In close-up: sustainable investors

Study of the objectives and expectations of sustainable retail investors

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01 Introduction

The AFM has performed a study to better understand the expectations, objectives and choice process of Dutch sustainable investors. Using a representative questionnaire survey among 510 sustainable retail investors, we questioned both their objectives in sustainable investing and their expectations of products labelled as sustainable. We also identified how investors inform themselves about the sustainability of their investments and whether the preconditions are in place to make choices that are in line with their objectives. The results of this study provide a picture of the risk of a discrepancy between providers' interpretation of sustainability and sustainable investors' expectations in practice.

An earlier AFM exploratory study showed that fund providers interpret the term 'sustainability' in many different ways. This creates the risk that sustainable investments do not match investors' expectations and objectives.[1] Furthermore, Investors do not always understand why fund providers have chosen a particular investment strategy. Moreover, the distinction with non-sustainable products is sometimes difficult to see based on the composition of a fund. If it is not clear what objectives sustainable investment products have and how certain financial products pursue these objectives, it makes it difficult for consumers to choose appropriate products.

Moreover, there are indications that the process of reaching a decision among investors is not optimal. Not only fund strategies, but also investor motivations differ. For example, financial considerations, the desire to make the world a better place ('impact') and the desire not to invest in companies that conflict with investors' ethical preferences are mentioned as motivations to invest sustainably. International research also shows that consumers often lack knowledge, and behavioural-psychological effects mean that they make limited use of information. This can prevent consumers from making a choice that is suited to their motivation. The sometimes confusing product information supplied by providers exacerbates these problems.[2]

Investment firms must ensure that the products they offer are in line with consumers' sustainability preferences and objectives. Investment firms have a duty of care to ensure that the products they recommend in the advice and management channel are suitable for investors (Section 4:23(1) of the Financial Supervision Act (*Wet op het financieel toezicht*)). From 2 August 2022, investment firms must also obtain information on investors' sustainability preferences for setting investment objectives (Article 54 of the Delegated Regulation (EU) 2017/565). In the process, they must combat greenwashing (products that do not live up to their sustainability claims). In addition, investment firms have an obligation to ensure that the products they offer or distribute are in line with the objectives of the target group. From 22 November 2022, the sustainability objective must be taken into account when determining the target group's objectives (Section 32b of the Market Conduct Supervision (Financial Institutions) Decree (*Besluit Gedragstoezicht financiële ondernemingen Wft*)). Investment firms must ensure that products are not sold outside the target market. The AFM oversees this.

1 *'Duurzaam retailbeleggen vereist het nodige huiswerk'*, AFM, 2022

2 'A Large Majority of Retail Clients Want to Invest Sustainably', 2° Investing Initiative, 2020

This new AFM study contributes to ongoing policy discussions about sustainable investment. It is important for the AFM to know how the market for sustainable investment functions and where any problems arise. The AFM therefore takes account of this new study in its supervisory approach to the market for sustainable investment. In addition, the study contributes to discussions about legislation on sustainability claims and the provision of other sustainability-related information, some of which is still under development.

02 **Insights from previous studies**

2.1 The importance and challenges of impact

It appears from previous international studies of sustainable investors' expectations that investors' underlying motivations vary widely. Several studies show that a large proportion of investors are interested in financial products that take account of sustainability. Studies in foreign markets shows that 65% to 85% of investors are interested in sustainable investment.[3] The relevant literature distinguishes three motivations for sustainable investment:[4]

- **Impact.** Investors want to bring about positive sustainable change with their investment. The 'additionality' of the investment (see Box 1) is important in this regard.
- **Ethical.** Investors want to invest in companies that are in line with their personal norms and values, also referred to as 'value alignment'.
- **Return.** Investors regard sustainability as a way of achieving a better risk-return ratio.

Making an impact is usually a key motivation for sustainable investors. The most important of the above motivations vary from market to market and from study to study. A survey of French and German investors in 2019 found that making an impact is the most important reason for investing sustainably.[5] A larger survey in several European countries, conducted in 2021, found that 46% of consumers (not just investors were included in this study) consider it important to make an impact. This is less than the other motivations in this study (60% for aligning with norms and values and 68% for maximising returns), but still substantial.[6] A common denominator is that impact is an important and in some studies the main reason for investors to choose sustainable investment. This is also evident from a recent survey of Dutch pension fund members, in which a large majority, when asked, wanted the pension fund to pursue sustainability goals by means of an engagement strategy, which aims to directly influence, for example, a shareholders' meeting. In the process, members are also willing to forego returns.[7]

There are relatively few sustainable investments available with impact as an objective, and it is often not clear whether these investments actually make an impact. Previous studies by the AFM indicate that sustainable investment products do not necessarily have impact as an objective.[8] A dominant strategy is to exclude polluting companies or only define the type of company eligible for the fund (for example, companies with a high ESG score[9,10]), in line with the ethical objective. With this strategy, no consideration is given to whether the investments actually result in improved corporate behaviour or an increase in market share, which would lead to an *additional* sustainable outcome – and thus an improvement in the field of sustainability (see Box 1). Furthermore, the actual impact of the funds that do claim to have impact as an objective has not always been demonstrated either.[11]

