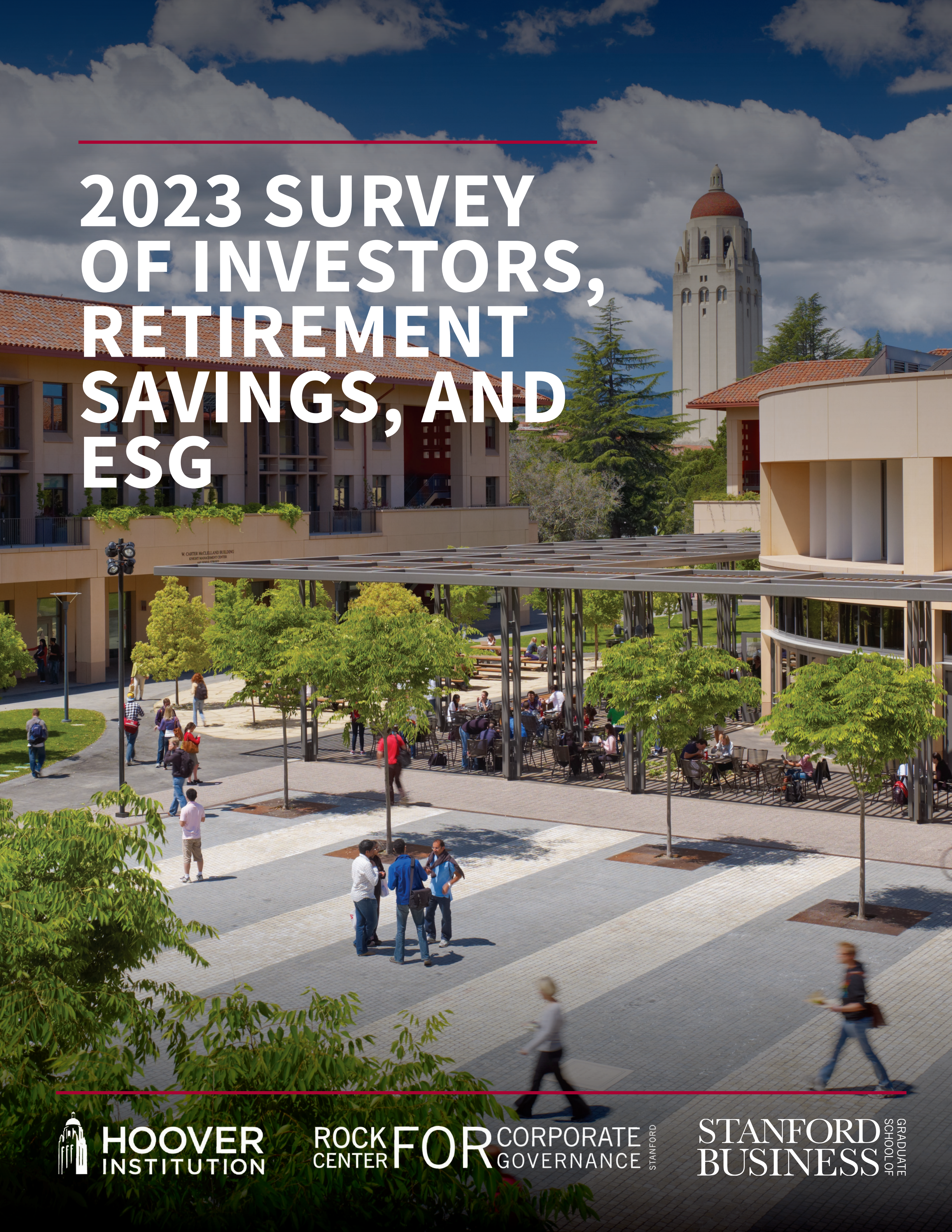
2023 SURVEY OF INVESTORS, RETIREMENT SAVINGS, AND ESG



HOOVER INSTITUTION

ROCK CENTER FOR CORPORATE GOVERNANCE STANFORD

STANFORD GRADUATE SCHOOL OF BUSINESS

TABLE OF CONTENTS

EXECUTIVE SUMMARY AND KEY FINDINGS

Support for ESG falls precipitously year-over-year, particularly among young and middle-aged investors.

Older investors continue to overwhelmingly oppose the idea of fund managers using their size and voting power to advocate for environmental or social change.

Young investors are much less willing to accept a decline in the value of their investments to advance a range of issues, such as climate change, renewable energy, workplace diversity, and gender pay inequity.

"The decline in support for ESG over the past year, particularly among young investors, is striking," observes Professor David F. Larcker of Stanford Graduate School of Business and the Hoover Institution Working Group on Corporate Governance. "Just one year ago, young investors told us overwhelmingly that they were very concerned about environmental and social issues, and they wanted the fund managers that invest their savings to use their size and voting power to advocate for change, even if it meant a loss of personal wealth. This year, sentiment has changed dramatically, with young and middle-aged investors expressing lower support for ESG issues by double-digit percentages across the board."

"We find a significant drop in enthusiasm for ESG among Millennial and Gen Z investors, who used to be bedrock advocates for environmental and social causes," adds Professor Amit Seru of Stanford Graduate School of Business and the Hoover Institution Working Group on Corporate Governance. "Their fervor is much more tempered right now. Young investors tell us that they are much less willing to lose personal money to see progress made against issues such as climate change, sustainability, labor conditions, and diversity in the workplace. With their confidence down, investors are more cautious about risking their personal wealth to support stakeholder issues."

In fall 2023, Stanford Graduate School of Business, the Hoover Institution Working Group on Corporate Governance at Stanford University, and the Rock Center for Corporate Governance at Stanford University jointly conducted a nationwide survey of 993 investors—distributed by gender, race, age, household income, and state residence—to understand how American investors view environmental, social, and governance (ESG) priorities among the companies in their investment portfolio. This survey is a follow-up to the same survey conducted in 2022.

Respondents run the spectrum of personal investment assets from less than $10,000 to more than $500,000 (average $150,000) in retirement and personal savings accounts. Their investments are held through a variety of major institutional investors, including Fidelity (39 percent), Vanguard (25 percent), American Funds (19 percent), BlackRock (9 percent), Invesco (6 percent), and State Street (5 percent), among others.

KEY FINDINGS INCLUDE THE FOLLOWING:

Generational gaps shrink. Younger investors show less concern for ESG, while older investors continue to be skeptical.

Concern for ESG issues dropped across most age demographics, particularly young investors (41 years and younger) and middle-aged investors (42 to 57 years). Only 49 percent of young investors say they are very concerned about environmental issues, down from 70 percent last year. Middle-aged investors also express less concern for environmental issues (41 percent versus 57 percent last year), while older investors (58 years and older) continued to express low concern (34 percent, consistent with last year).

Similarly, only 53 percent of young investors are very concerned about social issues (down from 65 percent last year), and 47 percent are very concerned about governance issues (down from 64 percent last year). Middle-aged investors also express lower concern for social and governance issues this year when compared to 2022, while older investors maintain their low levels of concern for these.

Investors maintain the order in which they are passionate about various E, S, and G matters, with concern for the environment continuing to rank ahead of social issues. Governance matters remain the subject of least concern, similar to last year.

“We don’t know if the reduction in support that we see this year for ESG is permanent or temporary,” comments Professor Seru. “Young people are notoriously mercurial in their stated preferences. It could be that the high number of polarizing events over the last year alienated members of the population. Or it might be that economic pressure—such as rising costs for basic goods and services due to inflationary pressure and higher interest rates due to Fed tightening—soured their taste for environmental and social advocacy.”

Young investors are less likely to want fund managers to advocate for ESG change. Older investors continue to value wealth preservation over advocacy.

Investors express strong preference that fund managers use their size and voting power to maximize the economic value of the companies they invest in. 68 percent say it is extremely or very important, while only 9 percent say it is slightly or not at all important.

Compared with last year, young and middle-aged investors are much less willing to say they want the fund managers that manage their investments to use their size and voting power to influence the ESG practices of the companies they invest in. They are also much less likely to say they are willing to have fund managers advocate for this change if it decreases the value of their investment.

For example, 61 percent of young investors and 50 percent of middle-aged investors say it is extremely or very important that fund managers use their size and voting power to influence the environmental practices of the companies they invest in. This is down from 79 percent and 66 percent last year, respectively. In the same vein, two-thirds (66 percent) of young investors want fund managers to advocate for environmental change even if it decreases the value of their investment. This is down from 85 percent last year. Middle-aged investors also express less willingness to lose money in support of environmental change, with 45 percent willing to lose money (down from 63 percent last year).

This pattern is the same when it comes to social issues, with only 62 percent of young investors wanting to see investment managers use their size and voting power to influence social practices (down from 82 percent last year). 45 percent of middle-aged investors want fund managers to advocate for changes to social practices (down from 67 percent last year). Fewer young investors (58 percent) and fewer middle-aged investors (43 percent) want fund managers to advocate for social change even if it decreases the value of their investment (down from 80 percent and 60 percent, respectively, last year).

Older investors continue to oppose the idea of fund managers using their size and voting power to advocate for environmental or social issues. Only 33 percent are willing to support environmental advocacy among their fund managers if it leads to a decrease in investment value. Only 30 percent are willing to suffer losses for social advocacy.

Young investors claim to be willing to lose between 1 and 5 percent of their retirement savings to support ESG causes. Older investors do not want to lose anything.

When asked about a number of prominent environmental issues—including reduction in carbon emissions, renewable energy, and product sustainability—the average Millennial and Gen Z investor says they are willing to lose between 1 and 5 percent of their investment dollars in order to see companies improve their current practices to industry-leading levels. This is down precipitously from last year when most young investors said they were willing to lose between 6 and 10 percent of their investment dollars. Approximately one-quarter say they are willing to lose more than 10 percent of their wealth to bring about environmental improvements.

Baby Boomer investors, on the other hand, overwhelmingly oppose the idea of forfeiting large portions of their retirement savings to bring about environmental change. The average Baby Boomer is unwilling to lose any investment savings for environmental improvements and only 3 percent are willing to lose more than 10 percent of their wealth. These preferences are similar to last year.

Baby Boomers are similarly unwilling to realize investment losses to bring about change to the social practices of the companies they invested in. Over half (57 percent) are unwilling to lose any retirement savings to fund a significant expansion in employment benefits, 65 percent are unwilling to lose retirement savings to bring about gender wage equality, and 71 percent oppose losing money to increase racial and gender diversity among the companies they are invested in. These percentages are nearly identical to last year.

By contrast, Millennial and Gen Z investors claim to be more willing than older investors to incur investment losses to bring about these social changes, with approximately 20 percent willing to lose more than 10 or 15 percent of their retirement savings. Still, the willingness of young investors to forgo personal wealth to advance social causes is down significantly from last year. Most young investors say they are willing to lose no more than 5 percent of their wealth to bring about social change in the workplace, whereas last year the average young investor was willing to lose up to 10 percent of their wealth.

"The cost of ESG initiatives is a larger sticking point than it was last year," says Professor Larcker. "More investors are unwilling to personally bear the risk of advancing environmental and social change. They might want conditions around them to change, but they don't want it to come out of their pocket."

Investors claim to be much less knowledgeable about the stock market. They also have more modest expectations for future growth.

The lower levels of support that young investors express for ESG might be due in part to their lower expectations for future stock market growth.

Young investors expect the stock market to generate lower returns than they did last year. Young investors expect the stock market to appreciate 11.8 percent over the next year and 13.4 percent annually over the coming decade. Last year, the typical young investors expected one-year returns of 15.9 percent and 10-year returns of 16.8 percent.

Young investors also claim to be much less knowledgeable about markets than they were one year ago. This year, 44 percent of young investors describe themselves as extremely or very knowledgeable about the stock market. Last year, 78 percent described themselves this way.

Older investors continue to claim less knowledge about the market and have lower expectations for future returns. Only 16 percent of Baby Boomers claim to be extremely or very knowledgeable about the stock market, similar to last year. Older investors also continue to have lower expectations for future stock market returns, expecting 5.9 percent over the next year and 10.8 percent annually over the next decade.

“Lower support for ESG is taking place in a larger context of economic pessimism,” observes Professor Seru. “Investor confidence is down. Whether a rebound in economic confidence leads to a rebound in support for ESG issues remains to be seen. It might turn out that ESG is a ‘luxury’ good for investors.”

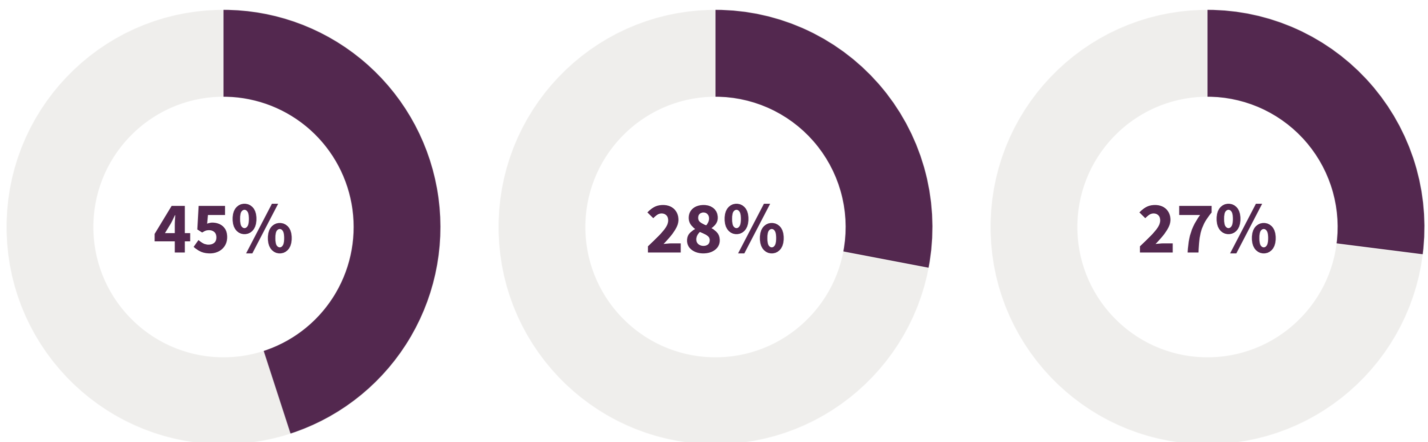
REVIEW OF FINDINGS

Distribution of respondents by age

MILLENNIALS & GENERATION Z
Ages 18 to 41

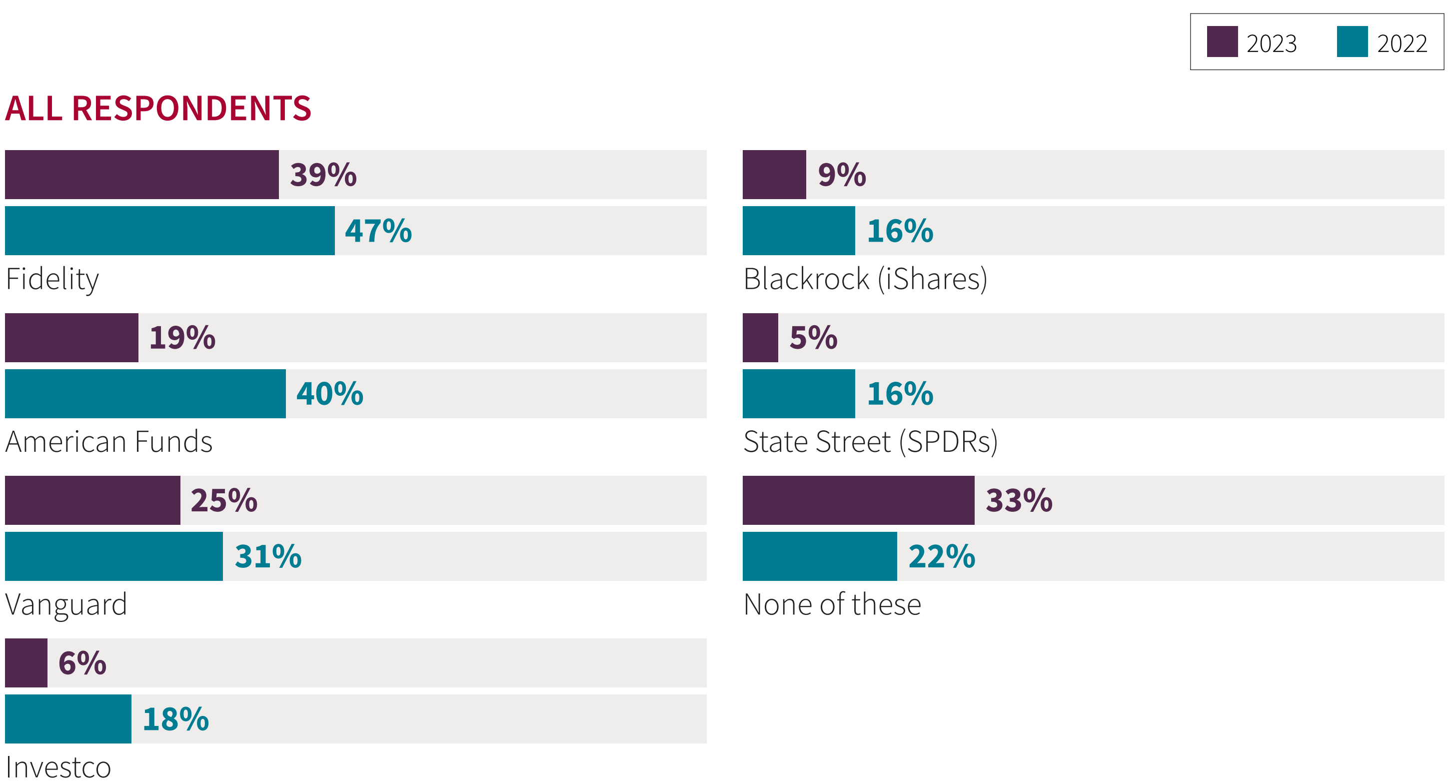
GENERATION X
Ages 42 to 57

BABY BOOMERS & SILENT GENERATION
Ages 58 and older



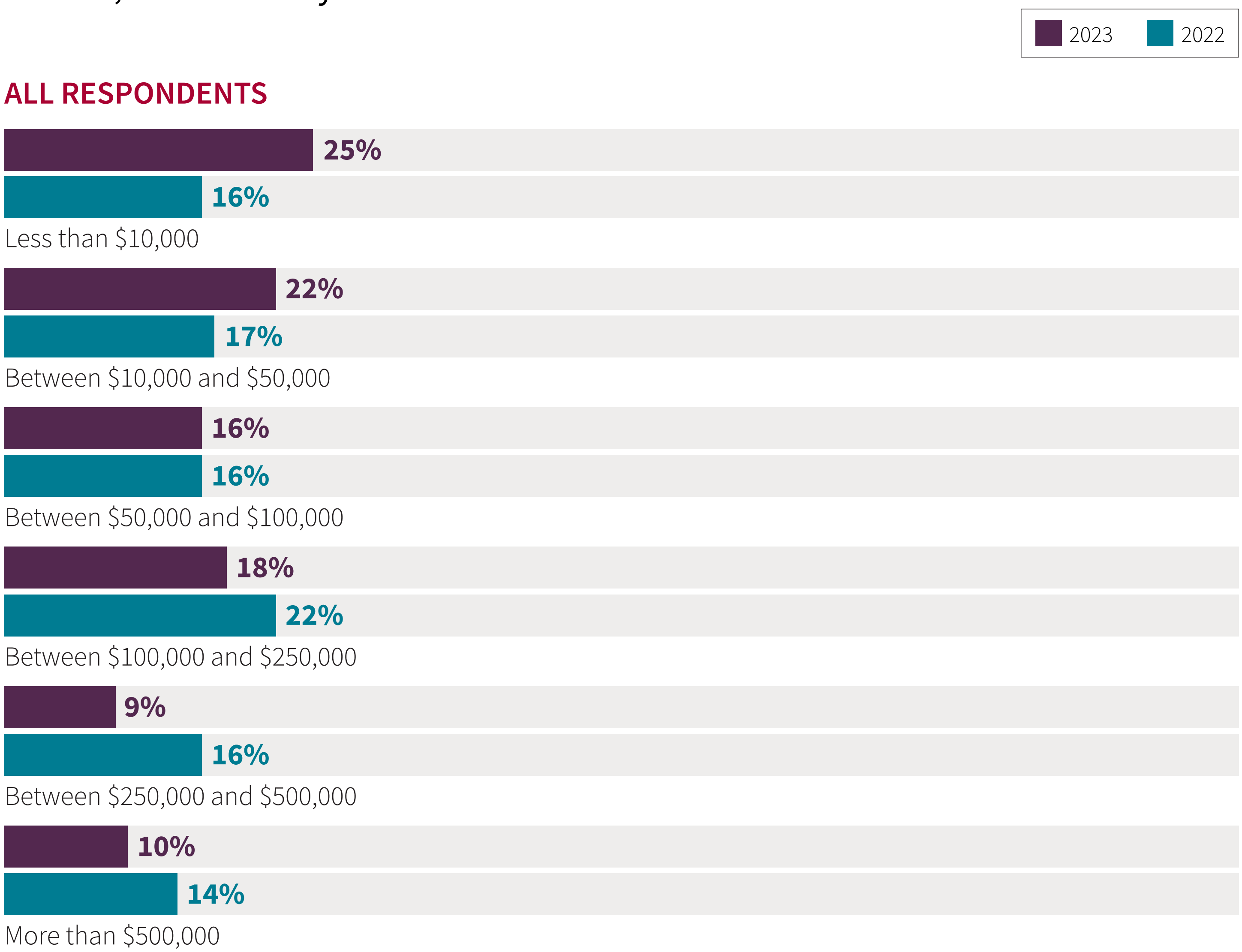
Do you have money invested in mutual funds or exchange traded funds managed by the following investment firms? (select all that apply)

