



2022

REPORT ON

**US SUSTAINABLE
INVESTING TRENDS**



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2022: Reflections on Sustainable Investing

The year 2022 has been an extraordinary one in the field of sustainable investing, with multiple regulatory proposals put forward as well as accusations of greenwashing and political attacks by some policy makers. At the same time, interest in sustainable investing continues to expand, and the media have never been more engaged in covering the field.

In May, the US Securities and Exchange Commission (SEC) released two proposals that focused on preventing misleading or deceptive fund names and requiring more detailed environmental, social and corporate governance (ESG) disclosure by funds and advisors. This mirrors similar developments around the globe, including in the European Union.

The SEC also released a proposal on climate change disclosure for issuers, and the US Department of Labor (DOL) released a new rule clarifying the use of ESG criteria and proxy voting in ERISA-governed retirement plans.¹

Also in 2022, the US SIF Foundation modified its methodology for the Trends report in response to the rapid growth of the field and the lack of information on the specific ESG criteria applied in firmwide ESG integration from a growing number of institutions. Our 2014 Trends report was the first time we saw ESG integration emerge as a significant strategy. We analyzed the phenomenon in our 2015 report, *Unlocking ESG Integration*, which identified the limited transparency of ESG integration practices as a challenge in the sustainable investment industry.² Soon afterward, US SIF's strategic goals included focusing on advancing best practices in the field, including greater transparency and accountability by fund managers.

Trends reports since then have further confirmed that ESG research and integration have become mainstream and are applied across trillions of dollars, but disclosure on specifics has remained limited across a large portion of these assets.

In response, our modified methodology this year required more granular information regarding the incorporation of ESG issues in order to be included in the tally of sustainable investment assets under management. This change has enabled our 2022 Trends report to provide a greater focus on the specific ESG criteria that investors have prioritized and the investment vehicles, such as mutual funds and private equity funds, that incorporate ESG criteria.

As we look ahead, final SEC and other global regulations may further affect the methodology of future Trends reports. Moreover, the expectation that our field will continue to mature was affirmed by responses to an optional question in our Trends survey asking how respondents believed sustainable investing will evolve by 2025.

¹ERISA is the Employee Retirement Income Security Act, the law that governs private retirement programs.

²For more, see the US SIF Foundation's 2015 report *Unlocking ESG Integration*: <https://www.ussif.org/files/Publications/UnlockingESGIntegration.pdf>. The report offered recommendations for money managers and the sustainable investment industry to advance robust and transparent ESG integration practices.

A sampling of responses includes:

“The industry is being forced to mature as regulators begin to pay attention. There will be a shakeout starting in 2022. Asset levels will likely move lower to a truer base of real sustainable investing and managers will have to be clear about the underlying approaches they employ.”

“...sustainable investment will become more rigorous and greenwashing will continue to be exposed. The market may actually become smaller as firms realize that a rigorous, defensible ESG approach is quite challenging.”

“US sustainable investing is under fire for reasons that have nothing to do with its impact or return results, and I hope by 2025 there is less noise.”

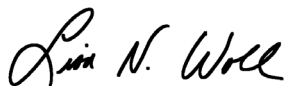
“We will see some factors that have formerly been the purview only of ESG/sustainable focused products become mainstream and expected from all asset managers across all products. We will see a new wave of innovation as the most sustainable investors continue to look for ways to push the envelope.”

“It will take a few years, but hopefully data and consistent methodology will improve over time, and greenwashing will become less of an issue.”

As covered in our 2020 Trends report, the emergence of COVID-19 and the reckoning with racial injustice in the United States reverberated in 2020 and continue to do so. This has resulted in increased interest in health, safety and fair compensation for employees as well as addressing racial injustice, diversity and inclusion, inequality and climate injustice. Notably, climate change is now the top ESG issue addressed by both asset managers and asset owners, and equal employment opportunity/diversity and health and safety rank among the top social issues considered.

I encourage you to explore this report to learn more about the themes and developments of interest to sustainable investors.

