

We surveyed 227 investors and analysts across 43 territories globally, and conducted over ten in-depth interviews, to find out what matters to them today, how they assess corporate performance and what gives them confidence in corporate reporting. This is what they told us about what they see as an execution gap.

PwC's Global Investor Survey 2022

The ESG execution gap

The role of high-quality information in building trust

Investors use a wide array of sources to get information about how companies manage risks and opportunities, with financial reporting topping the list.

% of respondents who use the source to a moderate, large or very large extent in assessing how companies manage risks and opportunities

Financial statements and note disclosures

89%

Dialogue with the company

81%

Narrative reporting (aside from sustainability disclosures)

80%

Third-party data sources

79%

Materiality assessment disclosures

78%

News media

73%

Sustainability disclosures

61%

ESG ratings and scores

49%

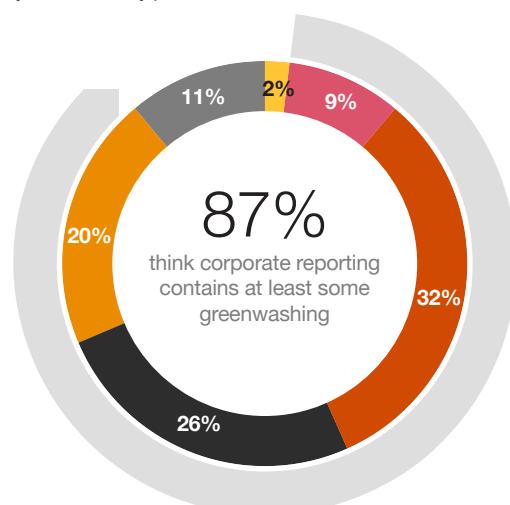
Alternative data

44%

Source: PwC's Global Investor Survey 2022

Investors' concerns about greenwashing erode trust in what companies say about how they are addressing the sustainability risks and opportunities facing their business. These concerns also make it difficult for the investment profession to allocate capital to where it needs to go.

% of respondents who think corporate reporting contains unsupported claims about a company's sustainability performance to this extent



Not at all ■ To a limited extent ■ To a moderate extent ■ To a large extent
■ To a very large extent ■ Don't know

Source: PwC's Global Investor Survey 2022



I wonder whether companies are just drawing pictures about the UN's Sustainable Development Goals to make it look good or they are sincerely taking actions toward them.

Japan-based investor

Investors are mostly concerned about the threats businesses face in the near term from inflation and economic volatility. Climate and cybersecurity risks move up investors' list of concerns in the medium term.

% of respondents who think companies will be highly or extremely exposed to the threat in the next 12 months or 5 years

■ Next 12 months ■ Next 5 years

Inflation

67%

40%

Macroeconomic volatility

62%

49%

Geopolitical conflict

37%

37%

Cyber risks

36%

43%

Climate change

22%

37%

Health risks

16%

14%

Social inequality

11%

14%

Source: PwC's Global Investor Survey 2022

Changes in regulation and customer preferences top the list of disruptors investors think will have an impact on profitability over the longer term.

% of respondents who think these will have a large or very large impact on profitability in the next ten years

Changes in regulation

85%

Changing customer demand/preferences

85%

Technology disruptors (e.g., advanced tech, metaverse)

83%

Supply chain disruption

81%

Labour/skills shortages

76%

Transition to new energy sources

75%

New entrants to the industry from adjacent industries

70%

Source: PwC's Global Investor Survey 2022

Investors have an expectation that businesses should prioritise being innovative and profitable. After all, if a company can't adapt or runs out of cash, it won't survive long enough to address the other issues it faces.

% of respondents who selected the outcome as a top five priority

Be innovative

83%

Seek profitable financial performance

69%

Ensure data security and privacy

51%

Ensure effective corporate governance

49%

Reduce greenhouse gas emissions

44%

Ensure responsible supply chain practices

36%

Minimise impact on nature and biodiversity

29%

Protect worker health and safety

27%

Improve workforce and executive diversity, equity and inclusion

25%

Ensure positive labour relations

19%

Respondents could select up to five issues; the ten most chosen are shown here. Other options included improve corporate board diversity, ensure gender and racial pay equity, ensure tax transparency and reduce water use.