ALL RESPONDENTS

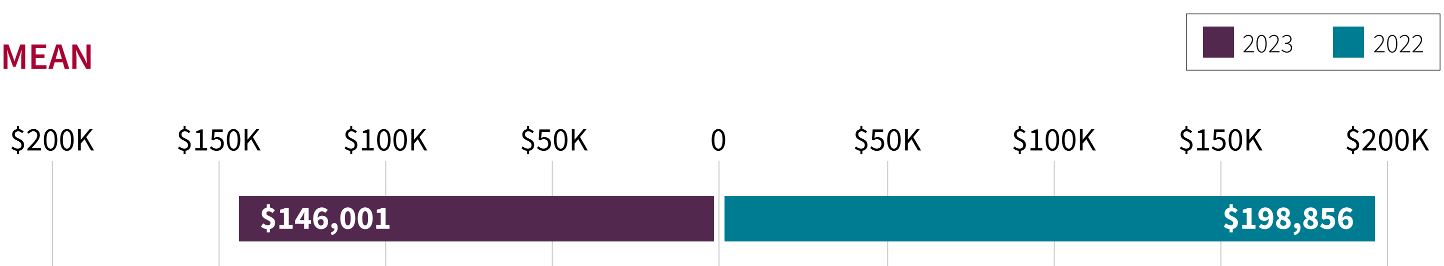


Approximately how much money in total do you have invested in the stock market, across all of your accounts?

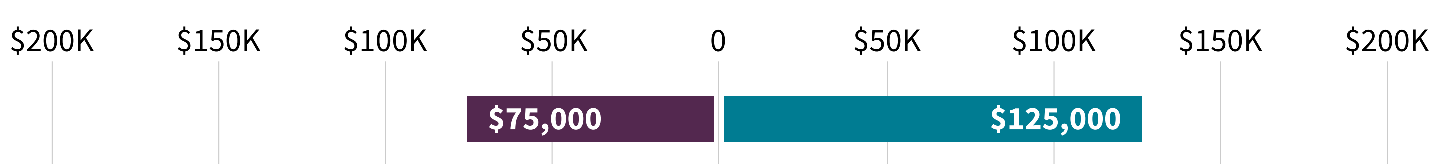
ALL RESPONDENTS



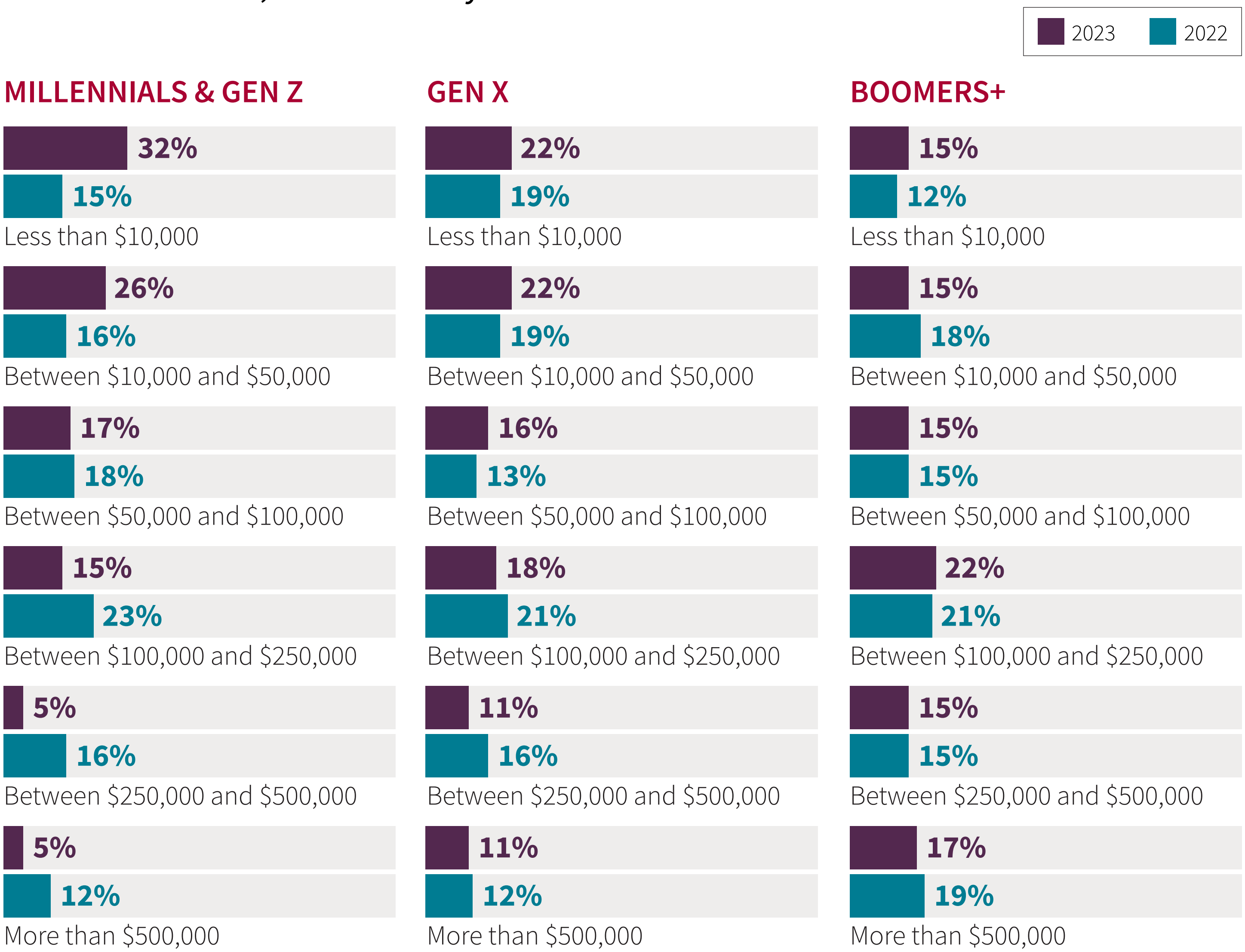
MEAN



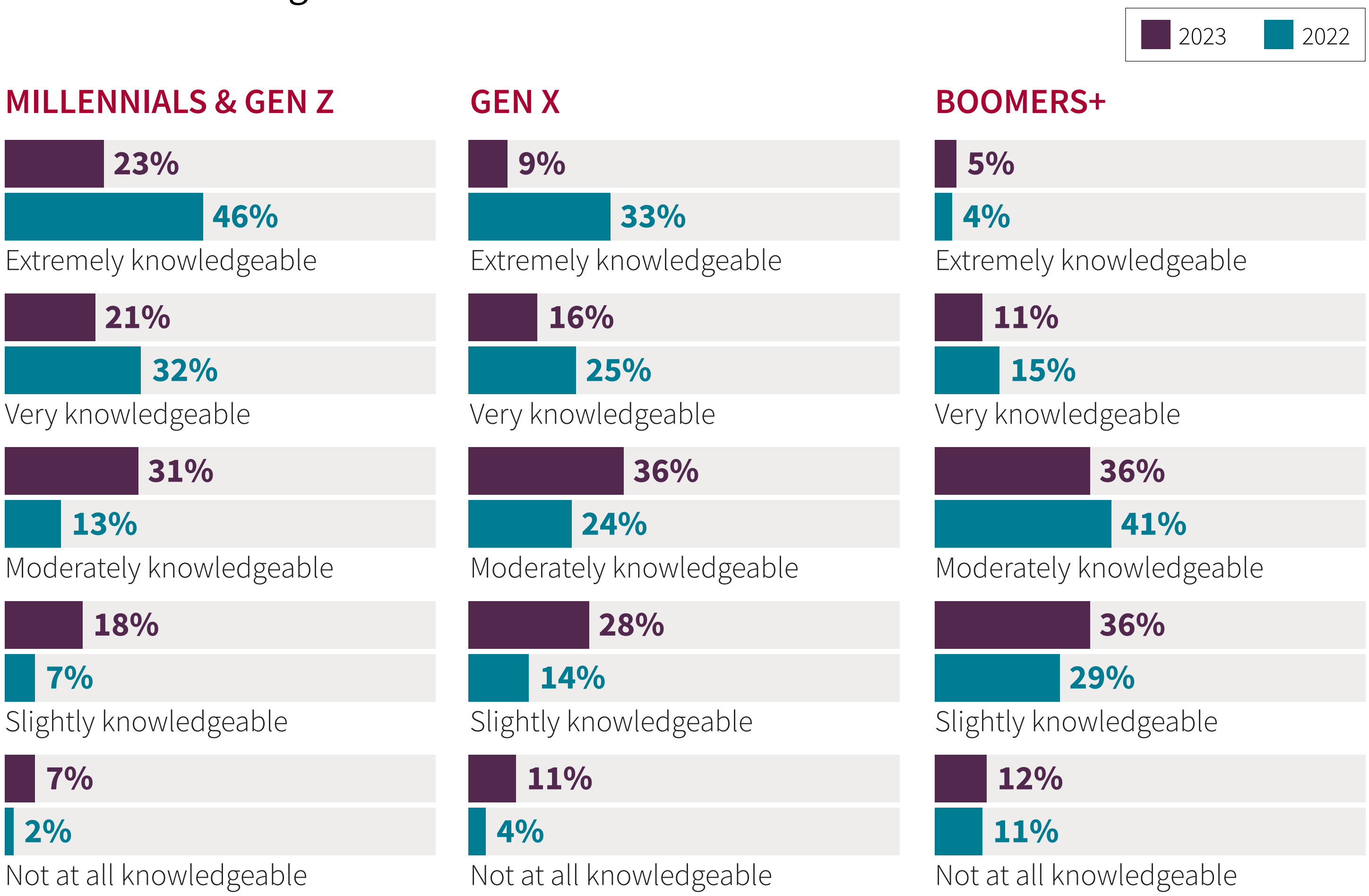
MEDIAN



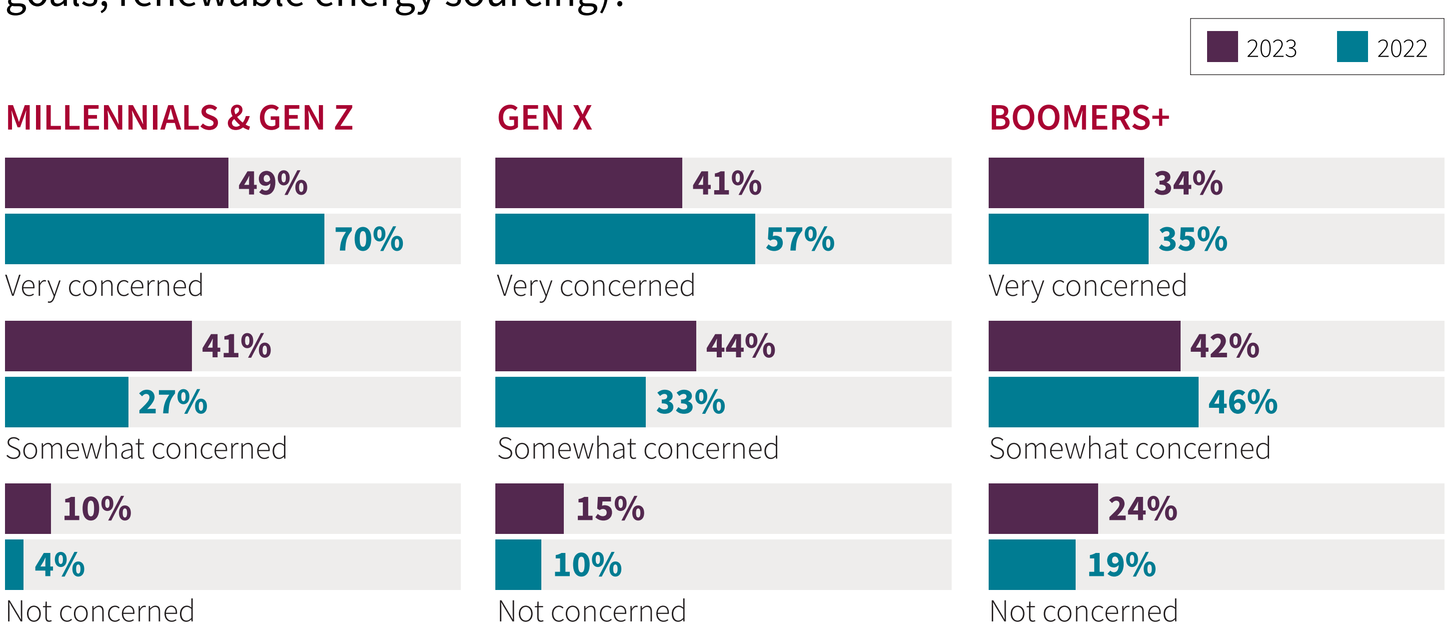
CONTINUED: Approximately how much money in total do you have invested in the stock market, across all of your accounts?



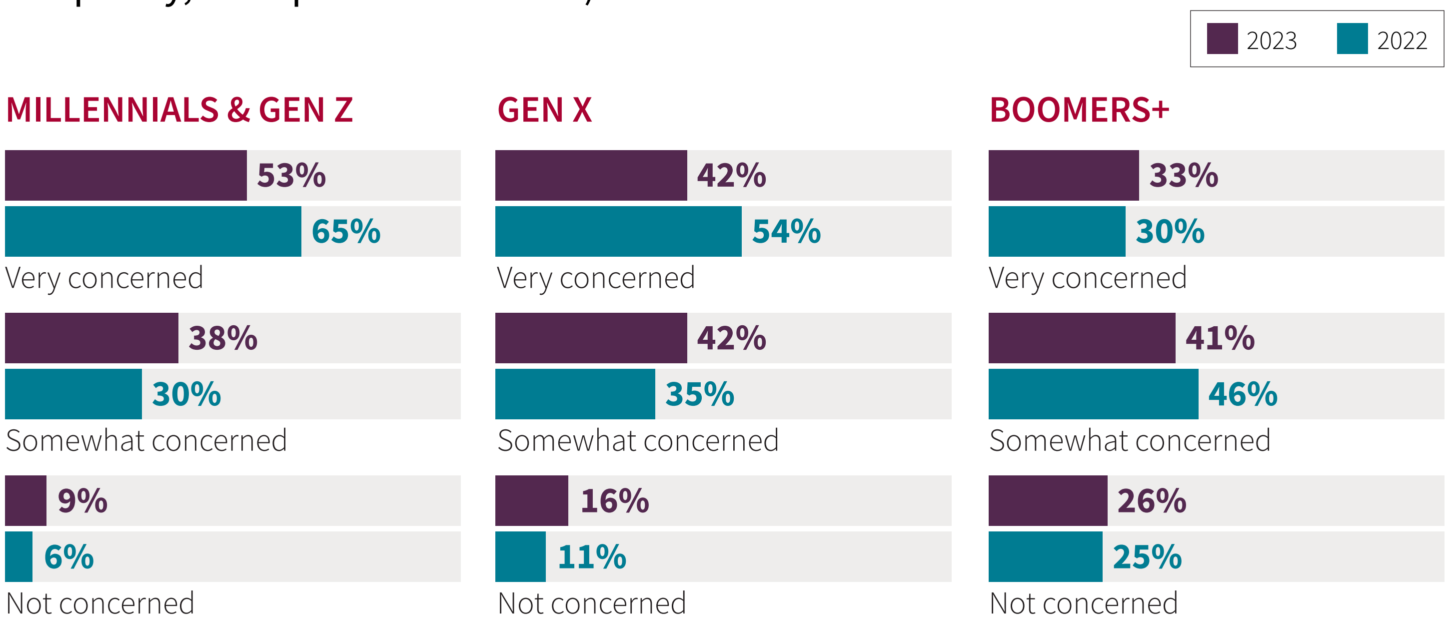
How knowledgeable are you about the stock market and the companies you are invested in through the stock market?



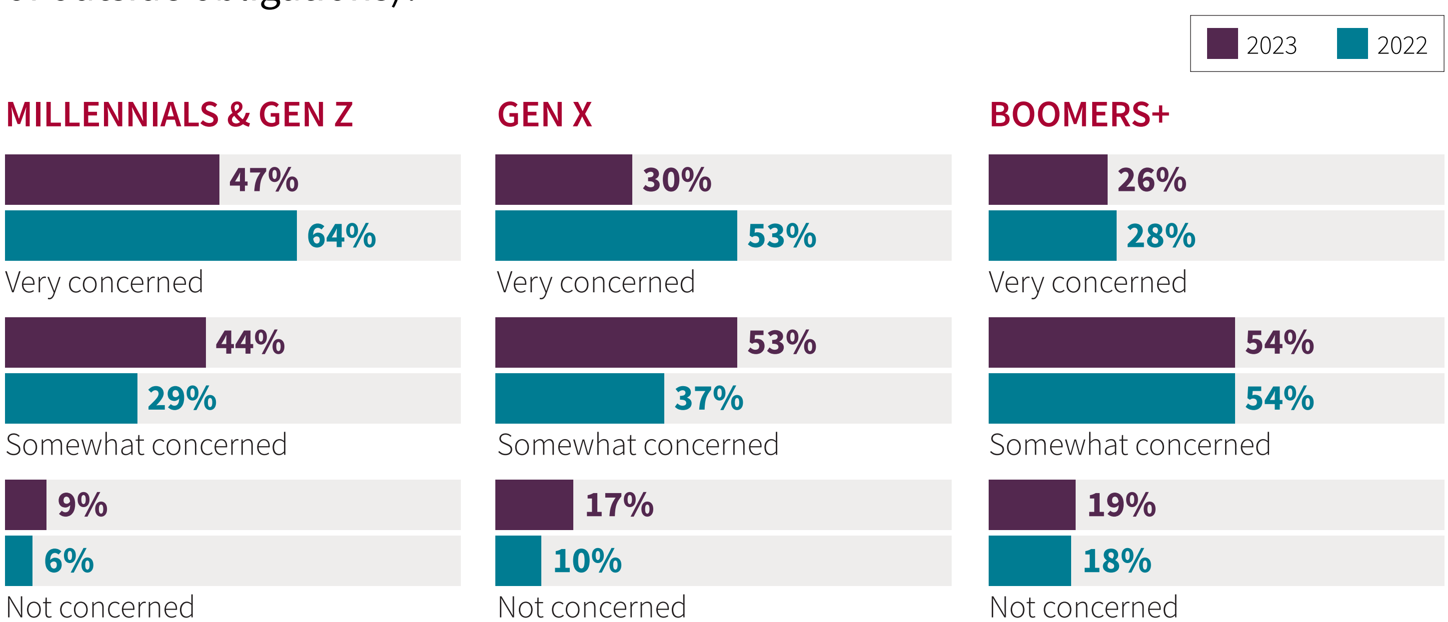
How concerned are you about environmental issues (e.g., carbon emissions goals, renewable energy sourcing)?



