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Investments in alternative asset classes such as private equity and real estate have long played a vital role in the history and development of sustainable and responsible investing (SRI). In recent years, the market of alternative investment funds engaged in sustainable and responsible investing has expanded rapidly. At the outset of 2011, $80.9 billion was invested in 375 alternative investment funds incorporating environmental, social and governance (ESG) criteria. This represents a 15.9 percent growth in combined assets since the beginning of 2010, when 346 alternative investment funds managed a combined total of $69.8 billion. Moreover, because not all alternative asset managers were willing to disclose their funds' assets under management for this report, these asset tallies are almost certainly underestimates of the market's true size.

The alternative funds tracked in this report span the asset classes of private equity and venture capital funds, property investment funds and hedge funds, and they utilize a broad range of approaches to ESG criteria and themes.

**Private Equity and Venture Capital Funds:** Private equity and venture capital funds led the field of ESG alternative investment vehicles numerically with 233 distinct funds in 2011, or 62 percent of total funds tracked. In asset-weighted terms, however, private equity and venture funds are the second largest of the three types of investment vehicles studied, with $33.9 billion in combined assets under management, or 41.9 percent of the ESG alternative investment market.

**Property and Real Estate Investment Funds:** Property and real estate funds managed 54 percent of total assets tracked in 2011, with a combined $44.3 billion under management in 95 distinct funds.

**Hedge Funds:** In 2011, 47 hedge funds were identified with a total of $2.6 billion under management. Representing just 3.2 percent of total assets tracked and 12.5 percent of funds numerically, hedge funds are the smallest group of ESG alternative investment vehicles.

**Trends:** Environmental criteria were predominant among ESG alternative investment funds in both numerical and asset-weighted terms, with $68.9 billion of total assets incorporating an environmental theme. Environmental criteria were followed by social criteria, which are considered by funds with $48.8 billion of the assets studied, and then by governance criteria, which affected $37.5 billion. This illustrates the significant overlap in ESG criteria within alternative investment funds. In 2011, 73 percent of the alternative funds in this survey incorporated multiple ESG criteria in fund management.

**Outlook:** The growth of the ESG alternative investment market is being supported by an ecosystem of investor networks, field-building organizations and groups working to develop reliable metrics to evaluate the social and environmental returns of these funds.

The rapid progress of these organizations, and the impressive market growth from 2010 to 2011 documented in this report, indicate that investor demand for sustainable alternative investment vehicles is on the rise.
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