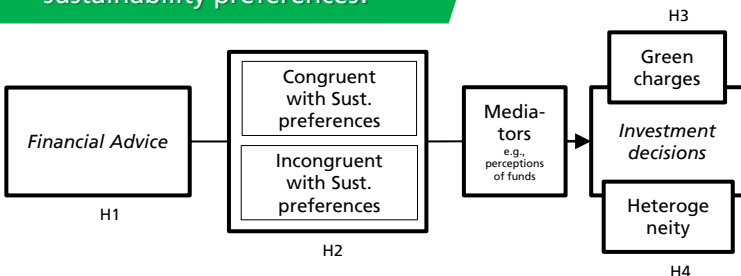


# A tale of financial advice with sustainability preferences and fees: Do retail investors take the advice?

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Retail investors follow financial advice incongruent with their sustainability preferences!



**What can cause advisors to give retail investors advice incongruent with clients' sust. preferences?**

- Unobserved sustainability preferences (outside the EU)
- Advisors lacking sustainable finance knowledge; a lack of matching products in the retail market (in the EU)

**Conventional: Fund A | Light-green: Fund B | Dark-green: Fund C**

Historical annualised 3-year returns (return indicator):  
Fund A: **16.5%** | Fund B: **15.5%** | Fund C: **13.5%**

Historical 3-year standard deviation (risk indicator):  
Fund A: **17.6%** | Fund B: **17.8%** | Fund C: **18.4%**

How would you allocate  
£160 for 3 years among  
these 3 funds if you are told  
by an advisor...?

"The three funds offer you opportunities to invest in portfolios with different levels of diversification and sustainability" + one of the advice below:

- **Control:** You may want to consider all of them.
- **T1:** You may want to consider **Fund A**, as it allows you to invest in a highly diversified portfolio without any investment restrictions due to environmental or social considerations.
- **T2:** You may want to consider **Fund B**, as it allows you to invest in a diversified portfolio with environmental and social characteristics.
- **T3:** You may want to consider **Fund C**, as it allows you to invest in a somewhat diversified portfolio with the investment aim of creating environmental and social impacts.

## First Decision

Fees for A, B and C:  
0.2%, 0.2%, 0.2%

## Second Decision

Fees for A, B and C:  
0.2%, 0.4%, 0.6%

In an **ONLINE EXPERIMENT** with 1,973 UK residents from Prolific using the decision task above and the incentives below, I find...

### INCENTIVES:

- Up to £ 180 bonus (endowment + return)\*
- CO<sub>2</sub> offset donation linked to green investments\*
- £ 2.7 fixed payment for completing surveys (18 min)

\*Each for 5 randomly drawn participants after the experiment

### Results

1. **Retail investors** (both sustainable and conventional) **follow mismatched advice** despite their suggested desires for consistency.
2. Mismatched advice, on average, increases investment in the mismatched fund by slightly **more than 4 percentage points**.
3. Sustainable investors **respond strongly to the higher fee increase in the dark-green fund but not much to that in the light-green fund** (\*given fee structure transparency and financial literacy training).