



The Forum for Sustainable
and Responsible Investment

REPORT ON

**Sustainable and Responsible Investing
Trends in the United States 2012**





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Reflections on Sustainable and Responsible Investment, 2012

With a vision of a world in which investment capital helps build a sustainable and equitable economy, US SIF looks forward every two years to the release of our Trends report. The report anchors our understanding of the investment assets moving us in this direction. We are heartened to see that interest in this field continues to grow and that more and more assets are invested using sustainable and responsible investment (SRI) strategies.

At the same time, the country is still recovering from high unemployment and other effects of the financial crisis, legislative silence on climate change, continued concern about the financial regulatory system, unfettered secret corporate political spending, rising income inequality and soaring executive compensation. We are in the midst of what could be called a sustainability crisis.

The responsible investment field can help advance a more sustainable economy. We have already seen the industry build this capacity in a number of ways:

- As this report demonstrates, SRI assets are a significant part of the US financial market. Moreover, SRI strategies increasingly are being adopted by firms that have not historically identified themselves as SRI.
For example, the Principles for Responsible Investment has more than 1,000 signatory firms—with assets over \$30 trillion—estimated to represent 20 percent of the total value of global capital markets. These signatories include not only the pioneers of sustainable and responsible investing but also more conventional investment firms that are beginning to develop SRI divisions or to analyze how portfolio companies' environmental, social and corporate governance (ESG) policies affect their financial returns. Today, there is no longer any “typical kind of firm” engaged in SRI.
- The expansion of sustainable and responsible investing can be measured across an array of asset classes. As this report details, for example, there has been a continued growth in alternative investments engaged in SRI.
- Foundations have deepened their practice of mission investing—using the tools of finance to create positive social impact aligned with their mission. And in recent years, numerous institutions have begun to use the term “impact investing” to describe the investment of capital into vehicles—private and public—that create social or environmental benefits alongside financial returns, very much like the goals of sustainable and responsible investment.
- Similarly, the rise of investment in sectors like clean technology, microfinance and community development finance indicates that investors have an appetite for profitable investments that can address societal challenges, including helping to alleviate poverty or reduce carbon emissions.
- In fact, community investing (typically via banks, credit unions, loan funds and venture capital funds that invest in underserved communities here and abroad) is one of the fastest growing segments of SRI even though the assets in this space are small in comparison to other SRI assets. US SIF has recently undertaken several initiatives to broaden the definition of community investment and to engage a wider range of investors in this critical space.
- Changes in the professional investment industry driven by SRI professionals have generated new investment options for institutional and individual investors concerned about issues such as climate change, alternative energy, human rights, diversity and community investing. Specialized advisors, new products and access to retail platforms for community investment and other issues have all made for a more robust environment for individual investors interested in SRI.
- Globally, sustainable and responsible investors have changed investment practices by promoting

the creation of specialized stock exchanges that require companies to disclose sustainability data to qualify for listing. Additionally, the growing popularity of responsible investing has contributed to the creation of scores of global SRI indices, which have set standards for corporate ESG performance and become benchmarks for investors.

- As a response to shareholder engagement by SRI advocates, global corporations increasingly embrace ESG practices and disclosure and incorporate these standards into their operations. In the past year, there has been a sharpened focus on both “integrated reporting” (which links a company’s strategy, governance and financial performance with the ESG context in which it operates) and on the newly created Sustainability Accounting Standards Board (which is establishing standards for integrated reporting and an understanding of relevant and material issues to 35,000 publicly listed companies in the United States). These developments promise a fundamental change in corporate reporting that is also likely to spur more companies to consider and adopt sustainable business practices.
- The sustainable investment community has engaged in the federal regulatory and legislative arenas as another avenue through which to create the conditions for a low carbon, resource efficient, and socially accountable economy. The work we have undertaken in addressing the financial crisis, corporate disclosure, greenhouse gas emissions, integrated reporting, political contributions and consumer financial protection helps create a national framework in which environmental, social and governance considerations in investing are able to become the norm.

As we look to the close of 2012, we are buoyed by the many advances our field has made, and by the continued growth in assets that aim to integrate financial returns with environmental, social and governance impacts. And yet, it is clear we have much more to do in order to further advance the scale of sustainable and responsible investment and to effectively grapple with other challenges to building a robust, equitable and sustainable economy. We hope you will join us in this important work.



Lisa Woll, CEO

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Executive Summary

2012 REPORT ON SUSTAINABLE AND RESPONSIBLE INVESTING TRENDS IN THE UNITED STATES

OVERVIEW

Today, more than one out of every nine dollars under professional management in the United States is invested according to strategies of sustainable and responsible investing (SRI). The individuals, institutions, investment companies, money managers and financial institutions that practice SRI seek to achieve long-term competitive financial returns together with positive societal impact. SRI 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, generate jobs or introduce products that will yield community and environmental benefits.

