



The Forum for Sustainable and Responsible Investment

# National Academies Roundtable on Science and Technology for Sustainability - Investing for Sustainability

## “Challenges & Opportunities”

January 31, 2017

# About US SIF

## **Who We Are:**

US SIF: The Forum for Sustainable and Responsible Investment is the leading voice advancing sustainable, responsible and impact investing across all asset classes.

US SIF is supported in its work by the US SIF Foundation, a 501(c)3 organization that undertakes educational, research and programmatic activities to advance the mission of US SIF.

## **Mission Statement:**

Rapidly shift investment practices towards sustainability, focusing on long-term investment and the generation of positive social and environmental impacts.

## **Vision Statement:**

Environmental, social and governance impacts are meaningfully assessed in all investment decisions resulting in a more sustainable and equitable society.



# About US SIF

## US SIF activities include:

- Research: Undertaking and publicizing research that highlights key trends and its many positive impacts on companies and communities.
- Training/Education: Expanding the numbers of financial professionals with knowledge of sustainable investing through development of a professional education curriculum, offered both online and in-person, through webinars and an annual conference.
- Convenings: Annual conference offers a unique opportunity for members and non-members to network with leaders of SRI, to hear from leading investors, CEOs and policymakers, and to learn about new approaches, trends and policy developments in the sustainable and impact investing field. Regional events.
- Public Policy: Advancing public policy initiatives through outreach to legislators and regulators.
- Outreach: Increasing public awareness of and demand for sustainable investment through focused media and outreach to key sectors, including mission related investors such as foundations.

# Who are our Members?

- Financial planners and advisors
- Investment management and advisory firms
- Broker-dealers
- Banks
- Mutual fund companies
- Research firms
- Community development financial institutions
- Credit unions
- Non-profit associations
- Foundations
- Family offices
- Other asset owners

# The Size of the Sustainable Investing Market

# The Size of the Sustainable Investing Market

At the start of 2016, the US SIF Foundation found:

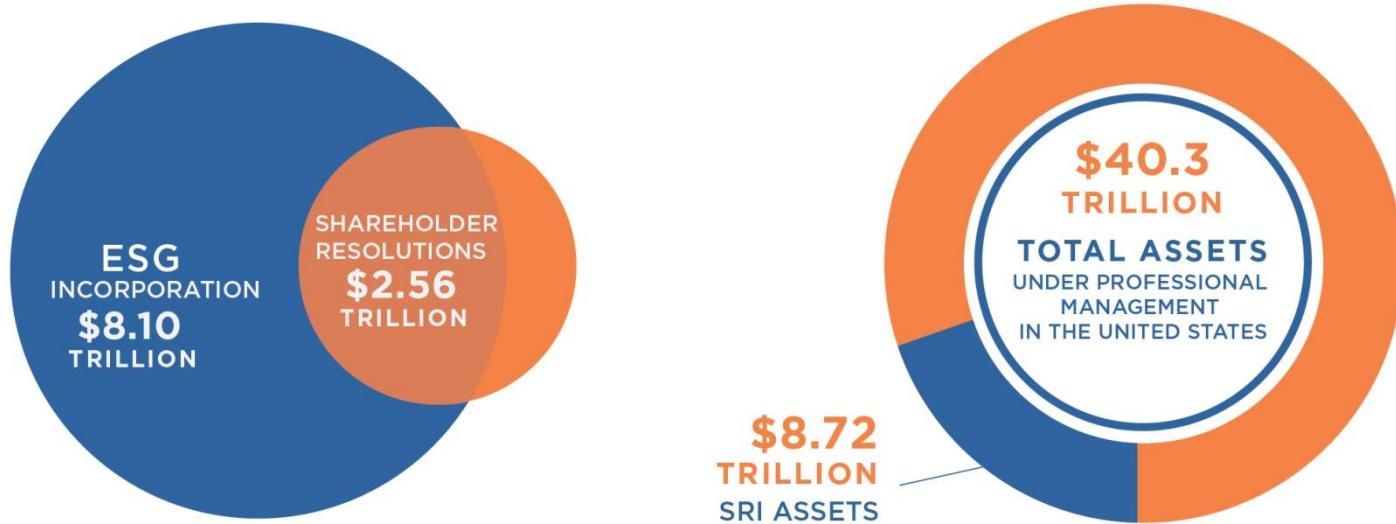
- **\$8.10 trillion** in US-domiciled assets held by 477 institutional investors, 300 money managers and 1,043 community investing institutions to which they applied **ESG criteria in investment analysis**,  
plus
- **\$2.56 trillion** in US-domiciled assets held by 225 institutional investors or money managers that filed or co-filed **shareholder resolutions** on ESG issues from 2014 through 2016,  
for
- **\$8.72 trillion** in **total net SRI assets**, after eliminating double counting for assets involved in both strategies and for assets managed by money managers on behalf of institutional investors.

