FAQs

US SIF Foundation's *2012 Report on Sustainable and Responsible Investing Trends in the United States*

<u>2012 Trends Report: Background and Methodology</u>

Q: What is the Trends Report?

A: The ***2012 Report on Sustainable and Responsible Investing Trends in the United States*** is the definitive overview of the institutions, organizations and money managers that practice sustainable and responsible investing (SRI), an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate both long-term competitive financial returns and positive societal impact.

Q: Who publishes Trends?

A: The publisher of the Trends Report is the US SIF Foundation, the public education and research arm of US SIF: The Forum for Sustainable and Responsible Investment.

Q: How long has the US SIF Foundation been releasing Trends?

A: This is the US SIF Foundation's ninth edition of the Trends Report. The US SIF Foundation, formerly the Social Investment Forum Foundation, has been measuring sustainable and responsible investing in the United States since 1995.

Q: Who is surveyed for the Trends Report?

A: The Foundation surveyed institutional investors, money managers and community investing institutions that consider environmental, social and corporate governance (ESG) criteria when making investments, as well as institutions and money managers that file shareholder resolutions on these issues.

Q: When did the US SIF Foundation conduct survey research for the 2012 Trends Report?

A: The US SIF Foundation conducted the survey from late April through July 2012. The research team also collected additional data from public and third-party sources.

Q: How many institutions, organizations and money managers were surveyed?

A: The US SIF Foundation sent a confidential, personalized survey link to approximately 1,100 investment management firms and institutional asset owners identified in previous surveys as practicing SRI strategies or believed to be new entrants to SRI practice.

Q: What questions did you ask on the survey?

A: Survey recipients were asked whether they considered ESG issues in investment analysis and portfolio selection. If they did consider ESG issues when investing, they were asked to list the issues they considered and to report the value of the US-domiciled assets affected as of December 31, 2011.

They were also asked to report their total US-domiciled assets as of year-end 2011 and whether they filed shareholder resolutions or engaged in other shareholder engagement activities.

Q: Who conducted the research for the Trends Report? Did the US SIF Foundation have any partners to help cull through the data?

A: The US SIF Foundation conducted the research for this report in collaboration with the Tellus Institute. Tellus conducted the data analysis once the research was gathered. Josh Humphreys and Ann Solomon of the Tellus Institute are co-authors of the report, along with Meg Voorhes of the US SIF Foundation.

<u>2012 Trends Report: Findings</u>

Q: What are the main findings from the Trends Report?

A: Sustainable and responsible investing continues to grow rapidly. The report found that more than one out of every nine dollars under professional management in the United States is invested according to SRI strategies.

Specifically:

- $3.31 trillion in US-domiciled assets was held by 443 institutional investors, 272 money managers and 1,000-plus community investing institutions that select or analyze their portfolios using various ESG criteria.

- $1.54 trillion in US-domiciled assets was held by more than 200 institutional investors or money managers that filed or co-filed through shareholder resolutions on ESG issues from 2010 through 2012.

Q: What are other key findings from this 2012 report?

A: Concerns about avoiding investments in repressive regimes continue to be the leading ESG issue, in terms of the assets affected, for both institutional asset owners and money managers.

The incorporation of governance criteria has become increasingly important for institutional investors and money managers alike. Governance-related criteria affect $913.8 billion in institutional investor capital and are incorporated across 346 investment vehicles with combined assets of $623.3 billion. The most prevalent governance criteria considered in investment analysis and portfolio construction include executive pay, board issues, political contributions and broader policies on corporate governance.

In addition, the number of mutual funds considering ESG criteria—particularly governance and avoidance of repressive regimes—has shown dramatic growth in the last two years. The number and assets of private equity, property and other alternative investment funds considering ESG criteria have also grown substantially.

Q: Are all the investments tracked in public equities?

A: No. The Trends report measures SRI strategies across a range of asset classes. Alternative investments have become one of the most dynamic segments within the ESG investing space. Although still a relatively small slice of the overall ESG fund universe, the number of alternative investment vehicles has grown more rapidly than any other type of funds tracked. These vehicles include social venture capital, double or triple bottom line private equity, hedge funds and property funds. An estimated $132 billion in capital was identified under the management of 301 alternative investment vehicles. We also tracked the assets in community investing institutions such as community development banks, credit unions and loan funds.

Q: How has the growth in US SRI assets in recent years compared with the growth of the overall US investment universe?

A: Over the last 17 years, the assets engaged in SRI strategies have grown not only in absolute terms, but in relation to the larger universe of professionally managed assets. From 1995 to 2012, sustainable and responsible investing has grown at a compound annual rate of 11 percent, or 1.24 percentage points faster than all professionally managed investment assets in the United States. In cumulative terms, the SRI universe has increased 486 percent from 1995 to 2012, while the broader universe of assets under professional management in the United States, according to estimates from Thomson Reuters Nelson, has grown 376 percent, from $7 trillion in 1995 to $33.3 trillion in 2012.

