As described in the Grant Agreement, two adaptions of the research protocol (version 1 and version 2) were planned. Research protocol v2 is a methodological description of a field experiment together with the Universities Superannuation Scheme (USS) (United Kingdom) conducted in 2021. It is a protocol that is an update and extension of research protocol v1 and which **can be applied in different individual choice decision-making settings**.[1] Note that both research protocols versions 1 and 2 are context agnostic: they can be adapted to a collective (v1) or individual (v2) decision-making process in any cultural, product or institutional setting. **It made from a research and logical perspective eventually more sense that the protocols should be replicated and tailored to different settings so that any cultural, product or institutional settings can be considered and described in a new sub-protocol, instead of providing protocols which are considering only specific cultures and products/topics.**

Research protocol v2 is targeted at individual decision making by pension beneficiaries (in a defined contribution pension context (DC). This protocol has been designed for a context in which individual decision making takes place by pension beneficiaries (adding a new dimension), in which there is no willingness to commit ex ante by the approached financial institutions and where stated preferences (similar to protocol v1 but updated and extended) and revealed preferences (new: an investment game) are combined. The protocol has been applied in a survey with USS beneficiaries in the UK. It has been presented to the USS board and representatives of their participants. Moreover, also based on our survey results, the USS board decided to change their DC fund offering. They invited us, as an extension to the survey, to create a field experiment in which we measure participants' response to the introduction of these new funds. **We will tailor protocol v2 to the specific setting (including a genuine field experiment)**. In the end, the results of the USS survey and the accompanying field experiment (to be conducted in 2022) will lead to an academic working paper. **Hence, the updated research protocol v1 helps to better elicit the actual preferences of retail investors about sustainability topics such as climate change or even more specifically EEI and SEI in an individual decision-making context.**

So far, both protocols have been already applied in the field in different contexts of pension funds in the Netherlands (protocol v1) and United Kingdom (protocol v2). Currently, we are in concrete talks with a Dutch asset manager NNIP/Be Frank for a second experiment building on research protocol v2. This would give us access to a large number of Dutch companies that have special defined contribution (individual choice setting) pension arrangements through NNIP/Be Frank. **If this project starts, we will again apply and tailor protocol v2 to this different setting**. Furthermore, together with a German university **we built on the research protocols for a new study on retail investors' preferences in five EU countries (France, Germany, the Netherlands, Poland, and Spain)** which also tests the difference in preferences between general sustainable investments versus climate-specific products. The output from this study and our knowledge is **shared with 2° Investing Initiative to support future surveys in six EU countries, including specific questions on EEI and SEI.**

More field experiments in other Member States and institutional settings are planned next year. However, uncertainties remain due to barriers such as both (survey) costs and required time and resource (organizing access to clients/participants and admin data) commitment by the financial institutions, refusal to pay financial incentives (must for academic inference), and issues related to committing ex ante to survey results (see research protocol v1) or the ability to have access to individual clients (see research protocol v2). Moreover, the COVID context made (and makes) it very

[1] As planned in the GA, we organised two dedicated consultation events at GRASFI this September, where we presented and discussed the research protocols and the paper results and called for new academic pilot testers. The search for more industry pilot testers is ongoing.

difficult to set up trusted connections with these financial service providers. In-person meetings are necessary to discuss the survey set-ups and objectives, and simply to create mutual trust. **We continue with our outreach activities and hope to find new partners with a closer link to EEI and SEI and which allow us to integrate more granular questions on EEI and SEI such as crowdfunding platforms or similar.**

Individuals' Preferences for Sustainable Investments

Research protocol 2

The project leading to this application has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 894345.

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1 Introduction

This research protocol is based on a study design pre-registered at AEA registry titled "Exploiting Moral Wiggle Room in Sustainable Investing". The study was approved under ethical approval code ERCIC_217_30_09_2020 by the Ethical Review Committee Inner City Faculties (ERCIC) of Maastricht University. The researchers thank the European Commission (Level EEI, Horizon 2020, Grant Agreement No. 894345) for financial support. This research protocol extends research protocol 1 by incorporating the active investment choice of retail investors.