US SIF Foundation, *Report on US Sustainable, Responsible and Impact Investing Trends 2016* (2016).



# The Size of the Sustainable Investing Market

SIZE OF SUSTAINABLE, RESPONSIBLE AND IMPACT (SRI) INVESTING 2016



SOURCE: US SIF FOUNDATION AND CERULLI ASSOCIATES

# The Size of the Sustainable Investing Market

SUSTAINABLE INVESTING GROWTH IN THE UNITED STATES (BILLIONS) 2005-2016

**SUSTAINABLE INVESTING GROWTH  
SINCE 2014  
33%**



SOURCE: US SIF FOUNDATION

# ESG Incorporation & Shareholder Engagement

# ESG Incorporation Strategies

ESG incorporation involves the consideration of ESG criteria into investment analysis and portfolio construction across a range of asset classes. Strategies include:

## Positive/best-in-class

- Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers. This also includes avoiding companies that do not meet certain ESG performance thresholds.

## Negative/exclusionary

- The exclusion from a fund or plan of certain sectors or companies involved in activities or industries deemed unacceptable or controversial.

## ESG integration

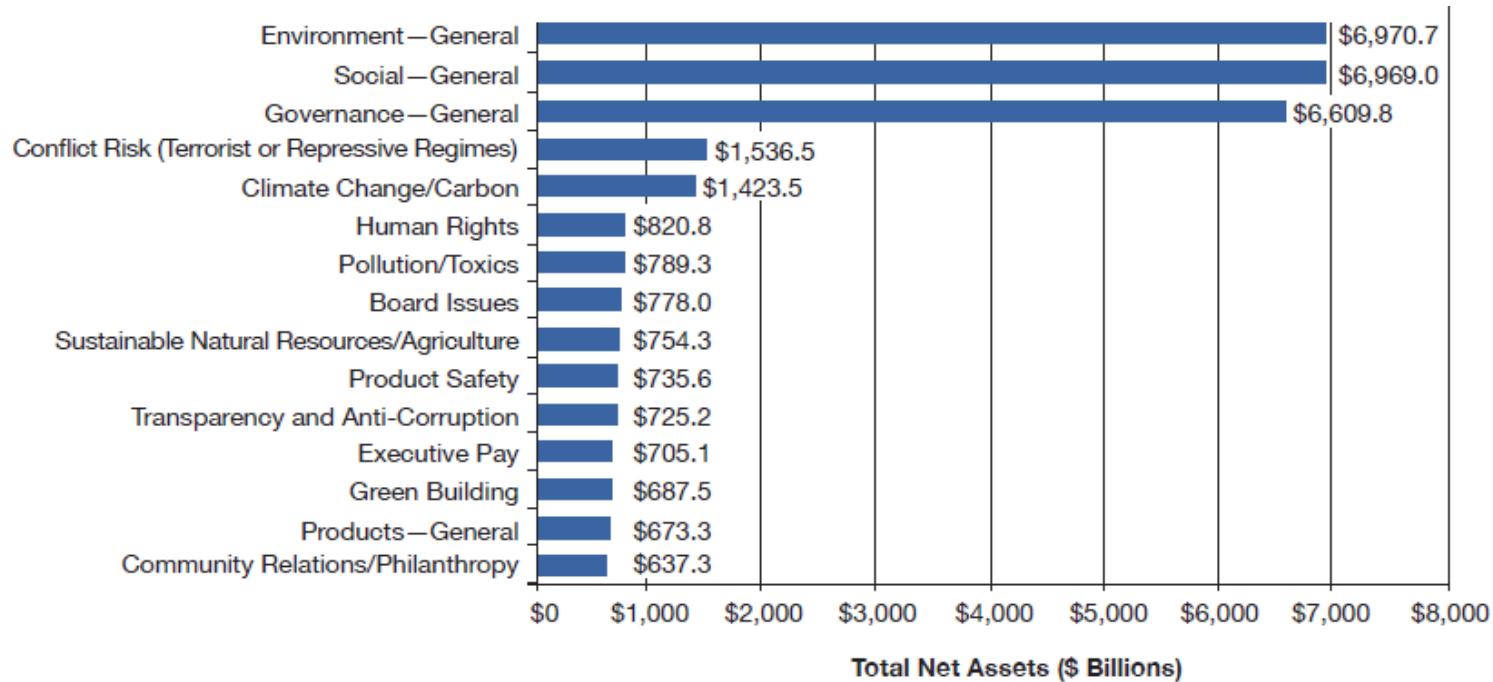
- The systematic and explicit inclusion by investment managers of ESG factors into financial analysis.

