US SIF
The Forum for Sustainable and Responsible Investment

April 14, 2017

Senator Mike Crapo, Chair
Senator Sherrod Brown, Ranking Member
Senate Banking Committee
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Crapo and Senator Brown:

US SIF: The Forum for Sustainable and Responsible Investment appreciates the opportunity to share seven proposals with you to increase economic growth. We are the leading voice advancing sustainable, responsible and impact investing across all asset classes. The assessment of environmental, social and governance issues in investment decisions is a key part of creating a more equitable and sustainable economy.

Our members represent more than $3 trillion in assets under management or advisement and include investment management and advisory firms, mutual fund companies, research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development organizations, non-profit associations and asset owners.

We look forward to working with you and are pleased to answer any questions you may have.

Sincerely,

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US SIF Response to Senate Banking Committee Request for Proposals to Foster Economic Growth

1. **Congress should direct the US Securities and Exchange Commission to mandate annual reporting of corporate environmental, social and governance (ESG) information, including climate change, diversity, inclusion and political contributions.**

Description: The federal securities laws administered by the US Securities and Exchange Commission (SEC) have brought a level of transparency to US public markets for over 80 years. Yet, our world has changed in that time. Investors and the public now demand transparency on a wider range of issues, including environmental, social and governance (ESG) issues such as climate change, human rights, tax, political spending and workforce matters that will determine corporate success over the long term. Nevertheless, the SEC has declined to meaningfully update its ESG disclosure requirements for decades.

Impact on economic growth: ESG issues are integrally connected to the long-term health and financial success of US companies and the US economy, and leaders from the business and investment management communities recognize this critical connection.

Concerns over the intensifying pressures on US public companies to generate short-term returns at the expense of sustainable performance over the longer term have escalated in recent years. Leaders from US business and investment management communities have acknowledged these pressures and responded by collaborating to identify strategies to focus capital on the long term. ESG issues are a cornerstone of the solutions.

For example, on July 21, 2016, a diverse group of leaders from some of the largest investment management firms and US companies—including Mary Barra, General Motors Company; Warren Buffett, Berkshire Hathaway Inc.; Jamie Dimon, JPMorgan Chase; Jeff Immelt, GE; and Lowell McAdam, Verizon—released the "Commonsense Principles of Corporate Governance" for public companies, boards and shareholders. The principles acknowledge that "the health of America's public corporations and financial markets — and public trust in both — is critical to economic growth and a better financial future for American workers, retirees and investors" and "our future depends on these companies being managed effectively for long-term prosperity, which is why the governance of American companies is so important to every American." The letter accompanying the principles noted:

> *Because well-managed and well-governed businesses are the engine of our economy, good corporate governance must be more than just a catch phrase or fad. It's an imperative – especially when it comes to our publicly owned companies. Though they account for only 5,000 of our country's 28 million businesses, our public companies are*

responsible for one-third of all private sector employment and one-half of all business capital spending, both of which ultimately drive the productivity and health of the country. To ensure their continued strength—to maintain our global competitiveness and to provide opportunities for all Americans—we think it essential that our public companies take a long-term approach to the management and governance of their business (the sort of approach you'd take if you owned 100 percent of a company).

Studies show that long-termism is critical to the financial health of companies, their shareholders, employees, communities and the US economy. A study released in August, 2016 by McKinsey Global Institute (MGI), the business and economics research arm of McKinsey & Company, analyzed 615 large and mid-cap US publicly listed companies from 2001 to 2015 and found that:

- *Long-term companies grew faster.* From 2001 to 2014, the revenue of firms focused on results over the longer term cumulatively grew on average 47 percent more than the revenue of other firms, and with less volatility. Cumulatively the earnings of long-term firms grew 36 percent more on average over this period than those of other firms, and their economic profit grew by 81 percent more on average.
- *Long-term firms invested more than other firms*. Although they started the 2001-2014 period with slightly lower research and development spending, cumulatively by 2014, long-term companies on average spent almost 50 percent more on R&D than other companies.
- *Long-term companies exhibit stronger financial performance over time*. On average, their market capitalization grew $7 billion more than that of other firms between 2001 and 2014. Their total return to shareholders was also superior, with a 50 percent greater likelihood that they would be top decile or top quartile by 2014. Although long-term firms took bigger hits to their market capitalization during the financial crisis than other firms, their share prices recovered more quickly after the crisis.
- *Long-term firms added nearly 12,000 more jobs on average than other firms*. Had all firms created as many jobs as the long-term firms, the US economy would have added more than five million additional jobs over this 2001 to 2015 period. On the basis of this potential job creation, this suggests, on a preliminary basis, that the potential value unlocked by companies taking a longer-term approach was worth more than $1 trillion in forgone US GDP over the last decade; if these trends continue, it could be worth nearly $3 trillion through 2025.

