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Matter of fact-sheets: improving consumer comprehension of financial sustainability disclosures

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Summary

The UK has ambitions to be a world leader in Green Finance (HM Government, 2021) and the way that sustainability information about investment products is presented to consumers forms an important part of this goal, allowing consumers to select investments based on their sustainability characteristics and to compare information across products. The Financial Conduct Authority (FCA) and HM Treasury are therefore developing a regime which will require investment product information (disclosures) to "substantiate ESG claims they make in a way that is comparable between products and is accessible to clients and consumers" (HM Government, 2021).

To learn how disclosures could help inform consumers, we undertook a programme of behavioural research on sustainability disclosures for investment products.

We contributed behavioural science thinking to the development of investor factsheets and ran two online experiments to understand their effects on consumer comprehension of a product's sustainability characteristics. Consumers can struggle to understand information in this context because of limited attention (FCA, 2013) and excessive costs associated with searching for and understanding information (Gutsche and Zwergel, 2020). As a pre-cursor to the experiments, we ran a conjoint analysis which helped us understand what investment features matter to consumers and that an objective grading system would be helpful when designing the factsheets, which informed the factsheet's design.

Our first experiment confirmed that the factsheets improved comprehension of the sustainability characteristics of investment products, compared to just having the Key Investor Information Document (KIID) available, by nine percentage points (with an average proportion of correctly answered comprehension questions out of twenty-five moving from a baseline of thirty-nine percent to forty-eight percent). There were some results we wanted to investigate further, however. In particular, we found a tendency for people to mistakenly believe that all funds with sustainable goals aimed to make a real-world impact, whereas in reality 'Impact' funds are the only ones that do so. People also tended to overestimate the sustainability credentials of the 'Transitioning' (now called 'Sustainable Improvers') labelled product, incorrectly believing that it invested mainly in companies or assets that maintain sustainable characteristics.

Following these results, we conducted focus group interviews with consumers with a range of investing experience, to inform possible options for improved factsheet design.

In a second experiment we made adaptations to the factsheet based on findings from the qualitative research and policy developments. Most notably, the updated factsheet featured a description of the fund category which the particular fund was a part of, rather than including descriptions of all fund categories (which consumers reported finding confusing). We also tested the effect of providing factsheets for all sustainability categories, versus just for funds with sustainable goals.

Again, we found that the redesigned factsheet significantly improved comprehension compared to just having the KIID but providing a factsheet for all funds was the most effective, increasing comprehension by ten percentage points (with an average proportion of correctly answered comprehension questions out of twenty moving from a baseline of forty-seven percent to fifty-seven percent). When the updated factsheets were provided for sustainable funds *only*, consumer comprehension improved by six percentage points - a significantly smaller increase than when sustainable factsheets are provided for all funds.

Overall, the behaviourally informed sustainability factsheets improved consumer comprehension of important sustainability information. Factsheet length (two and a half pages compared to one page) appeared to have no impact on comprehension. Effective improvements in comprehension relied on people opening and reading the factsheets, and the tendency to do so in real life may differ from our experimental conditions. Given this, we expect that factsheets would still improve comprehension in real life, but the size of the effects may be different. We also found that the provision of sustainability factsheets increased the proportion of participants who made a hypothetical choice to invest in a sustainable product. Whilst influencing choice was not an explicit aim of the factsheets, further analysis indicated that the increase in comprehension was an important reason for some of the change in choice.

Results from this work informed the FCA's approach to consumer-facing product-level sustainability disclosures (FCA 2022).

Key findings

Experiment 1: sustainable factsheets, short or long?

- Short and longer versions of behaviourally informed sustainability factsheets increased overall comprehension of a fund's sustainability characteristics compared to just seeing the Key Investor Information Document (KIID) and no differences between the two versions were found in terms of comprehension.
- Even with the factsheets, there was a low level of comprehension of aspects of the 'Transitioning' and 'Aligned' products. In particular, people failed to identify that these products did not aim to make a positive real-world impact. Only the 'Impact' product was designed to meet this definition.
- Those who saw sustainability factsheets were more likely to report that they would invest in one of the sustainable funds, and increased comprehension explained around half of this effect. This suggests that providing factsheets can help consumers make more informed choices when it comes to investment decisions for sustainable funds.
- The largest shifts in choice were away from the 'No Sustainability Goals' product and toward the 'Impact' product.
- We suggest that the positive effect on consumer comprehension is explained in part by the design features of the factsheets, for example: presenting figures as £-values or frequencies; clear and simple presentation; and language, priming, and making key elements salient. This stands in contrast to the technical language

in the KIIDs, which may be jarring for some participants and lead to lower comprehension for the control group.

Qualitative research (focus groups)

- For some participants, the incoming perception was that products marketed as sustainable were 'wholly sustainable'. Some were not aware that investments marketed as sustainable could vary significantly in terms of their sustainability credentials and continued to struggle with the concept that there could be different approaches to sustainability.
- Some participants found sustainability metrics, such as 'implied temperature rise' and 'relative carbon footprint', compelling because they offered real-world examples that were familiar and helped them differentiate between the products.
- When we only described the label which related to a particular product (as opposed to including labels and descriptions for other products too), we noticed fewer misconceptions amongst participants and subsequently tested this quantitatively in Experiment 2.
- The important of using consumer-friendly language and ensuring that key terms are simplified or explained were also themes. For example, some participants did not understand the concept of 'stewardship', which is the primary investor contribution channel for the 'Improving' product.

Experiment 2: sustainable factsheets, for sustainable funds or for all funds?

- We tested updated factsheets in Experiment 2. The changes made included only including the label and description for the product in question, changing the names of the sustainable categories, and removing one of the label categories. We also only included one-page factsheets and did not test the longer factsheet. We found that these factsheets increased overall comprehension of funds' sustainability characteristics compared to just seeing the KIID. Where we only provided factsheets for the sustainable products, comprehension was lower than where we provided them for all products.
- Providing factsheets only for sustainable products decreased average consumer comprehension of 'No Sustainable Label' products. We hypothesise that people who saw factsheets only for the sustainable products were more likely to think that no sustainability information was contained in the KIID of the 'No Sustainable Label' fund, so were less likely to search for it.
- Consistent with Experiment 1, the sustainability factsheets increased the proportion of people reporting they would invest in one of the sustainable funds. Again, increased comprehension explained around half of this effect.
- The factsheets did not help participants understand all aspects of the sustainable characteristics of the 'Sustainable Improvers' (formerly called 'Transitioning') and 'Sustainable Focus' (formally called 'Aligned') products. The distinction between having sustainable goals and making a sustainable impact remained difficult for participants to grasp. Often, people did not identify that these products did not have a primary aim to achieve positive social or environmental outcomes.

- However, it did appear that the updated factsheets helped some people better understand that the 'Sustainable Improvers' fund did not mainly invest in sustainable activities.

Equality and diversity considerations

We have considered the equality and diversity issues that may arise from the proposals in this Occasional Paper.

Overall, we do not consider that the proposals in this Occasional Paper adversely impact any of the groups with protected characteristics i.e. age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment.

1 Introduction

Policy background and focus of this research

Financial services and markets can play a key role in moving towards a more sustainable future and there has been a dramatic increase in environmental, social and governance (ESG) investments in the past four years, with European sustainable fund flows of $20bn invested in the first quarter of 2019 to over $140bn invested in the first quarter of 2021 (FCA, 2021b). Alongside evidence we review in the next section, this provides a strong indicator that consumers care about the role of ESG in their investments.

In response to this consumer demand, firms are providing an increasingly diverse range of products that target various sustainability objectives, themes or characteristics. However, this has led to increasing concerns that firms might confuse or even mislead consumers about the nature of these products, leading to a deficit in trust (FCA 2022). We refer to 'greenwashing' where investors are misled on how sustainable a product is. the FCA, in authorising funds, has identified instances making sustainability related claims about their investment products that do not stand up to scrutiny (FCA, 2021a).

The UK has also set out its ambition to be a world leader in green finance in its Roadmap to Sustainable Investing (HM Government, 2021). Product information (disclosures) play an important role and the roadmap includes a statement that asset managers/owners and investment products will be "required to substantiate ESG claims they make in a way that is comparable between products and is accessible to clients and consumers." The paper also states, "they will also need to disclose whether and how they take ESG-related matters into account in their governance arrangements, and in their investment policies and strategies". The FCA, working closely with HM Treasury, is responsible for developing this regime.

One of the stated key themes of the regime is the importance of building trust and integrity in sustainable instruments, products and the supporting ecosystem. This outcome aligns with the FCA's operational objectives to protect consumers, to protect and enhance market integrity, and to promote effective competition in the interests of consumers. It also supports the Chancellor's expectation – as set out in the latest remit letter (HM Treasury, 2022) – that the FCA has 'regard to the Government's commitment to achieve a net-zero economy by 2050 when advancing (their) objectives.'

The FCA has now set out its policy proposals for ESG disclosures (FCA, 2022). One part of the wider requirements, the product labelling and disclosure system, is the focus of this paper. The intention is to classify products into different labels, and for there to be both a consumer-facing disclosure containing key product-level information, and a more detailed disclosure at product and entity level on sustainability risks, opportunities, and impacts sitting underneath it. Products are classified based on their intentionality, according to one of three sustainability labels or classifications, or as having no sustainable label. In particular, the regime distinguishes between products according to whether they aim to invest in assets that:

- could reasonably be considered 'sustainable' or that align with a sustainability theme, in line with the product's objective ('Sustainable Focus')
- are on a path to becoming more sustainable over time, including through the stewardship influence of the product provider ('Sustainable Improvers')
- achieve a positive, measurable real-world impact ('Sustainable Impact')

The regime therefore distinguishes between products according to whether the assets they invest in:

- **No Sustainable Label –** invests in assets that do not meet the criteria for a sustainable label
- **Sustainable Focus –** invests in assets that could reasonably be considered 'sustainable' or that align with a sustainability theme, in line with the product's objective.
- **Sustainable Improvers –** invests in assets that are on a path to becoming more sustainable over time, including through the stewardship influence of the product provider.
- **Sustainable Impact –** Products that aim to achieve a positive, measurable real-world impact.

These is no hierarchy between the proposed categories: each type of product is designed to deliver a different profile of assets, and to meet different consumer preferences. There is no one answer for all types of assets and investment products.

This is because consumers need to navigate a complex investment landscape with different sustainability-related objectives and strategies, which cannot easily be compared on one linear, hierarchical scale. There is not yet an objective 'standard' for the sustainability of a product. There is also no meaningful way to compare, for example, products that pursue different sustainability themes, or to compare a product that aims to contribute to positive sustainability outcomes over time with one that commits to invest only in assets that are sustainable today.

The classification and labelling of products will be underpinned by a set of objective criteria that set a 'high bar' for quality and integrity. These criteria include specification of the objective, the investment policy and strategy, key performance indicators, firm-level attributes such as resourcing and governance of ESG, and investor stewardship.

Consumer-facing product-level disclosures are a part of these disclosure and labelling requirements and are the focus of this paper.

Given this policy background and evidence to date, our research focused on improving consumers' understanding of the sustainability features of their investments within the consumer-facing parts of the FCA's proposed disclosure and labelling requirements to build trust.

We are aware that such disclosures only make up one part of how consumers learn about sustainability issues in investments, and a number of important questions were out of scope for our research, such as whether consumers choose to read the disclosure in the first place. As such our research is a starting point on this policy issue, rather than a comprehensive investigation of all potentially relevant interventions.

Our research informed the Financial Conduct Authority's (FCA's) approach to consumer-facing product-level sustainability disclosures (FCA, 2022).

Behavioural context and literature

Several studies have shown that consumers care about sustainability issues, including in the context of investment. In the FCA's latest Financial Lives Survey 80% of respondents said they would like their money to be invested in a way that does 'some good as well as [providing] a financial return' (FCA, 2020). Further, an online experiment of US participants that attempted to simulate real investment choices in order to help understand the extent to which savers value sustainability, found that the median saver would prefer a sustainable fund, even if they have to sacrifice up to 2.5 per cent past returns (Stillwell, 2019).

Our experimental design was informed by a range of insights from the behavioural science literature including in relation to interventions that have increased consumer comprehension in investing and wider settings.

Timely presentation of disclosures

Through a web survey and a field trial, Balebko *et al.* (2015) examined how timing impacts salience of smartphone app privacy notices. The authors found that displaying the notice during app use significantly increased recall rates compared with showing it in the app store or using alternative phrasings of the privacy notices. This suggests that timing disclosures for when an individual is most engaged in the task is a vital aspect of engaging readers. However, we note that the different context in our study means that effects may differ for ESG disclosures.

Attracting attention through priming

Two studies by Wang (2011) and Wang and Dowding (2010) suggest that using textual headers and graphic features can help attract attention to a disclosure, whilst categorising the information can help individuals process it. Moreover, the results suggest that the fewer steps the participant has to take to view the disclosure, the more likely they are to view and process it, as the additional clicks required to operate a drop-down system reduced attention paid.