We provide a comparison of two methods to elicit preferences for sustainable investing of retail investors truthfully and in a way that would require relatively little effort and costs in practice. We conducted a field survey in cooperation with a UK pension fund to test these measures. Importantly, the proposed two measures are based on general principles of how to elicit economic preferences in the field (e.g., Falk et al., 2018). Thus, the research protocol considers two general ways of measuring preferences i) eliciting revealed preferences from survey participants' incentivized choices and ii) eliciting stated preferences from self-reports.

Both types of measuring preferences have their advantages and disadvantages when it comes to measuring the true preferences of retail clients in the field of sustainable investing. On the one side, revealed preferences from incentivized choices promise to generate more robust and replicable results without needing participants to reflect on their own preference actively (Camerer et al., 2016). On the other hand, eliciting stated preferences from self-reports are simple, require less time in surveys, and are less costly to use in practice.

Our proposed preference measures have the feature that they can be easily transferred two different areas of interest. First, the key design of an incentivized financial trade-off in the investment game can be easily adapted to more specific investment domains, e.g., a focus on energy efficiency, by just adapting the fund characteristics to the specific purpose. In case no actual funds with the specific focus exist in the market, they could be generated by the researchers by building a study-specific portfolio based on screening criteria relevant for the research question. Second, the survey questions to elicit self-stated preferences can be adapted in the same manner. Especially our first proposed question ("Suppose you could directly control how your pension was invested. How much should your pension fund invest in a sustainable way, even if this potentially lowers the pension you get in retirement?"). Can be adapted in two ways:

1) Adaptation of investment (i.e., instead of pension, it can be any other investment goal)
2) Style of investment (i.e., instead of "in a sustainable way", it can be any other investment style such as "in a energy-efficient way")

In addition, we this research protocol explains how to explore the role of moral wiggle room in suatainable investment decisions.

2 Data Collection

We conduct an online survey with clients of a large UK pension fund. The survey consists of two parts, one which contains the experiment and one which includes questions aimed at eliciting the preferences and demographics of respondents. The basic structure of these parts is described below. It takes about 15 minutes to complete the questionnaire. Five members who complete the survey were chosen at random to win £50 in vouchers. There were also additional opportunities to win prizes, which was explained in the relevant sections of the survey (and covered in the terms and conditions).

3 Sample

The survey is sent out via email to over 200,000 members of a UK pension fund. This covers all members aged 18 years or older currently making contribution payments into the scheme. Jigsaw, a survey service provider, administers the survey and the participation remuneration. We will winsorize the sample at the 5% level of the time taken to complete the survey, including time spent on the investment game.

The survey was conducted between October 20th and December 4th, 2020. The pension fund stores the survey data. The anonymized data will be shared with the researchers after pre-registration. Only after pre-registration, the data will be analyzed. The authors can share contact information of the pension fund upon request.

4 Preference Measures

4.1 Two Ways of Eliciting Preferences For Sustainable Investing

4.1.1 Eliciting revealed preferences: Investment game

Subjects are endowed with an initial sum of money, £1,000 (approx. $1,350), which they are asked to invest. Their task is to allocate the money between two funds. Both funds have a similar profile, being diversified UK investment funds. However, one fund is a conventional investment fund and the other one is a sustainable investment fund. The sustainable option integrates environmental, social, and governance (ESG) factors in its asset allocation. Importantly, the costs of the two funds are different. The conventional fund costs 0.5% of the invested sum. The sustainable fund is more expensive, costing 1.5% of the invested sum. There is a broad literature discussing if and when sustainable investing outperforms a conventional investing approach (see Pedersen, Fitzgibbons, and Pomorski (2021) for a recent discussion). This issue is outside of the scope of our research. However, we posit that sustainable investing should come at a higher cost than responsible investing (Pastor, Stambaugh, and Taylor (2020). We also directly measure investors expectations about the risk and return of sustainable compared to conventional investments.

