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2010 Report on Socially Responsible Investing Trends in the United States

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Research Director
Meg Voorhes, Social Investment Forum

Project Director
Joshua Humphreys, Tellus Institute

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David Wood, Initiative for Responsible Investment, Harvard University

Contributors
Peter DeSimone, Social Investment Forum
Melody Meyer, Global Impact Investing Network
Saurabh Narain, National Community Investment Fund
David Wood, Initiative for Responsible Investment, Harvard University

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Design and Layout
Jennifer Thuillier, Twee-A Graphic Design

Research Team
Christi Electris, Tellus Institute
Rachel Johnson, Tellus Institute
Caroline Peri, Tellus Institute
Kate Robinson, Tellus Institute

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Laura Berry, Interfaith Center on Corporate Responsibility
Greg Bischak, CDFI Fund
Carol Bowie, ISS
Jonathon Carrington, Social Investment Forum
Rafael Castro, PREVI
Lauren Compere, Boston Common Asset Management
Peter DeSimone, Social Investment Forum
Kristin Lang, Social Investment Forum
Mike Lombardo, Calvert Investments
Carolyn Mathiasen, ISS
Rob McGarrah, AFL-CIO Office of Investment
Sylvia Panek, Social Investment Forum
Dan Pedrotty, AFL-CIO Office of Investment
Cliff Rosenthal, National Federation of Community Development Credit Unions
Joseph Schmidt, National Community Investment Fund
Cheryl Smith, Trillium Asset Management
Melanie Stern, National Federation of Community Development Credit Unions
Amol Titus, IndonesiaWise
Heidi Welsh, Sustainable Investments Institute
Lisa Woll, Social Investment Forum

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Executive Summary

2010 Report on Socially Responsible Investing Trends in the United States

Overview

Sustainable and socially responsible investing (SRI) in the United States has continued to grow at a faster pace than the broader universe of conventional investment assets under professional management. At the start of 2010, professionally managed assets following SRI strategies stood at $3.07 trillion, a rise of more than 380 percent from $639 billion in 1995, the year of the Social Investment Forum Foundation's first Trends Report. Over the same period, the broader universe of assets under professional management increased only 260 percent from $7 trillion to $25.2 trillion. During the most recent financial crisis, from 2007 to 2010, the overall universe of professionally managed assets has remained roughly flat while SRI assets, as documented in this report, have enjoyed healthy growth.

Highlights of the 2010 Report

Market Share and Growth of Socially Responsible Investing Assets

The 2010 Trends Report has identified $3.07 trillion in total assets under professional management in the United States that use at least one of three socially responsible investing strategies:

- the incorporation of environmental, social and governance (ESG) factors into investment analysis and portfolio construction,
- the filing or co-filing of shareholder resolutions on ESG issues, and
- deposits or investments in banks, credit unions, venture capital funds and loan funds that have a specific mission of community investing.

In the last several years, the pool of assets engaged in SRI strategies has grown more rapidly than the overall investment universe due to a number of factors, including net inflows into existing SRI products, the development of new SRI products and the adoption of SRI strategies by managers and institutions not previously involved in the field. Since 2005, SRI assets have increased more than 34 percent while the broader universe of professionally managed assets has increased only 3 percent. From the start of 2007 to the opening of 2010, a three-year period when broad market indices such as the S&P 500 declined and the broader universe of professionally managed assets increased less than 1 percent, assets involved in sustainable and socially responsible investing increased more than 13 percent.

As a result of this growth, nearly one out of every eight dollars under professional management in the United States today—12.2 percent of the $25.2 trillion in total assets under management tracked by Thomson Reuters Nelson—is involved in some strategy of socially responsible investing.

ESG Incorporation

The total assets managed under policies that explicitly incorporate ESG criteria into investment analysis and portfolio construction (ESG assets) are valued at $2.51 trillion. Of these ESG assets, $691.9 billion were identified within specific investment vehicles managed by money managers, while at least $2.03 trillion were identified as owned or administered by institutional investors. Of the institutional ESG assets, $206.3 billion were managed through investment vehicles captured in research on money managers.

ESG Incorporation by Money Managers and Investment Vehicles

The assets and numbers of investment vehicles tracked that incorporate ESG criteria rose sharply since the last study conducted in 2007. These assets, excluding the assets of separate account vehicles, increased 182 percent from $202 billion to $569 billion. The number of funds that incorporate ESG factors rose 90 percent from 260 to 493.

Fig. A: Investment Funds Incorporating ESG Factors 1995–2010

	1995	1997	1999	2001	2003	2005	2007	2010
Number of Funds	55	144	168	181	200	201	260	493
Total Net Assets (In Billions)	$12	$96	$154	$136	$151	$179	$202	$569

SOURCE: Social Investment Forum Foundation

NOTE: ESG funds include mutual funds, annuity funds, closed-end funds, exchange-traded funds (ETFs), alternative investment funds and other pooled products, but exclude separate account vehicles.

