

Why Do Investors Pay Higher Fees for Sustainable Investments?

An Experiment in Five European Countries

Daniel Engler, Gunnar Gutsche & Paul Smeets

Focus of this paper

Investors pay higher fees for sustainable investments!

(Riedl & Smeets, 2017; Baker, Egan & Sarkar, 2022; Heeb, Kölbel et al., 2022)

Why?

- Social Preferences (paying to do good)

(Riedl & Smeets, 2017; Hartzmark & Sussman, 2019; Bonnefon, Sastry et al., 2022)

- Financial Literacy (lack of understanding fees)

(Barber, Odean & Zheng, 2005; Choi, Laibson & Madrian, 2010; Lusardi & Mitchell, 2008, 2011; van Rooij, Lusardi & Alessie, 2011)

Importance of study throughout Europe

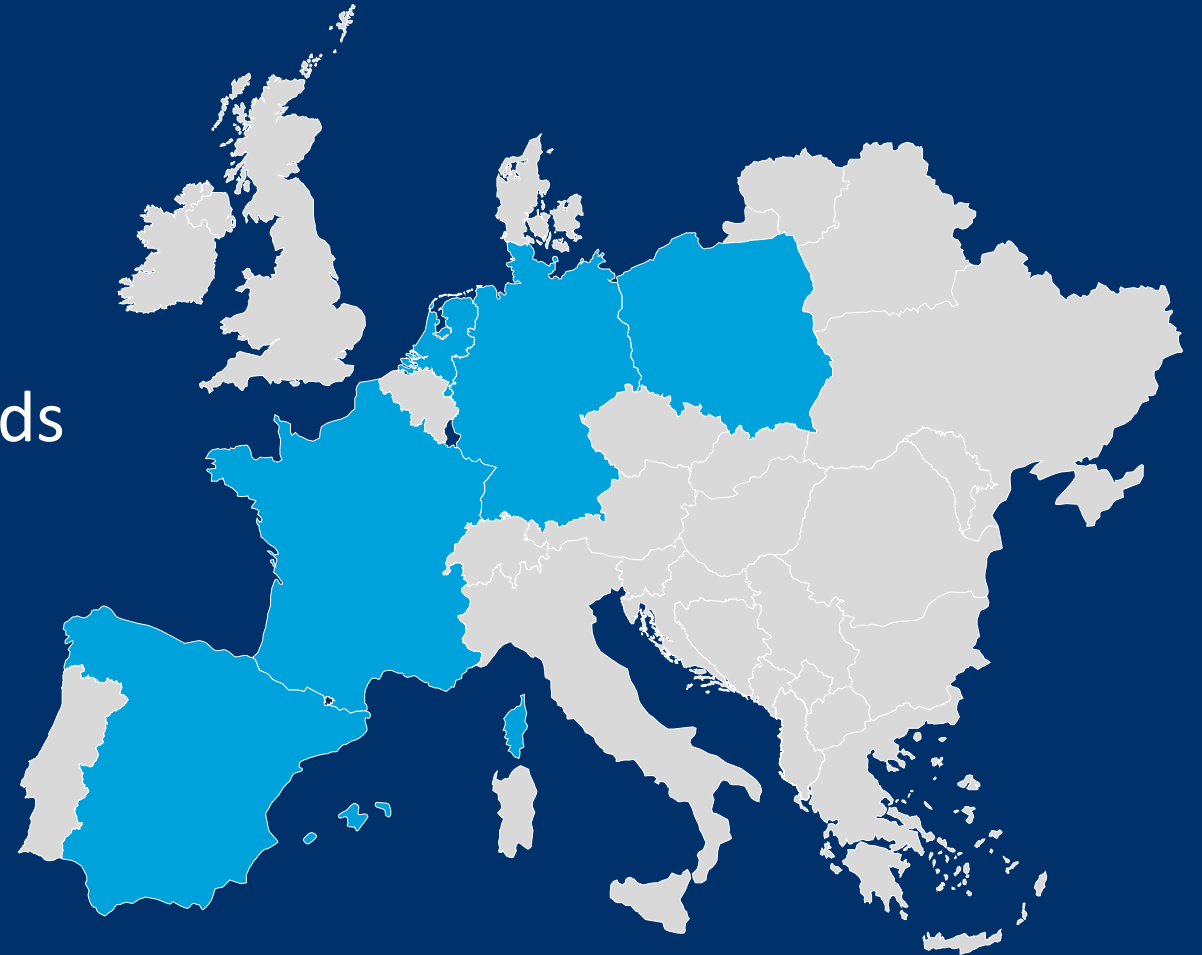
New EU regulation as of August 2022

- Mandatory to measure
 - sustainable investment preferences
 - financial literacy



Five Countries

- Large scale online lab-in-the-field experiment
- Broad representation of households with investment experience
- May – July 2021
- N = 5,162 respondents
- Incentivized for random subset



Experiment (example)

Please make your first decision now:

	1	2
	MSCI World Index Fonds (?)	MSCI World Climate Change Index Fonds (?)
Fees	0.20%	0.20%
Your investment amount	<input type="text"/> €	<input type="text"/> €

When you have made your decision, please click 'Next'.

Next ...

Experiment (example)

Please make your second decision now:

	1	2
	MSCI World Index Fonds (?)	MSCI World Climate Change Index Fonds (?)
Fees	0.20%	1.60%
Your investment amount	<input type="text"/> €	<input type="text"/> €

When you have made your decision, please click 'Next'.

Next ...

Experiment (example)

Please make your third decision now:

	1	2
	MSCI World Index Fonds (?)	MSCI World Climate Change Index Fonds (?)
Fees	0.20%	2.30%
Your investment amount	<input type="text"/> €	<input type="text"/> €

When you have made your decision, please click 'Next'.

Next ...

Experiment (example)

Please make your fourth decision now:

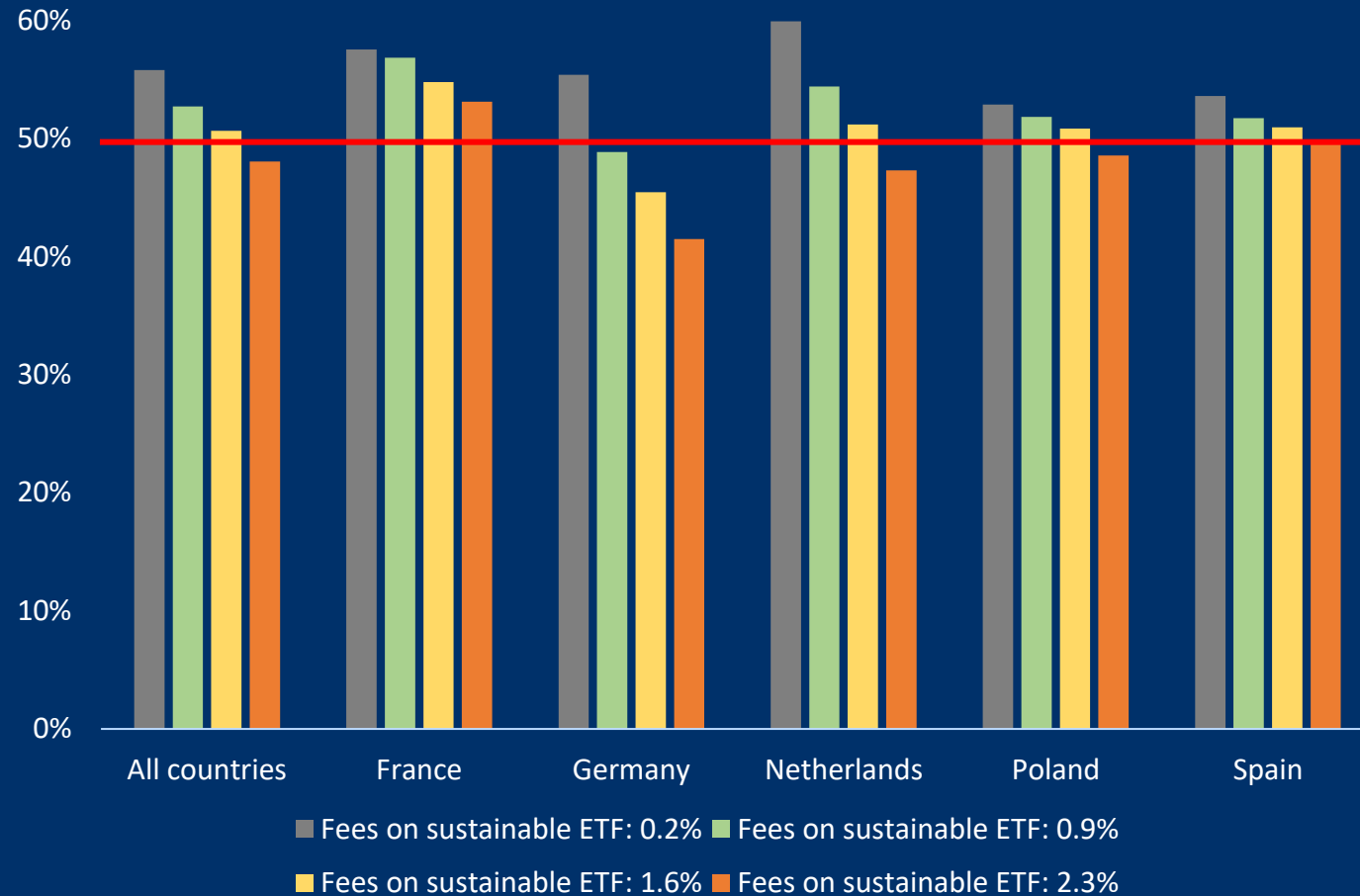
	1	2
	MSCI World Index Fonds (?)	MSCI World Climate Change Index Fonds (?)
Fees	0.20%	0.90%
Your investment amount	<input type="text"/> €	<input type="text"/> €

When you have made your decision, please click 'Next'.

Next ...