Simplifying presentation of numerical information

Research by the Plain Numbers Project (2021) offers a number of concrete suggestions for increasing comprehension, including: pre-calculating difficult calculations (for example, compound interest); representing figures in pounds or frequencies (for example, 1 in 100) or representing them visually where possible, rather than percentages; and that large figures or units that are abstract to the reader (e.g.) C02MTe should be presented in a way that is meaningful (e.g., miles driven).

Context is key to increasing comprehension

Three experiments by Newman *et al*. (2016), tested two kinds of information cues on the front of food packaging: (i) 'objective' cues, those offering specific quantitative information such as calorie and nutrient levels; and (ii) 'evaluative' cues, which interpreted information about a product's overall healthfulness based on its nutritional contents by adding a label with a health rating out of 3 stars. They found that when consumers were presented food products one by one, objective cues were better at evaluating food and increased their intention to buy healthier products. However, when consumers looked at multiple food products in one go, then the evaluative cues were better at improving outcomes.

Effective disclosure design is central to simplifying complexity

The Federal Trade Commission (FTC) commissioned the Kleimann Communication Group (2006) to carry out qualitative research that would inform how they might improve comprehension, comparison, and compliance of financial privacy notices._

The authors identified six 'meta themes': 1) keep it simple, as consumers are overwhelmed by too many words and complex information and may not read it at all; 2) good design matters, as consumers responded positively to a table design, headings, white space, bold text, bulleted lists, a larger font size, and full-size paper; 3) careful design decisions ensure neutrality, as disclosure should deliver information not direct decisions, they used factual language, objective presentation, and non-inflammatory words; 4) consumers need context for understanding detailed information; 5) standardisation is highly effective, as it helps consumers immediately recognise the notice and thereby reduces cognitive burden; and 6) the disclosure table is critical, as a simple, concise, highly visual, and standardised disclosure table streamlines complex information into a digestible format.

Reducing information costs through labels

We examined evidence on labelling in other sectors, for example front-of-package food labels. A meta-analysis of 114 quantitative studies found that front-of-package nutrition labels help consumers identify healthy products (Ikonen, 2020).

We also explored literature on whether indicator labels, such as a rating of stars out of five, have been applied to the sustainable finance context. The Behavioural Insights Team found star-ratings to be effective in influencing consumers towards selecting more environmental pension funds (Behavioural Insights Team, 2022). Furthermore, while researching barriers to socially responsible investment (SRI), Gutsche and Zwergel (2020) found that labels, such as sustainability certificates, could decrease information costs and overcome some barriers for investors, particularly for new investors. Our own research (Annex 2) shows that that sustainability 'medals' have a significant effect on participants' stated investment choices. This suggests that a salient grading, which is presented as an objective representation of a fund's ESG impact, would have a significant effect on which funds consumers decide to invest in.

Limitations in the Literature and Our Contribution

The studies reviewed provide robust evidence which helped to inform our approach, although some limitations in the studies reviewed remain. In some cases, studies were based on small sample sizes, which at times were not randomly selected. Some of the research is qualitative, which does not show causality or prevalence, and so should not be relied on exclusively without complementary further research.

Much of the research into labels or certificates focusses on summary indicators for making quick quantitative comparisons. While these approaches have been effective in other areas, they do not necessarily translate to the aim of this disclosure work, which needs to communicate *the way in which* financial products are sustainable, rather than just the degree to which they are. This is because consumers need to navigate a complex investment landscape with different sustainability-related objectives and strategies which cannot easily be compared on one linear, hierarchical scale, as set out in the policy context above. Our assessment of the literature here also draws on sources from several different contexts and industries, so the effects may not translate directly to the sustainable disclosure context.

Indeed, as financial sustainability disclosures are recent regulatory innovations across the globe, more research in this space is needed. Our research aims to make a start on addressing this gap by helping to understand where confusion may lie and how to build better understanding of sustainability investment products. With a large sample and research design which allows for causal inference, we contribute new evidence on financial sustainability disclosures.

Our approach

Reflecting the context and insights above, we have undertaken the following programme of research:

- A first online experiment ('Experiment 1'). This tests consumer comprehension of two initial versions of a sustainability disclosure factsheet, where behavioural insights (including from the literature above) were applied to the consumer-facing disclosure system developed by the FCA, in conjunction with HM Treasury.
- Qualitative research, motivated by some findings from Experiment 1 relating to how consumers understand the products' varying approaches to sustainability. The aim of this research is to explore and understand how the disclosure templates tested in Experiment 1 could be improved.
- A second online experiment ('Experiment 2'), testing an updated version of the labels and disclosure factsheets, which incorporates insights from the qualitative research, as well as policy-motivated changes.
- We also include a more detailed summary of some earlier conjoint analysis on sustainable investing. This was exploratory research pre-dating the current disclosure proposals, looking to understand which investment features matter to consumers and whether an objective grading system might be impactful. A summary of the research has been published (FCA 2021b) and partly informed the design of factsheets tested in our experiment, most notably that an objective grading system would be helpful when designing the fact sheets. Given subsequent interest, we have included a fuller writeup in Annex 2.

2 Experiment 1: sustainable factsheets, short or long?

Research design

We conducted an online experiment to estimate the impact of our behaviourally informed sustainability factsheets on consumer comprehension of key sustainability information. The secondary aim was to estimate the impact of the factsheets on consumer choice. We also measured the impact on comprehension and stated choice when people saw a shorter fact sheet, versus a more detailed one. Further analysis explored the extent to which comprehension mediated any effect of the fact sheets on consumer's stated investment choice.

Intervention

We designed two versions of a sustainability factsheet template for each of the five product categories – a succinct one-page version and a two-and-a-half-page version which provided more sustainability metrics and detail – so that we could test whether providing additional information in the longer factsheet would have an effect on comprehension. We hypothesised that we may see information overload effects with the longer template, leading to reduced comprehension. However, given the complexity of information, we also wanted to know if consumers experienced greater gains in comprehension with the additional information and explanation that the longer template afforded. The factsheet's content is outlined in Table 1.

Table 1: Overview of interventions

Treatment arm	Description
Control	Participants could click to access a Key Investor Information Document (KIID) only, for each fund. The KIID reflected the same design and detail that would be provided for a real-world fund, with limited explicit information regarding sustainability
Treatment 1: Longer sustainability factsheet	Participants could click to access a document which contained the same KIIDs as in the control and a 2.5-page sustainability factsheet for each fund. It contained information on: • stated sustainability goal • a section on sustainability approach with brief descriptions of how the fund achieves its sustainability goal, such as stewardship and exclusions • key metrics including proportion of funds invested in sustainable activities, implied temperature rise and carbon footprint **plus** metrics, relating to CEO-employee pay ratios, human rights policies, and board-level gender balance

Treatment 2: One-page sustainability factsheet	Participants could click to access a document which contained the same KIIDs as in the control and a one-page sustainability factsheet for each fund. It contained information on: • stated sustainability goal • a section on sustainability approach with brief descriptions of how the fund achieves its sustainability goal, such as stewardship and exclusions • key metrics including proportion of funds invested in sustainable activities, implied temperature rise and carbon footprint

Both factsheets sought to make the sustainability characteristics of each of the products more salient and comprehensible than in the KIID (see Figure 7 in Annex 1A). Drawing on our literature review, we made the following design choices:

- provided **clear language**, such as 'supporting people and/or the planet' rather than 'sustainable'.
- expressed **percentages as whole numbers** or £-values where possible; for instance, '70 out of every 100 companies…' or '£67 out of every £100…' (Figure 1).
- provided **evaluative cues**, or context for important metrics, and used colour-coding to indicate better or worse values, as seen in Figure 2.
- utilised **semantic, categorical, and feature priming** to enhance the intelligibility of the templates. We did this by adding textual headers to each of the sections of the factsheet, categorising sections of the factsheet, and using icons and graphics to portray metrics. Further examples of these can be seen in the factsheet templates in Figures 1-6 in Annex 1A.

Figure 1: Examples of plain numbers usage, semantic and feature priming

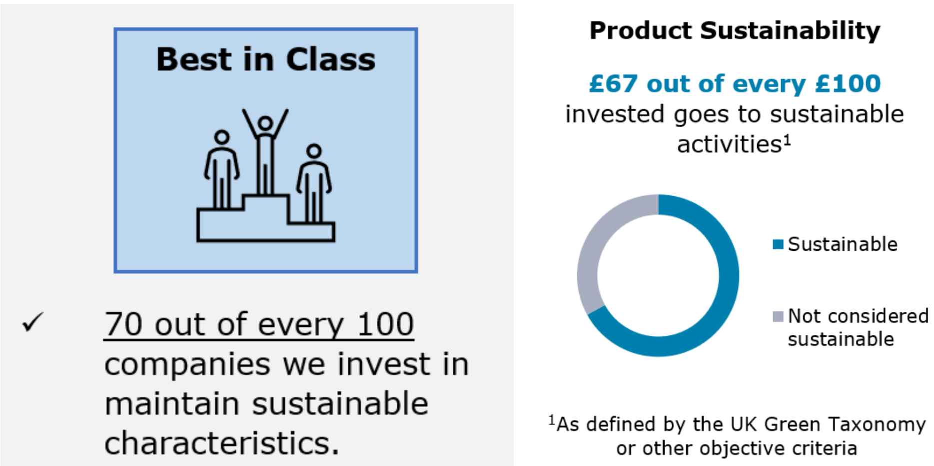
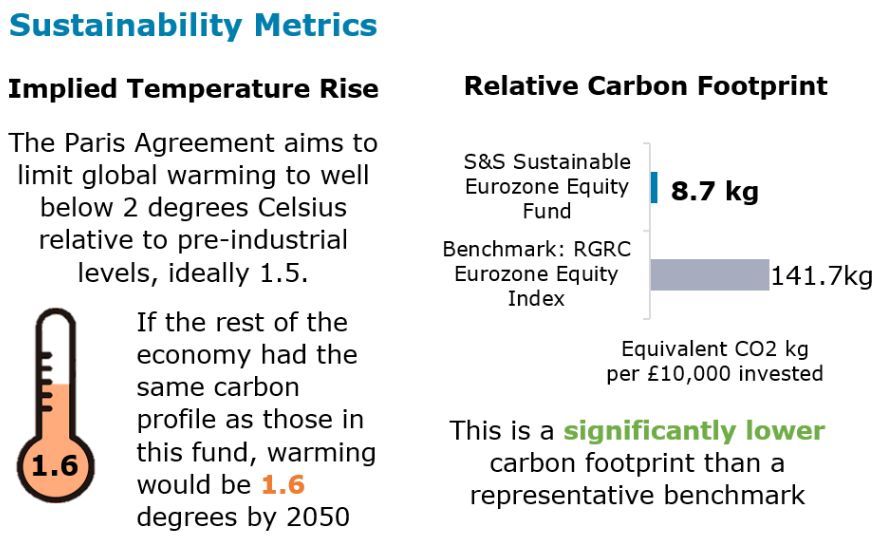


Figure 2: Examples of evaluative cues, semantic and feature priming



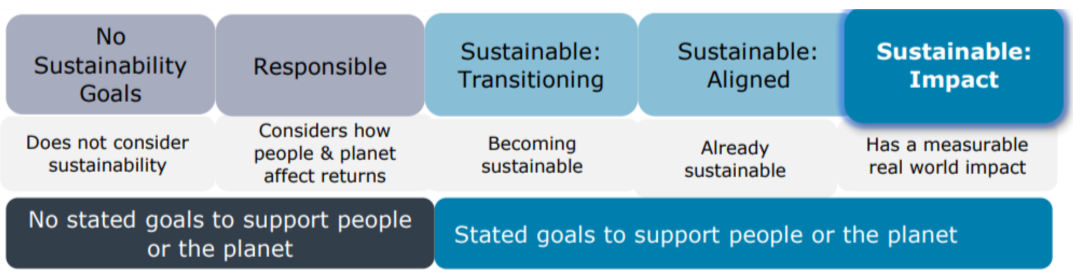
Experimental design, outcome measures, and analytical approach

Experimental design

The experiment was designed as an online 3-armed randomised control trial (RCT), with participants individually randomised into one of three parallel groups (see Table 1 above for treatment arms and Figure 4 below for the experimental flow).

At the time of conducting the experiment, the FCA was considering five categories for sustainable or non-sustainable products; participants in our experiment were presented with hypothetical fund documents for each product category (FCA 2021c). The five categories were mapped to either not having stated sustainability goals, with the labels 'No Sustainability Goals' and 'Responsible', or to having stated sustainability goals, including 'Transitioning', 'Aligned', and 'Impact' (see Figure 3 for more detail). We constructed five hypothetical financial funds which mimicked real-world equity funds and were fabricated to align with the respective sustainability label's criteria.