Incentives with real impact

The conventional investment fund is a passive tracker of the MSCI UK index, and the sustainable investment fund tracks the MSCI UK SRI index. On the decision screen, the fees are re-iterated. We employ lottery incentives. The participants were informed that the researchers will invest in the actual funds according to the allocation decisions made by five randomly selected survey participants. Six months after the survey is conducted, the five selected participants will receive a payment of £50 plus or minus the returns of their investment net of fees. Moreover, we also incentivize participation in the survey by handing out £50 to five additional participants that are randomly selected.

Wording of the investment game

You can now allocate **£1,000**. In this task you can choose between two funds to invest in. The two funds differ in how they account for sustainability in their investment strategy and charge different fees.

Five participants in the task will be chosen at random in an additional prize draw. The winners will have their investment choices implemented by Maastricht University.

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Relevance of your choice

If you are selected in the prize draw and you decided to allocate £500 to fund A and £500 to fund B, then Maastricht University will invest £500 in fund A and £500 in fund B for a period of six months, from December 1st 2020 to May 31st 2021.

After six months, you will receive a gift voucher for £50 plus the return of the fund investment (which could be a positive or negative amount).

For example, if your allocated investment of £1,000 is worth £1,075 after six months, then you would receive a gift voucher worth:

£50 + £75 = £ 125.

Now suppose your allocated investment of £1,000 is worth £975 after six months. Then you would receive a gift voucher worth:

£50 - £25 = £ 25.

If your allocated investment of £1,000 is worth £950 or less after six months , then you will lose all of the prize money.

On the next page, you will be able to choose between the two funds:

- conventional fund that **costs 0.5%** of the allocated investment
- sustainable fund that **costs 1.5%** of the allocated investment

NEXT PAGE

The two funds

[order of funds is randomized]

Fund A: UK Market Fund

This fund provides an investment in stocks that is well-diversified. The fees are 0.5% of the allocated investment.

More information

The Fund generally invests in large and mid cap stocks which are contained in the MSCI United Kingdom index. he relative weightings of the companies correspond to their weightings in the index.

Fund B: UK Market Fund with Sustainability Integration

This fund provides an investment in stocks that is well-diversified and integrates environmental, social, and governance (ESG) factors. The fees are 1.5% of the allocated investment.

More information

The Fund generally invests in large and mid cap stocks which are contained in the MSCI United Kingdom Extended SRI index. he relative weightings of the companies correspond to their weightings in the index.

The MSCI UK Extended SRI index is a benchmark for investors seeking exposure to best-in-class ESG United Kingdom companies while avoiding products whose social or environmental impact is considered to be negative by investors. These are companies involved in Nuclear Power, Tobacco, Alcohol, Gambling, Military Weapons, Civilian Firearms, GMOs, Thermal Coal and Adult Entertainment.

Your choice

Please enter the amounts you would like to allocate to the two funds. Note, they should sum up to £1,000 in total.

Fund A: _____

Fund B: _____

4.1.2 Eliciting stated preferences

We suggest three questions to elicit self-stated preferences for sustainable inivesting. These questions start with a more general domain, but also include specific areas that are used in practice.

1. A pension fund delivers returns for its members by allocating savings among various investment opportunities, e.g., among different companies to invest in.

   UK pension schemes like USS have a legal duty to act in the best financial interests of the scheme members and employers. This means that they are typically required to allocate their investment based on what they think will produce the best long-term financial outcomes, factoring in sustainability considerations, such as environmental, social and governance (ESG) issues.

   Suppose **you could directly control** how your pension was invested. How much should your pension fund invest in a sustainable way, even if this potentially lowers the pension you get in retirement?