Fee sensitivity across countries

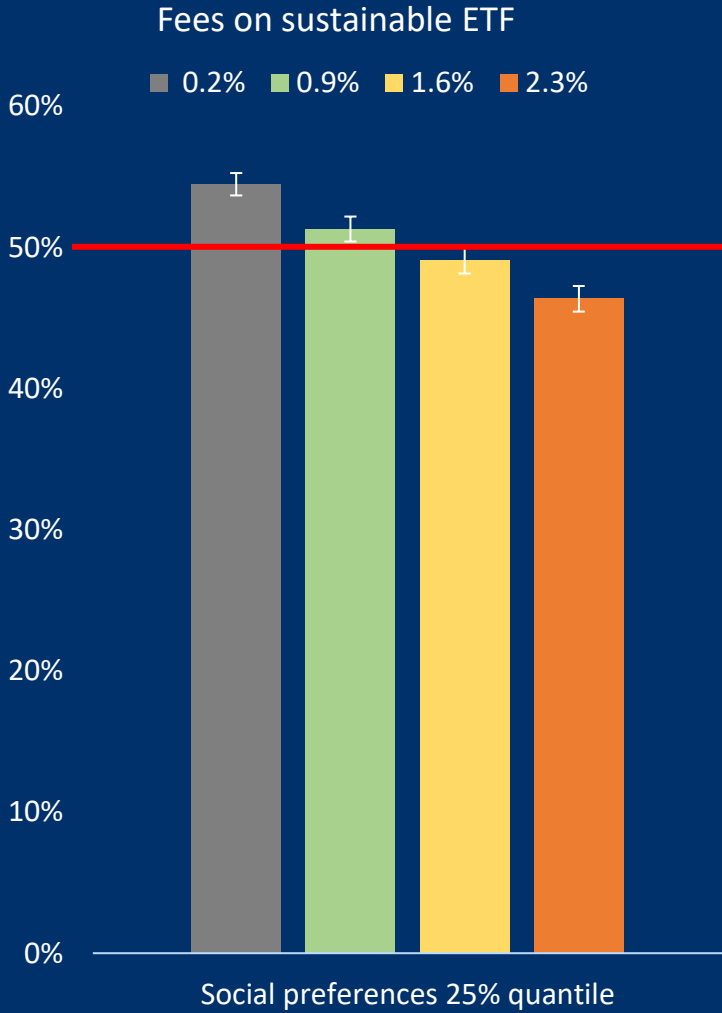
Share of investments in sustainable ETFs



- The sensitivity to higher fees on sustainable funds varies across countries
- This fee sensitivity is highest in the Netherlands and Germany

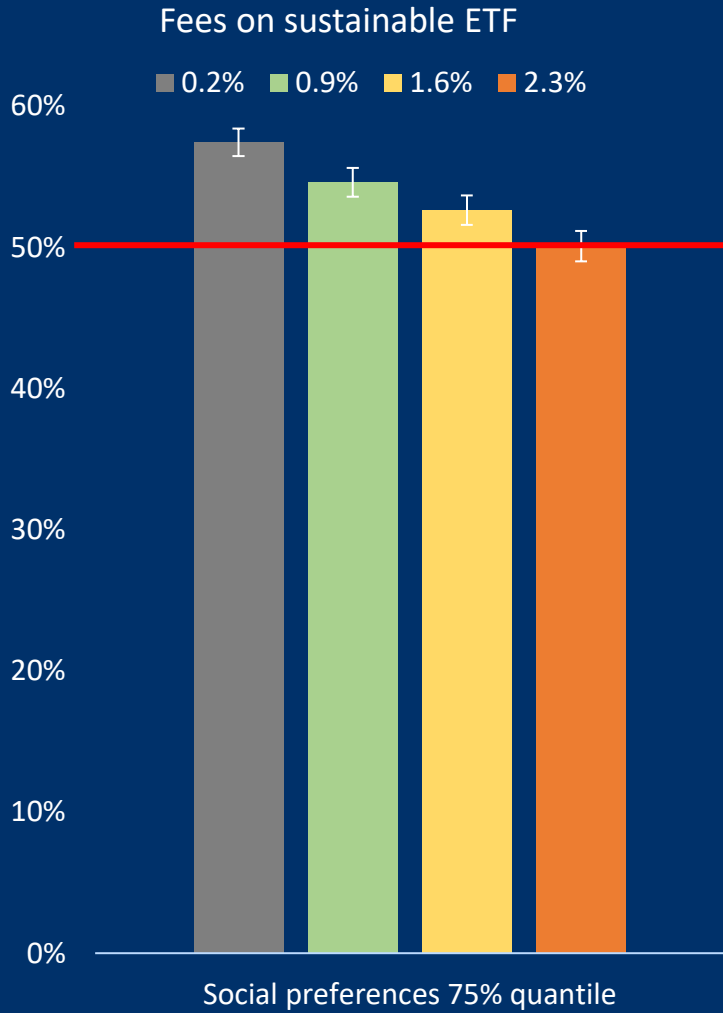
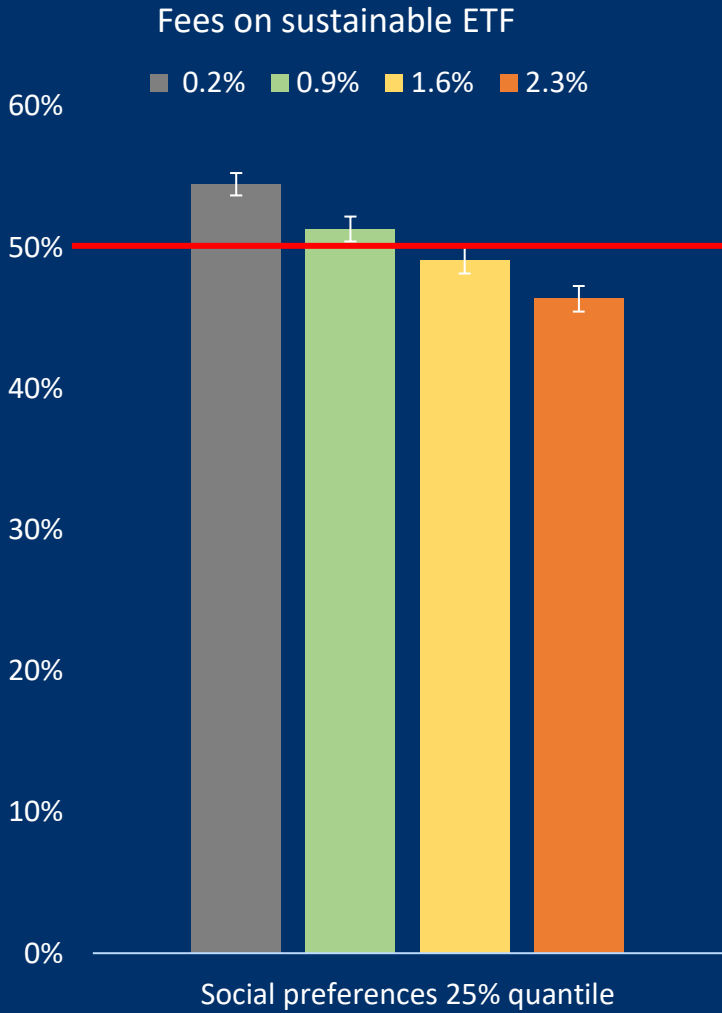
What drives fee sensitivity?

Social preferences and fee sensitivity



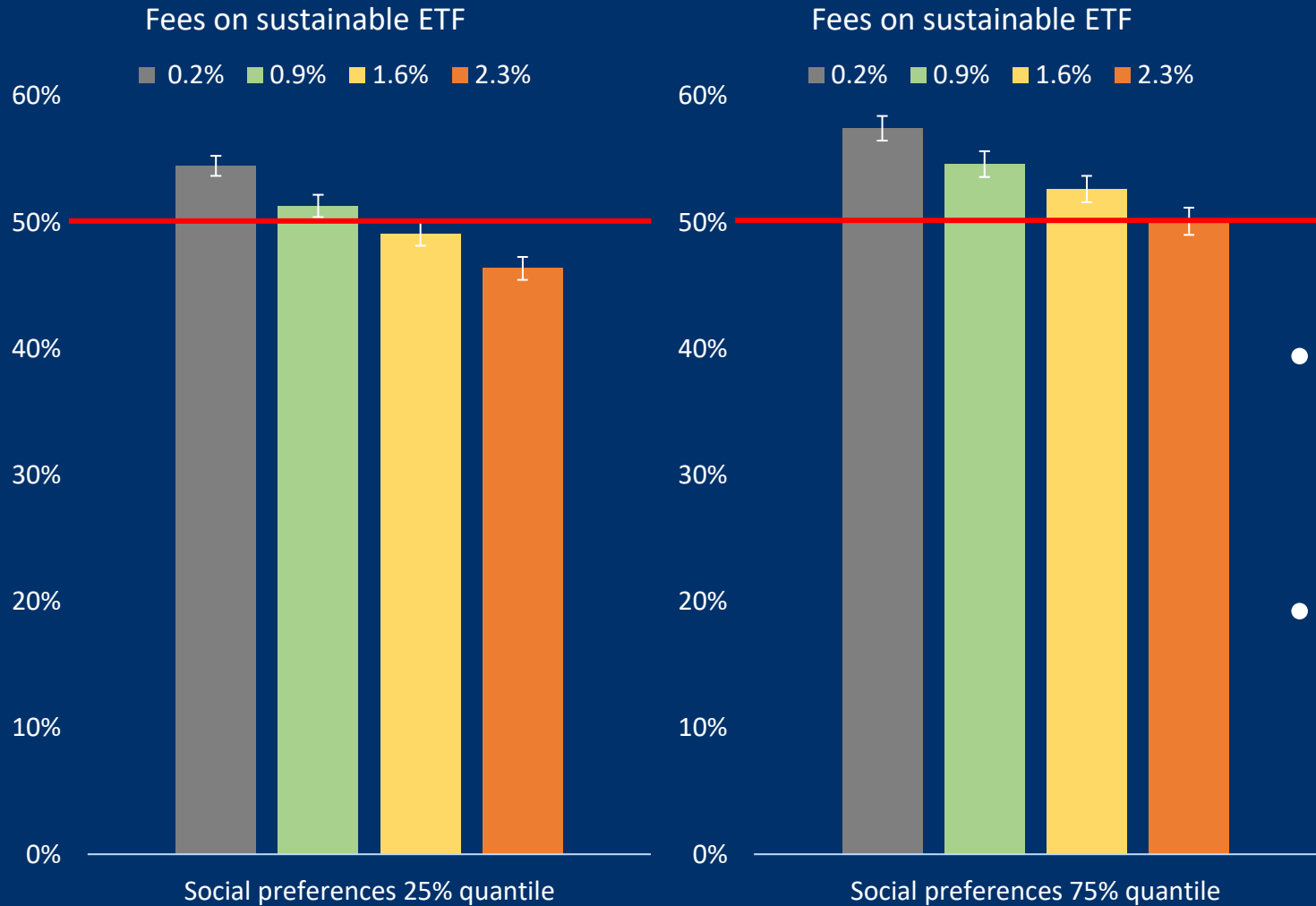
Share of investments in sustainable ETFs