Sincerely,



Lisa Woll, CEO
US SIF and US SIF Foundation

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Acknowledgments

PUBLISHER

US SIF Foundation

PROJECT DIRECTORS

Farzana Hoque, US SIF Foundation
Joshua Humphreys, Croatan Institute

RESEARCH TEAM

Matt Aitken, Croatan Institute
Anna Aspenson, Croatan Institute
Christi Electris, Croatan Institute
Katrina Lang, Croatan Institute
Athena Owirodu, Croatan Institute
Jaime Silverstein, Croatan Institute
James Smith, Croatan Institute
Liz Umlas, Croatan Institute

RESEARCH COMMITTEE

Sarah Cleveland, Sarah Cleveland Consulting
Justin Conway, Calvert Impact Capital
Iyassu Essayas, E&I Consulting Services
Steve Falci, Impax Asset Management
Jared Fernandez, Boston Trust Walden
Linda-Eling Lee, MSCI
Mary Jane McQuillen, ClearBridge Investments
Ivy Jack, Northstar Asset Management
Pooja Khosla, Entelligent
Mamadou-Abou Sarr, V-Square Quantitative
Management
Timothy Smith, Boston Trust Walden
Diederik Timmer, Sustainalytics

DATA PROVIDERS

CDFI Fund, US Treasury Department
Calvert Impact Capital
Cerulli Associates
Croatan Institute/RAISER
Inclusiv

ISS ESG

Morningstar

Public Employee Retirement Administration
Commission (PERAC)
Sustainable Investments Institute

DATABASE AND SURVEY DEVELOPMENT

Winston Tsang, Radberry

REPORT DESIGN AND LAYOUT

Jackie Temkin, Afton Design Co.

COVER DESIGN

Bob Quast, Bob Quast Creative

SPECIAL THANKS

Eric Cohen, Investors Against Genocide
Justin Conway, Calvert Impact Capital
Natacha Dunker, PERAC
Talia Dunyak, The Lowe Group
Oscar Gonzalez, CDFI Fund
Jon Hale, Morningstar
Joseph Henzlik, ISS ESG
Sam Holmes, US SIF
Cathi Kim, Inclusiv
Joseph Lee, California Department of Insurance
Jody Lowe, The Lowe Group
Bryan McGannon, US SIF
Diederik Timmer, Sustainalytics
Meg Voorhes, Consultant
Bing Waldert, Cerulli Associates
Heidi Welsh, Sustainable Investments Institute
Lisa Woll, US SIF
Michael Young, US SIF

Executive Summary

Assets Included in this Report

This edition of the Trends report, like the 13 previous editions, tallies the assets under management (AUM) of investment professionals who use one or more strategies of ESG incorporation and/or file or co-file shareholder resolutions at publicly traded companies on environmental, social and governance (ESG) issues. ESG incorporation strategies used by investors include: ESG integration, positive/best-in-class screening, negative screening, impact investing and sustainability-themed investing.

After the 2020 Trends report, however, the US SIF Foundation decided to modify its methodology for the 2022 report. In a departure from previous editions, this report does not include the AUM of investors who stated that they practice firmwide ESG integration but did not provide information on any specific ESG criteria they used (such as biodiversity, human rights or tobacco) in their investment decision-making and portfolio construction. The US SIF Foundation committed to this approach after the 2020 Trends report found that ESG integration had become mainstream and was applied across trillions of dollars,

but with limited disclosure on specifics. This continued a phenomenon first identified in the 2014 Trends report.

The US SIF Foundation's modified methodology includes the following for ESG incorporation:

- The AUM of investors, investment vehicles (e.g., mutual funds, private equity funds, separate accounts, other commingled funds), and pools of assets with one or more **specific ESG criteria** incorporated in investment decision-making and portfolio construction.
- The AUM of **specific funds** (e.g., mutual funds, exchange-traded funds, closed-end funds) for which money managers identify ESG or sustainability as integral to their investment decision-making and portfolio construction in the fund's prospectus, even without providing specific ESG criteria.

