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# Global investors accelerate ESG investments in response to pandemic, according to MSCI survey; interconnected risks present challenges

- **31% of the largest institutional investors say climate change will have the biggest impact on the way their organization invests over the next three to five years**
- **Nearly a third are regularly using climate data to manage risk**

**NEW YORK – February 9, 2021** – The global pandemic has highlighted both the importance of ESG issues and is accelerating ESG integration by institutional investors, according to the respondents of MSCI's 2021 Global Institutional Investor Survey[1], a survey of 200 asset owner institutions with assets totaling approximately $18 trillion.

The survey of sovereign wealth funds, insurers, endowments/foundations, and pension funds found that over three-quarters (77%) of investors increased ESG investments "significantly" or "moderately" in response to COVID-19, with this figure rising to 90% for the largest institutions (over $200 billion of assets).

"The combination of climate-related events, such as devastating wildfires, floods and droughts, and a global pandemic have accelerated the paradigm shift on ESG and climate change. Once an issue for 'green funds' and side-pockets, ESG and Climate are now firmly established as high priority issues," **said Baer Pettit, President and Chief Operating Officer, MSCI.** "2020 marked a profound shift in the way institutions invest as many investors have recognized that many companies with strong environmental, social and governance practices outperformed during the pandemic."

The survey reveals that while U.S. investors in general have been lukewarm about ESG in the past, with some high-profile exceptions, 2020 dramatically shifted their views closer to those of their international counterparts. Of U.S. respondents, 78% said they said they would increase ESG investment either significantly or moderately as a response to COVID-19, while the figure was 79% and 68% in Asia-Pacific and EMEA, respectively.

When exploring future ESG investments, investors said they are putting greater emphasis on the "S" in ESG, with over a third (36%) wanting "Social" to comprise a larger proportion of the mix in 2021. This increases to 50% and 48% in the U.K. and U.S. respectively, where respondents cited COVID-19 coinciding with a reassessment of inequality in society as a driving factor.

**Myriad challenges - climate change the major risk**

While institutional investors are transforming their investment processes to reflect today's imperatives, they are facing a long list of challenges over the medium- and long-term, with nuances depending on size, location, and long-term investing goals.

[1] All quantitative data in the Global Institutional Investor Survey was derived from a survey of 200 hundred executives at 200 separate asset owners across the Americas, the Europe, Middle East and Africa (EMEA) and Asia Pacific. The surveys were conducted by phone in September 2020. Qualitative interviews and quotes came from a separate series of phone interviews.

Although the survey revealed global differences, for many investors ESG challenges are a top concern. Almost a third (31%) of institutional investors with over $200 billion of assets said climate risk will have the greatest impact on the way the organization invests over the next three to five years. This was followed by disruptive technologies, such as artificial intelligence for almost a fifth (19%) of investors, while 14% believe increasing sophistication of ESG measurement will have the greatest impact. On the other hand, smaller investors (less than $25 billion of assets) said increasing regulations and market volatility are the major trends that will impact their investments over the next three to five years.

**Climate data at the center of managing global risk**

Due to the range of global challenges investors are facing, the survey found that respondents perceived risk as more important than traditional asset allocation, with investors of all sizes believing the diversity of risk sources was more relevant than asset allocation in achieving investment excellence.

With climate change cited as one of the major challenges, larger investors are increasing their focus on accessing and monitoring the latest climate data. Smaller institutions, however, are still at an early stage of incorporating climate data in their investment strategies. Some 50% of investors with more than $200 billion of assets said they are regularly using climate data to manage risk, compared with just 16% of those with less than $25 billion. Investors with more than $200 billion of assets are also four times as likely to regularly use climate data to identify investment opportunities than those with less than $25 billion.

"Institutional investors face many challenges over the next five years, which is magnified by the fact that these challenges are interconnected. These interconnections add complexity and demand urgency. The reality is, climate change links to a rapidly shifting social context that in turn drives changes to investor demands, all within a very dynamic regulatory environment. These trends are amplified by technology innovation, adding significant cost and time pressure. Quite simply, investing has never been a more complex ecosystem," **Pettit concluded**.

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