   - o 1 (not at all)
   - o 2
   - o 3
   - o 4
   - o 5
   - o 6
   - o 7 (to the full extent)

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2. If the trustees believe that sustainability issues make it an unsuitable financial investment, a pension fund can decide to divest from a specific industry, i.e., remove all money that is invested in companies of a specific industry (so-called "exclusions"). We are going to ask for your opinion on common areas for exclusions.

   In your opinion: Should all companies involved in the tobacco industry be excluded from your pension fund's investments?

   - o Yes
   - o No
   - o I don't know

NEXT PAGE

In your opinion: Should all companies involved in the fossil fuel (i.e., oil and gas) industry be excluded from your pension fund's investments?

- o Yes
- o No
- o I don't know

NEXT PAGE

In your opinion: Should all companies that violate labor rights (e.g., use child labor or forced labor) be excluded from your pension fund's investments?

a. Yes
b. No
c. I don't know

NEXT PAGE

3. In your opinion, should your pension fund exclude from the portfolio firms that:

[order is questions is randomized]

1. Operate in the pornography industry
    a. Yes b. No
2. Operate in the gambling industry
    a. Yes b. No
3. Produce alcohol
    a. Yes b. No
4. Produce weapons
    a. Yes b. No
5. Operate in the nuclear power industry
    a. Yes b. No
6. Operate in the aviation industry
    a. Yes b. No
7. Are involved in corruption, extortion, or bribery
    a. Yes b. No
8. Are involved in deforestation
    a. Yes b. No
9. Perform animal testing for cosmetics
    a. Yes b. No
10. Perform animal testing for medical research
    a. Yes b. No

4.2 Moral Wiggle Room in Sustainable Investing

4.2.1 Moral Wiggle Room in Sustainable Investing – The Idea

People often behave prosocially with significant costs to themselves. Yet, people behave more self-interestedly when presented with an opportunity to sneak out of prosocial behavior that prevents them from appearing selfish (Dana, Weber, and Kuang 2007). This tendency to "exploit moral wiggle room" is consistent with the idea that individuals desire to pursue self-interest, while maintaining the illusion of behaving prosocially. The presence of moral wiggle room has been shown to determine the extent of individuals' prosocial behavior in many

economic domains, such as donations (Andreoni, Rao, and Trachtman 2017; Adena and Huck 2020) and honesty (Mazar, Amir, and Ariely 2008; Gibson, Tanner, and Wagner 2013).

This research protocol helps to study investors' tendency to exploit moral wiggle room in actual high-stake investment choices. Our hypothesis is that investors use moral wiggle room to avoid sustainable investments. We design and conduct an online experiment among members of a UK pension fund to test this hypothesis.

Our experiment includes actual investment choices by members of the pension fund. They participate in an online investment task. They are asked to allocate £1,000 to two investment funds. Both investment funds are diversified UK funds and are similar in their risk profile. However, one investment fund invests conventionally, and the other one invests sustainably by integrating environmental, social, and governance (ESG) factors in its asset allocation. The sustainable fund exhibits higher fees (1.5%) compared to the conventional fund (0.5%). We use lottery incentives. The choices of five randomly drawn participants are implemented afterwards, and the actual return from investing will be paid to participants after six months (plus an initial endowment of £50).[1]

Importantly, we implement treatments to explore participants' exploitation of moral wiggle room. Between subjects, we manipulate whether they can select a costly default investment option and forego making an explicit choice between the sustainable and conventional fund. In our treatment condition, participants are presented with the conventional fund as default. In our control condition, participants are presented with no default option. Participants are randomly assigned to treatment and control conditions.