Source: PwC's Global Investor Survey 2022

As exposure to the threat of climate change rises, investors have ideas for actions companies can take to manage the risk effectively.

% of respondents who think these actions will be effective in preparing for the risk of climate change

Implement initiatives to reduce emissions

75%

Innovate new, climate-friendly products or processes

73%

Develop a data-driven, enterprise-level strategy for reducing emissions and mitigating climate risks

69%

Implement initiatives to protect physical assets and/or workforce from the physical impacts of climate risk

56%

Apply an internal price on carbon in decision making

47%

Source: PwC's Global Investor Survey 2022

Investors think governments can play a part by implementing measures to incentivise sustainable corporate behaviour.

54%

think imposing taxes on unsustainable activities would be effective

54%

think adopting corporate disclosure requirements that provide transparency on corporate actions taken to address sustainability-related risks and opportunities would be effective

48%

think providing subsidies to companies that undertake activities or initiatives that address government sustainability priorities would be effective

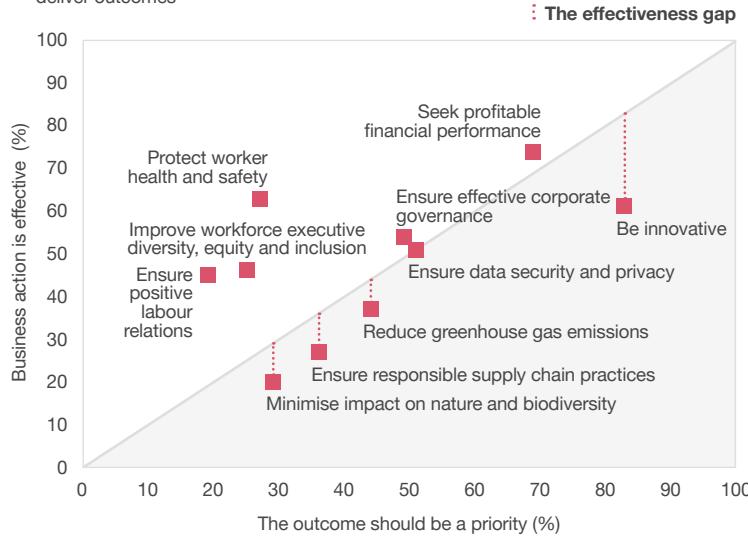


We're trying to do what we can to get our portfolio to net zero and invest capital in sustainable activities, but that's not going to solve the world's bigger problems. And so we need an integrated approach from the policymakers, the legislature, the business, the communities in which we operate in order to really achieve net zero. Investors can influence the broader markets, but we need everyone swimming in the same direction.

US-based investor

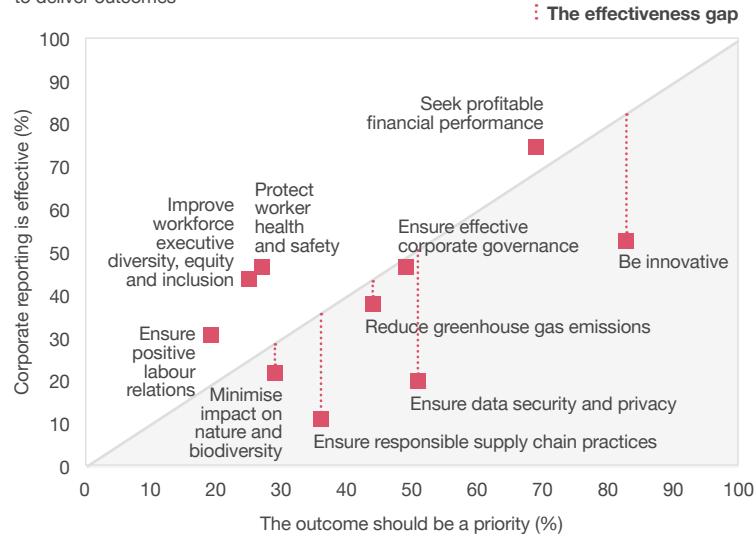
There is an execution gap between how well investors think business is doing to deliver on some of the top priorities. A reporting gap also emerges, highlighting the challenge investors face in assessing how well business is achieving them. This may explain why investors prioritise some information sources over others in assessing how well companies manage risks and opportunities, as highlighted above.