Sustainability issues are connected to long-term performance and health of US companies and the marketplace. Among the studies highlighted on US SIF's website and showing a correlation between sustainability and returns:

- Sustainable Investing and Bond Returns, a 2016 report by Barclays Research, found that "…a positive ESG tilt resulted in a small but steady performance advantage…" They did not find evidence of negative performance.
- Responsible Investing: Delivering Competitive Performance, released in 2016 by TIAA Global Asset Management, found that its "analysis of leading RI equity indexes over the long term found no statistical difference in returns compared to broad market benchmarks, suggesting the absence of any systematic performance penalty. Moreover,

incorporating environmental, social and governance (ESG) criteria in security selection did not entail additional risk. RI indexes and their broad market counterparts had similar risk profiles, based on Sharpe ratios and standard deviation measures."

- An article titled "ESG and Financial Performance: Aggregated Evidence From More Than 2,000 Empirical Studies," analyzed over 2,000 empirical studies since the 1970s—making it the most comprehensive review of academic research on this topic—and found that the majority of studies show positive findings between ESG and corporate financial performance (CFP). "The results show that the business case for ESG investing is empirically very well founded. Roughly 90 percent of studies find a nonnegative ESG–CFP relation. More importantly, the large majority of studies reports positive findings. We highlight that the positive ESG impact on CFP appears stable over time."
- From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance, a 2015 meta-study conducted by Oxford University and Arabesque Partners, categorized more than 200 sources, including academic studies, industry reports, newspaper articles and books and found that "88 percent of reviewed sources find that companies with robust sustainability practices demonstrate better operational performance, which ultimately translates into cash flows." Furthermore, "80 percent of the reviewed studies demonstrate that prudent sustainability practices have a positive influence on investment performance."
- Sustainable Reality: Understanding the Performance of Sustainable Investment Strategies, a 2015 report by the Morgan Stanley Institute for Sustainable Investing, found that "investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments."

Impact on the ability of consumers, market participants and financial companies to participate in the economy: The demand for greater transparency around ESG issues continues to increase, and US markets are not keeping pace. Efficient and well-functioning capital markets are built on the foundations of transparency, fairness and investor trust/confidence. If the United States is to maintain its position as having the best regulated and most transparent capital markets in the world, the disclosure requirements must keep pace with investor demands and expectations.

According to a Gallup poll (released April 20, 2016), 52 percent of Americans say they currently have money in the stock market—matching the lowest ownership rate in Gallup's 19-year trend. The highest ownership rate—65 percent of Americans—was reported in 2007, just before the global financial crisis. Ensuring that disclosure requirements are current is essential to attract capital to US markets and to help Americans save for dreams such as funding retirement and helping with children's college expenses.

It's clear market participants agree with the need for the US markets to continually enhance disclosure requirements. In response to the SEC's concept release on "Business and Financial Disclosures Required by Regulation S-K" ("Concept Release"): Concept Release No. 33-10064; 34-775599; File No. S7-06-16, investors overwhelmingly supported enhanced disclosures around sustainability issues. US SIF's comment letter noted that "Sustainability disclosures are material to reasonable investors. Investors are increasingly integrating environmental, social and corporate governance (ESG) information into the investment process."

And demand continues to escalate for ESG-related disclosures, as evidenced by the extraordinary growth of sustainable and impact investing. According to the US SIF Foundation's

2016 Report on US Sustainable, Responsible and Impact Investing Trends, investors now consider environmental, social and governance (ESG) factors across $8.72 trillion of US-domiciled professionally managed assets, a 33 percent increase since 2014. These assets account for more than one out of every five dollars under professional management in the United States.

This investor-driven demand is expected only to grow. According to a February 2015 study released by Morgan Stanley's Institute for Sustainable Investing, 65 percent of individual investors expect sustainable investing to become more prevalent in the next five years, and millennial investors are nearly two times more likely to invest in companies or funds that target specific social or environmental outcomes.