## Sustainability themed investing

- The selection of assets specifically related to sustainability in single- or multi-themed funds.

# ESG Incorporation by Money Managers

## Leading ESG Criteria, by Assets, for Money Managers 2016



SOURCE: US SIF Foundation.

NOTE: Data are aggregated across all investment vehicle types, including separate account vehicles and other/not listed.

# ESG Incorporation: Community Investing Institutions

## What is Community Investing?

- Community investing seeks explicitly to finance projects or institutions that will serve poor and underserved communities in the United States and overseas.
- While a wide range of investment vehicles fall under the banner of community investing, they all share these three characteristics:



A focus on marginalized areas or communities that conventional market activity does not reach (in practice, low-income neighborhoods or regions, communities of color, and underserved geographic regions such as rural communities).

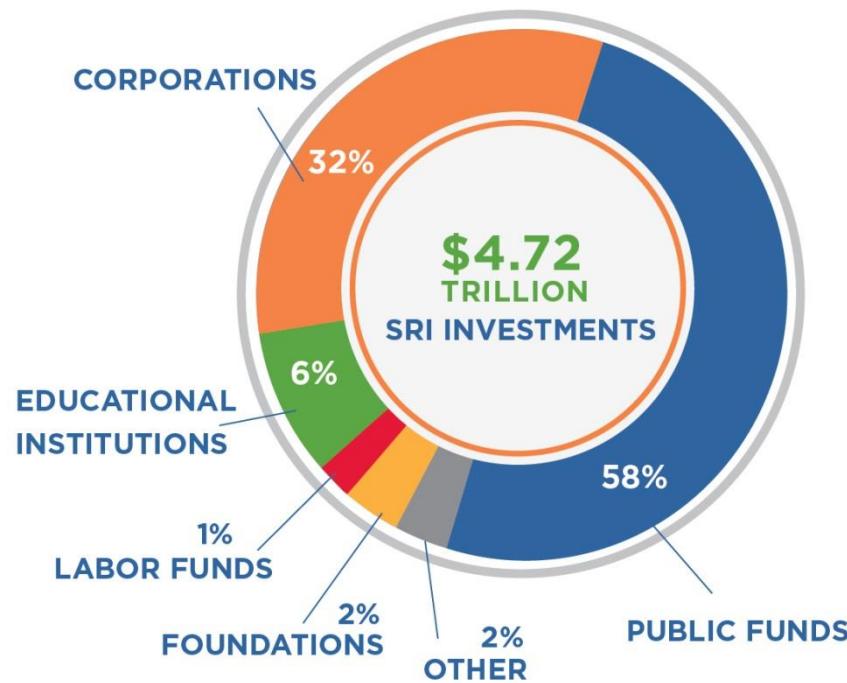
A focus on enabling the delivery of explicit social benefits (affordable housing, economic development, etc.) to those areas or communities.

A financial product available for investment that can be managed in terms of risk and return.

- Community investment vehicles can range from concessionary loans and equity investments in nonprofit community groups to market-rate investments in for-profit real estate development, among other options.