Social preferences and fee sensitivity



Share of investments in sustainable ETFs

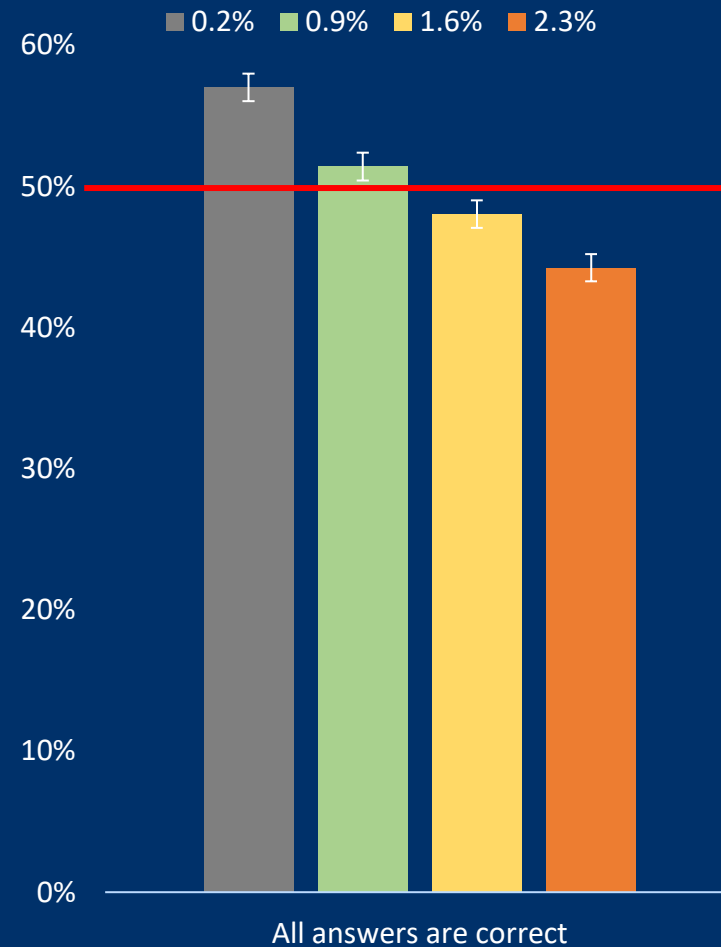
Social preferences and fee sensitivity



Share of investments in sustainable ETFs

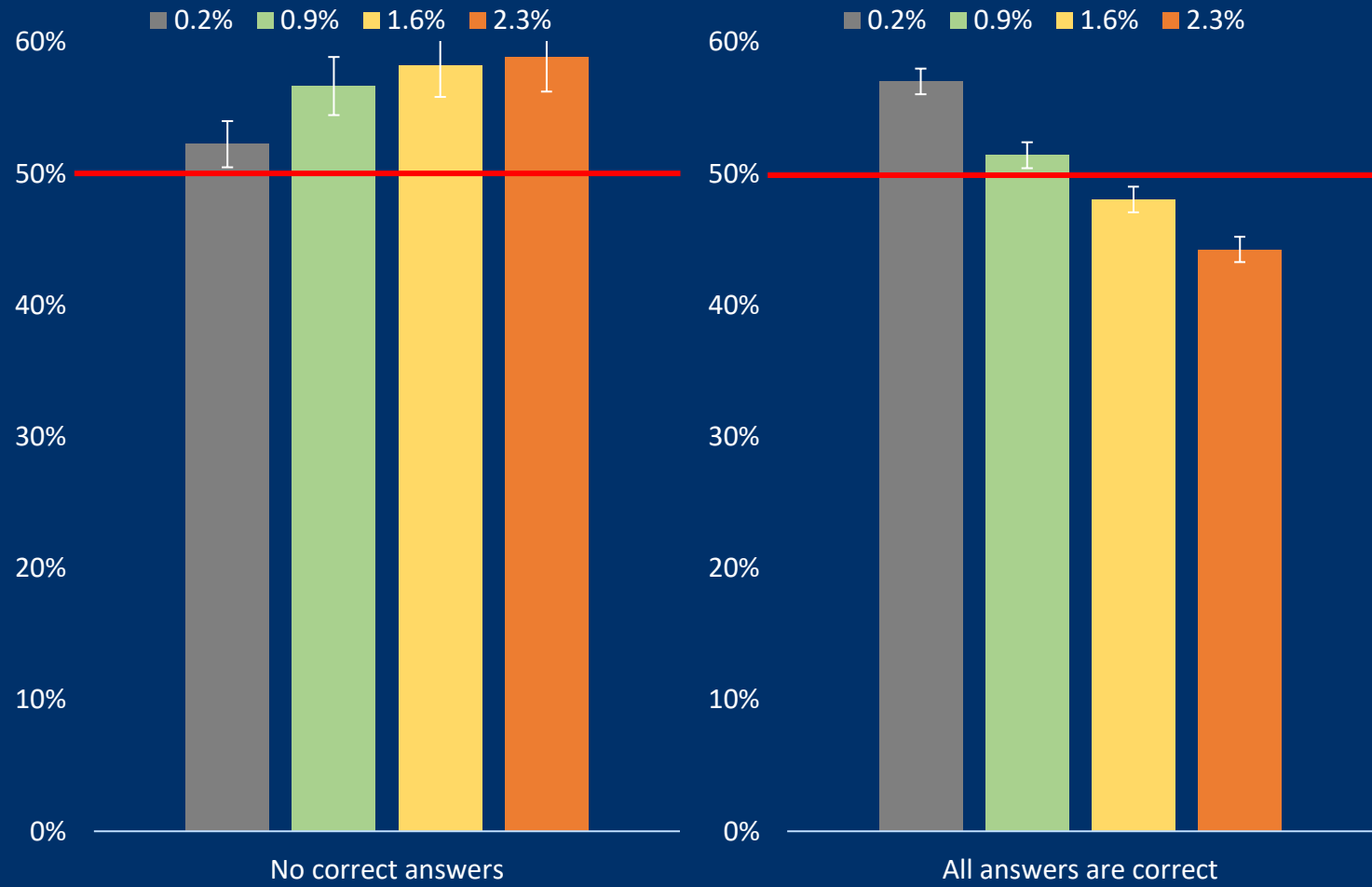
- Social preferences drive the share of sustainable investments (level effect)
- But not fee sensitivity (slope effect)

Financial literacy and fee sensitivity



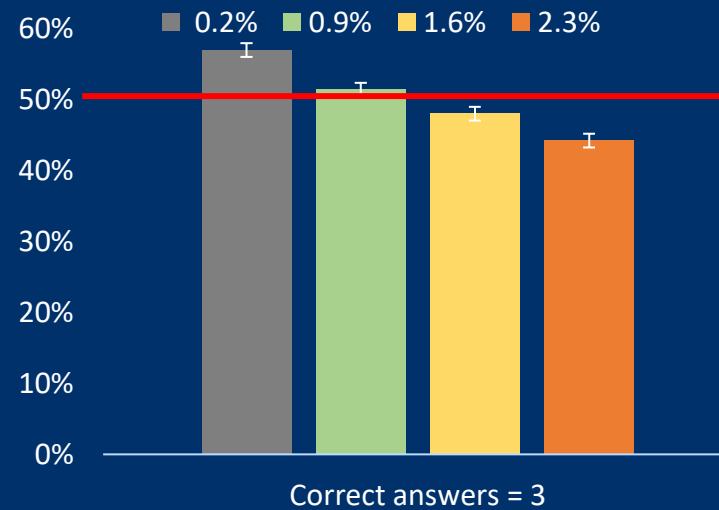
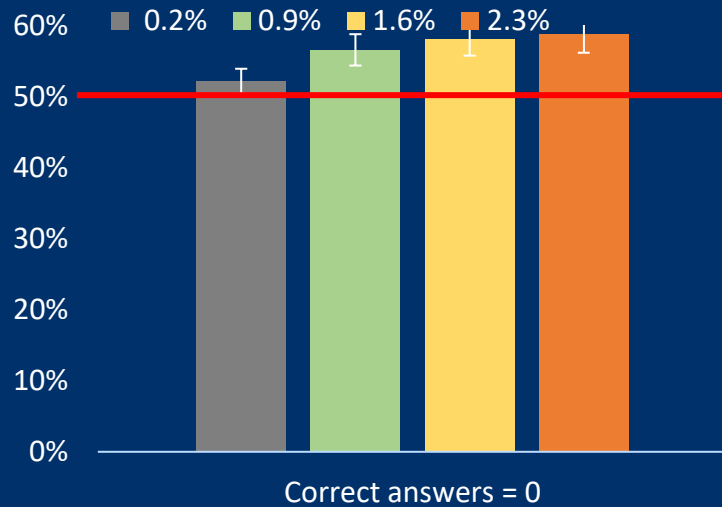
Share of investments in sustainable ETFs

Financial literacy and fee sensitivity



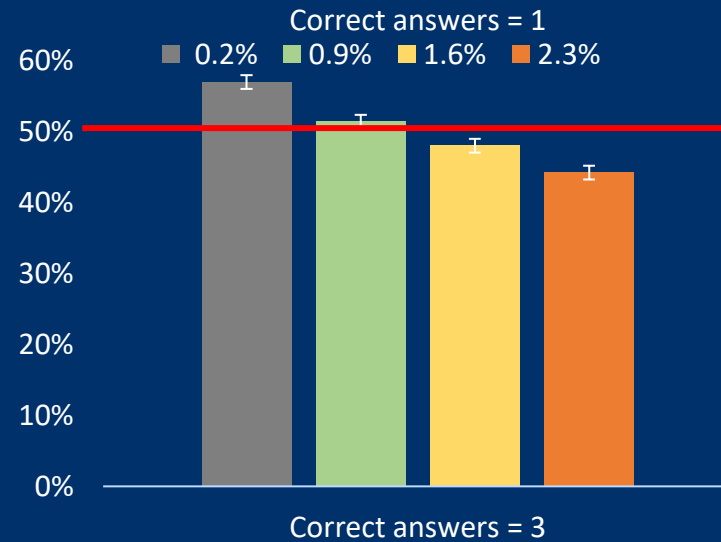
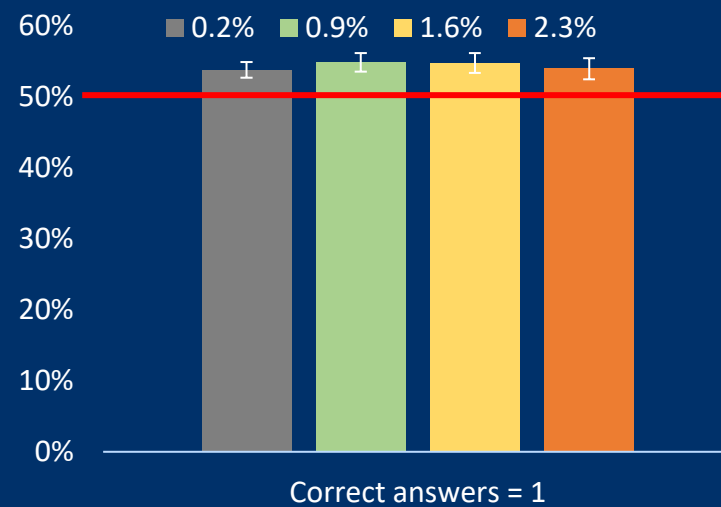
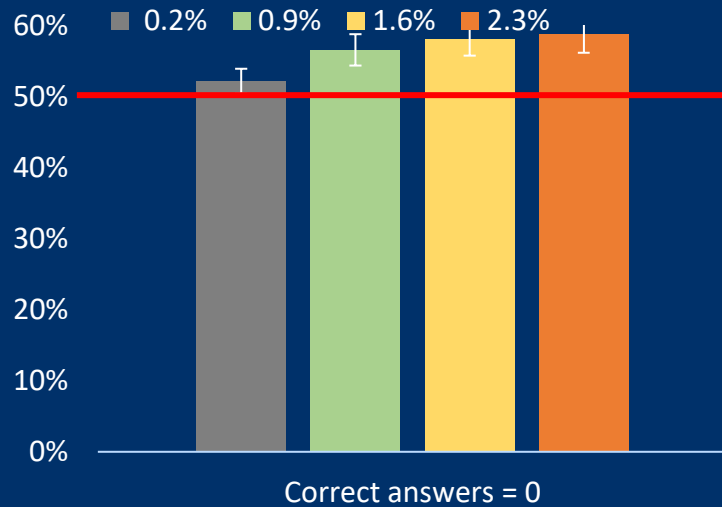
Share of investments in sustainable ETFs