2. **Congress should direct the US Securities and Exchange Commission to preserve current rule 14a-8 of the Securities Exchange Act of 1934.**

Description: Rule 14a-8 of the Securities Exchange Act of 1934 has long been a cost-efficient, highly effective tool for shareholders to communicate and engage with companies and other shareholders on specific topics. The rule generally requires a company to include a shareholder-submitted proposal (maximum 500 words) in company proxy materials—provided the shareholder has complied with certain procedural requirements and the proposal doesn't fall within any of 13 substantive bases for exclusion. For decades the rule has worked well and positively influenced boardrooms, regulatory requirements and state and federal legislative initiatives. Given the success of Rule 14a-8, Congress should ensure that the SEC does not repeal or amend the rule.

Impact on economic growth: Rule 14a-8 is a highly cost-effective communications vehicle that has contributed in material ways to the health and value of US companies.

The costs of the rule are modest for companies and shareholders. For companies, the only required outlay created by Rule 14a-8 is the cost of printing the maximum 500-word proposal. For shareholders and the economy, the value of Rule 14a-8 derives from a proposal's impact on governance, risk management and business strategy.

Companies understand the importance of effective communications with investors. The "Commonsense Principles for Corporate Governance" released July 21, 2016 by a diverse group of leaders from some of the largest investment management firms and US companies—including Mary Barra, General Motors Company; Warren Buffett, Berkshire Hathaway Inc.; Jamie Dimon, JPMorgan Chase; Jeff Immelt, GE; and Lowell McAdam, Verizon—recognize that "effective governance requires constructive engagement between a company and its shareholders."

Countless issues initially raised by shareholder resolutions and, in some cases, debated for years, are now recognized as best practices. Examples include:

- Majority-independent boards, and all-independent audit, governance-nominations, and compensation committees
    - According to the Commonsense Principles, "A significant majority of the board should be independent under the New York Stock Exchange rules or similar standards."

- Majority voting for directors
    - According to the Commonsense Principles, Directors should be elected by a majority of the votes cast "for" and "against/withhold" (i.e., abstentions and non-votes should not be counted for this purpose)."
- Board diversity
    - According to the Commonsense Principles, "Directors should have complementary and diverse skill sets, backgrounds and experiences. Diversity along multiple dimensions is critical to a high-functioning board. Director candidates should be drawn from a rigorously diverse pool."
- Sustainability reporting
    - According to an EY report, "a full 95% of the Global 250 issue sustainability reports. Firms continuously seek new ways to improve performance, protect reputational assets, and win shareholder and stakeholder trust."
- Board diversity
    - Recent studies showing correlation between racial/gender diversity in board or workforce and financial performance include: Credit Suisse Research Institute, *Gender Diversity and Corporate Leadership* (2012); McKinsey & Co., Why *Diversity Matters* (2015); Morgan Stanley, *Why It Pays to Invest in Gender Diversity* (2015)

Impact on the ability of consumers, market participants and financial companies to participate in the economy: Rule 14a-8 has been a vitally important mechanism for shareholders of all types and sizes—from individual investors to the largest US pension funds and asset managers—to communicate directly with corporate boards and management and other shareholders.

Over the years, this process has led to many reforms that protect and enhance shareholder value, both at specific companies and in many cases to the benefit of the entire corporate and shareholder community. The process, along with the election of directors, is also a means to hold corporate management and the board accountable to the company's owners – the shareholders.

In addition, shareholder proposals have provided regulators and legislatures important, market-based insights on critical issues and have influenced public policy. Examples include the Financial Accounting Standards Board's requirement that companies expense stock options, and the stock exchanges' amendments to the listing requirements to require public companies to have a majority of independent directors. These are just two examples of how shareholder proposals have influenced regulations and laws.

3. Congress should assert global leadership in combating climate change.

Description: Climate change is one of the most serious threats of our time. Leadership by Congress is essential to set a healthy and sustainable economic course for the country and for future generations. Specifically Congress should:

- uphold the Paris Climate Agreement,
- resist efforts to overturn US climate regulations,
- reverse the impact of the executive order to review and potentially weaken the Clean Power Plan,

- end fossil fuel subsidies,
- incentivize investment in clean energy and
- direct the US Securities and Exchange Commission to require companies to disclose environmental and climate change risks to investors.

