

**The** INTEGRATION **ASSET** COMMUNITY  
**IMPACT** POLICY GREEN  
EDUCATION  
CLIMATE **of Sustainable and**  
**Responsible Investment** ENERGY

BENCHMARK DILIGENCE ENVIRONMENTAL MISSION SOCIAL EDUCATION  
CAPITAL INCORPORATE GOVERNANCE SHAREHOLDER OPPORTUNITY PERFORMANCE  
CORPORATE PRODUCT MARKETPLACE  
RETURN COMPETITIVE  
GROWTH FINANCE PORTFOLIO  
LABOR PROXY OPTIONS INDEX  
COMPANIES



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**Disclaimer:** This paper is provided for informational purposes only. It does not constitute investment advice. It is drawn from publicly available documents and from information provided by members of US SIF: The Forum for Sustainable and Responsible Investment. The information in this report, including examples of impact, should not be construed as an offer to invest or a form of marketing. The paper is not an endorsement of any firm or organization highlighted in this report.

The US SIF Foundation, a 501(c)(3) organization, undertakes educational and research activities to advance the mission of US SIF: The Forum for Sustainable and Responsible Investment, the leading voice advancing sustainable, responsible and impact investing across all asset classes. That mission is to rapidly shift investment practices towards sustainability, focusing on long-term investment and the generation of positive social and environmental impacts. Both US SIF and the US SIF Foundation seek to ensure that environmental, social and governance impacts are meaningfully assessed in all investment decisions to result in a more sustainable and equitable society.

Among the hundreds of US SIF members are: investment management and advisory firms, mutual fund companies, research firms, financial planners and advisors, broker-dealers, community investing institutions, non-profit associations, and pension funds, foundations and other asset owners.

# FOREWORD

**Sustainable, responsible and impact investing (SRI)** has grown significantly in recent years as measured by the number of practitioners, the assets under management, general public interest and media coverage.

As documented in the US SIF Foundation's 2014 Report on *US Sustainable, Responsible and Impact Investing Trends*, assets managed using strategies that consider environmental, social and governance (ESG) issues in investment analysis, portfolio selection or shareholder engagement totaled \$6.57 trillion at the start of 2014. This represented one out of every six dollars under professional management in the United States and growth of 76 percent over 2012.

Investment firms have been eager to capture this expanding market and have responded by creating and promoting products to investors. In addition, a growing number of institutional investors take ESG considerations into account in investment analysis and decision-making, as well as through active ownership strategies. The number of foundations engaged in mission investing is growing, and university endowments and family offices increasingly are exploring strategies of sustainable and impact investing.

Another recent trend is the considerable interest and growth in the concept of "impact investing." Though often focused on private market investments with a social return, impact investing is also being used to describe a multiple asset class approach, including with public market investments. While US SIF considers the work of sustainable investors for the last 30 years—across asset classes—as investments meant to make impact, there is no doubt that the emergence of "impact investing" has brought new interest and investors to the field.

The US SIF Foundation is therefore pleased to share this paper, the first edition of which we issued in 2013, to highlight how sustainable, responsible and impact investors<sup>1</sup> have engaged the investment industry, companies, individuals, communities and governments—either individually or collectively—to address environmental, social and governance challenges and to reform the way business is conducted. It presents examples of how these investors have made a difference through their approaches not only to public equity investing, but also to such asset classes as private equity, cash, fixed income, real estate and infrastructure.

This paper is designed to:

- document some of the many successes of the sustainable, responsible and impact investing field over the past 25 years and by so doing,
- enable professionals and academics to communicate how SRI has influenced the investment industry, companies, communities, public policy and global standards.

This report will be useful for investors and investment professionals, such as asset managers, investment advisors and asset owners, as well as corporate responsibility officers, policymakers, regulatory agencies, media analysts and the general public.

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1. For the purposes of this report, the terms sustainable, responsible and impact are used alone and together. We have also referred to it as SRI investing. We use all of these terms to indicate a practice of considering environmental, social and governance issues across one or more asset classes.

US SIF wishes to acknowledge the following individuals for their guidance on this paper:

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This paper will be updated periodically to reflect additional examples of impact. The US SIF Foundation looks forward to your comments.

*Lisa Woll, CEO*

# EXECUTIVE SUMMARY

Sustainable, responsible and impact investors are a force for positive change. They have helped to improve the environmental, social and governance (ESG) practices of publicly and privately traded companies in the United States and around the world, indirectly benefiting countless individuals and communities. They have pursued investment strategies that foster economic development and expand financial services in lower-income communities. To advance their principles and priorities on a larger scale, these investors have advocated for public policy to advance responsible investing and supported US and global organizations that promote sustainable investment. Many of these accomplishments have been achieved through close collaboration with other stakeholders including business, government and civil society.

Sustainable, responsible and impact investment professionals have changed the investment industry by challenging and shifting traditional notions of investment practices. They have advanced the inclusion of ESG considerations in investment decisions to generate both positive societal impact and long-term competitive financial returns. In so doing, they have brought to market new investment options and services across a wide array of asset classes that appeal to both individual and institutional investors, perform competitively and help address serious social and environmental challenges.

## CHANGING THE INVESTMENT INDUSTRY AND ADDING OPTIONS FOR INVESTORS

Sustainable, responsible and impact investment (SRI) is a widely practiced investment discipline with more than \$6.57 trillion in assets under management in the United States, according to the US SIF Foundation's [2014 Report on US Sustainable, Responsible and Impact Investing Trends](#). Its practitioners have contributed to far-reaching changes in the investment and financial services industries, and it continues to gain adherents in investment firms that have not historically identified themselves as SRI practitioners.

By incorporating ESG criteria into investment analysis and portfolio construction, investors seek to identify more responsible companies for potential investment and to improve the sustainability performance of those in which they are already invested. Testaments to the growing impact of SRI on the investment marketplace can be found in the creation of SRI indices and in the widespread availability of ESG information to conventional investment analysts as criteria for holdings selection. Many publicly traded companies, in turn, aim to be selected for SRI funds and promote their inclusion in SRI indexes to their stakeholders. Efforts to build ESG investment criteria into investment portfolio construction, proxy policies and engagement strategies have resulted in positive changes in the way business is conducted.

The growth of the sustainable investing field is reflected in the growth of investment products across all asset classes, including fixed income, private equity and real estate, and of investment products that focus on particular sustainability or impact themes—such as clean energy or women's advancement. The array of investment products has facilitated the adoption of mission investing by foundations and has helped meet the growing interest of family offices and high net worth individuals in investing for impact.

Individual investors have benefited by gaining access to corporate, non-profit and government retirement plans with SRI options and the ability to work with specialized SRI financial advisors.

Investors also benefit from being able to invest in communities directly through banks, credit unions and other community development financial institutions as well as in retail products and on retail platforms for domestic and international opportunities aimed at helping low income and distressed populations.

## **IMPROVING COMPANIES THROUGH ACTIVE OWNERSHIP AND ENGAGEMENT**

Sustainable investors have made a difference by using active share ownership and engagement to encourage more responsible and forward-thinking corporate practices. Investors—often in concert with civil society organizations and multi-stakeholder groups—have helped persuade numerous publicly held companies to:

- improve climate risk disclosure, set greenhouse gas emission reduction goals, adopt goals to reduce energy use or to use renewable energy,
- implement sustainable forestry practices,
- address poor labor and human rights conditions in their global supply chains,
- pledge not to discriminate against employees on the basis of their sexual orientation,
- disclose health, safety and environmental risks associated with hydraulic fracturing,
- promote gender diversity on their boards of directors,
- issue detailed reports on sustainability,
- report on political and lobbying expenditures and establish policies to oversee or limit such spending, and
- provide investors who meet specified ownership criteria with access to their proxy materials in order to nominate alternative directors to the board.

Engagement strategies have also been used successfully to help shape sustainable policies and practices at privately held companies on sustainability issues, such as the labor conditions in their global supply chains and their environmental and community relations practices.

## **HELPING COMMUNITIES AND INDIVIDUALS**

SRI investors have assisted individuals and communities, both through direct investments in community development initiatives and by helping to bring about changes in corporate behavior that ultimately benefit communities or reduce harm, such as increasing access to clean water and curbing deforestation. In the United States and internationally, investments in community investing institutions have helped ensure that capital reaches poor or underserved communities. These investments in low- and moderate-income communities have improved access to affordable housing, supported small businesses, helped create jobs, and provided education, healthcare and childcare facilities. Sustainable investors have also provided innovative social private equity and microenterprise lending in international markets. For example, these investors have made micro-financing available to many women entrepreneurs in Africa, Asia and Latin America.

## **INFLUENCING PUBLIC POLICY AND DEVELOPING ORGANIZATIONS TO PROMOTE SUSTAINABLE INVESTMENT**

Sustainable and responsible investors have exerted influence to make public policy that helps create conditions—including level playing fields—that allows sustainable enterprises to compete and thrive.

In the United States, responsible investors played an important role in advancing key elements of the

Dodd-Frank Wall Street Financial Reform and Consumer Act of 2010 (“Dodd-Frank Act”). Among the priorities for which they successfully advocated were provisions to: require greater accountability by publicly traded companies concerning executive compensation and pay disparity, facilitate shareholders’ ability to nominate directors to the boards of portfolio companies, curtail the trade of conflict minerals from war-torn areas of central Africa, and require publicly traded companies in the extractive industries to disclose their payments to national governments. By advocating for the creation of the Consumer Financial Protection Bureau, another important outcome of the Dodd-Frank Act, responsible investors contributed to protecting American consumers from unfair, deceptive and abusive financial practices.

US SIF and sustainable investors, in a coalition with a diverse set of partners, played an important role in the US Department of Labor’s decision to rescind its 2008 bulletin on Economically Targeted Investments, which had discouraged fiduciaries for private sector retirement plans from considering environmental and social factors in their investments. In its place, Labor Secretary Thomas Perez issued guidance that makes clear that fiduciaries may incorporate “ESG-related tools, metrics and analyses to evaluate an investment’s risk or return or choose among otherwise equivalent investments.”

Sustainable investors have mobilized in support of stronger environmental regulations, helping to ensure that companies report information on their greenhouse gas emissions and risks related to climate change. Sustainable investors actively endorsed the US Environmental Protection Agency’s 2011 rule on curbing mercury and other toxic emissions from coal- and oil-fired electric generating units. They have also endorsed the EPA’s Clean Power Plan (CPP), a crucial step in meeting the United States’ international commitment to reduce carbon emissions by as much as 28 percent below 2005 levels by 2025.

To help address global human rights violations, SRI investors joined with civil society organizations to call for an end to human rights abuses in Burma and Sudan, and some developed targeted divestment policies for those countries or held shareholder campaigns to raise concerns to multinational companies operating there. These strategies increased public awareness of the human rights concerns in both countries and helped to build public support for global economic and diplomatic pressure on their governments. US sanctions against Burma have since been lifted, as the military junta has moved to share power with democratically elected representatives.

Sustainable investors have founded and supported US and global organizations that promote sustainable investment. Many of these organizations have produced research that underscores that environmental, social and corporate governance issues can pose material financial risks and opportunities to companies and therefore should be considered in fiduciaries’ due diligence efforts.



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# INTRODUCTION

Sustainable, responsible and impact investors have used multiple strategies to effect change, often in partnership with other individuals and organizations. While the history of sustainable, responsible and impact investing (SRI) spans many decades,<sup>2</sup> this paper focuses on the impact that SRI has had in the past 25 years. It presents examples of how sustainable and responsible investors have made important advances through their approaches, not only with public equity investing, but also with such asset classes as cash, fixed income and alternative investments that include private equity, venture capital, real estate and infrastructure, among others.

The past 25 years have shown that environmental, social and governance (ESG) factors can affect shareholder value and corporate and investment portfolio risk and return, discrediting the longstanding perception that fiduciary duty precludes consideration of ESG criteria in institutional investment decisions. In 2005, international law firm Freshfields Bruckhaus Deringer found, after examining fiduciary law in nine developed markets, including the United States, that, "...the links between ESG factors and financial performance are increasingly being recognized. On that basis, integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions."<sup>3</sup>

In 2015, a follow-on report to the Freshfields study was produced by the Principles for Responsible Investment (PRI), United Nations Environment Programme Finance Initiative (UNEP FI) and the United Nations Global Compact. The authors, informed by interviews with policymakers, lawyers and senior investment professionals, concluded that "[f]ailing to consider long-term investment value drivers, which include environmental, social and governance issues, in investment practice is a failure of fiduciary duty."<sup>4</sup>

The authors explain that while the law relating to fiduciary duty has changed little in the past decade, there has been a significant increase in ESG disclosure requirements and in the use of soft law instruments such as stewardship codes for investment managers and asset owners. Moreover:

*...the economic and market environment in which the law is applied has changed dramatically. Factors such as globalization, population growth and natural resource scarcity, the internet and social media, and changing community and stakeholder norms all contribute to the evolution in the relevance of ESG factors to investment risk and return. This necessarily changes the standards of conduct required of fiduciaries to satisfy their duties under the law.<sup>5</sup>*

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2. While this paper focuses on examples of the impact that responsible investors have had in the past 25 years, one notable historic example should be mentioned: the anti-apartheid campaigns that played a role in advancing democracy in South Africa. To protest against the South African regime's system of racial inequality, numerous endowments and other institutions took action, some of them divesting their portfolios of companies doing business in the country beginning in the 1970s and continuing through the 1980s. Other institutional investors urged companies operating in South Africa, often through shareholder resolutions, to work for meaningful change in that country or to withdraw their operations there. Investor efforts and advocacy helped create the US domestic political environment that enabled the passage of the Comprehensive Anti-Apartheid Act in 1986. The South African government was influenced in part by the growing international outcry over apartheid—and tightening sanctions—to begin negotiations with black opposition leaders on a transition to the country's first democratic elections in 1994.

3. Freshfields Bruckhaus Deringer and United Nations Environment Programme Finance Initiative, *A Legal Framework for the Integration of Environmental, Social, and Governance Issues into Institutional Investment* (2005). Available at [http://www.unepfi.org/fileadmin/documents/freshfields\\_legal\\_resp\\_20051123.pdf](http://www.unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf).

4. Principles for Responsible Investment, United Nations Environment Programme Finance Initiative and United Nations Global Compact, *Fiduciary Duty in the 21st Century* (2015), 9. Available at [http://www.unepfi.org/fileadmin/documents/fiduciary\\_duty\\_21st\\_century.pdf](http://www.unepfi.org/fileadmin/documents/fiduciary_duty_21st_century.pdf).

5. *Ibid.*, 12-13.

US regulators have also weighed in on the implications of the Employment Retirement Income Security Act (ERISA) regarding SRI and fiduciary duty. In October 2015, the US Department of Labor rescinded a 2008 bulletin that had discouraged investors from considering environmental and social factors in the companies in which they invest. The Department of Labor Bulletin on Economically Targeted Investments, 29 CFR 2509.08-1, issued in October 2008, arbitrarily disfavored the consideration of environmental and social risks and opportunities in assessing potential investments. The new Interpretive Bulletin that the Department issued in its place assures that “fiduciaries need not treat commercially reasonable investments as inherently suspect or in need of special scrutiny merely because they take into consideration environmental, social, or other such factors.”<sup>6</sup>

Several academic studies have shown that companies with good ESG policies and indicators perform better financially. A working paper published by the Harvard Business School found evidence that highly sustainable companies have significantly outperformed their counterparts over the long term both in terms of stock market and accounting performance.<sup>7</sup> In 2015, Deutsche Asset & Wealth Management and Hamburg University conducted a meta-analysis of over 2,000 empirical studies, making it the most comprehensive review of academic research on this topic. They found that the majority of studies show a positive correlation between ESG standards and corporate financial performance (CFP).<sup>8</sup> The authors noted:

*The results show that the business case for ESG investing is empirically very well founded. Roughly 90 percent of studies find a non-negative ESG–CFP relation. More importantly, the large majority of studies reports positive findings. We highlight that the positive ESG impact on CFP appears stable over time.*<sup>9</sup>

As more empirical evidence for positive correlations between sustainability factors and financial performance has emerged, professional education bodies for financial management have taken note. The CFA Institute, a global not-for-profit association of investment professionals that grants the Chartered Financial Analyst (CFA) designation, has become more active in ESG education in the past several years. In 2008, it published a manual for investors to help them understand and assess ESG factors in fulfilling their fiduciary responsibilities.<sup>10</sup> In 2015, the CFA published *Environmental, Social, and Governance Issues in Investing: A Guide for Investment Professionals*.<sup>11</sup> The CFA also has a dedicated webpage “[Explore Environmental, Social, and Governance \(ESG\) Issues in Investing](#)” with links to its publications, articles and other educational resources on this topic.

Since 2013, the US SIF Foundation’s [Center for Sustainable Investment Education](#) has offered an introductory course for investment professionals on the *Fundamentals of Sustainable and Responsible Investment*. Those who successfully complete the course receive continuing education credits from investment education bodies including the CFA Institute and the CFP® Board. The PRI Academy, an

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6. Department of Labor, Employee Benefits Security Administration, *Interpretive Bulletin Relating to the Fiduciary Standard under ERISA in Considering Economically Targeted Investments*, October 26, 2015. Available at <https://www.federalregister.gov/articles/2015/10/26/2015-27146/interpretive-bulletin-relating-to-the-fiduciary-standard-under-erisa-in-considering-economically>.

7. Robert Eccles, Ioannis Ioannou, & George Serafeim, *The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance*, Harvard Business School (2013).

8. Gunnar Friede, Timo Busch & Alexander Bassen, “ESG and financial performance: aggregated evidence from more than 2000 empirical studies,” *Journal of Sustainable Finance & Investment* (2015), 5:4, 210, DOI: <http://www.tandfonline.com/doi/pdf/10.1080/20430795.2015.1118917>.

9. Ibid.

10. CFA Institute, *Environmental, Social, and Governance Factors at Listed Companies: A Manual for Investors* (2008). Available at <http://www.cfapubs.org/toc/ccb/2008/2008/2>.

11. CFA Institute, *Environmental, Social, and Governance Issues in Investing: A Guide for Investment Professionals* (2015). Available at <http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2015.n11.1>.

initiative of the Principles for Responsible Investment, discussed more fully in Chapter Four, also offers professional education in sustainable investment issues.

With the growth of the SRI field and in the acceptance of SRI concepts, it is helpful to take stock of the larger impact of these developments. This paper provides this assessment in four main chapters.

**Chapter One** offers examples of how SRI professionals have changed the investment industry and investors. **Chapter Two** provides examples of how sustainable and responsible investors have influenced companies through shareholder advocacy, demonstrated by active ownership and engagement strategies. **Chapter Three** illustrates how SRI has assisted communities through investments and investment intermediaries that provide financial services to low- and moderate-income communities. **Chapter Four** offers examples of how sustainable and impact investors have achieved progress on various environmental, social and governance issues by influencing public policy and by supporting the development of US and global organizations to promote sustainable investment.

The appendix provides a list of and links to numerous reports, organizations and other resources for readers interested in learning more about sustainable, responsible and impact investment.

# CHAPTER ONE

## Changing the Investment Industry and Adding Options for Investors

Sustainable, responsible and impact investors changed the world of investment by challenging the bifurcation between an investment's financial performance and its impacts—both positive and negative—on the environment and society. SRI investing has fundamentally altered the perception of what a sound investment process must consider in addition to traditional measures of financial performance. Because of sustainable and responsible investors' work in documenting and publicly articulating the strong business case for the inclusion of environmental, social and governance factors in investment decisions, this is no longer a novel or uncomfortable concept.

As a result, a growing number of investment firms—including many that do not brand themselves as SRI—now incorporate ESG criteria and questions into investment analysis across a range of asset classes. Indeed, at the start of 2014, approximately \$6.57 trillion in professionally managed assets in the US market considered ESG criteria in portfolio construction, investment analysis or shareholder engagement. These changes in the professional investment industry have generated new investment options and services for both institutional and individual investors.

