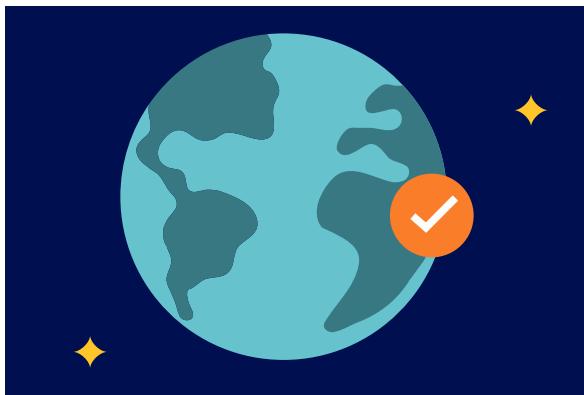




Retail Investors and ESG:

Assessing the Landscape



OVERVIEW

In April, Betterment surveyed 1,000 U.S. investors to examine their level of understanding and interest in environmental, social and corporate governance (ESG) investments, what might make them interested in learning more or investing, as well as the role employers and advisors play in educating individuals on ESG.

INTRO

As climate change and its implications for the future of the economy and society continues its rise as the [dominant issue of our time](#), individuals are increasingly examining aspects of their civic and financial lives for opportunities to play a role in shaping the world of tomorrow.

One reflection of this societal shift is the continuing rise of ESG-themed investing—a practice that has experienced rapid growth over the past few years. According to [data](#) from Morningstar, U.S. sustainable funds netted nearly \$70 billion in 2021, a 35% increase over 2020's high-water mark.

Despite such record-setting fund flows, ESG-themed (or, “sustainable” as it’s often called) investing is still short of mass adoption. Still, attitudes towards sustainable investing have shifted rapidly over the years. To get a clearer view of the state of play in 2022, our latest survey of 1,000 U.S. investors, conducted by a third party, looks at the level of understanding and interest in ESG-themed investments, what makes ESG appealing to retail investors, as well as the role employers and advisors play in educating individuals on ESG.

Here's what we found:

- 1 Many respondents already hold –**
or are interested in – ESG-themed investments.
- 2 However, there remains an education gap around ESG-themed investments broadly –** amongst both those who express interest in such investments, and those who do not.
- 3 In line with rising demand for financial wellness offerings more broadly, employees want more options from their HR/benefits teams –** including the option to invest sustainably.
- 4 Advisors have the potential to drive more ESG investment interest –** While the majority of respondents already working with advisors understand what they are invested in, and their broader options, there is room for conversations with clients who are not invested in more sophisticated investment vehicles, like ESG.
- 5 We observed an interesting interaction between investors' engagement with ESG and cryptocurrency –** Those holding an ESG-themed investment were more aware of concerns around its environmental impact, but were also far more likely to already be invested in crypto. This may suggest that a more exploratory investor is more likely to engage with any relatively new trend in investing, whatever it might be.

Let's take a look!

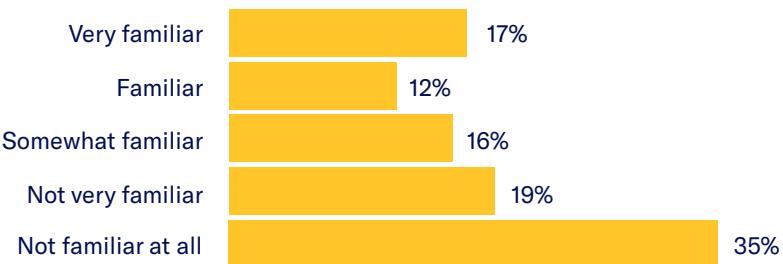
General interest & understanding of ESG

More than half of respondents (54%) expressed a level of unfamiliarity with ESG.

However, that's not stopping some of our respondents from dipping their toe in, as more than a quarter (26%) indicated they currently hold some type of ESG-themed investment. Of those that do, the majority (59%) have held these investments for over a year.

FIGURE 1

How familiar are you with the term Environmental, Social, and Governance (ESG) investing?



Who invests in ESG?

