

10th EDITION

REPORT ON

# US Sustainable, Responsible and Impact Investing Trends **2014**

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investment

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governance

*companies*

environmental

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SRI

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# Reflections on Sustainable, Responsible and Impact Investing Trends, 2014

What's in a name? ESG, Ethical, Green, Impact, Mission, Responsible, Socially Responsible, Sustainable and Values are all labels that investors apply today to their strategies to consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact. While the variety of labels can sometimes be confusing, the core message is clear. A growing number of investors, institutions and financial professionals are deploying and managing capital to build a more sustainable and equitable economy.



This year's Trends Report is an exciting milestone, marking the 10th edition of the biennial report, the first of which was released in 1995. The sustainable, responsible and impact investing (SRI) industry has made significant advancements over these years, and this report has tracked its evolution and growth.

Some of the developments you will find in this report include:

- Conventional investment firms are increasingly active in creating and marketing targeted products for sustainable investors. In recent years they have launched a variety of ESG-themed funds, created new staff positions for senior sustainable investment professionals and dedicated other resources to advance the field. Today, there is no longer any “typical kind of firm” engaged in sustainable investment.
- The expansion of sustainable, responsible and impact investing is found across all asset classes. This report details, for example, the marked expansion in the issuance of “green bonds” and the continued growth in alternative investments engaged in responsible investment.
- Foundations have deepened their practice of mission investing—using a variety of strategies to create positive social impact aligned with their mission. Extensive examples are covered in the US SIF Foundation's 2014 report *Unleashing the Potential of US Foundation Endowments: Using Responsible Investment to Strengthen Endowment Oversight and Enhance Impact*.
- Two developments of note since the last *Trends* report in 2012 are the emergence of the fossil fuel divestment movement and the adoption of policies restricting investments in firearms in the wake of the Sandy Hook Elementary School shooting.
- Other emerging trends featured in this report are the perspectives of millennials on sustainable investing, investment products geared towards advancing women, crowd funding as a tool for ESG investors, and place-based investing.
- The sustainable investment community has engaged the federal legislative and executive branches of the US government as another avenue to help create the conditions for a global sustainable economy. Some of our community's work in this arena is highlighted in this report, including addressing climate change and calling for better corporate disclosure on political contributions, executive compensation, use of conflict minerals and payments to governments by extractive companies. These efforts help to create a national framework in which environmental, social and governance considerations in investing are able to become the norm.

We hope ***US Sustainable, Responsible and Impact Investing Trends 2014*** motivates you to explore this field or to expand your responsible and impact investing strategies. Please visit [www.ussif.org](http://www.ussif.org) for more information on our work.

***Lisa Woll, CEO***

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This report is provided only for informational purposes. It is drawn from surveying and sources believed reliable but may not be complete or accurate. It does not constitute investment advice. The lists and examples of investment managers and vehicles presented in this report should in no way be considered endorsements or investment solicitations.

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# Executive Summary

## US Sustainable, Responsible and Impact Investing Trends 2014

US sustainable, responsible and impact investing (SRI) has grown substantially over the past two years. The total US-domiciled assets under management using SRI strategies expanded from \$3.74 trillion at the start of 2012 to \$6.57 trillion at the start of 2014, an increase of 76 percent. These assets now account for more than one out of every six dollars under professional management in the United States.

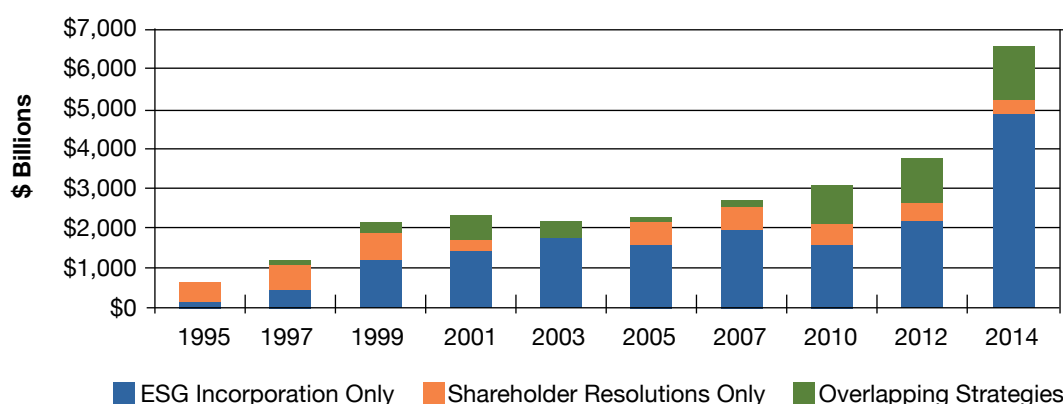
The individuals, institutions, investment companies, money managers and financial institutions that practice SRI seek to achieve long-term competitive financial returns together with positive societal impact. SRI strategies can be applied across asset classes to promote stronger corporate social responsibility, build long-term value for companies and their stakeholders, and foster businesses or introduce products that will yield community and environmental benefits.

