

11th EDITION

REPORT ON

US Sustainable, Responsible and Impact Investing Trends 2016

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Reflections on Sustainable, Responsible and Impact Investing in 2016

The demand for sustainable and impact investing is growing—investors now consider environmental, social and governance (ESG) factors across \$8.72 trillion of professionally managed assets, a 33 percent increase since 2014.



Money managers and institutional investors are scrutinizing an array of concerns—including climate change, weapons production, human rights and corporate political spending and lobbying—across a broader span of assets than in 2014. A diverse group of investors is seeking to achieve positive impacts through such strategies as corporate engagement or investing with an emphasis on community, sustainability or the advancement of women.

The market size of sustainable, responsible and impact investing in the United States in 2016 is **\$8.72 trillion**, or **one-fifth** of all investment under professional management.

Client demand is one of the major drivers for money managers that introduce products that take ESG factors into account. Indeed, evidence of the growing interest in sustainable investing is the recent launch of services that issue ratings for thousands of mutual funds and exchange traded funds on the ESG profiles of their portfolio companies. A number of organizations are also assessing mutual funds and other investment firms on how they are voting their shares on ESG issues, and whether the voting policies are consistent with their professed ESG concerns. Meanwhile, a major policy win took place in October 2015, when the US Department of Labor issued a bulletin that facilitates the ability of private sector employers to add SRI fund options to retirement plans.

As the field grows, some growing pains are to be expected. A continuing concern first identified in the 2014 *Trends* report is the significant growth of ESG assets for which limited information is disclosed. Increasing numbers of money managers report that they incorporate ESG factors, but do not disclose the specific criteria used (such as clean technology and labor issues).

As US SIF and the US SIF Foundation noted in our *2016–2018 Strategic Plan*, there is an opportunity to enhance the rigor of the field. We aim to provide the education and research that will help bring new entrants

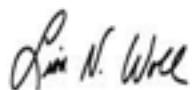
Through the US SIF Foundation survey process, money managers and institutional investors could select up to **32 criteria**, divided into environmental, social, governance and product-related categories. They also had an option to specify any additional ESG criteria they considered.

to the field, point practitioners and other stakeholders to best practices and provide a forum for professionals to engage and learn from one another.

It is our hope that *US Sustainable, Responsible and Impact Investing Trends 2016* provides our readers with an expansive understanding of sustainable, responsible and impact investing as it exists today and inspires you to join us in taking this important work forward.

Please visit www.ussif.org for more information on our work.

Sincerely,

A handwritten signature in black ink, appearing to read "Lisa Woll".

Lisa Woll, CEO
US SIF and US SIF Foundation

This report is provided only for informational purposes. It is drawn from surveying and sources believed reliable but may not be complete or accurate. It does not constitute investment advice. The lists and examples of investment managers and vehicles presented in this report should in no way be considered endorsements or investment solicitations.

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Publisher

US SIF Foundation

Project Directors

Meg Voorhes, US SIF Foundation
Joshua Humphreys, Croatan Institute

Research Team

Ophir Bruck, Croatan Institute
Christi Electris, Croatan Institute
Farzana Hoque, US SIF Foundation
Kristin Lang, Croatan Institute
Andreea Rodinciuc, Croatan Institute

Advisory Committee

Catherine Banat, RBC Global Asset Management
Meredith Benton, Sonen Capital
Molly Betournay, Pathstone Federal Street
Sarah Cleveland, Sarah Cleveland Consulting
Sarah Cohn, Sustainalytics
Justin Conway, Calvert Foundation
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Dan Apfel, Croatan Institute
Greg Bischak, CDFI Fund
Eric Cohen, Investors Against Genocide
Lynne Ford
Bruce Freed, Center for Political Accountability
Oscar Gonzalez, CDFI Fund
Steven Greenwaters
Jon Hale, Morningstar
Edward Kamonjoh, Institutional Shareholder Services
Alya Kayal, US SIF
Songbae Lee, Calvert Foundation
Mary Liang, US SIF
Elizabeth Malin, Cerulli Associates
Christopher Mason, Cerulli Associates
Cynthia McHale, Ceres
Max Messervy, Ceres
Caitlin Moniz, Center for Political Accountability
Saurabh Narain, National Community Investment Fund
Curtis Ravenel, Bloomberg
Adam Sickle, US SIF
Ann Solomon, National Federation of Community Development Credit Unions
Rowan Spivey, Ceres
Christopher Stever, CDFI Fund
Lenora Suki, Bloomberg
Michelle Swartzentruber, Morningstar
Heidi Welsh, Sustainable Investments Institute
Song G. Yi, EBSA Department of Labor
Michael Young, US SIF