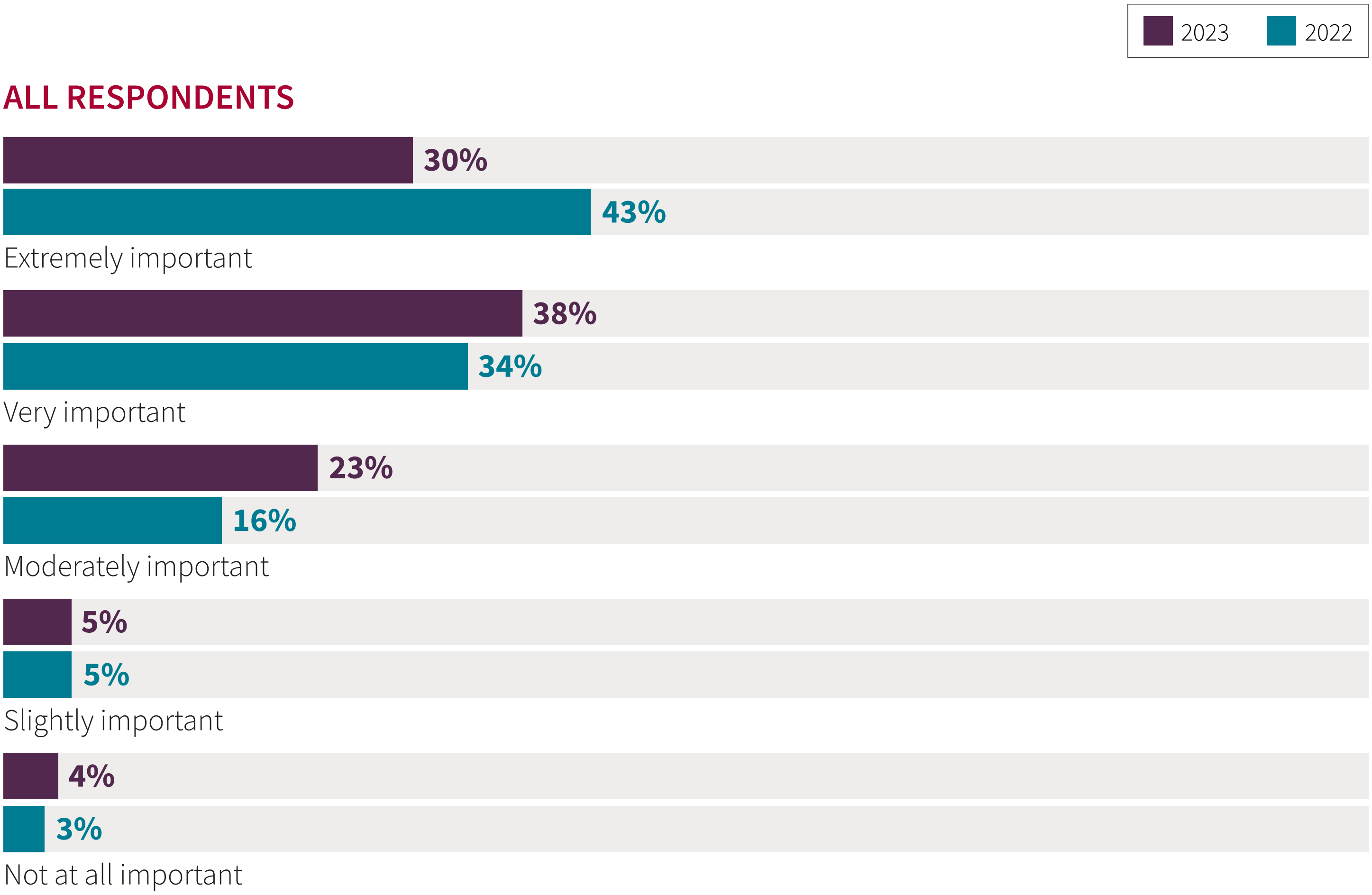
How concerned are you about social issues (e.g., workplace diversity, income inequality, workplace conditions)?



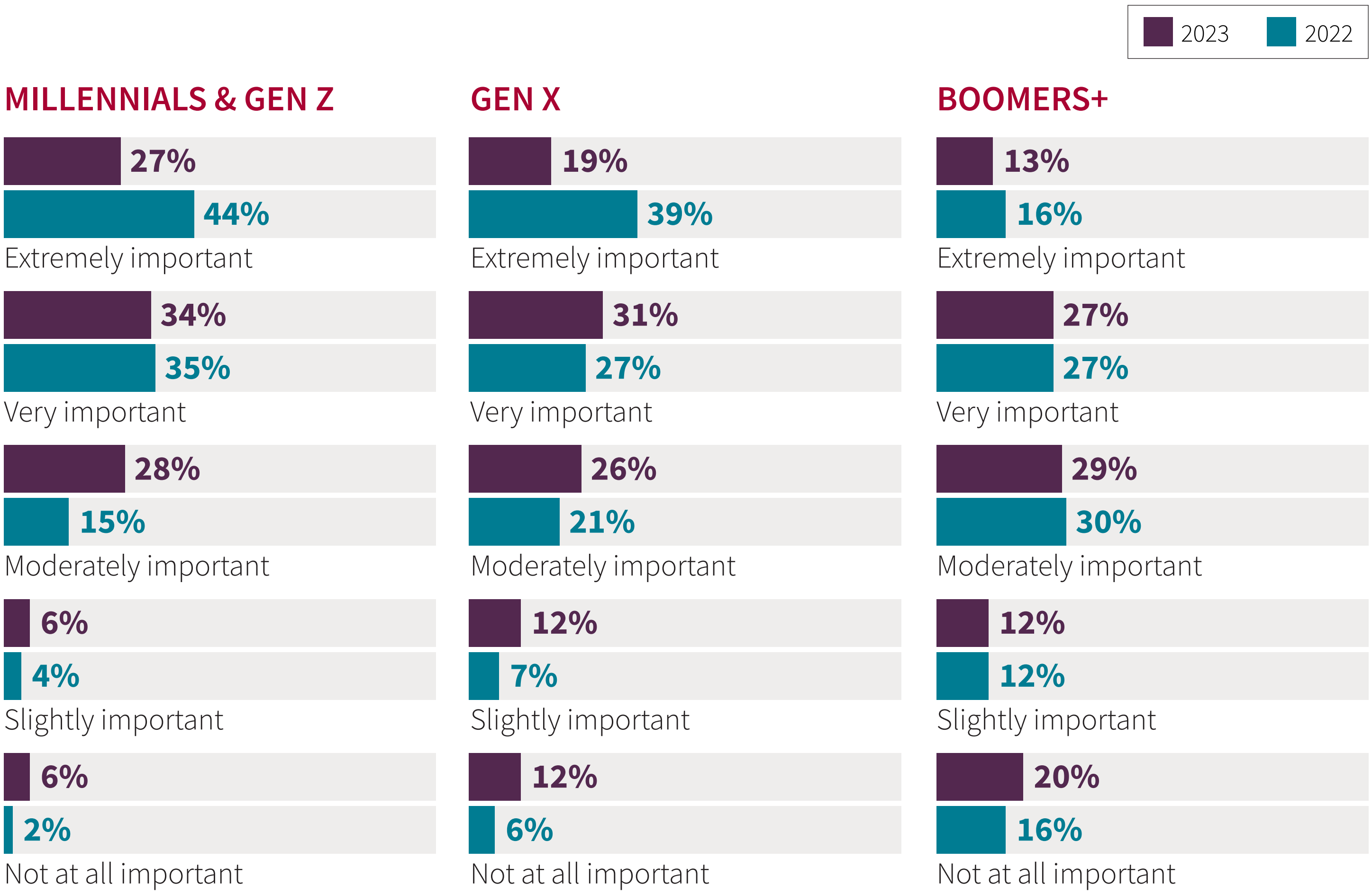
How concerned are you about governance issues (e.g., CEO also serving as board chair, independence of the board, and board members not overly busy in terms of outside obligations)?



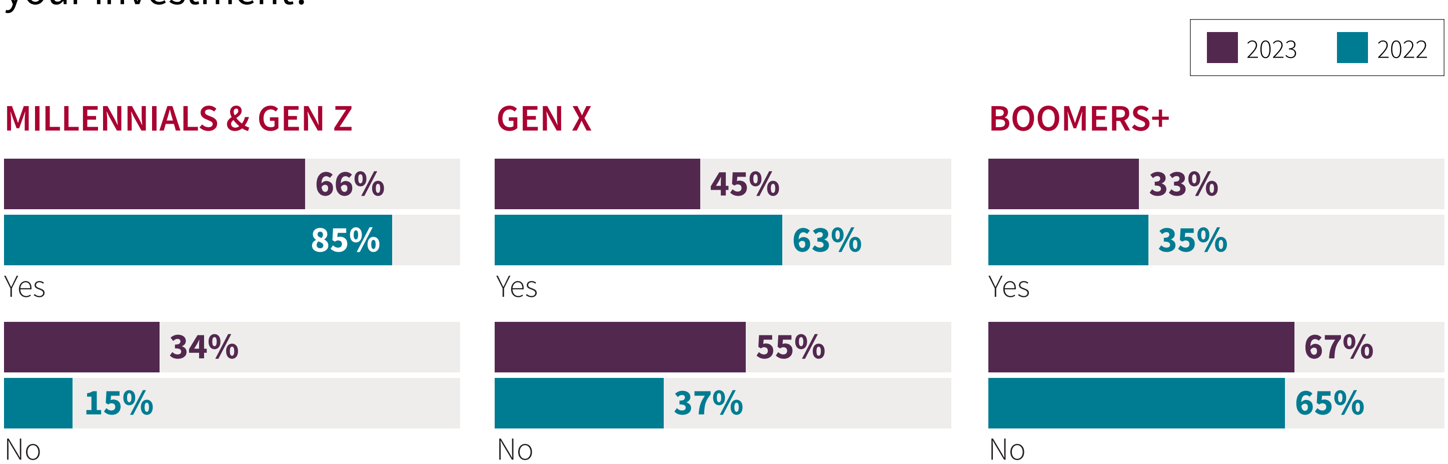
How important is it to you that an investment company that purchases stocks for you (through a mutual fund or ETF) uses its size and voting power to maximize the economic value of your investment?



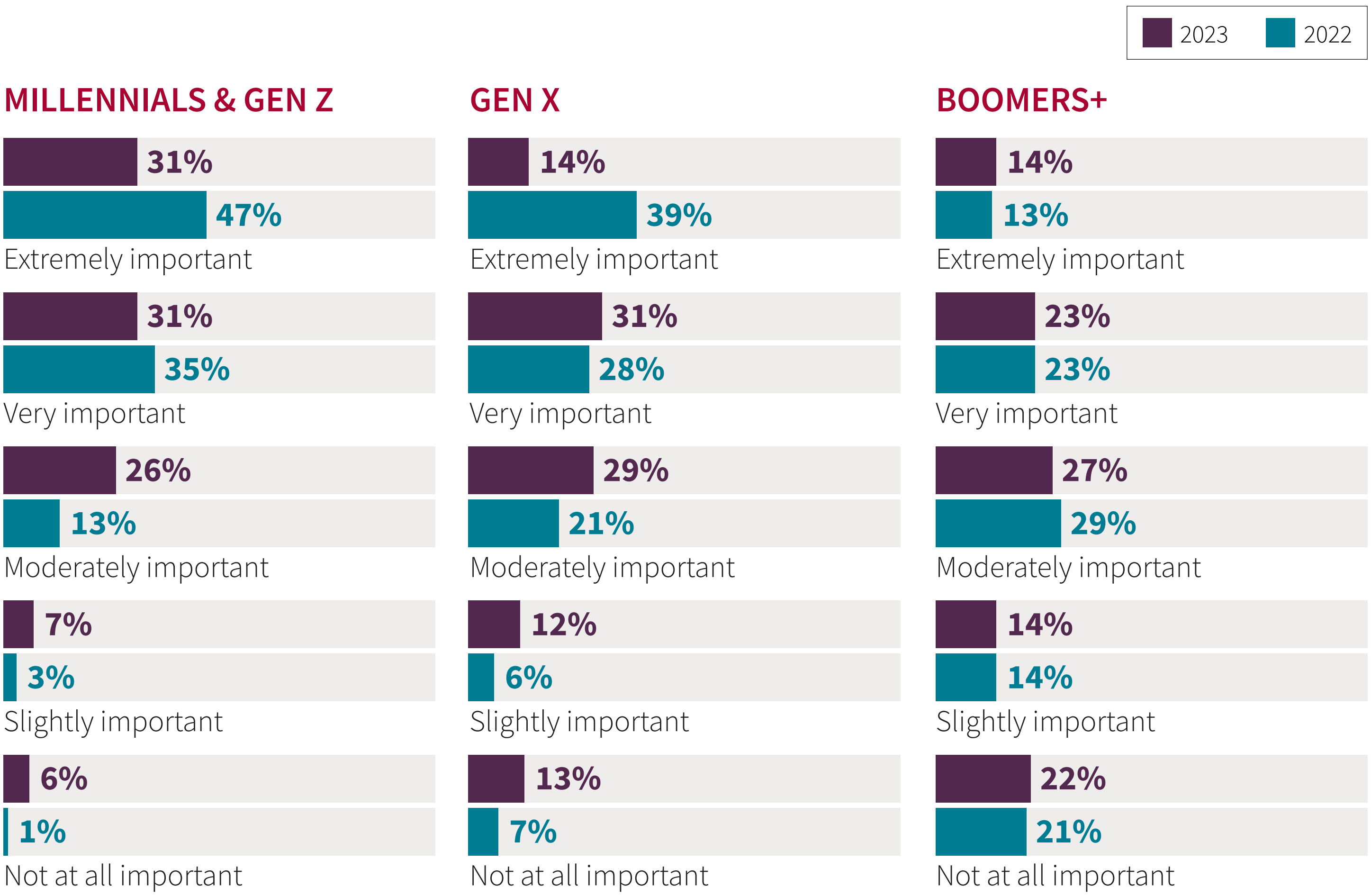
How important is it to you that an investment company that purchases stocks for you (through a mutual fund or ETF) uses its size and voting power to influence the environmental practices of the companies it invests in for you?



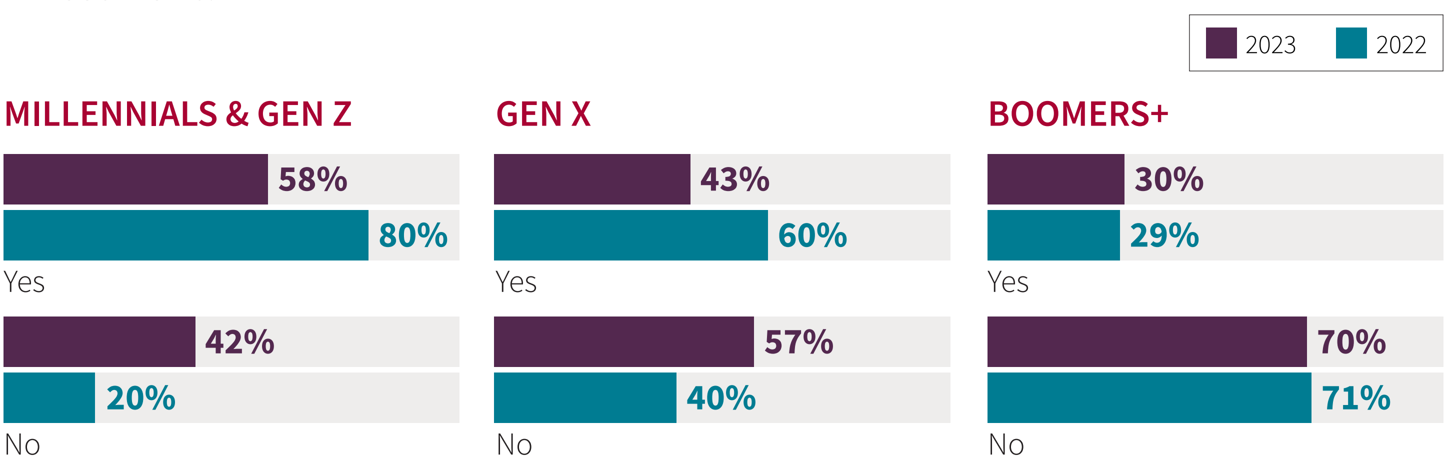
Should the investment company use its size and power to influence the environmental practices of these companies, if doing so decreases the value of your investment?



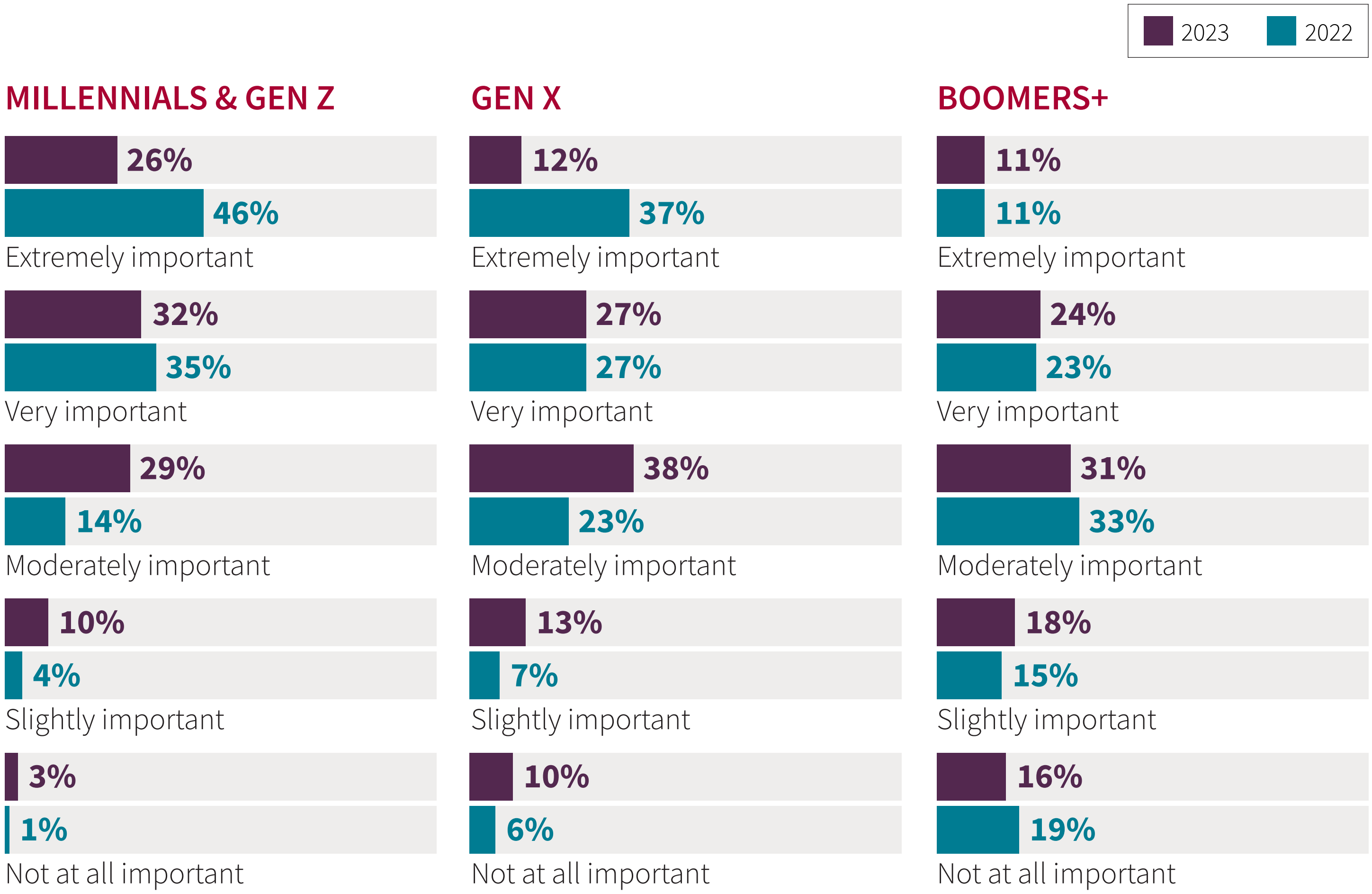
How important is it to you that an investment company that purchases stocks for you (through a mutual fund or ETF) uses its size and voting power to influence the social policies or practices (e.g., management diversity, income disparity between top management and workers) of the companies it invests in for you?