Figure 3: Categories of sustainable product for Experiment 1

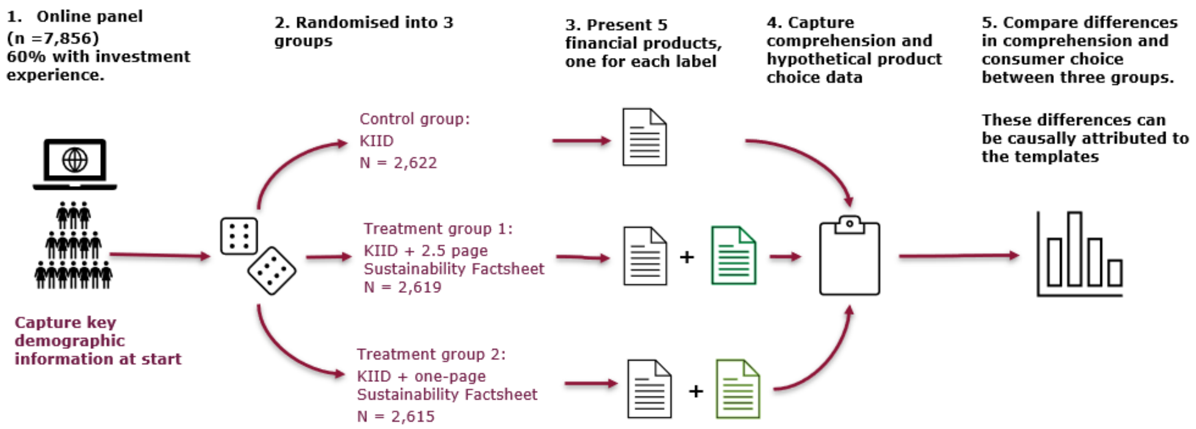


Participants in each arm received links to fact sheets for the five hypothetical funds, in a random order to account for any order effects. These links were provided throughout the survey so participants could always refer back to them.

Participants were asked comprehension questions for each of the five funds which assessed how well they understood key sustainability information. They were forced to answer all questions before proceeding to the next page but were permitted to answer, "Don't know". Those in both treatment groups were also asked a further set of comprehension questions which assessed comprehension of information that was only provided in the sustainability factsheets.

Next, participants were presented with a choice of which fund they would invest in if they were given £1,000 to invest, followed by a series of questions about how useful they found different elements of the documents, detailed in the Outcomes section below. Participants were paid £1.25 for taking part in the survey, with the opportunity to earn up to 40p more for answering comprehension questions correctly.

Figure 4: Experiment flow for Experiment 1



Primary outcome: sustainability comprehension

In order to determine what the effect of the factsheets was on consumer comprehension of the sustainability characteristics of financial products, we needed to capture whether participants understood the information that we determined was key. To measure this, we asked 25 questions for each fund, that capture key sustainability criteria as determined by the policy. In Table 1 and 2 in Annex 1A, we outline these questions and the correct answer for each product. It is worth noting that not answering a question, for example through dropping out of the survey, is marked the same as an incorrect answer. This approach allows us to keep all participants in our sample. We also found no difference in drop-out rates between treatment groups so were less concerned about bias potentially introduced by this approach. As a sensitivity test, we also calculated the same outcome for participants who completed the experiment (see section 5 and 6 in Annex 1A for details).

For our primary outcome analysis, we estimated the effect of treatments on the average proportion of sustainability questions answered correctly. For the full specification of our model for this analysis and the rest of our analysis see Section 1-3 in Annex 1A.

Secondary outcome 1: sustainable product choice

We analysed two secondary outcomes, the first of which was whether participants chose an investment that was classified as sustainable. To inform this question, participants were asked which fund they would invest in if they were given £1,000 to invest and were given the options: 'No Sustainability Goals', 'Responsible', 'Transitioning', 'Aligned', 'Impact' and 'none'. If a participant chose 'Transitioning', 'Aligned' or 'Impact', we categorised them as having chosen a sustainable product. If a participant chose: 'No Sustainability Goals', 'Responsible' or 'none' this was categorised as not choosing a sustainable product.

We wanted to measure this as we thought that it would be good to understand the implications for consumer decision making of introducing a labelling system; and help determine whether the information provided is considered useful for consumers' decision-making. It was not an outcome that we were actively trying to influence with the factsheet design.

To analyse this, we used a linear probability model, as specified in Section 2 in Annex 1A to estimate the impact of treatment assignment on the likelihood of selecting a sustainable fund.

Secondary outcome 2: additional sustainability comprehension

The second was comprehension of additional sustainability information that could only be found in the factsheets. This was to try and work out if either factsheet was more effective at communicating some of the new information that was provided. We chose to measure this as the proportion of correctly answered comprehension questions out of 20 (4 questions per product). In Table 3 and Table 4 in Annex 1A, we outline these questions and the correct answer for each product. Note, this secondary outcome only applied to those who saw our sustainability factsheets.

To estimate the effect of treatment assignment on comprehension of the additional sustainability information, we used a model identical to that of our primary analysis, apart from the outcome measure. The sample included only those exposed to treatments.

Mediation analysis: comprehension's influence on sustainable product choice

We were interested in how comprehension of sustainability information influenced the likelihood of choosing a sustainable fund. Our assumption was that people who cared about sustainability would choose differently after a change in understanding. We therefore analysed whether the factsheets somehow affected stated choice directly, or indirectly through increasing comprehension. There may be cause for concern, for example, if participants are more or less likely to choose sustainable products without there being a significant change in their comprehension, as this may indicate they are picking up on unintended cues in the factsheet design. We set out the model we use in Section 2 in Annex 1A.

Exploratory outcomes

We also included a number of exploratory outcomes that aimed to either explain our primary and secondary findings, or to generate further hypotheses. We set these out in Section 3 in Annex 1A.

Sub-group analysis

The different sub-groups investigated were those defined in the following criteria:

- Whether or not the participant reported they had experience in investing
- Whether or not they reported that sustainability would be very or extremely important in their investment decisions
- Whether or not they clicked a link for all five funds, or not
- Their gender
- Their age group: 18-34, 35-54, 55-74, 75+

As we were not properly powered to detect statistical differences between sub-groups, we would not use this as causal evidence, but as a hypothesis generating exercise to understand potential differences between groups.

We also explored whether the effect sizes differed between participants that opened all four documents and participants which did not. We note that opening the documents is likely influenced by treatment, and people opening all documents are likely to be different from those who do not.

Comprehension breakdown

We ran simple descriptive statistics for each of the 45 comprehension questions (the 25 sustainability comprehension questions and the 20 additional sustainability comprehension questions), broken down by treatment group. These were not designed to be robust causal estimates of whether the templates "work" for a given question, rather were intended to help explain the main result and the mechanisms driving it.

Other exploratory outcome variables

We ran the same regression as in the secondary analysis for choice, but with each of the following explanatory variables: importance of fund name, importance of KIID, importance of sustainability factsheet, and helpfulness of sustainability factsheet. We excluded the control group from the sustainability factsheet outcome measures due to the control group not being asked those questions.

Sample description and randomisation

7,856 participants were recruited through an online panel provider (Prolific.co). In order to explore the interaction of investment experience and comprehension, we recruited a roughly equal split between those who had previously stated they had investment experience and those who said they had not, based on data held by Prolific. 60% of the participants had investment experience. Since we sought an equal split on investment experience, our final sample was not fully representative of the UK adult population. The full sample description is detailed in Table 7 in Annex 1A. We set out power calculations based on our sample size in Section 4 in Annex 1A.

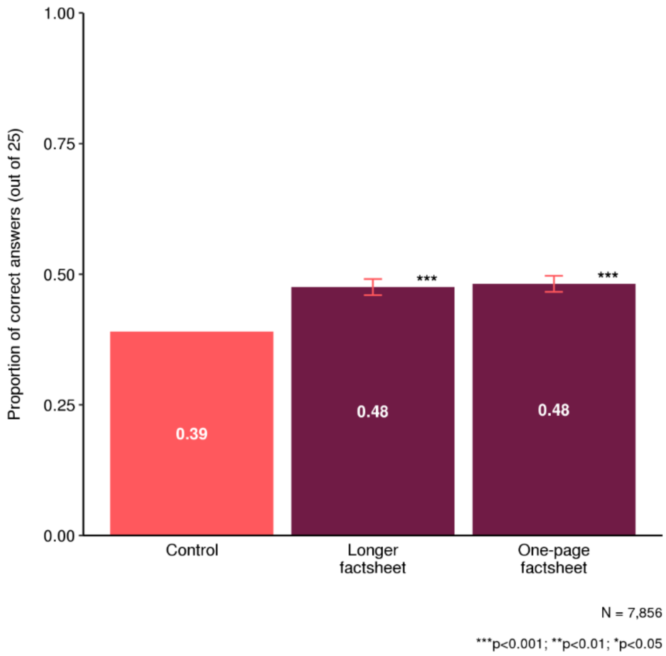
Randomisation took place within the survey platform, which used a simple randomisation method in which people were allocated to be randomly assigned to different treatment arms. This fully random method meant that balance was not necessarily enforced. As such, we carried out balance checks prior to analysing the data and concluded that any differences were small enough that the sample seemed to be balanced.

Results

Primary analysis results

Our results show that both behaviourally informed sustainability factsheets increased overall comprehension levels. Figure 5 shows that the average proportion of correct answers (out of 25) increased by 9 percentage points - from 39% for control group to 48% for the longer and one-page factsheets. Estimated group means are based on Table 8 in Annex 1A.

Figure 5: Sustainability comprehension

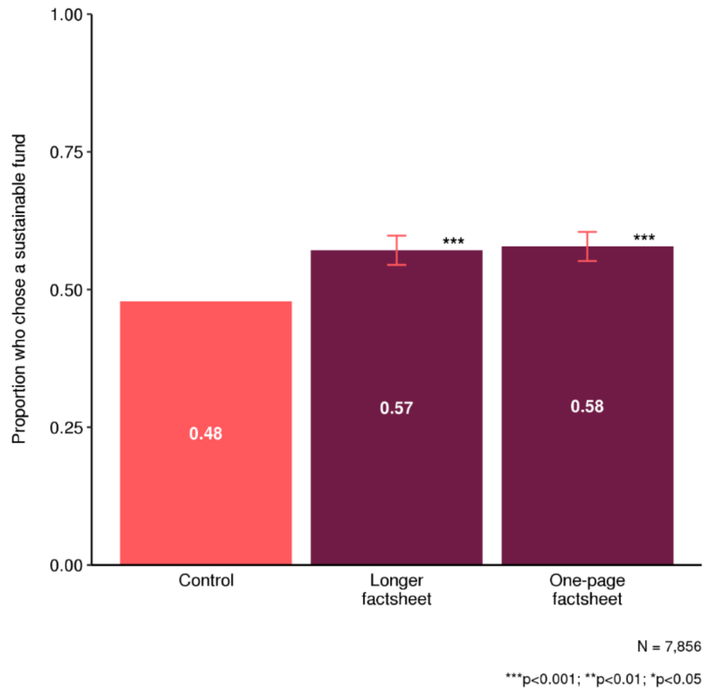


Secondary analysis results

Sustainable product choice

Our secondary analysis revealed that both behaviourally informed sustainability factsheets increased the proportion of participants reporting that they would invest in one of the sustainable funds. This is shown in Figure 6, below. Estimated group means are based on Table 9 in Annex 1A. We saw a 9 percentage point increase for the longer factsheet, and a 10 percentage point increase for one-page factsheet, from a baseline of 48%. The difference between factsheets was not statistically significant.

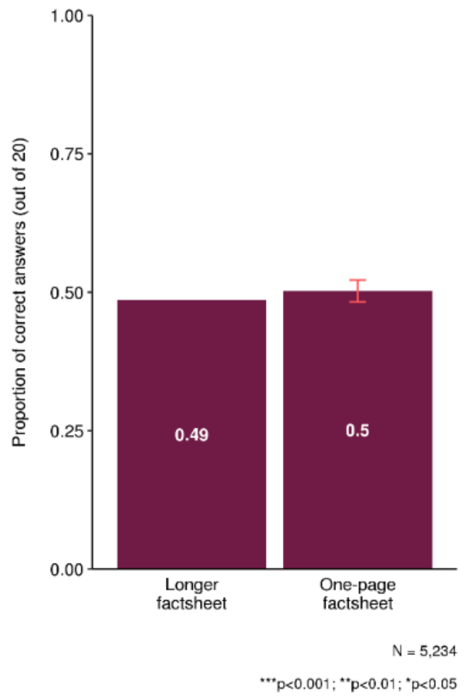
Figure 6: Sustainable product choice



Additional sustainability comprehension

We found no significant difference between the longer and one-page sustainability factsheets on the additional comprehension measures, as shown in Figure 7. Estimated group means are based on Table 10 in Annex 1A.