3 'A Large Majority of Retail Clients Want to Invest Sustainably', 2° Investing Initiative, 2020
'What do your clients actually want?', 2° Investing Initiative, 2022
4 'Guidance for assessing client sustainability preferences', 2° Investing Initiative, 2022
5 'A Large Majority of Retail Clients Want to Invest Sustainably', 2° Investing Initiative, 2020
6 'What do your clients actually want?', 2° Investing Initiative, 2022
7 'Get Real! Individuals Prefer More Sustainable Investments', R. Bauer et al, 2021
8 *'Duurzaam retailbeleggen vereist het nodige huiswerk'*, AFM, 2022
9 ESG stands for environment, social and governance and is often used in the same sense as 'sustainable'.
10 In addition, the big tech companies, among others, often have a high ESG score (partly based on their social and governance performance) and therefore invest a lot in sustainable funds. However, these companies also invest in non-specific sustainable funds, so that sustainable funds based on this strategy are in practice not much different from non-sustainable funds (AFM, 2022). This limits the impact this strategy can have through the capital allocation channel.
11 'The Impact of Impact Funds – A Global Analysis of Funds With Impact-Claim', L. Scheitza et al, 2022

Box 1. The impact of sustainable investment

Impact: ensuring an improvement that would otherwise not have happened. Impact through sustainable investments means that improvements in the field of sustainability are generated by these investments, which otherwise would not take place.[12] This 'additionality' is the condition for talking about impact. For example, a sustainable bond does not necessarily make an impact. While the proceeds of a sustainable bond may be spent on a wind turbine, the question is whether the wind turbine would have been there without this sustainable bond. The same additionality question occurs at fund level; investments can be made in green companies, but the question is whether this will bring about changes that would not have happened otherwise. For a more detailed discussion of the impact of sustainable investment, see the simultaneous publication in Chapter 4 of Trend Monitor.[13]

Sustainable investment can create impact in three ways.

1. **Capital allocation channel.** By influencing capital flows. If more and more investors want to invest sustainably, the cost of capital for polluting companies will rise and the cost of capital for green companies will fall (and thus the return for the sustainable investor). Green companies can therefore invest more than polluting companies and gain (relative) market share.
2. **Engagement channel.** By directly influencing companies, for example through engagement and voting behaviour in shareholder meetings, the company is steered towards more sustainable operations.
3. **Through indirect effects.** For example, if low sustainability performance leads to negative reputation effects and subsequently affects demand for the product, or if employees prefer not to work for companies that perform poorly on sustainability. These indirect effects are more difficult to demonstrate. For instance, it is not clear whether this kind of impact is created by sustainable investors or by broader societal pressures (consumers, employees, etc.).

12 'Impact investments: a call for (re)orientation', T. Busch et al, 2021.
13 *Trendzicht 2023*

There is evidence of a (modest) effect of shifting capital flows to sustainable businesses, mainly among smaller, unlisted companies. Study results are not unequivocal, but several studies show that sustainable investments have the same or a lower return than non-sustainable investments.[14] Lower returns are consistent with lower financing costs for sustainable companies.[15] Studies do show that, given the current limited capital share of sustainable investors, the effect on capital costs is too small to be a real factor of importance.[16] The direct price effect of individual retail investors is negligible here, but it is different for large institutional investors.[17] The moment the capital share of sustainable investors increases and banks and institutional investors exert the same pressure, the effect on financing costs will increase. Even then, a major shift to sustainable investment is needed to achieve a visible price effect.[18] In order to generate the eventual positive sustainability effect through sustainable financing via the capital allocation channel, it is necessary for the company to grow and gain market share through the lower cost of capital. A company only grows as a result of cheaper credit if it depends on external financing and has limited access to alternative financing options. The effect is thus greatest when financing is a limiting factor.[19] This is particularly the case for small, new companies and those operating in less mature capital markets. In addition, this is especially true for investments with very long horizons or with large tail risks. It applies to a much lesser extent to listed companies, which retail funds tend to focus on. However, other lenders, such as banks, can play an important driving role in the companies they finance through lending requirements and may thus strengthen the effect via the capital market. In this context,

14 'Drawing Up the Bill: Does Sustainable Investment Affect Stock Returns Around the World?', R. Alvis et al, 2022. 'Impact investing', B. Barber et al, 2021. 'Financing the Response to Climate Change: The Pricing and Ownership of U.S. Green Bonds', M. Baker et al, 2018. 'The effect of pro-environmental preferences on bond prices: Evidence from green bonds', O.D. Zerbib, 2019. 'The price of sin: The effects of social norms on markets', H. Hong & M. Kacperczyk, 2009.
15 'Dissecting green returns', L. Pastor et al, 2022. 'Do investors care about carbon risk?', P. Bolton & M. Kacperczyk, 2021.
16 'The Impact of Impact Investing', J.B. Berk & J.H. van Binsbergen, 2021. 'Climate Impact Investing', T. de Angelis et al, 2022
17 'Unpacking the Impact in Impact Investing', P. Brest & K. Born, 2013.
18 'The Impact of Impact Investing', J.B. Berk & J.H. van Binsbergen, 2021.
19 'Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact', J.F. Kölbel et al, 2020. 'The Impact of Impact Investing', J.B. Berk & J.H. van Binsbergen, 2021. 'How Investors Can (and Can't) Create Social Value', P. Brest et al, 2018.

macroeconomic conditions also play a role. If financing becomes more expensive, capital costs will become a limiting factor for more companies and the impact of sustainable investments will increase.