Investor views on effectiveness of business action vs relative priority for business to deliver outcomes



Source: PwC's Global Investor Survey 2022

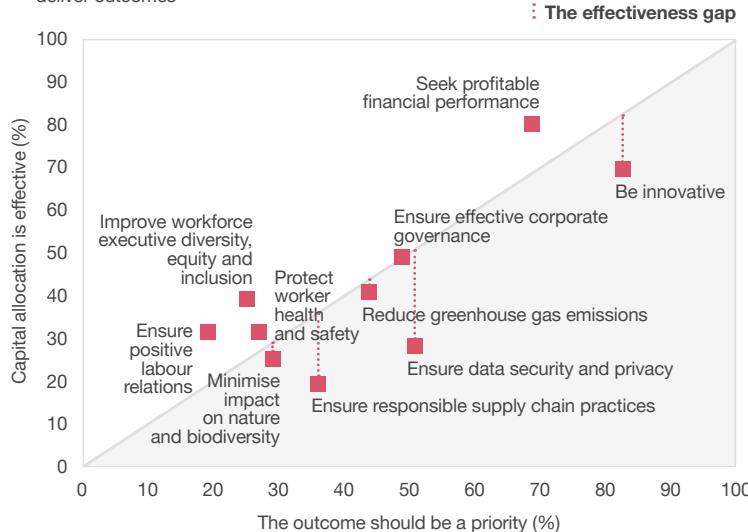
Investor views on effectiveness of corporate reporting vs relative priority for business to deliver outcomes



Source: PwC's Global Investor Survey 2022

If investors view corporate reporting as insufficient in helping them assess some of their top priorities for business to deliver, it is difficult for them to allocate capital to those priority areas.

Investor views on effectiveness of capital allocation vs relative priority for business to deliver outcomes

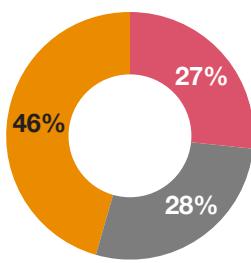


Source: PwC's Global Investor Survey 2022



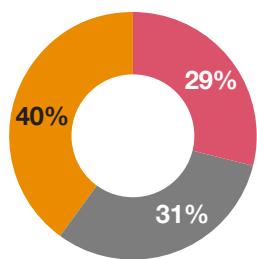
Investors' willingness to accept a lower rate of return on investment in companies taking action to address sustainability issues is likely to be linked to the need for asset managers to respond to client demand for ESG investing products that help clients meet their financial goals, and adhere to a regulatory environment that prioritises fiduciary duty.

I would be willing to accept a lower rate of return on investment in a company that undertakes activities that have a **beneficial impact on society or the environment**.



■ Yes ■ Neutral ■ No

I would be willing to accept a lower rate of return on investment in a company that undertakes activities that address sustainability issues **relevant to its business's performance and prospects**.



Source: PwC's Global Investor Survey 2022

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At the end of the day, investors, as agents for their clients and institutions, have a simple mission they have to fulfil, which is to make returns.

Europe-based investor

% of respondents who think these factors moderately, largely or very largely drive investor interest in ESG investing

Client demand for the topic



Regulatory risk management



Societal interest in these issues



Potential to protect investment returns



Potential to increase investment returns



An opportunity for the capital markets to have a positive impact on the environment or society



Potential to reduce market (beta) risk



An opportunity for the capital markets to play a role in protecting the environment or society



Source: PwC's Global Investor Survey 2022

How companies can respond

To go some way toward bridging the reporting gap, investors have some requests for information they want companies to disclose.