# ESG Incorporation by Institutional Asset Owners

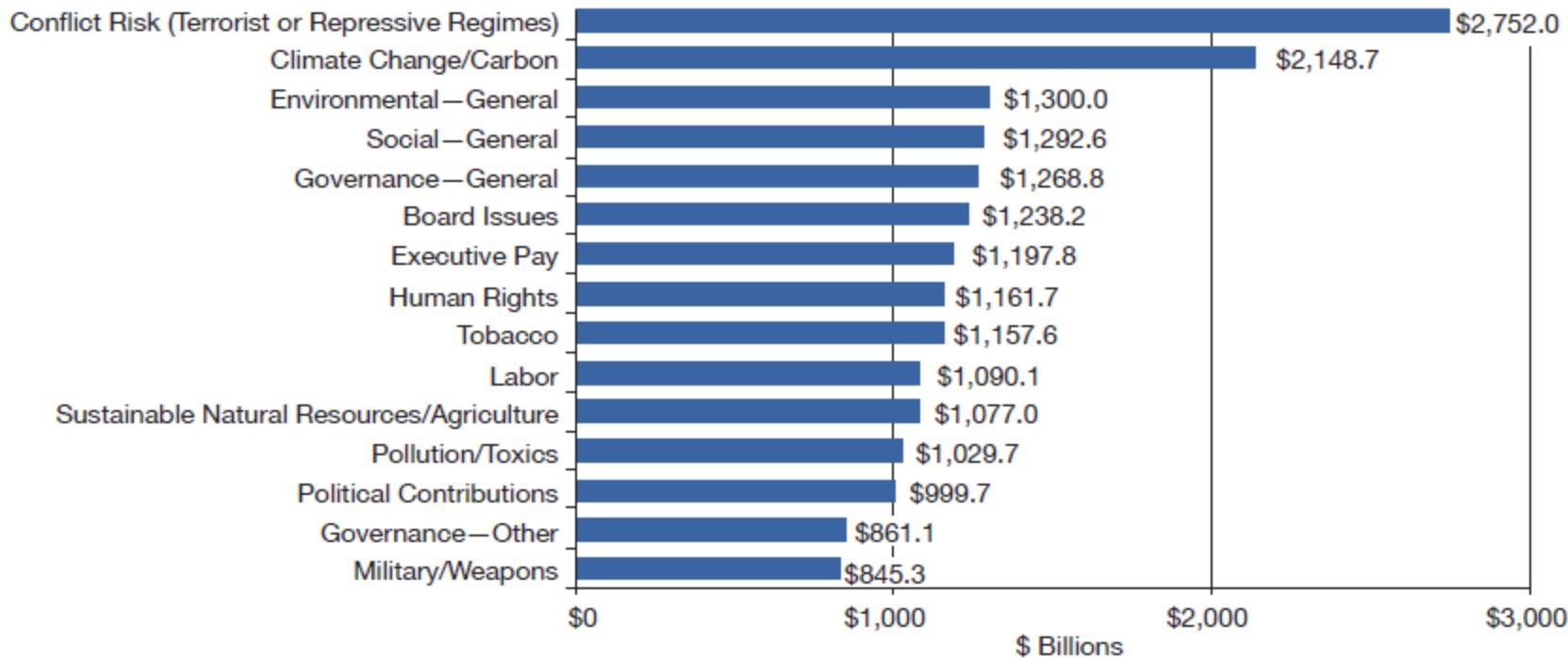
## INSTITUTIONAL INVESTORS: SHARE OF ESG ASSETS 2016