Through information requests and research undertaken in 2014, the US SIF Foundation identified:

- \$6.20 trillion in US-domiciled assets at the beginning of 2014 held by 480 institutional investors, 308 money managers and 880 community investment institutions that apply various environmental, social and governance (ESG) criteria in their investment analysis and portfolio selection, and
- \$1.72 trillion in US-domiciled assets at the beginning of 2014 held by 202 institutional investors or money managers that filed or co-filed shareholder resolutions on ESG issues at publicly traded companies from 2012 through 2014.

After eliminating double-counting for assets involved in both strategies, the overall total of SRI assets at the beginning of 2014 was \$6.57 trillion. Throughout this report, the terms sustainable and responsible investing, sustainable investing, responsible investing, impact investing and SRI are used interchangeably to describe these investment practices.

**Fig. A: Sustainable and Responsible Investing in the United States 1995–2014**



SOURCE: US SIF Foundation.

The assets engaged in sustainable, responsible and impact investing practices at the start of 2014 represent nearly 18 percent of the \$36.8 trillion in total assets under management tracked by Cerulli Associates. From 1995, when the US SIF Foundation first measured the size of the US sustainable

and responsible investing market, to 2014, the SRI universe has increased tenfold, or 929 percent, a compound annual growth rate of 13.1 percent.

## Highlights of the 2014 Report

### ESG Incorporation

The total assets that are managed with ESG factors explicitly incorporated into investment analysis and decision-making are valued at \$6.20 trillion. Of this total, \$4.80 trillion were identified within specific investment vehicles managed by money managers or community investing institutions, while \$4.04 trillion were identified as owned or administered by institutional investors. (Of the institutional investor ESG assets, \$2.64 trillion were identified through the responses and data that money managers provided on the portion of their vehicles held by institutional clients.)

**ESG INCORPORATION BY MONEY MANAGERS AND INVESTMENT VEHICLES:** The US SIF Foundation and its research partners identified 308 money managers and 880 community investing institutions that incorporate ESG issues into their investment decision-making, with a combined \$4.80 trillion in assets under management. This is 3.4 times the corresponding figure for 2012, when money managers and community investing institutions held \$1.41 trillion in ESG assets under management.

The significant growth in these ESG assets reflects several factors. These include growing market penetration of SRI products, the development of new SRI products and the fuller integration of ESG criteria by numerous large asset managers across wider portions of their holdings. Furthermore, the past two years have seen a growing commitment on the part of institutional investors and asset managers to the Principles for Responsible Investment, a global framework for taking ESG considerations into account in investment analysis, decision-making and active ownership strategies.

The broad outlines of the ESG issues incorporated by money managers are as follows:

- Environmental investment factors are incorporated in the management of 672 investment vehicles with \$2.94 trillion in assets under management,
- Social criteria, which include Sudan-avoidance policies and community-related investment policies, are the most prominent in asset-weighted terms, incorporated in the management of \$4.27 trillion across a wide range of 770 investment vehicles,
- Governance issues are incorporated by a total of 501 investment vehicles with \$3.53 trillion in assets, and
- Product-specific criteria, such as restrictions on investment in tobacco and alcohol, are included in the management of 445 investment vehicles with \$1.76 trillion in assets.

The assets and numbers of funds incorporating ESG criteria have continued a trajectory of dramatic growth since 2007. These assets, excluding assets of separate account vehicles and community investing institutions, have increased to \$4.31 trillion in 925 distinct ESG funds in 2014, more than four times the \$1.01 trillion tracked in 2012, as shown in Figure B.

**Fig. B: Investment Funds Incorporating ESG Factors 1995–2014**

	1995	1997	1999	2001	2003	2005	2007	2010	2012	2014
Number of Funds	55	144	168	181	200	201	260	493	720	925
Total Net Assets (In Billions)	\$12	\$96	\$154	\$136	\$151	\$179	\$202	\$569	\$1,013	\$4,306

SOURCE: US SIF Foundation.

NOTE: ESG funds include mutual funds, variable annuity funds, closed-end funds, exchange-traded funds, alternative investment funds and other pooled products, but exclude separate account vehicles and community investing institutions.