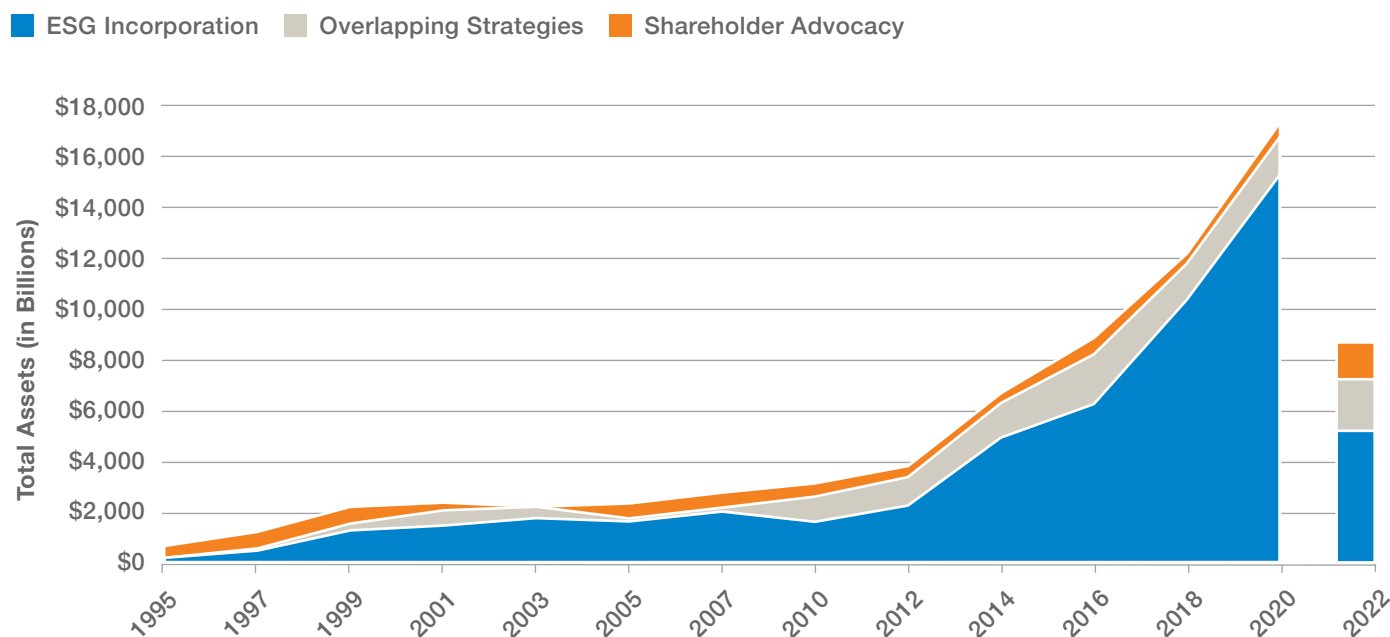
This modified methodology distinguishes between a firmwide reference to ESG integration and a fund-level ESG strategy. While the total assets of a money manager that references ESG integration across the firm without the identification

of any specific criteria are not counted in this year's report, a fund that explicitly references ESG integration as part of its investment decision-making and portfolio construction in its prospectus is included in total ESG assets under management. However, the name of a fund with "ESG," "sustainable" or similar terms was insufficient, in itself, for the fund to be included.

At the same time that respondents were reporting their data to the US SIF Foundation, the Securities and Exchange Commission (SEC) released two proposals that focused on preventing misleading or deceptive fund names and requiring more detailed ESG disclosure by funds and advisors. Trends researchers immediately began to see multiple asset managers reporting a modest to steep decline in ESG AUM as compared to their responses in 2020. The US SIF Foundation believes that these SEC proposals are motivating asset managers to be more circumspect in what they consider to be assets that incorporate ESG criteria. The organization supports the intent of the SEC proposals and submitted comments that it believes will lead to more effective rulemakings.

FIGURE A

Sustainable Investing in the United States 1995–2022



SOURCE: US SIF Foundation

NOTE: Assets under management in 2022 represent US SIF's new modified methodology.

The modified methodology, as well as the change in asset manager reporting, has resulted in the sustainable investment AUM in this report coming in significantly lower—\$8.4 trillion in 2022, compared to \$17.1 trillion in 2020 (Figure A). The \$8.4 trillion represents 12.6 percent, or one in eight dollars, of the \$66.6 trillion in total US assets under professional management.

This phenomenon is similar to what occurred in Europe after the EU's Sustainable Finance Disclosure Regulation required enhanced disclosure on sustainable investment products.

See the Methodology chapter for further details.

Overview

Through surveying and research undertaken in 2022, the US SIF Foundation identified, as shown in Figure B:

- \$7.6 trillion in US-domiciled assets at the beginning of 2022 held by 497 institutional investors, 349 money managers and 1,359 community investment institutions that practice ESG incorporation—applying various ESG criteria in their investment decision-making and portfolio selection.
- \$3.0 trillion in US-domiciled assets at the beginning of 2022 held by 224 institutional investors or money managers

that filed or co-filed shareholder resolutions on ESG issues at publicly traded companies from 2020 through 2022.