Through surveys and research undertaken in 2012, US SIF Foundation identified:

- \$3.31 trillion in US-domiciled assets at year-end 2011 held by 443 institutional investors, 272 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
- \$1.54 trillion in US-domiciled assets at year-end 2011 held by more than 200 institutional investors or money managers that filed or co-filed **shareholder resolutions on ESG issues** at publicly traded companies from 2010 through 2012.

After eliminating double-counting for assets involved in both strategies, the overall total of SRI assets is \$3.74 trillion, a 22-percent increase since year-end 2009.

Fig. A: Sustainable and Responsible Investing in the United States 1995–2012

	1995	1997	1999	2001	2003	2005	2007	2010	2012
ESG Incorporation	\$166	\$533	\$1,502	\$2,018	\$2,157	\$1,704	\$2,123	\$2,554	\$3,314
Shareholder Resolutions	\$473	\$736	\$922	\$897	\$448	\$703	\$739	\$1,497	\$1,536
Overlapping Strategies	N/A	(\$84)	(\$265)	(\$592)	(\$441)	(\$117)	(\$151)	(\$981)	(\$1,106)
TOTAL	\$639	\$1,185	\$2,159	\$2,323	\$2,164	\$2,290	\$2,711	\$3,069	\$3,744

SOURCE: US SIF Foundation.

NOTE: Overlapping assets involved in some combination of ESG incorporation (including community investing) and shareholder advocacy 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.

The assets engaged in sustainable and responsible investing practice currently represent 11.3 percent of the \$33.3 trillion in total assets under management tracked by Thomson Reuters Nelson. From 1995, when US SIF Foundation first measured the size of the US sustainable and responsible investing market, to 2012, the SRI universe has increased 486 percent, while the broader universe of assets under professional management in the United States, according to estimates from Thomson Reuters Nelson, has grown 376 percent.

Because the scope of this study is focused on US-domiciled assets under management that are practicing sustainable and responsible investment strategies, it is a relatively conservative measure of the scope of the SRI industry. The tally of the global assets of the US money managers and institutional investors engaged in or exploring SRI strategies is many times larger. Throughout the survey and data-gathering phase for this report, US SIF Foundation identified many investors 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.

HIGHLIGHTS OF THE 2012 REPORT

ESG Incorporation

The total assets that are managed according to ESG factors that are explicitly incorporated into investment analysis and decision-making are valued at \$3.31 trillion. Of this total, \$1.41 trillion were identified within specific investment vehicles managed by money managers or community investing institutions, while \$2.48 trillion were identified as owned or administered by institutional investors. Of these institutional ESG assets, \$581.6 billion were managed for institutions through investment vehicles captured in research on money managers.

ESG incorporation by money managers and investment vehicles: The US SIF Foundation survey identified 272 management firms and more than 1000 community investing institutions that incorporate ESG issues into their investment decision-making. Their combined \$1.41 trillion in assets under management reflects nearly a doubling from the corresponding figure for year-end 2009. The growth in these ESG assets reflects several factors, including a dramatic increase in the number of mutual funds that consider corporate governance criteria or avoid companies doing business in the Sudan, the rise of alternative investment funds that consider ESG criteria, and the growth in assets of banks, credit unions and loan funds with an explicit mission of community development.

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

- Environmental investment factors are incorporated in the management of 551 investment vehicles with \$240 billion in assets under management,
- Social criteria, which include Sudan-avoidance policies, are the most prominent in asset-weighted terms, incorporated in the management of \$1.2 trillion across a wide range of 622 investment vehicles,
- Governance issues are incorporated by a total of 346 investment vehicles with \$623 billion in assets, and
- Product-specific criteria, such as restrictions on investment in tobacco and alcohol, are included in the management of 390 investment vehicles with \$290 billion in assets.

The assets and numbers of funds tracked as incorporating ESG criteria have continued their trajectory of dramatic growth since 2007. These assets, excluding assets of separate account vehicles, have increased 78 percent to \$1.01 trillion in 720 distinct ESG funds in 2012 from the \$569 billion tracked in 2010, as shown in Figure B.

Fig. B: Investment Funds Incorporating ESG Factors 1995–2012

	1995	1997	1999	2001	2003	2005	2007	2010	2012
Number of Funds	55	144	168	181	200	201	260	493	720
TOTAL NET ASSETS									
<i>(In Billions)</i>	\$12	\$96	\$154	\$136	\$151	\$179	\$202	\$569	\$1,013

SOURCE: US SIF 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 and community investing institutions.

Registered Investment Companies

Among the universe of investment vehicles that incorporate ESG factors into investment management, registered investment companies, such as mutual funds (including those underlying annuity products), exchange-traded funds (ETFs) and closed-end funds, accounted for \$644 billion, invested through 361 funds.

