US SIF

The Forum for Sustainable and Responsible Investment

Frequently Asked Questions

1. How does US SIF define sustainable investing?

Sustainable investing is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact. 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 the corresponding financial products. As is true for other financial products, the devil is in the details.

2. What are the different sustainable investment strategies?

US SIF distinguishes between two broad types of strategies: ESG incorporation and filing shareholder resolutions.

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 to influence their selection of assets 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.

Shareholders in publicly traded companies are entitled to file **shareholder resolutions**, or proposals, to the company management to be voted on in the next annual meeting. These resolutions may pertain to company policies and procedures, corporate governance or issues of social or environmental concern. Shareholder resolutions are a meaningful way for shareholders 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.

Investors and asset managers may pursue a strategy that involves both ESG incorporation strategies and filing shareholder resolutions. These, too, are not mutually exclusive approaches and can be used jointly.

3. **What does investor engagement (advocacy/proxy voting) look like in practice?**

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

- Communicating directly with issuers through letters, meetings or investor networks and asking questions regarding companies' ESG policies, issues that could pose a risk to the business, information disclosures or company practices. These engagements often take place behind closed doors.
- Filing or co-filing shareholder resolutions on ESG issues, as the shareholders of publicly traded companies.
- Voting proxies in a manner that advances ESG issues. 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.

Investor engagement can be applied in parallel to one or multiple ESG incorporation strategies.

4. **Do sustainable investors sacrifice returns for investing with their values?**

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

5. **Why have sustainable investment assets grown so much?**

There are multiple reasons for the growth in sustainable investment assets:

1. For money managers, minimizing risk and addressing client demand are the driving factors behind an increased uptake of sustainable investing practices.

2. For institutional investors, fulfilling missions as well as pursuing social or environmental objectives are the top motivations leading to the application of sustainable investing strategies.
3. For individual investors, multiple factors come to play:
    - Growing concerns about specific ESG issues such as racial justice, inequality, climate change, pollution, corruption, etc.
    - A greater availability of investment products that factor in ESG criteria.
    - A growing number of studies finding that sustainable investments often outperform conventional investments.

6. 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.

Investors can check whether their investments have had an impact by asking themselves: "Would this change (in people's lives, in the state of the environment, in a company's operations, etc.) have occurred without my investment?" If the answer is no, they can confidently claim that their investment had an impact.

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.

7. 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. Additionally, US SIF has published guides for retail investors, institutional asset owners, financial advisors and money managers.

Additionally, speaking with a financial advisor specialized in sustainable investing could help investors get started. US SIF's Financial Directory lists financial planners, advisors and brokers offering sustainable investing services.

8. Is ESG investing a way to reduce risk in a portfolio?

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

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

9. 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. Much larger issues, so called "wicked problems", such as climate change or systemic inequalities are not as easily solvable through investments, individual action or policy alone. They require collective and concerted action at all levels.

10. 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 given year. 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.