73%

want to see the cost to meet the sustainability commitments the company has set

69%

want to see the relevance of sustainability factors to the company's business model

70%

want to see the effect of sustainability risks and opportunities on the company's financial statement assumptions

66%

want to see the governance and oversight over sustainability risk and opportunities

Having information about a company's impact on the environment or society in which it operates is important for investment analysis and decision making.

60%

want companies to report the impact they have on the environment or society now and in the future

66%

of those who want impact information also want to see companies disclose the monetary value of that impact

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As an outside shareholder, I'm not necessarily very well placed to determine whether a company's ESG factors to be reported are relevant to the company's business and purpose. So I would rely heavily on the company determining that.

UK-based investor

% of respondents who want companies to disclose the monetary value of their impact that also agree or strongly agree that this is why a company should do so

It would help companies understand the full economic effect of their business decisions



It would encourage companies to address environmental and/or social issues to which they contribute



It would encourage companies to focus on long-term solutions to addressing sustainability issues



Source: PwC's Global Investor Survey 2022

Investors value assurance as a way to give them confidence in corporate reporting on sustainability. Top of their list is reasonable assurance, which is the same level as the financial statement audit. They also want to know that a company has actually done what it says it has done, as well as that the reporting is in line with a recognised reporting framework.

% of respondents who get a moderate, large or very large extent of confidence from these

Independent reasonable assurance opinion (i.e., the level of assurance obtained in an audit of the financial statements)

75%

External certification or validation report by a sustainability consultancy, certification agency or a professional services organisation that is not an auditing firm

69%

Independent limited assurance opinion (a lower level of assurance than what is obtained in an audit of the financial statements)

54%

Review by the internal audit function of the company

50%

Source: PwC's Global Investor Survey 2022

% of respondents who would get a moderate, large or very large extent of confidence from these actions by an assurance practitioner

Assure that a company's management has done what they've reported that they've done

79%

Assure that the reporting is in line with a generally recognised reporting framework

77%

Assure the reporting as a whole, not a subset of what is reported

74%

Assure that the actions a company's management is taking to address the issues faced by the business are appropriate actions to be taking

72%

Assure that the reporting is in line with a reporting framework developed by the reporting entity

70%

Source: PwC's Global Investor Survey 2022



If there is assurance on sustainability reporting, I think the purpose should be the same as the audit of the financial statements so that the reader can be comfortable that what's reported is reasonably accurate and relevant.

UK-based investor

The organisation that provides the assurance is less important to investors than the qualities they expect of the assurance practitioner. As the level of assurance gets more rigorous over time, investors will first look to understand the reasons for any qualified assurance opinions before they will take action to sell their shares.

% of respondents who think these are important qualities for an assurance practitioner to have

Having access to (or the ability to access) experts with the necessary subject matter knowledge

78%

Being experts in applying professional scepticism and the ability to assess the reasonableness of management's estimates and judgements

73%

Being subject to regulation that requires independence and ethical standards

72%

The ability to assess and verify forward-looking information, including scenario analysis

71%

Having experience in performing audits of complex organisations (e.g., performing materiality assessments, checking for completeness, identifying the reporting boundary)

71%

Being able to have a comprehensive view of the business across all types of corporate reporting (e.g., financial statements, sustainability reporting, other narrative reporting)

71%

Being trained in using audit methodologies

67%

% of respondents who are likely or very likely to take this action if a company received a qualified assurance opinion on its sustainability reporting

View this as a way to understand the maturity of the company's sustainability reporting processes

59%

Be concerned that the company's reporting processes and oversight are not sufficient

