US SIF

The Forum for Sustainable and Responsible Investment

Frequently Asked Questions

1. How does US SIF define sustainable investing?

Sustainable investing refers to a range of strategies through which investors include environmental, social and corporate governance (ESG) criteria in investment decisions. Investors may also participate in engagement with management on ESG issues. Examples of ESG criteria are climate change, labor relations and board diversity.

There are several motivations for practicing sustainable investing. Individual investors might be driven by personal values and goals while institutional investors might be guided by their mission. Financial advisors and asset managers will want to respond to the demands of clients, constituents or plan participants.

Many other terms are used to describe sustainable investing, e.g., responsible investing, ethical investing, green investing, ESG investing or impact investing. While these terms are sometimes used synonymously, it is recommended to ask about the objectives, underlying strategies and ESG criteria of financial products.

2. What are the different sustainable investment strategies?

US SIF distinguishes between two broad types of strategies: ESG incorporation and engagement with company management on ESG issues

ESG incorporation strategies generally fall into one or multiple of the below categories:

- **Positive/best-in-class screening**: 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 screening**: The exclusion from a fund or strategy of certain sectors or companies involved in activities deemed unacceptable or controversial.
- **ESG integration**: The systematic and explicit inclusion by investment managers of ESG factors into financial analysis.
- **Impact investing**: Targeted investments aimed at solving social or environmental problems.
- **Sustainability themed investing**: The selection of assets specifically related to sustainability in single- or multi-themed funds, e.g., a renewable energy fund.

Note: these strategies are not mutually exclusive and can be used jointly.

The degree to which investors and asset managers use ESG criteria can vary widely, even if they apply a similar strategy. The choice of ESG criteria and the importance attributed to each one can also diverge from one investor/asset manager to another.

Investor engagement consists of the actions investors take to present their concerns to a company. Investors engage by:

- Filing or co-filing shareholder resolutions on ESG issues. Shareholders in publicly traded companies are entitled to file shareholder resolutions, or proposals, with companies to be voted on by shareholders at annual meetings. These resolutions may pertain to company policies and procedures, corporate governance or issues of social or environmental concern. Shareholder resolutions are a meaningful way to encourage corporate responsibility and discourage company practices that are unsustainable or unethical. A shareholder resolution does not need to win a majority of the shares voted to succeed in persuading management to adopt some or all of the requested changes.
- Communicating directly with companies (issuers) through letters, meetings or investor networks and asking questions regarding companies' ESG policies, other issues that could pose a risk to the business, information disclosures or company practices.
- Voting proxies on ESG concerns. Each year, companies seek votes from shareholders on items pending on their annual proxy statements, including approval of their boards of directors. The proxy system is often the principal means for shareowners to weigh in on important issues.

Investors and asset managers may pursue both ESG incorporation strategies and investor engagement. These, too, are not mutually exclusive approaches and can be used together.

3. Do sustainable investors sacrifice returns by considering ESG issues?

There is a growing body of evidence that shows that investing using ESG criteria leads to similar, if not better, financial results. See: www.ussif.org/performance.

Some investors, predominantly mission-oriented institutional investors and high-net worth individuals, might choose to seek more impact in exchange for concessionary financial returns.

4. How is the impact of investments measured?

Impact measurement standards and capabilities vary across asset classes, making the availability of impact data uneven. Moreover, how much an investment can contribute to generating a positive impact and to what degree that impact can be attributed to the investment, will also vary across asset classes and investment products.

An example of an impact measurement framework used predominantly in private markets is the Impact Management Project. Its framework utilizes five dimensions of impact and provides the ability to communicate on impact to diverse stakeholders. More information can be found here.

5. How do I get started/how can investors learn more?

Interested individuals and organizations can learn more by taking one of US SIF's courses on sustainable investing. These courses are geared both for retail investors and financial professionals. Additionally, US SIF has published guides for retail investors, institutional asset owners, financial advisors and money managers.

Contacting a financial advisor who specializes in sustainable investing could help investors get started. US SIF's Financial Directory lists financial planners, advisors and brokers offering sustainable investing services.

For more information, visit US SIF's Sustainable Investment Basics webpage.

6. Does sustainable investing reduce risk in a portfolio?

Asset managers use ESG criteria for many reasons but reducing long-term risk is one of the primary ones. Multiple research reports have found that incorporating ESG into investments strategies can reduce portfolio risks.

Many organizations have mapped the material impact of ESG factors across industries. Here is an example from the Sustainable Accounting Standards Board (SASB): SASB Materiality Map

7. Can sustainable investors achieve change through investments alone? What role do policy makers play?

It depends on the size of the problem that requires change, on the type of solution offered and on the investors' strategies. A very small and local problem, e.g., the absence of a recycling facility, might be easily solvable through investments. Larger scale and systemic issues, such as climate change or wealth inequality are not as easily solvable through investments and individual action or policy alone. They require collective and concerted action at all levels.

8. What is the *Trends Report* and what are you measuring?

The US SIF Foundation's biennial *Report on US Sustainable Investing Trends* is a snapshot of the sustainable investing market at the end of a two-year period. The report captures the dollar value of assets under professional management across all asset classes for which sustainable investing strategies are applied. It also provides details on the ESG criteria applied by type of investor (such as private equity fund manager, educational institution, philanthropic foundation, etc.). The US SIF Foundation has published the Trends report since 1995.

The 2022 *Trends Report* identified **$8.4 trillion** in US-domiciled assets under management (AUM) as of year-end 2021 using sustainable investing strategies. Learn more here.