Impact on economic growth: Fulfilling America's commitment under the Paris Climate Agreement to reduce carbon emissions by 26-28 percent below 2005 levels by 2025 and leveraging US leadership to hold other countries to their respective commitments will unleash investment, support American ingenuity, drive innovation and foster long-term economic prosperity.

Conversely, failure by the United States to launch the global transition to a low-carbon economy will have catastrophic implications. Already, the United States is paying a high economic price from the ravages of severe drought, wildfires and storms associated with increased atmospheric levels of carbon.

Because the electrical power sector is the source of one-third of US greenhouse gas emissions and is a key part of any plan to curb emissions and address climate change, the recent executive order to weaken the Clean Power Plan is a cause of great concern. In its annual "emissions gap" report, the United Nations Environment Program (UNEP) warned that unless reductions in carbon pollution from the energy sector are reduced swiftly and steeply, it will be nearly impossible to keep warming below 2 degrees, let alone to the 1.5 degree aspirational goal set in the Paris Climate Agreement.

Ending fossil fuel subsidies is another critical step for reducing greenhouse gas emissions. These subsidies distort demand for high carbon energy and encourage its consumption when alternatives are becoming more and more competitive, efficient and reliable. According to the World Energy Outlook 2014, "fossil-fuel subsidies totaled $550 billion in 2013—more than four-times those to renewable energy—and are holding back investment in efficiency and renewables." Subsidies to fossil fuel industries not only have serious impacts on public health via environmental pollution, but they also inhibit the job creation potential of clean energy.

And clean energy means jobs. According to the Wind Energy Foundation, "Navigant Consulting projected that in the next four years, wind power is poised to deliver another 145,000 jobs and $85 billion in economic activity." National Solar Jobs Census 2016 found that: solar employment grew 20 percent annually from 2012 to 2015 and 25 percent in 2016; by November 2016, there were 260,000 solar workers; the solar industry and its workers stimulate the economy, adding $84 billion to the nation's gross domestic product (GDP) in 2016, supporting 2.03 jobs elsewhere in the economy for every one solar-related job and generating an additional $1.47 in spending for every $1 spent on solar.

Moreover, clean energy is good for the US economy. According to Business for Social Responsibility, "In the past several years, many American companies have set ambitious energy efficiency and renewable energy targets. Business has taken action because it understands the economic and environmental benefits of these steps, as well as the opportunity for innovation that the shift to low-carbon prosperity represents. The Clean Power Plan (CPP) provides a platform for these companies with reliable and resilient sources of clean energy and, in turn, generates substantial economic and public health benefits. Just 18 months ago, the US government estimated the net economic benefits of the CPP at $26-45 billion, with consumers set to save $155 billion from 2020 to 2030. In addition, the CPP provides regulatory support to the clean energy economy, which, according to the US Department of Energy's Energy and Employment Report, supported more than 3 million US jobs in 2016. The public health benefits are also significant. Research suggests the Clean Power Plan could prevent 3,600 premature deaths and more than 300,000 missed work and school days by cutting pollutants that contribute to soot and smog."

Impact on the ability of consumers, market participants and financial companies to participate in the economy: The demand for greater transparency around ESG issues in general and climate-related issues/risks in specific continues to increase, and US markets are not keeping pace. Companies face financial, physical, regulatory, reputational and legal risks as a result of climate change. However, current disclosure requirements generally do not provide the information that investors need about how companies assess and manage these risks. Congress should direct the SEC to mandate more consistent and comparable corporate disclosure around climate risks so that investors can make more fully informed, long-term investment decisions.

According to the US SIF Foundation's 2016 Report on US Sustainable, Responsible and Impact Investing Trends, environmental issues have gained increased attention among institutional investors. In 2016, the US SIF Foundation identified $2.50 trillion in assets associated with environmental criteria, more than double the $1.24 trillion identified in 2014. The survey found that climate change is a major concern for investors: money managers with $1.42 trillion in assets under management and institutional asset owners with $2.15 trillion in assets consider climate change risk in their investment analysis, more than three times the assets so affected in 2014.