FIGURE 2

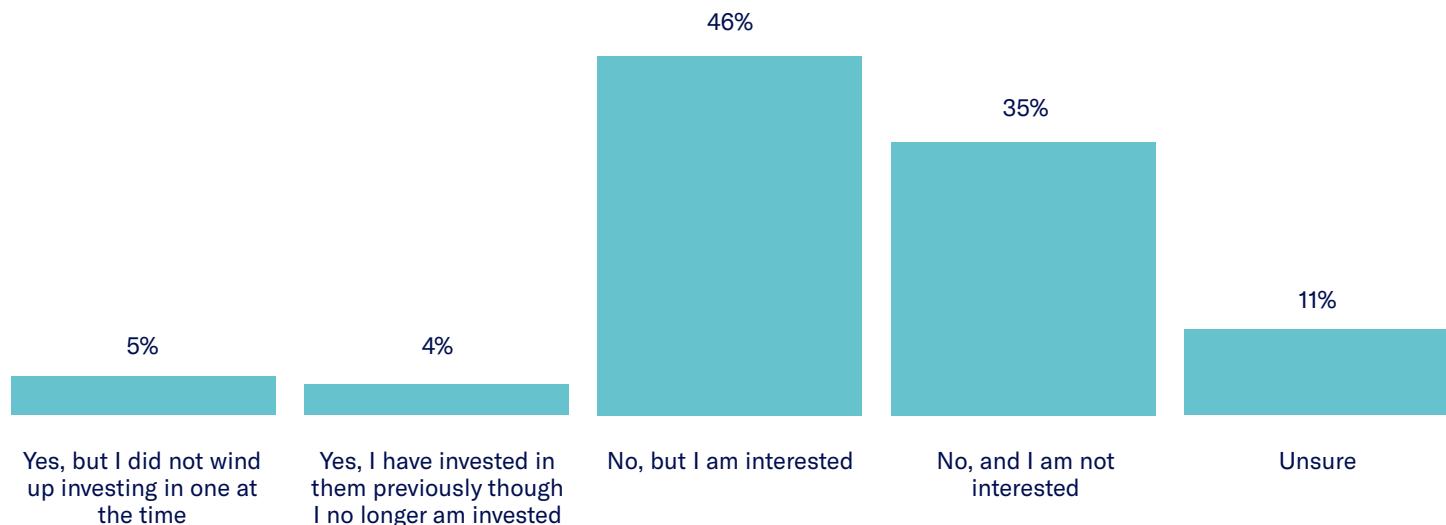
		Yes	No
Gender	Overall	26%	74%
	Men	36%	64%
Age	Women	16%	84%
	Gen Z/Millennials	54%	46%
Political Affiliation	Gen X	25%	75%
	Boomers	42%	58%
	Democrats	41%	59%
	Republicans	16%	84%
	Independents	14%	86%

Respondents who are not invested in ESG are split on their level of interest in ever doing so. Forty six percent of those who do not currently hold them have not sought out ESG investment options to date, but would be interested in doing so, while 35% never have, and are not interested in doing so.

The majority (51%) of those who indicated they were not interested said it was because they do not understand ESG-themed investments well enough. Another 27% were more concerned that their returns will not be as good if they invest in ESG.

FIGURE 3

Have you ever sought out ESG investment options?



Betterment's POV

"It is great to see that a quarter of respondents have already made an ESG-themed investment, but even more so, strong interest from those who haven't yet explored such options—signaling that far more adoption of sustainable investing can be tapped through education. At Betterment, we're committed to closing the knowledge gap and driving awareness of ESG investment offerings."

**Boris Khentov**

SVP Product Strategy & Sustainable Investing at Betterment

Employers & ESG

In December, Betterment at Work [examined](#) how The Great Resignation has affected employees' views on benefits, as well as what employers can do to match these changing demands.

Continuing this conversation, we looked at the role employers can take in better educating their employees on investment options, and whether the employees currently have the option to invest sustainably through a work-sponsored plan.

We found that nearly half (40%) of respondents do not know what kind of companies their retirement plan is invested in. **However, of those that do, almost three-quarters (72%) would be likely to contribute more to their retirement account if they were given the option to invest sustainably.**

Twenty-two percent have proactively asked their employer's HR/benefits department if ESG investing options are available in their workplace retirement plan, and another 36% would be interested to know if there is an option.

56%

of all respondents would be at least somewhat more likely to think favorably about a current or prospective employer if they knew the company offered ESG investing options in their retirement plan.

Betterment's POV

"It is meaningful to see that such a sizable chunk of employees have proactively inquired about sustainable investing options in their workplace retirement plans. What's more, our survey tells us that ESG investing options would entice many to contribute more as they seek investments that match their values. This is a trend we expect to grow in the employer space as general knowledge about ESG investing expands, so employers that are looking for ways to increase employee engagement with their 401(k) would do well to take heed of these findings."