The results from our experiment will contribute to an extensive literature in economics that studies under what circumstances individuals make use of moral wiggle room to act selfishly or anti-socially while, at the same time, maintaining a positive self-image (Adena and Huck 2020; Andreoni, Rao, and Trachtman 2017; Dana, Cain, and Dawes 2006; Dana, Weber, and Kuang 2007; Exley 2016, 2020; Lazear, Malmendier, and Weber 2012; Mazar, Amir, and Ariely 2008). We add to this literature by documenting the importance of moral wiggle room for investment choices. More specifically, our study promises to contribute to the growing literature on sustainable investing. Converging evidence in the finance literature suggests that

[1] Charness, Gneezy, and Halladay (2016) show that paying a subset of participants is an effective payment scheme for economic experiments. Moreover, random incentive systems do not bias risk-taking behavior in experiments (Cubitt, Starmer, and Sugden (1998); Hey and Lee (2005); Starmer and Sugden (1991)).

sustainable investing is motivated largely by reasons other than pure risk-return maximization (Barber, Morse, and Yasuda 2021; Bauer, Ruof, and Smeets 2020; Hartzmark and Sussman 2019; Riedl and Smeets 2017). At the same time, a significant fraction of investors does not invest in a sustainable manner, but only holds conventional investments. Our paper complements this literature by investigating whether investors use moral wiggle room to avoid sustainable investments.

4.2.2 Experiment

We use a between-subjects variation in our investment game (described in Part 1). We manipulate whether subjects can select a costly default investment option and forego making an explicit choice between the sustainable and conventional fund. We randomly assign participants to three conditions. In our treatment condition (*Wiggle Room Condition*) participants are presented with the conventional fund as default. In order to choose the default option, participants are asked to pay an additional fee of 0.2%. This introduces moral wiggle room in the form of a costly excuse not to invest in the sustainable fund.

In a control condition (*No Default Condition*) participants are asked to split the £1,000 between the sustainable and conventional fund without having the possibility to select a costly default option. To make sure that we are not merely capturing participants' preference for choosing a default option (Samuelson and Zeckhauser 1988), we introduce a third experimental condition (*Sustainable Default Condition),* in which participants are presented with the sustainable fund as a costly default. We predict that a significantly larger fraction will choose the default option in the *Wiggle Room Condition* than in the *Sustainable Default Condition*.