Executive Summary

US Sustainable, Responsible and Impact Investing Trends 2016

US sustainable, responsible and impact (SRI) investing continues to expand. The total US-domiciled assets under management using SRI strategies grew from \$6.57 trillion at the start of 2014 to \$8.72 trillion at the start of 2016, an increase of 33 percent, as shown in Figure A. These assets now account for more than one out of every five dollars under professional management in the United States.

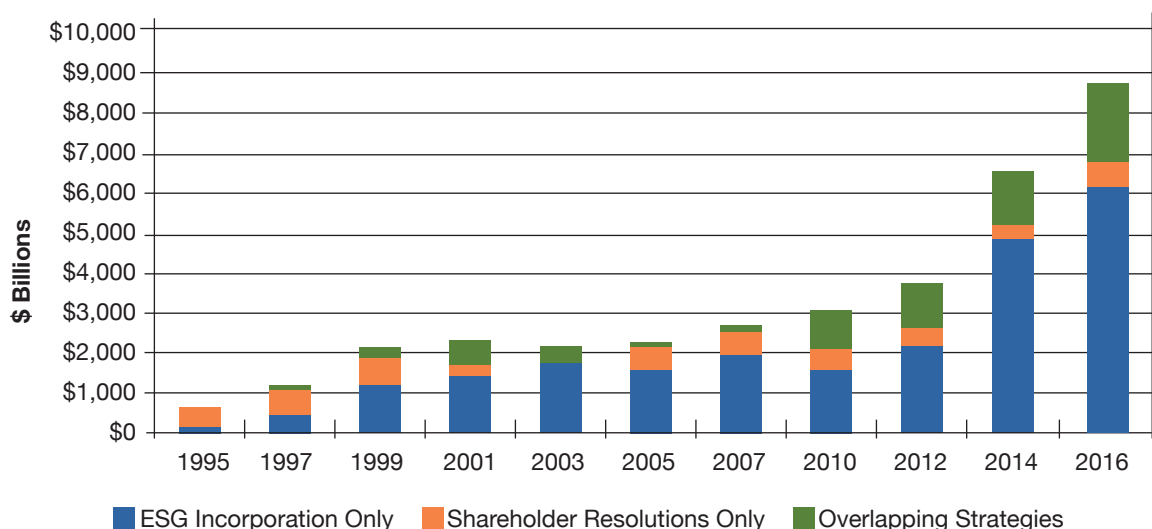
The individuals, institutions, investment companies, money managers and financial institutions that practice SRI investing seek to achieve long-term competitive financial returns. Some investors embrace SRI strategies to manage risk and fulfill fiduciary duties; many also seek to help contribute to advancements in social, environmental and governance practices. SRI investing strategies can be applied across asset classes to promote stronger corporate social responsibility, build long-term value for companies and their stakeholders, and foster businesses or introduce products that will yield community and environmental benefits.

Through a survey and research undertaken in 2016, the US SIF Foundation identified:

- \$8.10 trillion in US-domiciled assets at the beginning of 2016 held by 477 institutional investors, 300 money managers and 1,043 community investment institutions that apply various environmental, social and governance (ESG) criteria in their investment analysis and portfolio selection, and
- \$2.56 trillion in US-domiciled assets at the beginning of 2016 held by 225 institutional investors or money managers that filed or co-filed shareholder resolutions on ESG issues at publicly traded companies from 2014 through 2016.