Financial literacy and fee sensitivity



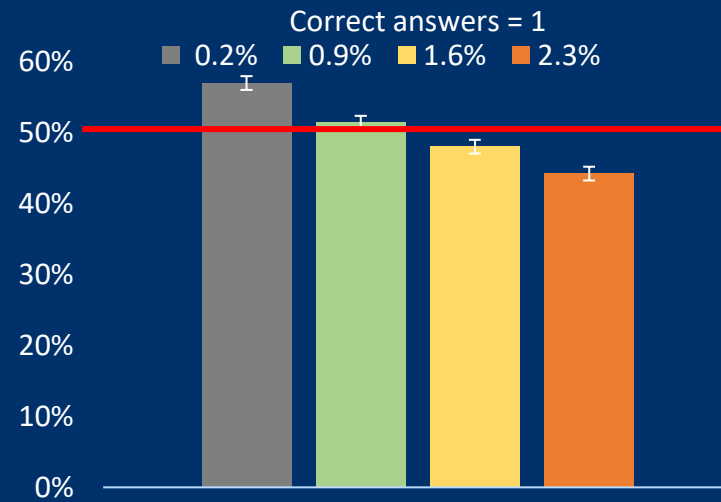
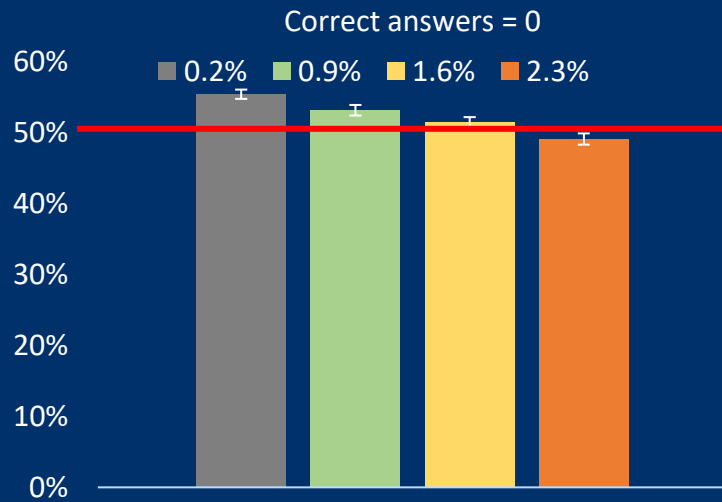
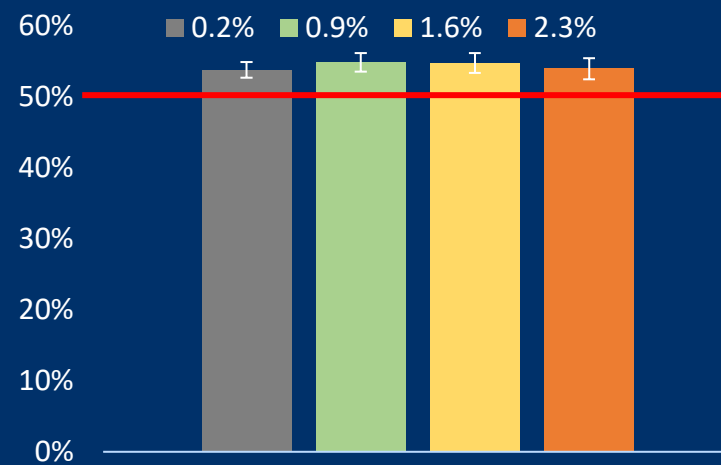
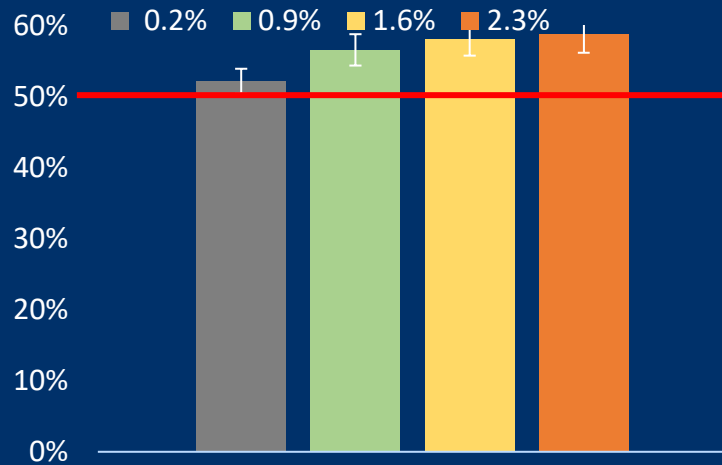
Share of investments in sustainable ETFs

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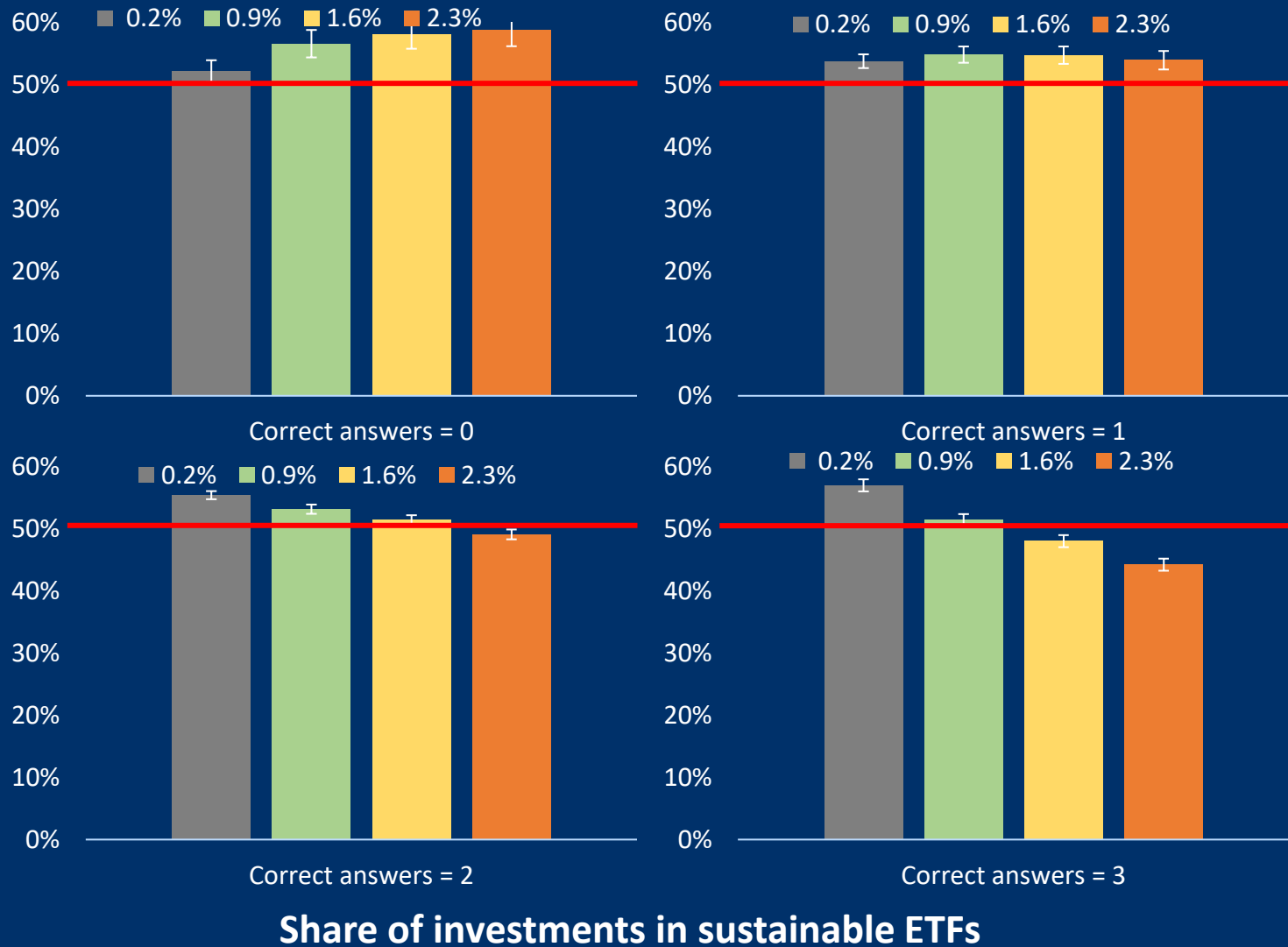
Share of investments in sustainable ETFs

Financial literacy and fee sensitivity



Share of investments in sustainable ETFs

Financial literacy and fee sensitivity



- Financially literate respondents reduce the share of sustainable investments when these investment products become more expensive (slope effect)

Do individuals understand "fees"?

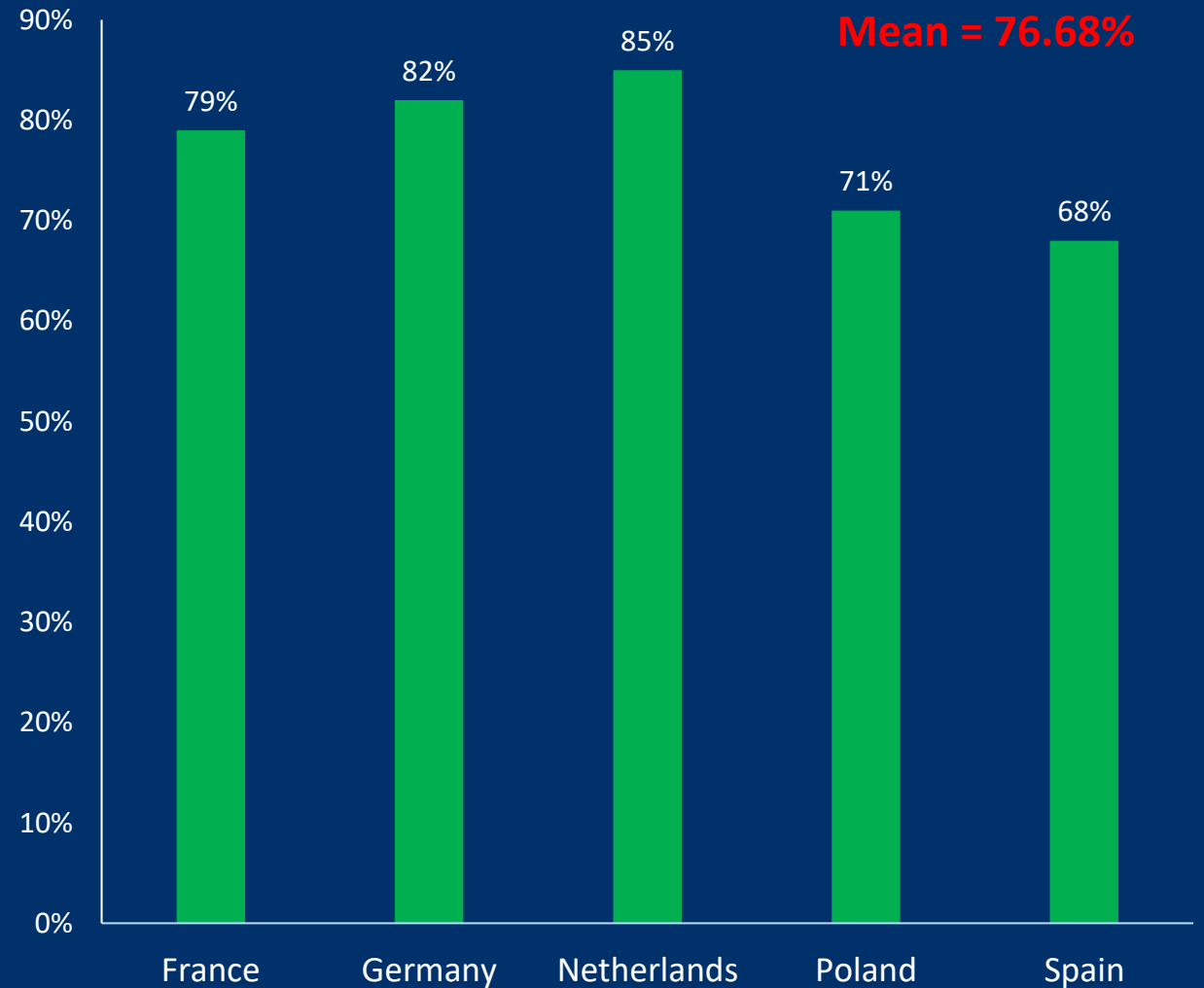
"Please assume that you have been selected. Please indicate the amount to be deducted from the value of your investment if the value of your investment in July 2022 is 1,000€ and the fees are 2.3%."