Should the investment company use its size and power to influence the social policies or practices of these companies, if doing so decreases the value of your investment?



How important is it to you that an investment company that purchases stocks for you (through a mutual fund or ETF) uses its size and voting power to influence the governance practices of the companies it invests in for you?



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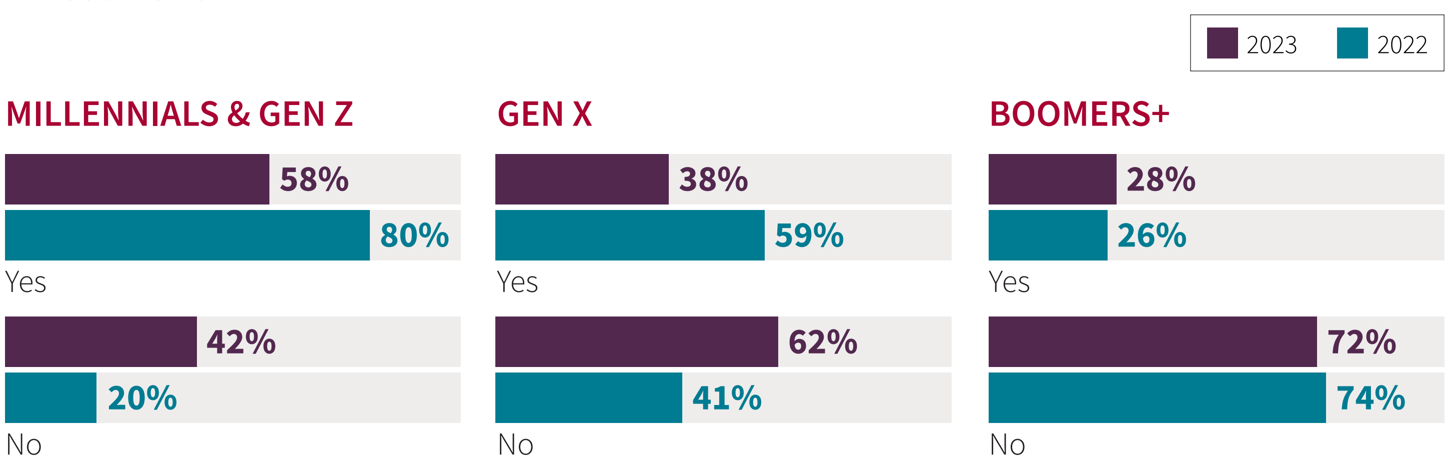
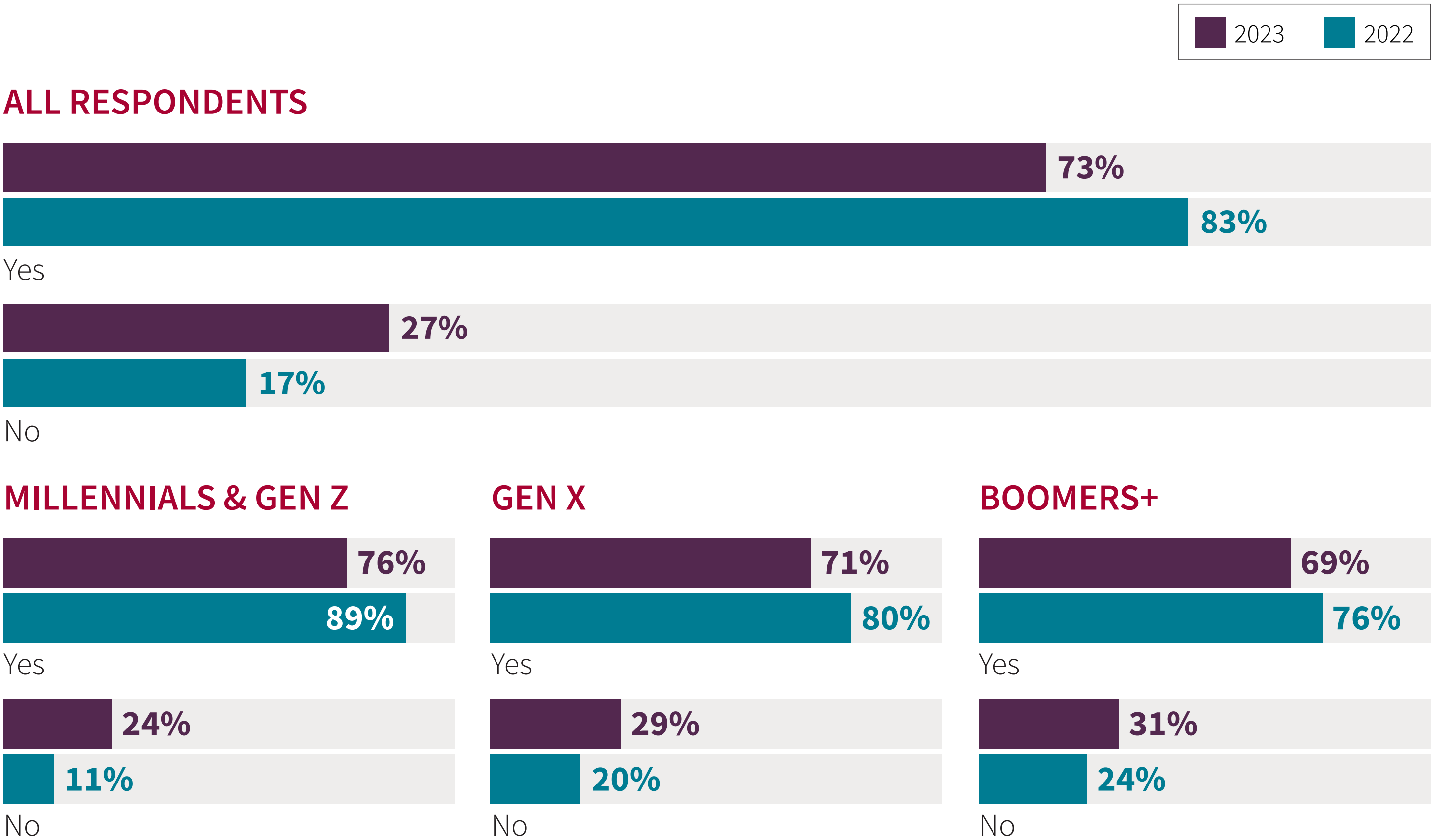
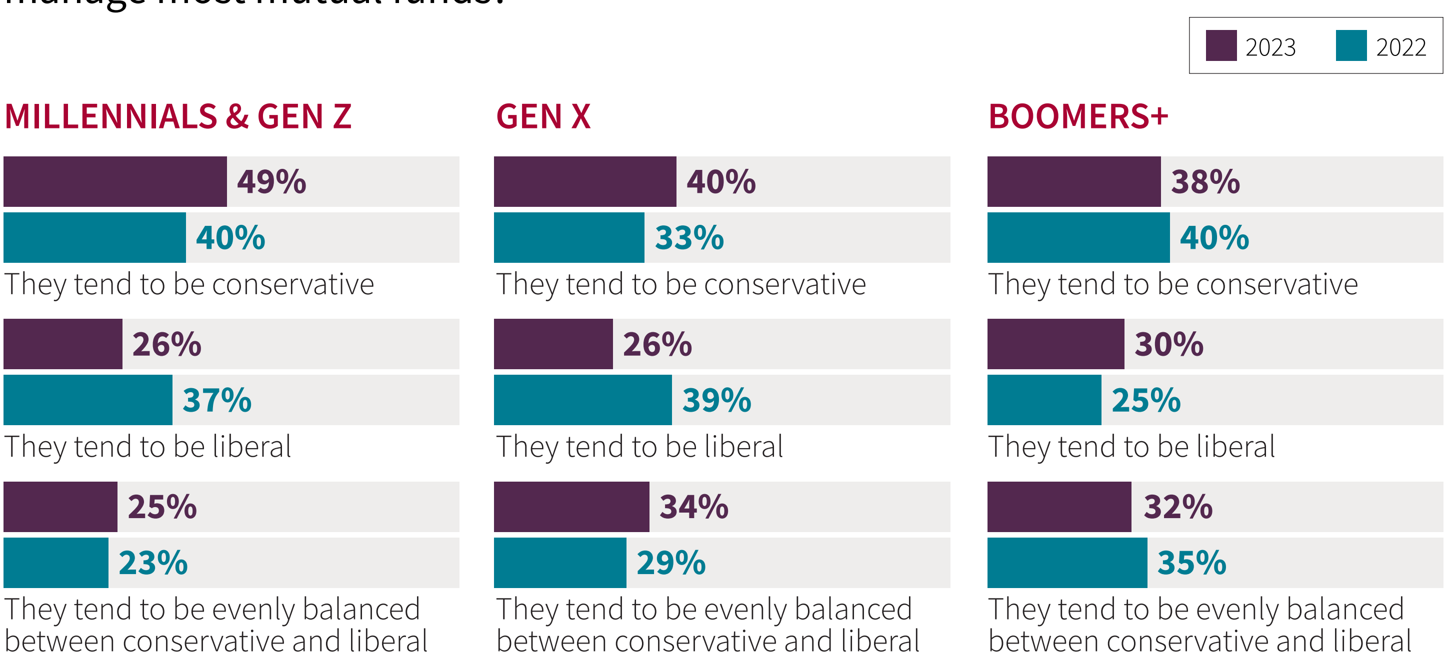


Public companies in the U.S. are required to hold an annual vote with shareholders on certain proposals that shareholders would like management to implement at the company. Should a mutual fund manager take into account your personal views when it uses shares owned by you to vote on environmental or social issues?



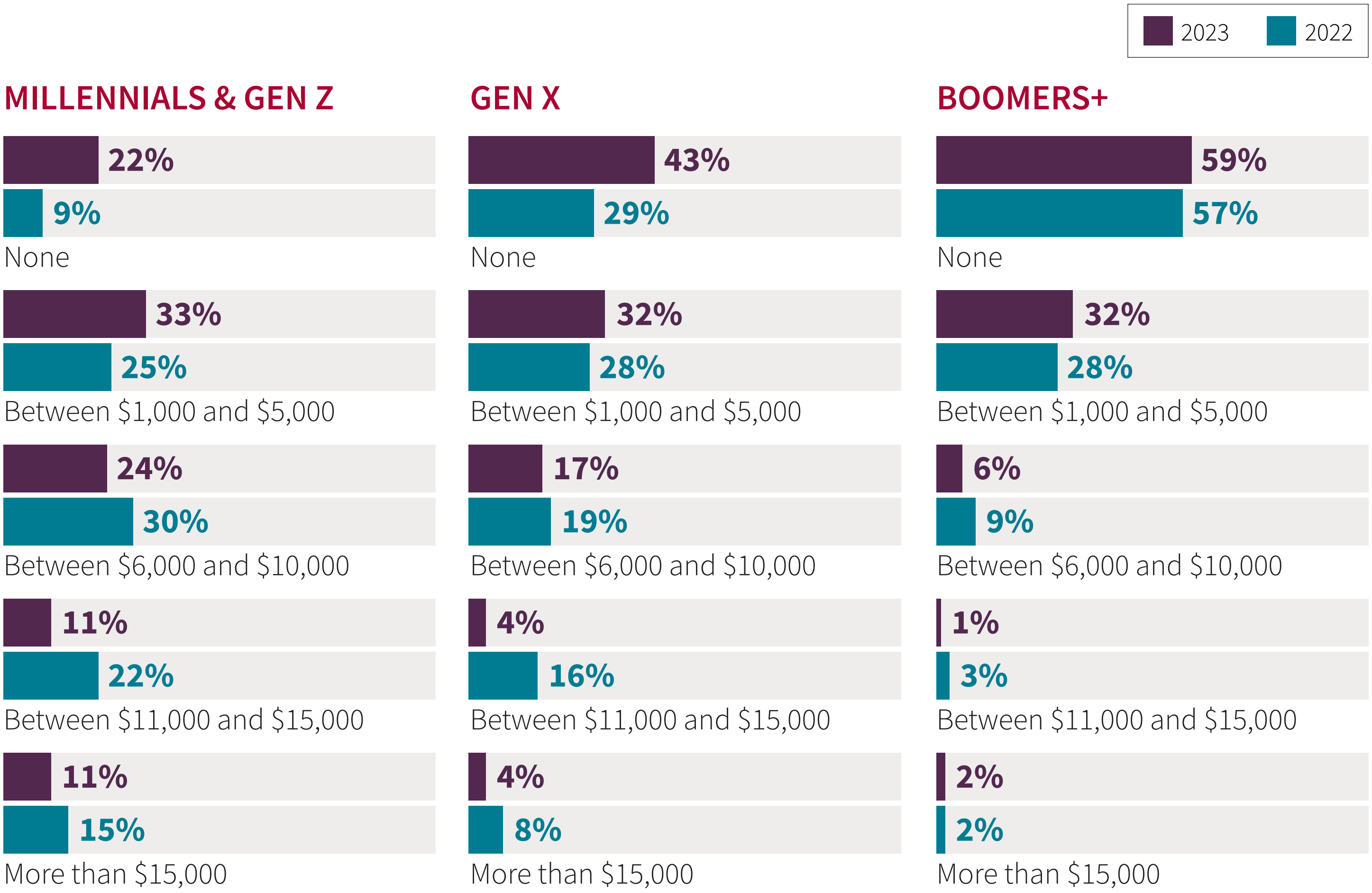
In general, what do you think are the political leanings of the individuals who manage most mutual funds?



Environmental

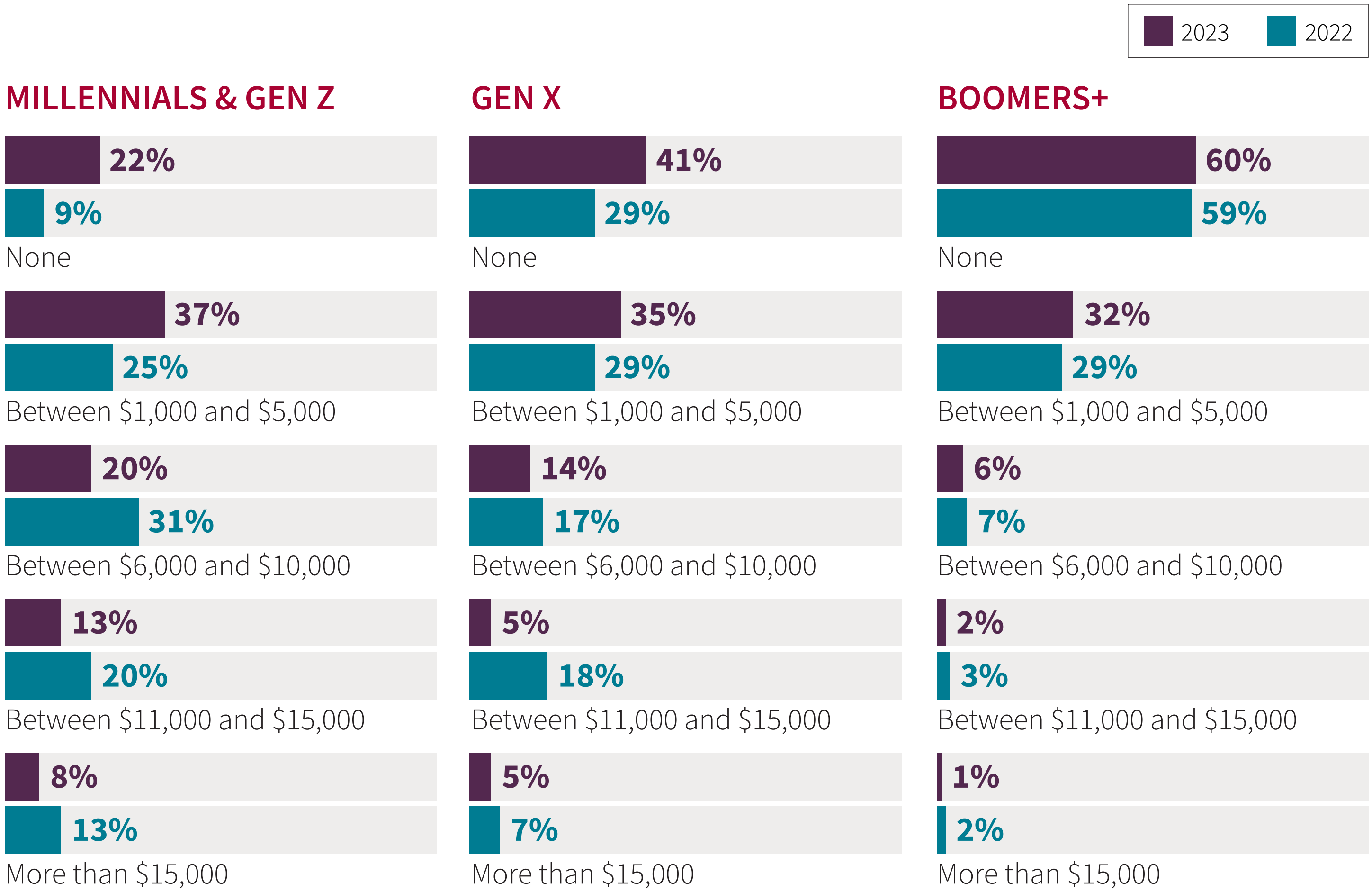
CARBON EMISSION REDUCTIONS

Assume you have retirement savings of $100,000. How much would you be willing to lose in retirement savings to have the companies you are invested in change from industry-standard carbon emission levels to a “net zero” by 2050?