The engagement channel can be successful in generating impact. Direct influence (engagement) involves investors, in their role as shareholders, asking the companies they invest in to change their behaviour. The engagement channel is mainly accessible to institutional investors. Investors, such as those united in the Climate Action 100+ group, ask companies to change their behaviour. This takes place both in direct dialogue with these companies and by means of voting at the general meeting of shareholders, for example on director appointments, remuneration policies and specific sustainability proposals. Unlike the capital allocation channel, investors here focus on companies where they see substantial room for improvement. These therefore do not necessarily have to be sustainable companies. In this context, the problem of conflicting ESG objectives is also less of an issue, as influence can be exercised on a subject-by-subject basis. Institutional investors have successfully used this method to get companies to set themselves emission targets.[20] Moreover, this channel requires a much lower participation rate to be successful than the capital allocation channel.[21] There are some caveats to the real impact of direct influence, however. The examined effects relate to the setting and reporting of sustainable objectives by companies. In general, the efforts and results of engagement by individual parties, while they may be significant, are difficult to demonstrate and assess by investors.[22]

20 'Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact', J.F. Kölbel et al, 2020 'Which Institutional Investors Drive Corporate Sustainability?', M. Ceccarelli et al, 2022
21 'The Impact of Impact Investing', J.B. Berk & J.H. Binsbergen, 2021
22 'AFM argues for greater clarity and practicability of international standards for sustainability reporting', AFM, 2022

2.2 Challenges in the choice process of sustainable investors

Consumers are often hardly capable of making appropriate choices. The focus of fund providers on investment strategy rather than investment objectives creates confusion among consumers. People often cannot properly distinguish ends from means and assume that buying a stake in a sustainable company will automatically translate into positive environmental impacts.[23] Other limitations include the limited financial literacy of many consumers, the little time and brainpower they devote to the subject and a lack of trust in providers. A previous study used surveys, interviews and focus groups to identify the main confusion factors regarding sustainable investment among consumers (see Table 1).

Sustainable investment is not a completely rational process for investors. Research among Dutch investors shows that sustainable investors also respond to unconscious and emotional processes and associations when making their choice; people invest sustainably for 'the green feeling' and do not always delve into exactly how an investment contributes to positive sustainable change.[24]

23 'What do your clients actually want?', 2° Investing Initiative, 2022
24 'Do Investors Care About Impact?', F. Heeb et al, 2022

Table 1. Seven confusion factors with sustainable investment (based on figure 7 from 2 Degrees Investing Initiative, 2020)

	Confusion factors	Explanation
Consumers	1. Confusion about the impact of investment strategies versus the impact of activities of companies invested in	People confuse acquiring financial assets with new investments in the real economy. People assume that buying a stake in a sustainable company automatically translates into better results and thus has environmental impacts.
	2. Limited financial literacy	Most consumers lack background knowledge and understanding of the basic concepts that are required to formulate expectations and objectives. This situation also prevents them from understanding questions about this, such as in a survey or when they are asked about their objective by the provider
	3. Limited spending of time and brainpower on the subject	Most consumers have never spent time thinking about the topic of sustainability and articulating their expectations.
	4. Lack of trust in financial intermediaries	A large proportion of consumers do not trust the claims of financial intermediaries and doubt the sincerity of their approach when it comes to delivering environmental benefits. This sentiment is reinforced by a lack of substantiation and outcome measurement of environmental impact claims from fund managers. Incidentally, in some situations, this can also be beneficial, as consumers will look more closely themselves.
Providers and advisors	5. Misleading marketing claims	Most marketing concepts related to 'sustainable products' emphasise an investment technique (e.g. fossil-free fund, low-carbon fund, green fund) or broader overarching terms (e.g. ESG) rather than the ultimate objective. This increases confusion about the difference between the ends and means and prevents the actual objectives being pursued from becoming clear to consumers.
	6. Questions about preferences for investment techniques rather than objectives	When providers or advisors ask about ESG expectations, they tend to ask about 'preferences' for certain types of products (e.g. SRI, green funds) rather than the pursued objectives and expected outcomes.
	7. Lack of appropriate products	Few products are offered that have impact as an objective, and among those that have stated that they have this, it is often doubtful whether they can achieve this.

03 About the study

The results in this report are based on market research among 510 Dutch retail investors with sustainable investments, conducted by Ipsos in June 2022. Respondents were selected from a sample representative of the Netherlands, based on a screening question asking whether and how many sustainable investments they have.[25]25 Investors then decide for themselves whether they meet the definition of a sustainable investor. By means of reweighting, the study enables us to make representative statements. It only covers sustainable investors; therefore, no statements are made about investors who deliberately do not (or no longer) invest sustainably. Comparisons with non-sustainable investors are possible to a limited extent.

The study screening question indicates that about 60% of investors invest sustainably. These are investors who invest at least part of their portfolio, in their own opinion, sustainably. Two thirds of sustainable investors invest at least half of their portfolio sustainably, and 20% even invest almost entirely sustainably (Figure 1). Most sustainable investors invest independently (59%), followed by asset management (42%) and investing with a financial advisor (10%; Figure 2). The numbers do not add up to 100% because investors may invest in multiple channels.

25 The screening question was phrased as follows: *'By sustainable investments, we mean investments that allow you to take account of one or more sustainable (or ESG) aspects, such as in the field of climate, environment, social (human rights, poverty reduction) or governance.'*

Figure 1. Amount of sustainable investments

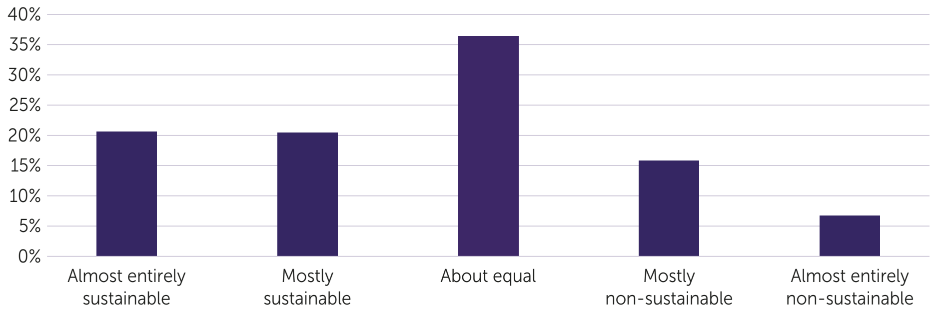
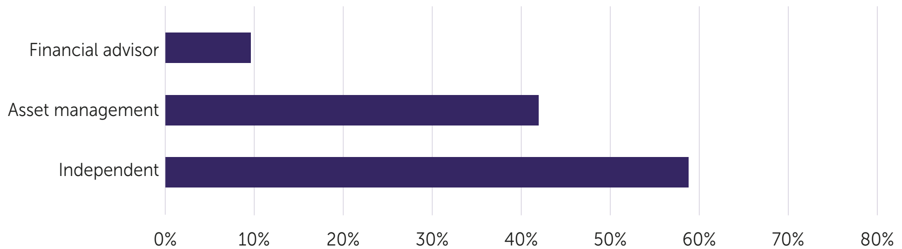