ESG Incorporation by Money Managers

Using the US SIF Foundation's modified methodology, this report identified 349 money managers and 1,359 community investment institutions incorporating ESG criteria into their investment decision-making processes across a total of \$5.6 trillion in assets under management.

FIGURE B

Sustainable Investing Assets 2022

ESG Incorporation

- By Money Managers on Behalf of Individual/Retail Investors **\$916 Billion**
- By Institutional Investors **\$6,646 Billion**

Overlapping Strategies (\$2,129 Billion)

Filing Shareholder Resolutions

- Institutional Investors **\$2,162 Billion**
- Money Managers **\$815 Billion**



ESG Incorporation

Shareholder Resolutions

Total: \$8,409 Billion

SOURCE: US SIF Foundation

Figure C provides a breakdown by investment vehicles¹:

- \$1.2 trillion—22 percent—in assets were managed through registered investment companies such as mutual funds, exchange-traded funds, variable annuities and closed-end funds.
- \$762 billion—14 percent—in assets were managed through alternative investment vehicles, such as private equity and venture capital funds, hedge funds and property funds.
- \$458 billion in assets were managed by community investing institutions.

- \$186 billion in assets were managed through other commingled funds.

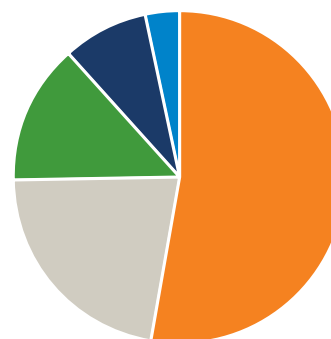
Fifty-three percent of the total assets reported by 135 money managers using specific ESG criteria could not readily be categorized by investment vehicle type, such as mutual fund or private equity fund, because those managers did not provide adequate disclosures. These “Undisclosed Investment Vehicle Assets” therefore constitute a pool of \$3 trillion in reported ESG assets under management, as shown in Figure C.

FIGURE C

Money Manager Assets, by Investment Vehicle Type, Incorporating ESG Criteria 2022

Total Net Assets (in Billions)

- Undisclosed Investment Vehicles **\$2,954**
- Registered Investment Companies **\$1,230**
- Alternative Funds **\$762**
- Community Investment Institutions **\$458**
- Other Commingled Funds **\$186**



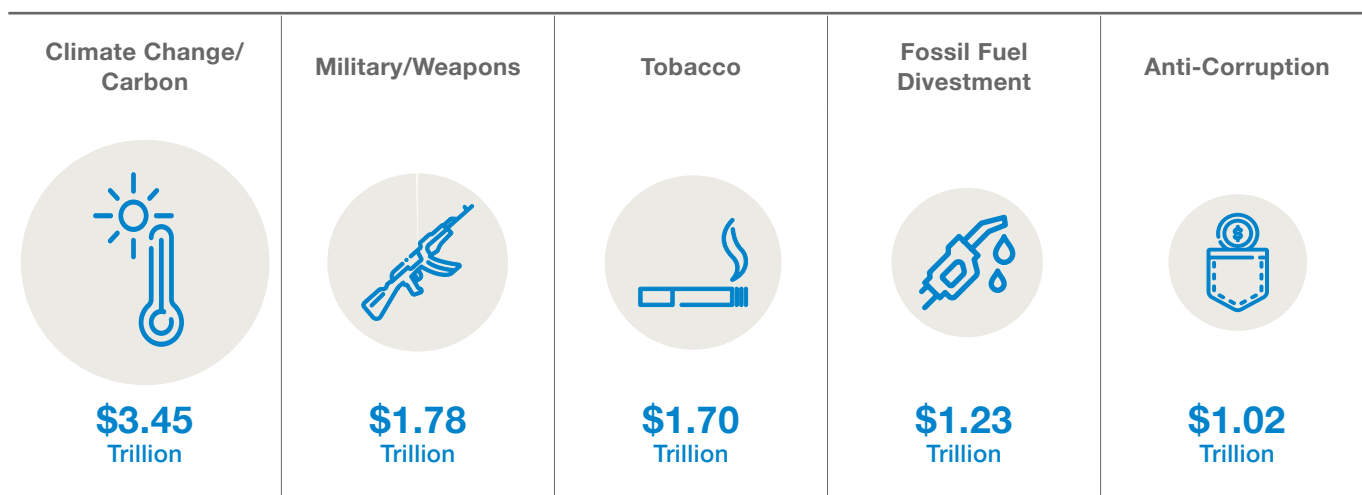
SOURCE: US SIF Foundation

NOTE: Undisclosed Investment Vehicle Assets includes separate accounts, managing \$415 billion.

