Fundamentals of Sustainable and Responsible Investment
US SIF and US SIF Foundation

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• US SIF is the membership association for professionals, firms, institutions and organizations engaged in sustainable and responsible investing (SRI) in the United States.
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The course *Fundamentals of Sustainable and Responsible Investment* consists of four modules.

- Module I: An Overview of SRI
- Module II: SRI Portfolio Construction and Shareowner Advocacy
- Module III: Academic Studies and Trends
- Module IV: Communicating Your SRI Expertise with Clients
Module I: An Overview of SRI
SRI Overview

- SRI recognizes that corporate responsibility and societal concerns are valid parts of investment decisions. SRI considers both the investor’s financial needs and an investment’s impact on society.

- SRI has grown considerably in the United States, outpacing the broader universe of conventional investment under professional management.
Other Names for SRI

- ESG Investing
- Ethical Investing
- Green Investing
- Sustainable Investing
- Program Investing
- Impact Investing
- Mission Investing
- Responsible Investing
- Social Investing
- Triple-Bottom Line Investing
$3.74 Trillion: U.S. Sustainable & Responsible Assets in 2012

• One in nine dollars is invested using a sustainable investing approach
• SRI: One of the fastest growing approaches to investing

SOURCE: US SIF Foundation.
Common ESG Issues

Environmental:
• Climate, energy efficiency, pollution and water

Social:
• Workplace safety, labor relations, workplace benefits, diversity, community relations and human rights

Corporate governance:
• Political contributions, executive compensation, board diversity, transparency and board independence
Approaches of ESG Incorporation

• Negative/Avoidance
• Positive/Inclusion
• Full ESG Integration
• Best-in-Class
• Thematic
  • Impact
Module II: SRI Portfolio Construction
Equity Selection Process

- Establishing an Investment Universe
- Identifying Opportunities Within Industries
- Selecting Individual Securities
- Setting Sell Criteria
SRI Indexes

- Calvert Social Index
- DJSI Series
- FTSE4Good Index Series
- MSCI ESG Index Series (formerly KLD)
- Standard & Poor’s ESG Index Series
- STOXX Sustainability Index Series
Fixed Income Investments for SRI

Bonds and bond mutual funds that are suitable for SRI portfolios are readily available.

In selecting individual bonds, the steps are:

- Determine the client’s time frame and risk tolerance, financial situation and ESG preferences.
- Consider the client’s tax status and local investing goals to determine the suitability of municipal bonds.
ESG Incorporation Techniques for Fixed Income

Considerations for selecting bonds:

• Consider client preferences about inclusion/exclusion of U.S. Treasuries.

• Use similar criteria as equities for reviewing corporate bonds.

• Evaluate country ESG risk for sovereign bonds.

• Include project/agency bonds or green bonds that promote positive social and environmental outcomes.
Selecting Alternative Investments

Alternative investments include: venture capital, private equity, responsible property and hedge funds.

- The market for alternative investments appropriate for SRI investors has expanded rapidly.

- Alternative Investments incorporating ESG criteria totaled $132.3 billion at the beginning of 2012, more than tripling from the $37.8 billion identified two years earlier. (Source: Trends 2012)
Module II: Community Investing
Community Investment

Community Investors invest in specific communities and impact sectors including:

- Community Development
- International Microfinance
- Clean Technology
- Small Business
- Housing
- Health and Education
- Sustainable Agriculture
Community Investment

Cash and Short-Term Fixed Income
- Community Development Banks & Credit Unions

Fixed Income Funds/Intermediaries
- Community Development Bond Funds

Fixed Income Community Loan Funds (most for accredited investors)
- Domestic Loan Funds
- International Loan Funds / Vehicles

Alternative Investments (Accredited Investors Only)
- Community Development Venture Capital Funds
- Real Estate Development Funds
- Private Equity: timber, farmland, or conservation
- Private Debt or Equity in social enterprises
Module II: ESG Analysis
ESG in Financial Modeling

- Higher projected resource costs identified
- Cash flow projections decreased
- Projected stock value adjusted lower
- Off balance liabilities from climate change identified
- Discount rate increased
- Projected stock value adjusted lower

*Source: Framework provided by Sustainalytics*
Sources of ESG Information

Primary sources:
- In-house ESG research capabilities
- Dedicated ESG research firms such as:
  - MSCI/KLD
  - Sustainalytics
  - GMI Ratings
  - EIRIS
  - IW Financial
  - Bloomberg
Module II: Shareowner Advocacy
Active Shareowners

- Active investors are reaching out to engage companies regarding policy and behavior on specific ESG issues.
  - Voting proxies
  - Writing letters
  - Engaging in dialogue with management and/or boards of companies
  - Sponsoring shareholder resolutions
- Occasionally the company management responds to the issue raised and the resolution is withdrawn.
- Dialogue can continue for months and years.
Active Shareowners

**Proxy Voting:** As authorized, SRI advisors work with their clients to vote proxies according to the clients’ ESG guidelines.

**Filing or Co-filing of Shareowner Resolutions:**
- Hold at least $2,000 in stock
- Held for a minimum of 1 year prior to the filing deadline
- Shares must be held until the annual meeting
- The Securities and Exchange Commission has rules allowing exclusion of proposals on matters of personal grievance, operations constituting less than five percent of revenue, and matters pertaining to “ordinary business”
- Resolutions may be (and are often) withdrawn in exchange for companies taking action
- Resolutions must receive 3% of the votes in the first year to be included in the following year’s proxy vote
Module III: Academic Studies and Trends
SRI Studies and Reports

Performance

• *Sustainable Investing, Establishing Long Term Value and Performance*, Deutsche Bank Group Climate Change Advisors, June 2012
• *Shedding Light on Responsible Investment: Approaches, Returns and Impacts*, Mercer, November 2009

Role of Fiduciary Standards

• Department of Labor Letter to Calvert Funds, 1998
• fi360 Fiduciary Practices, 2006, 2011 and 2013

Defined Contribution Plans

Module IV: Communicating Your SRI Expertise With Clients
Who are SRI Investors?

SRI investors include:

• Accredited/non-accredited investors
• Mission-driven organizations
• Faith-based organizations
• Companies (B corp., etc.)
• Retirement plan sponsors/participants
• Millennial investors
Who are SRI Investors?

Let’s take a look at some of the motivations for SRI investors.

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<thead>
<tr>
<th>Values Driven</th>
<th>Motivations for SRI Investors</th>
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<tbody>
<tr>
<td>Care about how their holdings match their beliefs.</td>
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<tr>
<th>Impact Seeking</th>
<th>Motivations for SRI Investors</th>
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<tr>
<td>Want to ensure that their investments have measurable social and environmental impact alongside a financial return.</td>
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<tr>
<th>Performance Seeking</th>
<th>Motivations for SRI Investors</th>
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<tr>
<td>Desire that ESG factors are considered to find the best risk or return opportunities.</td>
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Many investors have a combination of these motives.

*Source: This framework is provided by Trillium Asset Management.*
Specific Messages that Work

Messages about the benefits of sustainable and responsible investing help advisors to connect with potential clients.

- ESG analysis can assist in uncovering additional investment opportunities and hidden risks.

- Investments are assessed for their potential for financial return as well as their impact on critical environmental, social and governance issues.

- Clients have the ability to invest in products that help in underserved communities (community investing).

- Clients engage in shareholder advocacy, leading to important improvements in companies.

- One in nine dollars in the U.S. is invested through SRI strategies.
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For any questions, contact:

Terry Thornton  
(202) 872-5347  
tthornton@ussif.org