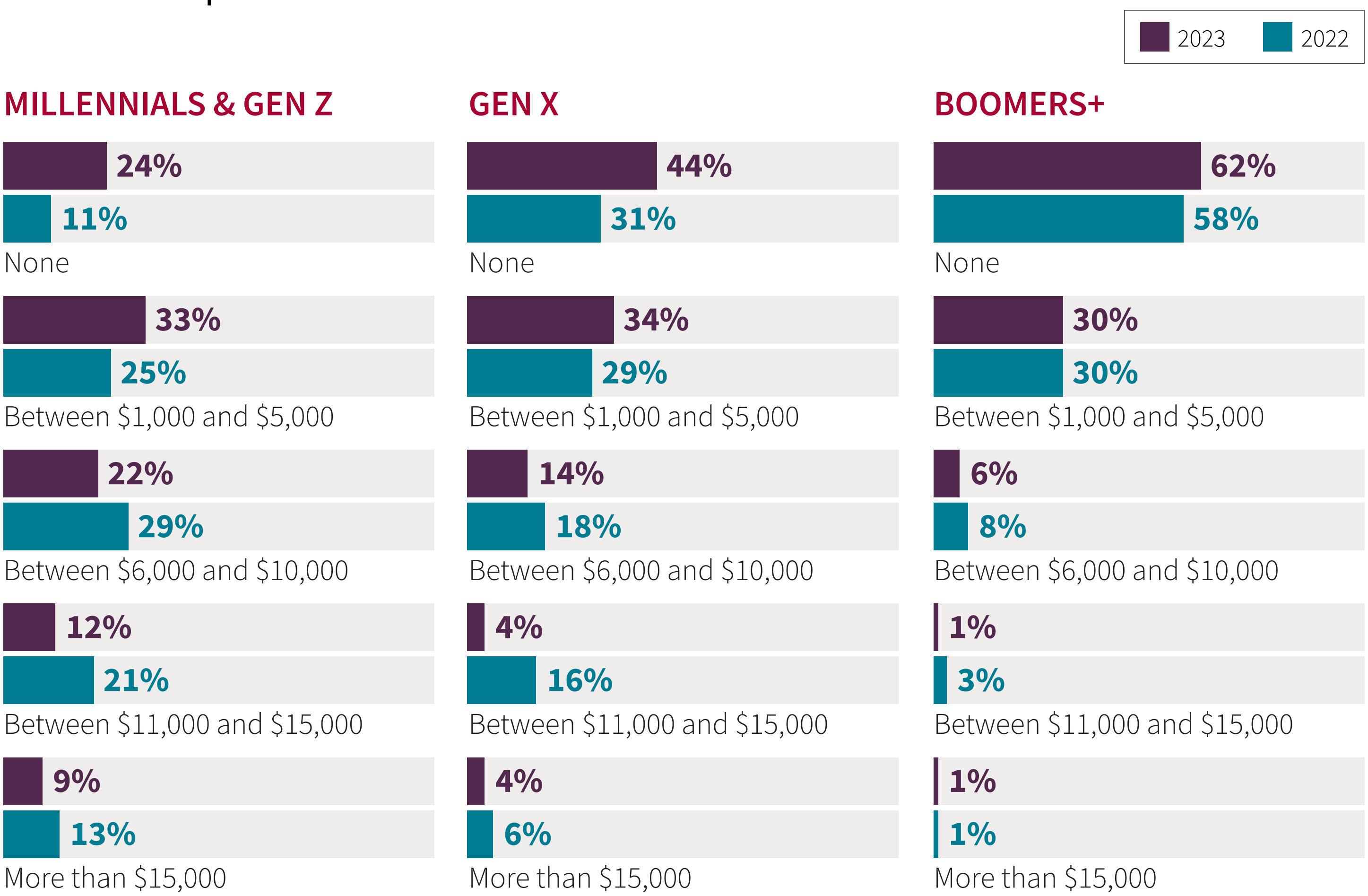
RENEWABLE ENERGY SOURCING IN SUPPLY CHAIN

Assume you have retirement savings of $100,000. How much would you be willing to lose in retirement savings to have the companies you are invested in change from industry-standard levels of renewable energy usage by suppliers to requiring 100% renewable energy?



PRODUCT SUSTAINABILITY

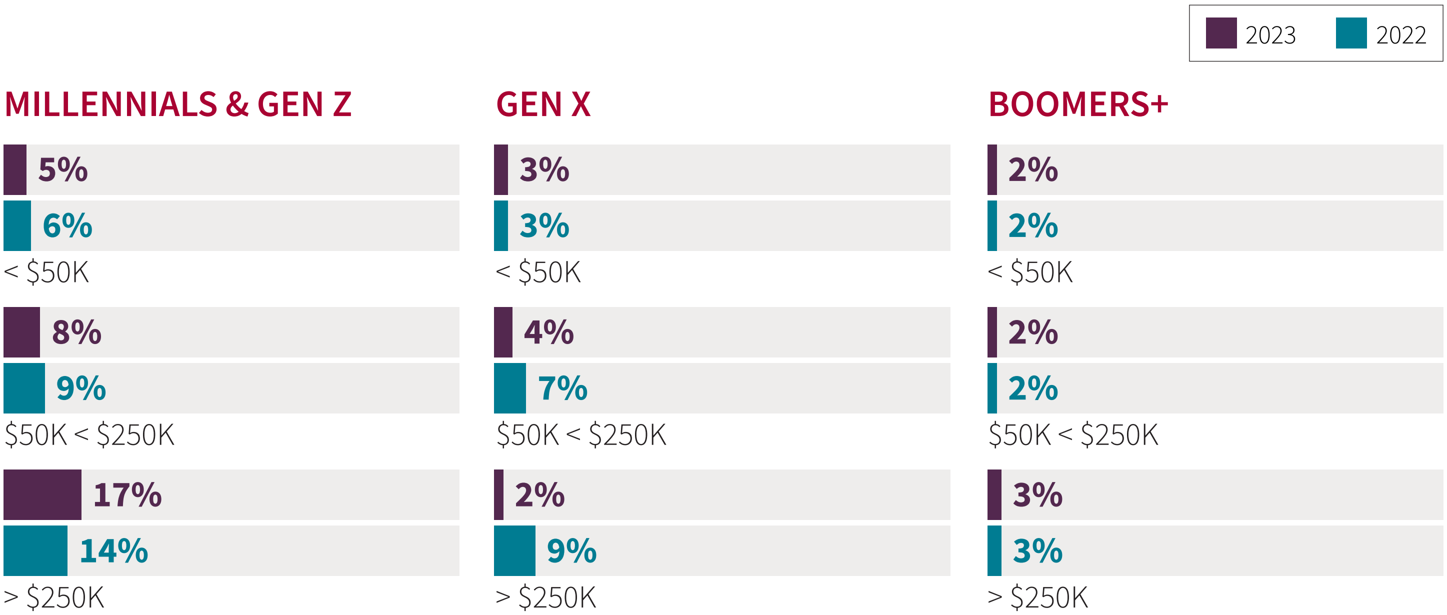
Assume you have retirement savings of $100,000. How much would you be willing to lose in retirement savings to have the companies you are invested in change from industry-standard levels of product sustainability to requiring 100% sustainable products?



Wealth & Age

Percentages represent average percent respondents are willing to lose, based on midpoints.

CARBON EMISSION REDUCTIONS



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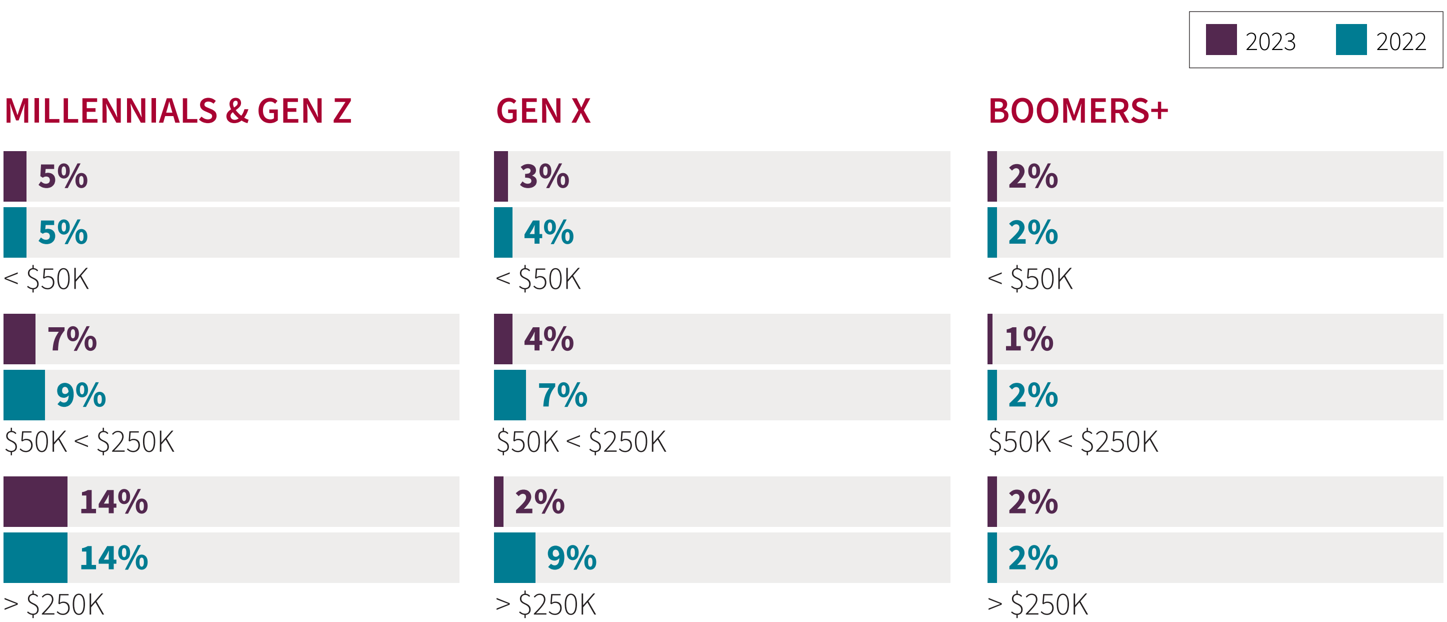

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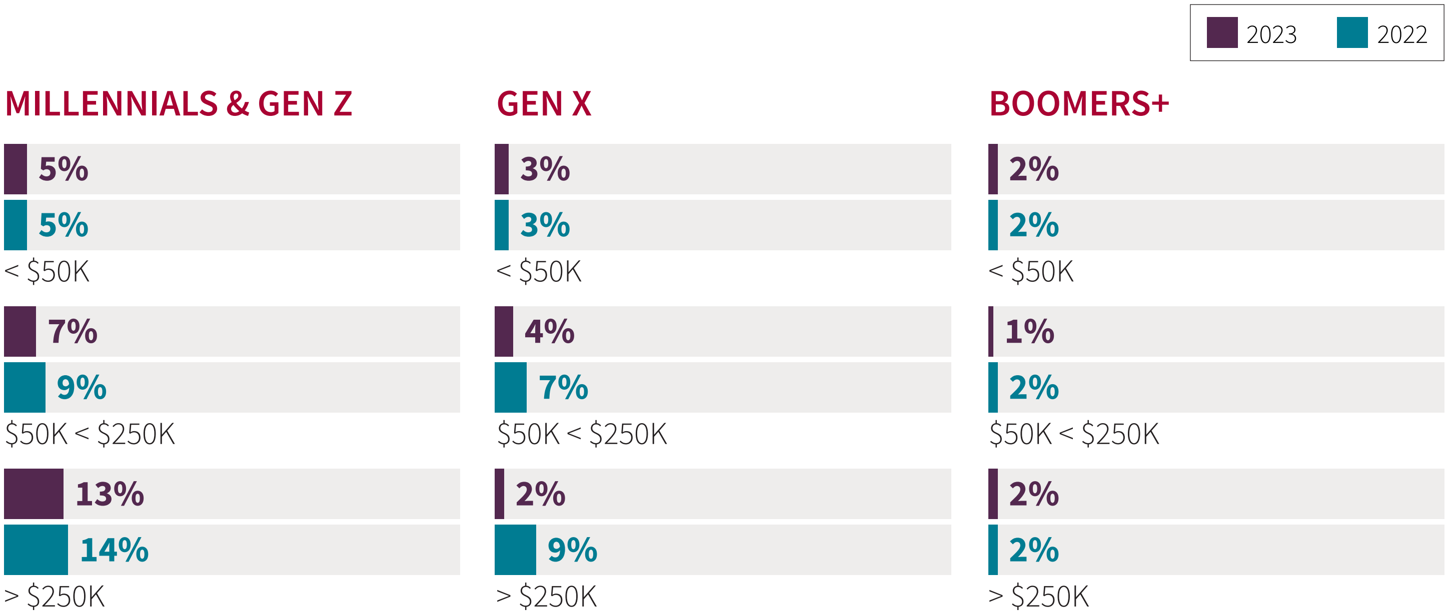
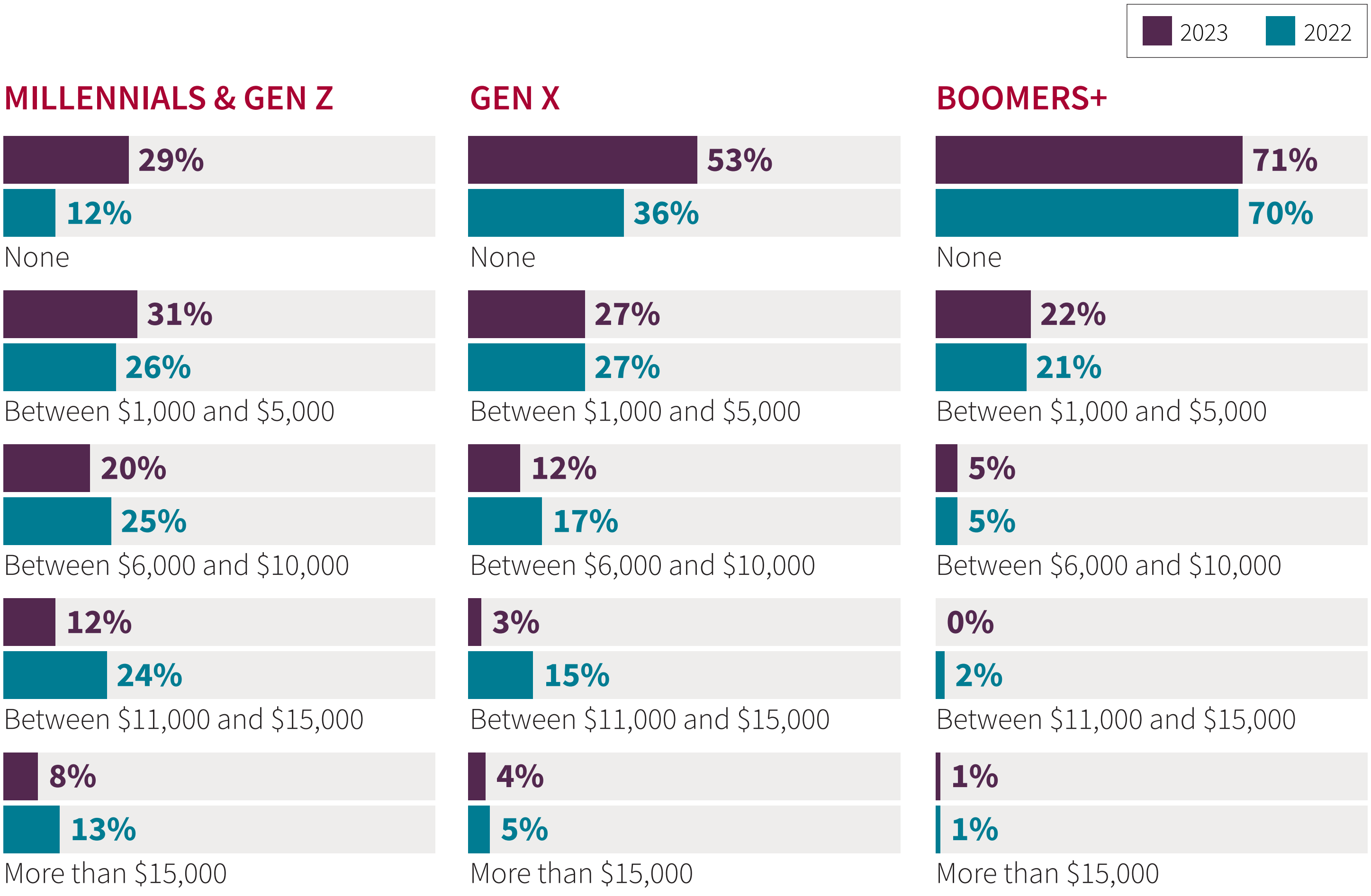


Social

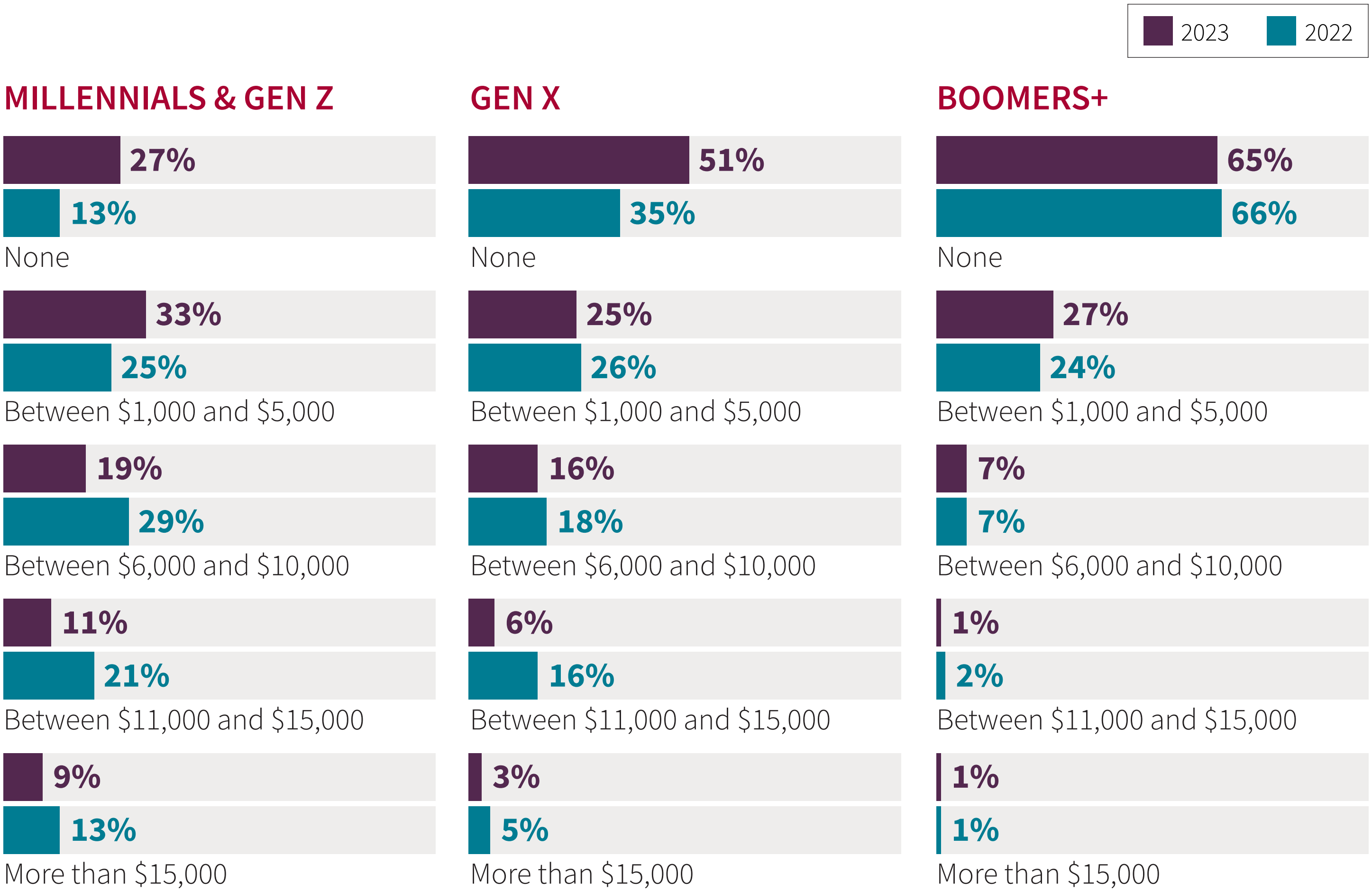
WORKPLACE DIVERSITY

Assume you have retirement savings of $100,000. How much would you be willing to lose in retirement savings to have the companies you are invested in change from industry-average levels of gender and racial diversity to mirror the diversity levels of the general population?