Criteria related to sustainable natural resources and agriculture are the second most common environmental issue, affecting $1.08 trillion, a near tripling since 2014. Assets subject to policies on pollution and toxics criteria increased to $1.03 trillion from $508 billion. Other leading environmental criteria include green buildings and smart growth ($760 billion) and clean technology ($673 billion).

For the second time, the US SIF Foundation tracked institutional investors that divested in some way from fossil fuels, such as divesting from the largest oil, gas and coal corporations in terms of proven carbon reserves or from companies developing coal or tar sands projects. At the outset of 2016, institutional investors had adopted fossil fuel restriction or divestment policies that apply to $144 billion in assets, more than 10 times the $14 billion identified in 2014. A range of campaigns led by 350.org, Divest-Invest Philanthropy, university student groups, state lawmakers and city level grassroots organizations have moved scores of institutional investors to address this issue.

Climate issues resonate with investors and companies. Since 2016, 1,000 companies and investors have signed the Business Backs Low-Carbon USA statement affirming their deep commitment to addressing climate change through the implementation of the historic Paris Climate Agreement. The company signatories—which include DuPont, Gap Inc., General Mills, Hewlett Packard Enterprise, Hilton, HP Inc., IKEA, Johnson & Johnson, The Kellogg Company, Levi Strauss & Co., L'Oreal USA, NIKE, Mars Incorporated, Pacific Gas and Electric, Schneider Electric, Sealed Air, Starbucks, VF Corporation, and Unilever—collectively take in nearly $1.15 trillion in annual revenue, are headquartered across 44 states, and employ about 1.8 million people. The statement notes that "We want the US economy to be energy efficient and powered by low-carbon energy. Cost-effective and innovative solutions can help us achieve these objectives. Failure to build a low-carbon economy puts American prosperity at risk. But the right action now will create jobs and boost US competitiveness. We pledge to do our part, in our own operations and beyond, to realize the Paris Agreement's commitment of a global economy that limits global temperature rise to well below 2 degrees Celsius."

4. **Congress should oppose efforts to repeal or otherwise weaken The Dodd-Frank Wall Street Reform and Consumer Protection Act.**

Description: Congress should not to weaken or restrict the Act, including protecting consumers by defending the Consumer Financial Protection Bureau (CFPB).

Impact on economic growth: The global economy is still recovering from the devastation caused by the 2008 global financial crisis, which shattered the lives of too many Americans who lost their jobs, homes, nest eggs and confidence in the US markets. The Dodd-Frank Wall Street Reform and Consumer Protection Act was a necessary response to address the regulatory shortfalls that facilitated the worldwide crisis.

Hard-won experience demonstrates that any benefits of regulatory easing, if they occur, are short-term and fleeting, while the harm done to long-run economic growth and community well-being by financial exploitation is massive and lasting.

The experience of the global financial crisis demonstrates the damage done by the inadequate regulation of financial institutions and markets. The experiences of US SIF members give us direct knowledge of the devastation created by the financial crisis and the ways in which predatory lending practices can drain money out of local communities.

Based on estimates from non-partisan sources such as the Dallas Federal Reserve and the Government Accounting Office, the financial crisis cost from $6 to $14 trillion in lost economic output. These hard dollar costs don't include the profound human cost of millions of jobs lost and the millions of families who lost their homes due to foreclosure. Repealing or rolling back the Act opens the United States to the risk of a possible repeat of the crisis.

Impact on the ability of consumers, market participants and financial companies to participate in the economy: According to a Gallup poll (released April 20, 2016), 52 percent of Americans say they currently have money in the stock market—matching the lowest ownership rate in Gallup's 19-year trend. The highest ownership rate—65 percent of Americans—was reported in 2007, just before the global financial crisis. Investor confidence is a critical underpinning of investor confidence in the US markets. A rollback of regulations might further weaken investor trust and further reduce their participation in the in the US capital markets—all to the detriment of families, corporations and the US economy.

5. **The Senate Banking Committee should only consider candidates who are focused on the interests of investors and who are knowledgeable about advancing sustainability in the financial markets for SEC Chair and Commissioners.**

Description: The Senate Banking Committee confirms all appointees for SEC Commissioner and Chair, and as a result, plays a central role in shaping the culture and priorities of the agency.

The US and global capital markets continue to increase in size and complexity. The US Securities and Exchange Commission is our frontline regulator, responsible for protecting investors, maintaining fair, orderly and efficient markets and facilitating capital formation. Of the three responsibilities, investor protection must be first and foremost, since without investors, there is no capital and there are no markets.