Figure 1 – Flowchart of the Experiment

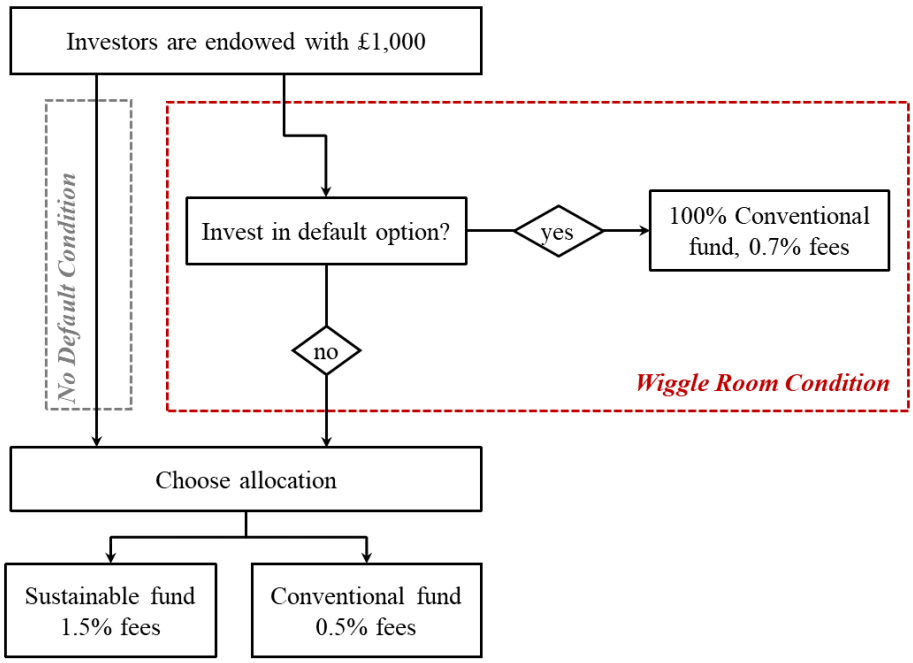

Figure 1 shows a flowchart of our experiment for the primary treatment and control condition. The experiment starts with an explanation of the setup and the investment options. In a second step, we introduce moral wiggle room for the treatment group in the form of the default option. We introduce an additional screen where we ask participants if, for an additional fee of 0.2%, they want to select a default option instead of allocating the investment across the two funds by themselves. They can click on a "choose funds myself" button that leads them to the fund selection screen. At this stage, they can arbitrarily split the £1,000 between the conventional and sustainable fund.

Note that choosing the default option is always suboptimal from a return maximization perspective. The default buys investors exposure to the same fund they can also choose themselves, albeit at a higher cost.

4.2.3 Variables

Variables from the experiment

- $Assets\ Sust\ Fund$ measures the total assets in GBP that a member allocates to the sustainable fund out of a total of £1,000.

- $Invest\ Sust\ Fund$ is a dummy indicator variable equal to one if the participants choose to invest in the sustainable fund and zero otherwise.
- $No\ Default\ Condition$ is a dummy indicator variable equal to one if the participant is part of the $No\ Default\ Condition$, i.e., is *not* given the option to invest in a default fund.
- $Sustainable\ Default\ Condition$ is a dummy indicator variable equal to one if the participant is part of the $Sustainable\ Default\ Condition$, i.e., is given the option to invest in the sustainable fund as default.
- $Used\ Default$ is an indicator variable equal to one if the participant uses the default option and zero if he chooses the allocation himself.
- $Wiggle\ Room\ Condition$ is an indicator variable equal to one if the participant is part of the $Wiggle\ Room\ Condition$, i.e., is given the option to invest in the conventional fund as default.

Understanding the mechanism: Prosocial preferences

We measure respondents' prosocial preference with the question below, developed by Falk et al. (2018). We will define the variable *High Pro Social* equal to one if the participant's prosocial preferences are above the sample median and zero otherwise.

To what extent are you generally willing to give to good causes without expecting anything in return?

- 0 (not prepared at all)
- 1 → 9
- 10 (very willing)

5 Control Variables: Demographics and COVID-19

We elicit a series of control variables during the survey. We ask participants' gender, age, employment, and income. For each variable, we use standardized bins consistent with the pension funds' guidelines for surveys.

To make sure that our findings are not driven by a shock to income due to the COVID-19 pandemic, we ask participants whether their household has experienced a shock in income related to the virus. To account for differences in expectations, we also ask them whether they

expect the pandemic to have a permanent effect on their savings. The survey questions are shown below.

Do you identify as…

- Male
- Female
- Other (please specify)
- Prefer not to say

How old are you?

- Under 25
- 25-34
- 35-44
- 45-49
- 50-54
- 55-64
- 65-74
- 75 or older
- Prefer not to say

Would you describe your role, broadly speaking, as one which is wholly or predominantly…?

- Academic or academic-related
- Professional services
- Other (please specify)
- Prefer not to say

What is the highest education you have completed?

- O-level/GCSE
- A-level
- BA/Bsc.

- MA/Msc.
- Ph.D.
- Other: ____
- I have not completed any of the above types of training
- Prefer not to say

Which of the following bands best describes your total salary per year before tax?

- Up to £10,000
- £10,000 - £18,000
- £18,001 - £25,000
- £25,001 - £33,000
- £33,001 - £44,000
- £45,001 - £59,585
- £59,586 - £65,000
- £65,000 - £85,000
- Above £85,000
- Don't know
- Prefer not to say

Do you think that the current COVID-19 pandemic will have a permanent effect on your pension savings? *(Answers a to c are shown in random order)*

- Yes
- No, it will have only a temporary effect
- No, it will have no effect
- I don't know

Has your household experienced a drop in income due to the current COVID-19 pandemic?

- Yes
- No
- Prefer not to say

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