¹This report provides a breakdown of money manager sustainable investment AUM by type of investment vehicle used. “Investment vehicles” refer to pooled investment products organized as registered investment companies (e.g., mutual funds and ETFs) or as private commingled funds (e.g., private equity, venture capital, and hedge funds), separately managed accounts, CDFIs and other community investment institutions.

FIGURE D

Leading ESG Criteria for Money Managers 2022



SOURCE: US SIF Foundation

Figure D shows the leading ESG criteria reported by money managers:

- **Climate change** is the most important specific ESG issue reported by money managers in asset-weighted terms, addressed across \$3.4 trillion in assets.
- In terms of other environmental criteria, money managers reported applying **fossil fuel divestment** policies across \$1.2 trillion in assets, ranking it as fourth among all specific ESG criteria.
- Avoidance of **military/weapons** and **tobacco** are ranked as second and third, affecting \$1.8 trillion and \$1.7 trillion in assets under management, respectively.
- The leading specific governance criterion is **anti-corruption**, addressed across

\$1.0 trillion, followed by **board issues** across \$926 billion in assets under management.

- **Human rights** are the most prominent social issue in asset-weighted terms, addressed across \$987 billion, followed by **equal employment opportunity (EEO)/diversity** across \$765 billion, and **health and safety** across \$701 billion in assets under management.

ESG Incorporation by Institutional Investors

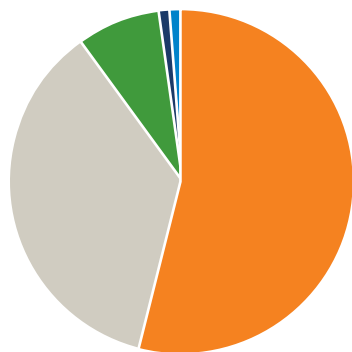
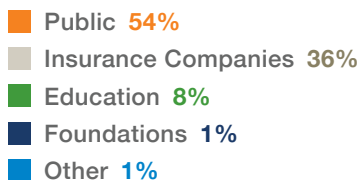
The US SIF Foundation also researched the ESG incorporation practices of institutional asset owners. Because money managers generally do not disclose confidential information about their institutional clients, the data received from our direct research of institutional

investors show how and why they incorporate ESG criteria into their investment analysis and portfolio selection. The group included institutional asset owners and plan sponsors such as public funds, insurance companies, educational institutions, philanthropic foundations, labor funds, hospitals and healthcare plans, faith-based institutions, other nonprofits and family offices.

Using the modified methodology, this report identified 497 institutional asset owners applying ESG incorporation practices across \$6.6 trillion in assets under management.

- Among the institutional investors, public funds hold the largest share of assets using ESG criteria and represent the greatest number of institutions reporting the incorporation of some form of ESG criteria in their investments. See Figure E.