There are many approaches to portfolio construction with ESG information, including exclusion of securities that do not meet specified criteria, adjusting portfolio weights based on ESG performance, and the use of ESG information in assessing security valuation and establishing price targets. These methods have been applied to an increasingly broad array of investment disciplines: value and growth, active and passive, enhanced and smart-beta products, broad and themed funds, and all parts of the market capitalization spectrum.

The growing acceptance of incorporating ESG criteria into financial analysis has led, in turn, to the creation of SRI indices and of stock exchanges that require ESG data disclosure. It has also spurred the growth of innovative investment options across a range of asset classes, such as green bonds, gender lens investment products and private equity vehicles seeking environmental and social impacts. SRI, sometimes under the labels of mission investing and impact investing, has gained attention from high net worth individual and institutional investors. Individual retail investors have also benefited from the changing investment industry. They now have access to experienced SRI financial advisors as well as increased product options.

### IMPACT ON THE PROFESSIONAL INVESTMENT INDUSTRY

#### ESG Incorporation

For many SRI investors, impact often starts by applying ESG criteria or themes to investment analysis and portfolio selection. ESG incorporation is conducted through four principal methods and in combinations thereof, as seen in Figure 1.1.

Figure 1.1: ESG Incorporation Strategies

### 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 factors into financial analysis.

### Themed investing

The selection of assets relating to specific aspects, sectors or geographic areas of ESG impact in single- or multi-themed funds.

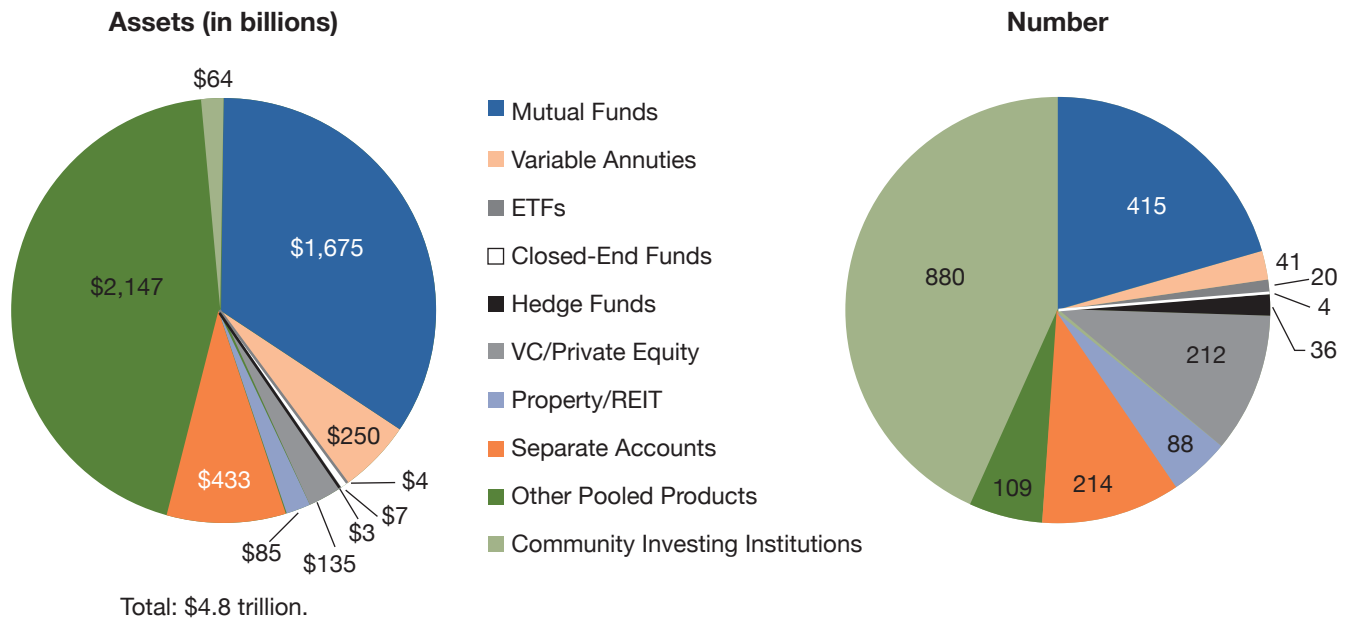
By considering ESG criteria, money managers and institutional investors seek to identify companies that are attractive for investment because they have superior management practices or present lower risk to investors and other stakeholders. ESG criteria, like traditional financial criteria, are not static and have evolved over time to encompass a wide range of indicators and to take into account emerging trends. This has led to more disclosure from companies, more tools and methods for investors to analyze ESG risks and opportunities, and in many cases more favorable risk/return benefits for investors over the long term.

Money managers incorporate ESG issues across a range of asset classes and investment vehicles. These include registered investment companies such as mutual funds and exchange traded funds. They also include alternative investment vehicles such as venture capital, private equity, hedge and responsible property funds as well as other commingled, pooled products typically reserved for specific kinds of institutions or other accredited high net worth investors.

In its biennial Trends report of 2014, the US SIF Foundation identified 925 investment funds and 214 separate account strategies that incorporated ESG criteria into their investment analysis or portfolio selection, compared with 720 and 178, respectively, in 2012. In addition, it identified 880 US-based community investing institutions in 2014. Altogether, the assets of these ESG investment products and community investing institutions increased from \$1.41 trillion to \$4.80 trillion, in part because of the implementation of ESG integration across a wide range of assets by some mainstream money managers that disclosed this information for the first time.<sup>12</sup> The following figure shows the 2014 breakdown of investment vehicles by assets and the number of financial institutions.

12. For more information on the recent rise of ESG integration, see: US SIF Foundation, *Unlocking ESG Integration* (2015). Available at <http://www.ussif.org/files/Publications/UnlockingESGIntegration.pdf>.

**Figure 1.2: Types and Assets of Investment Vehicles and Financial Institutions Incorporating ESG Criteria 2014**



SOURCE: US SIF Foundation.

NOTE: For the purpose of this figure, community development venture capital funds are grouped with community investing institutions.

### Creation of SRI indices

The popularity of sustainable investing has contributed to the creation and growth of SRI indices. Since the May 1990 launch of the pioneering Domini 400 Social Index, now known as the MSCI KLD 400 Social Index, there has been a dramatic expansion of indices, along with hundreds of unique sub-indices, which incorporate ESG criteria. Both sustainable investment and research firms, such as Calvert Investments, Pax World Management, Sustainalytics and WilderShares, offer such indices, as do other financial services groups, such as S&P Dow Jones, FTSE, MSCI, STOXX and Thomson Reuters. Leading global stock exchanges, such as NASDAQ OMX, NYSE Euronext, Deutsche Boerse and the Johannesburg Stock Exchange, have also launched SRI indices.

ESG indices fulfill several important functions. They:

- establish performance benchmarks,
- serve as a basis for passive investment vehicles,
- provide investment universes for active managers,
- set standards for responsible corporate behavior, and
- help compare the broad performance of SRI and non-SRI universes.

Indices generate historical statistics that support a deeper understanding of ESG investing through a data stream that provides objective information on how SRI affects performance, risk and financial fundamentals.

The longest historical track records come from four indices: the KLD 400, established in 1990 to address US investment, the Jantzi Social Index, established in 2000 to address investment in Canada, and two indices established in 2001 to address global investment—the Dow Jones Sustainability Index and FTSE4Good. The MSCI KLD 400 index and other SRI indices have been the subject of many studies.

In terms of financial return, SRI indices achieve comparable performance to traditional indices. According to a 2014 analysis by TIAA-CREF (now TIAA), “leading SRI equity indexes over the long term found no statistical difference in returns compared to broad market benchmarks, suggesting the absence of any systemic performance penalty.”<sup>13</sup> The study also found that no additional risk was entailed by incorporating environmental, social and governance criteria in security selection.<sup>14</sup> Performance varies by ESG index and the specific time frame under consideration. For example, in the last six years, the MSCI KLD 400 Social Index outperformed the MSCI USA IMI Index in 2015, 2014, 2013 and 2011, 2009 and 2008, but not in 2012, 2010, 2007 or 2006 (see Figure 1.3).<sup>15</sup>

Figure 1.3: Annual Performance of Two MSCI Indices (%)

Year	MSCI KLD 400 Social Index	MSCI USA IMI
2015	0.94	0.64
2014	12.72	12.51
2013	36.20	33.39
2012	13.24	16.41
2011	1.60	1.23
2010	11.89	17.17
2009	31.73	28.72
2008	-34.94	-36.98
2007	3.72	5.78
2006	13.26	15.70

SOURCE: MSCI KLD 400 Social Index (USD), [https://www.msci.com/resources/factsheets/index\\_fact\\_sheet/msci-kld-400-social-index.pdf](https://www.msci.com/resources/factsheets/index_fact_sheet/msci-kld-400-social-index.pdf). Accessed February 26, 2016.

In addition to providing a historical track record that gives insights into ESG investing, indices provide asset managers with a valuable basis for developing investment products. In the United States, companies including Calvert Investments, Green Century Capital Management, Northern Trust, Pax World Management and TIAA offer ESG index mutual funds. Additionally, iShares sponsors ESG exchange-traded funds (ETFs). Such products track the underlying index, typically providing investors with low-cost alternatives to actively managed funds. Index funds also often have low turnover and fit the long-term orientation of sustainable investors.

13. TIAA-CREF Asset Management, *Socially Responsible Investing: Delivering Competitive Performance* (2014).

14. Ibid.

15. MSCI, *MSCI KLD 400 Social Index* (USD). Available at [https://www.msci.com/resources/factsheets/index\\_fact\\_sheet/msci-kld-400-social-index.pdf](https://www.msci.com/resources/factsheets/index_fact_sheet/msci-kld-400-social-index.pdf), accessed February 26, 2016.

## ESG INDICES CAN SERVE AS A BASIS FOR DEVELOPING INVESTMENT PRODUCTS, SUCH AS ESG MUTUAL FUNDS AND EXCHANGE-TRADED FUNDS.

Active equity managers—using quantitative and/or fundamental strategies—can select companies from the investment universe set by an index, which allows them to benefit from the research embedded in ESG indices' selection processes.

Another important contribution of ESG indices is that they set transparent standards for corporate behavior as it relates to ESG issues. To the extent that indices are rules-based, they provide a consistent yardstick for the criteria that qualify companies to be selected or excluded. Corporations understand the value of inclusion in an index and, through their efforts to ensure inclusion in ESG indices, may demonstrate their commitment to addressing corporate social responsibility. In this way, ESG indices provide a benchmark for corporations and investors.

### Creation of Specialized Stock Exchanges

Another way that sustainable and responsible investors have influenced global investment practices is by promoting the creation of specialized stock exchanges that require companies to disclose sustainability data to qualify for listing or inclusion. Stock exchanges, often working with government agencies, also have created SRI indices or revised their listing requirements to include disclosure of social and environmental data from listed companies.

Sustainability Stock Exchanges (SSE), an initiative of the Principles for Responsible Investment, UN Environment Programme Finance Initiative, UN Global Compact and UN Conference on Trade and Development, undertook a review of 55 exchanges in 2014. It reported that of these exchanges:

- more than 40 percent offer at least one index integrating social and/or environmental issues,
- more than one-third provide either sustainability reporting guidance or training to the listed companies on their exchange, and
- 12 require aspects of environmental and social reporting for at least some of their companies, with seven of those exchanges requiring such reporting for all listed companies.<sup>16</sup>

In 2014, the World Federation of Exchanges (WFE) launched a sustainability working group. In a survey of the 60 WFE member exchanges, 56 responded, of which 32 said that “listed companies on their markets were required to disclose some ESG information beyond corporate governance....”<sup>17</sup> In addition, respondents have created at least 22 different sustainable- and ESG-related indices, including four launched in 2014.<sup>18</sup> In 2015, the WFE released recommendations for its member exchanges that identifies over 30 key ESG performance indicators that they can incorporate into their disclosure guidance for companies listed in their markets.<sup>19</sup>

16. Sustainable Stock Exchanges Initiative, *Sustainable Stock Exchanges 2014 Report on Progress* (2014), V. Available at <http://www.sseinitiative.org/wp-content/uploads/2012/03/SSE-2014-ROP.pdf>.

17. World Federation of Exchanges, *Sustainability Working Group, Exchanges and ESG Initiatives—SWG Report and Survey* (2015), 11.

18. *Ibid.*, 18.

19. World Federation of Exchanges, *World Exchanges Agree Enhanced Sustainability Guidance*, November 4, 2015, accessed March 31, 2016. Available at <http://www.world-exchanges.org/home/index.php/news/world-exchange-news/world-exchanges-agree-enhanced-sustainability-guidance>.



Across the globe, exchanges such as the London Stock Exchange, Johannesburg Stock Exchange, São Paulo Stock Exchange, Bolsa Mexicana de Valores (BMV) and Borsa Istanbul Stock Exchange have been influential in increasing the disclosure of environmental and social information.

As a co-owner of the FTSE Group (now FTSE Russell), the London Stock Exchange was involved early in the development of SRI indices, by helping to launch the FTSE4Good Index Series in 2001. FTSE4Good enabled investors to compare company performance based on globally recognized corporate responsibility standards.

In May 2004, the Johannesburg Stock Exchange (JSE) launched its Socially Responsible Investment Index, which identifies the companies listed on the JSE that meet minimum criteria for integrating sustainability principles into business practices and reporting on sustainability performance. Indexed companies must report on a minimum number of core and desirable indicators, as well as set targets in at least a few areas. In early 2015, the JSE announced a partnership with global index provider FTSE Russell to align its ESG disclosure indicators and data collection methodology with FTSE Russell's ESG approach.<sup>20</sup> In October 2015, the two partners launched the FTSE/JSE Responsible Investment Series in response to “a significant increase in the number of institutional investors wanting to integrate ESG considerations into their investments.”<sup>21</sup>

In Brazil, the São Paulo Stock Exchange (BM&F BOVESPA) created the Corporate Sustainability Index (ISE) in December 2005, in coordination with the Brazilian Ministry of the Environment, the Brazilian Association of Pension Funds, the United Nations Environment Programme (UNEP) and other organizations. The Center for Sustainability Studies at the Business Administration School of São Paulo assesses the exchange's most liquid stocks for inclusion in the index, using a questionnaire covering ESG criteria. The tenth iteration of the ISE, effective from January 5, 2015, to January 2, 2016, showed a “significant increase to companies' transparency,” with 34 companies (85 percent of the total new portfolio) authorizing the publication of their answers to the questionnaire.<sup>22</sup> ISE has partnered with KPMG for process validation.<sup>23</sup>

In Mexico, the Bolsa Mexicana de Valores (BMV), the second-largest exchange in Latin America after BM&F BOVESPA, announced the full launch of its sustainability index in December 2011. Companies eligible for inclusion are assessed according to their performance, impact and responses to emerging

#### STOCK EXCHANGES THAT REQUIRE ESG DATA DISCLOSURE AS A LISTING REQUIREMENT INCLUDE:

- BOLSA MEXICANA DE VALORES
- BORSA ISTANBUL
- BURSA MALAYSIA
- DEUTSCHE BÖRSE AG
- THE JOHANNESBURG STOCK EXCHANGE
- THE LONDON STOCK EXCHANGE
- THE SÃO PAULO STOCK EXCHANGE
- THE SHANGHAI STOCK EXCHANGE
- THE SINGAPORE EXCHANGE
- STOCK EXCHANGE OF HONG KONG
- STOCK EXCHANGE OF THAILAND
- TORONTO STOCK EXCHANGE

20. Johannesburg Stock Exchange, *Socially Responsible Investment SRI Index*, accessed October 27, 2015. Available at: <https://www.jse.co.za/services/market-data/indices/socially-responsible-investment-index>.

21. FTSE Russell, *FTSE Russell and Johannesburg Stock Exchange launch new ESG indexes*, October 12, 2015, accessed October 27, 2015. Available at <http://www.ftse.com/products/home>.

22. BM&F BOVESPA, *BM&F BOVESPA Announces 10th Portfolio of the Corporate Sustainability Index*, November 16, 2014, accessed October 28, 2015.

23. Ibid.

ESG issues based on the methodology BMV initially developed with EIRIS (now Vigeo-EIRIS) and a local research partner.

In late 2014, the Borsa Istanbul (the Turkish stock exchange) launched the BIST Sustainability Index, which includes BIST 30 Index constituents that have met sustainability criteria chosen by Vigeo-EIRIS from its Global Platform. (BIST 30 is a subset of stock exchange companies.) Vigeo-EIRIS has trained researchers at Sabanci University Corporate Governance Forum, a local research group, to join it in assessing corporate performance for the index. The criteria include biodiversity, climate change, the environment, human rights, health and safety, bribery and board practice.

## Development of New and Innovative Investment Vehicles for SRI

Innovative SRI investment vehicles have been evolving across asset classes, such as alternative investments and fixed income, and through various thematic strategies, including fossil-fuel free investment vehicles and gender-lens investment products. This section highlights a few of the wide-ranging new and inventive SRI investment vehicles and investment themes.

**Alternative Investments:** Investments in alternative asset classes have long played a vital role in the history and development of SRI. Today, an increasing number of alternative investment products incorporate ESG criteria. At the outset of 2014, alternative investment vehicles—private equity and venture capital funds, property and real estate investment funds, and hedge funds—incorporating ESG criteria totaled \$224 billion compared to \$132.3 billion in 2012.<sup>24</sup>

**AT THE OUTSET OF 2014, ALTERNATIVE INVESTMENT VEHICLES—PRIVATE EQUITY AND VENTURE CAPITAL FUNDS, PROPERTY AND REAL ESTATE INVESTMENT FUNDS, AND HEDGE FUNDS—INCORPORATING ESG CRITERIA TOTALED \$224 BILLION.**

The 2014 survey by the US SIF Foundation identified 212 private equity and venture capital funds, with collective assets under management of \$135 billion, that consider ESG factors.<sup>25</sup> Many of the venture capital funds in this space seek early-stage investments in companies that have identified ways to be more environmentally or socially responsible before they are publicly traded. Venture capital funds specializing in alternative energy and clean technology companies have attracted considerable capital from mainstream venture capital investors over the last decade; 130 of the private equity and venture capital funds identified by the US SIF Foundation in 2014 had a focus on clean technology.<sup>26</sup>

One fund manager, Minneapolis-based North Sky Capital, has invested in such companies as:

- Orion Energy, a producer of efficient lighting systems, whose customers have saved more than \$2 billion in energy costs and have realized a reduction of 10 million tons of carbon dioxide,
- TAS Energy, a producer of high-efficiency cooling and energy systems whose products have eliminated more than nine million tons in carbon dioxide emissions and saved customers over \$2 billion, and
- Premium Power, a producer of low-cost energy storage to promote grid reliability when using alternative energy sources like wind and solar power.<sup>27</sup>

24. US SIF Foundation, *Report on US Sustainable, Responsible and Impact Investing Trends 2014* (2014), 40.

25. *Ibid.*, 41.

26. US SIF Foundation, *Sustainability Trends in US Alternative Investments* (2011).

27. North Sky Capital, *North Sky Capital Impact Report* (2014). Available at [http://assets.darkmatterplatform.com/file\\_assets/82/assets/8750/NSC\\_Impact\\_Report\\_2014-r.pdf?1444923538](http://assets.darkmatterplatform.com/file_assets/82/assets/8750/NSC_Impact_Report_2014-r.pdf?1444923538)

Sustainable and responsible investors have contributed to the growth in responsible property investment (RPI), the application of ESG analysis to investment in the built environment. This trend is a natural outgrowth of SRI interest in long-term wealth creation, as real estate investment entails tangible social and environmental impacts that investors can measure, and those impacts are material to long-term performance and risk assessment. Many real estate managers and developers adopt sustainability or community development strategies to differentiate themselves in the marketplace.

