

Tabula insights:

What investors really want from ESG

We asked **120 European professional investors*** for their views on fixed income ESG ETFs. We found that, overwhelmingly, they want **more innovation**. Our survey also revealed an interesting **preference for outperformance potential** over benchmark tracking.

Read on to learn more...

* Based on 120 professional investors surveyed in May/June 2020 by Tabula Investment management ("Tabula") or independent research company Pureprofile. Tabula commissioned Pureprofile to interview professional investors (institutional and wealth managers) across seven European countries.

ESG ETFs have already **achieved** **a remarkable** **level** of penetration

ESG ETFs aren't new. They've been around for almost 20 years. But the **space is changing rapidly and creating new opportunities for investors**. Despite the difficult market conditions, ETF issuers have launched **88 new UCITS ESG ETFs this year**. That's more than one quarter of all ESG ETFs currently available!

Almost all participants in our survey currently use ESG ETFs in their portfolios. And those that don't will be using them soon.

Although 96% of investors in our survey are using ESG ETFs, for fixed income the vast majority wanted to see more innovation and better coverage of some segments of the market.

Michael John Lytle, CEO, Tabula Investment Management



Of professional investors surveyed use ESG ETFs



Choose to use them



Are required to use them



Expect to use them at some point

Improving the fixed income ETF ESG offering

As is the case with the broader ETF market, **fixed income ESG ETFs are under-represented** in terms of both AuM (20% of the total) and number (22% of the total). Of these existing ESG fixed income ETFs, the majority are "ETF versions" of existing products.

Our survey overwhelmingly calls for more innovative fixed income ESG ETFs with better coverage across the different fixed income asset classes.

Our survey overwhelmingly calls for more innovative fixed income ESG ETFs and better coverage across the different fixed income asset classes



80%

of investors surveyed want more innovative fixed income ESG ETFs



75%

highlighted better coverage across different fixed income asset classes as a key area for improvement



46%

would like more transparency

Investors demand new or better fixed income ESG ETFs

Which areas of fixed income need new or better ESG ETFs?

Corporate credit, 81%



High yield credit, 72%



Sovereign credit, 29%



Emerging markets credit, 23%



The top 4 factors driving ESG ETF selection

Unsurprisingly, **exclusions are the most important feature** investors look for in selecting ESG ETFs. **More surprising was the focus on performance.** Many existing ESG ETFs are designed to closely track traditional benchmark indices. However, **over 70% of our respondents saw outperformance potential as important**, compared to under 30% citing tracking error. This could indicate that investors are now seeing ESG as a driver of long-term performance, not just a qualitative overlay.

“The idea of avoiding harm is clearly at the forefront of investors' minds and the exclusion of certain companies – for example, those violating the UN Global Compact or manufacturing controversial weapons – is becoming a minimum requirement.”

Jason Smith, CIO, Tabula Investment Management

74%

Ethical exclusion

Removal of companies operating in harmful sectors such as tobacco and arms manufacturers

72%

Outperformance

Potential to beat the market

63%

Focus on specific themes

Target themes such as climate

29%

Low tracking error

Target returns similar to equivalent non-ESG

Country focus

Our survey captured the views of institutional investors across Europe. **Germany was the only country where 100% of respondents are currently not using ESG ETFs.**

Investors from the UK and Italy saw exclusion of the most harmful companies as the top priority when selecting ESG ETFs. While those in the Nordics, Germany and Switzerland were most focused on performance.

By region, corporate credit stood out as the area of fixed income that needs new or better ESG ETFs; 95% of Italian and Nordic investors surveyed selected this as their top pick. 85% and 80% of UK and German participants respectively highlighted corporate credit as a key area for improvement. Respondents based in Switzerland primarily asked for better high yield credit ESG ETFs.

Ranking the features regional investors surveyed look for when selecting ESG ETFs



	Exclusion of harmful companies	Focus on social and green themes	Potential to outperform	Low tracking error to market
Nordics	3	2	1	4
UK	1	2	3	4
Germany	2	3	1	4
Switzerland	2	3	1	4
Italy	1	2=	2=	4

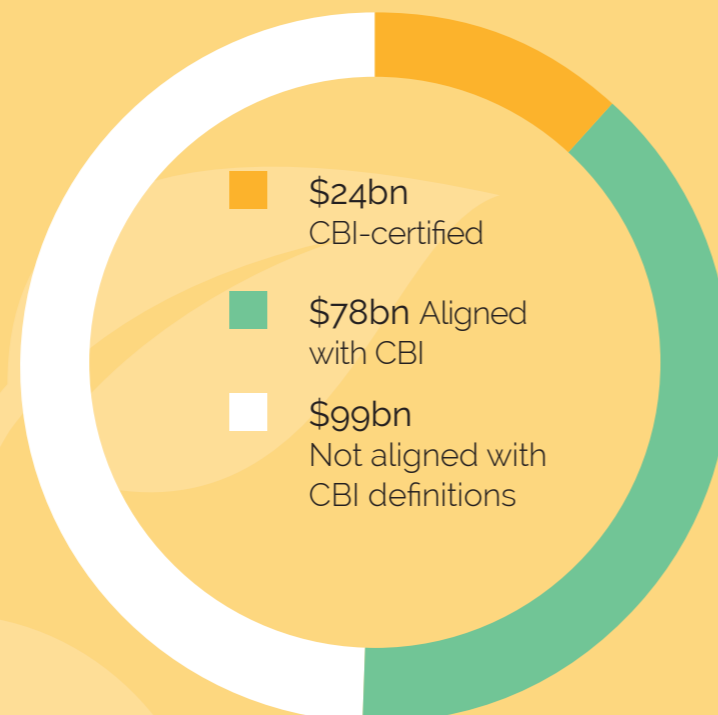
Notes: 1 is most important, 4 is least important. Countries/regions are shown where 20 or more survey results were received.

Use of green bonds

Green and social bonds have become the go-to investment for those looking to make a positive environmental or social impact.

This sector has some challenges to address, including lack of a common standard, inadequate green contractual protection for investors, transparency and the quality of reporting metrics. Nevertheless, over half of our survey participants invest in green bonds, and of those that don't almost all plan to in the future.

YTD green bond issuance



Source: climatebonds.net as at 28 July 2020.

43% do not invest in green or social bonds

of which 92% plan to invest in green bonds in the future

57% invest in green or social bonds

of which 84% do so via ETFs

Tabula is committed to developing precise ESG tools for fixed income investors

“Responsible investing is evolving rapidly. This research gives us valuable insights into the broad trends and, crucially, the different views and priorities across countries and investor types. Creating innovative ESG ETFs that meet investor needs is a challenge for providers, but one that Tabula is embracing.”

Michael John Lytle, CEO,
Tabula Investment Management



Highest ethical and professional standards

Tabula is committed to the highest ethical and professional standards. As our business grows, we want to **ensure that sustainability and good governance are embedded in everything** we do: how we manage investments, how we run our company and how we interact with the community.



Principles for Responsible Investment

Tabula became a **signatory of the UN-supported Principles for Responsible Investment** in May 2020. We are now formally integrating these principles into our investment process.



Innovative fixed income ETFs

We are in the process of developing a wide range of ESG ETFs **that provide investors with sophisticated liquid exposure** to specific fixed income risk factors.

Get in touch

If you'd like to learn more about our exciting plans for innovative ESG fixed income ETFs please give us a call or send us an email.



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Source: Etfbook.com and Tabula IM survey (May/June 2020) conducted by independent research company Pureprofile. The survey was based on interviews with 120 professional investors across seven European countries. ESG ETF AuM statistics as at 28 July 2020.

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