FIGURE 4

Have you proactively inquired with your employer's HR/benefits department to see if ESG investing options for your workplace retirement plan are available to you?

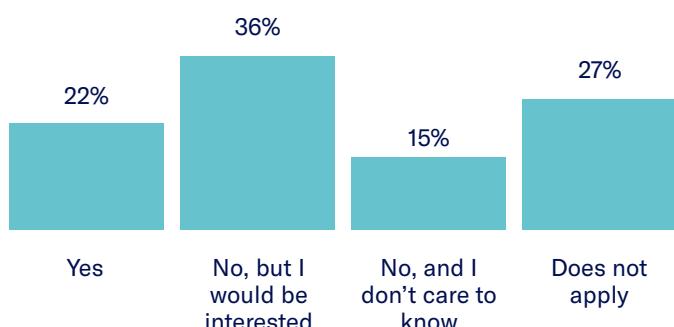
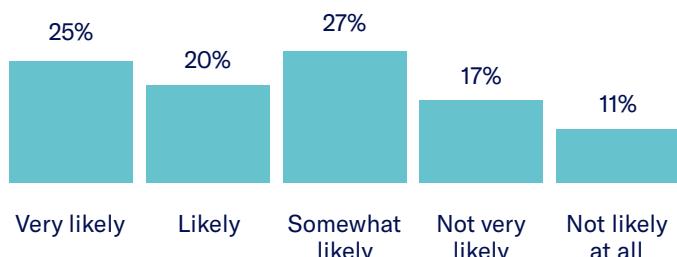


FIGURE 5

How likely would you be to contribute more to your retirement account if you were given the option to invest sustainably?



Kristen Carlisle
VP, General Manager,
Betterment at Work

Values-based investing

The interaction between financial outcomes and impact in the minds of today's retail investors can be nuanced. Ninety-five percent of all respondents said the health of the environment is important and over three-quarters (76%) indicated they were passionate about climate change or social justice issues. Moreover, 86% indicated it was at least somewhat important that their investments reflect their values and morals.

However, confirming our experience from years of interactions with customers, returns are also top of mind, even in the realm of sustainable investing. When asked to weigh returns relative to other objectives, 58% ranked "I want my investments to get the highest returns possible" as their highest priority, while only 17% ranked "I want my investment in a company to have an impact beyond my portfolio's growth" highest.

Improving investment performance was cited by 37% as their primary motivation for investing in – or wanting to invest in – ESG funds, while improving the world was the primary motivation for only 17%. **Meanwhile, 46% said these two have equal importance, possibly reflecting a growing public awareness of research indicating that ESG-themed investing does not necessarily entail sacrificing returns.**

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76%

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86%

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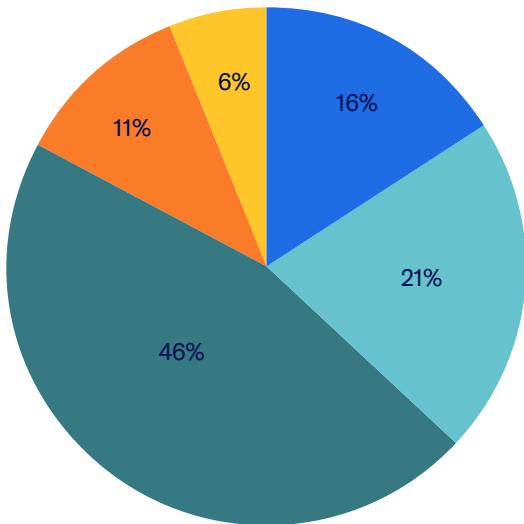


FIGURE 6

Which of the following best describes your primary motivation for investing in – or wanting to invest in – ESG funds when it comes to investment performance and improving the world?

- Improving investment performance is much more important
- Improving investment performance is somewhat more important
- They have equal importance
- Improving the world is somewhat more important
- Improving the world is much more important

Nonetheless, the perspective of such trade-offs, even in the abstract, is a complex, emotional issue. We asked respondents directly if they would be willing to sacrifice performance on their investments to achieve their ESG goals and 58% indicated they would be at least somewhat willing to. However, when we asked what – if any – hesitations they have with investing in an ESG-based portfolio, 53% questioned whether it would lessen their returns.