SOURCE: US SIF FOUNDATION

# ESG Incorporation by Institutional Asset Owners

## Leading ESG Criteria for Institutional Investors

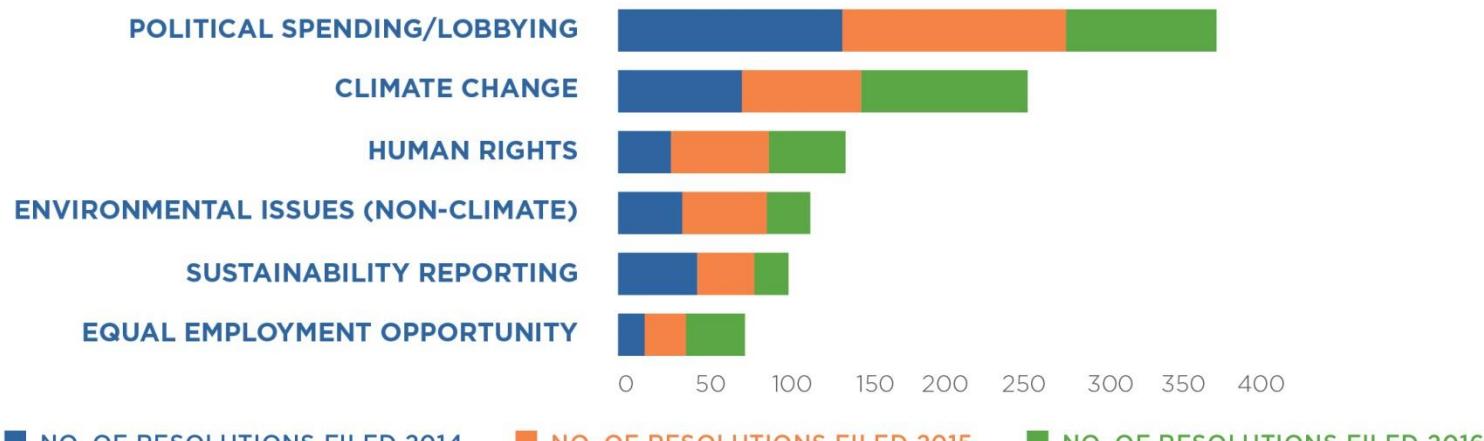


SOURCE: US SIF Foundation.

NOTE: Some institutional investors reporting that they have adopted strategies of ESG incorporation, but without specifying which specific ESG issues they consider, account for the assets in the "General" environmental, social and governance categories.

# Shareholder Engagement

## LEADING ENVIRONMENTAL AND SOCIAL ISSUES BY NUMBER OF SHAREHOLDER PROPOSALS 2014-2016



SOURCE: US SIF FOUNDATION

# Shareholder Engagement

Shareholder advocacy success stories in 2016 include:

- Proponents withdrew more than 20 proposals on **corporate political contributions and lobbying** in exchange for substantive commitments from the target companies.
- ConocoPhillips agreed to disclose **carbon asset risk** information.
- Several companies receiving requests to issue sustainability information agreed to provide reports, including Clarcor, where a **sustainability reporting** proposal earned 61% support.
- New York City was able to withdraw most of its 72 **proxy access** proposals when the companies agreed to implement proxy access.

# Opportunities in Sustainable Investing

# Opportunities in Sustainable Investing

## Demand from individual investors

A 2015 [study](#) by Morgan Stanley Institute for Sustainable Investing found high levels of interest in sustainable investing among individuals:

- **71 percent** of individual investors surveyed were interested in investing for both positive social and/or environmental impact and market-rate financial returns.
- **72 percent** believe that companies with good ESG practices can achieve higher profitability and are better long-term investments, and **45 percent** believe that sustainable companies are more innovative.
- **Millennial investors** are almost twice as likely as the overall individual investor population to opt for sustainable investments, and **female investors** are nearly twice as likely as their male counterparts to consider the sustainability impacts of investments.

# Opportunities in Sustainable Investing

## SRI and financial performance

“...investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments.” This is on both an absolute and a risk-adjusted basis, across asset classes and over time, based on its review of US-based mutual funds and separately managed accounts. “Sustainable equity mutual funds had equal or higher median returns and equal or lower volatility than traditional funds for 64 percent of the periods examined.”

**Source:** Morgan Stanley Institute for Sustainable Investing, [\*Sustainable Reality: Understanding the Performance of Sustainable Investment Strategies\*](#) (2015).

# Opportunities in Sustainable Investing

## SRI and financial performance

SRI strategies have produced comparable financial performance to non-SRI strategies or conventional instruments. See, for example:

- [Sustainable Investing and Bond Returns](#) (2016) by Barclays Research
- [Responsible Investing: Delivering Competitive Performance](#) (2016) by TIAA Global Asset Management
- [Sustainable Reality: Understanding the Performance of Sustainable Investment Strategies](#) (2015) by the Morgan Stanley Institute for Sustainable Investing
- [Introducing the Impact Investing Benchmark](#) (2015) by the Global Impact Investing Network (GIIN) and Cambridge Associates

More studies can be found here: [www.ussif.org/performance](http://www.ussif.org/performance).

# Opportunities in Sustainable Investing

## New investment options

A sampling of new options include, but are not limited to:

- **Mutual funds:** Mutual funds incorporating ESG issues have become more widely available. US SIF Foundation identified 475 ESG mutual funds in 2016 compared to 415 in 2014.
- **Fossil-fuel free investment vehicles:** Money managers have responded to growing interest from university endowments and other investors.
  - Green America, a non-profit, compiles a list of fossil-fuel free investment funds on its website.
  - As You Sow and Morningstar created Fossil Free Funds, which allows users to check if a mutual fund has fossil fuel investments.
- **Green bonds:** According to the Climate Bonds Initiative, green bond issuance increased from \$11 billion in 2013 to more than \$80 billion in 2016.
- **Gender lens investment products:** These investment products, available across asset classes, support companies and other institutions seeking to help women advance at all economic levels.