- 0.23€
- 2.30€
- 23.00€ (correct answer)
- 230.00€
- Don't know

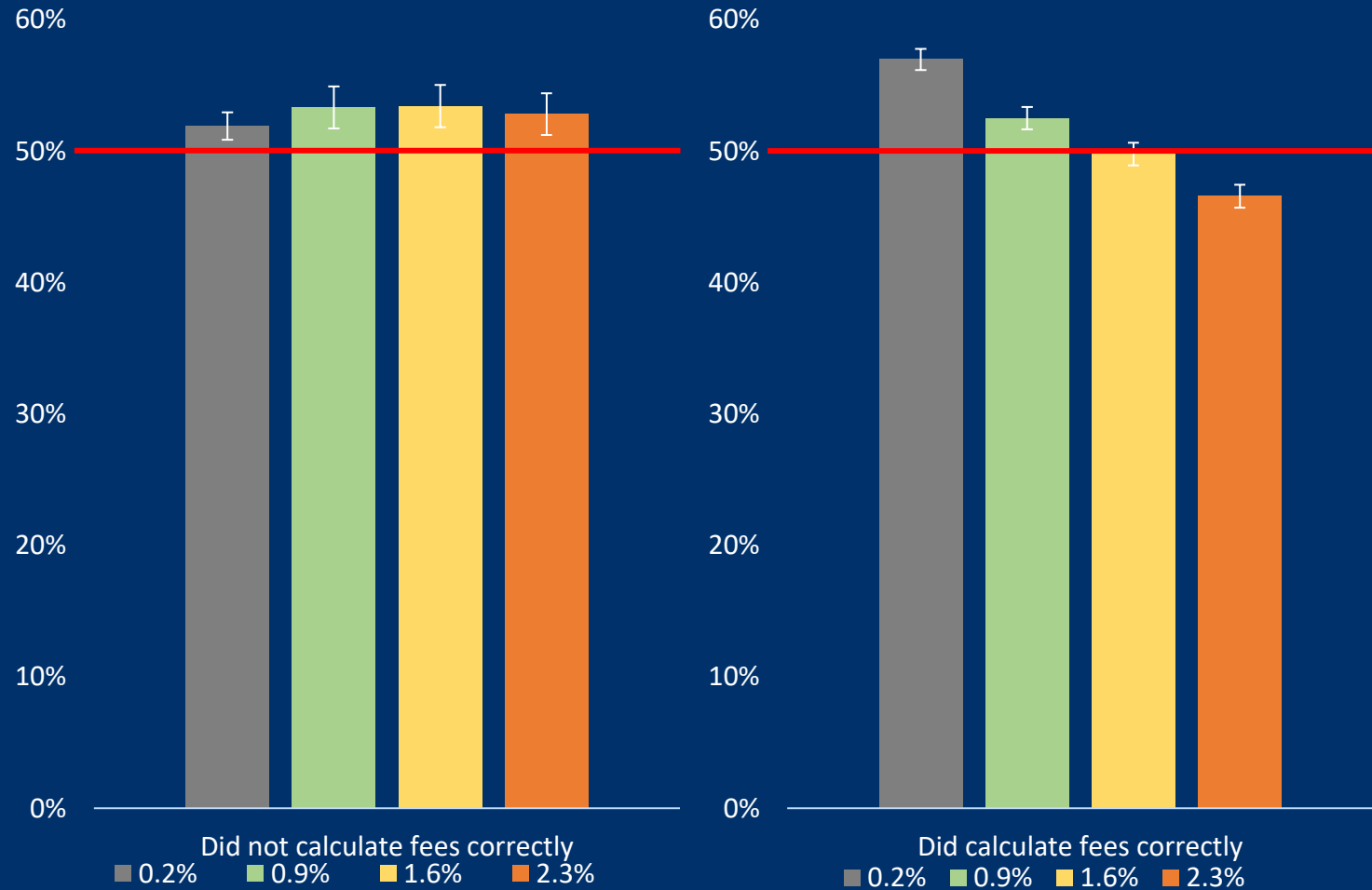
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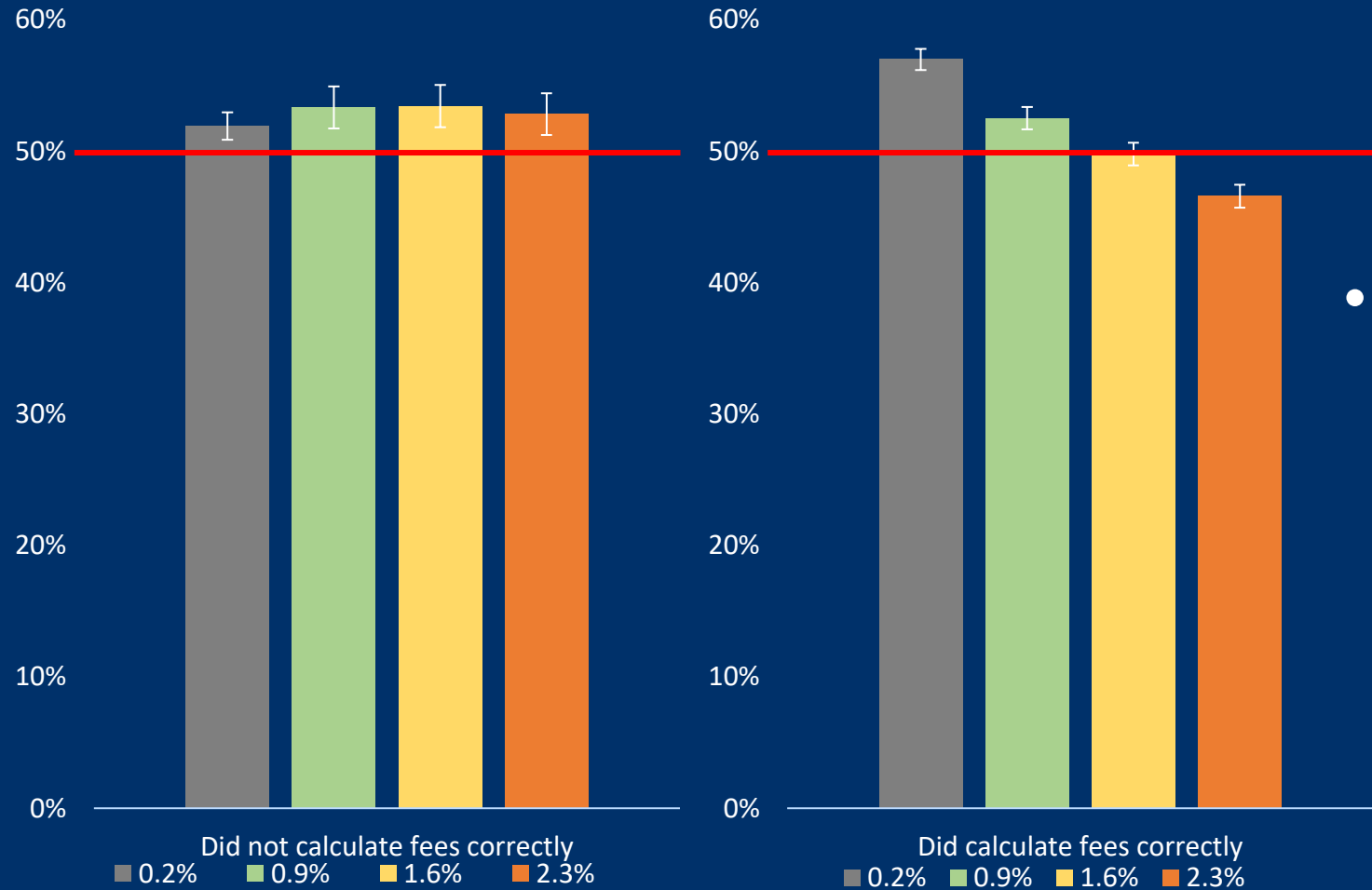


Understanding fees and fee sensitivity



Share of investments in sustainable ETFs

Understanding fees and fee sensitivity



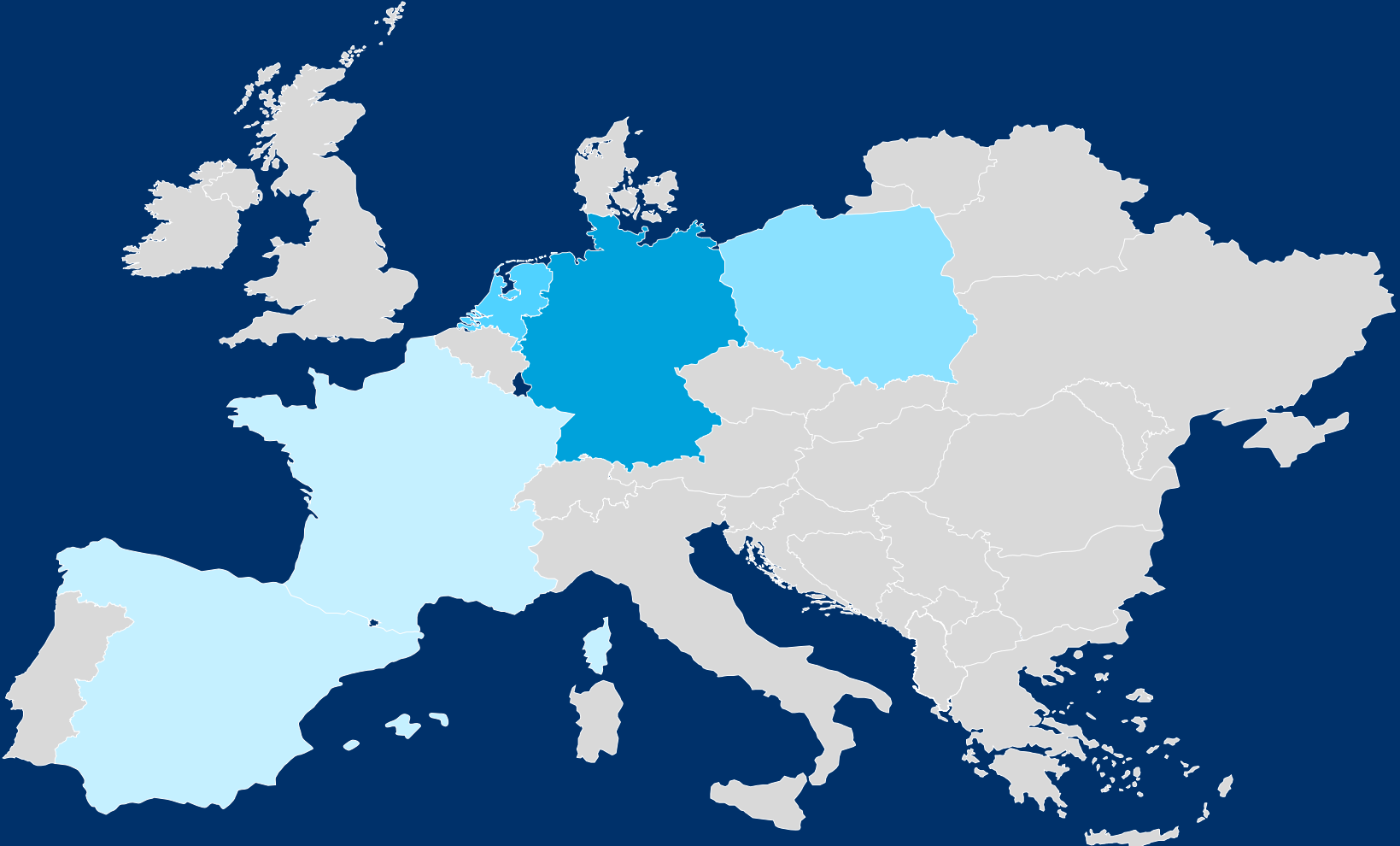
- Respondents who understood how fees are calculated are more sensitive to fees (slope effect)

