

Getting Started in Sustainable and Impact Investing

A GUIDE FOR RETAIL INVESTORS



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INTRODUCTION

Sustainable, responsible and impact investing (SRI) is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact. It can be practiced across all asset classes, including stocks, bonds and cash. Depending on their emphasis, investors may also describe SRI as: “values-based investing,” “impact investing,” “ethical investing,” and “socially responsible investing.” For an introductory overview, visit our [SRI Basics webpage](#).

SRI has [grown rapidly](#) in recent years, with assets under professional management in the United States increasing 33 percent from \$6.57 trillion to \$8.72 trillion between 2014 and 2016. Most of this activity has been among institutional investors, which have ready access to SRI professional expertise, networks and associations. This guide is offered as a concise resource to get retail, non-accredited investors started in sustainable investment.

Before exploring investment options and actions, consider your motivations for SRI and the ESG issues that are important to you. This will help you narrow down and identify the services and products best suited for your needs. In addition to financial returns that meet your investment goals and horizon, you may want your investment options to meet your ethical concerns or have positive social and environmental impact. The graphic on the following page includes common environmental, social and governance issues for consideration.

INVESTMENT OPTIONS

This section provides an overview of investment options and actions available for retail investors getting started in sustainable investing including mutual funds and exchange-traded funds (ETFs), direct ownership of stocks, and community-oriented cash and fixed income products.

MUTUAL FUNDS AND ETFs

LEARN ABOUT YOUR FUNDS: You can learn about a fund’s investment philosophy from

RETAIL INVESTOR DEMAND IN SUSTAINABLE INVESTMENT OPTIONS

A 2017 [study](#) by the Morgan Stanley Institute for Sustainable Investing found high levels of interest in sustainable investing among individual investors:

- 75 percent are interested in sustainable investing. Among millennials, 86 percent are interested.
- 71 percent believe that companies with leading sustainability practices may be better long-term investments.
- 80 percent are interested in sustainable investments that can be customized to meet their interests and goals.

The findings of a 2016 [survey](#) by Natixis Global Asset Management of participants in 401k and other defined contribution plans also demonstrate interest from individuals in ESG investments.

- 64 percent were concerned about the environmental, social and ethical records of the companies they invest in.
- 74 percent would like to see more socially responsible investments in their retirement plan offering.

Examples of ESG Criteria Used by Sustainable Investors



Source: US SIF Foundation

its summary [prospectus](#), which you can find online. If the fund takes social responsibility or environmental concerns into account in selecting its portfolio, that will be mentioned in the prospectus. Funds that invest in stocks (equities) also have a responsibility to vote their shares (proxies) in portfolio companies, and are required to provide a [record of how they voted](#), called an “N-PX” report, under [rules issued by the SEC](#). The report will list each resolution and whether it was proposed by the company management or by shareholders, how the fund voted (“for,” “against” or “abstain”) and whether that vote was “for” or “against” the company’s recommendation. N-PX reports are lengthy, so you should probably search by key words.

ESG ratings have recently been launched for thousands of mutual funds and ETFs. Morningstar, in partnership with Sustainalytics, launched the Morningstar Sustainability Rating for Funds in 2016. This assigns a sustainability score to 20,000 mutual funds and ETFs. The sustainability rating is found on the right side of fund quote pages on [Morningstar.com](#).

If you would like to research the fossil fuel exposure of mutual funds, visit the [Fossil Free Funds](#) website, an initiative of As You Sow and Morningstar. Similarly, if you are concerned specifically about rainforest destruction, you can learn about the palm oil exposure of mutual funds on the [Deforestation Free Funds](#) website, an initiative of As You Sow and Friends of the Earth.

EXPRESS YOUR VIEWS TO FUND MANAGEMENT: If you don’t see evidence that the funds in which you are invested have thoughtful voting or investment policies on ESG issues, contact the fund company to express

your concerns. You should be able to find a general 800 telephone number on the website of your mutual fund company under “Contact Us” or “Open an Account.” Mutual fund companies are sensitive to customer opinion, so you should not feel shy about expressing your concerns and suggestions. Remember that the shares you own in mutual funds ostensibly are being voted on the behalf of you and other clients. Moreover, fund companies are likely to develop or modify their products if they believe there is sufficient customer demand.

SWITCH FUNDS: You may also wish to switch funds if you are able to do so. A good place to start is the online list of [mutual funds](#) offered by members of US SIF. By clicking on the screening and advocacy tab, you can see which ESG issues are considered in portfolio selection. You can also see which equity funds file shareholder resolutions or communicate with portfolio company management on ESG issues. The proxy voting tab provides quick links to the funds’ proxy voting guidelines and records.

ASK YOUR 401K OR 403B RETIREMENT PLAN TO MAKE SRI OPTIONS AVAILABLE: Check with your human resources department; your plan may already have SRI options. If not, express your desire for SRI options to your human resources department. Many major plan administrator platforms have an open structure that enables the addition of new funds to the platform. See our [guide for plan participants](#) and [guide for plan sponsors](#) for more information.

DIRECT OWNERSHIP OF STOCKS

REVIEW THE COMPANIES: Check the publicly traded company’s website to see if it publishes a corporate responsibility or sustainability report to review ESG policies and performance.