Figure 2. Method of investing



The sustainable investor, like all investors, is predominantly male and well educated. Of the sustainable investors, 63.5% are male. In addition, 64.6% of sustainable investors are well educated. Thus, the general characteristics of sustainable investors seem to be roughly the same as those of all investors.[26]

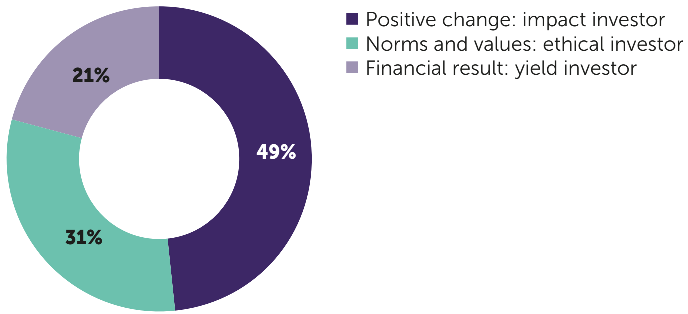
26 If we compare the characteristics with the AFM Consumer Investments Monitor in Autumn 2021 (AFM, 2021), roughly the same picture emerges. These are different samples, with a year in between them, so the comparison is not entirely accurate. If we nevertheless compare these samples, sustainable investors appear to be female slightly more often, be highly educated slightly more often, invest independently less often and be small investors less often.

04 **Study results**

4.1 What motivates sustainable investors?

Impact maken is de belangrijkste motivatie voor duurzame beleggers. Almost half of the sustainable investors (49%) say that bringing about positive sustainable change is the most important objective of sustainable investment (impact investor: *'I want my investment to contribute to positive sustainable change in the world. For example, I'd like to see an increase in sustainable activities or a reduction in harmful emissions';* Figure 3). This high percentage is in line with the aforementioned study results from other European countries. This investor (hereafter: 'impact investor') is female more often and highly educated more often than the average sustainable investor. About 30% of those surveyed indicated that investing in line with their personal norms and values was the most important motivation, also referred to as 'value alignment'. (ethical investor: *'I want to invest in companies that align with my norms and values regardless of the change that my investment brings about'*). Finally, 20% of sustainable investors indicate that they expect better financial results from sustainable investment and that this is mainly why they choose sustainable investment (return investor: *'I think sustainable enterprises (will) produce better financial results than non-sustainable enterprises'*).

Figure 3. Most important reason to invest sustainably



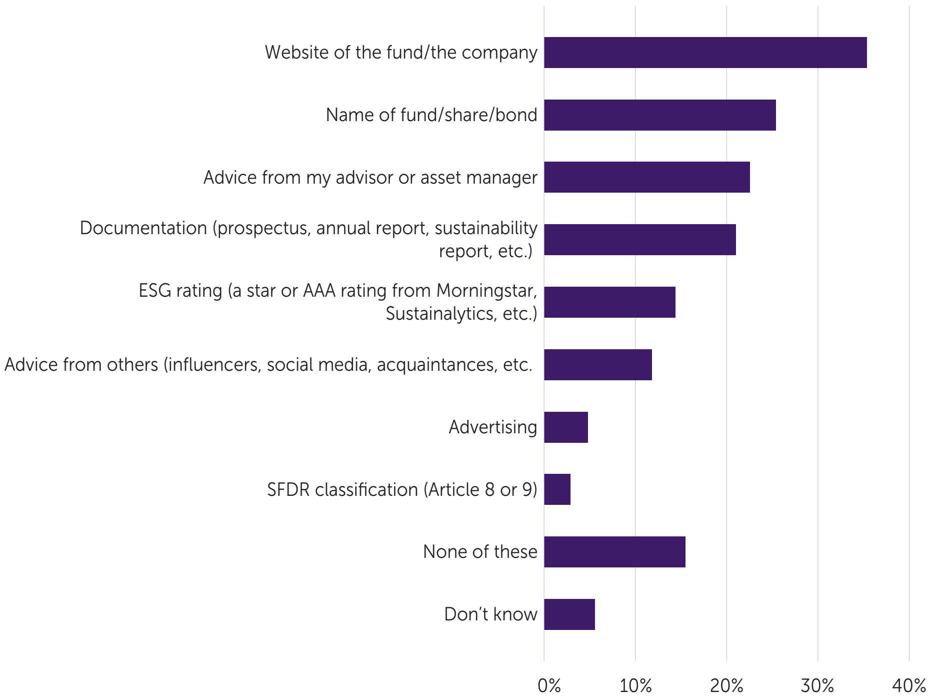
4.2 How do sustainable investors inform themselves before they make a choice?

The website of the fund and the name of the fund are the most commonly used sources of information for making a choice. Respectively 35% and 25% of respondents base their choice of a sustainable investment on the website and the name of a fund (Figure 4). This shows that such first impressions play an important role in choosing a sustainable fund. The earlier survey showed that the website and fund name are also important forms of communication for providers.[27]27 For both sources, the provider has considerable leeway in the design and content of the information.