US SRI assets at year-end 2011 were 22 percent higher than at year-end 2009, and 38 percent higher than at year-end 2006. In comparison, overall US assets under management at year-end 2011 were 32 percent higher than at year-end 2009, and 33 percent higher than at year-end 2006.

Q: What is new in this year's report?

A: The US SIF Foundation undertook more robust surveying and research by developing an online database and survey tool that facilitated wide circulation and participation by both institutional investors and money managers and provided for greater precision in survey responses. These included:

- an expanded list of community-related criteria for money managers and institutional investors to select, such as affordable housing, microenterprise and fair consumer lending, to describe their investment activities and strategies.
- a more precise list of environmental criteria, including climate change and carbon emissions, clean technology, green building and/or smart growth, pollution and toxics, sustainable natural resources and agriculture and/or other environmental issues.
- a more precise list of corporate governance criteria, including board issues, executive pay and corporate political contributions.

In addition, outreach to and inclusion of managers of alternative investment vehicles, such as hedge funds, private equity and venture capital funds, as well as property funds was greatly expanded.

Q: How does the amount of money invested through SRI strategies compare to the amount invested through conventional investing strategies?

A: The amount of money invested through SRI strategies amounts to 11.2 percent or more than one out of every nine dollars under professional management in the United States.

Q: Why have community banks and credit union assets grown so much? What does this mean for local communities?

A: A major part of the growth can be explained by the increase in the number of banks—from 62 to 88—that have gained certification from the US CDFI Fund as community development financial institutions. The assets of community development banks certified as CDFIs account for almost half of the total community investing institution assets identified for this report. Additionally, community development credit unions have won new members and accounts over the last two years, in part because of "Move Your Money" campaigns, created to motivate investors to move money from large financial institutions tarnished by the recent financial crisis. The number of community development loan funds certified as CDFIs has also grown in the last two years.

Q: Has the increase of shareholder advocacy led to companies changing their policies?

A: Shareholder advocates can point to a number of areas where they have made a difference. In the last several years, a growing proportion of S&P 500 companies have separated the positions of CEO and board chair, a governance reform that many investors have sought. Many companies have agreed to report more broadly and precisely on various sustainability issues in response to shareholder resolutions. These are just two examples. There are many others.

Q: Why are there more mutual funds that incorporate ESG factors into investment management than there were in 2010?

A: Part of the increase is explained by a major mutual fund family that has started reviewing its portfolio companies on governance issues and has adopted a policy to avoid companies doing business in the Sudan because of that country's poor human rights record.

Q: Based on this edition of the Trends Report, what does the outlook of SRI look like?

A: Throughout the survey and data-gathering phase for this report, the US SIF Foundation identified many investors, including recent signatories to the Principles for Responsible Investment, that are beginning to develop their in-house capabilities to analyze ESG criteria or are privately reaching out to companies to discuss issues such as executive pay or climate change. These practices, while noteworthy, technically did not meet the test to be included in the measure of assets for this study. Nonetheless, these developments speak to the potential for further growth in the US sustainable and responsible investing market.

Background on Sustainable and Responsible Investing (SRI)

Q: What is SRI?

A: Sustainable and responsible investing (SRI) is an investing approach that considers both the investor's financial needs and an investment's impact on society. Additionally, SRI investors encourage corporations to improve their practices on environmental, social, and governance (ESG) issues.

Q: What are SRI investing strategies?

A: SRI investors focus on either or both of two strategies:

- Considering ESG issues when investing/creating a portfolio, including community investing; and/or
- Filing shareholder resolutions and practicing other forms of shareholder engagement.

Q: Who invests using SRI strategies?

A: SRI strategies are utilized by individuals, organizations, foundations and institutions that want to both generate long-term competitive financial returns and have a positive impact on the environment and society.

Q: Is this type of investing worth it? Do investors see the same returns as they would with conventional investing?

A: A growing body of academic research shows a strong, positive link between ESG criteria and financial performance. It is increasingly common for managers to consider ESG criteria in order to have better financial performance over the long term and to reduce their risk.

Background on US SIF

Q: What is US SIF?

A: US SIF: The Forum for Sustainable and Responsible Investment is the national nonprofit membership association for the sustainable and responsible investment industry.

US SIF –formerly the Social Investment Forum (SIF) –and its members advance investment practices that consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact.

US SIF's members include investment management and advisory firms, mutual fund companies, research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development organizations, non-profit associations, pension funds, foundations and other asset owners.

Our vision is a world in which investment capital helps build a sustainable and equitable economy.

Q: What is the US SIF Foundation?

A: The US SIF Foundation is the public education and research arm of US SIF. The US SIF Foundation is responsible for the ***2012 Report on Sustainable and Responsible Investing Trends in the United States***.