## Registered Investment Companies

Among the universe of investment vehicles that incorporate ESG factors into investment management, 480 registered investment companies, including mutual funds, variable annuity funds, exchange-traded funds (ETFs) and closed-end funds, accounted for \$1.94 trillion in ESG assets. This segment of the ESG investment market has more than tripled since 2012, when the US SIF Foundation identified just \$644 billion in registered investment companies that incorporated ESG criteria.

## Alternative Investment Vehicles

The US SIF Foundation identified 336 different alternative investment vehicles—private equity and venture capital funds, responsible property funds and hedge funds—engaged in sustainable and responsible investment strategies, with a combined total of \$224 billion in assets under management.

They include a number of private equity funds focused on themes like clean technology and social enterprise, and property funds focused on themes like green building and smart growth.

## Other Investment Vehicles

- **Other Pooled Products:** The research team identified 109 other pooled products (typically commingled portfolios managed primarily for institutional investors and high-net-worth individuals) with \$2.15 trillion in assets that were invested according to ESG criteria.
- **Separate Account Vehicles:** Among separate account managers, 214 distinct separate account vehicles with \$432.9 billion in assets incorporated ESG factors into investment management.
- **Community Investing Institutions:** A total of 880 community investing institutions (CIIs), including community development banks, credit unions, loan funds and venture capital funds, collectively manage \$64.3 billion in assets. CIIs have an explicit mission of serving low- and moderate-income communities and individuals.

**ESG INCORPORATION BY INSTITUTIONAL INVESTORS:** With \$4.35 trillion in assets involved in ESG incorporation, in filing shareholder resolutions or in both strategies, institutional investors hold a substantial portion of the assets in the SRI universe documented in this report. These asset owners include educational endowments, public funds, corporate funds, faith-based investors, family offices, foundations, healthcare funds, labor union pension funds and other institutional investors.

Institutional asset owners across the United States now consider environmental, social or corporate governance criteria in investment analysis and portfolio selection for aggregate assets of \$4.04 trillion, a 77 percent increase since the start of 2012.

The leading ESG criteria that institutional investors consider are restrictions on investing in companies doing business in Sudan or in other terrorist or repressive regimes, followed by tobacco-related restrictions, general governance considerations and executive pay. This year, equal employment opportunity and diversity rose to one of the top 10 criteria for institutional investors based on the value of the assets affected.

## Shareholder Advocacy

A wide array of institutional investors—including public funds, religious investors, labor funds, foundations and endowments—and money managers file or co-file shareholder resolutions at US companies on ESG issues, and hundreds of these proposals come to votes each year. From 2012 to 2014, 175 institutional investors and 27 investment management firms with total assets of \$1.72 trillion filed or co-filed resolutions. The number of institutions and managers involved in filing shareholder resolutions has remained consistent over the past four years.

Even if they are not filing shareholder resolutions, money managers are increasingly pursuing shareholder engagement strategies on ESG issues. The US SIF Foundation identified a number of money managers that engage in dialogue with portfolio companies in order to improve the companies' ESG practices or disclosure. (In this report, the assets involved in corporate engagement efforts are not counted toward the overall total of SRI assets unless they are also involved in filing shareholder resolutions or ESG incorporation.)

**Fig. C: 2014 Sustainable and Responsible Investing Assets**

ESG Incorporation	
Money Managers and CII's	\$4,803.3
Institutional Investors	\$4,041.8
Overlapping Assets	\$(2,644.9)
<b>Subtotal</b>	<b>\$6,200.2</b>
Shareholder Advocacy	
Money Managers	\$119.4
Institutional Investors	\$1,597.1
<b>Subtotal</b>	<b>\$1,716.5</b>
Overlapping Strategies	\$(1,344.5)
<b>TOTAL</b>	<b>\$6,572.2</b>

SOURCE: US SIF Foundation.

NOTE: ESG Incorporation includes community investing institutions (CIIs). All asset values are in billions.

## Major SRI Drivers and Trends

In recent years, numerous trends have shaped the evolution and growth of SRI within US financial markets:

- Money managers increasingly are incorporating ESG factors into their investment analysis and portfolio construction, driven by the demand for ESG investing products from institutional and individual investors and by the mission and values of their management firms. Of the managers that responded to an information request about reasons for incorporating ESG, the highest percentage, 80 percent, cited client demand as their motivation.
- The growth of the Principles for Responsible Investment (PRI) and the first annual publication of the PRI's Responsible Investment Transparency Reports in summer 2014 has led to new data about money managers that engage in ESG integration (or "general" environmental, social and governance considerations) across multiple asset classes. The increasing popularity of SRI has led major money managers including Capital Group and Wellington Asset Management to expand the application of ESG factors to wider portions of their portfolios.
- Of the money managers that responded to an information request about their ESG incorporation strategies, more than half reported that they use negative screening within their funds. Others reported using strategies of positive screening, impact investing and sustainability-themed investing. Yet the incorporation strategy that affected the highest number of assets, \$4.74 trillion, was ESG integration. (See the glossary of ESG incorporation terms on the next page.)
- Following the December 2012 shooting at Sandy Hook Elementary School and growing pressure from elected officials and stakeholders, institutional investors and money managers alike have incorporated investment criteria related to military and weapons production. In the past two years, consideration of these criteria by money managers has grown nearly four-fold in asset-adjusted terms, incorporated by



292 investment vehicles representing \$588 billion in assets. Among institutional asset owners, concerns over military and weapons production now apply to \$355.1 billion in assets, a nearly five-fold increase.