Some resources also rank or list companies within environmental, social or governance categories. For example, the [Corporate Human Rights Benchmark](#) ranks almost 100 publicly traded companies on human rights indicators. Human Rights Campaign has created a [Corporate Equality Index](#) specifically on LGBT issues. [The 100 Best Companies To Work For](#) is a ranking from Fortune.com, and is based on a survey of over 200,000 employees. Newsweek, in partnership with Corporate Knights, HIP Investor Inc. and others, has ranked the largest 500 companies in the United States on corporate sustainability and environmental impact in its [Top Green Companies in the US 2016](#) list.

MAKE YOUR VOTE COUNT: If you directly own shares in a company, you should pay close attention to the shareholder resolutions that are coming to votes at its annual meetings and to be sure to vote your shares. One helpful website on upcoming shareholder resolutions is offered by [Green America](#).

FILE A SHAREHOLDER RESOLUTION: While it may be challenging for retail investors to file or co-file shareholder resolutions because of the expertise and time commitment needed, it is an option that is available. You are eligible to file a resolution if you can document that you have owned \$2,000 worth of the company’s stock for a year as of the date you file the resolution. If you don’t meet the \$2,000 threshold on your own, you can team with other shareholders—or “co-filers”—to meet the minimum. US SIF provides introductory information on [shareholder resolutions](#) on our website.

IF YOU DIVEST, SEND A MESSAGE: If you own shares in companies with poor ESG practices and performance, you may choose to divest if you believe that shareholder activism is not sufficient to change these companies’ long-term business plans. To ensure that the company knows why you have divested, you should inform the company’s investor relations department. Typically, company websites have a tab for “Investors” from which you will find telephone numbers and mailing addresses for investor relations contacts.

COMMUNITY-ORIENTED CASH AND FIXED INCOME PRODUCTS

BANKS AND CREDIT UNIONS: You may wish to open accounts in, or purchase certificates of deposits and other cash instruments from banks and credit unions that have a mission of serving low- and moderate-income

communities. These banks and credit unions typically finance small businesses, non-profits, commercial real estate and affordable housing that support low-and-middle income neighborhoods and rural areas. To find a community development bank or credit union, please visit:

- a. [National Federation of Community Development Credit Unions](#)
- b. [National Community Investment Fund](#)
- c. [Community Development Bankers Association](#)

RETAIL NOTES AND LOAN FUNDS: Retail notes enable individual investors to drive positive societal outcomes with their investments. For example, for as little as \$20 individuals can purchase a Calvert Investment Note that supports initiatives in several urban areas and organizations supporting job creation, affordable housing, education and protecting the environment, among others. The Enterprise Community Impact Note is another option, which contributes towards the building of affordable housing, schools and health centers and other community-oriented facilities in vulnerable areas. Some loan funds are also open to retail investors. The New Hampshire Community Loan Fund, for example, enables individual investors to help low and moderate income families in New Hampshire with housing, employment and childcare.

ADDITIONAL RESOURCES: More information on community investing options for retail investors can be found on the [US SIF website](#).

PROFESSIONAL INVESTMENT HELP

For investing for positive impact in a manner that is appropriate for your age, investment objectives, risk tolerance and return expectations, you may want to enlist the assistance of a financial advisor. A good place to start is the [directory](#) of financial services offered by US SIF members, as it includes advisors with expertise in sustainable and impact investing options and strategies. Under “Directory Categories,” select “Financial Planners, Advisors and Brokers.”

You can invest through a robo-advisor that focuses on sustainable and impact investment options. Robo-advisors use digital platforms and technology. The automation and algorithms of these online wealth management services may enable you to develop a portfolio of funds that reflect your values, risk tolerance and investment goals and timeline with minimal fees. Examples of robo-advisors and other similar online platforms with SRI options include [Aspiration](#), [Betterment](#), [Earthfolio](#), [Impact Labs](#), [Grow Invest](#), [Motif](#), [OpenInvest](#), [Swell](#), [TIAA](#) and [Wealthfront](#).

YOUR COMMUNITY

In addition to your own investment accounts, you may also have some ability to influence the investment actions of organizations with which you are connected. This could include non-profit organizations, university endowments, religious institutions and local government operating funds and pension funds. Consider asking the investment committee or trustees how they vote proxies and whether they address ESG issues and risks in portfolio selection. The [Responsible Endowments Coalition](#) offers resources to alumni interested in encouraging their colleges and universities to adopt sustainable and responsible investment strategies.

HELPFUL RESOURCES

- SRI Basics: <http://www.ussif.org/sribasics>
- SRI Financial Performance: <http://www.ussif.org/performance>
- Options for 401K and Other DC Retirement Plans: <http://www.ussif.org/retirement>
- Mutual Funds Chart: <http://charts.ussif.org/mfpc/>
- Financial Directory: http://www.ussif.org/AF_MemberDirectory.asp

Disclaimer: This paper is provided for informational purposes only. It does not constitute investment advice. Investments and strategies discussed herein may not be suitable for all readers, so readers should consult with financial, legal, tax or accounting professionals before acting upon any information or analysis contained herein. This paper does not measure or monitor the performance of managers or funds. The lists and examples of investment managers and vehicles presented in this paper should in no way be considered endorsements or investment solicitations. In no way should this paper be construed as an offer to invest or a form of marketing.



The Forum for Sustainable
and Responsible Investment

1660 L Street, NW, Suite 306
Washington, DC 20036
202-872-5361 • www.ussif.org