Ensuring that the right people are appointed SEC Chair and SEC Commissioners is key. And ensuring that these appointees understand how investor needs and expectations are changing is essential.

We believe the following are important characteristics for SEC Commissioners, including the Chair, and we encourage the Senate Banking Committee to ask questions to assess each appointee's fit with these characteristics:

- Belief in the SEC's core mandate that markets function better as investor confidence improves and that part of that confidence is built on providing investors with information that they deem material;
- Committed to accountability and the rule of law and willing take the steps necessary to enforce the law and the rules;
- Uninhibited by revolving door conflicts of interest and from influence of their former or future employees or partners; and
- Knowledgeable about the consideration of environmental, social and governance factors and supportive of the shareholder engagement process.

Impact on economic growth: Regulatory effectiveness is a virtuous cycle. Strong protections and up-to-date rules addressing investor needs and expectations are critical to promote investor confidence in the markets and to facilitate efficient, liquid markets.

Certainly the costs of regulatory failures are devastating:

- A Brookings Institution study ballparked the costs of the Enron/WorldCom era of corporate scandals at "$35 billion, or 0.34 percent, off of Gross Domestic Product (GDP), in the first year….The total, which is calculated using the Federal Reserve Board's model of the US economy, represents the range of what the federal government spends per year on homeland security or the increase in the cost of oil imports from a 38 percent (or $10) increase in the per barrel price of crude oil."
- Based on estimates from non-partisan sources such as the Dallas Federal Reserve and the Government Accounting Office, the recent global financial crisis cost from $6 to $14 trillion in lost economic output. These hard dollar costs don't include the profound human cost of millions of jobs lost and the millions of families who lost their homes due to foreclosure.

Impact on the ability of consumers, market participants and financial companies to participate in the economy: According to a Gallup poll (released April 20, 2016), 52 percent of Americans say they currently have money in the stock market—matching the lowest ownership rate in Gallup's 19-year trend. The highest ownership rate—65 percent of Americans—was reported in 2007, just before the global financial crisis. Restoring confidence and trust in the marketplace is critical for companies, the capital markets and for American families, and confirming the right appointees for SEC Chair and Commissioner is critical.

6. **Congress should request the GAO to update and expand their 2005 study on "Globalization: Numerous Federal Activities Complement U.S. Business's Global Corporate Social Responsibility Efforts" and ensure that the First National Action Plan on Responsible Business Conduct is utilized.**

   Description: The last GAO report assessing the corporate social responsibility practices of the federal government and its relation to global sustainability initiatives was carried out in 2005. The GAO report found that there was no comprehensive, mandated federal role, definition, or agency coordination in global CSR. In 2016, the State Department released Responsible Business Conduct: First National Action Plan for the United States. The Plan is based on the idea that businesses can perform well while doing good and that governments should set and facilitate the conditions for responsible business conduct to take place. The Plan places particular importance on two aspects of the business-society relationship: (1) emphasizing and accentuating the positive contributions businesses can make to economic, environmental, and social progress; and (2) recognizing and avoiding possible adverse impacts of business conduct, as well as addressing them when they occur.

   Impact on economic growth: The need for more formalized federal efforts was spelled out in a 2005 Government Accountability Office report on corporate social responsibility (CSR) which found that 12 US agencies, with over 500 federal programs, policies and activities, fell into one or more of four roles of endorsing, facilitating, partnering or mandating CSR activities. The report found that "these roles range from the least government involvement—endorsing companies' voluntary efforts above and beyond compliance with laws and regulations—to the most government involvement through mandating behavior consistent with CSR." These activities were found in domestic and internationally focused programs.

   An updated GAO report looking at the federal role in CSR—including the new plan on responsible business conduct-- should be mandated by Congress so that more up-to-date information is available to Congress, federal employees and the public. Additionally, investors and companies who focus on improving their environmental and social impacts have a key role to play in accelerating sustainable economic growth. The federal government should see these actors as important economic partners. Continuing to move forward efforts on Responsible Business Conduct, per the 2016 National Action Plan, will also ensure that businesses with a long term focus, and attention to environmental and social issues, are seen as high priority partners.