After eliminating double counting for assets involved in both strategies and for assets managed by money managers on behalf of institutional investors, the overall total of SRI assets at the beginning of 2016 was \$8.72 trillion, as shown in Figure C. Throughout this report, the terms sustainable, responsible and impact investing, sustainable investing, responsible investing, impact investing and SRI are used interchangeably to describe these investment practices.

Fig. A: Sustainable, Responsible and Impact Investing in the United States 1995–2016



SOURCE: US SIF Foundation.

The assets engaged in sustainable, responsible and impact investing practices at the start of 2016 represent nearly 22 percent of the \$40.3 trillion in total assets under management tracked by Cerulli Associates. From 1995, when the US SIF Foundation first measured the size of the US sustainable and responsible investing market, to 2016, the SRI universe has increased nearly 14-fold, a compound annual growth rate of 13.25 percent.

ESG Incorporation Highlights

The total assets that are managed with ESG factors explicitly incorporated into investment analysis and decision making are valued at \$8.10 trillion. Of this total, \$8.10 trillion were identified as managed by money managers or community investing institutions, while \$4.72 trillion were identified as owned or administered by institutional investors. (The value of the institutional investors' ESG assets we identified separately was slightly lower than the institutional portion of the overall tally of money managers' ESG assets under management.)

ESG Incorporation by Money Managers and Investment Vehicles

The US SIF Foundation identified 300 money managers and 1,043 community investing institutions that incorporate ESG issues into their investment decision making. The dollar value of their combined ESG assets is 1.7 times the corresponding figure for 2014, when money managers and community investing institutions held \$4.8 trillion in ESG assets under management.

The significant growth in these ESG assets reflects several factors. These include growing market penetration of SRI products, the development of new products that incorporate ESG criteria and the incorporation of ESG criteria by numerous large asset managers across wider portions of their holdings. Furthermore, the past two years have seen new disclosure on the part of numerous institutional investors and asset managers on how they are implementing the Principles for Responsible Investment (PRI), a global framework for taking ESG considerations into account in investment analysis, decision making and active ownership strategies.

The broad outlines of the ESG issues incorporated by money managers are as follows:

- Environmental investment factors apply to \$7.79 trillion in assets under management. Climate change criteria shape the investment of \$1.42 trillion in assets under management, a more than fivefold increase since 2014. Clean technology is a consideration incorporated by money managers with \$354 billion in assets under management.
- Social criteria, which include criteria related to issues such as conflict risk, equal employment opportunity and diversity, and labor and human rights, apply to \$7.78 trillion in assets under management.
- Governance issues apply to \$7.70 trillion in assets under management, a twofold increase since 2014.
- Product-specific criteria, such as restrictions on investment in tobacco and alcohol, apply to \$1.97 trillion in assets.

The number of funds incorporating ESG criteria has grown 12 percent over the last two years. These funds, which exclude separate account vehicles, other money manager ESG assets that are not associated with a dedicated fund or other type of investment vehicle, and community investing institutions, now number 1,002 and represent \$2.60 trillion, as shown in Figure B.

Fig. B: Investment Funds Incorporating ESG Factors 1995–2016

	1995	1997	1999	2001	2003	2005	2007	2010	2012	2014	2016
Number of Funds	55	144	168	181	200	201	260	493	720	894	1,002
Total Net Assets (In Billions)	\$12	\$96	\$154	\$136	\$151	\$179	\$202	\$569	\$1,013	\$2,457	\$2,597

SOURCE: US SIF Foundation.

NOTE: ESG funds include mutual funds, variable annuity funds, closed-end funds, exchange-traded funds, alternative investment funds and other pooled products, but exclude separate accounts, Other/Not Listed, and community investing institutions. From 1995-2012, separate account assets were included in this data series, but have been excluded since 2014, in order to focus exclusively on commingled investment products.

REGISTERED INVESTMENT COMPANIES: Among the universe of investment vehicles that incorporate ESG factors into investment management, 519 registered investment companies, including mutual funds, variable annuity funds, exchange-traded funds (ETFs) and closed-end funds, account for \$1.74 trillion in ESG assets.