FIGURE 7

How willing would you be to sacrifice performance on your investments to achieve your ESG goals?

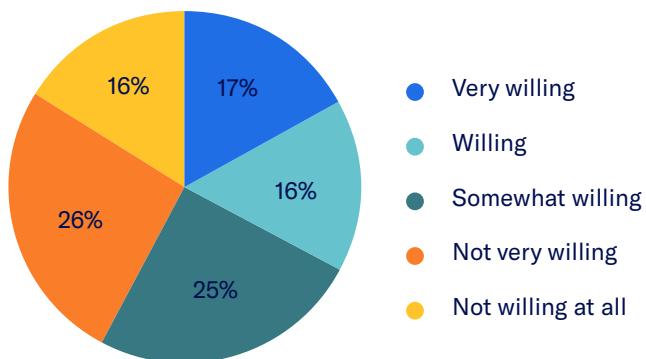
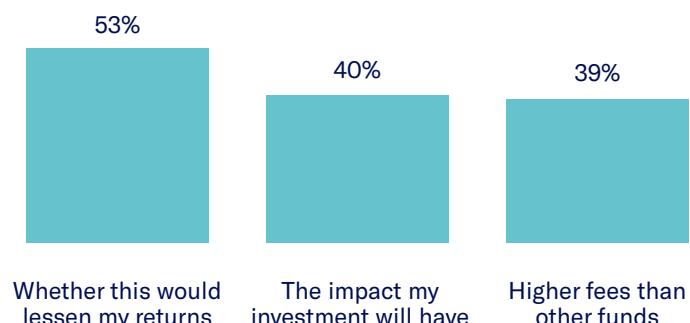


FIGURE 8

What, if any, are your hesitations with investing in an ESG-based portfolio? Select all that apply.



Betterment's POV

"It is compelling to see so many respondents express convictions strong enough to factor into their investment choices. These findings also evidence some lagging awareness, as recent [research](#) continues to indicate that investors may not have to sacrifice performance when investing sustainably."

**Boris Khentov**

SVP Product Strategy &
Sustainable Investing at
Betterment

Top 5 environmentally friendly activities/hobbies respondents practice:



69%

I recycle and/or compost



62%

I try to reduce plastic use



35%

I try to eat less meat and/or locally source food



29%

I try to drive less and use public transport/bike/walk more often



26%

I buy eco-friendly beauty products/jewelry/clothing

FIGURE 9

Advisors & ESG

Our survey also looked at how many respondents are working with financial advisors and – if so – how much they are talking about ESG investment options with their advisors. If rising investor interest in ESG activity is on advisors' radars, it has not necessarily translated into more investments.

Fifty-eight percent of respondents have a personal financial advisor who manages at least a portion of their portfolio, and **nearly half (47%) said that access to ESG investment opportunities would make them more likely to work with an advisor.**

FIGURE 10

Do you have a personal financial advisor who manages at least a portion of your portfolio?

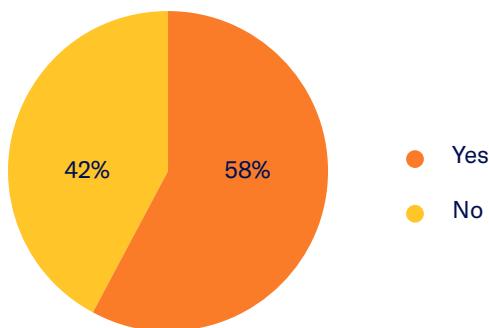
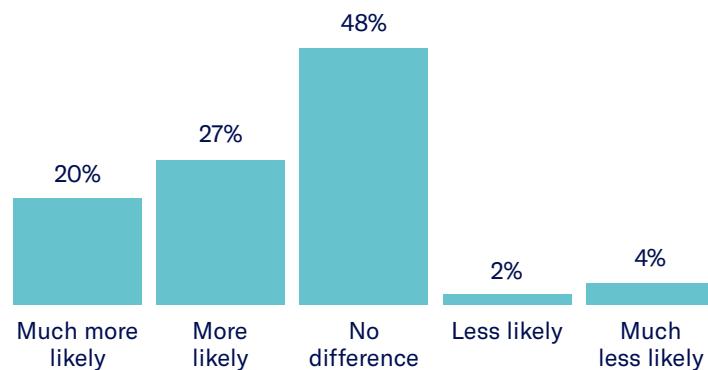


FIGURE 11

Would access to ESG investment opportunities make you more or less likely to work with a financial advisor?