Some large real estate investment trusts (REITs) and real estate managers have added staff and programs to address energy and resource efficiency. In 2012, FTSE Group, the National Association of Real Estate Investment Trusts and the US Green Building Council (USGBC) created “the first investable green property indexes.”<sup>28</sup> The green data comes from USGBC, the non-profit organization that developed the LEED (Leadership in Energy and Environmental Design) certification to spur environmentally sustainable buildings. Some REITs have started to issue green bonds, which are discussed in more detail below. In 2014, Regency Centers Corporation became the first US REIT to issue a corporate green bond, raising \$247 million to fund green projects such as renovations for properties that have received LEED certification.<sup>29</sup> Other REITs have followed, including Vornado Realty Trust (in 2014) and Digital Realty Trust (in 2015).

**Green Bonds:** The growth of green bonds, issued to generate funding to support environmentally sustainable business ventures, is an example of an investment option that has arisen due to the interest and advocacy of sustainable investors. The Climate Bonds Initiative (CBI), an international, investor-focused non-profit, is at the forefront of tracking and advocating for this growing market. Green bond issuance more than tripled between 2013 and 2014 from \$11 billion to \$36.6 billion.<sup>30</sup> In 2015, this figure grew further to \$41.8 billion.<sup>31</sup> That year, the majority of green bond proceeds went to renewable energy (45.8 percent), energy efficiency (19.6 percent), low carbon transport (13.4 percent) and sustainable water (9.3 percent).<sup>32</sup> Development banks and corporates are the largest issuers.<sup>33</sup> The CBI launched the Climate Bond Standard, designed to provide investors and governments with independently certified bonds that provide assurance that the investments are contributing to the delivery of a low carbon economy.

**IN 2015, THE MAJORITY OF GREEN BOND PROCEEDS WENT TO RENEWABLE ENERGY (45.8 PERCENT), ENERGY EFFICIENCY (19.6 PERCENT), LOW CARBON TRANSPORT (13.4 PERCENT) AND SUSTAINABLE WATER (9.3 PERCENT).  
— THE CLIMATE BONDS INITIATIVE**

28 “FTSE Group, NAREIT and US Green Building Council Develop the First Investable Green Property Indexes,” PR Newswire, November 14, 2012, accessed February 19, 2016, <http://www.prnewswire.com/news-releases/ftse-group-nareit-and-us-green-building-council-develop-the-first-investable-green-property-indexes-179316671.html>.

29. “Regency Centers Releases Green Bond Use of Proceeds & Management Report,” Business Wire, May 11, 2015, accessed April 1, 2016, <http://www.businesswire.com/news/home/20150511005748/en/Regency-Centers-Releases-Green-Bond-Proceeds-Management>.

30. Climate Bonds Initiative, “New ‘Bonds and Climate Change: the state of the market in 2015’ report sizes the climate-aligned bonds universe at \$597.7 billion,” July 8, 2015, accessed May 17, 2016. Available at <http://www.climatebonds.net/files/files/CBI%20media%20release%20HSBC%202015.pdf>.

31. Climate Bonds Initiative, <https://www.climatebonds.net/>, accessed January 28, 2016.

32. Climate Bonds Initiative, 2015 *Green Bond Market Roundup*. Available at <http://www.climatebonds.net/files/files/2015%20GB%20Market%20Roundup%2003A.pdf>.

33. Ibid.

In June 2013, Massachusetts became the first US state to sell “green bonds.” Although municipal bonds targeted to environmental programs had previously been issued in the United States, these were the first to be marketed explicitly as “green bonds.” The \$100 million bond quickly sold out, receiving \$130 million in orders from 29 institutions as well as 154 individual investors. At least eight of these institutional investors were first time Massachusetts bond purchasers who became interested because of the green component. The capital raised has been directed towards environmental projects such as energy efficiency, conservation and clean water projects, and river revitalization. Since 2013, green municipal bonds have been issued by other states, financing authorities, cities, transportation authorities and universities.<sup>34</sup>

**Community and Place-Based Investing:** A prominent theme for many sustainable and impact investors is community development and place-based investing, both domestically and internationally. Many seek to spur economic development and generate affordable housing and community services in low-income or distressed communities. Numerous options are available to investors at both market and concessionary rates of return. Some investment managers will customize market-rate strategies for high net worth individuals and institutional investors that wish to focus on specific geographic regions or impact sectors. Hundreds of community development financial institutions also help channel investments to specific communities. (Community investing is discussed more fully in Chapter 3.)

**Fossil-Fuel Free Investment Vehicles:** In 2012, 350.org co-founder Bill McKibben authored an article in Rolling Stone titled “Global Warming’s Terrifying New Math,” which inspired a movement of students, non-profits, civil society leaders, investors and others to hasten action on climate change and to divest from fossil fuel companies. Some asset managers have answered the demand by creating products that do not invest in companies that extract or refine fossil fuels. Fossil fuel divestment policies, tracked for the first time in the US SIF Foundation’s 2014 Trends report, now affect tens of billions of dollars in assets.

Green America, a non-profit with a mission to harness the economic power of consumers, investors and businesses for social justice and sustainability initiatives, compiles a list of fossil-fuel free investment funds on its website.<sup>35</sup> Investment vehicles include mutual funds, exchange traded funds, certificates of deposit and retirement investment options. As You Sow and Morningstar also created a search platform, called Fossil Free Funds, which enables users to check if a mutual fund has fossil fuel investments.<sup>36</sup>

**FOSSIL FUEL DIVESTMENT POLICIES, TRACKED FOR THE FIRST TIME IN THE US SIF FOUNDATION’S 2014 TRENDS REPORT, NOW AFFECT TENS OF BILLIONS OF DOLLARS IN ASSETS.**

**Gender Lens Investment Products:** In the last several years, sustainable and responsible investors have advocated for and created products across asset classes to support companies and other institutions seeking to help women advance at all economic levels—from factory floors to corporate boardrooms—or to assist women and their families living in poverty or in under-served communities.<sup>37</sup>

34. Mike Cherney, “Massachusetts Goes ‘Green,’” *The Wall Street Journal*, June 4, 2013. Available at <http://online.wsj.com/article/SB10001424127887324563004578525762271478512.html>.

35. Green America, Divesting and Reinvesting: Creating a Fossil Free Portfolio, <http://www.greenamerica.org/fossilfree/>.

36. As You Sow and Morningstar, Fossil Free Funds, <http://fossilfreefunds.org/>.

37. To learn more, also see: US SIF Foundation, *Investing to Advance Women: A Guide for Individual and Institutional Investors* (2014). Available at [http://www.ussif.org/Files/Publications/SRI\\_Women\\_F.pdf](http://www.ussif.org/Files/Publications/SRI_Women_F.pdf).

In addition to considering standard financial metrics, these investment managers are approaching the investment process with a “gender lens.” This approach appeals to an increasing number of individuals, families, foundations, pension funds and investment firms exploring how to use their investment portfolios to address gender inequality and advance women.

There is also a business case for a gender lens approach, as some research studies suggest that companies that promote women to the most senior levels of decision-making, including executive suites and boards, tend to perform better than those companies that do not. For example, the Credit Suisse Research Institute tested the performance of 2,360 global companies over six years and found that companies with one or more women on the board delivered higher average returns on equity, better average growth and higher price/book value multiples.<sup>38</sup>

## Rating Funds on ESG Issues

In 2016, two initiatives were launched to provide investors with independent assessments of how well the underlying companies in a wide swath of mutual funds perform on ESG issues, a further sign of the growing demand for and appreciation of ESG factors in investment.

In March, Morningstar, an investment research firm well-known for its ratings of the financial performance of mutual funds and other investment products, announced a partnership with ESG research firm Sustainalytics to assess 20,000 mutual funds and exchange-traded funds around the world. Morningstar assigns a portfolio sustainability score to each fund in which at least 50 percent of the assets are covered by a company-level ESG score from Sustainalytics. Morningstar then assesses how the fund compares with at least 10 category peers.<sup>39</sup>

MSCI also announced in March 2016 that in response to demand from its clients, including some of the world’s largest wealth managers, it was launching MSCI ESG Fund Metrics to measure the ESG characteristics of the portfolio holdings of approximately 21,000 mutual funds and ETFs. The offering ranks funds on factors including sustainable impact and ESG risks, including carbon footprint. Each fund receives an overall score that reflects the ability of the underlying holdings to manage medium- to long-term risks and opportunities.<sup>40</sup>

## Emergence of Program, Mission and Impact Investing

In recent years, the promotion of program-related, mission and impact investing has helped to increase awareness among foundations, other institutional investors and high net worth individuals of the potential to use investments to amplify their social and environmental impact.

**Program-Related Investing:** The Tax Reform Act of 1969 enabled US foundations to meet their annual charitable distribution requirements in part through program-related investments (PRIs), investments that may yield below-market returns, but which complement and extend the more traditional grantmaking of foundations.

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38. Credit Suisse, *Gender Diversity and Corporate Performance* (2012), 3. Available at <https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=88EC32A9-83E8-EB92-9D5A40FF69E66808>.

39. Morningstar press release, “Morningstar Introduces Industry’s First Sustainability Rating for 20,000 Funds Globally, Giving Investors New Way to Evaluate Investments Based on Environmental, Social, and Governance (ESG) Factors,” March 1, 2016. Available at [https://www.morningstar.com/news/pr-news-wire/PRNews\\_20160301CG33842/morningstar-introduces-industrys-first-sustainability-rating-for-20000-funds-globally-giving-investors-new-way-to-evaluate-investments-based-on-environmental-social-and-governance-esg-factors.html](https://www.morningstar.com/news/pr-news-wire/PRNews_20160301CG33842/morningstar-introduces-industrys-first-sustainability-rating-for-20000-funds-globally-giving-investors-new-way-to-evaluate-investments-based-on-environmental-social-and-governance-esg-factors.html).

40. MSCI press release, “MSCI ESG Research Scores Funds on Sustainability,” March 8, 2016, Available at <https://www.msci.com/documents/10199/84bcc5fa-783e-4358-9696-901b5a53db3b>.

While grants tend to function like charitable contributions, program-related investments provide foundations with a return, either through repayment or return on equity. PRIs can be designed to produce at market, above market, or below market financial returns, but the US Internal Revenue Service stipulates that: “They must be investments that would not have been made except for their relationship to the exempt purposes.”<sup>41</sup> Foundations are thus able to recycle returns on PRIs for subsequent charitable investments and grants, and they can count PRIs toward the minimum 5 percent annual payout of net assets required under US tax law. For example, in 2015 the David and Lucile Packard Foundation made a \$4 million PRI loan to Acelero Learning, a for-profit provider of early childhood education and family engagement services.<sup>42</sup> Acelero focuses on closing the achievement gap of thousands of low income children and families in the United States served by the Head Start program.

In April 2016, the US Treasury and IRS finalized regulations making it easier for private foundations to make PRIs. The regulations include nine new examples of investments that qualify as PRIs. The new guidance “reassures foundations that a wide range of investments can qualify as PRIs and reduces the perceived need for legal counsel or IRS rulings in many cases.”<sup>43</sup>

**Mission-Related Investing:** Foundations have also become involved in mission-related investing (MRI) in recent years, applying ESG criteria to the investment of foundation endowments.<sup>44</sup> This type of investing primarily involves market rate investments that support program goals, and is seen by many foundations as a way to multiply their mission impact beyond their grantmaking dollars. Some foundations also want to ensure that their endowments are not invested in a way that runs counter to their mission and program goals.

The practice of mission-related investing is expected to increase going forward. In September 2015, the IRS issued a new ruling stating that these investments do not necessarily jeopardize a foundation’s financial future and should not automatically be subject to a tax.<sup>45</sup> It states:

*When exercising ordinary business care and prudence in deciding whether to make an investment, foundation managers may consider all relevant facts and circumstances, including the relationship between a particular investment and the foundation’s charitable purposes. Foundation managers are not required to select only investments that offer the highest rates of return, the lowest risks, or the greatest liquidity so long as the foundation managers exercise the requisite ordinary business care and prudence under the facts and circumstances prevailing at the time of the investment in making investment decisions that support, and do not jeopardize, the furtherance of the private foundation’s charitable purposes.*<sup>46</sup>

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41. US Internal Revenue Service, Program-Related Investment, accessed May 17, 2016. Available at <https://www.irs.gov/Charities-&-Non-Profits/Private-Foundations/Program-Related-Investments>.

42. “Acelero Learning Receives \$4 million Program-Related Investment from the Packard Foundation,” PR Newswire, May 20, 2015, accessed March 31, 2016, <http://www.prnewswire.com/news-releases/acelero-learning-receives-4-million-program-related-investment-from-the-packard-foundation-300086884.html>.

43. The White House, *Steps to Catalyze Private Foundation Impact Investing*, April 21, 2016. Available at <https://www.whitehouse.gov/blog/2016/04/21/steps-catalyze-private-foundation-impact-investing>

44. US SIF Foundation, *Report on Sustainable and Responsible Investing Trends in the United States 2012* (2012). Executive Summary available at [http://www.ussif.org/files/Publications/12\\_Trends\\_Exec\\_Summary.pdf](http://www.ussif.org/files/Publications/12_Trends_Exec_Summary.pdf).

45. US Internal Revenue Service, “Investments Made for Charitable Purposes,” accessed May 17, 2016. Available at <http://www.irs.gov/pub/irs-drop/n-15-62.pdf>.

46. Ibid.

**Impact investing:** In the last decade, numerous institutions have begun to use the term “impact investing” to describe the active, intentional investment of capital into private vehicles that create social or environmental benefits alongside financial returns. Other investors use this term to describe making impacts in all asset classes—or through full portfolio activation. While the term “impact investing” is relatively new, the concept is not as sustainable and responsible investors have long pursued social and environmental outcomes across asset classes.

One sign of the growing interest in using investments for impact is the June 2013 decision of the G7—the governments of the seven largest countries by national income—to establish bodies in each of their countries to explore the potential for impact investing in order to accelerate economic growth and address societal needs. To meet this agreement in the United States, the US National Advisory Board was formed with representatives of foundations, entrepreneurs and private investors. The US body’s June 2014 report, *Private Capital, Public Good*, issued recommendations to the federal government on policies to undertake to enable the impact investment field to grow.

**WHILE THE TERMINOLOGY OF “IMPACT INVESTING” IS RELATIVELY NEW, SUSTAINABLE AND RESPONSIBLE INVESTORS HAVE LONG PURSUED SOCIAL AND ENVIRONMENTAL OUTCOMES ACROSS ASSET CLASSES.**

One segment of institutional investors that has recently expressed interest in investing for impact is family offices. Although publicly available data on family offices is limited, anecdotal evidence suggests that they are making more frequent inquiries to family office membership associations, financial advisors and consultants about adopting sustainable investment strategies. In addition, Armonia LLC, Blue Haven Initiative and Pi Investments are examples of family offices that have publicly announced sustainable and impact investments with details such as target sector and investment level. Family offices are looking at a range of asset classes as they consider how to make an impact.

Darren Walker, the president of the Ford Foundation and a high-level voice supporting sustainable and impact investing, said in a November 2015 blog: “I no longer find it defensible to say that our investment strategy is only to maximize the value of our endowment—just as it’s no longer defensible for a corporation to say its only responsibility is to maximize shareholder value. There is growing evidence that it is possible to find impact investing opportunities that deliver financial and social, double bottom-line returns.”

## **IMPACT ON INDIVIDUAL INVESTORS**

In the same way that millions of Americans ask questions about whether their coffee is fair trade or organic, the labor conditions that produced their clothing, and the carbon footprint of their electricity company, they also want to ensure that their investment portfolio supports companies working to advance environmental, social and governance issues. In other words, many Americans see investing as part of their overall activity towards building a more sustainable world.

The development of the sustainable investment field has provided individual investors with a wider array of product options. This is true whether the investor is a high net worth individual or an individual whose investment universe is more limited. Investors have benefited by gaining access to retirement plans with SRI options, and also to specialized SRI financial planners and advisors who can help them devise investment strategies for goals such as college education and retirement.

## Increased Product Options

The average American investor who wants his or her investments to address environmental, social and governance issues has multiple product options. The investor can find many resources—such as websites, studies and academic journals—with information on sustainable investing as well as ESG information on popular brands.

Individual investors interested in impact investing not only have mutual fund, bond and stock portfolio products, but also community investment options, such as making cash deposits in credit unions and community banks as well as investments in loan funds and in other innovative community investment vehicles. Retail investors can also engage in international microenterprise lending. High net worth individuals—and other accredited investors—also can invest in private equity and other alternative investments.

## Availability of SRI Options in Retirement Plans

Today, an increasing number of Americans rely on defined contribution (DC) pension plans for their retirement. More public sector and private sector employers are offering retirement plans with one or multiple sustainable investing options. The 2011 US SIF Foundation/Mercer report *Opportunities for Sustainable and Responsible Investing in US Defined Contribution Plans*, found that 14 percent of the 421 DC plan sponsors responding to the survey already offer one or more SRI options. Social(k), a provider of ESG-screened retirement investment options, estimated that at the end of 2014, 15–20 percent of 401(k) plans were offering SRI options.<sup>47</sup> Anecdotally, SRI money managers such as Neuberger Berman and Calvert Investments have noted increased inquiries from companies regarding SRI options for retirement plans.<sup>48</sup> In 2015, Calvert Investments conducted a comprehensive survey of retirement plan participants and their views about SRI. While familiarity with the term “responsible investing” was low, respondents expressed strong interest once they were educated about it. The survey found that 87 percent of respondents want investment options that are aligned with their values.<sup>49</sup>

Federal employees do not yet have SRI options in their retirement plan. However, in July 2015, after several years of engagement by US SIF, the Federal Retirement Thrift Investment Board (FRTIB) voted to move forward with developing a mutual fund window option for the 4.7 million federal employees and military personnel served by the Thrift Savings Plan (TSP), the country’s largest defined contribution plan. Moving to a window platform would facilitate the inclusion of SRI options in the TSP.

## Access to Experienced SRI Financial Planners and Advisors

Investors now have access to experienced financial advisors and money managers who have in-depth knowledge about sustainable and impact investing and can help clients define and meet their investment goals. Many such advisors will work with their clients to vote their proxies, a process that allows them to influence company actions and policies, thus assisting their clients in becoming engaged investors.

There are several national networks of SRI-only advisory firms, which provide continuing education opportunities for these advisors and identify them as specialists in SRI. These include the First Affirmative Financial Network, Progressive Asset Management, and Natural Investments. Financial advisors knowledgeable about SRI can also be found in US SIF’s online membership directory.

In addition, hundreds of SRI and conventional advisors each year take courses and attend SRI industry conferences to become better informed about the evolution of and opportunities in the industry.

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47. Liz Skinner, “Demand for Socially Responsible Investing Options in 401(k)s on the Rise,” *InvestmentNews*, November 14, 2014, accessed October 16, 2015. Available at <http://www.investmentnews.com/article/20141114/FREE/141119944/demand-for-socially-responsible-investing-options-in-401-k-s-on-the>.

48. Ibid.

49. Calvert Investments, *New Survey: Responsible Investment Options Could Boost Retirement Plan Participation, Contribution Rates*, accessed March 31, 2016. Available at <http://www.calvert.com/resources/advisor-resources/retirement-plan-advisors/retirement-plan-survey>.



## CHAPTER TWO:

# Improving Companies through Active Ownership and Engagement

For decades, sustainable, responsible and impact investors have used active ownership and engagement strategies to bring critical ESG issues to the attention of company senior management and other stakeholders and to drive positive change in corporate policies and performance. Though engagement is more common in publicly-traded companies, it can also occur in privately-held companies.

### PUBLICLY TRADED COMPANIES

SRI investors have used their position as shareholders in publicly traded companies to encourage forward-looking policies and corporate improvements. The tools they can use individually or in concert with other investors and non-investor organizations are listed in Figure 2.1.

Figure 2.1: Shareholder Engagement Strategies and Tools



Active ownership strategies can create a ripple effect: investors urge a few companies to take action on an issue, and other companies take note and adopt more sustainable policies to avoid becoming the targets of similar shareholder action, or being conspicuous for not having industry-leading policies.