56%

Seek more information from the audit committee of the company

54%

Be concerned that there may be a problem in the business

46%

Be concerned about the value of an investment in the company

41%

Take no action

30%

Sell the investment in the company

14%

Take a short position in the company's shares

5%

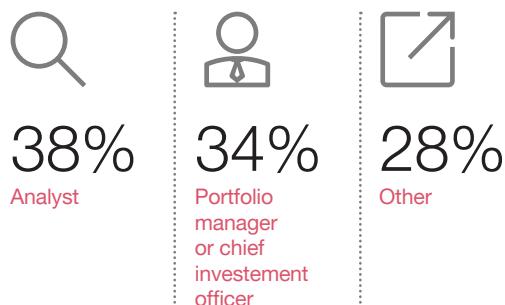
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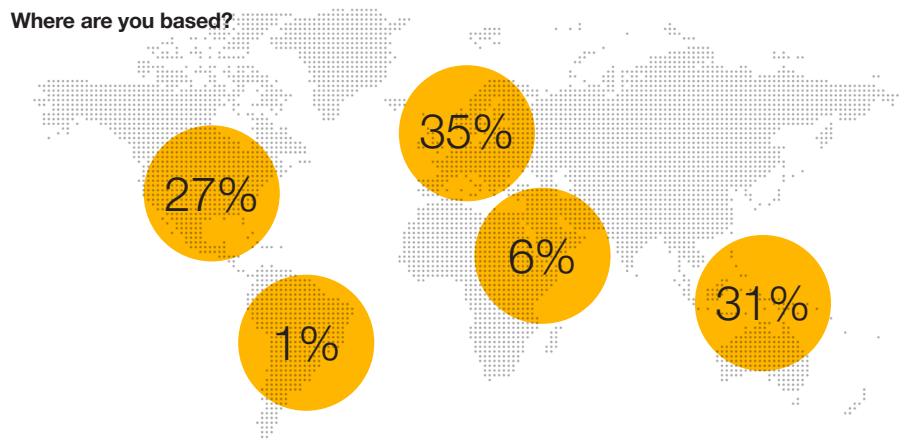
Research methodology

In September and October 2022, PwC conducted an online survey in which we received responses from 227 investment professionals across 43 territories. We also conducted 13 in-depth interviews with investors and analysts in five territories. The respondents to the online survey were spread across a range of industries, roles and specialisms, with assets under management ranging from US\$500 million to US\$1 trillion or more. The online research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services. The in-depth interviews were conducted by partners and staff of PwC.

What is your role?



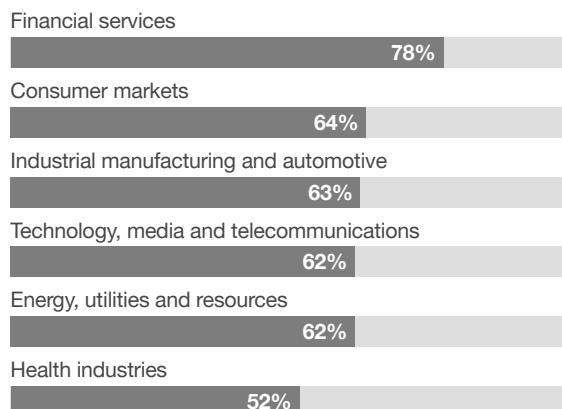
Where are you based?



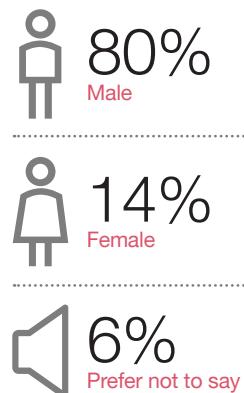
Where do you invest? Top five countries indicated



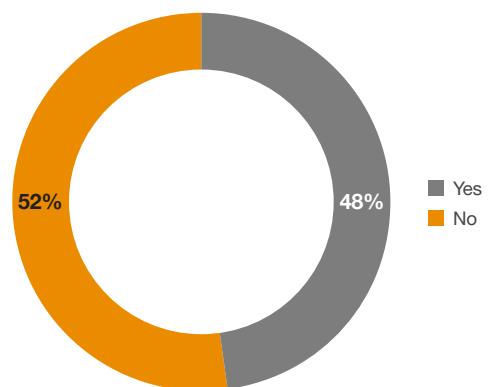
What industries do you cover?



What is your gender?



Is your organisation a signatory of a responsible investing body or initiative?



Please note: Throughout this document, due to rounding, percentages may not add exactly to 100%.

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