27 'Duurzaam retailbeleggen vereist het nodige huiswerk', AFM, 2022

It is also striking that sustainability labels and ratings are consulted relatively little. Only 15% of sustainable investors say they use a fund's ESG rating, and only 3% use the SFDR classification. It is actually desirable that the SFDR classification not be used as a label, because it is not intended for that purpose. Nevertheless, this result is striking, as more and more providers prominently display this classification on their websites. Increased use of these ratings and classifications by providers may however mean that more investors will also use them in the future.

Figure 4. Use of information



4.3 What do sustainable investors choose?

4.3.1 Sustainable investors prefer investments in sustainable companies to impact through an engagement channel

When a specific choice is made between three (notional) sustainable funds, sustainable investors mainly choose funds consisting of sustainable or relatively sustainable companies, even if the investment makes no further contribution to achieving sustainability objectives. We presented respondents with a choice of three notional funds. The purpose of presenting this choice is to test the consistency between the motivation and the actual fund choice, if the 'impact' and 'ethical' motivations are explicitly separated. In the fictitious example, respondents could choose from three funds (see Box 2 for the actual questions)[28]:

- a fund with non-sustainable companies and an engagement strategy, which does become more sustainable due to the investment and thus generates (additional) impact (see also Box 1);
- a fund with sustainable companies, where the investment does *not* contribute to the further expansion of sustainable activities (no impact, but 'value alignment');
- a fund with relatively sustainable companies (the most sustainable companies from non-sustainable sectors as well), where the investment does not contribute to the further expansion of sustainable activities (no impact, but 'value alignment').

28 The question is based on a previous study among French and German retail investors, 2 Degrees Investing Initiative, 2020

Box 2

Which of the following investments best suits your preferences? *The funds below have similar risks and returns.*

1. *Fund 1 consists of* **non-sustainable companies.** *The fund manager uses the shareholder voting right to force the management of these companies (e.g. electricity producers, car manufacturers) to make their operations greener (e.g. by producing more renewable energy, producing less polluting vehicles, etc.). The approach works; portfolio companies reduce their energy consumption and harmful emissions.*
2. Fund 2 consists of **sustainable companies.** The fund manager invests only in the shares of environmentally friendly companies (renewable energy only, electric cars only) and therefore invests little in particular sectors. Because these companies already have many investors, they have no trouble raising funding. This means your investment goes to the most sustainable companies, but it does not contribute to fewer emissions or more sustainable activities by these companies.
3. Fund 3 consists of ***relatively*** **sustainable companies.** The fund manager invests only in the shares of the most sustainable companies in each sector (i.e. including non-sustainable sectors). These include, for example, energy producers or car manufacturers that have greener operations than their competitors. Since these companies already have many investors, they have no trouble raising funding. Your investment therefore goes to the *relatively* most sustainable companies, but it does not contribute to fewer emissions or more sustainable activities by these companies.

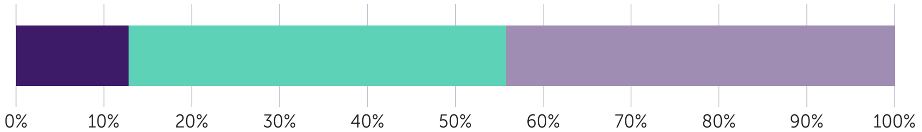
The largest groups choose the funds with sustainable and relatively sustainable companies (44% and 43% respectively). A smaller group chooses the fund consisting of non-sustainable companies that are effectively influenced to make more sustainable choices (13%; Figure 5 above). Interestingly, investors with impact as their main motivation also rarely choose the fund with impact (15% of them choose the fund with impact, 50% the sustainable fund without impact and 35% the relatively sustainable fund without impact; Figure 5 below). These findings differ from the study conducted in 2019 among French and German investors, in which, on the contrary, most investors chose the (non-sustainable) fund that makes an impact (34%) and 29% and 26% chose the sustainable and relatively sustainable fund, respectively.[29]

Impact investors' choice of a non-impact fund shows that the selection process is not optimal. While there was also some inconsistency in the earlier study conducted among French and German investors in choosing a fund with the stated motivation, that inconsistency is significantly greater in this case.[30] In that study, while the fund with impact was still the largest category that investors chose (34%), not all investors that were motivated to make an impact (43%) chose it. One possible explanation for the greater inconsistency in our study is that, in the international study mentioned above, more attention was paid to the differences between objective (impact) and means (investment strategy) and that there the differences in impact were presented more prominently in the descriptions of the options than is the case in our experiment. This consequently may have made this question easier for participants to understand. Other possibilities are that investors confuse ends and means or subconsciously consider 'value alignment' more important anyway (see next section).

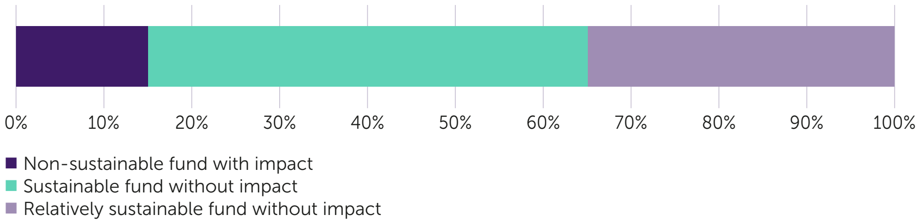
29 'A Large Majority of Retail Clients Want to Invest Sustainably', 2° Investing Initiative, 2020
30 'A Large Majority of Retail Clients Want to Invest Sustainably', 2° Investing Initiative, 2020