### Proxy Voting and Shareholder Resolutions

The proxy system is often the principal means for shareowners and companies to communicate with one another and for shareowners to weigh in on important issues. Each year, companies seek votes from shareholders on items pending on their annual proxy statements, including approval of their boards of directors. According to the US Securities and Exchange Commission (SEC), more than 600 billion shares are voted at more than 13,000 shareholder meetings every year.<sup>50</sup> The SEC requires investment managers to disclose to clients their policies for voting proxies and their voting records.

Filing shareholder resolutions for inclusion in companies' proxy statements is an important tool for advancing change. Under SEC rules, a proposal that consistently gets the support of at least 10 percent

50. US Securities and Exchange Commission, "SEC Votes to Seek Public Comment on US Proxy System," July 14, 2010. Available at <http://www.sec.gov/news/press/2010/2010-122.htm>.

of the shares voted can be re-filed indefinitely, assuming it meets the overall requirements for proper subject matter. Investors now file about 50 percent more shareholder proposals on environmental and social issues than they did a decade ago, with more than 400 in 2015.

In the environmental and social arenas, concerned shareholders have focused particularly on improving disclosure and oversight of corporate political spending, environmental policy—especially with regard to climate change—and overall sustainability. Disclosure is often a necessary first step for companies to understand their ESG impacts and performance, and for investors to integrate ESG factors into portfolio construction.

The percentage of votes supporting shareholder resolutions raising concerns on environmental and social issues has grown in recent years. While vote support over 50 percent is still rare for social and environmental proposals, it is no longer uncommon for such proposals to receive the support of 30 to 40 percent of the shares voted. (Unfortunately, many investment managers and traditional mutual funds still vote frequently or even automatically in line with corporate managements' recommended positions on sustainability and other issues.)

However, shareholder resolutions do not need majority support to be effective. In some cases, directors heed the concerns raised in advisory proposals and find ways to make improvements in their policies, or disclose more information to respond to investors, even when votes in favor are below 50 percent.<sup>51</sup>

Shareholder resolutions that never come to votes can also be effective. The act of filing often prompts productive discussion and agreements between the filers and corporate management, and that may lead to the filers withdrawing their resolutions. Many companies are open to negotiating with shareholder proponents to find common ground on an issue and to be able to agree on removing potentially controversial items from the proxy statement. In the last several years, shareholder proponents have annually withdrawn more than 100 resolutions on ESG issues, usually after obtaining concessions or commitment from management on the issues they have raised. An analysis by David Gardiner and Associates of 110 withdrawal agreements that investors negotiated with companies on environmental issues from 2008 through 2010 found that more than 80 percent of the agreements had been fully or substantially implemented.<sup>52</sup>

Following are a few of the countless examples of impact by effective shareowner engagement; they illustrate how concerned investors, often in concert with other organizations, have effected change in companies with regard to environmental, social and governance issues.

## Environmental Issues

**Climate Risk:** Investors concerned about the warming of the atmosphere due to rising greenhouse gas emissions from human activity have encouraged companies to reduce carbon emissions and to set specific, actionable and science-based climate goals.

A far from complete list of the positive changes that sustainable investors have won in their shareholder advocacy efforts includes the following examples.

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51. The majority of shareholder proposals are advisory—phrased as requests to management—and in these cases, management is not legally obligated to implement the proposals if they receive majority support. Relatively few shareholder proposals call for bylaw amendments, which would have to be implemented if they passed, but which most proponents consider too blunt a tool for raising concerns to management.

52. Ceres, *Investor Power: Shareholder Success on Climate, Energy & Sustainability*, February 2012.

- In 2005, after a long-term dialogue with sustainable investors, including Christian Brothers Investment Services (CBIS), F&C Asset Management, Trillium Asset Management, Domini Social Investments and others, JPMorgan Chase adopted a comprehensive environmental policy that addresses global warming, illegal logging, protection of habitats and the concerns of indigenous peoples; it also hired its first Director of Environmental Affairs.
- Similarly, in 2013, after productive discussions with Stryker Corporation, a manufacturer of medical devices, Walden Asset Management withdrew its shareholder proposal seeking a comprehensive greenhouse gas emissions management plan. Stryker committed to fully assess its facilities, including a future integration of acquired companies, and to set targets and goals for controlling emissions.
- In 2014, Walden Asset Management withdrew a proposal co-filed by Trillium asking manufacturing company Lincoln Electric Holdings to adopt quantitative company-wide goals for reducing its greenhouse gas emissions when the company committed to reporting its long-term goals.

### INVESTOR PERSISTENCE ON CLIMATE-RELATED SHAREHOLDER RESOLUTIONS HAS PAID OFF IN POLICY CHANGES BY NUMEROUS COMPANIES.

In 2013, an international group of 75 institutional investors and investment management firms, with combined assets under management of \$3 trillion, launched the Carbon Asset Risk Initiative. Their goal was to coordinate efforts in order to spur 45 of the world's largest oil and gas, coal and electric power companies to address the financial risks posed by climate change. Their efforts were based on the reality that fossil fuel producers will need to keep most of their reserves in the ground to prevent the earth's average temperature from rising more than 2 degrees Celsius above the average in the late 1800s. The investors asked each company to assess the financial risk posed to them by the world's transition to a low-carbon energy system as well as the risks to their operations from the physical effects of climate change. They were able to point to some successes as a result of these engagements:

- In 2014, As You Sow withdrew resolutions at FirstEnergy and Southern, two electric utilities highly dependent on coal, when both companies agreed to report on the "additional near-term actions" they could take to reduce their greenhouse gas emissions "consistent with the national goal of 80 percent reduction in greenhouse gas emissions by 2050."
- ExxonMobil acknowledged that climate change poses real risk and disclosed that for internal planning purposes, it sets a price of \$80 on a ton of carbon.

**Sustainable Forestry Practices:** SRI investors have helped persuade companies to adopt more sustainable forestry practices in order to protect the world's endangered forest areas, which play a critical role in curbing the pace and extent of global climate change.

For example, in 2002, investors worked successfully with a coalition of civil society organizations and environmental activists to help persuade Home Depot, the world's largest home improvement retailer and one of the world's largest retailers of old-growth lumber, to phase out sales of wood products from endangered forests. As part of a new timber purchasing policy, Home Depot agreed to give preference to the sale of timber certified and managed by the Forest Stewardship Council (FSC) wherever possible, to promote ways to use wood more efficiently, and to support alternatives to wood products. In 2009, Home Depot sold more FSC-certified wood than any company in North America. Companies that offer sustainable forest products can open doors to new markets and customers, as evidenced by the preference of the LEED building industry and many large forest product retailers, such as IKEA, to use these products.

In 2011, sustainable and responsible investors began filing resolutions on the climate change implications of palm oil, a key ingredient in many food and personal care products. The expansion of oil palm cultivation is often achieved by clear-cutting and burning forest areas, which not only contributes to greenhouse gas emissions but diminishes the habitat of threatened species such as orangutans.

**SHAREHOLDER ENGAGEMENT SINCE 2011 HAS PERSUADED SEVEN US FIRMS TO COMMIT TO PURCHASING 100 PERCENT OF THEIR PALM OIL SUPPLIES FROM SUSTAINABLE SOURCES.**

In 2012, Calvert Investments and the New York State Common Retirement Fund were able to withdraw resolutions at Colgate-Palmolive and Smuckers when these companies agreed to switch to sustainably sourced palm oil. In 2013, Green Century persuaded Starbucks to commit to purchasing 100 percent certified sustainable palm oil across its global supply chain by 2015. In 2014, another six companies—ConAgra, General Mills, Kellogg, Mondelez, Panera and Safeway—agreed, after receiving resolutions, to obtain 100 percent of the palm oil for their products from fully traceable, responsibly produced sources.<sup>53</sup>

**Hydraulic Fracturing:** In recent years, shareholders have turned attention to the potential risks of hydraulic fracturing, a technique used in drilling for natural gas, in which chemicals are injected at high pressure underground to break up rock and force the natural gas to the surface. There are concerns that the procedure may harm water supplies for local communities. The campaign began in 2010, when proposals came to votes at six companies and won notably high levels of support for a first-year campaign, ranging from 21 percent to 42 percent.

**IN 2012, SHAREHOLDER PROPONENTS WERE ABLE TO WITHDRAW RESOLUTIONS AT SIX OIL AND GAS COMPANIES WHEN THE COMPANIES AGREED TO INCREASE DISCLOSURE ON THEIR HYDRAULIC FRACTURING PRACTICES.**

The campaign gained support in 2011. At the five companies where the resolutions came to votes, the average level of support was 41 percent. In 2012, shareholder proponents were able to withdraw resolutions at six of the 10 companies where they had filed as the companies agreed to increase disclosure on the impact of their operations and on their risk reduction practices. In negotiating agreements, the proponents relied on a guide developed by the Investor Environmental Health Network and the Interfaith Center on Corporate Responsibility that sets forth best practices for hydraulic fracturing.<sup>54</sup>

In 2014, SRI firms and public pension funds filed shareholder proposals at Chevron, ExxonMobil, EQT, EOG, Pioneer Natural Resources and Occidental Petroleum after a report, *Disclosing the Facts: Transparency and Risk in Hydraulic Fracturing Operations*, benchmarked companies engaged in

53. Ceres press release, "Investors Secure Groundbreaking Corporate Commitments to Protect Forests, Reduce Carbon Emissions," August 14, 2014. Available at <http://www.ceres.org/press/press-releases/investors-secure-groundbreaking-corporate-commitments-to-protect-forests-reduce-carbon-emissions>.

54. See: Interfaith Center on Corporate Responsibility and Investor Environmental Health Network, *Extracting the Facts: An Investor Guide to Disclosing Risks from Hydraulic Fracturing Operations*. Available at <http://iehn.org/documents/frackguidance.pdf>.

hydraulic fracturing practices against investor needs for disclosure.<sup>55</sup> As the filers noted in a press release, “Companies that received shareholder proposals this year were among those receiving the lowest scores, with no company disclosing information on even half of the 32 indicators assessed.”<sup>56</sup> The proponents subsequently were able to withdraw their proposals at:

- ExxonMobil, which agreed to begin reporting on how it manages risk across 26 of the categories listed in *Disclosing the Facts*;
- EQT, which agreed to start measuring and disclosing methane leakage, which it had not reported previously, and also to report on progress to minimize risks to ground and surface water through increased recycling and proper storage of waste water;
- Occidental Petroleum Corporation, which agreed to report on its water consumption for each of its shale oil operations, including the amount from fresh water sources, and to report annually on its water recycling, waste management and toxic chemical reduction efforts; and
- Pioneer Natural Resources, which added ESG oversight to its board charter and increased its disclosures on water sourcing and recycling as well as air emissions management.

**Water Conservation:** SRI investors have also sought to raise companies’ awareness of the need to treat water as a scarce and valuable asset. From 2012 through 2016, investors filed more than 80 resolutions in which water was specifically mentioned in the resolved clause—the “ask” of the resolution—in appeals concerning water conservation, pollution, efficiency or risk issues. Thirty-six of these resolutions came to votes, with 22 achieving more than 20 percent support, showing that a significant cohort of investors are concerned about water risk at their portfolio companies.

This investor attention and engagement has led to some policy changes by the target companies:

- In 2012, Walden Asset Management reported that its engagement prompted several companies, including Qualcomm, Sysco, and United Natural Foods, to consider using water risk assessments to examine the business impact of water scarcity.<sup>57</sup>
- In 2014, the New York City Comptroller reported that Host Hotels & Resorts and Simon Property Group had agreed to prepare annual sustainability reports to an internationally recognized standard such as the Global Reporting Initiative.<sup>58</sup> The New York City funds had filed resolutions with both companies asking them to issue sustainability reports that specifically address water conservation among other issues.

## Social Issues

**Global Supply Chain and Factory Conditions:** Over the past few decades, much of US manufacturing shifted to the developing world as companies outsourced production to local, independently owned contractors or vendors. Conditions at overseas factories vary tremendously. Many of these factories have unsafe working conditions, provide very low wages or use forced or child labor. Sustainable and responsible investors have been at the forefront of numerous efforts to collaborate with multi-stakeholder groups to improve the working conditions in global supply chains of consumer products. There have been several successes.

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55. See: As You Sow, Boston Common Asset Management and Investor Environmental Health Network, *Disclosing the Facts: Transparency and Risk in Hydraulic Fracturing Operations*, <http://disclosingthefacts.org/>.

56. Joint press release, “Investor Coalition Successfully Urges Natural Gas Companies to Address Impacts of Hydraulic Fracturing Operations” June 10, 2014. Available at <http://www.asyousow.org/wp-content/uploads/2014/06/Investor-Coalition-Successfully-Urges-Natural-Gas-Companies-to-Address-Impacts-of-Hydraulic-Fracturing-Operations.pdf>.

57. Walden Asset Management, *Research & Engagement Brief: Fourth Quarter 2012*, 2012.

58. New York City Pension Funds, *2014 Shareowner Initiatives: Postseason Report* (2014). Available at [http://comptroller.nyc.gov/wp-content/uploads/documents/2014\\_Shareowner\\_Initiatives\\_Postseason\\_Report.pdf](http://comptroller.nyc.gov/wp-content/uploads/documents/2014_Shareowner_Initiatives_Postseason_Report.pdf).

Companies in the consumer goods sector, which includes apparel, footwear and toy industries, were among the first to face public controversy over poor labor practices in supplier factories. In the 1990s, Nike and Gap, two of America's largest and most successful clothing retailers, became the targets of massive public criticism for poor working conditions at their supplier factories. Following investor pressure, both companies responded by more closely monitoring supplier labor practices and reporting on their findings.

For example, many investors, including members of the Public Reporting Working Group formed in 2002 (Domini Social Investments, Calvert Investments, As You Sow, Center for Reflection, Education and Action, and the Interfaith Center on Corporate Responsibility) worked with Gap to improve conditions in the company's more than 300 factories. Resulting state-of-the-art vendor standards reports, published in 2004 and 2005, documented the company's progress and included concrete data on compliance and remediation efforts. Gap's stakeholder engagement strategy, which included investors, transformed the way Gap approached ethical trading problems. Today, Gap has a social and environmental responsibility department with approximately 70 full-time staff dedicated to these issues. This department partners with hundreds of factory owners and managers, NGOs, and industry associations worldwide. Gap is also a founding member of the Better Work program, sponsored by the International Labor Organization (ILO) and the International Finance Corporation. Better Work seeks to help governments, workers, and companies achieve compliance with national labor laws and the ILO's core labor standards.

As a result of investor engagement, many other companies developed vendor codes of conduct, took steps to monitor supplier factories, and published reports disclosing key data about their supply chains. By 2008, 52 percent of the retailers represented in the S&P 500, the Toronto Stock Exchange 300 and the Morgan Stanley EAFE index (excluding Japan) had developed a code of conduct for their suppliers, and 40 percent were engaged in some level of monitoring their supplier factories.<sup>59</sup>

**AS A RESULT OF INVESTOR ENGAGEMENT, MANY COMPANIES HAVE DEVELOPED VENDOR CODES OF CONDUCT, TOOK STEPS TO MONITOR SUPPLIER FACTORIES, AND PUBLISHED REPORTS DISCLOSING KEY DATA ABOUT THEIR SUPPLY CHAINS.**

Despite these successes, the campaign for decent and safe working conditions in the global supply chains of multinational companies is far from complete, as was demonstrated in 2013 when the Rana Complex, an eight-story factory in Bangladesh collapsed, killing more than 1,100 garment workers. The factory complex had supplied numerous Western brands, and the tragedy highlighted the country's inability to inspect and uphold safety standards.

In the months after the disaster, more than 200 institutional asset owners and managers signed an investor statement calling on apparel companies that source from Bangladesh to join The Bangladeshi Accord on Fire and Building Safety. Today, the accord is a multi-stakeholder initiative with the participation of global brands, civil society organizations and trade unions and chaired by a representative of the International Labor Organization. On behalf of more than 190 US and European brands, including Adidas, Abercrombie & Fitch, Esprit and H&M, it monitors 1,661 factories in the country. As of this writing, the Accord reports that 1,589 factories have received initial inspections, 1,416 have been issued corrective action plans, and 1,329 have received follow-up inspections.

59. Peter DeSimone, Social Issues Service Background Report: Global Labor Standards, RiskMetrics Group, (2008).

**Tomato Harvesters in Florida:** The problem of low pay and unsafe working conditions is not confined to workers in low-income countries. In 2001, sustainable and responsible investors became aware of the plight of thousands of tomato harvesters in Immokalee, Florida, after community-based worker organizations launched a boycott against fast-food chain Taco Bell. Through the Coalition of Immokalee Workers (CIW), organized in 1993, the workers asked growers to increase wages by one cent per picked pound. The workers also demanded a third-party mechanism for monitoring workers' complaints of abuse. Farm workers typically earned less than \$12,000 annually and lacked rights to overtime pay, association and collective bargaining.

To address these challenges, investors joined civil society coalitions to urge companies that purchase tomatoes to ensure safe and healthy working conditions and a sustainable living wage for the tomato harvesters. After years of engagement, major buyers reached agreements with worker organizations to provide for better working conditions. In March 2005, Taco Bell signed an agreement with CIW, followed by McDonalds in April 2007, Burger King and Subway in 2008, and Whole Foods Market in 2009. Additionally, CIW and the Florida Tomato Growers Exchange, a trade association, developed a code of conduct for the growers that improved wages and increased workplace protections, by including minimum-wage guarantees and a zero-tolerance policy on forced and child labor.

**Indigenous Peoples' Rights:** For more than a decade, investors have advocated for the rights of indigenous peoples, including the elimination of negative portrayals and insensitive stereotyping of indigenous people and their cultural heritage. According to a 2008 report by First Peoples' Worldwide, more than 50 corporations, mostly US and Canadian, have been engaged through the filing of shareholder proposals and company dialogues, especially with resource extraction companies.<sup>60</sup>

For example, after shareholder engagement and a resolution filed in 2007 by Christian Brothers Investment Services (CBIS) and other members of the Interfaith Center on Corporate Responsibility (ICCR), Newmont Mining, the second largest producer of gold in the world, was commended by CBIS in 2009 for its commitment to understand the root causes of community conflict in its mining operations. Investors applauded the company for the release of a report that included an extensive review of policies and practices relating to its relationships with local communities, including indigenous peoples. The findings from the report, *Community Relationships Review Global Summary Report*, written by the law firm of Foley Hoag, revealed that the company must manage community relationships more effectively and encouraged the development of a comprehensive management plan for community relations, assigning accountability to local managers for implementing policies, conducting regular social impact and risk assessments, and managing community concerns before conflict arises.<sup>61</sup>

**FOR MORE THAN A DECADE, INVESTORS HAVE ADVOCATED FOR THE RIGHTS OF INDIGENOUS PEOPLES, INCLUDING THE ELIMINATION OF NEGATIVE PORTRAYALS AND INSENSITIVE STEREOTYPING OF INDIGENOUS PEOPLE AND THEIR CULTURAL HERITAGE.**

In 2011, following more than eight years of engagement led by Boston Common Asset Management and the Church of the Brethren Benefit Trust, the multibillion dollar oil company ConocoPhillips finally revised

60. Rebecca Adamson and Scott Klinger, *First Peoples Worldwide, The Histories of Social Investing and Indigenous Peoples: Using the Tools of Diverse Cultures to Restore Balance to a Fractured World* (2008). Available at <http://www.firstpeoples.org/news/FPW-HistoriesOfSocialInvestingFeb2008.pdf>.