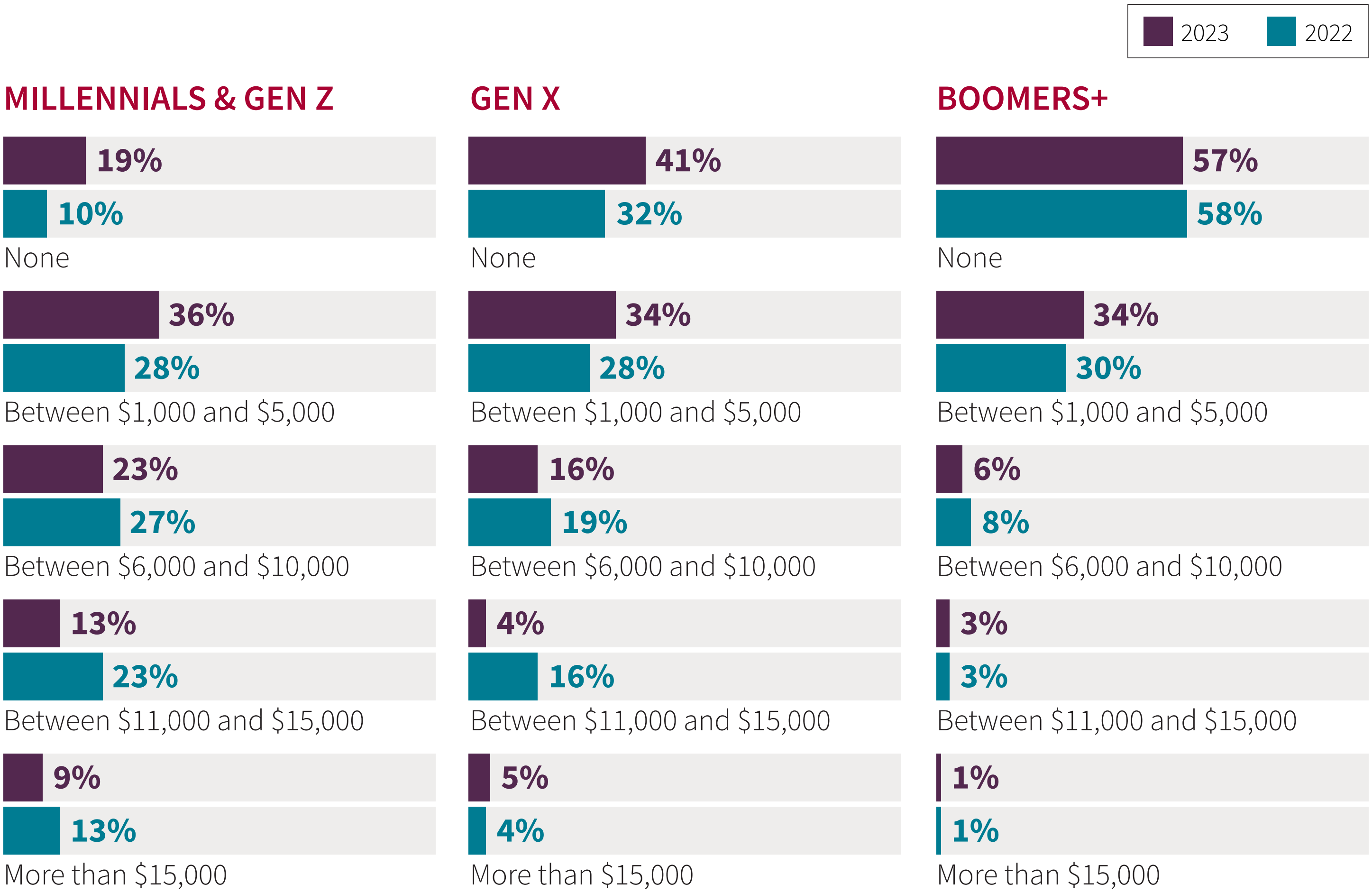
PAY INEQUALITY

Assume you have retirement savings of $100,000. How much would you be willing to lose in retirement savings to have the companies you are invested in change from industry-average gender wage inequality to no gender wage inequality?



LABOR WORKING CONDITIONS

Assume you have retirement savings of $100,000. How much would you be willing to lose in retirement savings to have the companies you are invested in be required to provide the following to all employees: healthcare coverage for domestic partners, parental leave, onsite daycare, flexible work hours?



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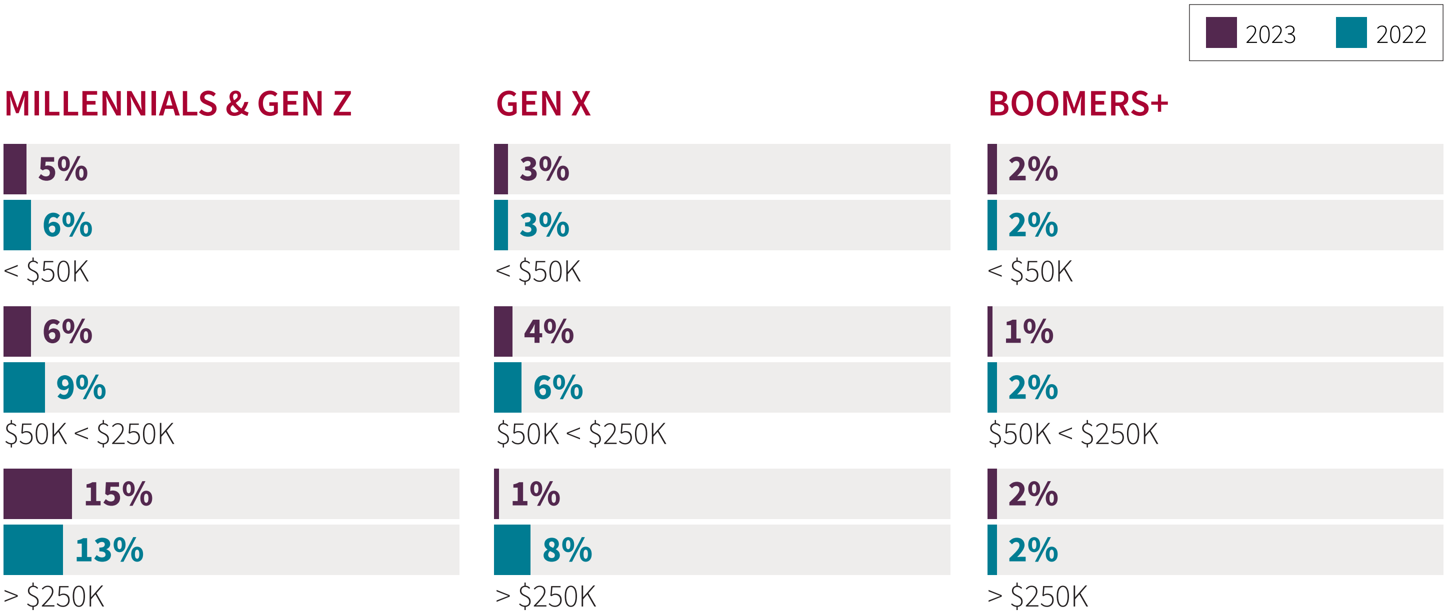
WORKPLACE DIVERSITY



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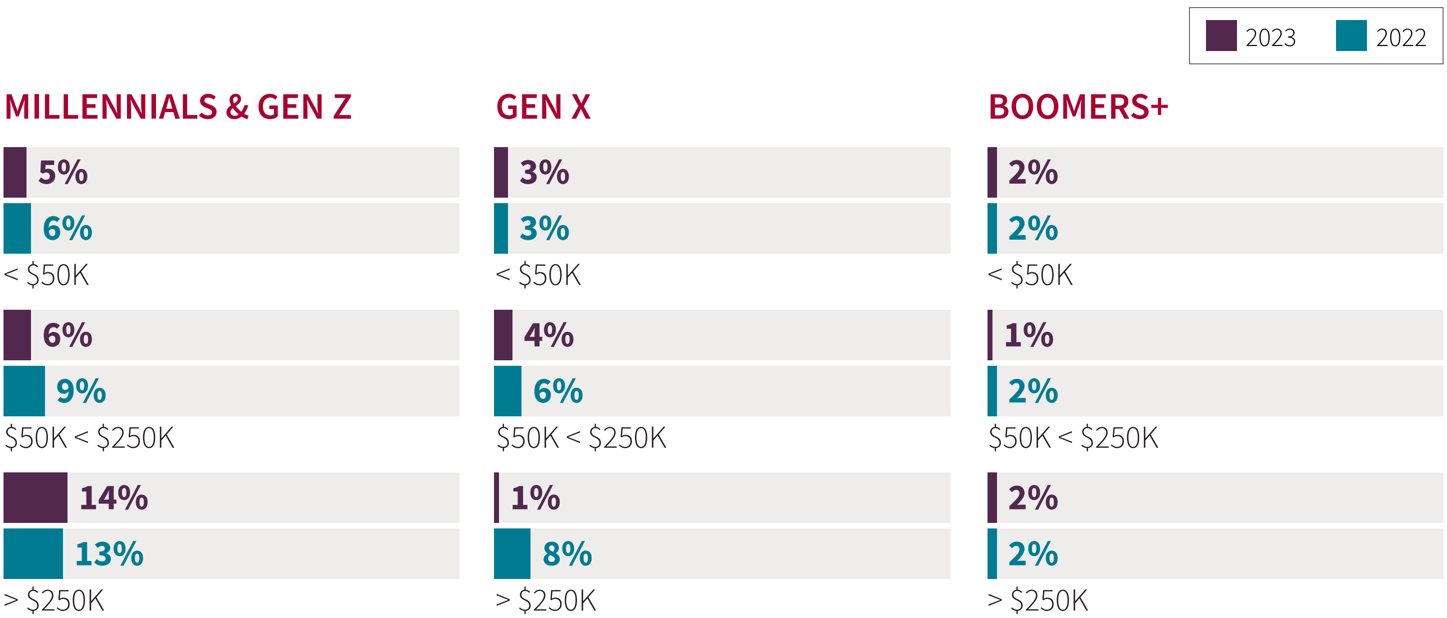
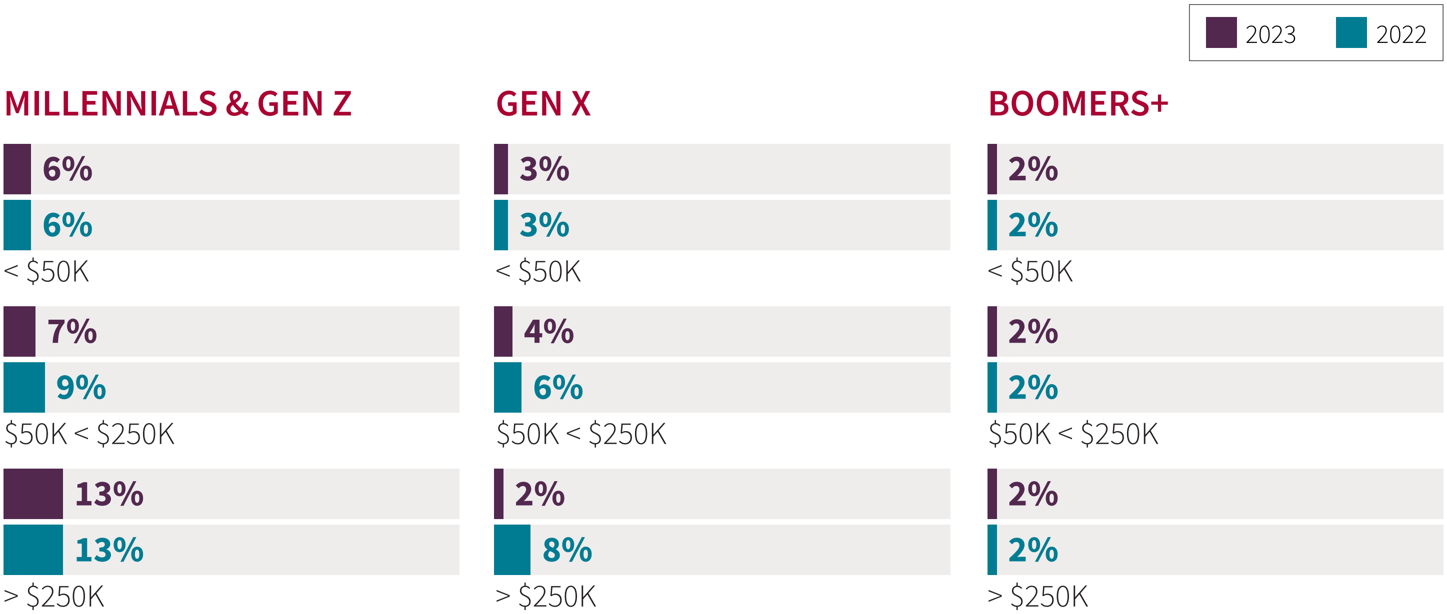


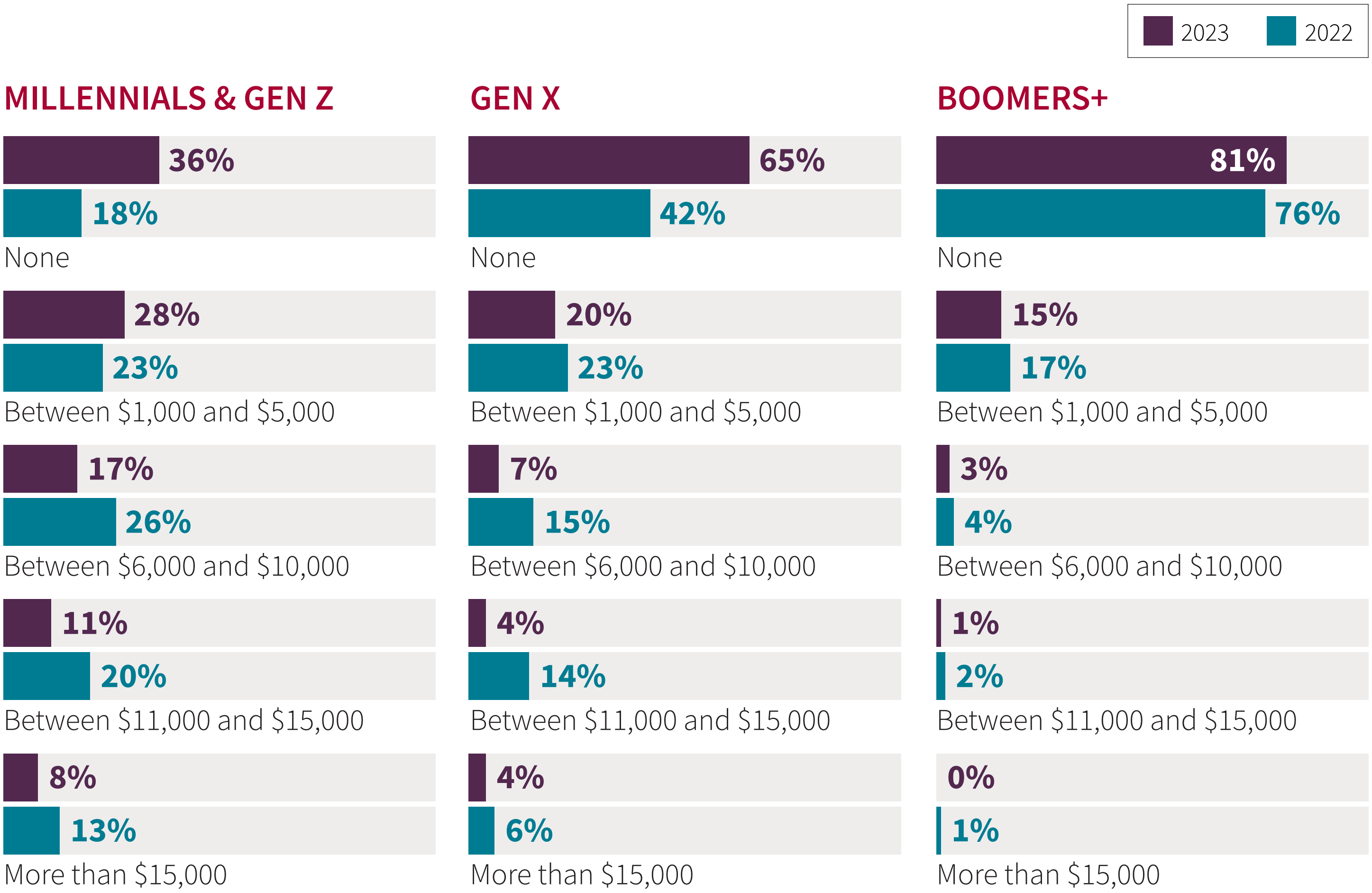
LABOR WORKING CONDITIONS



Governance

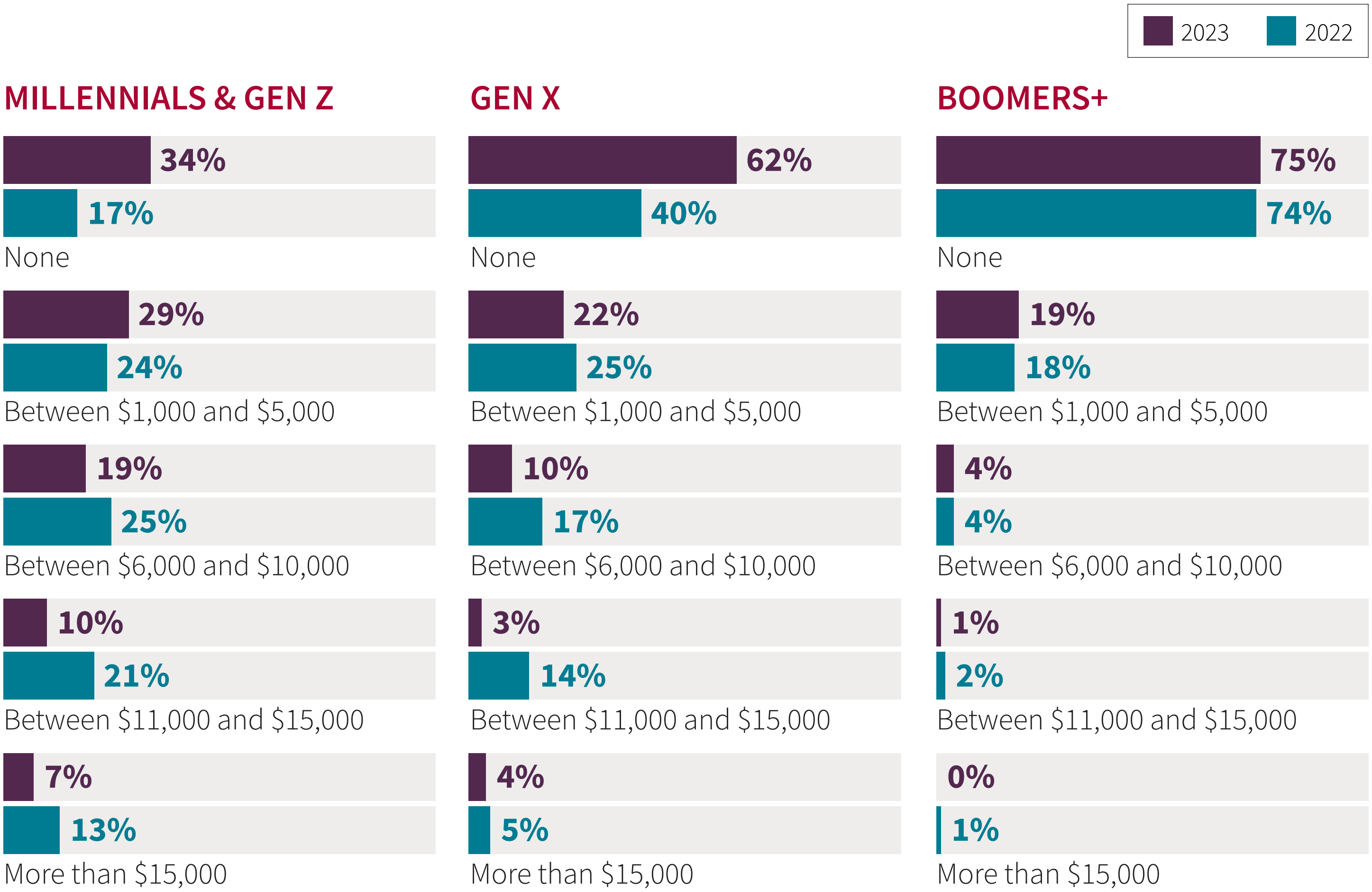
CEO ALSO CHAIRMAN OF THE BOARD

Assume you have retirement savings of $100,000. How much would you be willing to lose in retirement savings to have the companies you are invested in be required to separate the chairman and CEO roles?