Of those that work with an advisor, 47% said they are completely aware of what their portfolio is invested in, and 67% talk to their advisor about the causes and values that are important to them personally.

Nearly half (48%) have had their advisor adjust their portfolio to reflect only investing in companies that align with their values; however, only 44% indicated that their advisor has discussed available ESG-based portfolio options with them.

Betterment's POV

"Our data suggests that advisors have the potential to drive more client engagement from existing and prospective clients by including ESG options in their investment lineups. Forty-seven percent of respondents indicated that they would be more likely to work with an advisor that offers ESG options while only 44% of those already working with an advisor indicated that their FA already offers access to ESG options. This would suggest an advisor's practice can be more successful if they include ESG investment options for both existing clients as well as prospective clients."



Jon Mauney
General Manager,
Betterment for Advisors

Cryptocurrency

As crypto moves towards broader adoption, concerns have surfaced around the sustainability profile of this new asset class. Mining activity in support of bitcoin alone has been [estimated](#) to use around 136.38 Terawatt-hours of electricity every year globally—more than the power consumption of many countries. As electricity production remains tethered to the burning of fossil fuels, crypto's energy needs have been flagged as a driver of incremental greenhouse gas emissions.

We set out to assess any interaction between investors' posture towards crypto on the one hand, and towards sustainable investing on the other. Thirty-seven percent of respondents said they currently invest in cryptocurrencies, and 62% said they are aware about the concerns that have been raised about the environmental impact of crypto mining.

FIGURE 12

Do you currently invest in any cryptocurrencies?

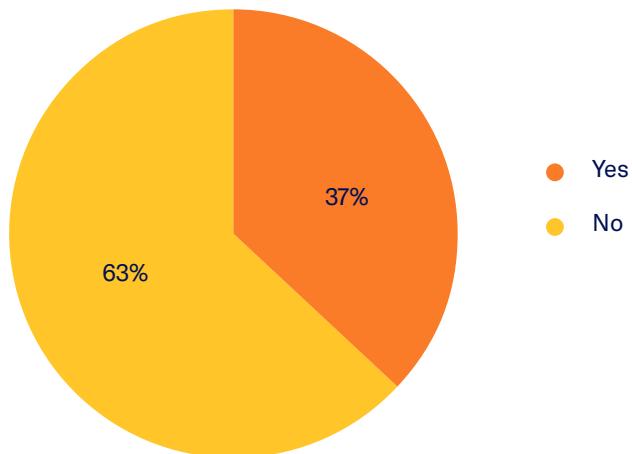
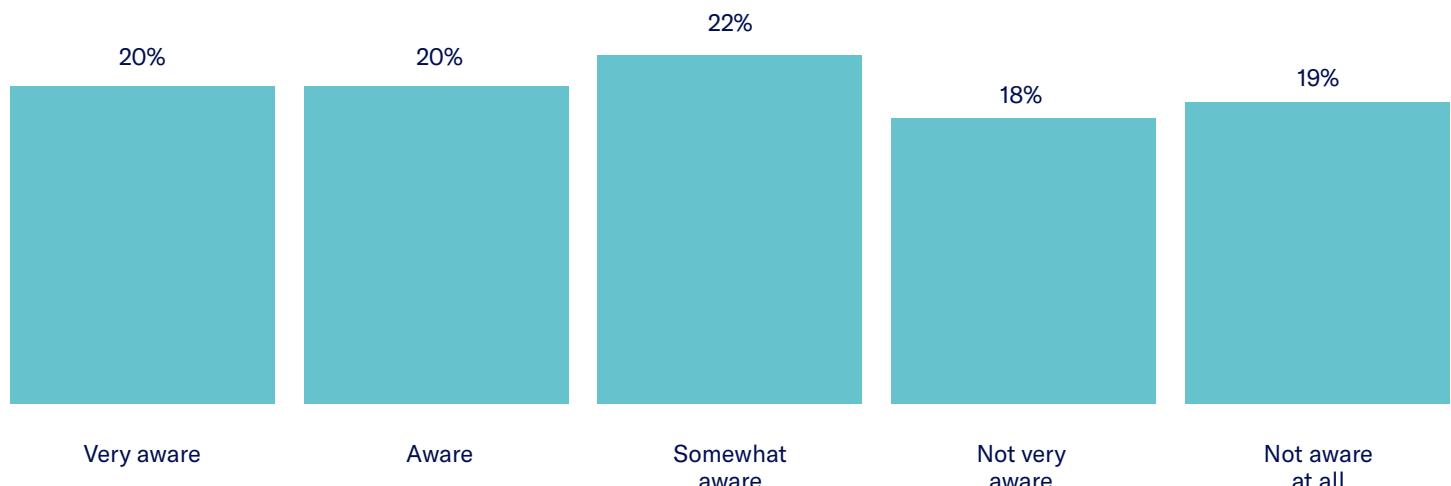