ALTERNATIVE INVESTMENT VEHICLES: The US SIF Foundation identified 413 alternative investment vehicles—private equity and venture capital funds, responsible property funds and hedge funds—engaged in sustainable and responsible investment strategies, with a combined total of \$206 billion in assets under management. They include a number of private equity funds focused on themes such as clean technology and social enterprise, and property funds focused on green building and smart growth.

OTHER INVESTMENT VEHICLES:

- **Other Pooled Products:** The research team identified 70 other pooled products (typically commingled portfolios managed primarily for institutional investors and high-net-worth individuals) with nearly \$652 billion in assets that were invested according to ESG criteria.
- **Unspecified Vehicles and Separate Accounts:** Among 114 managers researched, \$5.38 trillion in assets were identified incorporating ESG factors into investment management in separate accounts or investment vehicles classified as “Other/Not Listed.”
- **Community Investing Institutions:** A total of 1,043 community investing institutions (CIIIs), including community development banks, credit unions, loan funds and venture capital funds, collectively manage nearly \$122 billion in assets. CIIIs have an explicit mission of serving low- and moderate-income communities and individuals.

ESG Incorporation by Institutional Investors

With \$4.72 trillion of ESG assets, a 17 percent increase since the start of 2014, institutional investors play a substantial role in the SRI universe documented in this report. These asset owners include public funds, corporations, educational institutions, foundations, faith-based investors, healthcare funds, labor union pension funds, nonprofits and family offices.

The leading ESG criteria that institutional investors consider are restrictions on investing in companies doing business in regions with conflict risk (particularly in countries with repressive regimes or sponsoring terrorism). Investment policies on conflict risk apply to \$2.75 trillion in assets, about the same as in 2014. In second place, in asset-weighted terms, is consideration of climate change and carbon emissions; this applies to \$2.15 trillion in assets, compared with just \$551 billion in 2014. Institutions report that they apply unspecified general environmental, social and governance criteria to more than \$1.2 trillion in assets. While tobacco-related restrictions grew in asset-weighted terms, they dropped from third to ninth place among the leading ESG criteria incorporated by institutional investors.

Investor Advocacy Highlights

A wide array of institutional investors—including public funds, religious investors, labor funds, foundations and endowments—and money managers file or co-file shareholder resolutions at US companies on ESG issues, and hundreds of these proposals come to votes each year. From 2014 to 2016, 176 institutional investors and 49 investment management firms with total assets of \$2.56 trillion filed or co-filed resolutions. The number of institutions and managers actively involved in filing shareholder resolutions has remained relatively stable over the past four years.

The proportion of shareholder proposals on social and environmental issues that receive high levels of support has been on the rise. Since 2013, approximately 30 percent of these proposals received support from 30 percent or more of the shares voted. From 2007 through 2009, only 17 percent of proposals cleared this threshold.

Money managers and institutional investors are pursuing engagement strategies on ESG issues in addition to filing shareholder resolutions at publicly traded companies. Fifty-seven institutional asset owners reported that they engaged in dialogue with companies on ESG issues, as did 61 asset managers.

Fig. C: Sustainable and Responsible Investing Assets 2016

ESG Incorporation	(in Billions)
Money Managers	\$ 8,097.9
Institutional Investors	\$ 4,724.5
Overlapping Assets	\$ (4,724.5)
Subtotal	\$ 8,097.9
Filing Shareholder Resolutions	
Money Managers	\$ 1,038.6
Institutional Investors	\$ 1,519.6
Subtotal	\$ 2,558.2
Overlapping Strategies	\$(1,932.9)
Total	\$8,723.22

SOURCE: US SIF Foundation.

NOTE: ESG Incorporation includes community investing institutions (CIIIs).

US SIF Foundation identified over \$5.1 trillion in the institutional portion of Money Managers' ESG assets under management, so the Institutional Investors'

ESG assets identified separately are removed to control for the potential inflationary effects of double counting. For more details, see Chapter V: Methodology.