61. Christian Brothers Investment Services, Inc. press release, "Christian Brothers Applauds Efforts by Newmont Mining to Improve Relations With Communities; Calls For Substantive Implementation," April 28, 2009.

its Human Rights Position statement to include Indigenous Peoples' rights.<sup>62</sup> These investors demanded that the company be transparent in implementing its new policy and include grievance mechanisms for indigenous communities affected by its operations. ConocoPhillips' Human Rights Position now states that the company's approach to local indigenous communities "...is consistent with the principles of the International Labour Organization Convention 169, concerning Indigenous and Tribal Peoples, and the United Nations Declaration on the Rights of Indigenous Peoples." ConocoPhillips is one of the first energy companies to adopt such a commitment.<sup>63</sup>

Investors have also sought to remove negative and offensive images and/or portrayals of indigenous peoples, especially in advertising and branding. For example, investors were concerned about apparel designer Liz Claiborne's use of the Crazy Horse name to market a line of clothing. Crazy Horse is the name of one of the Lakota tribe's most respected leaders. Shareholders, along with the Native American community, argued that Liz Claiborne had misappropriated and desecrated the name and legacy of a revered spiritual and political leader by using it as a commodity. In 2002, Calvert Investments filed a shareholder resolution with Liz Claiborne. For several years before the filing, ICCR members had also engaged Liz Claiborne on this issue. Over 800 institutional investors signed on to a letter asking Liz Claiborne to cease its use of the Crazy Horse name. Despite the mounting pressure, Liz Claiborne offered only to alter the name to all lowercase letters, and to make "horse" plural. Calvert eventually sold its shares in Liz Claiborne in opposition of the company's stance. In 2007, Liz Claiborne discontinued the Crazy Horse label.

**Freedom of Expression and Privacy:** Companies around the world face government pressure to comply with domestic laws and policies on censorship and disclosure of personal information that may conflict with internationally recognized human rights of freedom of expression and privacy. Investors have long engaged these companies to protect and advance human rights.

In 2008, a diverse coalition, including investors (Boston Common Asset Management, Calvert Investments, Domini Social Investments, F&C Investments and Trillium Asset Management), prominent human rights organizations, press freedom groups, academics, and leading information and communication companies (Google, Microsoft, and Yahoo), launched the Global Network Initiative (GNI). The GNI has developed a set of principles and implementation guidelines to help companies navigate these difficult issues in a way that is consistent with international human rights law.

Shareholder resolutions have also made a difference. In December 2012, in response to Trillium Asset Management's shareholder proposal regarding privacy issues, Apple updated its Board's Audit and Finance Committee charter to include responsibilities for the legal, regulatory and reputational privacy risk issues raised in the resolution.<sup>64</sup>

**Equal Employment Opportunity:** The effort to advance sexual orientation nondiscrimination policies has been one of the most successfully sustained shareholder campaigns in the United States. By 2011, according to one estimate, more than 200 resolutions had been filed since the mid-1990s to advance sexual orientation nondiscrimination policies, with 150 withdrawn successfully upon the addition of "sexual orientation" and/or "gender identity" to the company's nondiscrimination policy.<sup>65</sup> A watershed moment occurred in 2002, when such a resolution, filed by the New York City pension funds at CBRL

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62. Boston Common Asset Management, *Active Investor Social Update*, Third Quarter, 2011.

63. Church of the Brethren Benefit Trust press release, "ConocoPhillips commits to indigenous peoples' rights with support from BBT," August 26 2011. Available at <https://www.cobb.org/news/conocophillips-commits-indigenous-peoples%E2%80%99-rights-support-bbt>.

64. Trillium Asset Management press release, "Trillium Withdraws Shareholder Proposal at Apple Inc.," December 19, 2012. Available at <http://www.trilliuminvest.com/uncategorized/trillium-withdraws-shareholder-proposal-atapple-inc/>.

65. Shelley Alpern, "Sexual Orientation Non-discrimination," in *Proxy Review: Helping Foundations and Endowments Align Investment and Mission* (2011), As You Sow, Sustainable Investments Institute and Proxy Impact. Available at [http://www.asyousow.org/publications/ProxyPreview\\_2011.pdf](http://www.asyousow.org/publications/ProxyPreview_2011.pdf).



Group, the parent company of Cracker Barrel Old Country Stores, won the support of 58 percent of the shares voted. This was the first ever majority vote in favor of a social issues resolution opposed by management.

**SINCE THE MID-1990S, SCORES OF COMPANIES HAVE EXPANDED THEIR NON-DISCRIMINATION POLICIES TO INCLUDE SEXUAL ORIENTATION AND GENDER IDENTITY AFTER RECEIVING SHAREHOLDER PROPOSALS REQUESTING THESE CHANGES.**

In the years since, similar resolutions—when they have come to votes—have achieved high levels of support. While high vote levels themselves do not necessarily achieve change, they can be powerful signals of issues needing attention. Perhaps as a result of these relatively high support levels, combined with hundreds of letters, calls and meetings, companies have often proved willing to expand their anti-bias policies and to negotiate withdrawal agreements with proponents. In 2012, for example, seven of 15 companies approached by Walden Asset Management agreed to modify their equal employment opportunity policies to include sexual orientation and gender identity.<sup>66</sup>

Another major victory for the long-running campaign occurred in 2015, when ExxonMobil at long last agreed to amend its fair employment policy to include sexual orientation and gender identity. The company had received a shareholder proposal every year since 2001 from the New York State Comptroller or other shareholders asking it to adopt just such a policy. Also in 2015, American Financial Group agreed to expand its non-discrimination policy to reference sexual orientation and gender identity after a shareholder proposal making that request received 43 percent support in 2014.<sup>67</sup>

## Governance Issues

**‘Say on Pay’:** Shareholder advocacy, combined with regulatory changes, are allowing shareholders greater scrutiny and influence over executive pay packages. In 2006, a coalition that eventually numbered 75 investors with combined assets of more than \$1 trillion urged companies to adopt an advisory vote on executive compensation. The coalition members viewed a “say on pay” vote as a way to enable shareholders to express their concerns to corporate boards when large pay packages seem unrelated to the companies’ long-term performance. The shareholder campaign gained momentum when the SEC required that corporate proxy statements, beginning in 2007, provide full disclosure of the details and total value of compensation packages. The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 then made it mandatory for publicly traded companies to allow an advisory vote on pay at least every three years. The vast majority now do so annually.

Shareholders have used the advisory vote on pay to hold management accountable, and to require boards to ensure that the executive compensation policies they craft are defensible and align executives’ incentives with their companies’ long-term financial health. In 2010, shareholders voted a majority of their shares against three of the 60 companies where they had a chance to weigh in on executive pay as the new rule went into effect. These thumbs-down votes came at KeyCorp, Motorola and Occidental Petroleum (whose CEO was paid more than the CEO of any other oil company). Investors “failed” 44 companies in 2011, 52 companies, including Citigroup, in 2012, and 53 in 2013.<sup>68</sup>

66. Walden Asset Management, *Research & Engagement Brief*, Fourth Quarter, 2012.

67. Heidi Welsh, *Proxy Season Mid-Year Review: Social, Environmental & Sustainable Governance Shareholder Proposals in 2015*, Sustainable Investments Institute, August 20, 2015.

68. ISS, *2013 Proxy Season Review: United States*, August 22, 2013.

Although only a relatively low percentage of companies have failed their advisory votes, there is anecdotal evidence that many companies consider the threat of failure a major incentive to ensure their pay packages are defensible. Beazer, a company that failed its say-on-pay vote in 2011, told the Wall Street Journal that it hired a new compensation consultant and met with investors in advance of its 2012 meeting to avoid an embarrassing repeat. The Wall Street Journal analysis found that 25 percent of the CEOs of the companies that failed their advisory votes in 2011 had left by the 2012 annual meeting, a turnover rate nearly three times greater than among corporate CEOs in general.<sup>69</sup>

**ALTHOUGH ONLY A RELATIVELY LOW PERCENTAGE OF COMPANIES HAVE FAILED THEIR ADVISORY VOTES ON PAY, THERE IS ANECDOTAL EVIDENCE THAT MANY COMPANIES CONSIDER THE THREAT OF FAILURE A MAJOR INCENTIVE TO ENSURE THEIR PAY PACKAGES ARE DEFENSIBLE.**

Proxy advisory firm ISS also points to the evidence that companies made amends after failed say-on-pay votes. As it reported in 2013, “Consistent with prior years, the number of companies with repeated failed votes remains relatively low, which suggests that the proposal is an effective tool in encouraging investor engagement and subsequent actions by issuers to address concerns.” Pointing to a rise in dialogue between investors and issuers, it added, “Advisory votes on executive compensation in particular have encouraged greater dialogue between shareholders and their portfolio companies, leading to changes in company practice and investor votes.”<sup>70</sup>

Despite the say-on-pay tool, however, executive pay has continued to rise in recent years. According to As You Sow’s analysis of the 25 most overpaid CEOs on the S&P 500 in 2015—as measured against their companies’ financial performance and other factors—some are at companies that only allow a say-on-pay vote once every three years, insulating them somewhat from shareholder opinion. Nonetheless, As You Sow notes that the vast majority of S&P 500 hold annual advisory votes, and suggests that the fault may lie with investors who fail to exercise their discretion appropriately. It points out that some major mutual funds, including BlackRock and TIAA, approve close to 97 percent of the executive pay packages on which they vote.<sup>71</sup>

**Board Diversity:** Sustainable investors have long pressed for companies to actively seek gender diversity on their boards. As of early 2012, fewer than 13 percent of the board seats of the S&P 1500 (12.6 percent) or the Russell 3000 (11.6 percent) were filled by women.<sup>72</sup> Academic literature suggests that diverse groups are better at problem-solving than homogeneous ones, and studies indicate that companies with homogeneous boards perform less well than companies with diverse boards. A study by Credit Suisse, for example, found that companies within the MSCI All-Country World Index with gender-diverse boards significantly outperformed their industry and size peers with non-diverse boards from 2005 through 2011.<sup>73</sup>

69. Emily Chasan, “Say on Pay Changes Ways,” *Wall Street Journal*, February 21, 2012. Available at <http://blogs.wsj.com/cfo/2012/02/21/say-on-pay-changes-ways/>.

70. ISS, *2013 Proxy Season Review: United States*, August 22, 2013.

71. As You Sow, *The 100 Most Overpaid CEOs: Are Fund Managers Asleep at the Wheel?* (2016). Available at [http://www.asyousow.org/ays\\_report/the-100-most-overpaid-ceos-are-fund-managers-asleep-at-the-wheel/](http://www.asyousow.org/ays_report/the-100-most-overpaid-ceos-are-fund-managers-asleep-at-the-wheel/).

72. GMI Ratings, *Variation in Female Board Representation within the United States* (2012).

73. Credit Suisse Research Institute, *Gender Diversity and Corporate Leadership* (2012). Available at [https://infocus.credit-suisse.com/data/\\_product\\_documents/\\_shop/360145/csri\\_gender\\_diversity\\_and\\_corporate\\_performance.pdf](https://infocus.credit-suisse.com/data/_product_documents/_shop/360145/csri_gender_diversity_and_corporate_performance.pdf).

In 2003, Calvert Investments developed model nominating committee charter language to give companies a means to formalize their commitment to creating an independent and inclusive board. Typically, Calvert and other investors are able to withdraw such resolutions when target companies agree to modify their committee charters by explicitly establishing racial and gender diversity as a priority. Some investors also push for greater diversity when they vote on board slates. Pax World, for instance, votes against or withholds votes from all board slates that are all male or contain only one woman, and writes to companies after their annual meetings to explain those votes.<sup>74</sup> Advocates for board diversity received a boost in 2010 with a new SEC rule requiring companies to report on their board diversity policies.

In June 2012, institutional investors with approximately \$1.2 trillion in assets under management, along with representatives of some of the nation's leading women's organizations, sent a letter to 168 companies, including 41 S&P 500 companies that did not have any women on their boards of directors, urging them to explicitly set achieving gender diversity as a key goal of their nominating committee charters and director searches.<sup>75</sup> Calling itself the Thirty Percent Coalition, the group's aspiration was to increase the percentage of board seats held by women at US publicly traded companies to 30 percent by 2015.

These shareholder engagement efforts appear to be making a difference, although progress has fallen far short of the pace of change desired by the Thirty Percent Coalition and its allies. According to a 2015 analysis by the EY Center for Board Matters, the percentage of board seats held by women at S&P 1500 companies had ticked up to 16 percent by June 30, 2014. The EY Center noted another measure of progress: the proportion of S&P 1500 companies with at least one woman on their boards increased to 81 percent, a new high, up from 69 percent in 2006.

**Sustainability Reports:** In recent years, numerous shareholder groups have asked firms to review and report on the sustainability of their operations, not only in terms of their environmental impact, but also in how they deal with labor and community issues.

Since the SEC does not yet require sustainability reporting by publicly traded companies in the United States, voluntary reporting is often the only way that investors and other stakeholders can monitor companies for issues of concern. Comprehensive sustainability reports, issued on a regular basis, provide valuable information that allows investors to evaluate companies' environmental, social and governance risks and opportunities. Additionally, the reporting process frequently has a transformative impact on companies, as they begin to measure and comprehensively manage risks and other opportunities, including energy and water use, waste management, emerging supply chain risks and other stakeholder concerns. Today, few companies can ignore sustainability reporting while also attracting—or maintaining—sustainable and responsible investors.

Shareholders frequently give strong support to proposals asking companies to report on sustainability. One such shareholder proposal filed by Walden Asset Management and supported by management at Layne Christenson received a record 92.8 percent support in 2011; majority votes in favor of sustainability reporting proposals have also occurred at CF Industries Holdings in 2013 (67 percent) and at Nabors Industries in 2015 (51.5 percent).<sup>77</sup> Proponents withdrew the majority of the sustainability

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74. Joseph F. Keefe and Sallie Krawcheck, "Why Gender Matters to Investors," *Triple Pundit*, April 1, 2015. Available at <http://www.triplepundit.com/2015/04/gender-matters-investors/>.

75. Thirty Percent Coalition press release, "Institutional Investors Note Progress as Eight Companies Appoint Women to their Boards." September 18, 2013.

76. ISS, "Prevalence of Independent Chairs Continues to Climb," March 16, 2015, accessed May 17, 2016. Available at <http://www.issgovernance.com/iss-releases-2015-board-practices-study/>.

77. Data from Sustainable Investments Institute and Interfaith Center on Corporate Responsibility.

reporting proposals they filed from 2010 through 2014, usually after successful negotiations with the target companies.

**TODAY, FEW COMPANIES CAN IGNORE SUSTAINABILITY REPORTING WHILE ALSO ATTRACTING—OR MAINTAINING—SUSTAINABLE AND RESPONSIBLE INVESTORS.**

Today, the number of sustainability reports issued by companies is increasing, as is their quality. A 2013 publication by KPMG indicates that 93 percent of the 250 largest global companies by revenue disclose data on corporate social responsibility indicators. Of the top 100 US companies by revenue, 85 percent engaged in such reporting, up from 74 percent in 2008.<sup>78</sup>

**Corporate Political Spending:** Since January 2010, when the Supreme Court's decision in *Citizens United v. Federal Election Commission* removed restrictions on political advertising and spending by corporations and other organizations, concerned investors have been calling for disclosure of policies, oversight mechanisms, and a detailed listing of political spending and lobbying expenditures. Such transparency helps management and investors better evaluate business risk associated with efforts to influence regulatory and legislative processes. The number of resolutions filed on this subject has risen to more than 100 annually from 2011 to 2015, up from an annual average of about 60 in 2007 through 2010.<sup>79</sup>

**THE NUMBER OF RESOLUTIONS FILED ON CORPORATE POLITICAL SPENDING ROSE TO MORE THAN 100 ANNUALLY FROM 2011 THROUGH 2015, UP FROM AN ANNUAL AVERAGE OF ABOUT 60 IN 2007 THROUGH 2010, AS SHAREHOLDERS REACTED TO THE CITIZENS UNITED DECISION REMOVING RESTRICTIONS ON CORPORATE POLITICAL ADVERTISING AND SPENDING.**

The campaign on political spending, advised by the Center for Political Accountability (CPA), has been waged by an investor coalition that includes pension funds, labor unions, environmental groups and sustainable investment managers. The resolutions on lobbying have been led by the American Federation of Federal, State, County and Municipal Employees (AFSCME) and Walden Asset Management and have involved over 60 filers.

Since the start of this shareholder campaign in 2004, the CPA and its allies have persuaded scores of companies, including more than half of the S&P 200, to disclose and require board oversight of their political spending with corporate funds. The campaign's effectiveness has been aided by investor support; more than half of the 10 shareholder proposals on environmental and social issues to receive majority support in 2012-2014 dealt with corporate political contributions or lobbying.

In the 2014 and 2015 seasons, approximately 50 resolutions asked companies to report on their lobbying expenditures, including through indirect channels such as trade associations and non-profit organizations that do not have to report their donors. More than 50 additional proposals

78. KPMG, *KPMG International Survey of Corporate Responsibility Reporting* (2013).

79. US SIF Foundation, *Report on Sustainable and Responsible Investing Trends in the United States 2012* (2012). US SIF Foundation, *Report on US Sustainable, Responsible and Impact Investing Trends 2014* (2014). Heidi Welsh, *Proxy Season Mid-Year Review: Social, Environmental & Sustainable Governance Shareholder Proposals in 2015*, Sustainable Investments Institute, August 20, 2015.

asked companies to report on their direct and indirect campaign spending (on candidates and political parties). Many of the targets for the proposals asking about lobbying expenditures have been companies that lobby against measures such as a carbon tax or regulations to cut carbon emissions or that pay dues to, make contributions to or sit on the boards of organizations that oppose legislation and regulation to curb greenhouse gas emissions.

Proponents have been able to withdraw dozens of proposals in recent years in exchange for substantive commitments from the target companies. A partial list includes the following examples.

- Companies including 3M, Amgen, Hess, Johnson & Johnson, Microsoft, PepsiCo and Procter & Gamble have agreed to disclose political and/or lobbying expenditures, with PepsiCo agreeing to disclose direct lobbying and contributions made to trade associations, as well as funds paid to grassroots lobbying and tax exempt groups that write and endorse model legislation.<sup>80</sup>
- Some companies have curtailed or ended their political activities. After discussions with Domini Social Investments, JPMorgan Chase completed a series of important changes to its political spending policies to prohibit the use of corporate treasury funds for any electoral activities—directly or indirectly (through trade associations, for example)—including political advertising.<sup>81</sup> Accenture also adopted a new policy that prohibits political spending with corporate funds.
- And as of year-end 2015, over 100 companies, including Google, Johnson & Johnson, McDonald's, Microsoft, Procter & Gamble, Visa and Wal-Mart, had left the American Legislative Exchange Council, which campaigns against renewable energy mandates at the state level and opposes the federal Clean Power Plan to reduce greenhouse gas emissions.

**Proxy Access:** The board elections of publicly traded corporations have almost never been competitive. Shareholders are presented with a single slate of candidates approved by the company's nominating committee, and shareholders wishing to propose alternative candidates must send out their own alternative proxy ballots to do so, which few have the resources to do. In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act gave explicit authority to the SEC to implement a rule to allow shareholders, under certain conditions, to nominate directors to the boards of their portfolio companies and to have those candidates appear in the company's proxy materials. Although the SEC issued a proxy access rule later that year, business groups challenged it in court, and the SEC chose to withdraw the rule.

That unsatisfactory situation prevailed until 2015, when New York City Comptroller Scott Stringer spearheaded a major proxy access shareholder campaign by responsible investors. The comptroller's proposal, on behalf of the city's pension funds, asked target companies to present a proxy access bylaw to shareholders for approval. It specified that the bylaw should allow shareholders that have collectively owned 3 percent of the company's stock continuously for three years to nominate alternative candidates for up to a quarter of the board seats. Over the course of the year, 120 proxy access proposals were filed, 75 by the New York City funds. Of the 94 proposals that went to votes, 60 percent received majority support. By the end of the year, over 20 percent of the S&P 500 companies had adopted proxy access rules, up from fewer than 1 percent in 2013.<sup>82</sup> (As of this writing, New York City has filed more than 70 proxy access proposals for 2016.)

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80. Walden Asset Management, *Research & Engagement Brief*, First Quarter 2013.

81. Domini Social Investments, *Social Impact Update*—First Quarter 2013.

82. ISS blog, Patrick McGurn, "What's Really Hot: A Quickscore Analysis of 2015's Real Governance Trends," January 8, 2016. Available at <http://www.issgovernance.com/governance-exchange/governance-insights/>. Also see: Avrohom J. Kess, Harvard Law School Forum on Corporate Governance Forum and Financial Regulation blog, "Proxy Access Proposals," August 10, 2015. Available at <https://corpgov.law.harvard.edu/2015/08/10/proxy-access-proposals/>.