Share of investments in sustainable ETFs

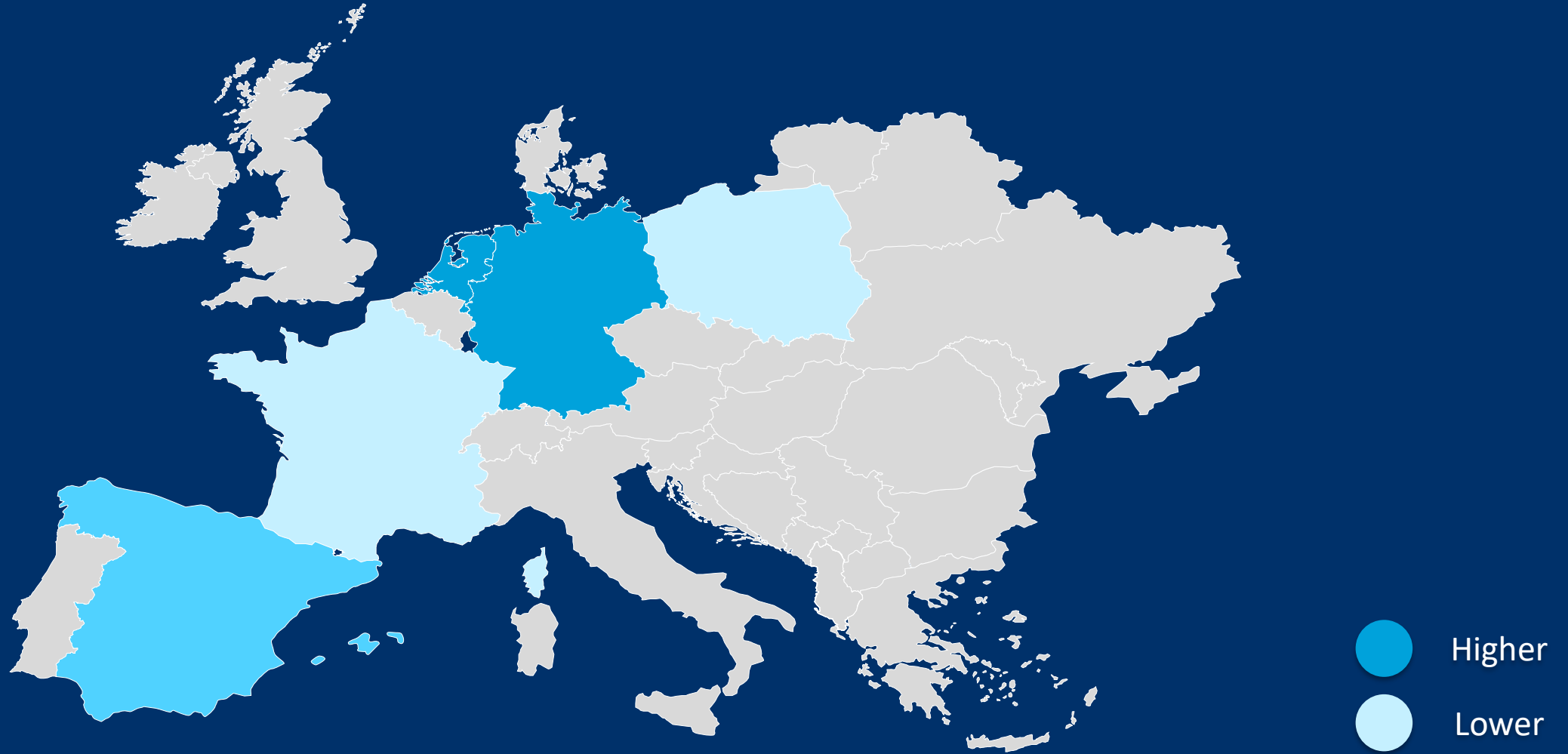
Research question 2

Does fee sensitivity and its drivers vary across countries?

Social preferences across countries



Financial literacy across countries



Explaining country differences

- Dependent variable: Investment disparity between 2.3% and 0.2% scenarios
- Methodology: Oaxaca-Blinder decomposition (pairwise)

Results:

- Differences in financial literacy account for most of the explained variation among countries
- Social preferences and return expectations appear to have minimal influence

Experimental choices reflect real-world behavior

TABLE 6 – GENERALIZABILITY OF EXPERIMENTAL DECISIONS

Dependent variable: Sample:	Respondent reports to hold sustainable investments in real life			
	All	Only current investors	All	Only current investors
	(1)	(2)	(3)	(4)
<i>Average share invested in sustainable ETFs in the experiment (reference category: 0% to 25%)</i>				
Above 25% to 50%	0.032* (0.019)	0.049** (0.025)	0.049*** (0.018)	0.055** (0.025)
Above 50% to 75%	0.045** (0.019)	0.071*** (0.026)	0.045** (0.019)	0.057** (0.026)
Above 75% to 100%	0.114*** (0.025)	0.178*** (0.034)	0.088*** (0.024)	0.126*** (0.032)
Controls	No	No	Yes	Yes
Respondents	5,162	3,250	4,901	3,124

- Finding of external relevance is in line with previous studies showing that social preferences elicited in experiments are reflected in field behavior (Karlan, 2005; Benz & Meier, 2008; Baran, Sapienza & Zingales, 2010; Riedl & Smeets, 2017)
- Important for real-world applications of our findings

Follow-up question #1

Why are investors with low financial literacy less fee sensitive?

Follow-up experiment #1: Data

- Online survey among experienced investors on Prolific in May 2023 (in Germany, N = 451)
- Reduced version of previous investment experiment
 - 5 treatment groups (variation in ETFs and fees)
 - 1 decision per respondent
 - open- and closed-ended questions about reasons for decision

Follow-up experiment #1: Key results

1. We replicate our main results:

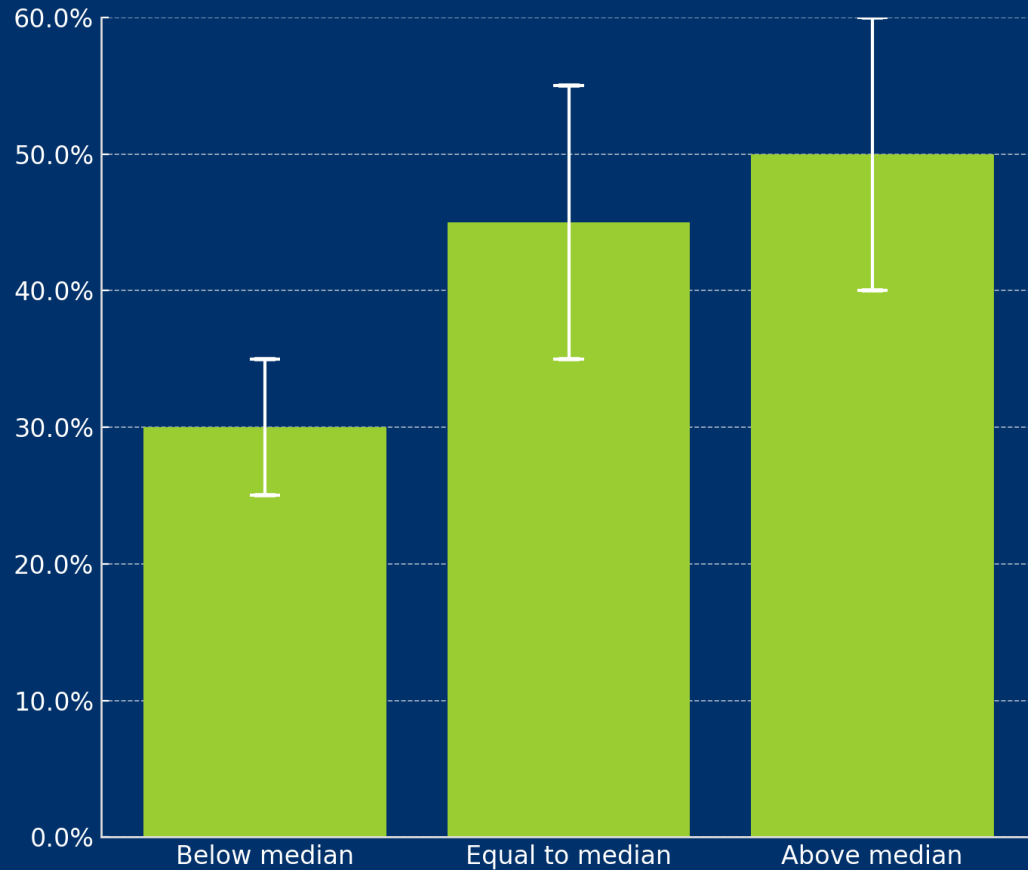
- Investors with low financial literacy react less sensitively to fees

