Global investor survey: Highlighting US investor priorities

December 2023

> I think if you had better, more robust disclosures, the capital markets will do what they do and companies' investors will better be able to understand and digest the risk and opportunities and they will put their capital where it needs to be allocated.
>
> US investor

What is top of mind for US investors approaching year end 2023?

In fall 2023, we performed a global survey of 345 investors and analysts across 30 countries and territories. The views of the global respondents are analyzed in our report, PwC's Global Investor Survey 2023: Trust, tech and transformation: Navigating investor priorities. This publication highlights the interests of US investors based on 128 responses from those who invest in US companies (US investors).

In their responses, US investors identified the critical factors used in their investment decisions as management quality, corporate governance, innovation, emerging technologies, and climate, in addition to financial performance. The survey also found that US investors may be more interested in how companies manage relevant sustainability themes than their global counterparts. Another key theme from US investors is an ongoing gap in trust over reported information, especially given their use of multiple information sources.

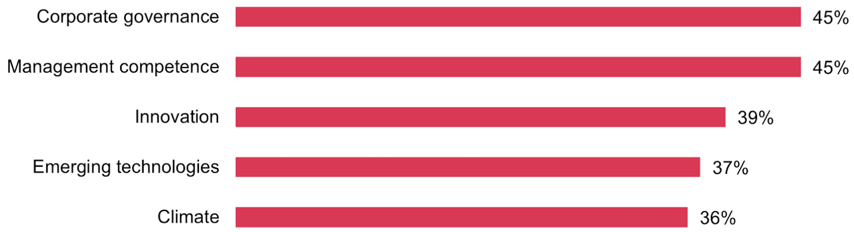
Priorities beyond financial performance

Investors have access to a vast and growing amount of information covering a variety of topics. So what topics did US investors highlight as being the most impactful in influencing their decisions?

These investors told us that they want to better understand how companies are managing crises and staying resilient, while creating and protecting long-term value in today's fractured investment landscape. Unsurprisingly, corporate governance, management competence, and innovation are top of mind, while they are also looking closely at emerging technology and climate and sustainability to gauge whether companies can seize opportunities for reinvention and business transformation, or will instead succumb to rivals.

In addition to financial performance, US investors responding to our survey rated the following five topics highest in terms of impact to their evaluations.

Most important topics for evaluating companies
Question: Excluding financial performance, which of the following are the most important to you when evaluating the companies that you invest in or cover?



> Everyone's going to have to invest [in AI], but who's doing it prudently and who's not? That's the kind of things we're trying to tease out from our analysis… you can go out there and put a press release out that says … you're investing X millions of dollars in hiring these data scientists, but are you really getting anything out of that or is it just PR?
>
> US investor

In terms of emerging technology, investors indicated that they are concerned with the adoption of artificial intelligence, particularly with regard to data security/privacy, the potential for misinformation, and insufficient governance process/controls.

Investors see considerable risk in AI adoption

Question: To what extent do you think the following are a risk for companies as they adopt AI? Graph includes percentage of respondents who chose "a moderate extent," "a large extent," or "a very large extent."

Companies may be challenged to effectively communicate about adoption of emerging technologies and innovation because of the lack of agreed-upon standards or performance measures. As these topics top investors' concerns, it may be helpful for companies to consider how best to convey goals, performance, and progress while keeping in mind the importance of consistency across communication channels.

Sustainability continues to be important to investors

The percentage of US investor respondents who said that they use sustainability disclosures to at least a moderate extent was higher than last year's survey, indicating growing reliance on and interest in those disclosures. In fact, sustainability disclosures saw the largest increase in the number of respondents using it as a source of information compared to the prior year, increasing over 50%. We believe the level of attention by investors — not to mention impending mandatory reporting — warrants corporate focus on building the infrastructure to support sustainability reporting.

The transition to mandatory sustainability reporting continues, as new mandates have come on line from California and the European Union — in the form of the Corporate Sustainability Reporting Directive — and a final climate disclosure rule remains expected from the SEC.[1] Additionally, in June 2023, the International Sustainability Standards Board (ISSB) issued two final standards,[2] which are being evaluated for adoption by jurisdictions around the world. Investors told us this mandatory reporting will be useful and more than three-quarters of US investor respondents at least somewhat agreed that how companies identify and manage sustainability risks and opportunities is an important consideration.

Compared to their global counterparts, US investors surveyed believe information on risks and opportunities is of greater importance. Specifically, 57% of US investors in the survey agreed or strongly agreed with the statement that how a company manages its sustainability risks and opportunities is an important factor in investment decision-making. This compares with 48% among global investor survey respondents. Further, more than half of US investors (51%) agreed or strongly agreed that companies should embed sustainability directly into their strategy, compared to 44% of global respondents.

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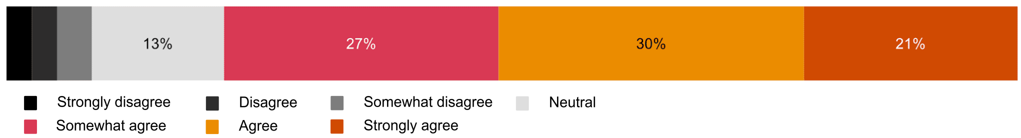
[1] California's not waiting for the SEC's climate disclosure rules; Worldwide impact of CSRD - are you ready?; and, The SEC wants me to disclose what? The SEC's climate disclosure proposal

[2] IFRS Sustainability Disclosure Standards – Guidance, insights and where to begin

US investor views on sustainability reporting
Question: In thinking about the companies you invest in or cover, please indicate how much you agree or disagree with the following statements.