Major SRI Drivers and Trends

In recent years, numerous trends have shaped the evolution and growth of SRI within US financial markets:

- **Money managers** increasingly are incorporating ESG factors into their investment analysis and portfolio construction, driven by the demand for ESG investing products from institutional and individual investors and by the mission and values of their management firms. Of the managers that responded to an information request about reasons for incorporating ESG, the highest percentage, 85 percent, cited client demand as a motivation.
- However, 114 money managers reported little to no detail for ESG assets worth \$5.38 trillion, much of it identified through their PRI Transparency Reports. These managers did not provide information on the specific products that were subject to ESG criteria and generally divulged few if any details on the specific ESG criteria incorporated.
- Of the money managers that responded to a question in the US SIF Foundation survey about their ESG incorporation strategies, 62 percent reported that they use some combination of negative screening,

positive screening and ESG integration within their funds. More than half reported using strategies of impact investing and nearly half used sustainability themed investing as a strategy. The incorporation strategy that affected the highest number of assets, \$1.51 trillion, was ESG integration. (See the glossary of ESG incorporation terms on this page.)

- **Climate change** remains the most significant overall environmental factor in terms of assets, affecting \$1.42 trillion in money manager assets and \$2.15 trillion in institutional investor assets—more than three times the amounts affected in 2014. Fossil fuel restrictions or divestment policies applied to \$152 billion in money manager assets and \$144 billion in institutional investor assets at the beginning of 2016.
- Moreover, shareholders concerned about climate risk filed 93 resolutions specifically on the subject in 2016 and negotiated a number of commitments from the target companies to report on strategic planning around climate change or to reduce their greenhouse gas emissions.
- When it comes to specific ESG criteria, **conflict risk** analysis, including the exclusion of companies doing business in countries with repressive regimes or state sponsors of terrorism, holds the most weight for money managers, with \$1.54 trillion in assets affected, and it remains the top ESG factor institutions incorporate into their investments, affecting \$2.75 trillion.
- An issue tracked for the first time this year was **transparency and anti-corruption**: money managers reported \$725 billion in assets taking this criterion into account, while institutional investors reported \$528 billion.
- The emerging trend of **gender lens investing**, tracked separately for the first time this year, was identified as affecting the management of nearly \$132 billion in money manager assets, and \$397 billion in institutional investor assets.
- **Community investing** institution assets jumped 89 percent, from \$64 billion to nearly \$122 billion. This growth was led by a particularly large increase in the assets of community development credit unions, which more than doubled since 2014.
- As shown by the number of proposals filed each year, disclosure and management of **corporate political spending and lobbying** is the greatest single ESG concern raised by shareholders, with 377 proposals filed on this subject from 2014 through August 2016. Many of the targets of these proposals are companies that support organizations that deny climate change science and undertake lobbying against regulations to curb greenhouse gas emissions.
- Investors filed 350 proposals at US companies from 2014 through 2016 to facilitate shareholders' ability to nominate directors to corporate boards. As a result of the strong investor support for these "proxy access" proposals, the share of S&P 500 companies establishing **proxy access** measures over this period grew from 1 to 40 percent.

ESG INCORPORATION STRATEGIES AND TERMS

POSITIVE/BEST-IN-CLASS: 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: The exclusion from a fund or plan of certain sectors or companies involved in activities or industries deemed unacceptable or controversial.

ESG INTEGRATION: The systematic and explicit inclusion by investment managers of ESG risks and opportunities into financial analysis.

IMPACT INVESTING: Investment in companies, organizations and funds, often in private markets, with the intention to generate social and environmental impact alongside a financial return, which can range from below market to market rate.

SUSTAINABILITY THEMED INVESTING: The selection of assets specifically related to sustainability in single- or multi-themed funds.

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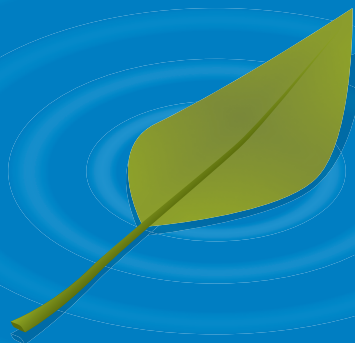


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