## PRIVATELY HELD COMPANIES

Shareowner engagement is not limited to publicly traded securities. Private equity investment managers often have a close relationship with—and direct access to—company management. As a result, there is great opportunity to engage, influence and shape their portfolio companies’ policies and performance on ESG issues. Depending on the strategy, private equity investment managers often hold investments for several years—a time period that allows for actions to add value on environmental, social and governance issues, such as energy efficiency, carbon reduction and workplace health and safety programs. Prominent private equity firms such as KKR, The Blackstone Group, The Carlyle Group and others are raising questions about ESG integration with company management. This section addresses some valuable case studies of privately held company approaches to sustainability and responsibility.

**DEPENDING ON THE STRATEGY, PRIVATE EQUITY INVESTMENT MANAGERS OFTEN HOLD INVESTMENTS FOR SEVERAL YEARS—A TIME PERIOD THAT ALLOWS FOR ACTIONS TO ADD VALUE ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES.**

### Levi Strauss: Labor and Human Rights Issues in the Global Supply Chain

Over the years, investors in Levi Strauss & Co.<sup>83</sup> have collaborated with other groups to engage the company on a variety of issues, focusing on supply chain transparency, particularly related to labor and human rights conditions at overseas factories. In 1992, Levi Strauss publicly released its first Terms of Engagement to bring its global suppliers in line with its policies on labor, health and safety and environmental impact.<sup>84</sup> In 2008, after receiving inquiries from a range of stakeholders, including sustainable and responsible investors, about forced child labor in the Uzbek cotton harvest, the company took action. Levi Strauss informed all of its textile suppliers and licensees that, until it saw clear evidence of action to eliminate the use of forced child labor, it would prohibit Uzbek cotton in the production of the company’s branded products. With this move, Levi Strauss became the first US apparel brand or retailer to prohibit the use of Uzbek cotton in its supply chain. In September 2011, Levi Strauss was among more than 60 of the world’s best known apparel companies and brands to sign a pledge calling for the elimination of forced child labor in Uzbekistan.

### TXU Energy: Environmental Performance

In 2006, environmental, community and other civil society organizations, along with sustainable and responsible investors, were concerned when TXU Energy, Texas’s largest power producer, announced plans to build 11 coal-fired plants. A number of lawsuits and community protests resulted. When Goldman Sachs, KKR and TPG Capital began considering a leveraged buyout of the utility, they understood that they had to get the support of environmentalists and thus actively consulted environmental groups. TXU’s new owners decided to build just three plants, rather than the initially planned 11. The owners also agreed to cut TXU’s carbon emissions to 1990 levels by 2020, spend \$400 million on energy efficiency efforts, and tie executive pay to environmental goals. The \$45 billion buyout was announced four days later.<sup>85</sup>

83. Levi Strauss & Co. is a privately held company, since the shares of the company stock are not publicly traded, although it does have public bondholders.

84. Pamela Varley et al., *The Sweatshop Quandary: Corporate Responsibility on the Global Frontier* (1998), Investor Responsibility Research Center.

85. For more information on the negotiations preceding the buyout, see Kambiz Foroohar, “KKR Barbarians Go Green as Buyout Firms Profit Cutting Energy,” *Bloomberg Markets Magazine*, April 6, 2011. Available at <http://www.bloomberg.com/news/2011-04-06/kkr-barbarians-go-green-as-buyout-firms-embrace-more-profit-in-less-energy.html>.

## Synagro: Community Health and Environmental Justice

In 2006, Mercy Investment, along with two agencies in New York City's South Bronx, Mercy Center and Sustainable South Bronx (SSB), purchased stock in Synagro shortly before it was purchased by the Carlyle Group and taken private. Mercy Investment, along with the Interfaith Center on Corporate Responsibility (ICCR), filed a shareholder resolution with Synagro asking it to engage with the community and produce a facilities report on the environmental, health and safety impacts of its operations. Investors were concerned about the impact of Synagro's solid waste processing plant in Hunts Point, a one square mile peninsula in the South Bronx that is one of the poorest congressional districts in the United States and has a high incidence of childhood asthma. Residents complained about noxious odors emanating from the plant onto their public school and neighborhood.<sup>86</sup> After the resolution received 31 percent vote support, the company agreed to engage with the investors, public officials and community organizations, and made some improvements in the plant's operations.<sup>87</sup> It closed the plant in 2010.

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86. Interfaith Center on Corporate Responsibility press release, "Synagro, Operator of NY Organic Fertilizer Facility in South Bronx Focus of Faith-Based Institutional Investors Shareholder-Sponsored Environmental Resolution," January 30, 2006.

87. Sister Valerie Heinonen, Order of St. Ursula, Shareholder Advocacy: Strategy for Socially Responsible Investing, ¡Viva! Mercy, January-February 2008.

# CHAPTER THREE:

## Aiding Communities and Individuals

Sustainable, responsible and impact investment benefits individuals and communities in a number of ways. Through active ownership and engagement with corporations, as discussed in Chapter Two, sustainable and responsible investors have helped to bring benefits to communities and individuals affected by these corporations. In this chapter, we focus on the ways in which investors can benefit communities and individuals across the United States and overseas through community-oriented and place-based investing.

While a wide range of investment vehicles fall under the banner of community investing, they all share three characteristics:

- 1) A focus on marginalized areas or communities that conventional market activity does not reach (in practice, low-income neighborhoods or regions, communities of color, and underserved geographic regions such as rural communities);
- 2) A focus on enabling the delivery of explicit social benefits (affordable housing, economic development, provision of needed goods and services at affordable rates, healthier outcomes) to those areas or communities; and
- 3) A financial product available for investment that can be managed in terms of risk and return.

Community investment vehicles can range from concessionary loans and equity investments in nonprofit community groups to market-rate investments in for-profit real estate development, among other options.

### US-BASED COMMUNITY INVESTING OPTIONS

In the United States, one way in which investors and lenders can engage in community investing is through Community Development Finance Institutions (CDFIs) and other funds and financial institutions that specialize in serving low-income communities.

CDFIs fall into four major categories:

- community development banks,
- community development credit unions,
- community development loan funds, and
- community development venture capital funds.

Investors can place capital directly into any one of these four options, or they may invest in pooled funds or specialized community investment portfolios. An important source of funding is the CDFI Fund, a program of the US Department of Treasury established in 1994 to promote economic revitalization and community development in the United States through investment in and assistance to approved CDFIs.

Not all institutions that invest in low-income and middle-income community development are CDFIs. For example, a number of community development credit unions have not sought certification as CDFIs because of resource constraints or other reasons. In addition, a newer entrant to the space is the impact small business investment corporation (SBIC). SBICs invest in small businesses using funds guaranteed by the US Small Business Administration as well as privately raised capital. Impact SBICs



are distinguished from other SBICs in that they commit to allocate at least 50 percent of their funds to low- or moderate-income areas, rural areas or economically distressed areas or for clean energy or education. Some real estate investment funds also have a focus on assisting low- and moderate-income communities.<sup>88</sup>

Several market-rate debt instruments are available to investors interested in geographically focused community development. In the United States, municipal bonds issued at the state and local level help finance education, health care, housing, transportation, economic development and environmental recovery and protection. Supported by a relatively liquid market, municipal finance is one of the most cost-efficient vehicles for financing community impact. Bonds for schools and public projects are often approved directly by voters, assuring the projects are a priority for the communities, and reflecting the loan's purpose. Although municipal bonds in the United States are generally issued with tax exempt interest, approximately 9 percent of the market from 2011 through 2015 has been issued as taxable bonds—which may make them suitable impact investments for pensions, endowments and foundations.<sup>89</sup>

Fixed-income instruments issued by federal agencies such as Fannie Mae, the Federal Housing Administration and the Small Business Administration can also serve a community development orientation.

## HISTORICAL CONTEXT FOR US COMMUNITY INVESTING

Today's community investing advocates and practitioners are building on social movements that began in the 1960s.

In 1964, the US Congress passed the Economic Opportunity Act and established the federal Office of Economic Opportunity (OEO). The Act aimed at empowering poor white, black, Hispanic and Native American rural and urban communities left out of the mainstream of society.<sup>90</sup> Congress later amended the Act to create funding for “community development corporations” (CDCs), local development and investment entities designed to foster “community investing” as we know it today.

Thus began what has now been 50 years of “community development” practice and policy in the United States. The Community Reinvestment Act (CRA) was passed by Congress as part of the Housing and Community Development Act of 1977. The purpose of CRA was to provide regulatory incentives for commercial banks and savings associations to make loans to borrowers in underserved low- and moderate-income neighborhoods and rural regions, thereby reducing discriminatory credit practices known as redlining. The National Community Reinvestment Coalition, a Washington, DC-based, 600-member strong network of community developers and organizers, and the watchdog for CRA, notes that trillions of dollars of private capital have been invested in underserved communities as a result of CRA.

By the 1990s, the field—now represented by community development loan funds, credit unions, banks, and micro funds—came together to advocate for special sources of capital for community lending

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88. For a helpful overview of the current status of US community investing, see Michael Swack and Eric Hangen, *Scaling US Community Investing: The Investor-Product Interface* (2015). Available at <http://scholars.unh.edu/cgi/viewcontent.cgi?article=1256&context=carsey>.

89. Information supplied by Peter Coffin, President at Breckenridge Capital Advisers, in email communication to US SIF Foundation dated April 26, 2016.

90. A publication co-edited by the San Francisco Federal Reserve Bank and Nancy Andrews of the Low Income Investment Fund, *What Works for America's Communities: Essays on People, Place & Purpose* (2012), offers articles on the history, current practice, and impact of community development from the perspective largely of CDCs and CDFIs. Available at <http://www.frbsf.org/community-development/publications/special/%20investing-in-what-works-american-communities-people-place-purpose/>.

organizations that would become known collectively as the CDFIs described above. The growing network of CDFIs and their trade associations came together as the CDFI Coalition to advocate for passage of the 1994 Riegle Community Development and Regulatory Improvement Act as a bipartisan initiative. The purpose of the Act was to create a source of investment capital specifically for community development lenders organized primarily as financial institutions. The CDFI Fund was created along with a certification process to qualify CDFIs (at least 60 percent of their lending and service activities must be targeted to eligible Target Markets, including low income census tracts, low income people, or unserved populations).

The CDFI field is now a vibrant network of some 1,000 CDFIs and many more CDCs and national “intermediaries” that aggregate private and public capital and provide resources for community development. Nearly half of the total assets of the CDFI sector are held by the 108 banks and thrifts and 60 bank holding companies that have demonstrated that at least 60 percent of their lending and activities are targeted to low-income communities.<sup>91</sup> The CDFI sector also includes 70 certified Native CDFIs that serve primarily American Indian, Alaska Native or Native Hawaiian communities.<sup>92</sup>

## SCOPE AND EXAMPLES OF US COMMUNITY INVESTING

The impact of the community investment field on the local, regional and national level in the United States has grown over the years. With expanded investment opportunities across asset classes, community investing serves as another avenue of opportunity for “impact investors.” Examples abound of the ways in which community initiatives by CDFIs and other types of investors have aided individuals, strengthened neighborhoods, and delivered social and environmental benefits. A few are highlighted in this section.

Figure 3: Community Investing: Areas of Impact



91. Letter dated March 10, 2015, Community Development Banking Association to the Chairman and Ranking Member of the Senate Subcommittee on Financial Services & General Government Appropriations.

92. Native CDFI Network, 2015 *Policy Brief*.

## Self-Help Credit Union and the Revitalization of Downtown Areas

In 2005, Self-Help Credit Union bought, renovated and leased more than 500,000 square feet of downtown office space in North Carolina cities including Asheville, Charlotte, Durham and Greensboro—much of it in abandoned or historical buildings. In 2004, Self-Help made its largest single loan up to that point—\$40 million—to renovate the American Tobacco complex, an abandoned tobacco mill in downtown Durham, a neighborhood that had declined for decades, first because of suburbanization, and then because of the mill's closure in 1987. When the developer had been turned down by the conventional loan market, it turned to Self-Help. As Self-Help reports:

*Local development professionals agree that the rehabilitation of American Tobacco accelerated the pace of change and opened up the investment landscape in downtown Durham after piecemeal redevelopment during the 1980s and 1990s. The numbers support this. Less than one significant development project was completed downtown each year during the 17 years American Tobacco sat vacant (1987-2003). In the five years following the opening of Phase I (2005-2009), 16 major projects were completed, a pace of more than three per year. Between 2000 and 2003, the average number of development approvals was 3.75 per year downtown; over the five years since the opening of the revitalized complex (2005-2009), the average number jumped to 11.80 per year. The number of property sales increased by 62 percent from 2005 to 2007, compared to sales between 2002 and 2004; the average sales price increased by 115 percent.<sup>93</sup>*

## The Reinvestment Fund and Access to Healthy Food

Community investing organizations in the United States are also involved in providing access to healthy food and eliminating food deserts in poor and underserved communities, initiatives that also help to revive economically depressed downtowns and other areas. As the CDFI Fund notes:

*Food deserts are urban neighborhoods and rural towns with limited access to affordable and nutritious food. USDA estimates that more than 23 million people in America live in low-income areas that are more than a mile from a supermarket. Well-targeted financing, technical assistance, and community partnerships can help to improve access to healthy foods, develop and equip grocery stores, create new markets for small businesses and farmers, strengthen the producer-to-consumer relationship, and support broader economic development efforts to revitalize distressed rural and urban communities.<sup>94</sup>*

For example, The Reinvestment Fund (TRF), a community development organization that operates in the mid-Atlantic region, made an impact through its Pennsylvania Fresh Food Financing Initiative (FFFI), a statewide financing program to improve access to fresh foods in underserved urban and rural communities in partnership with the State of Pennsylvania. As of 2010, when all the funds were deployed, FFFI had received 206 applications from across Pennsylvania, of which it approved 93 for funding. The approved projects were expected to bring 5,023 jobs and leasing of 1.67 million square feet of commercial space.

93. Self Help, *New Markets Tax Credit Impacts: A Case Study in Durham, North Carolina* (2010). Available at [http://www.novoco.com/new\\_markets/resource\\_files/reports/selfhelp\\_casestudy\\_0310.pdf](http://www.novoco.com/new_markets/resource_files/reports/selfhelp_casestudy_0310.pdf).

94. Community Development Financial Institutions Fund, United States Department of the Treasury, *CDFI Fund Announces Provider to Expand the Capacity of CDFIs to Support Financing for Healthy Food Retail*, November 2, 2010. Available at [http://www.mycdfi.cdfifund.gov/news\\_events/CDFI-2010-48-CDFI-Fund-Announces-Provider-to-Expand-Healthy-Food-Retail-Financing-Support.asp](http://www.mycdfi.cdfifund.gov/news_events/CDFI-2010-48-CDFI-Fund-Announces-Provider-to-Expand-Healthy-Food-Retail-Financing-Support.asp).

Brown's ShopRite of Island Avenue, Philadelphia, was the first store to receive financing through FFFI. In 2005, it received \$250,000 in FFFI grant funding to help with workforce development training costs, plus a loan from TRF's New Markets Tax Credits program. Most of the supermarket's 258 jobs were filled by local residents, and the presence of the new 57,000 square foot supermarket encouraged other business development and job creation.

### Small Business Loans and Development

Small businesses represent the vast majority of businesses in the United States. They often drive innovation and economic development, and can help stabilize and revitalize distressed communities by helping people move above the poverty line. To help incubate small businesses, community development financial institutions can provide mentoring and assistance in obtaining financing or contracts.

The CDFI industry has been able to support small businesses and has created a host of innovative products and services. Through lending and technical assistance, CDFIs have helped to provide communities with the resources they need to assist themselves. Many community investment institutions are also addressing environmental needs. Community development banks, such as Beneficial State Bank, as well as community development venture capital firms like CEI Ventures and SJF Ventures, provide critical financing to emerging green businesses at work in underserved communities.

**THROUGH LENDING AND TECHNICAL ASSISTANCE, CDFIs HAVE HELPED TO PROVIDE COMMUNITIES WITH THE RESOURCES THEY NEED TO ASSIST THEMSELVES. MANY COMMUNITY INVESTMENT INSTITUTIONS ARE ALSO ADDRESSING ENVIRONMENTAL NEEDS.**

Community Reinvestment Fund USA (CRF), a national nonprofit whose mission is to "help change the lives of people living in economically disadvantaged communities," has been a leader in supporting small businesses in these communities by raising capital in the form of donations, grants and loans from foundations and other institutions for small business finance. Since CRF launched its first debt offering in 1989, it can point to 73,000 jobs created and retained.

In 2010, CRF was approved by the US Treasury's CDFI Fund as a Qualified Issuer under the CDFI Bond Guarantee Program created by the Small Business Jobs Act of 2010. As a result, CRF is authorized to submit Guarantee Applications, on behalf of eligible CDFIs, to issue bonds that are guaranteed by the US Treasury for purchase by the Federal Financing Bank. CRF acts as an intermediary, directing the proceeds from the sale of the bonds to the eligible CDFIs in the bond issue pool.

On a smaller but no less notable scale is the Four Bands Community Fund, a Native CDFI serving the Cheyenne River Indian Reservation. Four Bands offers small business loans and other financial products along with personalized support services to its clientele, who have little experience with banks, savings accounts or credit. Since its founding in 2000, it has supported the creation of over 100 businesses at a loan loss rate of just 2 percent.<sup>95</sup>

95. Native CDFI Network, 2015 *Policy Brief*.

## Affordable Housing

A focus of many community investors and lenders is developing affordable housing and other community services.

One of the leaders in this area is Community Housing Capital, a CDFI that launched in 2000 with \$10 million in capital from Bank of America and a \$2 million grant from State Farm Life Insurance Company. In its first 15 years of operation, it originated 352 loans totaling \$452 million—with a cumulative loan loss rate of just 54 basis points—to community organizations affiliated with the national NeighborWorks network. As a result, it has financed 14,700 units of affordable housing and \$1.72 billion of real estate development across 39 states and the District of Columbia.<sup>96</sup>

Access Capital and Community Capital Management are investment managers that have developed market-rate strategies and funds that focus on community development by investing in municipal bonds, US Small Business Administration loan pools and high-quality mortgage-backed securities issued by federal agencies.

Access Capital, from its inception in 1998 through 2015, can point to benefits from its investments that include more than 15,000 mortgages for low- and moderate-income home buyers, more than 64,000 affordable rental units and nearly 5,300 nursing home facility beds.<sup>97</sup>

Similarly, Community Capital Management, from its founding in 1999 through 2014, has invested over \$6.7 billion in community impact initiatives, generating societal benefits that include the creation of 321,000 affordable rental housing units and 14,500 home mortgages for low- and moderate-income borrowers.<sup>98</sup>

Some private equity and real estate firms also focus on affordable housing. Jonathan Rose Companies, a real estate investment, development and project management firm founded in 1989, specializes in developing green urban solutions, with a strong concentration on affordable, mixed-income housing. It has managed the development of over \$1.5 billion of real estate projects. In October 2014, it and financial services company TIAA announced that they would collaborate through the newly created Rose Affordable Housing Preservation Fund to acquire affordable and mixed-income multifamily housing to improve through low cost energy retrofits to reduce or control expenses and enhance tenant quality of life. It is focusing on the northeast corridor, Chicago, Denver, Los Angeles, San Francisco, Portland and Seattle markets.

## Generating Alternatives to Predatory Lending

Community development banks and credit unions have also sought to develop alternatives to predatory lenders in the communities they serve.

Faith Community United Credit Union, which was founded in 1952 by the members of Mt. Sinai Baptist Church in Cleveland, provides an example of the benefits that community investing institutions offer. Since 1999, the credit union has offered its members a “Grace” loan as an alternative to payday lenders, which typically charge as much as 300 percent in annualized terms for short-term loans. Most of the Grace loans go to single mothers when school starts in August and again at the Christmas holidays. After one year, recipients of Grace loans who are in good standing are eligible to receive a line of credit—which the credit union terms “Amazing Grace.”