FIGURE E
Institutional Investor ESG Assets, by Investor Type 2022

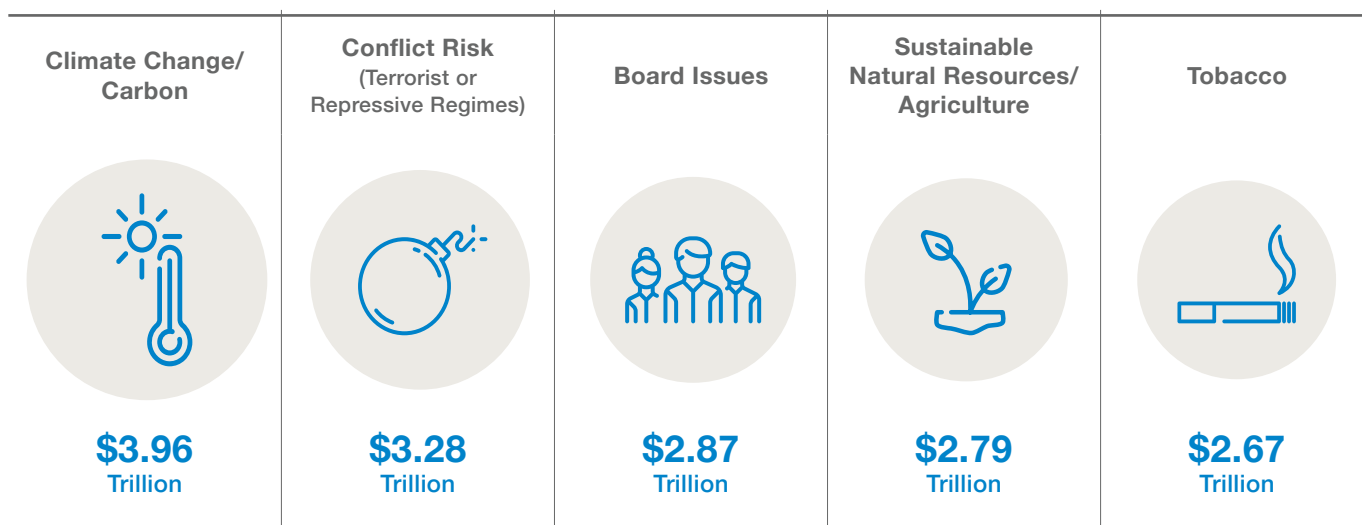


SOURCE: US SIF Foundation

NOTE: Other consists of family offices, healthcare institutions, faith-based institutions, labor funds, and other nonprofits that collectively represent around 1 percent of ESG assets in 2022.

- For the first time, institutional investors reported **climate change** as the leading ESG criterion they addressed in asset-weighted terms, affecting \$4.0 trillion. See Figure F.
- Another leading environmental issue investors considered is **sustainable natural resources and agriculture**, reflected in \$2.8 trillion in assets.
- The top social issue in asset-weighted terms is the restriction of investments in companies doing business with **conflict risk** countries, affecting \$3.3 trillion.
- Other prominent social issues are **health and safety** criteria, tracked for the first time and addressed across \$2.1 trillion, and **EEO/diversity**, affecting \$2.0 trillion.
- The top governance criterion identified for institutional investors is **board issues**, which includes the consideration of the directors' independence, diversity, pay and responsiveness to shareholders, across \$2.9 trillion.
- **Tobacco**, a sustainable investment issue for decades, affects \$2.7 trillion in institutional investor capital.

FIGURE F
Leading ESG Criteria for Institutional Investors 2022



SOURCE: US SIF Foundation

Investor Advocacy

From 2020 through the first half of 2022, 154 institutional investors and 70 investment managers collectively controlling nearly \$3.0 trillion in assets at the start of 2022 filed or co-filed shareholder resolutions on environmental, social or governance issues.

- As shown in Figure G, public funds were the leading category of investors—in asset-weighted terms—that filed shareholder resolutions during this period, accounting for 67 percent of the assets of all institutional investor

and money manager filers. However, they represented just 7 percent of the filing institutions. When the number of institutions rather than assets are considered, money managers were the leading segment filing resolutions.

- As shown in Figure H, the leading issue raised in shareholder proposals, based on the number of proposals filed from 2020 through 2022, was on ensuring fair workplace practices, and particularly on ending de facto discrimination based on ethnicity and sex. From 2020 through mid-2022, investors

filed a total of 311 proposals on these fair labor issues.

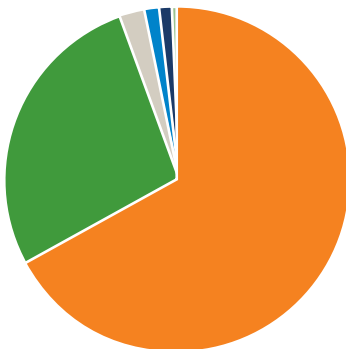
- Investors also focused on disclosure and management of corporate political spending and lobbying. Shareholders filed 288 proposals on this subject during this period. Continuing a trend of several years, many of the targets were companies that have supported trade associations that oppose regulations to curb greenhouse gas emissions.
- A surge in shareholder proposals on climate change that began in 2014 has

FIGURE G

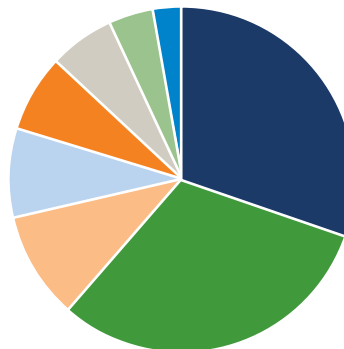
Types of Investors Filing Shareholder Proposals 2020-2022