Figure 7: Additional sustainability comprehension

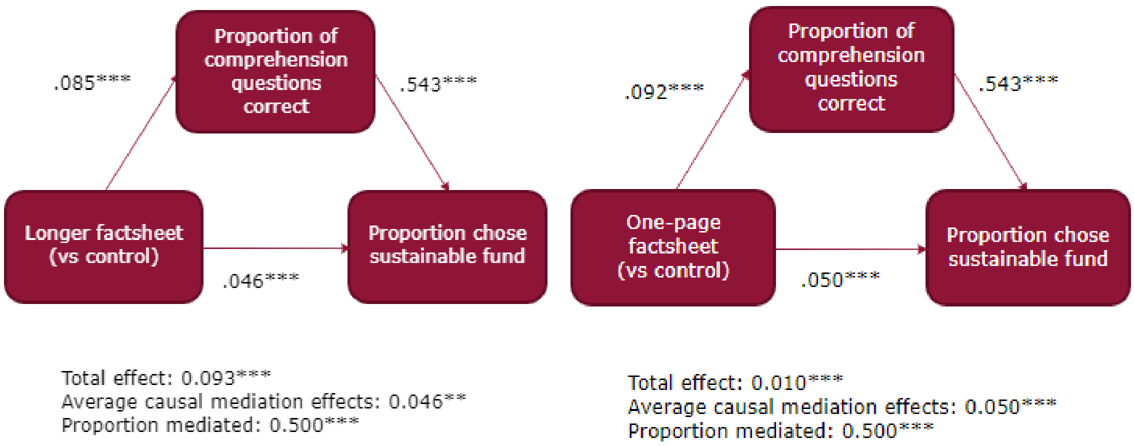


Mediation analysis

We also conducted mediation analysis to understand whether providing a sustainability factsheet, and the fact that consumers understood sustainability information better, influences whether consumers chose to invest more sustainably. We found that providing a sustainability factsheet increases the proportion of consumers choosing a sustainable fund, and roughly half of this effect comes from consumers understanding the sustainability information better.

In more detail, the causal mediation analysis visualised in Figure 8 shows that comprehension of sustainability characteristics significantly mediates the effect on choice. 50% of the effect between the control group and the longer factsheet condition is mediated with a mediation effect of 5 percentage points. The effect between the control group and the one-page factsheet conditions was 50% mediated by comprehension of sustainability characteristics, with a mediation effect of 5 percentage points. In both cases, the main effect remains significant. For full results see Table 11 in Annex 1A.

Figure 8: Mediation analysis between (i) control and longer factsheet conditions and (ii) control and one-page factsheet conditions



Exploratory analysis results

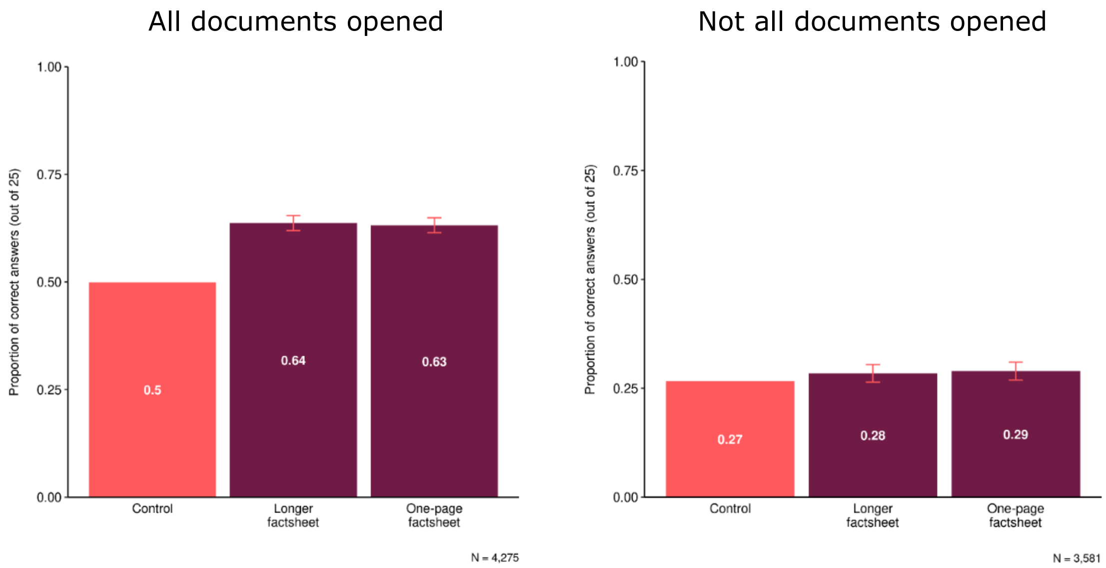
Subgroup analysis

No meaningful differences were found in the effectiveness of each factsheet at increasing comprehension by existing investment experience, sustainability importance, or gender. When we checked the effect sizes of the age-groups as specified above (18-34, 35-54, 55-74, 75+), we found some differences. We could not determine the effects on those aged 75+ because our sample was too small. For all other age groups, effect sizes were positive and significant. However, changes by age group varied by factsheet. For the longer factsheet, we saw a larger effect size for those aged 18-34 a smaller effect size for those aged 35-54, and an effect size in-between for those aged 55-74. When examining interaction coefficients, only the difference between 35-54 and 18-34 was statistically significant. For the short factsheet, effect sizes were similar and none of the interaction coefficients on age were significant. Given we were not well powered for this analysis, care should be taken when interpreting. For full results see Tables 12-16 in Annex 1A.

Opened all documents

The effect of the factsheets on comprehension was, unsurprisingly, larger for those that opened all five of the documents, as shown in Figure 9. Thus, consideration should be given on how to encourage engagement with disclosures in the consumer journey. The factsheets were not associated with a change in the proportion opening all documents (Table 17 in Annex 1A).

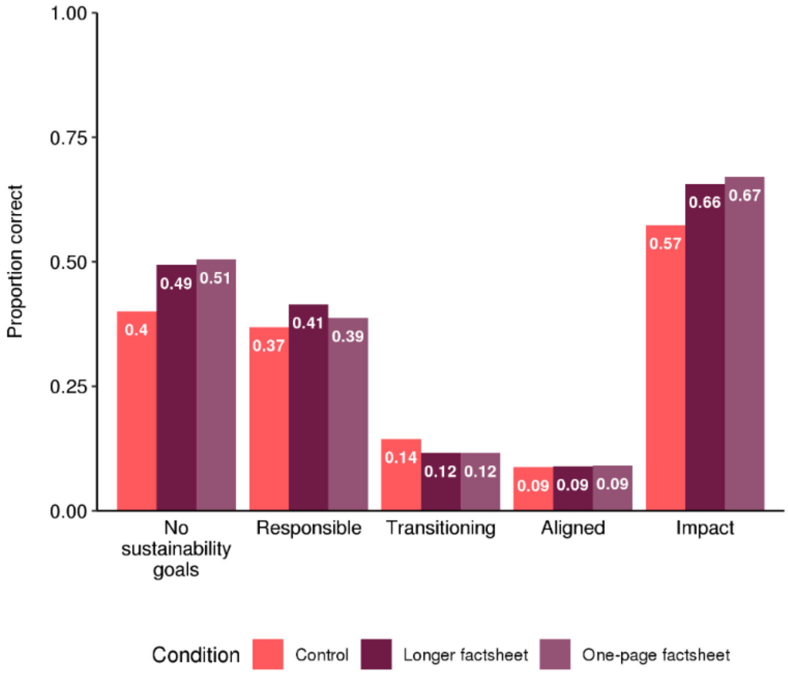
Figure 9: Opened all documents



Comprehension breakdown

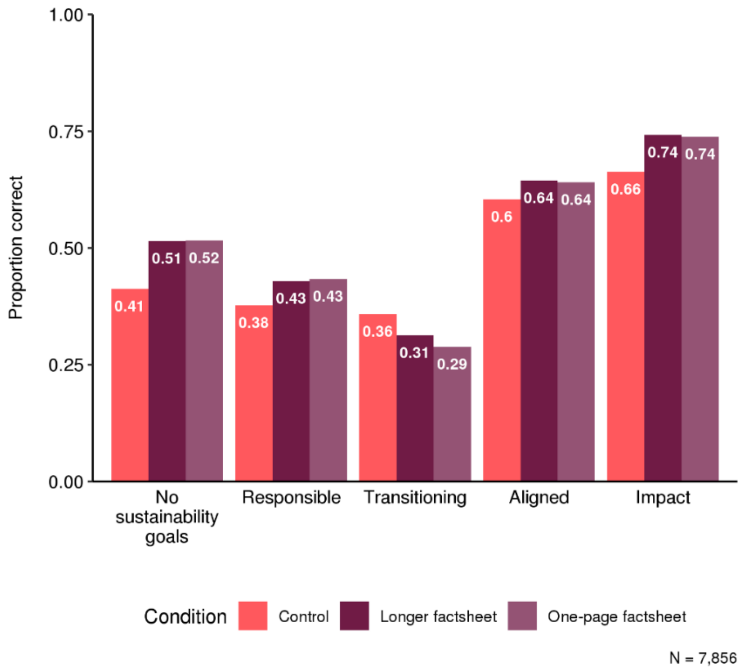
In the control condition, participants often did not understand all aspects of the sustainable characteristics of the 'Transitioning' and 'Aligned' products. The factsheets did not prevent this misunderstanding. In particular, participants often did not identify that these products did not aim to make a positive real-world impact. Only the 'Impact' product was designed to meet this definition. The factsheets did not appear to address this. This is shown in Figure 10.

Figure 10: Proportion of those answering correctly to 'Does the fund invest with the aim of making a real-world impact?'



Participants incorrectly thought the 'Transitioning' product invested mainly in companies that had sustainable characteristics. The factsheet did not appear to address this (see Figure 11). On reviewing the results, we discovered that there was a lack of alignment between our outcome measure and some design elements of the factsheet design for the 'Transitioning' product which may have led to further confusion to participants. We used this information to make changes to the factsheets in the next experiment to try and avoid this. Please see Table 1 in Annex 1C for further details.

Figure 11: Proportion of those answering correctly to 'Does the fund invest mainly in companies that maintain sustainable characteristics?'

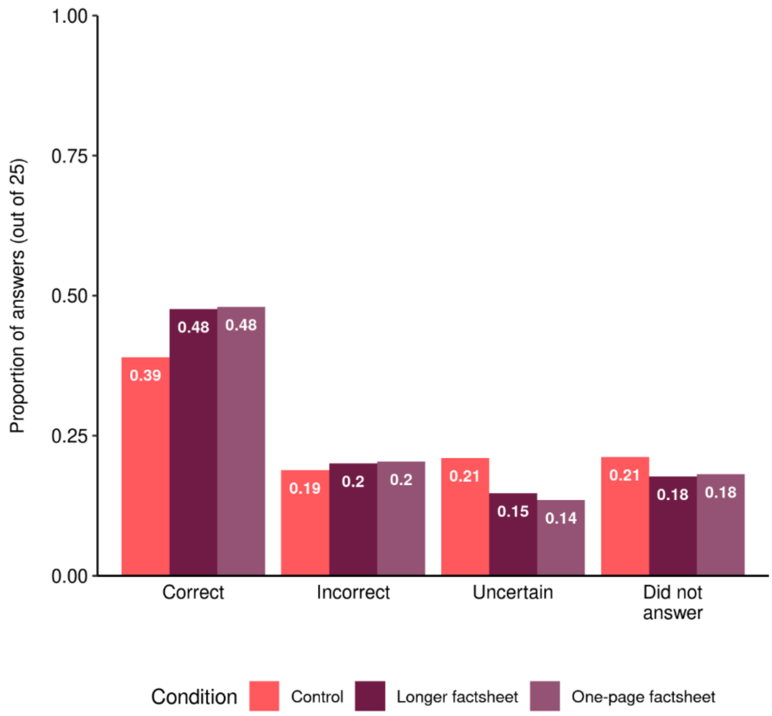


Overall, without the factsheets, some people did not fully comprehend the sustainable characteristics of 'Impact' products, suggesting they did not understand the name or KIID properly. The factsheets helped to address this. For more details, see Section 7, Annex 1A which contains a full breakdown for all five questions. There were no meaningful differences between the two factsheets across these questions.

Types of miscomprehension

Participants could have had their answers marked as incorrect for three possible reasons: either they answered incorrectly with 'Yes' or 'No', they answered incorrectly with 'Don't know', or they did not answer the question at all. In general, the control group's lower comprehension was mainly due to higher proportions of 'don't know' responses and, to a lesser extent, more participants not answering the question and dropping out of the survey. Interestingly, while only a small difference, those in the treatment groups were very slightly more likely to answer questions incorrectly. However, this was offset by the much bigger increase in those answering correctly. These results are shown in Figure 12.

Figure 12: Exploratory analysis: types of miscomprehension



Sustainable product choice breakdown

Factsheets led to fewer choosing the 'No Sustainability Goals' product (6 percentage points fewer from 17% to 11%), and more choosing the 'Impact' product (10 percentage points more for the longer factsheet, and 9 percentage points for the one-page factsheet – there was not a statistically significant difference between the two). There was no significant or negligible impact on other products. See Table 19 in Annex 1A for the full breakdown.

Factsheet importance & helpfulness
KIIDs were seen as slightly less important in making an investment decision when factsheets were provided, as those who saw the factsheets were less likely to report that the KIID was either extremely or very important by five percentage points (53% compared to 48% for each treatment groups). Across all treatment groups, more participants said the KIID was extremely or very important for making their choice (50%), than they did for factsheets (40%) or fund names (10%).