Figure 5. Notional fund choice

Notional fund choice of all sustainable investors



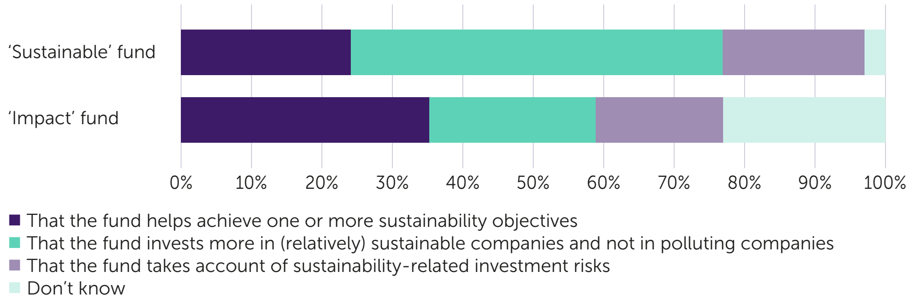
Notional fund choice of impact investors



The observed inconsistency may arise because investors confuse the ends and the means of sustainable investment. Despite the fund descriptions, investors may, consciously or unconsciously, think that excluding polluting companies is equivalent to bringing about a sustainable change (the confusion between ends and means). This would mean that investors do not distinguish between impact and exclusion strategies at all. This statement fits with the confusion described in the literature that exists among consumers about the different sustainable investment concepts. This confusion is compounded by providers' emphasis on investment strategies rather than objectives (Chapter 2). Another possibility is that consumers invest for 'the green feeling' and have not thought through what exactly they want to achieve with it.[31] This can lead to conflicting answers. Finally, one possibility is that consumers' ethical 'value alignment' considerations may in practice outweigh the actual impact after all. Investing in non-sustainable companies (even if this is done to improve them) may then feel counter-intuitive to a sustainable investor. What is inconsistent with this explanation is that impact-motivated investors who score 'value alignment' higher than financial considerations are not more inclined to prefer the exclusion strategy without impact.

The confusion of ends and means is also reflected in the fact that the majority of sustainable investors (53%) expect sustainable funds to invest more in sustainable companies and less in polluting companies (Figure 6). Such an approach suits an exclusion strategy, but less so an engagement strategy. Only 24% of sustainable investors expect a fund recommended as being 'sustainable' to primarily deliver impact, i.e. contribute to one or more sustainability objectives. Another 20% expect these funds to primarily consider financial sustainability-related risks. Even among the impact investors, more than half still expect a sustainable fund to invest mainly in sustainable companies and to a much lesser extent it them to make an impact. With funds recommended for their 'impact', a higher proportion (35%) expect a fund to actually make an impact, and another 23% expect it to invest mainly in sustainable companies.

Figure 6. Expectations with fund labels



31 'Do Investors Care About Impact?', F. Heeb et al, 2022

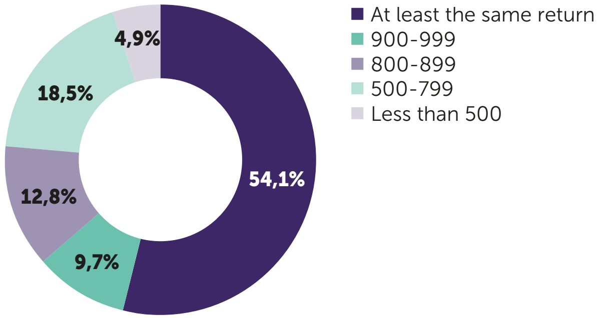
Another indication of confusion among sustainable investors is that, in the case of the funds recommended for their 'impact', 23% of the sustainable investors said they did not know what the term meant. In the case of funds recommended as being 'sustainable', 4% of investors say they do not know what they mainly expect from such a fund. With the impact funds, this is considerably higher. For almost a quarter of all investors, and remarkably just over a quarter of impact investors who consider sustainable change important, the term is insufficiently clear.

Nevertheless, the vast majority of investors indicate that their sustainable investments match their preferences (87% are 'moderately satisfied' or higher). This is striking because previous literature and the current study show that many investors' motivations do not match investment products in practice, possibly due to confusion about what exactly these products entail. One possible explanation for this is that investors' choices result from an unconscious process that leads to choices that are inconsistent with their preferences (see the study by Heeb et al. (2022) in Section 2.2.).

4.3.2 A proportion of sustainable investors are willing to forego a return for sustainable impact

The study confirms that a proportion of sustainable investors (46%) are willing to settle for a lower return with a sustainable investment (Figure 7). Almost a quarter (23%) would even settle for less than half the return. Men (53%), those who are more highly educated (56%) and investors who mainly invest sustainably (57%) are slightly more likely than average to forego a return for a sustainable investment. Impact investors (60%) are the most inclined to forego a return for sustainability impact. In comparison with other literature, the number of investors willing to forego a return is slightly lower, although the level of the return they are willing to forego is higher.[32] This finding is encouraging, because impact investors using a strategy based on a change in capital flows actually also have to accept lower returns in order to have a positive impact on sustainability (see Box 1). On the other hand, even among impact investors, 40% are still not willing to accept lower returns. Therefore, for this group, an investment strategy based on engagement is more appropriate.

Figure 7. Return preference (what return would you consider acceptable for a sustainable investment if a non-sustainable investment yields a return of 1,000 euros?)



32 It is difficult to compare the results with other literature, because responses about return preferences depend very much on how the question is framed. When the impact an investment achieves and the return the consumer has to forego to achieve this is expressed in clear terms, consumers show a high degree of willingness to forego returns (85% in some studies). If this is not clearly specified, this willingness may drop to 23% (2 Degrees Investing Initiative, 2020). The results of this study, where the return is specified but the impact is not, lie somewhere in between.