US-registered investment companies: Among the broader universe of investment vehicles that incorporate ESG factors into investment management, registered investment companies accounted for $320.3 billion, invested through 281 funds. Registered investment companies consist of mutual funds (including those underlying annuity products), exchange-traded funds (ETFs) and closed-end funds.

Mutual funds: The largest share of funds that incorporate ESG factors are mutual funds, with $316.1 billion in total assets invested in 250 different funds. Of these ESG mutual funds, 27—with $176.9 billion in assets—underlay annuity products.

Exchange-traded funds: Twenty-six ETFs with $4.0 billion in total assets were identified as incorporating ESG criteria. Although ETFs accounted for only 1 percent of the total assets of all ESG investment vehicles, their assets have grown 225 percent since 2007, the fastest of all registered investment vehicles.

Closed-end funds: Five closed-end funds with assets of $202 million were tracked as incorporating ESG criteria.

Alternative investment funds: The Social Investment Forum Foundation was able to identify 177 alternative investment vehicles that incorporated ESG criteria with $37.8 billion in total assets. Alternative investment vehicles include hedge funds, social venture capital and double- and triple-bottom-line private equity funds and responsible property funds, typically organized as unregistered limited partnerships or limited liability companies and available only to accredited institutional and high-net-worth investors. The number of alternative investment vehicles incorporating ESG criteria increased 285 percent since 2007, faster than any other segment of ESG vehicles, while their assets increased 613 percent. Environmental investing criteria related to clean technology and renewable energy and community impact are leading investment themes in alternative asset classes.

Other pooled products: Thirty-five other pooled products with $211.4 billion in assets, typically commingled portfolios managed primarily for institutional investors and high-net-worth individuals, were invested according to ESG criteria.

Separate account vehicles: Among separate account managers, 232 distinctive separate-account vehicles or strategies, with $122.4 billion in assets, incorporated ESG factors into investment analysis.

Institutional Investors

With $2.3 trillion in assets involved in SRI strategies, institutional investors dominate the SRI universe documented in this report. Of this overall universe of institutional assets engaged in SRI strategies:

- $2.03 trillion incorporate ESG factors into investment analysis and portfolio selection,
- $858.8 billion is controlled by institutions that file or co-file shareholder resolutions on ESG issues, and
- $586.2 billion was identified as involved in multiple strategies of ESG incorporation, shareholder advocacy or community investing.

Shareholder Advocacy

A wide array of investors now files or co-files shareholder resolutions at US companies on ESG issues, and hundreds of these proposals come to votes each year. From 2008 through 2010, more than 200 institutions—including public funds, labor funds, religious investors, foundations and endowments—and investment management firms filed or co-filed proposals. These institutions and money managers collectively controlled $1.5 trillion in assets at the end of 2009.

Community Investing

Assets in community investing institutions rose more than 60 percent from $25.0 billion in 2007 to $41.7 billion at the start of 2010, reflecting healthy growth in all four categories of community investing institutions that the Social Investment Forum Foundation has tracked since 1999: community development banks, community development credit unions, community development loan funds and community development venture capital funds.

Fig. B: Socially Responsible Investing in the United States 1995–2010

(In Billions)	1995	1997	1999	2001	2003	2005	2007	2010
ESG Incorporation	$162	$529	$1,497	$2,010	$2,143	$1,685	$2,098	**$2,512**
Shareholder Advocacy	$473	$736	$922	$897	$448	$703	$739	**$1,497**
Community Investing	$4	$4	$5	$8	$14	$20	$25	**$41.7**
Overlapping Strategies	N/A	($84)	($265)	($592)	($441)	($117)	($151)	**($981.18)**
Total	**$639**	**$1,185**	**$2,159**	**$2,323**	**$2,164**	**$2,290**	**$2,711**	**$3,069**

SOURCE: Social Investment Forum Foundation
NOTE: Overlapping assets involved in some combination of ESG incorporation, filing shareholder resolutions or community investing are subtracted to avoid potential effects of double counting. Separate tracking of the overlapping strategies only began in 1997, so there is no datum for 1995.
Prior to 2010, assets subject to ESG incorporation were limited to socially and environmentally screened assets.

Major Drivers In SRI Growth

Over the past decade, SRI growth within US financial markets has been shaped by numerous trends:

- Money managers are increasingly incorporating ESG factors into their investment analysis, decision-making and portfolio construction, awakening to the demand for ESG investing products and services from institutional and individual investors. Of the managers that responded to survey questions on their reasons for incorporating ESG criteria into investment management, more (85 percent) cited client demand than any other reason.
- Institutions—particularly public funds—are incorporating ESG criteria in part because of legislative mandates. Among the institutions that responded to survey questions about why they incorporated ESG factors into their investments, more (52 percent) cited regulation or legislation than any other reason.