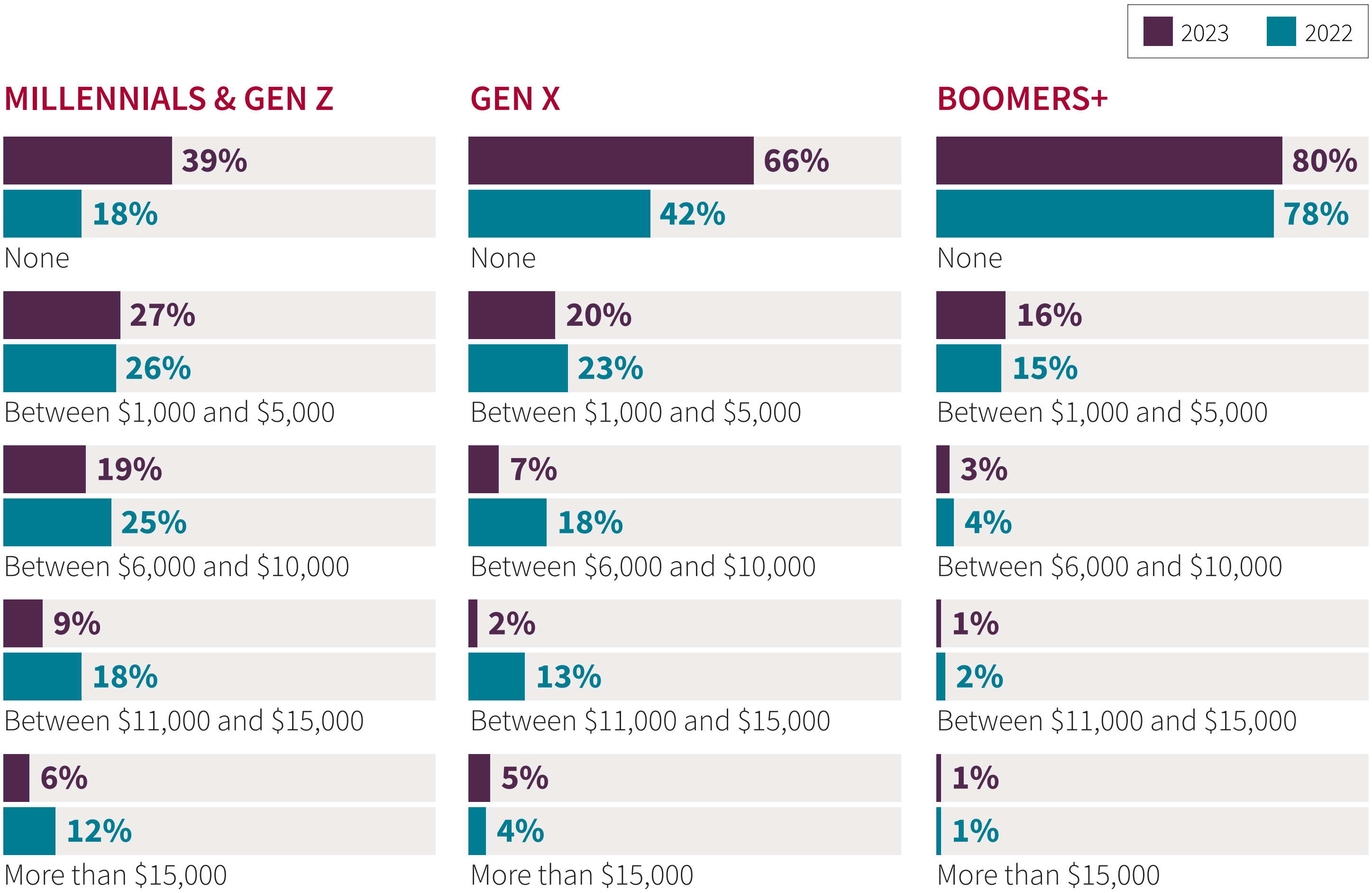
INDEPENDENCE OF THE BOARD

Assume you have retirement savings of $100,000. How much would you be willing to lose in retirement savings to have the companies you are invested in be required to have all board members with no personal or business relations with the company (other than the CEO)?



BOARD MEMBERS NOT OVERLY BUSY IN TERMS OF OUTSIDE OBLIGATIONS

Assume you have retirement savings of $100,000. How much would you be willing to lose in retirement savings to have the companies you are invested in limit the number of other board positions their directors can hold to two or less?



Wealth & Age

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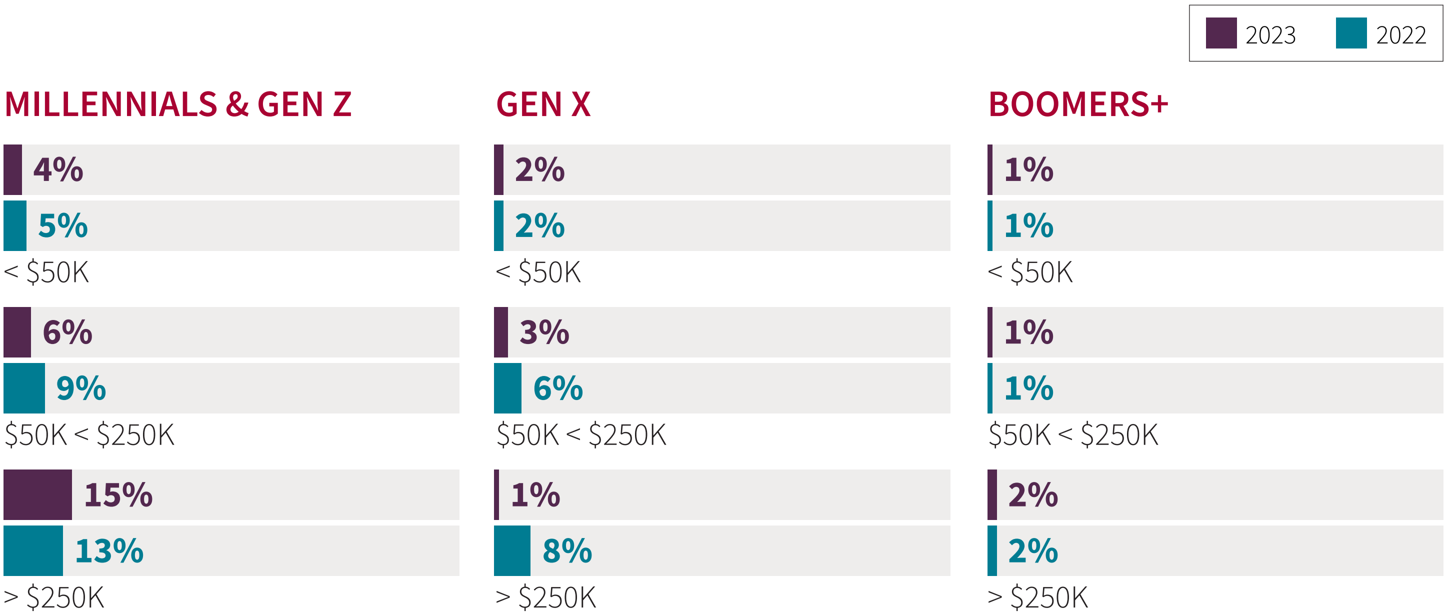
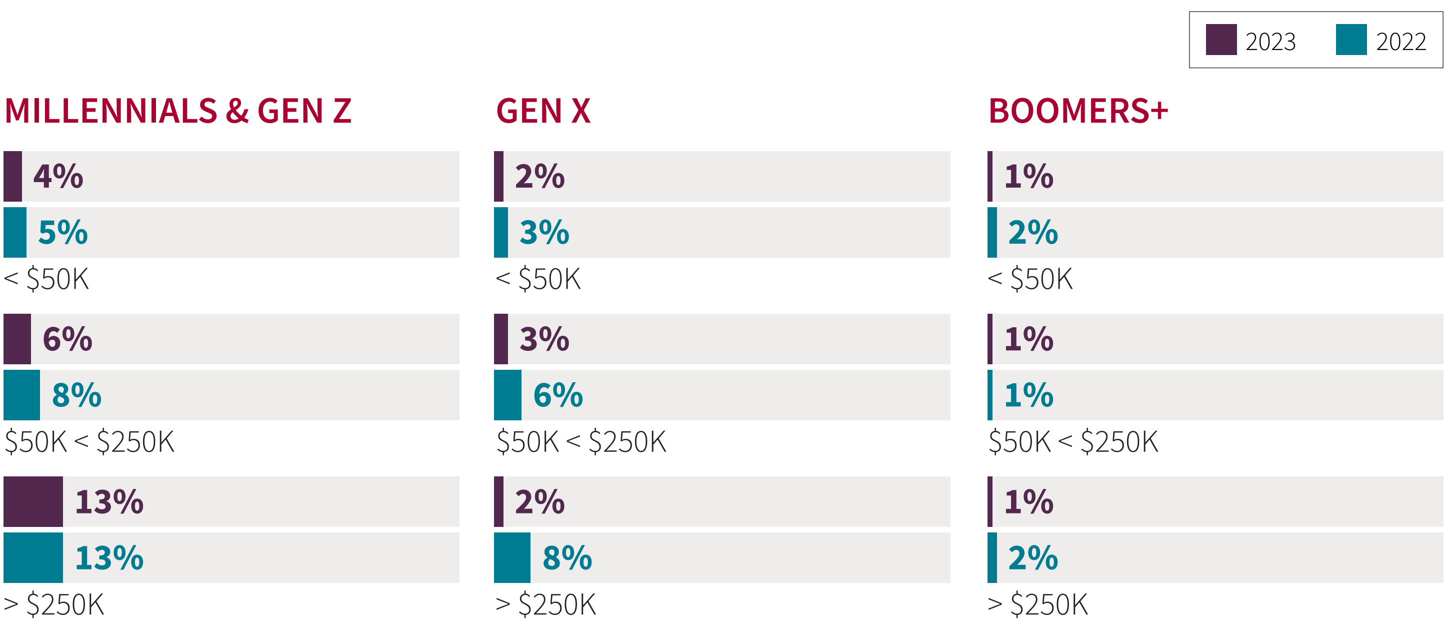
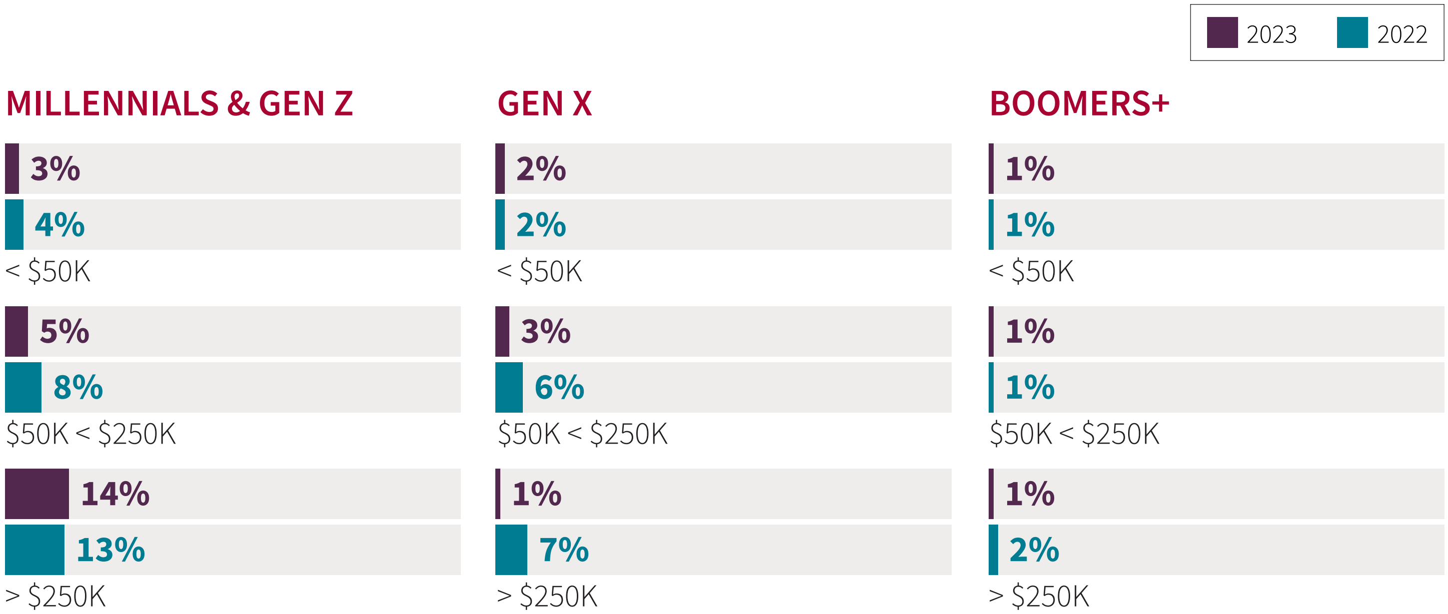
CEO ALSO CHAIRMAN OF THE BOARD



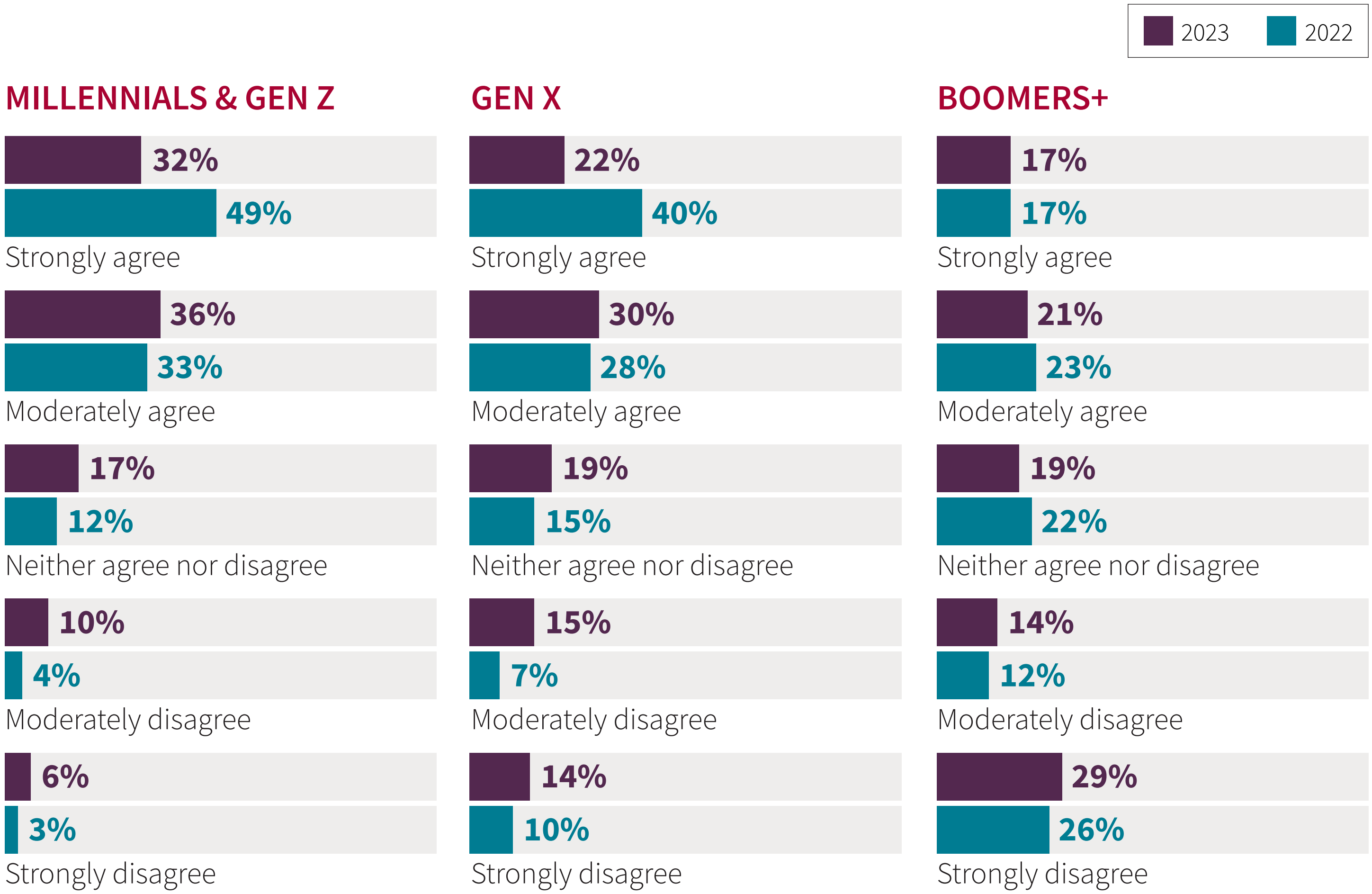
INDEPENDENCE OF THE BOARD



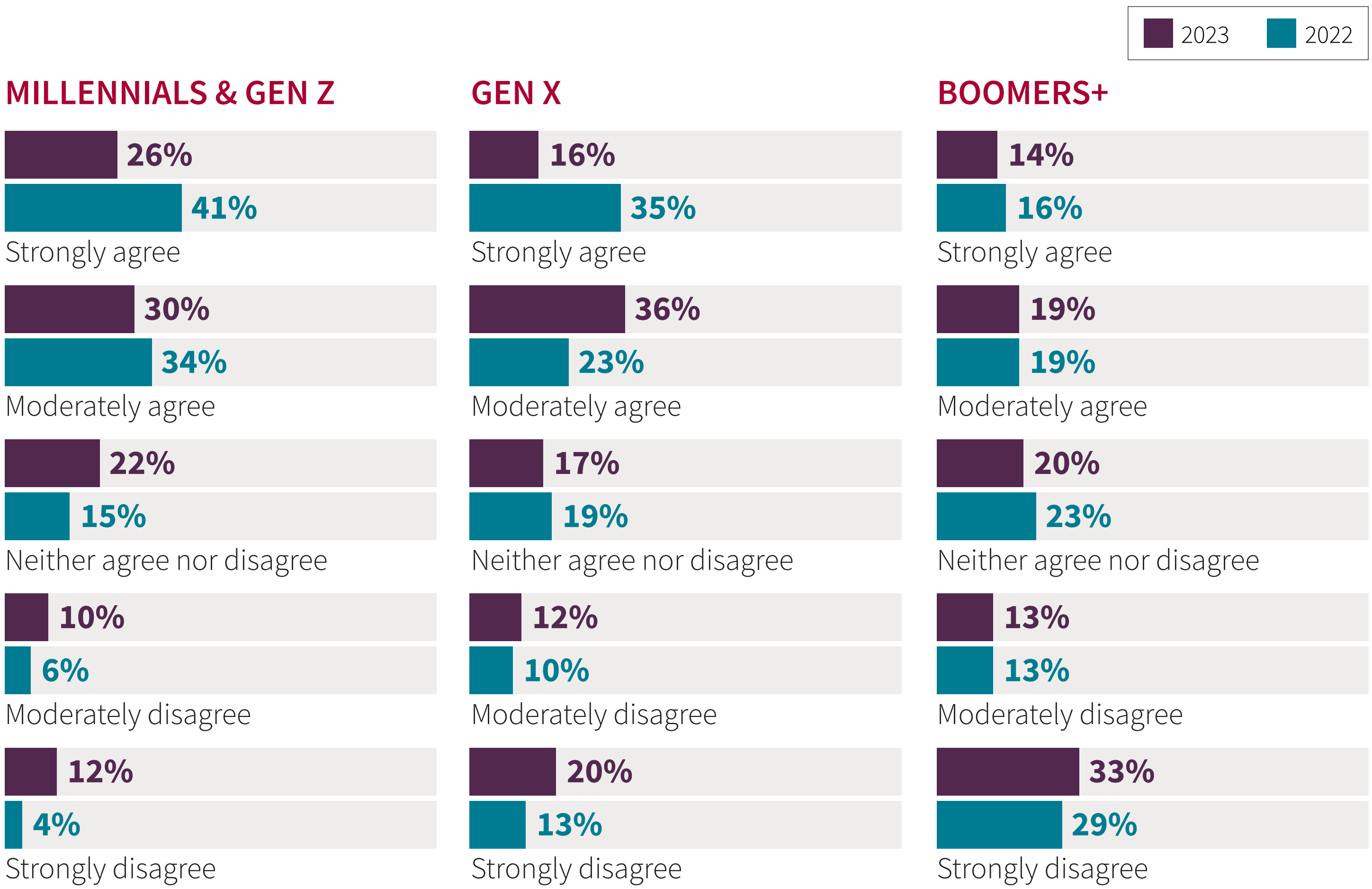
BOARD MEMBERS NOT OVERLY BUSY IN TERMS OF OUTSIDE OBLIGATIONS



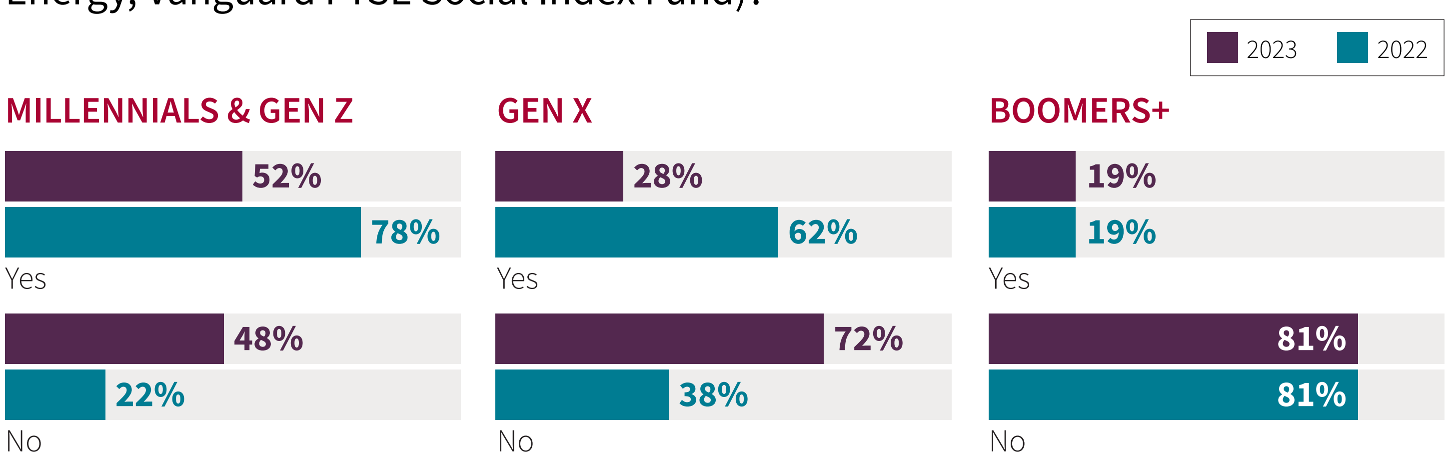
Recently, a large investment firm said it will vote against the directors of companies that are not moving fast enough to address climate change, without regard to the financial success of that company. Do you agree with this decision?