2. And two new results:

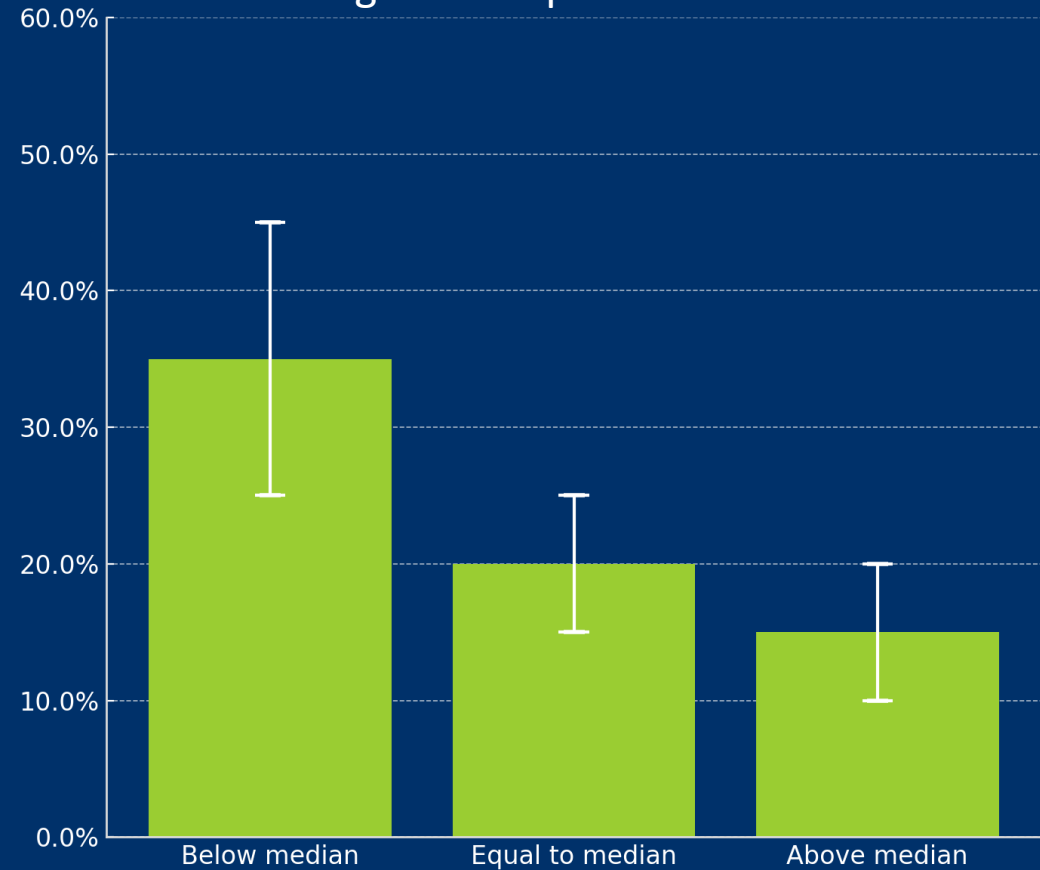
- Attention to fees
(Hartzmark & Sussman, 2019; Hartzmark, Hirshman & Imas, 2021; Bordalo, Gennaioli & Shleifer, 2012, 2013, 2022)
- Expected returns

Perception of fees across levels of financial literacy

Predicted probability to mention fees



Predicted probability to state that funds with higher fees perform better



Follow-up question #2

Does ESG information lower fee sensitivity of low literate investors?

Follow-up experiment #2: Data

- Online survey among experienced investors on Prolific in December 2023 and January 2024 (in Germany, N = 832)
- New experiment:
 - More realistic investment situation with six different funds
 - Two treatment groups
 - Only conventional funds
 - Conventional & sustainable funds

Follow-up experiment #2: Funds

Conventional only		Sustainable included	
Fund name	Fees	Fund name	Fees
SPDR® MSCI World UCITS ETF (EUR)	0.12%	SPDR® MSCI World UCITS ETF (EUR)	0.12%
Deka MSCI World UCITS ETF	0.30%	Deka MSCI World UCITS ETF	0.30%
CT (Lux) - Global Equity Income 2EP (EUR Distribution)	1.07%	CT (Lux) - Global Equity Income 2EP (EUR Distribution)	1.07%
HSBC MSCI World UCITS ETF (EUR)	0.15%	HSBC MSCI World Climate Paris Aligned UCITS ETF (EUR)	0.18%
Fidelity Funds - Global Focus I-Acc-EUR	0.85%	Fidelity Funds- Sustainable Global Equity Income Fund A- Qinc-EUR	1.91%
BlackRock Global Funds - Systematic Global Equity High Income Fund I2 EUR	0.66%	BlackRock Global Funds- Sustainable Energy Fund I2 (EUR)	0.97%

Follow-up experiment #2 (example)

SPDR® MSCI World UCITS ETF (EUR) | SPPW | Für den Zugriff

auf unsere Ratings hier anmelden

Wie hat sich dieser Fonds entwickelt? 30.11.2023

Wachstum von 1000 (EUR) Charts Erweitert



	2019	2020	2021	2022	2023
● Fonds	-	5,3	32,7	-13,3	15,4
● +/-Kat	-	0,6	6,8	0,9	4,2
● +/-Idx	-	-1,0	5,1	-0,6	1,4

Kategorie: Aktien weltweit Standardwerte Blend

Kategorie Benchmark: Morningstar Gbl TME NR USD

Übersicht

Schlusskurs 22.12.2023	EUR 29,91
Änderung z. Vortag (in EUR)	0,33%
Ausgabeaufschlag	-
Morningstar Kategorie™	Aktien weltweit Standardwerte Blend
WKN	A2N6CW
Volumen	88202
Börse	DEUTSCHER KASSENVEREIN AG GRUPPE DEUTSCHE BOERSE
ISIN	IE00BFY0GT14
Fondsvolumen (Mio) 21.12.2023	USD 4465,64
Anteilklassenvol (Mio) 22.12.2023	USD 4339,14
Laufende Kosten 27.10.2023	0,12%

Follow-up experiment #2 (example)

Nachhaltigkeit



Sustainability Rating ⓘ



Beitrag zum Nachhaltigkeitsscore (Unternehmen)

100 %

Beitrag zum Nachhaltigkeitsscore (Staaten)

0 %

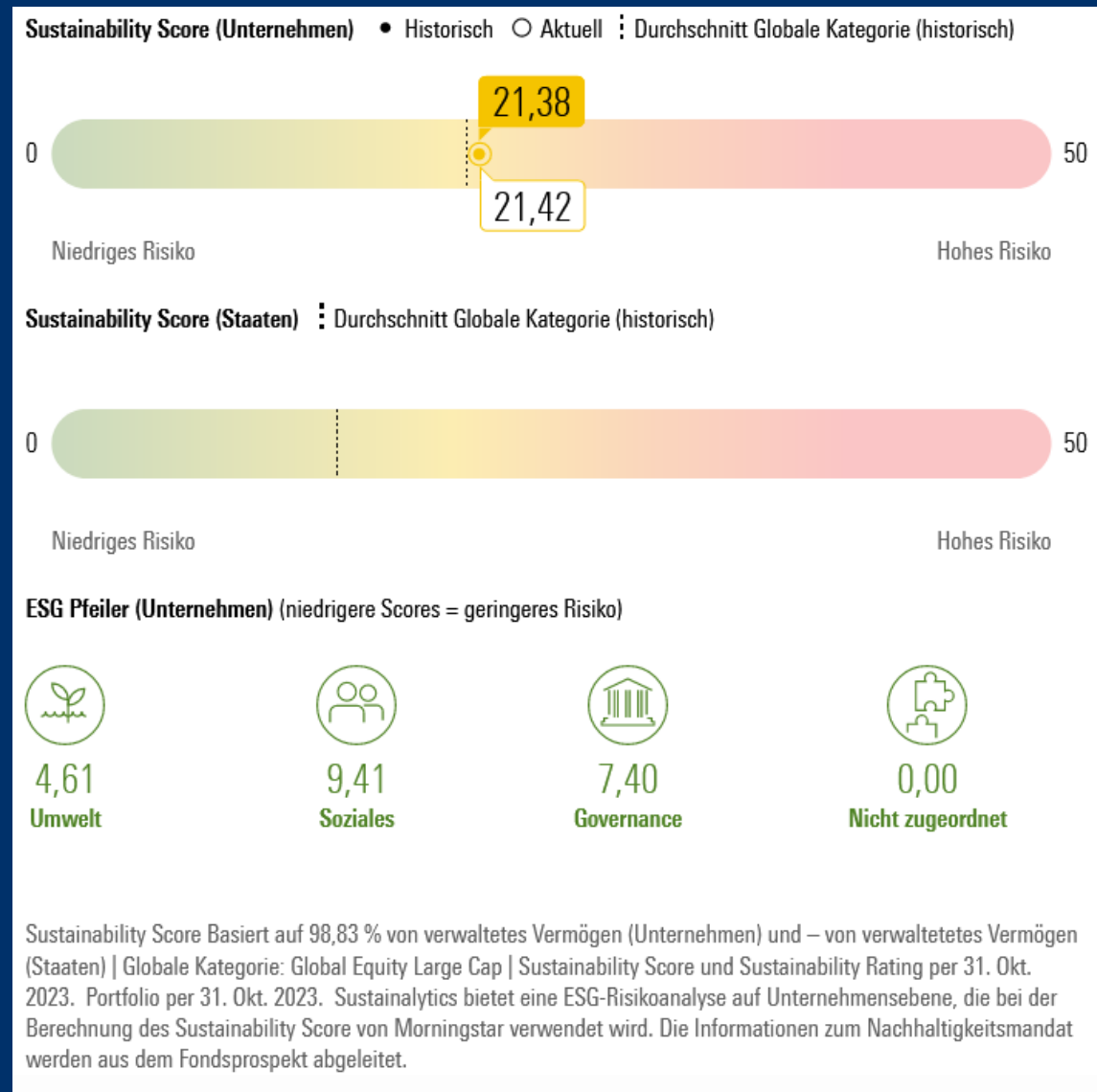
Anzahl Fonds in Globaler Kategorie

8.108

Nachhaltige Geldanlage

No

Follow-up experiment #2 (example)



Follow-up experiment #2 (example)

Anlageziel: SPDR® MSCI World UCITS ETF (EUR) | SPPW

The investment objective of the Fund is to track the performance of large and mid-sized equities in developed markets globally. The investment policy of the Fund is to track the performance of the Index as closely as possible, while seeking to minimise as far as possible the tracking difference between the Fund's performance and that of the Index. The Index captures large and mid cap companies across developed markets countries.