Each of the factsheets were seen as equally helpful in learning how sustainable the funds are (43-44%). Few consumers thought the name was very or extremely important for making a decision (10-11%) and the factsheets did not change this. For full results, see Table 20 and 21 in Annex 1A.

Discussion

Interpretation

Factsheets improved average consumer comprehension of sustainability information

We suggest that the positive effect on consumer comprehension is explained in part by the design features of the factsheets. This includes key elements discussed in the Intervention section, including presenting figures as £-values or frequencies, simplicity in presentation and language, priming, and making key elements salient. This stands in contrast to the technical language in the KIIDs, which may be jarring for some participants and lead to lower comprehension for the control group.

Whilst there is a considerable improvement from the control group, we acknowledge that on average, participants answered less than half of questions correctly. We cannot distinguish if this relatively low level is a result of some element of the experimental design (such as experimental fatigue from answering multiple questions, the value of money received, or difficulty in obtaining the correct answer), complexity of the subject matter (thus necessitating a nuanced understanding of conceptual differences in the products), or difficulty in finding the relevant information.

There was no difference by length of factsheet

We wanted to explore whether a longer factsheet could be beneficial, adding more scope to clarify concepts and helping to introduce important context, or whether it overwhelmed participants with information, thereby reducing engagement and comprehension. The lack of difference may simply be because the factsheet templates did not differ drastically enough to have a significant impact on participants' comprehension. It is also possible that both factsheets were still sufficiently short and well-designed that the difference in length was largely irrelevant, and that further detail and length could reduce factsheet effectiveness. Further research would be needed to clarify this explicitly.

There were no meaningful differences between groups of consumers in the extent the factsheet helped

The lack of difference observed could be because sustainable investing is still not very widespread or well-understood, so having general investment experience may not be much of an advantage. The difference observed across age groups between the longer and one page factsheet suggests that the short factsheet has more consistent effects across age-groups.

There was a tendency to misunderstand aspects of the 'Transitioning' and 'Aligned' products, and our factsheets did not help

The 'Impact' product was well understood across the board once the factsheets were introduced. It is possible that the 'Impact' category most closely matches consumers' preconceptions of sustainable investment products, whilst alternative approaches such as 'Transitioning' or 'Aligned' were unfamiliar and thus more difficult to grasp. We addressed this further in our qualitative research and our second experiment.

Those who saw sustainability factsheets were more likely to choose a sustainable product

When presented with sustainability factsheets, participants were significantly less likely to choose the 'No Sustainability Goals' product and were significantly more likely to choose the 'Impact' product. Overall, this hypothetical choice suggests that when faced with salient sustainability information, on average, consumers chose to invest more sustainably. Around half of this effect was due to increased comprehension of sustainability information, as shown by mediation analysis. This suggests that providing factsheets can help consumers make more informed choices when it comes to investment decisions for sustainable funds.

We would not necessarily expect those who do not care about sustainability when investing to be more likely to choose sustainable products, even with improved comprehension. Indeed, there could be several alternative factors shaping participant choice when presented with factsheets, such as simply making sustainability issues more salient, or other elements of the factsheet which we did not capture in our comprehension questions and analysis, such as specific sustainability metrics.

Overall, these findings suggest that providing factsheets helps consumers make more informed choices when it comes to investment decisions

The most significant shifts in choice were away from the 'No Sustainability Goals' products and toward the 'Impact' product

Comprehension improved consistently for all questions relating to 'No Sustainability Goals' products when presented with either factsheet. As such, this suggests that as participants better understand the sustainability characteristics of products, they shift away from 'No Sustainability Goals' products. This may be due to participants' uncertainty about the sustainability of the product without a factsheet present.

Similarly, the shift toward the 'Impact' product may signal that many consumers have an interest in products which have a positive impact but do not have or understand the information of how to invest their money accordingly. Furthermore, our exploratory findings suggest that the 'Impact' product was often the most well-understood, particularly when compared with 'Transitioning' and 'Aligned' products. A feasible explanation for the upswing in choice of the 'Impact' product is that participants felt more comfortable choosing a product that they understood better.

While we did not set out to influence consumer choice, it was useful monitor what might happen when consumers have more information about the sustainability characteristics of potential investments. Moreover, it is useful to be aware that consumers may feel more comfortable investing sustainably when provided with adequate transparency and disclosure, as it shows that there is demand for these products which may not be met in the current market conditions where there may be confusion and lack of consistency in labelling.

Generalisability & limitations

Our results provide useful insights into how labels and factsheet disclosures can improve consumer comprehension of sustainability information and their effect on consumer decision-making. However, we note some limitations to our research and its generalisability. Duflo et al., (2006) outline hazards that affect the generalisability of findings, which is applied and modified in a systematic review by Peters, Langbein, and Roberts (2018). Hazards which are relevant to this piece of analysis are:

- The treatment is potentially different to how it would appear in the real world, as we did not attempt to recreate a fully realistic consumer journey.
- Participants knew they were involved in research and this may have influenced their behaviour.
- Our sample may not be representative of the policy population for which the intervention will be brought to scale.
- It is also possible that there are differences in certain traits of those who complete online surveys when compared to the general population.
- With regards to generalisability, there may be wider changes in policy or in the sustainable investing industry that have not been taken into account within the experiment.

Overall, we would anticipate that the direction of the effects we found would hold but the effect size may be different to the ones found. We would encourage further research in real-world settings to ensure that consumers engage with relevant information and that it is integrated into key parts of the consumer journey.

3 Qualitative research

Approach

As set out in the Discussion section of Experiment 1, there were two findings from Experiment 1 that we wanted to investigate further. Firstly, many participants thought that all funds with sustainable goals invested with the aim to make a positive real-world impact, rather than only the Impact fund. Secondly, participants may have been overestimating the "Transitioning" product, incorrectly believing that it invested mainly in companies or assets that maintain sustainable characteristics. Therefore, FutureSight were commissioned to conduct some qualitative research to better explore which elements of the factsheets were working and why, and which could be improved and how.

To that end, FutureSight (a consultancy) conducted 7 online focus groups (6 main groups and a pilot) from 9th – 12th May 2022. Each group contained 5 participants, lasted 90 minutes and was conducted online using a specialist qualitative research platform. The sample was recruited on the basis of investment experience (experienced, intermediate and novice). In order to sort participants into these groups, they were asked to self-identify according to 3 statements, summarised in Table 2 below. Recruitment was conducted via a specialist independent agency, using a network of local recruiters from across the UK. This ensured there was a good representation of investors, in terms of investment experience as well as demographics (gender, ethnicity, social grade and location).

Table 2: Focus groups.

Investor Type	Experienced	Intermediate	Novice
Which groups?	Pilot group; Groups 1 & 4	Groups 2 & 5	Groups 3 & 6
Description	10+ years' experience direct investing Broad portfolio (funds, pension, ISAs, equity, savings) Range of online brokers / mobile trading apps High investment confidence	3+ years' experience direct investing Portfolio likely to consist of index / managed funds / ISAs Traditional broker / mobile trading app Some investment confidence (growing)	Less than 3 years direct investing Portfolio, if any, likely to be savings (ISAs), or managed funds; mobile trading apps Traditional provider / mobile trading app Limited awareness and confidence

Before setting out the findings from the qualitative research, it is important to set out two changes to the sustainability factsheets between Experiment 1 and this qualitative research. Firstly, the five sustainability categories were renamed within the policy making process. The names changed from the 'No Sustainability Goals', 'Responsible', 'Transitioning', 'Aligned' and 'Impact' to 'Not promoted as sustainable', 'Considering'. 'Improving', 'Delivering', 'Impacting', respectively. The rationale behind this was feedback in the policy-making process that the names of the categories were perceived as being strongly climate-related, and this would not suitably disentangle wider sustainability goals from climate-related goals.

Secondly, the policy-making process had illustrated some difficulties in laying out the categories in a simple line, as in Experiment 1 and as Figure 13 below of the 'Aligned' product. That is primarily because it may imply that products are arranged in a hierarchy, a simple scale of less-to-more sustainable. Whereas the difference between sustainable categories is more conceptual and not based on one simple scale of sustainability. As a result, alternative fund table designs were tested with consumers. Reflecting these two changes, an example of the 'Delivering' template that was tested with consumers initially is shown in Figure 1 in Annex 1B.

The focus groups focused on exploring factsheets from the three categories with sustainability goals: 'Improving', 'Delivering', 'Impacting'. Each group followed a pre-agreed discussion guide and were presented with the one-page version of the sustainability factsheets for products in each of these three categories. The order that these factsheets were presented was rotated across the groups to account for any order effects.

Findings

The incoming perception for some was that there was one approach to sustainability, this contributed to the difficulty they had in using the fund table to distinguish between different approaches

Overall, findings from the focus groups suggested that some familiarity of sustainable investing was fairly widespread amongst the participants, especially amongst experienced and intermediate investors, despite take-up of these products being low. However, participants' incoming perception was that products marketed as sustainable were 'wholly sustainable' and participants were not aware that investments marketed as sustainable could vary significantly in terms of their sustainability credentials. This contributed to the considerable difficulty that consumers had in understanding the differences between the three sustainable product categories. Further, when participants were presented with iteration 1 of the fund table (see Figure 14), the main feeling in the group was that this distinction was not clear. In particular, a number of participants continued to interpret the table as a hierarchy and struggled to reconcile this with the fact that the 'Improving' category was placed between the 'Delivering' and 'Impacting' category.

Adding more detailed descriptions of all the categories to the fund table did not appear to help comprehension

Therefore, we iterated the fund table for Groups 3 and 4 as in Figure 15 below (full factsheet in Figure 2 in Annex 1B). The primary change we made here was to add a more substantial description of each of the five categories to help participants better distinguish them. However, participants in these groups generally found that providing longer descriptions for each of the five categories all together and in one table, complex and difficult to digest. In addition, participants continued to interpret the table as a hierarchy, which confused their comparison between products.

Featuring only one label as opposed to a fund table on the sustainability factsheet appeared to generate fewer misconceptions about the categories

So once more, we iterated the fund table for Groups 5 and 6 as in Figure 16 below (full factsheet in Figure 3 in Annex 1B). The primary change here was to drop the fund table, which participants had reported finding confusing, and only feature a description of the category in which the particular fund was a part of. Further, we yet again refined the category descriptions (see Table 1 in Annex 1B) to draw out the differences between each category. Feedback from Group 5 and Group 6 suggested that, whilst participants did not engage much with the wordier category descriptions, featuring one category as opposed to a fund table appeared to help. Of the three iterations tried, it seemed that participants were less overwhelmed when presented with a single category. Participants also appeared less prone to interpreting the relationship between the categories as a simple hierarchy of sustainability.

Consumer-friendly language and ensuring simplifying and explaining key terms emerged as important themes

Beyond issues relating to the fund table, a number of other findings were highlighted. One was the importance of consumer-friendly language and ensuring that key terms are simplified or explained. For example, very few participants understood the concept of 'stewardship', which is the primary investor contribution channel for the 'Improving' product. Stewardship is commonly used by investment professionals. Similarly, concepts such as sustainable 'activities' or 'characteristics', when not fully defined, made some consumers sceptical of greenwashing. Despite that, some participants appreciated the use of numbers and percentages on such measures (and throughout the factsheet) as a useful way to compare across funds. These measures were most appreciated when they were clearly defined and did not come into seeming contradiction with other measures on the factsheet.

Sustainability metrics that offered familiar real-world examples were welcomed and helped some differentiate between products

Overall, the concept of providing a consistent template with comparable measures to help inform participants about a fund's approach to sustainability was welcomed by most participants. Moreover, most participants considered the template itself and the structure of the content - goals and progress, fund type, sustainability approach and sustainability metrics - to be relevant and useful. In particular, participants often found the sustainability metrics, 'implied temperature rise' and 'relative carbon footprint' as compelling because they offered real-world examples that were familiar to many and helped differentiate between the products. Furthermore, the section on 'exclusions' and 'surprising holdings' appeared to be understood and valued, even if participants came to different views on whether some 'surprising holdings' (e.g., 'fossil fuel extraction') or 'exclusions' (e.g., 'nuclear power') were legitimate in funds marketed as sustainable.

