four Sustainable Development Goals and less in companies that score lower**
   - Pensioenfonds Detailhandel invests approximately one third of your pension savings in a broadly diversified equity portfolio in developed markets.
   - Until 2018, sustainability was no factor in choosing these investments, except for the exclusion of some companies. [Info button: Exclusion of companies that produce controversial weapons and companies from countries that are on the sanctions list of the United Nations.]
   - The fund still uses the same method for exclusion.
   - After the results of the survey, the fund did the following with the whole equity portfolio in developed countries: it has decided to invest significantly **more** in companies that scored higher on the four sustainable development goals and to invest significantly **less** in companies that scored lower.

Explaining screening to beneficiaries

- *Left (Old situation):* the fund invests an equal amount in all companies, not taking into account the sustainability of the company.
- *Right (New situation):* the fund invests more in companies that score higher on the four sustainable development goals (companies C and D) and less in companies that score lower (companies A and B).

Peer pressure: soft law and benchmarking (NL and EU)

Exclusion…?

	(1) All	(2) 4 SDGs	(3) 3 SDGs	(4) No opinion
Panel A: Exclusion or Engagement				
Only exclusion	9.0%	8.3%	15.1%	7.6%
Only engagement	26.4%	26.8%	34.4%	21.6%
Both	49.0%	55.8%	32.0%	31.1%
Neither	1.4%	0.6%	7.3%	1.5%
I do not know	14.2%	8.5%	11.2%	38.2%
Panel B: Exclusion				
Alcohol	17.4%	18.6%	13.0%	14.9%
Tobacco	44.2%	47.5%	36.8%	33.7%
Non-controversial weapons	70.4%	74.1%	57.1%	62.2%
Bad influence on environment	72.8%	79.0%	55.2%	57.6%
Controversial weapons	79.4%	84.7%	69.7%	63.2%
Forced labor	83.0%	87.8%	70.5%	70.5%
Human rights violation	85.3%	90.8%	69.3%	71.5%
Child labor	85.8%	90.9%	73.6%	71.1%
Corruption	86.9%	90.9%	77.0%	76.0%
No exclusion	5.7%	3.2%	10.3%	13.6%

Robustness tests

- Status quo bias does not explain results
- Potential confusion and misunderstanding do not explain our results
- Social signaling cannot explain results
- Results not affected by COVID-19 (June 2020)
- Pivotal voting concern does not affect results