05 **Conclusion and discussion**

Making an impact is the most important motivation for investors to invest sustainably. Providers should take investor motivations into account in asking customer preferences, product offerings and communications. There is a risk that many products currently on offer do not align with this 'impact' objective desired by investors, as many sustainable investment strategies used on the basis of exclusion and ESG scores do not obviously have impact as an objective or consequence.[33] Sustainable investors risk disappointment if their investments have not made an impact.

We see contradictions between investors' stated motivations and preferences for (notional) sustainable funds. This may be due to erroneous expectations from sustainable investment strategies. When there is a fictitious and stylised choice between, on the one hand, an impact fund that does not invest in sustainable companies but makes polluting companies sustainable (an engagement strategy) and, on the other hand, a fund that does not make an impact but consists only of sustainable companies (an exclusion strategy), these investors often select the latter. We cannot fully explain this contradiction in this study. The fact that investors have not quite figured out in advance what exactly they want to achieve with their sustainable investment (they invest for 'the green feeling') and therefore do not answer this consistently when asked may play a role. There may also be an ends-means confusion: impact investors expect impact to be generated automatically by investing mainly in sustainable companies. Problems in the selection process lead to disappointment among investors not only if the impact is lacking, but also if, for example, investments are made in non-sustainable companies when that is not really what investors that. Therefore, the discussion about sustainability objectives and investment strategies is important to increase understanding among investors and thus improve their ability to make choices.

When regulating transparency and disclosure, it is important for the substantiation to start with the consumer's thinking and decision framework, rather than the complexity of the market.

Sustainable investors use subjective sources of information and do not appear to be well informed. The name of the fund and the provider's website play an important role for investors. Providers have a relatively large amount of freedom in this regard, so there is a risk that funds may use this to present themselves as more sustainable than they are. The different ideas investors have about concepts such as 'sustainability', and the fact that concepts such as 'impact funds' are relatively unknown, may be an argument for developing formal sustainability labels in the field of sustainability and impact. At the same time, it is striking that specific sustainability information (such as the ESG rating) currently appears to be consulted less.

A large proportion of impact investors (around 40%) are not willing to forego returns on their sustainable investment; this clashes with impact based on lower capital costs for sustainable companies. This is, however, a necessary step in order to achieve impact with an investment strategy that affects capital flows (e.g. through exclusion). After all, when sustainability preferences are taken into account, this results in lower returns for the investor. An investment strategy that deploys active share ownership may nevertheless be in keeping with these return objectives.

33 'Duurzaam retailbeleggen vereist het nodige huiswerk', AFM, 2022

Sustainability is not an unequivocal concept, and there is a risk of confusion when communication is unclear. Previous AFM research already showed that providers express sustainability in different ways. This study shows that investors also have different ideas about this concept and, moreover, may make choices that deviate from their stated motivation. It is therefore a confirmation of the previously identified risk that the substantiation of 'sustainable investment' by providers and the expectations of investors may diverge. It appears that it is necessary to discuss sustainability in a more precise manner and that we should at least distinguish between objectives like making an impact, synergy with norms and values and financial motivations, so that unnecessary confusion and deception is avoided.

Previous literature and this study provide further guidance for identifying investors' sustainability preferences and the subsequent alignment of the product range. Existing literature, the earlier AFM exploratory study and this study provide insight into the different interpretations that both providers and investors may give to 'sustainability'. The AFM considers it important that these insights are leveraged in order to identify investor preferences and objectives and tailor product offerings accordingly. For example, by indicating in the communication the sustainability objectives with which a product aligns. This can improve alignment with the preferences of consumers and thus avoid future disappointments.

Appendix 1 **Literature**

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Appendix 2 **Questionnaire**

Welcome

Welcome to this survey on investments. We start with some general questions.

SCREENING

S01 [S]

Approximately how many sustainable investments do you have?

By sustainable investments, we mean investments that allow you to take account of one or more sustainable (or ESG) aspects, such as in the field of climate, environment, social (human rights, poverty reduction) or governance[34]

- I invest (almost) entirely sustainably (90%+)
- I invest mainly sustainably (60% to 90%)
- I invest sustainably and unsustainably to an approximately equal degree (40% to 60%)
- I invest mainly unsustainably (10% to 40%)
- I invest (almost entirely) unsustainably (1% to 10%)
- I do not invest sustainably at all → *Scripter: screenout*

34 This is also known as ESG investing, where sustainability is defined on the basis of one or more of three criteria; Environment, Social and Governance.

Base: all respondents

Age [Q]

How old are you?

Base: all respondents

GENDER [S]

Are you?

- A man
- A woman

Base: all respondents

NL01EDU [S]

What is your highest educational level?

- o Higher vocational education or Bachelor's/Master's/postgraduate degree
- o Higher vocational education or university first-year programme/higher vocational education or university Bachelor's/candidate's degree
- o Senior general secondary education or pre-university education (4th, 5th or 6th year)/secondary modern school/girls' secondary school
- o Upper secondary vocational education 2, 3, 4 or upper secondary vocational education before 1998
- o Lower general secondary education/senior general secondary education or pre-university education (first three years)/advanced or higher elementary education/prevocational secondary education (theoretical or mixed)/special secondary education
- o Junior secondary vocational education/prevocational education/prevocational secondary education (practical or vocational)/senior secondary vocational education 1
- o No education/primary education
- o Don't know/Prefer not to say → *Scripter: screenout*

Scripter: recode into

- High = 1+2
- Medium = 3+4
- Low = 5+6+7

Base: all respondents

V01[S]

How much are the total assets (i) of your household, excluding the value of any real estate?