# Challenges & Recommendations

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## Challenge: The lack of rigor by some investment institutions.

- Sustainable and impact investing has grown substantially, from \$3.74 trillion in 2010 to \$8.72 trillion in 2016, a growth of 133%, yet **in some cases the practice lacks rigor and depth.**
- This is particularly prevalent with the strategy of “ESG Integration.”

# Challenges & Recommendations

## Challenge: The lack of rigor by some investment institutions.

- In 2015, US SIF Foundation produced a report, [Unlocking ESG Integration](#), focusing on 16 of the largest money managers that practice ESG integration with US-domiciled assets.
- Key Findings:
  - **Disclosure:** Only half provided full disclosure of the ESG criteria they consider in ESG integration. Four provided no information.
  - **Breadth:** In a few cases ESG integration did not appear to occur across 100 percent of an asset class even if a money manager claimed 100 percent.

# Challenges & Recommendations

## Recommendations: ESG Integration Practices

- Money managers should apply specific ESG criteria in ESG integration strategies and disclose their criteria.
- Money managers should clearly articulate whether their ESG integration practice is systematic and consistent across all affected assets or applied only ad hoc or upon request.
- To help accomplish the first two goals, investment analysts, portfolio managers, researchers, consultants and other financial professionals should take advantage of the education and training opportunities in sustainable, responsible and impact investing.

# Resources

The US SIF Foundation's Center for Sustainable Investment Education:

<http://www.ussif.org/education>

- Resources provided by the Center for Sustainable Investment Education include:
  - An introductory online course on the [\*Fundamentals of Sustainable and Responsible Investment\*](#)
  - [Fact sheets](#) on the basics of sustainable, responsible, and impact investment
  - Information on [community investing](#) for retail investors, accredited investors and asset managers
  - Thematic handbooks on how to invest to make impact on individual issue areas—[How Do I SRI?](#)
  - A breadth of high quality [research](#) including our biennial report on [US Sustainable, Responsible and Impact Investing Trends](#)

Policy  
&  
**Sustainable Investing**

# Policy & Sustainable Investing

To advance their principles and priorities on a larger scale, SRI investors advocate for public policy to advance sustainable investing.

SRI policy priorities include:

- Disclosure of corporate political contributions.
- Rulemaking carrying out the Dodd-Frank Act.
- Funding for the Community Development Financial Institutions Fund and other community investment initiatives.
- Climate change legislation and regulation, including rules to curb toxic emissions from coal- and oil-fired electric generating units.
- Mandatory ESG disclosure.
- A sustainable investment option for federal employees in the Thrift Savings Plan.

# Policy & Sustainable Investing

## Dodd-Frank Act

- In 2010, sustainable investors in the United States won an important victory with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).
- The law affected many aspects of the financial services industry and **is one of the most significant changes to the financial regulatory system in decades.**
- Since its passage, SRI investors have played a key role in engaging with the SEC to finalize many of the rules in the Dodd-Frank Act, including the creation of the Consumer Financial Services Bureau, as well as rules on pay ratio disclosure, disclosure of conflict minerals in the supply chain and requiring companies to disclose the payments they make to foreign governments or to the US government for the commercial development of oil, natural gas or minerals.

# Policy & Sustainable Investing

## Updated ERISA Guidance from the Department of Labor (DoL):

- In October 2015, the DoL rescinded a 2008 bulletin that had discouraged investors from considering environmental and social factors in the companies and funds in which they invest.
- This ruling has facilitated the ability for employers to add SRI fund options to 401K and other types of defined contribution **retirement plan choices**.
- In December 2016, the DoL rescinded a 2008 bulletin that had discouraged ERISA plan fiduciaries from exercising their **shareholder rights**.
- The new guidance notes the positive role fiduciaries play through the exercise of shareholder rights.

# US SIF Annual Conference

US SIF's 7<sup>th</sup> annual conference, *A New Climate for Investing in Impact*, will take place from May 10 – 12 in Chicago. To learn more, please visit our conference webpage: <http://bit.ly/USSIF17>.



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**A New Climate  
for Investing in Impact**

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FOUNDATION

# Thank you!

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[www.ussif.org](http://www.ussif.org)

# Questions?