Figure 13: Fund table used in Experiment 1

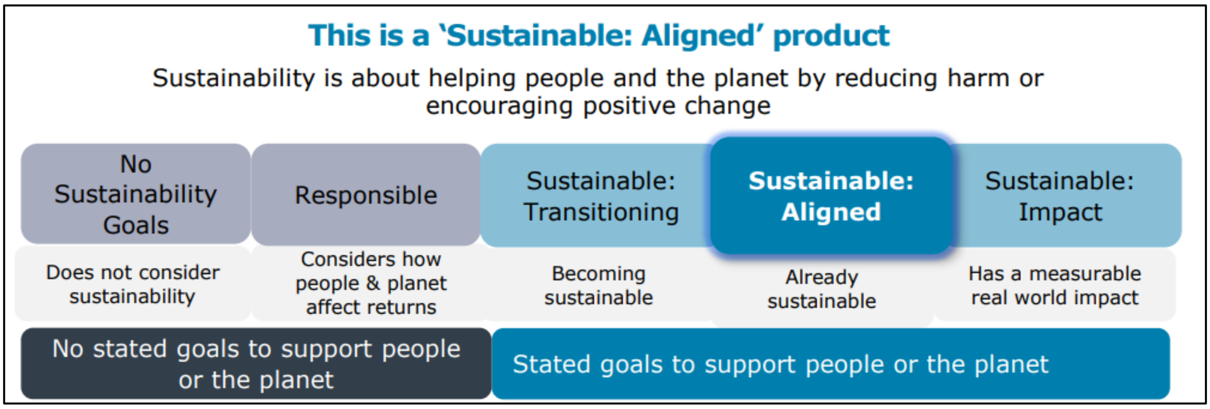


Figure 14: Fund table used in focus group (iteration 1)

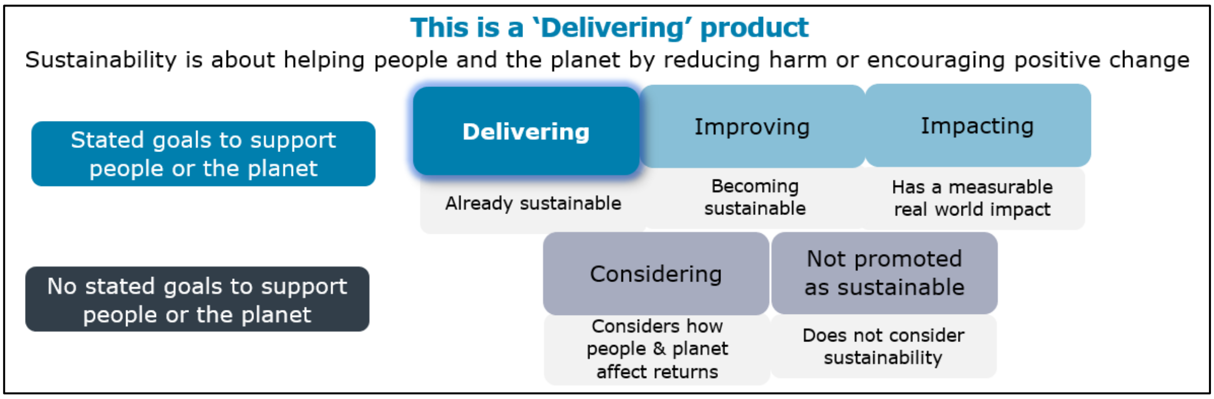


Figure 15: Fund table used in focus group (iteration 2)

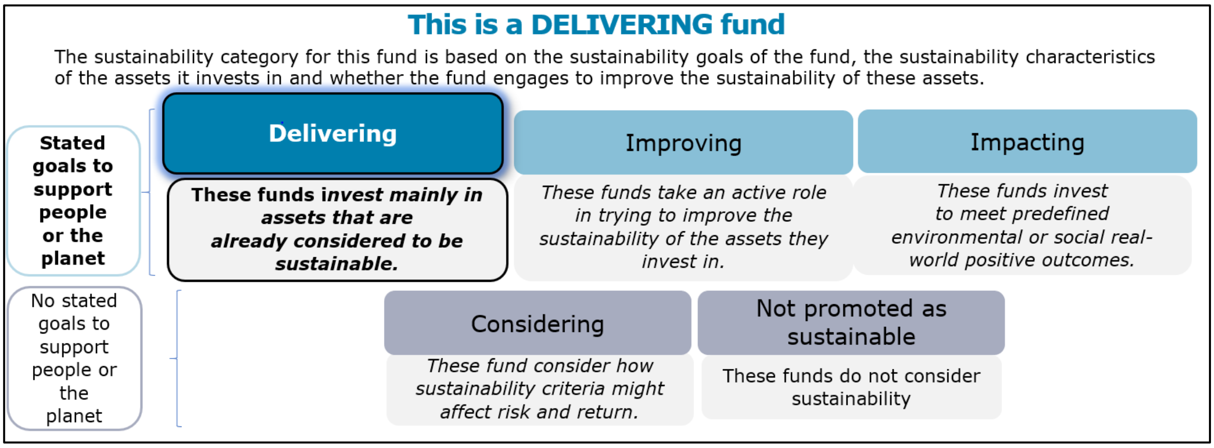


Figure 16: Fund table used in focus group (iteration 3)

This is a DELIVERING fund

Delivering

- This fund is a Delivering fund because our objective is to invest mainly in assets that are already considered to be delivering sustainably.
- We are not bound to improve the sustainability of the assets we invest in. Although, we might engage in some stewardship.

Discussion

As outlined, the key change made to the sustainability factsheets as a result of the qualitative research was choosing to prominently feature only the sustainability category of which the fund is a part. Of the three iterations we tried, this version, accompanied with a longer category description than was tested in Experiment 1, appeared to best help participants understand the differences between the categories. However, we do note that due to the small numbers, this is not strong evidence that this would be the case at scale. It is important to note that participants continued to struggle to conceptually understand that there could be different types of sustainable investments and how exactly they differed. However, featuring only one product in the sustainability factsheet appeared to generate fewer misconceptions about the presence of a hierarchy between the sustainability categories.

A range of other changes were made to the sustainability factsheets before Experiment 2, some motivated by the qualitative research, others motivated by policy considerations. These changes are detailed in Table 1 in Annex 1C. The updated factsheets used for Experiment 2 are also provided in Figures 1 - 6 in Annex 1C.

4 Experiment 2: sustainable factsheets, for sustainable funds or for all funds?

Research design

Intervention

We designed one version of the sustainability factsheet template for each of the four product categories. In Treatment 1, we included these sustainability factsheets with all sustainable funds but not the 'No Sustainable Label' fund. In Treatment 2, we included these sustainability factsheets with all funds, including the 'No Sustainable Label' fund. We hypothesised that as well as the increase in comprehension between the control and the treatments, we would see an increase in comprehension for the 'No Sustainable Label' fund between Treatment 1 and Treatment 2. An overview of interventions is provided in Table 3 below and examples of the factsheets are provided in Figures 1 - 6 in Annex 1C.

Table 3: Overview of interventions

Treatment arm	Description
Control	Participants could click to access a Key Investor Information Document (KIID) only, for each fund. The KIID reflected the same design and detail that would be provided for a real-world fund, with limited explicit information regarding sustainability.
Treatment 1: Factsheet for sustainable funds	For the funds with sustainable goals, participants could click to access a document which contained the same KIIDs as in the control and a one-page sustainability factsheet for each fund. It contained information on: • stated sustainability goal • a section on sustainability approach with brief descriptions of how the fund achieves its sustainability goal, such as stewardship and exclusions • key metrics including proportion of funds invested in sustainable activities, implied temperature rise and carbon footprint For the 'No Sustainability Label' fund, no sustainability factsheet was available, instead participants could click to access a KIID only.
Treatment 2: Factsheet for all funds	For the funds with sustainable goals, participants could click to access a document which contained the same KIIDs as in the control and a one-page sustainability factsheet for each fund. It contained the same information as set out in Treatment 1. For the 'No Sustainability Label' fund, participants could click to access a document which contained the KIID and a one-

	page sustainability factsheet for each fund. It contained a more limited set of information than the sustainable funds but still set out: • stated sustainability goal (i.e. explicitly stating 'None') • a section on sustainability approach (i.e. explicitly stating 'Not Applicable') • one key metric, the proportion of funds invested in sustainable activities, but no others

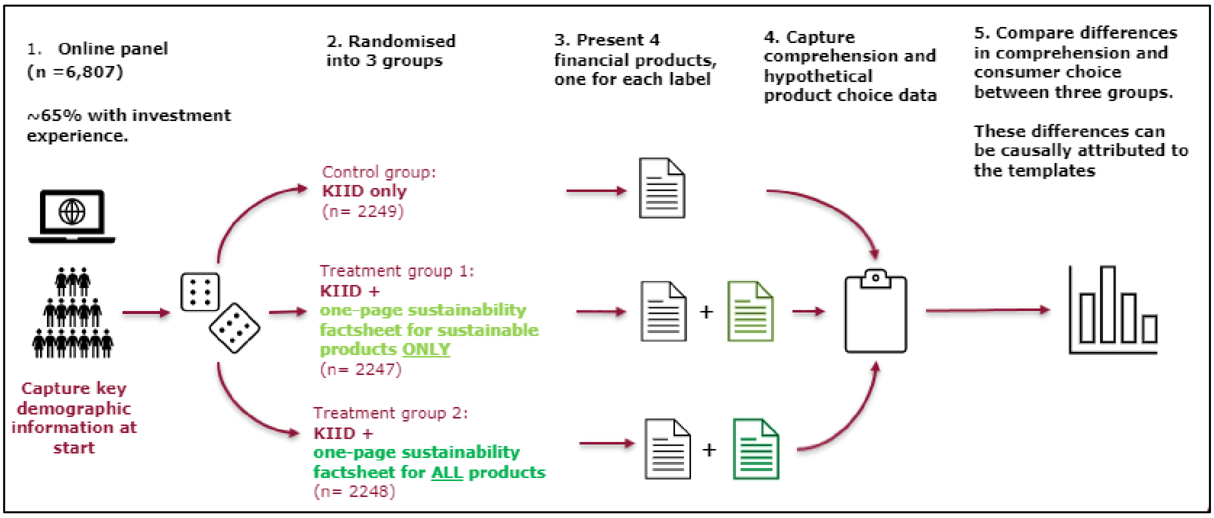
Experimental design, outcome measures, and analytical approach

Experimental design

The design of Experiment 2 closely followed the design of Experiment 1. However, there were two key differences. Firstly, the sustainability factsheets were updated to reflect a range of changes, some motivated by the qualitative research, others motivated by policy considerations. Importantly, at this new stage in the policy process, the FCA was considering four categories of products: 'No Sustainable Label', 'Sustainable Improvers', 'Sustainable Focus' and 'Sustainable Impact'. We describe how this affected the factsheets in Table 1 in Annex 1C. Secondly, rather than investigating the difference between providing a one-page sustainability factsheet and a longer sustainability factsheet, we instead used a one-page sustainability factsheet throughout and explored the difference between providing a sustainability factsheet for all funds and providing a sustainability factsheet only for sustainable funds.

We increased the base participation fee from Experiment 1 to Experiment 2 to reflect the expected completion time of the experiment more accurately. However, the incentive payments for answering comprehension questions correctly remained the same. We excluded participants that had taken part in Experiment 1. The experiment flow is illustrated in Figure 17 below.

Figure 17: Experiment flow for Experiment 2



Primary outcome: sustainability comprehension

The primary outcome was comprehension of key sustainability information. For each of the four product types, participants were asked five sustainability questions designed to assess their comprehension, totalling 20 questions. In Tables 3 and 4 in Annex 1C, we outline these questions, and which answers we marked as correct. These differ slightly from Experiment 1, given some changes we made for clarity and to reflect previously mentioned changes in the materials. For our primary outcome analysis, we estimated the effect of treatments on the average proportion of sustainability questions answered correctly. In addition, we also estimated this effect separately for the sustainable products (totalling 15 questions) and the ’No Sustainable Label’ products (totalling 5 questions). The full specifications of the models we used for our analyses of Experiment 2 closely follows those used for Experiment 1. More details are given in Experiment 1 and in Annex 1A.

Secondary outcome: sustainable product choice

The secondary outcome was whether participants chose an investment that was classified as sustainable. The same question was used as Experiment 1 and participants were given the options: ‘No Sustainable Label’, ‘Sustainable Improvers’, ‘Sustainable Focus’, ‘Sustainable Impact’ and ‘none’. Where if participants chose ‘Sustainable Improvers’, ‘Sustainable Focus’ or ‘Sustainable Impact’ this was categorised as them having chosen a sustainable product.

Mediation analysis: comprehension’s influence on sustainable product choice

As with Experiment 1, we again analysed whether the factsheets affected sustainable product choice directly, or indirectly through sustainability comprehension. To do this we conducted mediation analysis as set out in Section 2 in Annex 1A.

Exploratory outcomes

The exploratory outcomes are the same as those set out in Table 6 of Annex 1A for Experiment 1, with a few exceptions. Owing to the one fewer fund included in Experiment 2, the sustainability comprehension breakdown and choice breakdown are 20 binary variables and 5 binary variables, respectively. Further, the additional comprehension questions (Table 3 in Annex 1A) were not included in Experiment 2 and so the additional sustainability comprehension breakdown is not included as an exploratory outcome.

Sample description and randomisation

As with Experiment 1, participants were recruited through an online panel provider (Prolific.co). We recruited 6,744 participants with roughly equal proportions of those identifying as male or female. In order to explore the interaction of investment experience and comprehension, we recruited a roughly equal split between those who had previously stated they had investment experience and those who said they had not, based on data held by Prolific. Though our own questions in the survey, we found that 65% of the participants have investment experience. Since we sought an equal split on investment experience, our final sample was not fully representative of the UK adult population. The full sample description is detailed in Table 5 in Annex 1C.