Alternative Investment Vehicles

US SIF Foundation identified 301 different alternative investment vehicles—private equity and venture capital funds, responsible property funds and hedge funds—with a combined total of \$132 billion in assets under management. This segment of the ESG investment market has experienced as much as 250 percent growth in assets since 2010, when US SIF Foundation identified just \$37.8 billion in alternative investment vehicles that incorporated ESG criteria.

Other Investment Vehicles

- **Other Pooled Products:** Forty-five other pooled products with \$234.2 billion, 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, 178 distinctive separate-account vehicles or strategies with \$337.7 billion incorporated ESG factors into investment management.
- **Community Investing:** A total of 1,043 community investment institutions (CIIs), including community development banks, credit unions, loan funds, and venture capital funds, collectively manage \$61.4 billion.

ESG incorporation by institutional investors: With \$2.7 trillion in assets involved in ESG incorporation, in filing shareholder resolutions or in both strategies, institutional investors dominate the SRI universe documented in this report.

Institutional asset owners across the United States now consider environmental, social or corporate governance criteria in investment analysis and portfolio selection for aggregate assets of \$2.48 trillion, a 23-percent increase since the start of 2010. This growth reflects, in large part, the near tripling of the assets, particularly those held by public funds, that review governance issues relating to executive pay or the quality and accountability of boards of directors, or that avoid investments in companies doing business in Iran. Another factor is the increased prominence of environmental issues, particularly relating to climate change and carbon emissions.

Shareholder Advocacy

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 2010 to 2012, 176 institutional investors with \$1.28 trillion in assets and 32 investment management firms with total assets under management of \$251.3 billion filed or co-filed proposals. This level of involvement, both in terms of the numbers of institutions and managers involved and their overall assets under management, has been consistent since 2010, when US SIF Foundation similarly identified slightly more than 200 institutions and managers with combined assets of \$1.5 trillion that filed resolutions from 2008 through mid-2010.

Additionally, US SIF Foundation identified substantially more managers since year-end 2009, and a 29-percent increase in the corresponding assets under management, that engage in dialogue with portfolio companies on ESG issues. This suggests that money managers increasingly are pursuing

shareholder engagement strategies, even if they do not file shareholder resolutions. (As noted earlier, the assets involved in corporate engagement efforts are not counted towards the overall total of SRI assets unless they are also involved in filing shareholder resolutions or ESG incorporation.)

Figure C: 2012 Sustainable and Responsible Investing Assets	
ESG Incorporation	Assets Involved
Money Managers & CIIIs	\$ 1,411.9
Institutional Investors	\$ 2,483.9
<i>Overlapping Assets</i>	\$ (581.6)
<i>Subtotal</i>	\$ 3,314.2
Shareholder Resolutions	
Money Managers	\$ 251.3
Institutional Investors	\$ 1,284.7
<i>Subtotal</i>	\$ 1,536.0
Overlapping Strategies	\$ (1,105.9)
TOTAL	\$ 3,744.2

SOURCE: US SIF Foundation.


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

Major SRI Drivers and Trends

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

- 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. Client demand and values were the reasons most commonly cited by managers that responded to surveying—each motivation was cited by 72 percent of managers.
- The risks associated with the volatile and repressive Sudan regime continue to drive institutional investors and money managers to pursue targeted divestment from the country or active engagement with affiliated companies. Indeed, Sudan-related investment policies are the most prevalent ESG criteria incorporated into investment management, affecting more than \$1.63 trillion in institutional assets and over \$999 billion across all investment vehicles included in the money manager phase of research.
- The incorporation of governance criteria has become a leading ESG issue for institutional investors and money managers alike. Governance-related criteria affect \$913.9 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.
- Consumer demand and campaigns persuading retail and other customers to “Move Your Money” from the large banks tarnished by the recent financial crisis boosted deposits in community-oriented banks and credit unions. Community development bank assets were up to \$30.1 billion at the outset of 2012, a 73-percent increase since 2010. Community development credit unions experienced similarly strong growth, up 54 percent since 2010 to \$17.1 billion.

- From 2010 to 2012, there has been a pronounced upward trend in vote support on environmental and social issues, with 24 percent or more of such resolutions each year receiving the support of more than 30 percent of the shares voted, up significantly from the levels of 2007 to 2009, when only 15 to 18 percent of environmental and social issues resolutions won such support levels.
- In response to shareholder campaigns for better corporate governance practices, a growing number of US companies are establishing more stringent standards for their board elections and no longer allow their chief executive officers to chair their boards.
- A leading concern for shareholders, especially since the Supreme Court's Citizens United decision, is corporate political spending and lobbying; investors filed more than 100 resolutions annually in 2011 and 2012 seeking better review and disclosure by portfolio company management of these activities.
- Eighty-two money managers with \$4.9 trillion in assets under management reported that they pursue dialogue with portfolio companies, up substantially from the 54 managers with \$3.8 trillion in assets that answered this way at year-end 2009. This is a much larger pool of money managers and assets under management than those currently involved in filing shareholder resolutions.



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