   Impact on the ability of consumers, market participants and financial companies to participate in the economy: Sustainability issues are connected to long-term performance and health of US companies and the marketplace—and could very well benefit the functioning and practices of federal agencies. Among the studies demonstrating a correlation between sustainability and returns are the following:

- Sustainable Investing and Bond Returns, a 2016 report by Barclays Research, found that "…a positive ESG tilt resulted in a small but steady performance advantage…" They did not find evidence of negative performance.
- Responsible Investing: Delivering Competitive Performance, released in 2016 by TIAA Global Asset Management, found that its "analysis of leading RI equity indexes over the long term found no statistical difference in returns compared to broad market benchmarks, suggesting the absence of any systematic performance penalty. Moreover, incorporating environmental, social and governance (ESG) criteria in security selection did not entail additional risk. RI indexes and their broad market counterparts had similar risk profiles, based on Sharpe ratios and standard deviation measures."
- An article titled "ESG and Financial Performance: Aggregated Evidence From More Than 2,000 Empirical Studies," analyzed over 2,000 empirical studies since the 1970s—making it the most comprehensive review of academic research on this topic—and found that the majority of studies show positive findings between ESG and corporate financial performance (CFP). "The results show that the business case for ESG investing is empirically very well founded. Roughly 90% of studies find a nonnegative ESG–CFP relation. More importantly, the large majority of studies reports positive findings. We highlight that the positive ESG impact on CFP appears stable over time."
- From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance, a 2015 meta-study conducted by Oxford University and Arabesque Partners, categorized more than 200 sources, including academic studies, industry reports, newspaper articles and books and found that "88 percent of reviewed sources find that companies with robust sustainability practices demonstrate better operational performance, which ultimately translates into cash flows." Furthermore, "80 percent of the reviewed studies demonstrate that prudent sustainability practices have a positive influence on investment performance."
- Sustainable Reality: Understanding the Performance of Sustainable Investment Strategies, a 2015 report by the Morgan Stanley Institute for Sustainable Investing, found that "investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments

7. **Congress should urge the Board of the Federal Thrift Savings Plan (Thrift Board) to move forward with its plans to expand the investment opportunities available for federal employees and military personnel to include sustainable, responsible and impact investments.**

   Description: Choosing where to invest retirement savings is among the most powerful decisions an individual can make. Yet, millions of our military personnel and government employees who work to protect the interests of the United States do not have an option to invest their retirement savings in sustainable, responsible and impact investments.

   The Thrift Savings Plan (TSP) Enhancement Act of 2009 (P.L. 111-31, Div. B, Title I § 104) was signed into law on June 22, 2009. The law granted the Board the authority to establish a Mutual Fund Window (MFW) in addition to the Plan's current investment offerings. The board voted to move forward with the establishment of such a Mutual Fund Window in July, 2015. The Thrift Board has yet to execute its plan to offer a mutual fund window option that would include greater investment options, including potentially one or more sustainable investment options.

It's time for the Thrift Board to move forward so that federal employees may have the freedom to align their investment choices with issues they care deeply about while generating long-term retirement savings.

Impact on economic growth: Expanding the investment options available to federal employees will enable them to invest in a way consistent with their values and risk concerns.

Impact on the ability of consumers, market participants and financial companies to participate in the economy: Demand for sustainable investments continue to grow. According to the US SIF Foundation's *2016 Report on US Sustainable, Responsible and Impact Investing Trends,* investors now consider environmental, social and governance (ESG) factors across $8.72 trillion of US-domiciled professionally managed assets, a 33 percent increase since 2014. These assets account for more than one out of every five dollars under professional management in the United States.

This investor-driven demand is expected only to escalate. According to a February 2015 study released by Morgan Stanley's Institute for Sustainable Investing, 65 percent of individual investors expect sustainable investing to become more prevalent in the next five years, and millennial investors are nearly two times more likely to invest in companies or funds that target specific social or environmental outcomes.

Action by the Thrift Board is long overdue. According to US SIF statistics, at least 17 states—Alaska, California, Connecticut, Florida, Illinois, Indiana, Massachusetts, Montana, New York, Nevada, New Mexico, North Carolina, South Carolina, Tennessee, Vermont, Washington and Wisconsin—already offer their employees the option of investing retirement dollars in sustainable investment funds. Many private companies also offer these options to their employees. It's time for the Thrift Savings Plan to follow suit.