How a company manages sustainability-related risks and opportunities is an important factor in my investment decision making

Companies should embed ESG directly into their corporate strategy



86%

of US investors believe that independent reasonable assurance would give them confidence in assessing the accuracy of a company’s sustainability reporting.

PwC’s 2023 Global investor survey

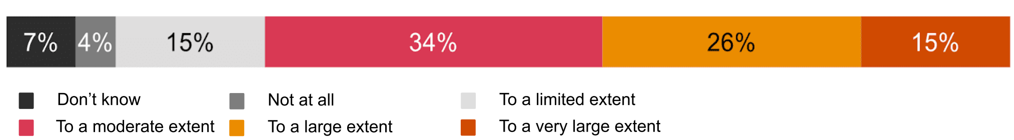
US investors also expressed an interest in understanding how a company embeds sustainability in its strategy and believe that sustainability topics are relevant to their investment thesis. In response, companies should consider how to best communicate their processes for identifying sustainability risks and opportunities, as well as how those risks and opportunities are reflected in their strategy for long-term shareholder value.

Opportunities exist to enhance investors’ trust in corporate reporting

Trust over investor-focused communications about a company’s risk and opportunities is divided, with 49% of US investors in the survey indicating that they trust the information to a moderate extent or less. In addition, roughly half say that they do not have a high degree of trust in sustainability disclosures or even press releases. In fact, 75% believe that corporate communications contain unsubstantiated claims about sustainability to at least a moderate degree.

Trust in information to assess management of risks and opportunities
Question: To what extent do you trust investor-focused communications in assessing how the companies you invest in or cover, in general, are managing the risks and opportunities facing their business?

Unsupported claims on sustainability performance
Question: In your view, to what extent do the following sources of information within corporate communications contain unsupported claims about a company's sustainability performance (e.g., on environmental and social issues)?



Note: Percentages shown may not total 100 due to rounding

Assurance over sustainability information may help bridge this trust gap. When asked, 86% of US investors said that independent reasonable assurance would give them confidence in assessing the accuracy of a company's sustainability reporting. While assurance over sustainability information is currently largely voluntary, that will be changing with limited assurance required in 2026 over scope 1 and scope 2 greenhouse gas emissions when the new mandates for companies doing business in California are effective.[3] The full breadth of sustainability reporting under the CSRD will also require assurance for those jurisdictions and subsidiaries in its scope.

We think that all companies and in particularly companies with more acute risks, should have a routine assessment of the [potential] physical impacts [of climate] on their global business footprint, including supply chain operations. We also want to know how climate change can be reshaping business opportunities and risks.

US investor

Consistency across sources of information is important

Investors in US companies consume data from a vast array of information sources. While financial statements, the related footnotes, and investor-focused communications are expected resources used to assess how companies manage risks and opportunities, investors are also looking to other sources. The following are the top ten sources investors look to for information, and the extent to which how much they use those sources compares to the prior year. In most cases, this year saw an increase in the percentage of respondents that said they use the source to a moderate or larger extent.

US investors' sources of information

Question: To what extent do you use the following sources of information in assessing how the companies you invest in or cover, in general, are managing risks and opportunities facing their business?

	%	Change
Investor-focused communications	93%	n/a
Financial statements and note disclosures	92%	⇧
Narrative reporting aside from sustainability disclosures	91%	⇧
Press release and/or media statements	89%	n/a
Analyst reports	89%	n/a
Dialogue and engagement with the company	86%	⇧
Materiality assessment disclosures	86%	⇧
Sustainability disclosures (specifically commitments nad progress against targets)	85%	⇧
Third-party sources	82%	⇔
Sustainability disclosures (relating to environmental issues)	81%	⇧

Note: *Table includes percentage of respondents who use the source to "a moderate extent," "a large extent," or "a very large extent." Arrows indicate the directional change from prior year. Those marked n/a were new sources in this year's survey.*

Given the wide variety of information sets used by investors, it is important that a company transparently and consistently communicates how the organization is progressing on its strategy to create value over the long term. Investor trust may be eroded when information across different communication channels does not align.

[3] California's not waiting for the SEC's climate disclosure rules

Takeaways

Understanding the investor lens is an integral part of corporate reporting. Investors have priorities that go beyond financial reporting and are using a variety of information sources to gain a better understanding of their investments. Sustainability is one area that continues to be important to many investors and upcoming mandatory reporting will play an important role in providing the information they need. With investors lacking trust in many sources of information, companies can work to improve that trust by providing more complete and consistent communications. While complying with mandated reporting requirements is foundational, tailoring supplemental reporting to better communicate progress on topics of investor interest will enhance trust, transparency, and dialogue with shareholders.

Demographics

Of the 128 US investors surveyed, respondents were predominantly institutional investors, comprising mainly analysts (31%), chief investment officers (21%), portfolio managers (18%), and governance or stewardship professionals (14%). Their investments covered a range of asset classes, investing approaches, and time horizons, with 80% of respondents at organizations with total assets under management over $1 billion.

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