- o Less than €10,000
- o From €10,000 to €25,000
- o From €25,000 to €50,000
- o From €50,000 to €100,000
- o From €100,000 to €250,000
- o From €250,000 to €1,000,000
- o €1,000,000 or more
- o Don't know/Prefer not to say

MAIN QUESTIONNAIRE

We now turn more specifically to your investments.

Base: all respondents

A01 [S]

What is the total value of your investments at the moment?

By this, we mean the total of your freely invested assets excluding the value of your investment mortgage or pension-related investments through your employer. So including investments with pension as the objective in a regular investment account (Box 3) or in a blocked tax-exempt investment account (Box 1)

- o Less than €5,000
- o €5,000 to €10,000
- o €10,000 to €25,000
- o €25,000 to €50,000
- o €50,000 to €100,000
- o €100,000 to €250,000
- o €250,000 to €500,000
- o €500,000 or more
- o I don't know
- o I prefer not to say

Base: all respondents

A02 [M]

In what way(s) do you invest your sustainable investments?

Multiple answers possible

1. I invest independently (also known as 'execution only') and do not have the option of using a financial advisor to give me advice.[35]
2. An investment advisor gives me advice[36] my investment portfolio.
3. I invest by means of asset management.[37]. The asset manager conducts transactions for me. I do not conduct transactions myself.

35 An advisor advises you about the investment strategy to follow. Based on the advisor's advice, you decide which investments to buy or sell.
36 An advisor advises you about the investment strategy to follow. Based on the advisor's advice, you decide which investments to buy or sell.
37 Asset management involves your investments being managed and your money being invested in securities. You agree in advance on exactly what the manager is allowed to do. The manager is authorised to conduct transactions for you up to a certain limit and then decides whether to buy or sell securities. The manager will only tell you afterwards what they have done.

Base: all respondents

A03 [S, randomise]

What information did you use to determine whether an investment is in line with your preferences concerning sustainability?

Grid, answers in rows
- o SFDR classification (Article 8 or 9)[38]
- o ESG rating (stars, AAA, etc.)[39]
- o Documentation (prospectus, annual report, sustainability report, etc.)
- o Name of the fund/share/bond
- o Website of the fund/the company
- o Advice from my advisor or asset manager
- o Advice from others (influencers, social media, acquaintances, etc.)
- o Advertising

Answers in columns
- o Yes
- o No
- o I don't know

Scripter: create help variable regarding to the search of information:
Info = 0 if all answers are category 2 or 3
Info = 1 if one of the answers is category 1

38 SFDR stands for Sustainable Finance Disclosure Regulation and is a classification for more sustainable investment.
39 ESG stands for Environment, Social and Governance, and this rating is a measure of more sustainable investment.

Base: all respondents

A04 [S]

Do you feel you have enough information available to determine whether an investment is in line with your preferences with regard to sustainability?

- o Yes
- o No, there is not enough information
- o No, I do not find the information clear enough
- o I don't know

Base: all respondents

A05 [ranking, randomise]

Why do you invest sustainably?

Indicate which motivation you think is most important, which is the second most important and which is least important.

- o I want my investment to contribute to a positive sustainable change in the world. For example, I'd like to see an increase in sustainable activities and a reduction in harmful emissions.
- o I want to invest in companies that are aligned with my norms and values, regardless of the change my investment brings about.
- o I think sustainable companies yield or will yield better financial results than non-sustainable companies.

Base: all respondents

A06 [Q]

If I would achieve a return of €1000 with non-sustainable investments, I would also find a return of at least €xx acceptable with a sustainable investment.

What amount as a return would you find acceptable?

- €...
- I want at least the same return for sustainable and unsustainable investments [S]

Scripter: min. 0, max. 999

Base: all respondents

A07 [S, randomise]

Which of the following investments best suits your preferences?
The funds below have similar risks and returns.

- Fund 1 consists of **non-sustainable companies**. The fund manager uses the shareholder voting right to force the management of these companies (e.g. electricity producers, car manufacturers) to make their operations greener (e.g. by producing more renewable energy, producing less polluting vehicles, etc.). The approach works; companies in the portfolio reduce their energy consumption and harmful emissions.
- Fund 2 consists of **sustainable companies**. The fund manager invests only in the shares of environmentally friendly companies (only renewable energy, only electric cars) and therefore invests little in particular sectors. Because these companies already have many investors, they have no trouble raising funding. So, your investment goes to the most sustainable companies but does not contribute to fewer emissions or more sustainable activities by these companies.
- Fund 3 consists of ***relatively* sustainable companies**. The fund manager invests only in the shares of the most sustainable companies in each sector (i.e. including non-sustainable sectors). These include, for example, energy producers or car manufacturers that have greener operations than their competitors. Since these companies already have many investors, they have no trouble raising funding. So, your investment goes to the *relatively* most sustainable companies but does not contribute to fewer emissions or more sustainable activities by these companies.

Base: all respondents

A08 [S, randomise]

Above all, what do you expect from a fund recommended as being 'sustainable'?

- That the fund helps achieve one or more sustainability objectives
- That the fund invests more in (relatively) sustainable companies and not in polluting companies
- That the fund takes account of sustainability-related investment risks (such as the risk of climate change on the return on my investments)
- Don't know [fixed]

Base: all respondents

A09 [S, randomise]

Above all, what do you expect from a fund recommended as an 'impact fund'?

- That the fund helps achieve one or more sustainability objectives
- That the fund invests more in (relatively) sustainable companies and not in polluting companies
- That the fund takes account of sustainability-related investment risks (such as the risk of climate change on the return on my investments)
- Don't know [fixed]

Base: all respondents

A10 [S]

To what extent do your sustainable investments align with your preferences with respect to sustainability?

- To a very high degree
- To a high degree
- Average
- To a low degree
- To a very low degree
- Don't know

Any questions or comments about this publication?

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