Recently, a large investment firm said it will vote against certain members of the board of directors if the board does not have at least one director from an underrepresented community, meaning one who self-identifies as Black, African American, Hispanic, Latino, Asian, Pacific Islander, Native American, Native Hawaiian, Alaska Native, gay, lesbian, bisexual, or transgender. They will vote this way without regard to the financial success of that company. Do you agree with this decision?



Do you currently own any mutual funds or exchange-traded funds that restrict themselves to socially responsible investing (or ESG—e.g., iShares Global Clean Energy, Vanguard FTSE Social Index Fund)?



Demographics

Age

AVERAGE

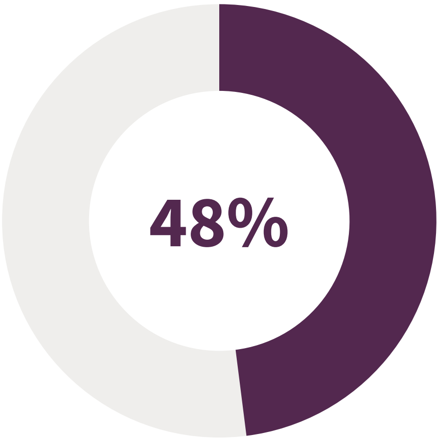
46 years old

MEDIAN

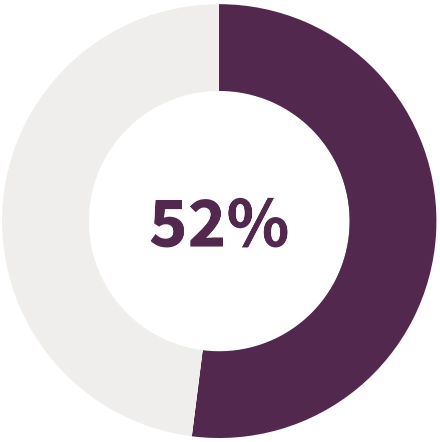
45 years old

Gender

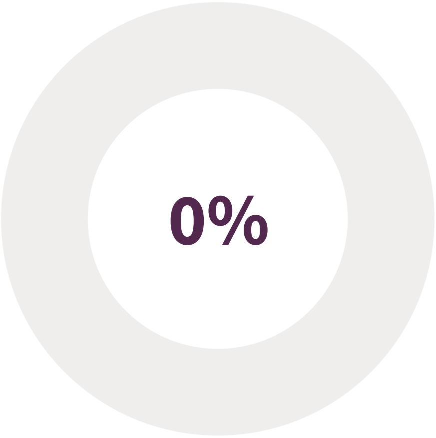
MALE



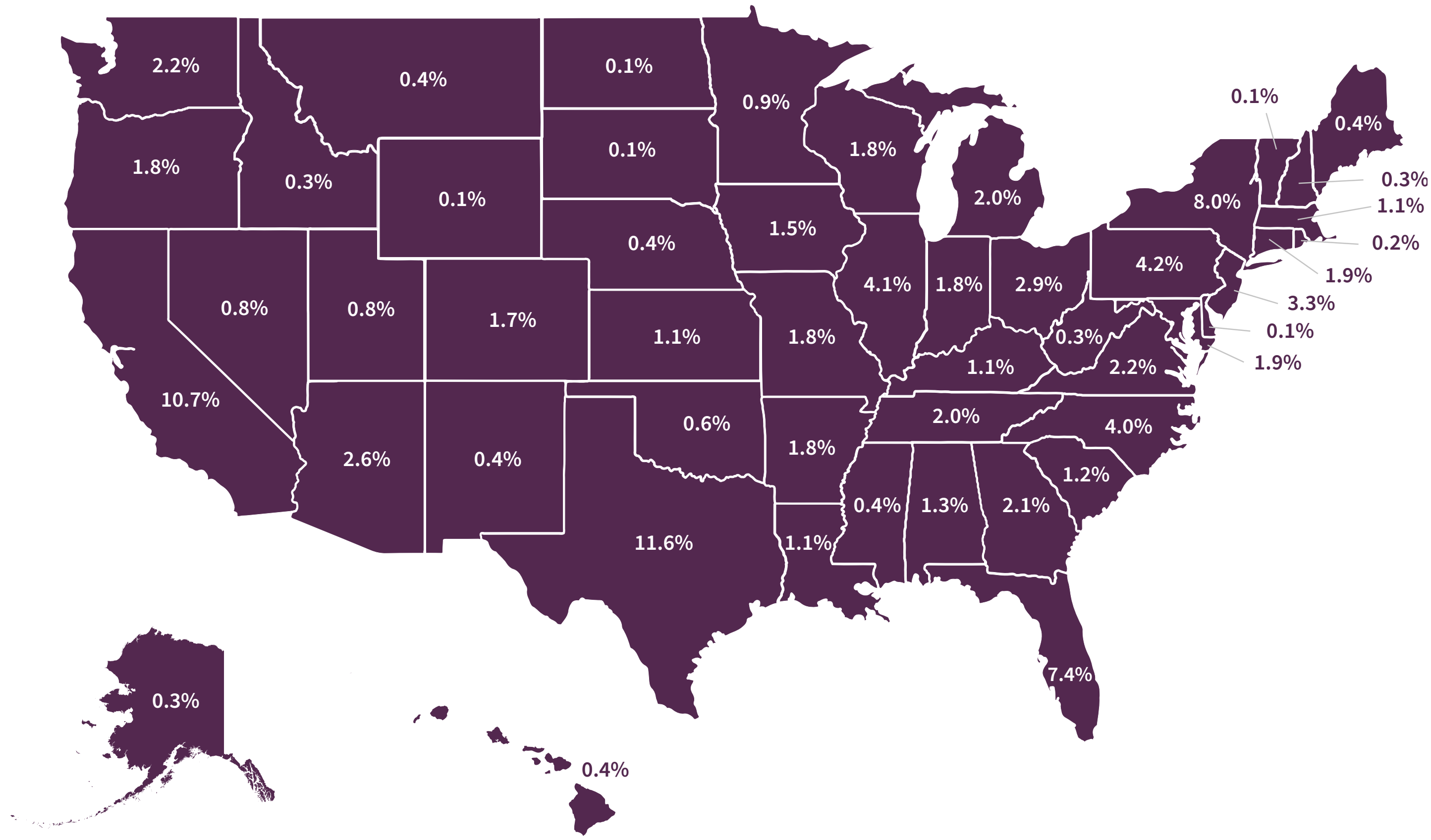
FEMALE



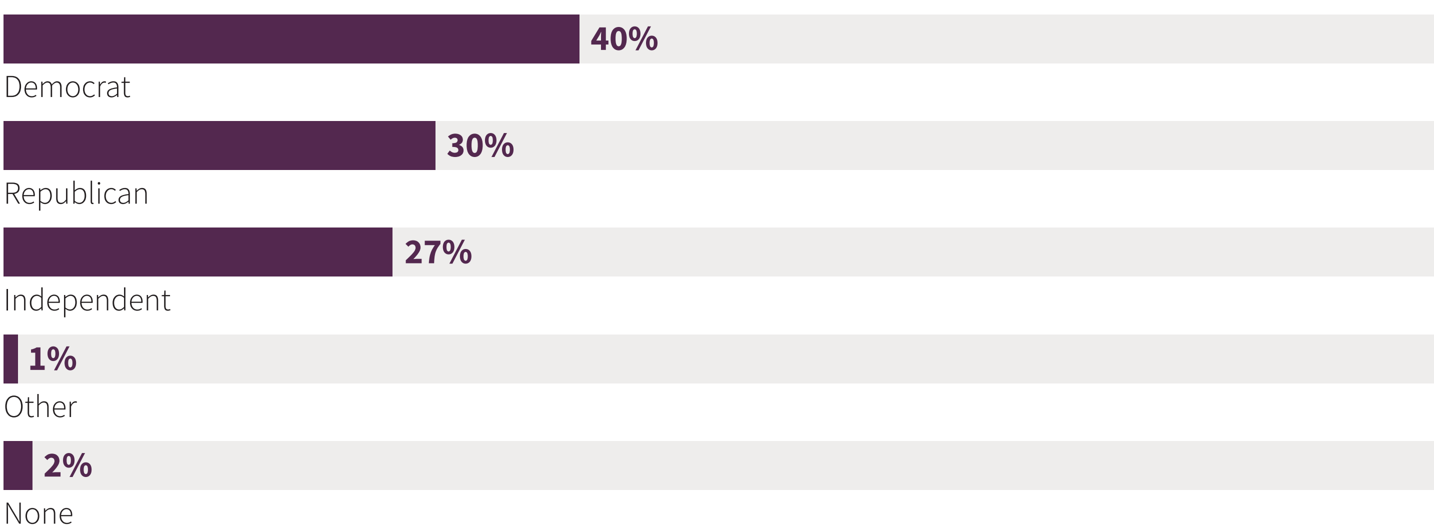
OTHER



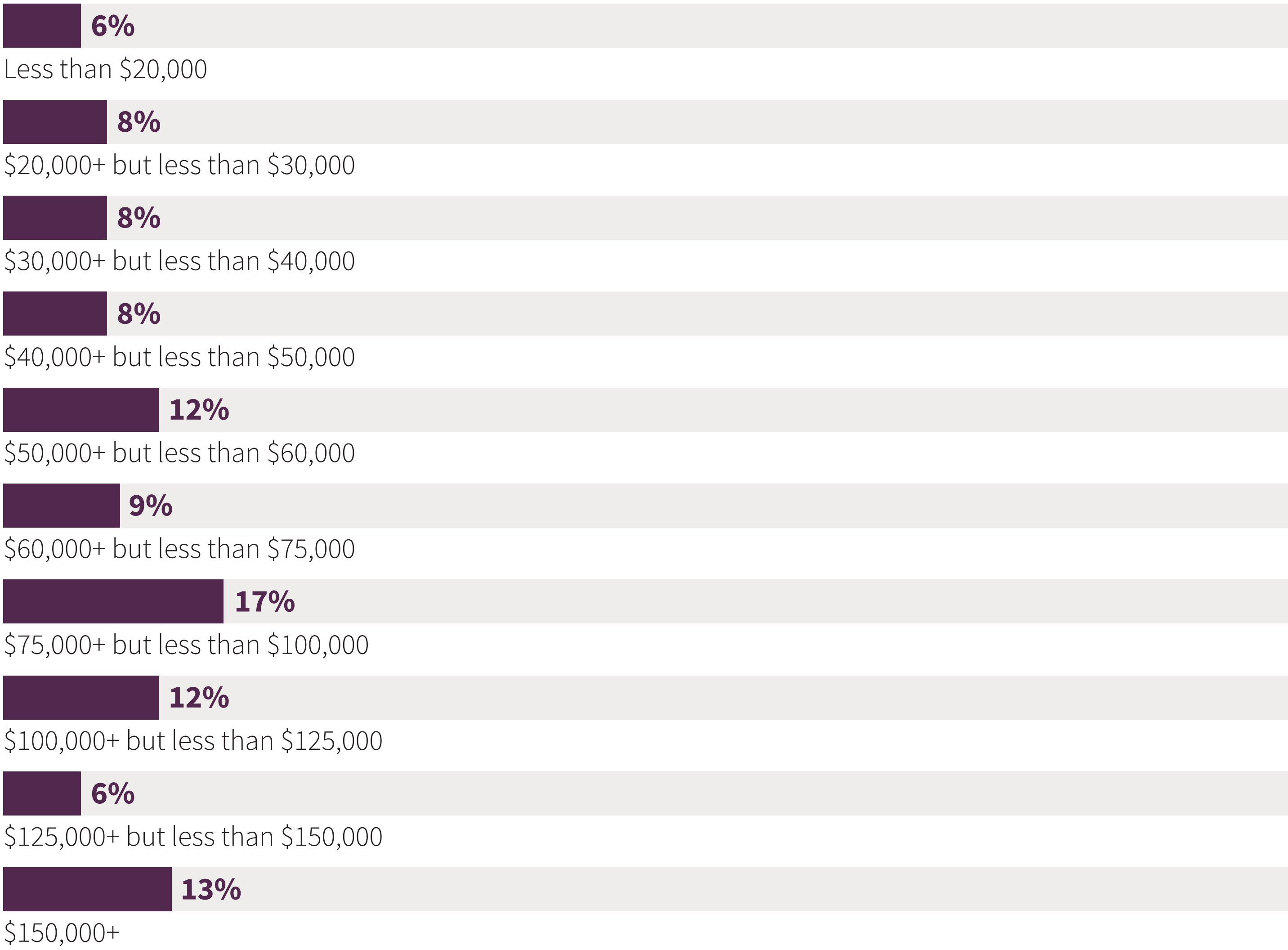
What state do you live in?



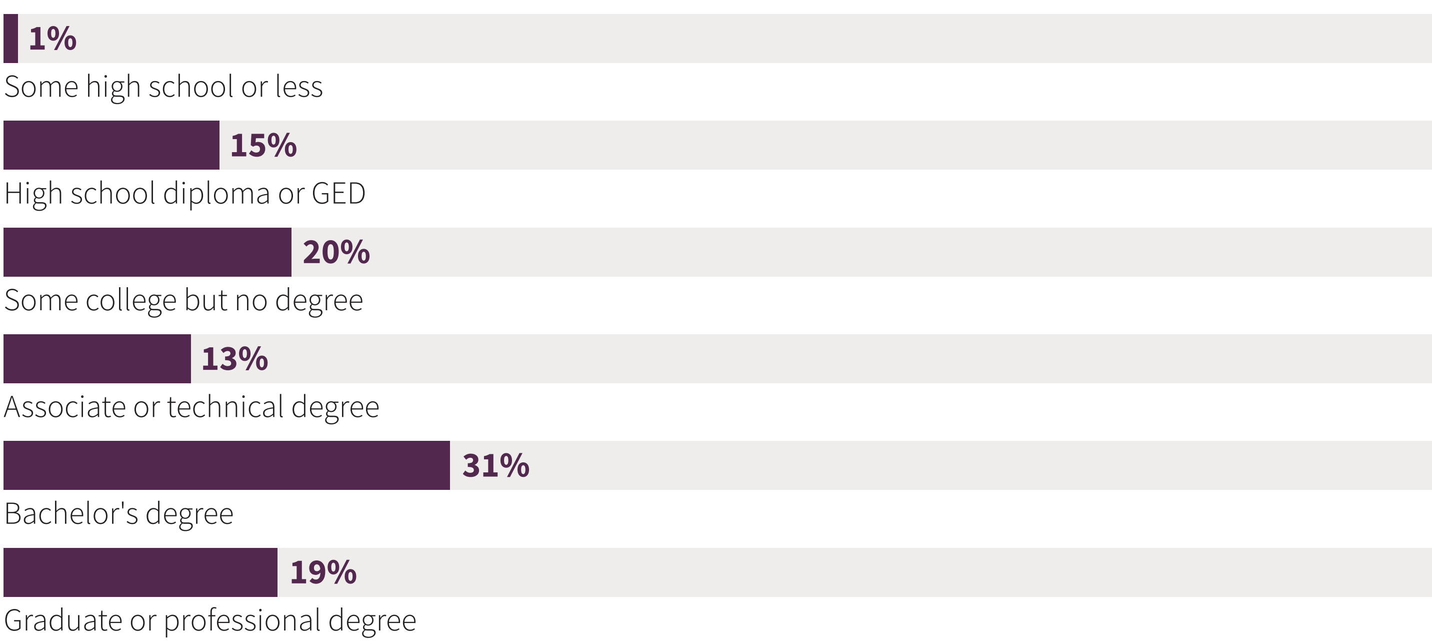
Political Affiliation



Household Income



Education



METHODOLOGY

In fall 2023, Stanford Graduate School of Business, the Hoover Institution Working Group on Corporate Governance at Stanford University, and the Rock Center for Corporate Governance at Stanford University hired Lucid Theorem to conduct a nationwide survey of 993 individual investors—broadly distributed by gender, race, age, household income, and state residence—to understand how American investors view environmental, social, and governance (ESG) priorities among the companies in their investment portfolio. Respondents were screened to include only individuals with investments in the stock market through retirement or taxable accounts. Stanford University is solely responsible for the contents of this survey.

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ABOUT US

Corporate Governance Research Initiative

The Corporate Governance Research Initiative at Stanford Graduate School of Business focuses on research to advance the intellectual understanding of corporate governance, both domestically and abroad. By collaborating with academics and practitioners from the public and private sectors, we seek to generate insights into critical issues and bridge the gap between theory and practice. Our research covers a broad range of topics that include executive compensation, board governance, CEO succession, and proxy voting.

Website: gsb.stanford.edu/cgri

The Rock Center for Corporate Governance

The Arthur and Toni Rembe Rock Center for Corporate Governance is a joint initiative of Stanford Law School and Stanford Graduate School of Business. The center was created to advance the understanding and practice of corporate governance in a cross-disciplinary environment where leading academics, business leaders, policymakers, practitioners, and regulators can meet and work together.

Website: rockcenter.stanford.edu

The Hoover Institution Working Group on Corporate Governance

The Hoover Institution Working Group on Corporate Governance brings together scholars, industry practitioners, and policymakers to engage in constructive and open debate about the logical consistency, treatment of evidence, and policy implications of proposed reforms to the regulatory systems that impact corporations. It also generates and disseminates research investigating the optimal conditions that allow corporations to sustain their crucial role in contributing to American economic growth and innovation.

Website: https://www.hoover.org/research-teams/corporate-governance-working-group

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