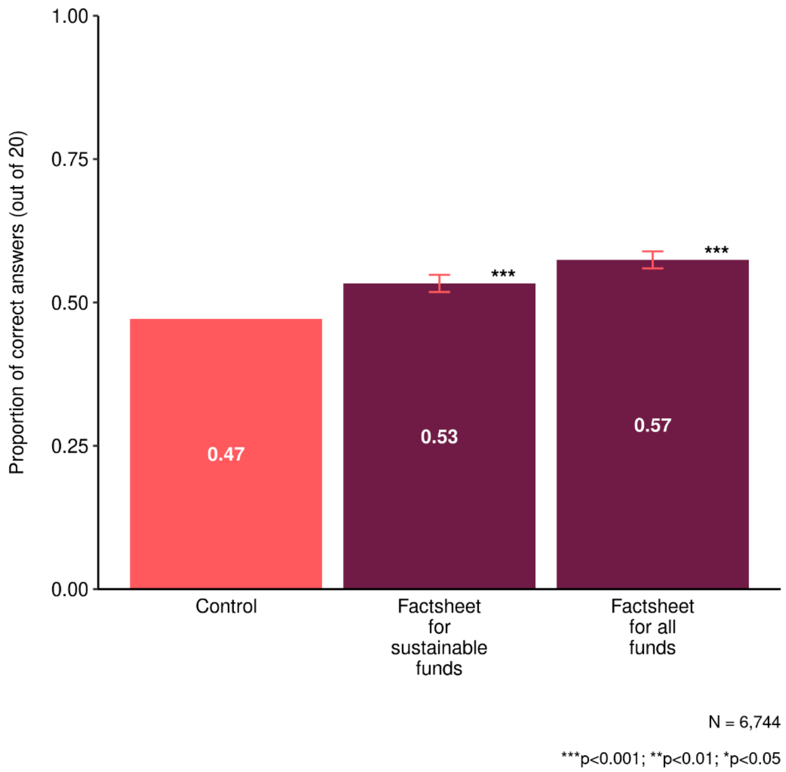
Randomisation took place within the survey platform, which used a simple randomisation method in which people were allocated to be randomly assigned to different treatment arms. This fully random method meant that balance was not necessarily enforced. As such, we carried out balance checks prior to analysing the data and concluded that any differences were small enough that the sample seemed to be balanced.

Results

Primary analysis results

Our results (visualised in Figure 18 and reported in Table 6 in Annex 1C) show that providing a factsheet increases overall comprehension levels. When provided for sustainable funds only, the factsheets increase comprehension by 6 percentage points. When provided for all funds, the factsheets increase comprehension by 10 percentage points. This is from a baseline of 47% in the control. Pairwise comparisons reveal that providing a sustainability factsheet for all funds leads to a significantly higher increase in comprehension than providing a sustainability factsheet for sustainable funds only.

Figure 18: Sustainability comprehension



Our alternative specification (visualised in Figure 19 and reported in Table 8 in Annex 1C) shows that when we restrict our analysis to the 'No Sustainable Label' products, providing a sustainable factsheet for all funds significantly increases comprehension of the 'No Sustainable Label' product by 5 percentage points. In contrast, providing a sustainable factsheet for sustainable funds only (therefore not for the 'No Sustainable Label' product) significantly decreases comprehension of the 'No Sustainable Label' product by 9 percentage points as compared to the control. In both cases, this is from a baseline of 47% in the control. Pairwise comparisons reveal that there are significant differences between these treatment conditions.

In comparison, when we restrict our analysis to the sustainable products, providing a sustainable factsheet for all funds significantly increases comprehension of the products with a sustainable label by 12 percentage points (visualised in Figure 20 below and reported in Table 7 in Annex 1C). Similarly, providing a sustainable factsheet only for products with a sustainable label, significantly increases comprehension of the sustainable label products by 11 percentage points. In both cases, this was from a baseline of 46%. Pairwise comparisons reveal that there are no significant differences between these treatment conditions.

As an aside, it is worth noting the substantially higher comprehension in the control condition in Experiment 2 (47%) than in Experiment 1 (39%). This is likely due to a combination of changes in experiment conditions and materials. For example, we increased participants' compensation to reflect the expected completion time of the experiment more closely. Moreover, participants were only required to answer questions about four products as opposed to five. In addition, we made some limited changes to the KIIDs to help participants answer some of the comprehension questions where it had been much less clear before.

Figure 19: Sustainability comprehension ('No Sustainable Label' funds only)

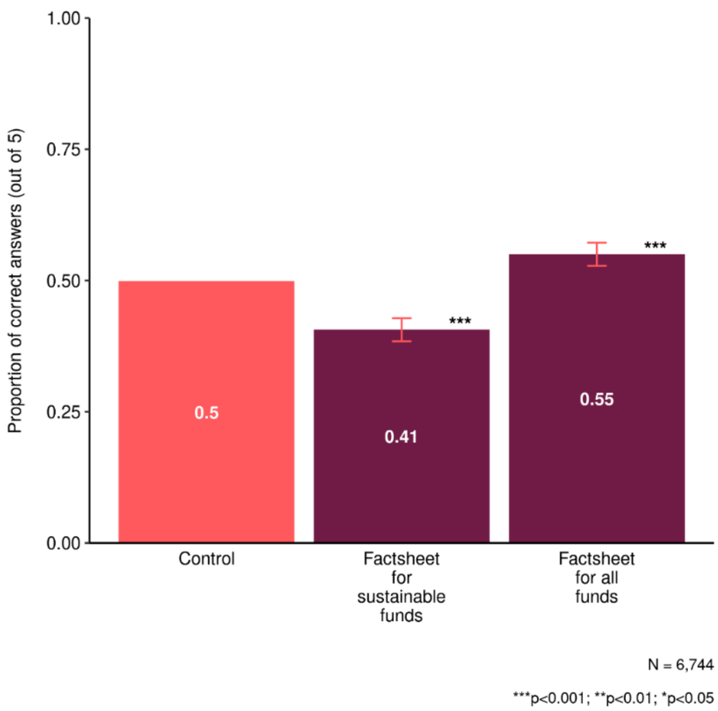
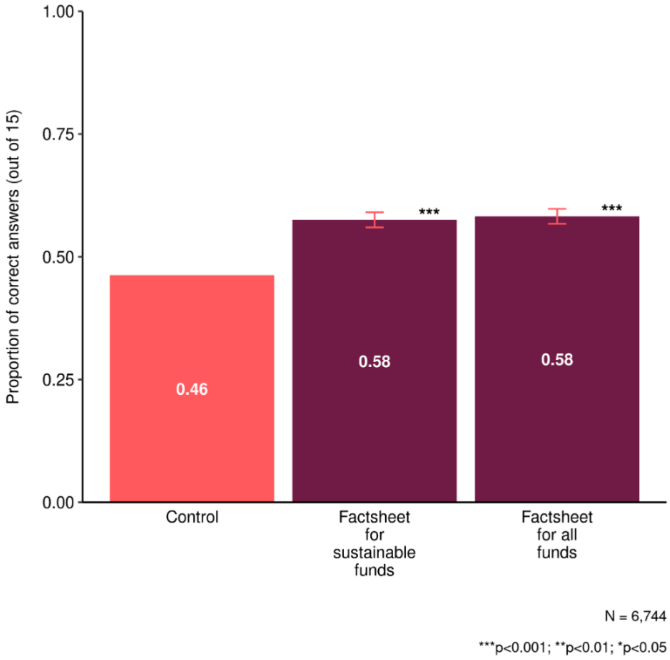


Figure 20: Sustainability comprehension (sustainable funds only)

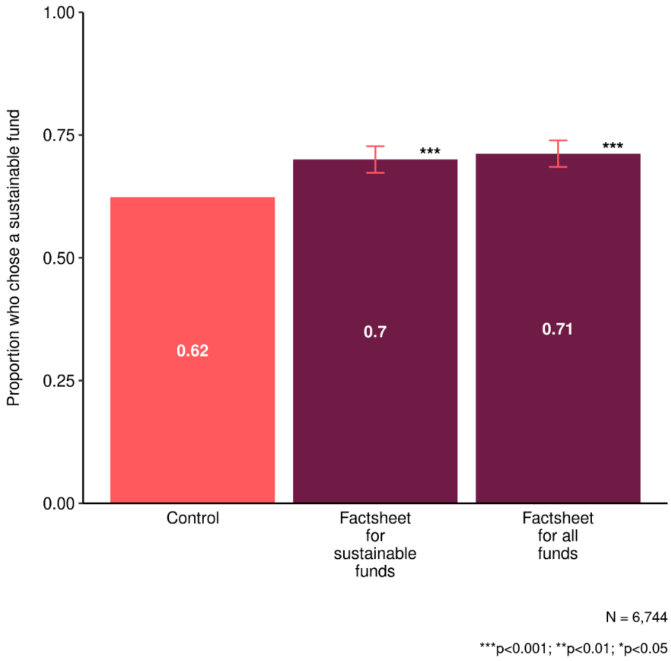


Secondary analysis results

Our secondary analysis (visualised in

Figure **21** and reported in Table 9 in Annex 1C) shows that providing a factsheet for sustainable funds only, significantly increases the likelihood of choosing a sustainable fund by 8 percentage points. Similarly, providing a factsheet for all funds significantly increases the likelihood of choosing a sustainable fund by 9 percentage points. In both cases, this was from a baseline of 62%. Pairwise comparisons reveal that there are no significant differences between the treatment conditions.

Figure 21: Sustainable product choice

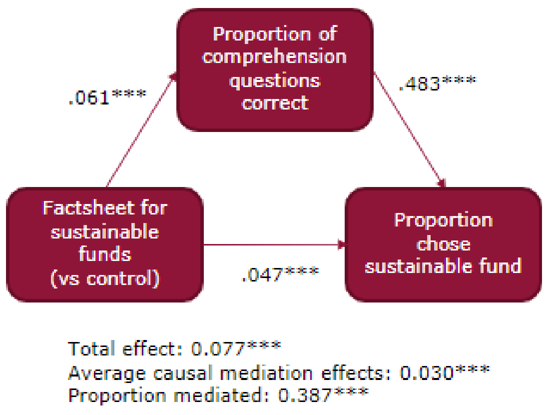


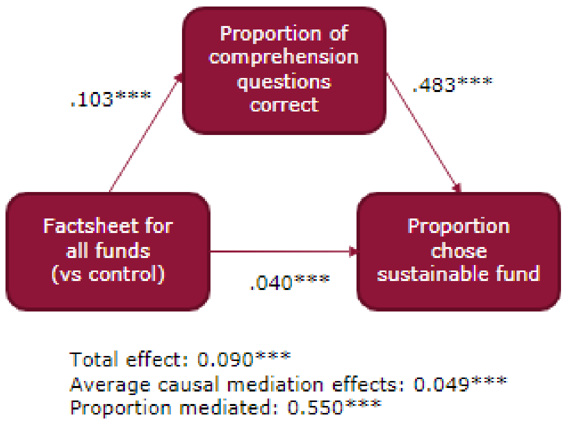
Mediation analysis

We also conducted mediation analysis to understand whether providing a sustainability factsheet, and the fact that consumers understood sustainability information better, influences whether consumers chose to invest more sustainably. We found that providing a sustainability factsheet (whether for sustainable funds or all funds) increases the proportion of consumers choosing a sustainable fund and found that between a third and a half of this effect comes from consumers understanding the sustainability information better.

The causal mediation analysis visualised in Figure 22 shows that comprehension of sustainability characteristics significantly mediates the effect on choice. 39% of the effect between the control group and the factsheet for sustainable funds condition is mediated with a mediation effect of 3 percentage points. The effect between the control group and the factsheet for all funds conditions was 55% mediated by comprehension of sustainability characteristics, with a mediation effect of 5 percentage points. In both cases, the main effect remains significant, which means that both providing a factsheet for sustainable funds only or for all funds and increasing comprehension of the sustainable characteristics of those funds increase the proportion of consumers choosing a sustainable fund.

Figure 22: Mediation analysis between (i) control and factsheet for sustainable funds conditions and (ii) control and factsheet for all funds conditions





Exploratory analysis results

Sub-group analysis

No meaningful differences were found in the effectiveness of the factsheets at increasing comprehension by existing investment experience, sustainability importance, or gender.

When we checked the effect sizes by age-groups (18-34, 35-54, 55-74, 75+), we found some differences. We could not determine the effects on those aged 75+ because our sample was too small. For all other age groups (18-34, 35-54 and 55-74) the introduction of the sustainable factsheet whether for all funds or sustainable funds only, positively increased comprehension when compared to the control. With one exception (the effect of the factsheet for sustainable funds on the 55-74 age group) all these increases were significant. Overall, the results for age-group subgroup analysis are consistent with the main results. Namely, across age groups, factsheets for all funds appear to increase comprehension by a greater degree than factsheets for sustainable funds. For full results see Tables 11–15 in Annex 1C.