- For both money managers and institutional investors, climate change remains the most significant environmental factor in terms of assets, affecting \$275.6 billion and \$551.5 billion, respectively. Fossil fuel restriction or divestment policies, tracked for the first time in 2014, accounted for \$29.4 billion in money manager assets and \$13.5 billion in institutional investor assets at the beginning of 2014. Additionally, in the past year, momentum around fossil-free investment has continued to grow in ways that this report's snapshot of the field at the beginning of 2014 does not fully reflect. Moreover, shareholders concerned about climate risk filed 72 resolutions on the subject in 2014, more than double the number in 2012, and negotiated a number of commitments from the target companies to disclose and reduce their greenhouse gas emissions.
- Place-based investing, largely by public funds directing investment into their city or state in targeted strategies, emerged as a new trend, accounting for nearly \$90 billion in assets.
- The number and proportion of shareholder proposals on social and environmental issues that receive high levels of support has been trending upward.
- In response to shareholder campaigns for better corporate governance practices, the number of US companies establishing more stringent standards for their board elections continues to grow. These companies are requiring directors to submit to annual elections and to offer their resignations if they fail to receive approval from the majority of shares voted.
- Individual and institutional investors have given overwhelming support to a rulemaking petition urging the US Securities and Exchange Commission to require companies to disclose their political spending. The SEC had received more than 1 million comments on the proposal—a record in SEC rulemaking history.

## ESG INCORPORATION STRATEGIES AND TERMS


**NEGATIVE/EXCLUSIONARY:** the exclusion from a fund or plan of certain sectors or companies based on specific ESG criteria

**ESG INTEGRATION:** the systematic and explicit inclusion by investment managers of ESG risks and opportunities into traditional financial analysis

**POSITIVE/BEST-IN-CLASS:** investment in sectors, companies or projects selected for positive ESG performance relative to industry peers

**IMPACT INVESTING:** targeted investments, typically made in private markets, aimed at solving social or environmental problems

**SUSTAINABILITY THEMED INVESTING:** the selection of assets specifically related to sustainability in single- or multi-themed funds



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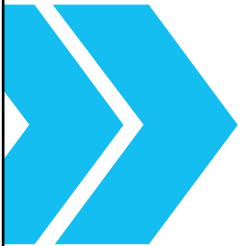
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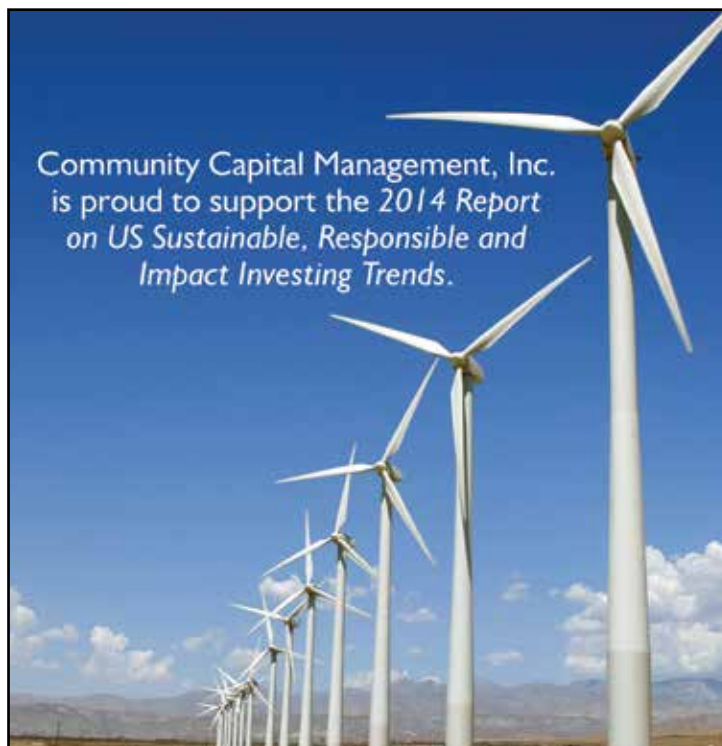


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