- Increasing numbers of institutional investors and money managers are addressing the crisis in the Sudan, whether through targeted divestment or active engagement with companies exposed to the risks of doing business in such a volatile, repressive regime. Indeed, Sudan-related investment policies have displaced tobacco as the most prevalent ESG criteria incorporated into investment management, affecting more than $1.3 trillion in institutional assets and nearly $450 billion across all investment vehicles included in the money manager phase of research.

- New products and fund styles are driving growth in ESG investment vehicles, especially among ETFs and alternative investment funds such as social venture capital, double- and triple-bottom-line private equity and responsible property funds.

- Environmentally themed investment products and services are rapidly emerging to meet growing investor desire to manage environmental risks and seize opportunities in clean and green technology, alternative and renewable energy, green building and responsible property development, and other environmentally driven businesses.

- Regulatory developments as well as the rise of various investor services have encouraged investors to take a more thoughtful approach to proxy voting. It is no longer uncommon for shareholder proposals on governance issues to receive majority support, or for shareholder proposals on social and environmental proposals to win the support of 30 percent or more of the shares voted.

- Several legislative and regulatory developments in 2009 and 2010 have set higher standards for corporate disclosure on ESG issues and could help make corporate managements and boards more accountable to shareholders and other stakeholders.

- A growing number of institutional investors and money managers are joining investor networks not only to coordinate their work on shareholder resolutions but also to advance their shareholder advocacy through public statements and other policy initiatives.

- The growth in community investing—as measured by the assets of community development depository institutions—has been fueled in large part by consumer demand. Community banks have grown rapidly by meeting the pent-up demand of communities previously underserved by mainstream banks. Community development credit unions have benefited from increased membership, assets and deposits from consumers dissatisfied with mainstream banks that had raised fees or cut back on credit when the recent US recession unfolded.

- A second factor in community investing institutions' asset growth has been the capital they have received as US Treasury programs stepped up assistance to community development financial institutions in 2009 as part of economic stimulus and recovery programs.

- In addition, a number of campaigns, touting such concepts as "program-related investing" and "impact investing" have helped to increase awareness among foundations, other institutional investors and high-net-worth individuals of the high social impact associated with community investing strategies.

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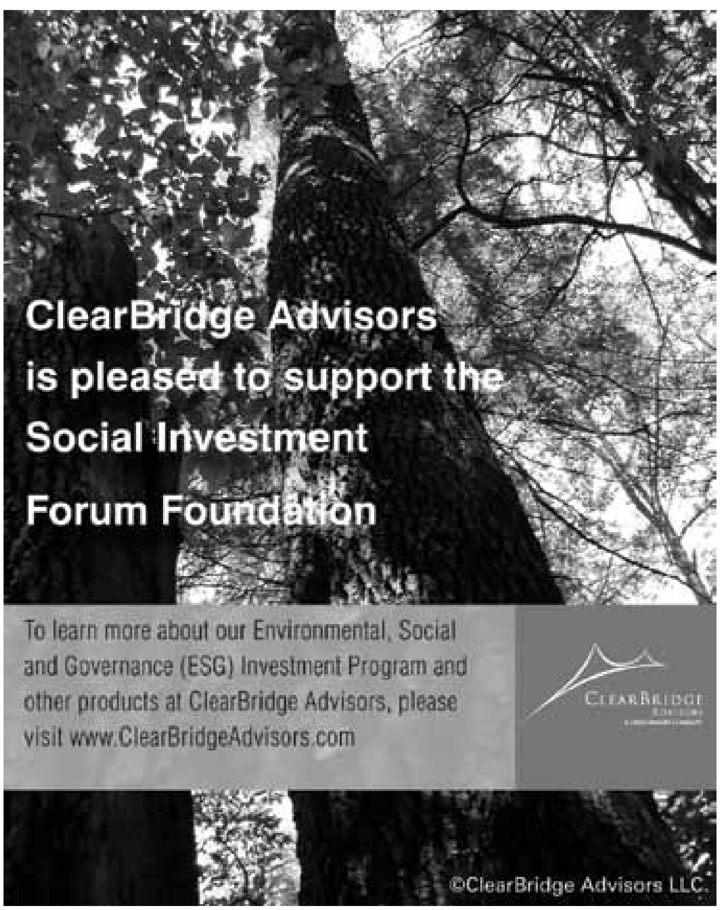

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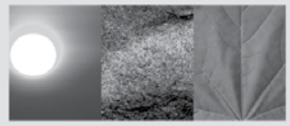

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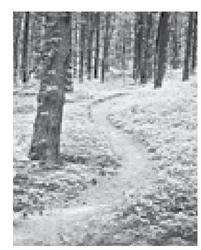

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