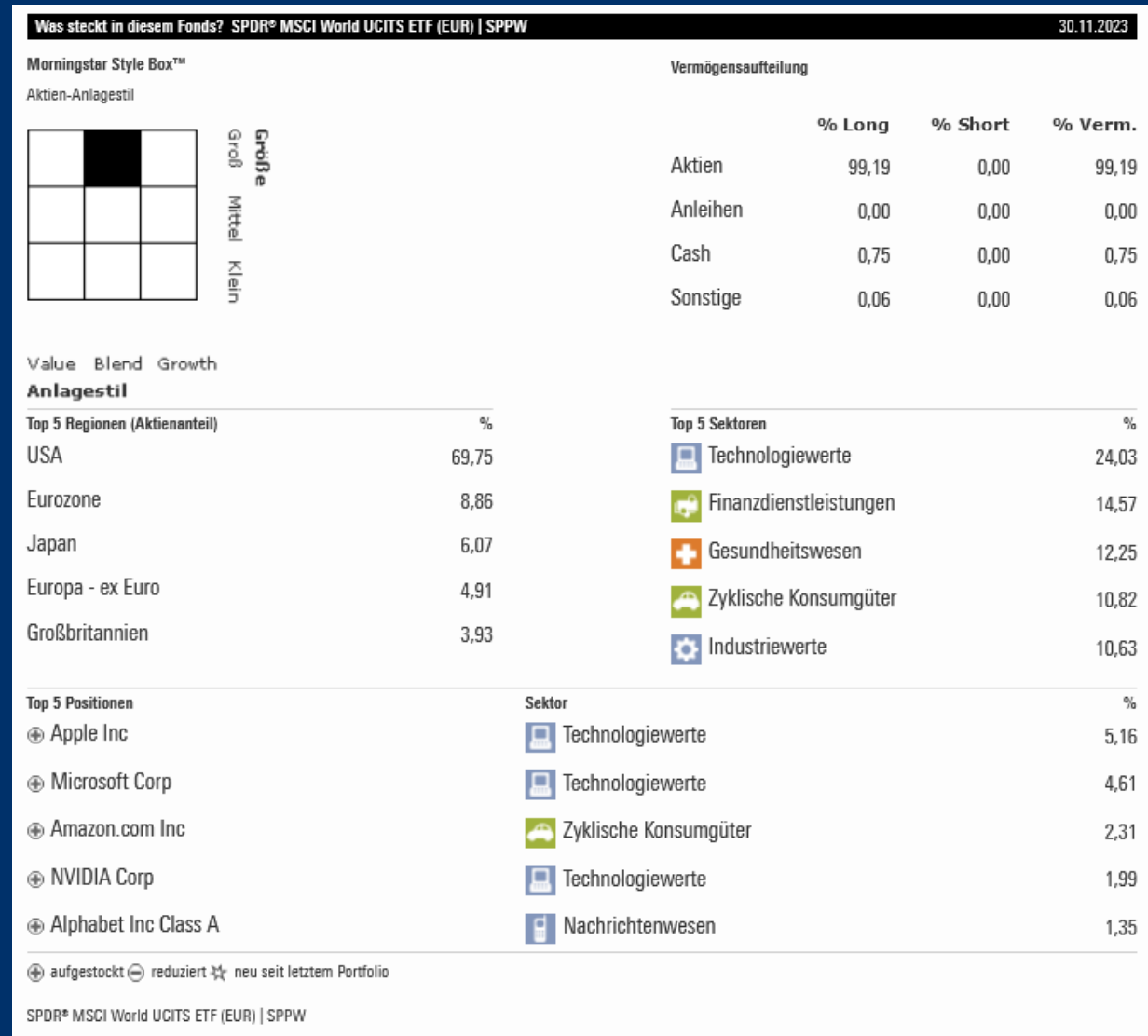
Returns

Wertentwicklung p.a. (%)	22.12.2023
lfd. Jahr	19,90
3 Jahre p.a.	11,67
5 Jahre p.a.	-
10 Jahre p.a.	-
<hr/>	
12-Monats-Dividendenrendite	-

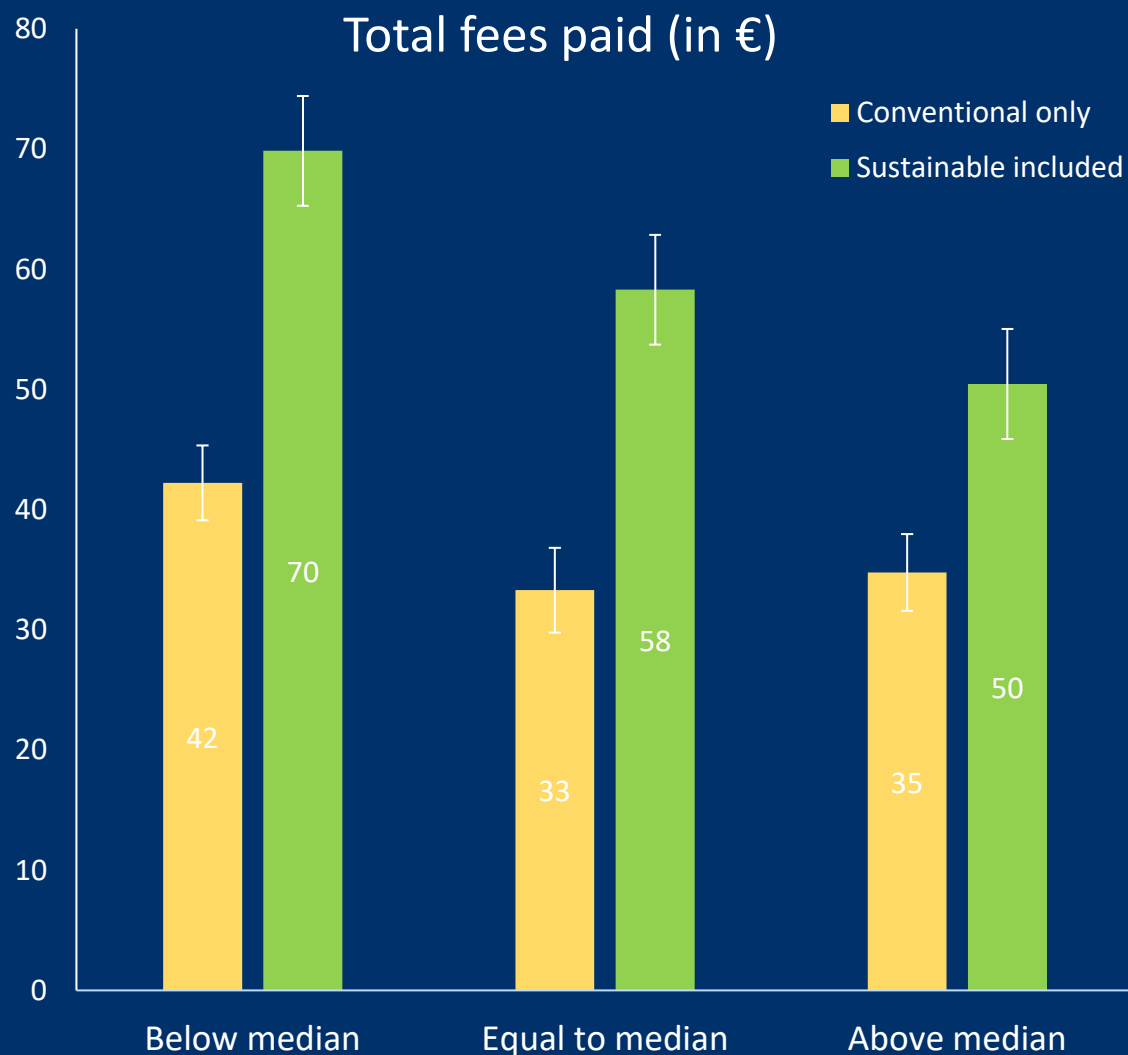
Management

Fondsmanager	Startdatum
-	-
<hr/>	
Anteilerstausgabe	28.02.2019

Follow-up experiment #2 (example)

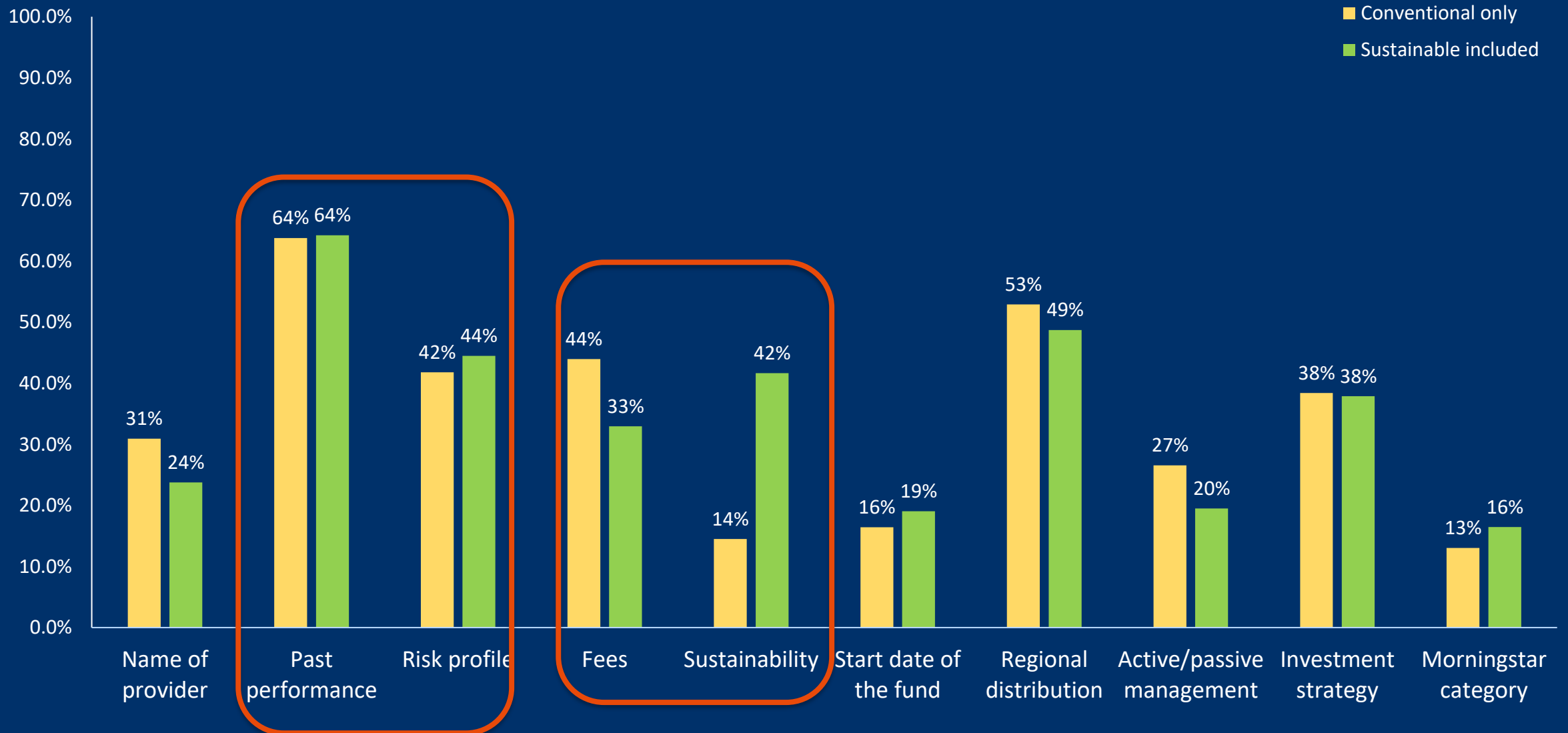


Average fees paid across levels of financial literacy



Dependent variable:	Total fees paid (in €)	
	(1)	(2)
Model:		
Financial literacy	-3.672*** (1.383)	--
Financial literacy index	--	-1.721** (0.757)
Sustainable included	33.520*** (5.953)	35.371*** (5.144)
Financial literacy * sustainable included	-4.051* (2.264)	--
Financial literacy index * sustainable included	--	-3.132** (1.250)
Further controls	Yes	Yes
Respondents	832	832
Adjusted R-squared	0.256	0.263

Reasons for fund choice



Follow-up experiment #2: Key results

1. Investors pay higher fees on average if they face sustainable investments
2. Financially literate investors pay lower fees
3. ESG information decreases fee sensitivity of low literate investors

Conclusion

Social preferences drive share of sustainable investments in all five countries (level effect)

- These social preferences can impact asset prices
(Heinkel, Kraus & Zechner 2001; Pastor, Stambaugh & Taylor, 2021; Pedersen, Fitzgibbons & Pomorski, 2021)

Financial literacy drives fee sensitivity (slope effect)

- Including ESG funds in the menu decreases fee sensitivity further for low literate investors
- Promoting understanding and presentation of fees is a key challenge

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