Advisors underestimate interest in ESG investing: Cerulli

By Editorial Staff *Thu, Apr 15, 2021*

'Asset managers and advisors are discounting the interest from a broad swath of the investing public,' Cerulli's Matt Belnap said. 'Both asset and wealth managers should seek to make ESG investing more accessible across wealth tiers.'

Financial advisors apparently haven't gotten the memo about environmental, social and governance investing (ESG). Advisors don't think middle-class clients are interested in it. At least half of small investors say they are. A "disconnect" in advisor-client communications exists there," according to the latest *Cerulli Edge—U.S. Advisor Edition*.

"For ESG investing to grow in retail channels, advisors and asset managers must work to bridge these gaps and ensure that they fully understand the appetite for ESG investing among retail investors," a Cerulli release said.

In a 2020 survey, Cerulli asked financial advisors why they weren't adopting ESG strategies in their client portfolios. Lack of investor demand was by far the most prevalent response to a Cerulli survey; with 58% described that a "significant" and another 14% calling it a moderate reason for avoiding or neglecting ESG.

A majority of advisors believe that client demand for ESG strategies is a non-issue for them. Only a handful of clients reach out to advisors about ESG investing, Cerull said. But that's not what the clients are telling Cerulli.

Nearly half (44%) of households would prefer to invest in an environmental or socially responsible way—far more than the "handful" of clients that advisors report proactively reaching out around the topic, according to a Cerulli survey of US retail investor households.

"Based on our research, advisors generally underestimate the demand their clients have for ESG and should not interpret lack of proactive questions as a lack of client interest," says Matt Belnap, senior analyst.

When Trump Department of Labor dissed ESG investing last year by questioning its appropriateness for 401(k) plans—participants should invest with their wallets, not their hearts, Secretary Eugene Scalia seemed to say—the degree of blowback showed that he must underestimated the scope of public's desire not to invest in tobacco, fossil fuel or weapons producers.

Asset managers also misconceive

Advisors apparently share with asset managers a belief only the rich are very interested in ESG investing. Two-thirds of asset managers surveyed told Cerulli said they expect high demand from investors with more than $5 million in investable assets. Another one-quarter of asset managers expect moderate demand from HNW investors.

Retail investors feel otherwise, according to Cerulli's research. More than half (56%) of households with investments worth $100,000 to $250,000 agree that they would rather invest in companies "that have a positive social or economic impact."

"Asset managers and advisors are discounting the interest from a broad swath of the investing public," Belnap said in the release. "Both asset and wealth managers should seek to make ESG investing more accessible across wealth tiers."

An opportunity exists for wealth management home offices and asset managers to show financial advisors how to broach ESG with clients. Cerulli concluded, "If home offices can show advisors that their clients are generally open to discussing or implementing ESG solutions, and asset managers can provide them with tools and templates for successful conversations, fewer advisors will be held back by the 'lack of client demand' hurdle."

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