Opened all documents

In the treatment group that saw factsheets for all products, we found that the sustainability factsheets resulted in a 14 percentage point increase in comprehension for those that clicked on all factsheets. Whereas the effect size was only 8 percentage points for those that did not click on all factsheets. A significant difference of 7 percentage points. Surprisingly, for the treatment group that saw factsheets for sustainable funds only, we found no significant difference in the average marginal treatment effect on comprehension for those who clicked all four documents compared to those who clicked fewer than four documents.

We also found that the introduction of the sustainability factsheets was associated with a significant decrease in the proportion of people opening all four fund documents. The results (reported in Table 16 in Annex 1C) show that providing a factsheet for sustainable funds only significantly decreases the likelihood of opening all four documents by 4 percentage points. Similarly, providing a factsheet for all funds significantly decreases the likelihood of opening all four documents by about 7 percentage points. Pairwise comparisons reveal that there are no significant differences between the effect sizes on these treatment conditions.

Comprehension breakdown

As with Experiment 1, the factsheets did not help participants understand all aspects of the sustainable characteristics of the 'Sustainable Improvers' and 'Sustainable Focus' products. Participants often answered this question incorrectly by not identifying that these products did not have a primary aim to achieve positive social or environmental outcomes (see Figure 23). Only the 'Sustainable Impact' product was designed to meet this definition. The factsheets, despite being updated between Experiment 1 and 2, did not manage to address this point.

On the other hand, the updates made to the factsheets between Experiment 1 and Experiment 2 did manage to help participants correctly answer that the 'Sustainable Improvers' fund *did not* mainly invest in sustainable activities. Even although, this aspect of the 'Sustainable Improvers' fund was still not particularly well understood even after the factsheets were introduced (see Figure 24). A full breakdown of all the comprehension results, by product and by question is provided in Section 2 of Annex 1C.

Figure 23: Comprehension. Question 1: Does the fund invest with the primary aim to achieve positive social or environmental outcomes?

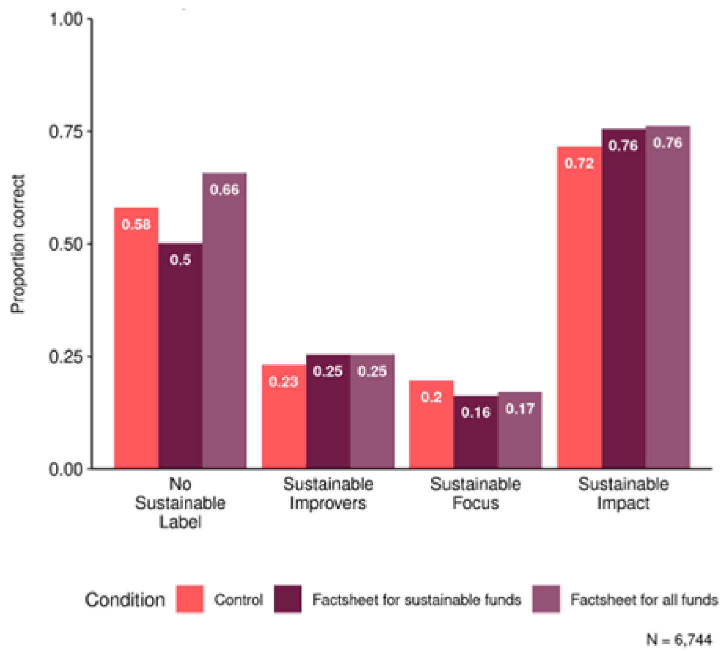
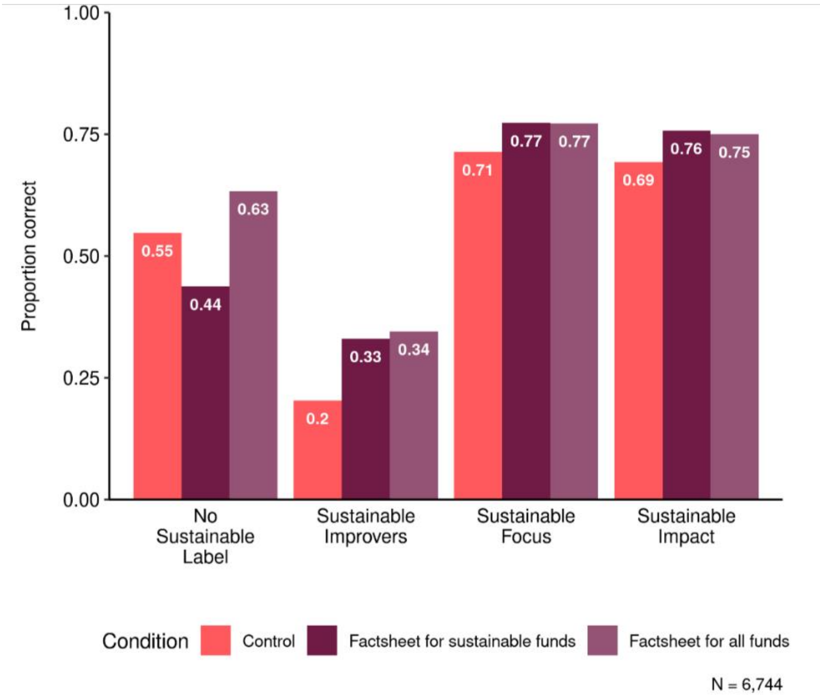


Figure 24: Comprehension. Question 2: Does the fund mainly invest in sustainable activities, sustainable assets or shares of companies that maintain sustainable characteristics?



Types of miscomprehension

Participants could have had their answers marked as incorrect for three possible reasons: either they answered incorrectly with 'Yes' or 'No', they answered incorrectly with 'Don't know', or they did not answer the question at all. In general, the control group's lower comprehension was mainly driven by uncertainty, a higher proportion of 'don't know' responses. In the treatment groups, a higher proportion of correct answers replaced some of that uncertainty (Figure 25). When we restrict our attention to the 'No Sustainable Label' product (

Figure 26), we see that despite not having access to a sustainable factsheet in either the control or factsheet for sustainable funds conditions, many more participants report their uncertainty in the latter condition.

Figure 25: Exploratory analysis: types of miscomprehension (all funds)

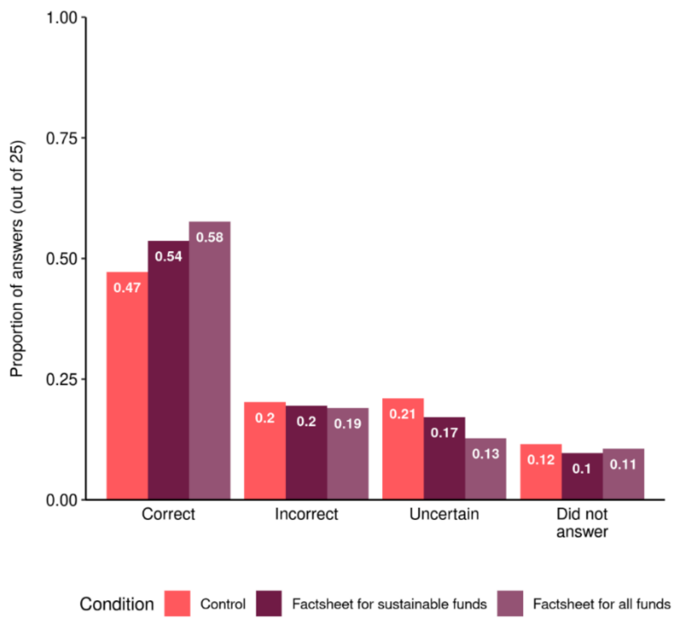
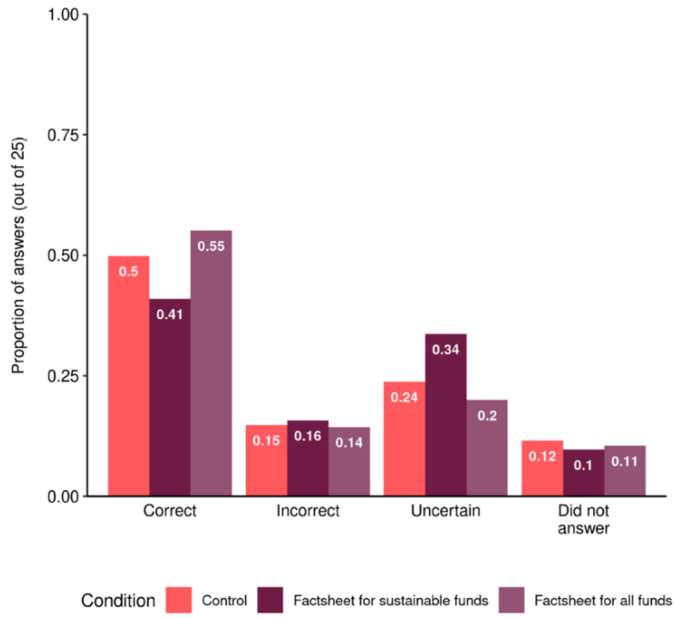


Figure 26: Exploratory analysis: types of miscomprehension ('No Sustainable Label' funds only)



Sustainable product choice breakdown

Factsheets led to fewer participants choosing the 'No Sustainable Label' product. Providing a factsheet for sustainable funds only, significantly decreases the likelihood of choosing the 'No Sustainable Label' fund by 6 percentage points (from 21% in the control to 15%). Similarly, providing a factsheet for all funds, significantly decreases the likelihood of choosing the 'No Sustainable Label' fund by 8 percentage points (to 13%). When factsheets were provided either for all funds or only sustainable funds, more participants chose the 'Sustainable Impact' product (8 percentage points more from 24% in the control to 32%). The changes in choices for other product types were generally not significant or of a much lower magnitude. See Table 17 in Annex 1C for the full breakdown.

Factsheet importance & helpfulness
The results (reported in Table 19 in Annex 1C) show that providing a factsheet for all funds, as opposed to only sustainable funds, significantly increases the proportion of participants answering that the sustainability factsheet was either very or extremely important in making their choice by 3 percentage points (from 42% to 45%). Further, results (reported in Table 19 in Annex 1C) show that providing a factsheet for all funds, as opposed to only sustainable funds, significantly increases the proportion of participants answering that the sustainability factsheet was either very or extremely helpful in learning how sustainable the funds were by 4 percentage points (from 45% to 49%).

The results (reported in Table 20 in Annex 1C) show that providing a factsheet for sustainable funds only and for all funds significantly decreases the proportion of participants answering that the key investor document (KIID) was either very or extremely important in making their choice by 7 and 8 percentage points respectively (from a baseline of 63%). Pairwise comparisons reveal that there are no significant differences between the treatment conditions. Similarly, results (reported in Table 20 in Annex 1C) show that providing a factsheet for all funds or sustainable funds only, had no effect on the proportion of participants answering that the fund name was either very or extremely important in making their choice (around 7%).

Discussion

Providing factsheets only for sustainable products decreased average consumer comprehension of 'No Sustainable Label' products

The most important new finding is that the updated sustainable disclosure factsheets, when provided for sustainable funds only, improved consumer comprehension by a significantly smaller amount than when sustainable factsheets are provided for all funds. This can be explained by observing the comprehension of the 'No Sustainable Label' product. Comprehension of this product is lower when sustainability factsheets are provided only for the sustainable products than when we did not provide any sustainability factsheets at all – i.e., the control condition. This was an unintended effect for providing sustainable factsheets for sustainable products only. We did not anticipate that comprehension of any product would be worse in either of the treatment groups. Our main hypothesis to explain this is that participants were more likely to think no sustainability information was contained in the Key Investor Information Document (KIID) of the No Sustainability Label fund, when all other funds were providing sustainability information in a sustainability factsheet. This hypothesis is supported by the higher uncertainty ('don't know' answers) about this product amongst participants.

Otherwise, our core findings from Experiment 1 remained broadly the same in Experiment 2

It is difficult to compare directly from Experiment 1 to Experiment 2 due to the range of changes made in the experimental conditions and designs of the factsheets. However, our core findings remained fundamentally the same in Experiment 2. In particular:

- Factsheets improved average consumer comprehension of sustainability information
- There were no meaningful differences between groups of consumers in the extent the factsheet helped
- Those who saw sustainability factsheets were more likely to choose a sustainable product
- The most significant shifts in choice were away from the 'No Sustainable Label' products and toward the 'Sustainable Impact' product

The distinction between having sustainable goals and making a sustainable impact remains difficult to grasp

The fact that 'Sustainable Improvers' and 'Sustainable Focus' products do not invest with a primary aim to achieve positive social or environmental outcomes (despite having sustainable goals), remained difficult for participants to grasp. It seems likely that this distinction was nuanced and novel for participants and not one that, despite our changes, was easily recognised.

Document open rates declined slightly when sustainability factsheets were provided

This may have been due to some participants not wanting to engage in the additional content provided in the sustainable factsheets. However, given that engaging with the materials is necessary for comprehension of sustainability to increase, it is important to consider how these factsheets could be best embedded in the consumer journey – something that we have not considered in these experiments – to ensure open rates are high.

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