ESG Shareholder Proponents
2020–2022, by Assets



ESG Shareholder Proponents
2020–2022, by Number

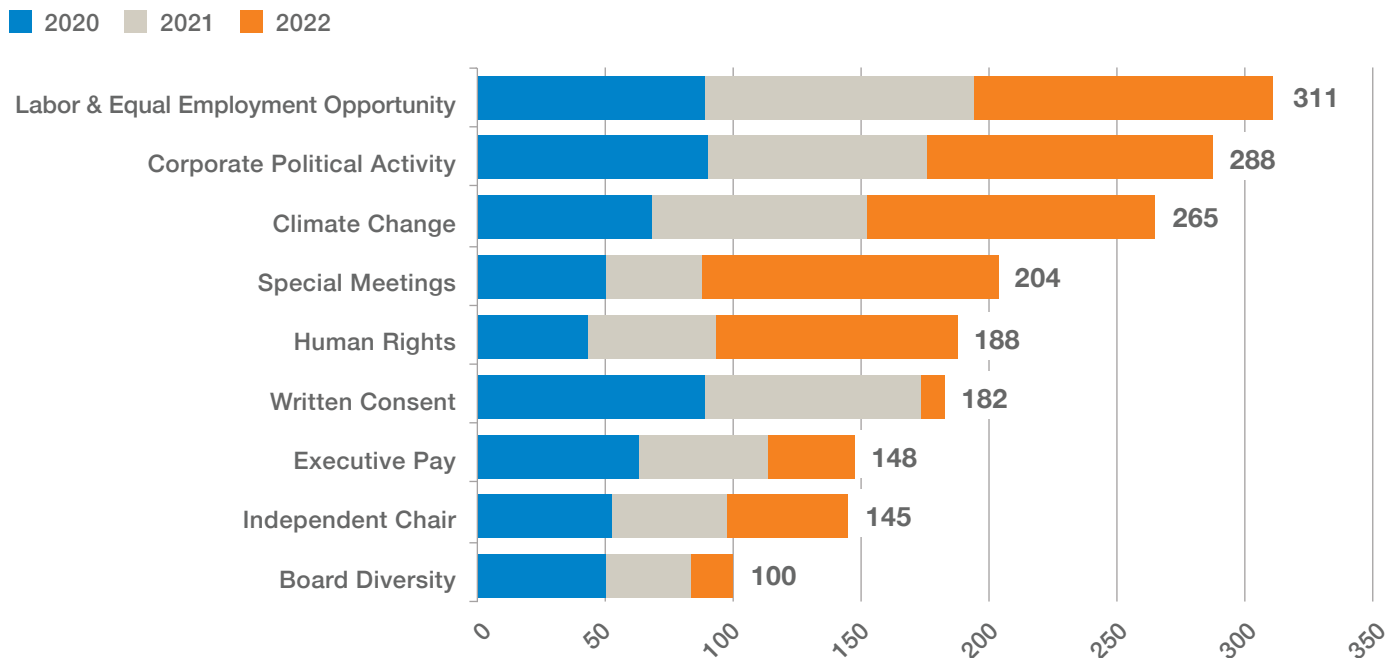


SOURCE: US SIF Foundation

NOTE: There were no shareholder filers between 2020 and 2022 for the categories of family office and education.

FIGURE H

Leading ESG Issues 2020-2022, by Number of Shareholder Proposals Filed



SOURCE: US SIF Foundation, ISS ESG, Sustainable Investments Institute

NOTE: Data for 2022 show numbers of proposals known as of June 30 to have been filed for 2022 meetings.

continued, as investors have wrestled with whether US corporations are doing enough to assess their climate risk or to meet the greenhouse gas reduction challenges laid down by the Paris Climate Accord: 265 proposals were filed from 2020 through 2022.

- The proportion of shareholder proposals on social and environmental issues that receive high levels of support has been trending upward. During the proxy seasons of 2014 through 2016, just 2 percent of shareholder proposals on environmental and social issues received

majority support. From 2017 through 2019, that proportion rose to 6 percent. From 2020 through mid-2022, 14 percent of environmental and social proposals, on average, received majority support.



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