96. Community Housing Capital, 2000-2015 anniversary report *Leveraging Capital, Financing Solutions*. Available at <http://communityhousingcapital.org/2015report/2015-anniversary-report-all.pdf>.

97. RBC Global Asset Management, “Access Capital Community Investment Strategy,” March 31, 2016. Available at [https://us.rbcgam.com/resources/docs/pdf/key-strategies/PS\\_AC.pdf?d=20160513155132](https://us.rbcgam.com/resources/docs/pdf/key-strategies/PS_AC.pdf?d=20160513155132).

98. Community Capital Management, *2014 Annual Impact Report*.

In 2015, Sunrise Banks of St. Paul, a CDFI bank, launched TrueConnect to provide an alternative to payday loans after a three-year pilot phase with local employers. Under the program, employees of any of these businesses may obtain a loan of up to \$3,000, provided it does not represent more than 8 percent of their annual salaries. The loan is repaid for up to 12 months through deductions from the employee's wages, and the interest rate is capped at 25 percent—far below the 100 percent annual rate charged by payday lenders in the region. David Reiling, the CEO of Sunrise Banks, sees the TrueConnect program as a safe loan alternative for the 26 million Americans who do not have a credit score. Sunrise plans to expand the program nationally, with additional employer partnerships in Minnesota, Ohio and California.<sup>99</sup>

In Mississippi, the state with the most payday lenders, community bank BankPlus decided to compete with payday lenders by offering loans of \$500 or \$1,000 for one- or two-year terms for an annual percentage rate of 5 percent. Before potential clients can receive the loans, they must take the bank's three-hour financial literacy course. Once approved, the clients must set up checking and saving accounts at BankPlus, where the loan proceeds are deposited. From 2008 through 2015, over 22,000 Mississippians have taken the seminar, and BankPlus has provided over 21,000 loans totaling more than \$16 million. The program began to turn a profit for the bank in 2012.

## INTERNATIONAL MICROENTERPRISE FUNDS

According to data provided by Calvert Foundation, \$2.9 billion was invested at the start of 2014 in loan funds managed by US-based international microfinance funds. Through loans and loan funds set up for small, medium and micro-enterprises, SRI investors have made capital available to a critical, underserved segment of the business marketplace not only in the United States but also abroad. In Africa, Asia and Latin America, microfinance has improved the socio-economic status of many women with little or no capital or credit by providing small loans to them to start their own businesses.

**IN AFRICA, ASIA AND LATIN AMERICA, MICROFINANCE HAS IMPROVED THE SOCIO-ECONOMIC STATUS OF MANY WOMEN WITH LITTLE OR NO CAPITAL OR CREDIT BY PROVIDING SMALL LOANS TO THEM TO START THEIR OWN BUSINESSES.**

MicroVest, an asset management company that provides private debt and equity capital to financial institutions that serve micro-, small and medium sized businesses, said in its 2015 Social Impact Report that “we believe that we are able to generate risk-adjusted returns not despite our social lens, but because of it. The diligent selection of our portfolio companies with regards to their social mission and financial resilience proved to be a successful combination.” MicroVest had a portfolio of 89 institutions across 39 countries at the end of 2014. Collectively, 55 percent of the active borrowers receiving micro-, small or medium enterprise loans from these low-income financial institutions were women.

Upfront investments from Oikocredit, an international community development institution, to Divine Chocolate, a UK-based chocolate manufacturer co-owned by the Kuapa Kokoo cooperative in Ghana, generated hope and new opportunities for cocoa farmers in the West African country of Sierra Leone. In February 2010, Divine Chocolate purchased the first shipment of Fair Trade Certified cocoa from the Sierra Leone cooperative Kpeya Agricultural Enterprise for inclusion in its chocolate bars and other fair

99. Sunrise Banks press release, “Sunrise Banks is the First Bank to Win \$2.2 Million from Wells Fargo 2015 NEXT Opportunity Award to Expand Leading-Edge Consumer Finance Strategies,” November 9, 2015. Available at [https://www.sunrisebanks.com/images/news/2015\\_NEXT\\_Opportunity\\_Award.pdf](https://www.sunrisebanks.com/images/news/2015_NEXT_Opportunity_Award.pdf).

trade chocolate products. The fair trade system provides farmers with a fair price for their products, offering a social premium over conventional market prices. The partnership with Divine Chocolate has resulted in numerous development projects for the Kpeya members' community, including new schools, water wells, bridges and a community-based credit union available to cooperative members for new entrepreneurial products.

Shared Interest, a US-based microfinance organization, provides guarantees to commercial lenders in South Africa, Mozambique and Swaziland to incentivize them to provide loans to small businesses and agricultural collectives in low-income communities. From its launch in 1994, shortly after Nelson Mandela was elected president of South Africa, through 2015, Shared Interest's aggregate guarantees of \$23.7 million have enabled \$113 million in commercial loans to small business that collectively employed more than two million people, the majority of whom are women.

# CHAPTER FOUR:

## Influencing Public Policy and Developing Organizations to Promote Sustainable Investment

For years, sustainable, responsible and impact investors have influenced national and global policy in order to advance their principles and priorities and to achieve broad change. In the United States, they have worked with and asked for regulatory changes from US government agencies, testified and advocated to Congress on multiple SRI priorities, and worked with other organizations and coalitions to pursue policy advances.

These investors have also made progress at the national and global level by creating organizations to coordinate public policy work or to advance sustainability research and set standards for responsible investment. They have worked with international organizations such as the United Nations and the Global Reporting Initiative, as well as with the Global Sustainable Investment Alliance, the Principles for Responsible Investment, and other sustainable finance organizations around the world.

**SUSTAINABLE, RESPONSIBLE AND IMPACT INVESTORS HAVE MADE PROGRESS AT THE NATIONAL AND GLOBAL LEVEL BY CREATING ORGANIZATIONS TO COORDINATE PUBLIC POLICY WORK OR TO ADVANCE SUSTAINABILITY RESEARCH AND SET STANDARDS FOR RESPONSIBLE INVESTMENT.**

### IMPACTS ON PUBLIC POLICY

As the advocate for the SRI community before the US government, US SIF coordinates public policy efforts to promote sustainable, responsible and impact investment. US SIF offers its members the opportunity to help shape policy on sustainability issues by convening investor-only meetings with policymakers, publishing position papers, submitting comment letters, providing model letters for members to adapt for their own use, training members on advocacy strategies and writing opinion pieces for media placement.

These efforts by US SIF, both on its own and in collaboration with other organizations, have focused on the US Securities and Exchange Commission (SEC), the US Environmental Protection Agency (EPA) and other government agencies, as well as Congress and the White House. For example, in 2007, US SIF played a significant role in ensuring that sustainable investors reached out to the SEC with their concerns about a preliminary announcement to substantially raise the vote support thresholds required for resubmission of shareholder proposals. The SEC ultimately chose not to move forward on efforts to limit the right to file shareholder resolutions.

### Dodd-Frank Financial Reform Law

In 2010, sustainable investors in the United States won an important victory with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The law affects many aspects of the financial services industry and is one of the most significant changes to the financial regulatory system



in decades. This law aimed at restoring public confidence in the financial system and preventing another financial crisis. As noted in Chapter Two, the law specifies that publicly traded companies must allow shareholders to hold an advisory vote on their executives' pay packages at least once every three years; it also includes numerous other provisions important to SRI investors, discussed below.

**Executive Compensation and Pay Disparity:** The Dodd-Frank Act includes a provision that requires public companies to disclose CEO-to-worker pay ratios. The provision reflects investor concern that the dramatic rise in US CEO pay levels over the past three decades has come at the expense of shareholders and other stakeholders, including company employees. Moreover, executive pay packages that are tied primarily to short-term financial indicators and stock prices can provide incentives for CEOs to take excessive risks. Inappropriate executive compensation packages at financial services companies were identified as contributing factors in the Wall Street financial crisis of 2008. In August 2015, after years of increasing pressure from lawmakers and sustainable and responsible investors awaiting action, the SEC issued the pay ratio disclosure rule. It stipulates that companies would must disclose, beginning in 2017:

- the median of the annual total compensation of all its employees, except the CEO,
- the annual total compensation of its CEO, and
- the ratio of those two amounts.<sup>100</sup>

**IN 2015, AFTER YEARS OF INCREASING PRESSURE FROM LAWMAKERS AND SUSTAINABLE AND RESPONSIBLE INVESTORS AWAITING ACTION, THE SEC ISSUED A NEW PAY RATIO DISCLOSURE RULE.**

**Conflict Minerals:** Dodd-Frank also requires publicly traded US companies that source minerals such as tantalum, tin, tungsten and gold to report efforts, including independent private sector audits, to ensure that they are not sourcing minerals from conflict areas in and around the Democratic Republic of the Congo (DRC). The eastern part of the country has been engulfed in a factional war that has claimed more than 5.4 million lives since 1998. Humanitarian observers believe that the DRC's mineral mines, many of which are controlled by various armed factions, provide financing that fuels the conflict. Since the passage of the Dodd-Frank Act, investors have worked actively with other stakeholders to engage with senior representatives at the SEC on the rulemaking process for the provision. Their goal is to support procedures to ensure that minerals from legitimately managed mines in conflict-free areas of the DRC can continue to be purchased to support communities in the country. As part of the multi-stakeholder group, investors submitted to the SEC recommendations endorsed by companies such as AMD, Dell, Ford, Hewlett-Packard and Microsoft.

The SEC announced final rules on conflict minerals in August 2012, requiring companies to disclose their use of conflict minerals if they were "necessary to the functionality or production of a product." This rule has faced several legal challenges. A decision by the US Court of Appeals for the DC Circuit in August 2015 struck down the requirement that companies use the term "not found to be DRC conflict free" in their annual Conflict Mineral Reports to the SEC if they were not able to verify whether the minerals in their products originating from the DRC or neighboring countries are conflict-free.

100. Securities and Exchange Commission press release, "SEC Adopts Rule for Pay Ratio Disclosure," August 5, 2015. Available at <http://www.sec.gov/news/pressrelease/2015-160.html>.

Sustainable and responsible investors, while dismayed by this ruling, were pleased that the Court left intact much of the conflict minerals provision. Companies under the scope of the law are still required to undertake and report on their due diligence efforts to responsibly source all minerals from high risk and conflict affected areas.

**SINCE THE PASSAGE OF THE DODD-FRANK ACT, INVESTORS AND OTHER STAKEHOLDERS HAVE ENGAGED WITH THE SEC IN THE RULEMAKING PROCESS FOR THE DISCLOSURE OF CONFLICT MINERALS. IN 2012, THE SEC ISSUED FINAL RULES REQUIRING COMPANIES TO DISCLOSE THEIR USE OF CONFLICT MINERALS.**

**Payments to US or Foreign Governments:** Sustainable and responsible investors were leading advocates of the Dodd-Frank Act provisions in Section 1504 that require companies registered with the SEC to disclose the payments they make to foreign governments or to the US government for the commercial development of oil, natural gas or minerals. Several human rights organizations and concerned investors have called for greater disclosure because the secrecy of extractive companies' payments to host governments can facilitate corruption and misappropriation of revenues, leading to social unrest and unstable commercial operating environments. However, while the SEC must issue a rule to implement this provision of Dodd Frank, it hit a snag when a business coalition challenged the rule in court. In September 2015, international relief and development organization Oxfam America filed a lawsuit against the SEC for unlawfully withholding this final rule implementing Section 1504.

On June 27, 2016, the SEC released the final rule on the disclosure of payments by resource extraction companies. Under the rule, companies listed on the US stock exchanges are required to make annual disclosures, by project, to the SEC about payments made to US and foreign governments for the commercial development of oil, natural gas or minerals. The new rule requires public, project-level disclosure of payments including taxes, royalties, fees (including license fees), production entitlements, bonuses, dividends, payments for infrastructure improvements and, if required by law or contract, community and corporate social responsibility payments. The new rule also aligns to the payment transparency rules in other countries, including those adopted in the European Union and Canada. Companies are required to begin reporting payments for all fiscal years ending after September 30, 2018.

**Consumer Financial Protection Bureau:** In response to the late-2000s recession and financial crisis, in which deceptive and predatory home lending practices were a significant contributing factor,<sup>102</sup> sustainable and responsible investors supported the Dodd-Frank Act's creation of the Consumer Financial Protection Bureau (CFPB) to enforce federal laws and issue regulations to protect financial consumers. As of September 2015, the CFPB reports that its enforcement activity has resulted in more than \$11 billion in relief for over 25 million consumers, and that its supervisory actions have resulted in financial institutions providing more than \$248 million in redress to nearly two million consumers. The Bureau has handled over 700,000 complaints from consumers addressing all manner of financial products and services.<sup>103</sup>

101. Oxfam America press release, "Oxfam welcomes fast-tracked oil transparency rule," October 2, 2015. Available at <http://www.oxfamamerica.org/press/oxfam-welcomes-fast-tracked-oil-transparency-rule/>.

102. Between 1999 and 2007, just before the start of the recession, responsible investors filed shareholder resolutions with financial institutions, warning that predatory lending in the subprime mortgage market posed significant financial and reputational risks for these companies and their shareholders.

103. Consumer Financial Protection Bureau, "Written Testimony of CFPB Director Richard Cordray Before the House Committee on Financial Services," September 29, 2015. Available at <http://www.consumerfinance.gov/newsroom/written-testimony-of-cfpb-director-richard-cordray-before-the-house-committee-on-financial-services-20150929/>.

## Public Policy Impact on Corporate Political Contributions

SRI investors have also engaged with the SEC to use its existing authority to require disclosure of corporate political contributions. Since January 2010, when the Supreme Court's decision in *Citizens United v. Federal Election Commission* removed restrictions on political advertising and spending by corporations and unions, concerned investors have looked to regulatory and legislative means to limit the damage from the decision. In November 2011, US SIF, along with US SIF members and other investors managing more than \$690 billion, asked the SEC to support a rulemaking petition that urged the SEC to require full disclosure by companies of their political spending. The Committee on Disclosure of Corporate Political Spending, which is comprised of 10 corporate and securities law professors, submitted the petition.

As of February 2016, the SEC had received more than 1.2 million comments on the petition—a record in SEC rulemaking history. The vast majority of the comments were supportive. In addition to sustainable, responsible and impact investors and public interest groups, 15 senators and 70 members of the House of Representatives contributed comments. Although the SEC had announced in January 2013 that it would consider requiring public companies to disclose political spending, this has not been on the its regulatory agenda in subsequent years. Investors and other proponents of increased disclosure have been urging the SEC to re-list the proposal on its regulatory agenda given the unprecedented support.

## Public Policy Impact on Environmental Issues

Sustainable, responsible and impact investors have long sought to improve companies' disclosure and action on climate change, and they achieved successes through advocacy in the United States before the SEC and EPA.

**Climate Change Issues:** After a multi-year campaign, Ceres and concerned investors, including US SIF, persuaded the SEC to issue guidance to companies on disclosing the material impacts they face from climate change. Investor coalitions wrote to the SEC about this issue in 2004 and 2006. Then, in 2007, a group of 22 investors and environmental organizations formally petitioned the SEC to provide interpretive guidance on climate change risk disclosure in securities filings. Shortly after the petition was filed, the Senate Banking Committee's Subcommittee on Securities, Insurance and Investment held a hearing in which leading institutional investors repeated their calls for detailed climate risk disclosure in securities filings.

In January 2010, the SEC issued the guidance these investors had sought. Specifically, the SEC's interpretative guidance says that companies should report to investors if they are likely to face material impacts from climate-related developments in the following areas: legislation and regulation, international accords and treaties, regulation or business trends, and the physical impacts of climate change. A few months earlier, in October 2009, the SEC Division of Corporation Finance had signaled its growing awareness of this issue when it issued guidance that it would no longer allow companies to routinely omit shareholder proposals that ask companies to evaluate risk from climate change and other health and environmental issues.

**IN JANUARY 2010, THE SEC RESPONDED TO INVESTOR CONCERNS BY ISSUING INTERPRETIVE GUIDANCE ON CORPORATE REPORTING ON MATERIAL IMPACTS FROM CLIMATE-RELATED DEVELOPMENTS.**

The sustainable investment community has also supported regulations requiring companies to report their greenhouse gas (GHG) emissions. In June 2009, US SIF issued a formal comment to the EPA on its then proposed rule for mandatory reporting on greenhouse gas emissions by all fossil fuel suppliers, engine and vehicle manufacturers, and all facilities that directly emit 25,000 metric tons or more of carbon dioxide equivalent. US SIF's comment welcomed the proposed rule, but also underscored US SIF members' interest in obtaining GHG emission data not only by facility, but also for the entire parent company, particularly if it is publicly traded.

The EPA appeared to respond to the specific suggestions in US SIF's comment letter in March 2010, when it amended the Mandatory Greenhouse Gas Reporting Rule to require reporting facilities to provide the name, address and ownership status of their US parent company, and their primary and all other applicable North American Industry Classification System (NAICS) codes.

In August 2011, US SIF filed a comment with the EPA endorsing its proposed standard for curbing mercury and other toxic emissions from coal- and oil-fired electric generating units. In the comment, US SIF said the rule would improve public health, create jobs and spur innovation, producing benefits such as reduced absenteeism and improved productivity across a broad range of economic sectors. Many other organizations and investors also wrote in support of the rule, and the EPA announced the final rule Mercury and Air Toxics Standards (MATS) in December 2011. One commentator explained the significance of the EPA's decision:

*It's worth lifting our heads out of the news cycle and taking a moment to appreciate that history is being made. Finally controlling mercury and toxics will be an advance on par with getting lead out of gasoline. It will save tens of thousands of lives every year and prevent birth defects, learning disabilities, and respiratory diseases. It will make America a more decent, just, and humane place to live.<sup>104</sup>*

After MATS was issued, the US Supreme Court ruled in June 2015 that the EPA erred when it concluded that cost did not need to be considered in the appropriate and necessary finding supporting MATS. That decision remanded MATS back to the DC Circuit to assess how the agency could fix the regulations. The Court of Appeals for the District of Columbia Circuit issued a ruling in December 2015 that allowed the EPA to enforce MATS as it fixes the flaws in the regulatory program identified by the Supreme Court ruling. MATS is still in place today and many plants across the country have already undertaken to reduce toxic air emissions and comply with the final standards.<sup>105</sup>

In December 2014, US SIF submitted a formal comment in support of the EPA's proposed Carbon Emission Guidelines for existing electric generating units. In the comment, US SIF pointed out the strong interest of sustainable, responsible and impact investors in public policy to curb greenhouse gas emissions and of the sizable growth of the US-domiciled assets that take climate change and other environmental issues into account. In August 2015, after intensive public engagement and outreach, including with responsible investors, over the power plant guidelines, President Obama and the EPA announced the Clean Power Plan— a crucial step in meeting America's international commitment to reduce carbon emissions by as much as 28 percent below 2005 levels by 2025. As this report is being written, the Supreme Court has just placed a stay on enforcement on the Clean Power Plan, noting that many states are preparing legal actions challenging the rule. Work continues in the investor community to support the Clean Power Plan, or other measures to help mitigate greenhouse gas emissions, such as carbon taxes.

104. David Roberts, "New EPA Mercury Rules Are a Bona Fide Big Deal," Grist, December 22, 2011. Available at <http://grist.org/fossil-fuels/2011-12-21-the-mercury-rules-announced-today-are-a-bona-fide-big-deal/>.

105. Environmental Protection Agency blog, "Moving Forward on the Mercury and Air Toxics Standards," November 20, 2015, accessed February 24, 2016. Available at <http://blog.epa.gov/blog/2015/11/moving-forward-on-mercury/>.