FIGURE 13

How aware are you about the concerns that have been raised about the environmental impact of crypto mining?



For respondents who held no crypto investments, we asked if these environmental concerns were the reason why. Only 12% indicated this was the case and only 17% said they would be more likely to invest in crypto if major cryptocurrencies like Bitcoin alleviated or significantly lessened their environmental impact.

90 percent of those invested in crypto said it was important that major cryptocurrencies become more environmentally friendly.

How important do you think it is for major cryptocurrencies to become more environmentally friendly?

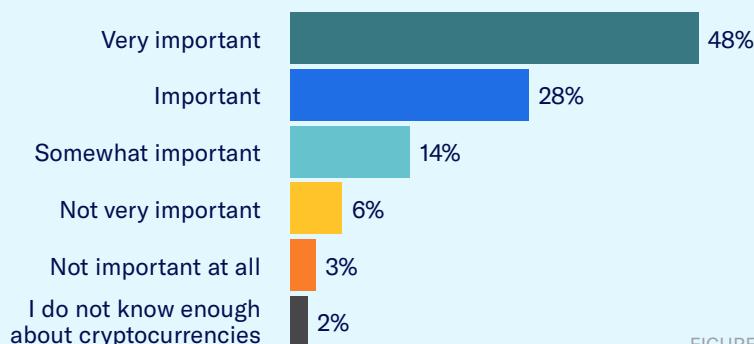


FIGURE 14

We observed an interesting interaction between investors' engagement with ESG and crypto. Not surprisingly, those holding an ESG-themed investment were significantly more aware of sustainability concerns raised about crypto. However, it was notable that a full 80% of those holding an ESG-themed investment, also held crypto investments, versus only 22% of those without ESG-themed investments. While this strong correlation might seem counterintuitive, it could also follow that an ESG investor is more likely to engage with any relatively new trend in investing, whatever it might be.



ESG vs. non-ESG investors & crypto

96%

of those invested in ESG are aware of crypto's environmental concerns

50%

of those who are not invested in ESG are aware of crypto's environmental concerns

Betterment's POV

"Because we believe crypto as an asset class is here to stay, the sustainability concerns around crypto, particularly as it scales, are worth taking seriously. For those of our customers who've told us that sustainability is a priority, across all of their investments, we are working to integrate a sustainability dimension into Betterment's upcoming crypto offering."



Boris Khentov

SVP Product Strategy & Sustainable Investing at Betterment

ESG has no doubt taken on a new level of importance – and not only for today’s corporations, but for current and prospective investors looking to get behind more sustainable contributions.

Still, data shows that there is much work to be done in educating investors about this new asset class. While returns remain undeniably “high-priority” for survey respondents with knowledge of this option, Betterment’s own research has shown that sustainable investments can be both meaningful and profitable.

Our team at Betterment foresees a rising tide of ESG investments over the near term, which will both help close the knowledge gap and drive awareness around other key concerns – including those environmental risks attached to crypto mining, among many others.

The bottom line is that financial advisors will need to continue vocalizing these investment options, and investors will need to complete their due diligence on the issues that matter to them. This confluence will likely drive continued ESG investment, while empowering companies to be more cognizant of environmental and social impact.

To learn more about how you can invest responsibly with Betterment, [follow the link here](#) to learn more about our Socially Responsible Investing options.

METHODOLOGY

An online survey commissioned by Betterment was presented to a group of potential respondents. A total of 1,000 respondents completed the survey, which was conducted by Schlesinger Group, an independent research company.

The survey collected a representative sample of U.S. respondents who have any kind of investment with the exception of only having a 401(k). All were invited to take the survey via an email invitation. Panel respondents were incentivized to participate via the panel’s established points program.

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Higher bond allocations in your portfolio decreases the percentage attributable to socially responsible ETFs.