## Guidance under ERISA on Consideration of ESG Factors

US SIF worked in a coalition with a diverse set of partners to persuade the US Department of Labor to rescind its 2008 bulletin on Economically Targeted Investments, which had discouraged fiduciaries for retirement plans in the private sector from considering environmental and social factors in their investments, and was a major departure from 1994 guidance. The Department of Labor, which is responsible for enforcing the Employment Retirement Income Security Act (ERISA), issued new guidance in 2015 that makes clear that “fiduciaries need not treat commercially reasonable investments as inherently suspect or in need of special scrutiny merely because they take into consideration environmental, social, or other such factors.” In addition, the guidance assures fiduciaries that they may incorporate “ESG-related tools, metrics and analyses to evaluate an investment’s risk or return or choose among otherwise equivalent investments.”<sup>106</sup>

**THE DEPARTMENT OF LABOR ISSUED NEW GUIDANCE IN 2015 MAKING CLEAR THAT FIDUCIARIES MAY INCORPORATE “ESG-RELATED TOOLS, METRICS AND ANALYSES TO EVALUATE AN INVESTMENT’S RISK OR RETURN OR CHOOSE AMONG OTHERWISE EQUIVALENT INVESTMENTS.”**

Specifically, the guidance clarifies that fiduciaries of ERISA-governed pension funds “may consider (social and environmental) goals as tie-breakers when choosing between investment alternatives that are otherwise equal with respect to return and risk over the appropriate time horizon.” The guidance also states that “environmental, social, and governance issues may have a direct relationship to the economic value of the plan’s investment,” and thus these issues “are not merely collateral considerations or tie-breakers, but rather are proper components of the fiduciary’s primary analysis of the economic merits of competing investment choices.”<sup>107</sup>

### NEW FIDUCIARY DUTY GUIDANCE ON ESG INVESTING FROM THE DEPARTMENT OF LABOR IN 2015

The screenshot shows the Federal Register website page for the document titled "Interpretive Bulletin Relating to the Fiduciary Standard Under ERISA in Considering Economically Targeted Investments". The page includes a navigation bar with "Sections", "Browse", "Search", "Policy", "Learn", "Blog", and "My FR" menus. The document is categorized as a "Rule" and was issued by the Employee Benefits Security Administration on 10/26/2015. The "ACTION" section identifies it as an "Interpretive Bulletin". The "SUMMARY" section states that the document sets forth supplemental views of the Department of Labor concerning the legal standard imposed by sections 403 and 404 of Part 4 of Title I of the Employee Retirement Income Security Act of 1974 (ERISA) with respect to a plan fiduciary's decision to invest plan assets in "economically targeted investments" (ETIs). It notes that ETIs are generally defined as investments that are selected for the economic benefits they create in addition to the investment return to the employee benefit plan investor. The document withdraws Interpretive Bulletin 08-01 and replaces it with Interpretive Bulletin 2015-01 that reinstates the language of Interpretive Bulletin 94-01. The page also features a "LEGAL DISCLAIMER" box, font controls, and options for PDF, DEV, PRINT, and PUBLIC INSPECTION. The publication date is listed as Monday, October 26, 2015, and the agencies are the Department of Labor, Employee Benefits Security Administration.

106. Department of Labor, Employee Benefits Security Administration, *Interpretive Bulletin Relating to the Fiduciary Standard under ERISA in Considering Economically Targeted Investments*, October 26, 2015. Available at <https://www.federalregister.gov/articles/2015/10/26/2015-27146/interpretive-bulletin-relating-to-the-fiduciary-standard-under-erisa-in-considering-economically>.

107. *Ibid.*

## Public Policy Impact on International Issues

Building on lessons from the anti-apartheid divestment campaign of the 1970s and 1980s, sustainable, responsible and impact investors have advocated diplomatic and economic pressures against Burma and Sudan, two countries whose governments have perpetrated severe human rights abuses against their people.

**Burma:** After a military junta seized power in 1988 and ruthlessly suppressed democracy, the International Labor Organization and other UN agencies documented pervasive human rights violations by the Burmese dictatorship, including forced or compulsory labor (especially at oil and gas pipeline facilities), forced relocation and political repression. Because the military government depended on foreign trade and investment to sustain its military and purchase weapons, sustainable and responsible investors responded with policies to prohibit investment in companies in strategic sectors and asked portfolio companies to stop conducting business with the military government.

Many of these investors also advocated US state and federal policies to increase pressure on the Burmese government, such as the law that the state of Massachusetts passed in 1996 to limit its purchases from companies that did business in Burma. Sustainable investors, such as US SIF member Clean Yield Asset Management, also successfully advocated for a Vermont law, enacted in 1999, that required the state treasurer to vote in favor of shareholder resolutions raising concerns at companies doing business in Burma. Although the US Supreme Court eventually ruled the Massachusetts law to be unconstitutional because it infringed on federal powers, the US government imposed sanctions that barred new US investment in Burma beginning in April 1997. The federal government further tightened these sanctions in 2003 by banning imports from Burma and the provision of financial services to the country.

Over this period, sustainable and responsible investors, in addition to supporting these policy initiatives, continued to apply pressure on companies continuing to do business in the country.

The economic pressures on Burma that sustainable and responsible investors helped to set in motion seem to have had an effect, as the military-backed government proceeded with a cautious reform process that included the release, in 2011, of democracy activist and Nobel Peace laureate Aung San Suu Kyi from house arrest. The US government has since lifted key sanctions against Burma.

**Sudan:** Concerned investors have questioned companies doing business in Sudan since 1999, when oil was first extracted from the country. The oil revenues that enriched the government and military did not prove beneficial to the Sudanese people as a whole, particularly when the Khartoum government began to sponsor attacks against communities living in the oil-rich southern areas of the country to clear the way for oil exploration. A few years later, the Khartoum government began fomenting violence in the province of Darfur through the use of proxy militias, and the broad indiscriminate nature of its attacks suggested a war for land was underway. In 2004, the US Congress passed a resolution declaring the human rights abuses in Darfur to be genocide.

Since 1997, US law has barred US firms from operating in Sudan due to concerns about the country's support of terrorism. Thus, sustainable and responsible investors concerned about investment exposure to Sudan focused on the two dozen Chinese and other multinationals engaged in the oil, mineral extraction and power industries, and the mutual funds that held shares in them. In 1999, after China National Petroleum Corporation (CNPC), a Chinese state-owned company with major oil operations in Sudan, announced plans to issue \$10 billion in shares on the New York Stock Exchange, human rights groups argued that the share offering would finance CNPC's operations in Sudan. The concerns they

raised appeared to have an impact: CNPC's initial offer of shares in its PetroChina subsidiary on the NYSE raised only \$2.9 billion, far short of the target.

In 2007, a shareholder advocate filed a resolution with Berkshire Hathaway asking it not to invest "in the securities of any foreign corporation or subsidiary thereof that engages in activities that would be prohibited for US corporations by Executive Order of the President of the United States," and made clear she was concerned about Berkshire Hathaway's investment in PetroChina.<sup>108</sup> Several months later, Berkshire sold its PetroChina shares. Similar resolutions were subsequently filed at several mutual funds.

Investor activism also led to the enactment of the Sudan Accountability and Divestment Act, signed into law by President George W. Bush on December 31, 2007. Among other provisions, the law permitted, but did not require, states and localities to adopt and enforce measures requiring divestment from companies operating in four sectors: oil, power production, mineral extraction and military equipment.

**INVESTOR ACTIVISM LED TO THE ENACTMENT OF THE SUDAN ACCOUNTABILITY AND DIVESTMENT ACT, SIGNED INTO LAW BY PRESIDENT GEORGE W. BUSH ON DECEMBER 31, 2007.**

The federal law provided further encouragement to the Sudan divestment movement. Concerned investors, including public funds in California, Illinois, New Jersey and other states, adopted Sudan-specific policies and pulled investments out of companies operating in Sudan. In 2014, in asset-weighted terms, investment criteria related to Sudan was the most prominent ESG factor incorporated into institutional investment policies.<sup>109</sup>

While sustainable investors have raised awareness of human rights abuses in Sudan and have helped to limit foreign investment there, they cannot yet show that Khartoum has responded by improving the political rights and social welfare of its people; Sudan continues to experience gross human rights abuses and armed conflicts. Armed conflict, unfortunately, also prevails in South Sudan, which broke away from Khartoum's rule in 2011 to become an independent country.

## **CREATION OF ORGANIZATIONS TO PROMOTE SUSTAINABLE INVESTMENT**

SRI investors, in addition to advocating for various laws and regulations in the United States and elsewhere, have contributed to significant changes through the creation and support of professional investor initiatives and organizations around the world, including the ones detailed below.

### **CDP**

The CDP (formerly Carbon Disclosure Project), administers the largest database of primary corporate climate change information in the world. The CDP acts on behalf of 882 institutional investors, holding \$95 trillion in assets under management and some 75 purchasing organizations, such as Dell and PepsiCo. The CDP partners with businesses to measure their carbon footprints, thus facilitating company efforts to reduce their carbon footprints. Today, more than 5,600 companies and organizations in about 80 countries and 300 cities measure and disclose their greenhouse gas emissions, water management efforts, and climate change strategies through CDP, in order to set reduction targets

108. Berkshire Hathaway, Shareholder Proposal Regarding Berkshire's Investment in PetroChina. Available at <http://www.berkshirehathaway.com/sudan.pdf>.

109. US SIF Foundation, *Report on US Sustainable, Responsible and Impact Investing Trends 2014* (2014).

and make performance improvements. This data is made available to a wide audience of institutional investors, corporations, policymakers and their advisors, public sector organizations, government bodies, academics and the general public.

### **Ceres and the Investor Network on Climate Risk**

Ceres, a national non-profit coalition of investors, environmental organizations and public interest groups, was formed in 1989, six months after the Exxon Valdez oil spill poured nearly 11 million gallons of oil into Alaska's Prince William Sound and shook public confidence in corporate America. Ceres works with companies to address sustainability challenges, such as global climate change and water scarcity. It directs the Investor Network on Climate Risk (INCR), a group of more than 110 leading institutional investors, and Business for Innovative Climate & Energy Policy (BICEP), a coalition of leading consumer brand companies advocating for strong climate and clean energy policies in the United States.

### **Confluence Philanthropy**

Confluence Philanthropy, established in 2009, supports and catalyzes the work of private, public and community foundations, individual donors and investment advisors who are committed to moving philanthropy towards mission-aligned investment. It promotes mission alignment through a variety of asset classes, investment vehicles and advocacy strategies.

### **The Council of Institutional Investors**

Founded in 1985, the Council of Institutional Investors (CII) is a non-profit association of over 125 pension funds and employee benefit funds, foundations and endowments with combined assets that exceed \$3 trillion. It was founded at a time when shareowners had little say in most corporate decisions and did not appreciate the potential power of their votes. CII has become one of the leading voices for good corporate governance and strong shareholder rights.

### **Global Impact Investment Network**

The Global Impact Investment network (GIIN) was launched in 2009 and is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. It has over 200 member organizations and firms. It offers a database of impact investment funds, primarily in private equity and debt, that is open to accredited investors.

### **The Global Sustainable Investment Alliance**

Sustainable and responsible investors have created national and regional global sustainable investment forums (SIFs)—membership associations that work to promote sustainable investing in a specific area of the world. They have joined together to form the Global Sustainable Investment Alliance (GSIA). Members of the GSIA are shown in Figure 4.1, and additional sustainable investment membership organizations around the world are shown in Figure 4.2.



Figure 4.1: Members of the Global Sustainable Investment Alliance (GSIA)



Figure 4.2: Other Membership-based Sustainable Investment Organizations

Forum Nachhaltige Geldanlagen (Germany/Austria/Liechtenstein/Switzerland)
LatinSIF (Latin America)
Forum per la Finanze Sostenibile (Italy)
Responsible Investment Association (Canada)
Forum pour l'Investissement Responsable (France)
Responsible Investment Research Association (India)
Japan SIF
Spainsif (Spain)
KoSIF (Korea)
SWESIF (Sweden)

## Interfaith Center on Corporate Responsibility

Beginning with calls for greater corporate social responsibility from religious investors who opposed apartheid in South Africa over 40 years ago, members of the Interfaith Center on Corporate Responsibility (ICCR) continue to advocate for the integration of social and environmental dimensions in corporate decision-making. Today, the ICCR coalition includes 300 institutional investors including faith-based congregations, responsible asset management companies, unions and pension funds representing more than \$100 billion in invested capital. ICCR members regularly engage global companies in an effort to improve their performance on a wide range of issues.

## Mission Investors Exchange

Founded in 2012, Mission Investors Exchange is a national network of more than 230 foundations and mission investing organizations. Its program was launched as the culmination of the integration of PRI Makers Network and More For Mission. Mission Investors Exchange serves as a place where philanthropic innovators share ideas, tools and experiences to increase the impact of their capital.

## Principles for Responsible Investment

The Principles for Responsible Investment (PRI) has more than 1,500 signatories from more than 50 countries, including pension funds, insurance companies and investment managers. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices. Signatories commit to six principles that include incorporating ESG issues into their investment analysis and ownership practices.

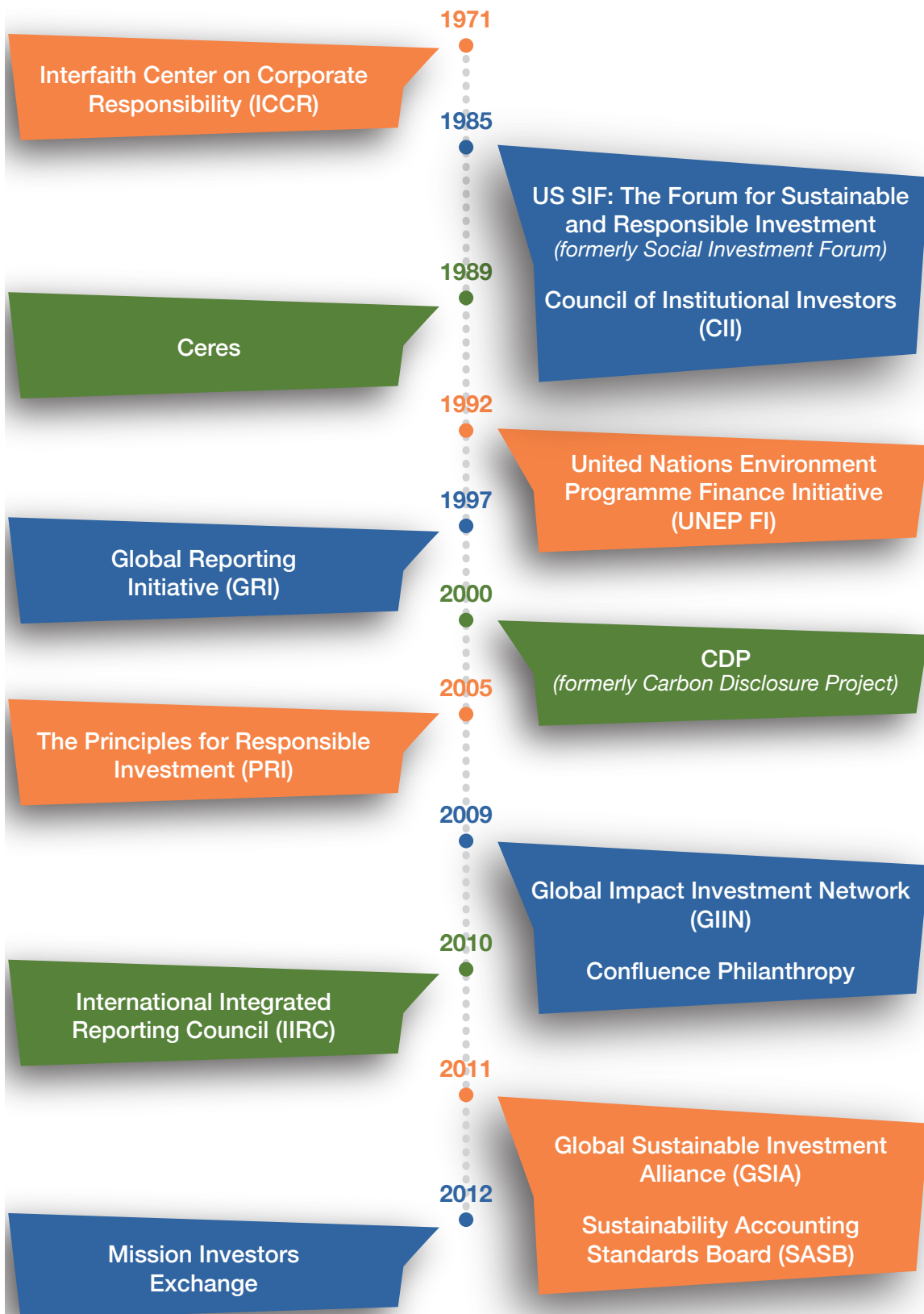
## United Nations Environment Programme Finance Initiative

Founded in 1992, the United Nations Environment Programme Finance Initiative (UNEP FI) is a coalition of more than 200 global financial institutions working in partnership with the UNEP to promote sustainable finance. The membership, public and private financial institutions balanced between developed and developing countries, supports approaches to anticipate and prevent potential negative impacts of finance on the environment and society. UNEP FI's Climate Change Working Group seeks to raise awareness and communicate the problem of climate change to financial institutions, policymakers and the public at large.

## US SIF: The Forum for Sustainable and Responsible Investment

US SIF: The Forum for Sustainable and Responsible Investment is the leading voice advancing sustainable, responsible and impact investing across all asset classes. US SIF's mission is to rapidly shift investment practices towards sustainability, focusing on long-term investment and the generation of positive social and environmental impacts. Among the hundreds of US SIF members are investment management and advisory firms, mutual fund companies, research firms, financial planners and advisors, broker-dealers, community investing institutions, non-profit associations, and pension funds, foundations and other asset owners. US SIF and the US SIF Foundation advance sustainable, responsible and impact (SRI) investing through research and education, public policy, targeted media and public outreach efforts, convenings and other programs. US SIF is a member of the Global Sustainable Investment Alliance.

## TIMELINE: CREATION OF ORGANIZATIONS THAT PROMOTE SUSTAINABLE INVESTMENT



## Reporting Initiatives

**Global Reporting Initiative:** Sustainable and responsible investors played a significant role in creating the Global Reporting Initiative (GRI), which started as a project of Ceres, but became an independent entity in the late 1990s. As of January 2015, more than 5,000 organizations across more than 90 countries had used GRI Sustainability Reporting Guidelines. An increasing number of GRI reports are easily accessible to global investors through such platforms as Bloomberg terminals that enable monitoring and analysis of real time financial market data. According to GRI, US government agencies that either reference GRI in their sustainability reports or do full GRI reporting include the US Postal Service, US Army and the US Air Force, among many others.

**The International Integrated Reporting Council:** Thanks in large part to the work of GRI, the nature and scope of sustainability reporting has also fundamentally changed. The International Integrated Reporting Council (IIRC), a coalition of regulators, investors, companies, accounting professionals, standard setters and civil society organizations, was established in 2010 to demonstrate the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. In December 2013, the IIRC published a global framework for integrated reporting following extensive consultation and testing, including the 140 businesses and investors from 26 countries that participated in the IIRC Pilot Programme. In 2016, the IIRC and the Federation of European Accountants are exploring how integrating reporting can help facilitate implementation of the European Union's Non-Financial Reporting Directive, which will require 6,000 European entities to report on their environmental, social, human rights and anti-corruption policies.

**The Sustainability Accounting Standards Board:** A non-profit incorporated in July 2011, the Sustainability Accounting Standards Board (SASB) is developing standards—by sector and industry—for the material ESG information that companies traded on US exchanges should disclose in their annual filings. SASB has identified material issues and key performance indicator standards for 45 industries in six sectors. By 2016, standards for more than 80 industries in 10 sectors will be available. Additionally, SASB offers education for professionals to better understand the link between material sustainability information and a company's financial performance.

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# CONCLUSION

This paper details the impressive effects of sustainable, responsible and impact investment. It provides data and examples to describe how SRI practitioners, often by working in close collaboration with civil society organizations, government agencies and other stakeholders, have positively influenced the investment industry, investors, companies, communities, public policy and global standard setting.

The ideas and practices advanced by SRI investors have captured global attention. There is growing acceptance that environmental, social and governance issues are material; some of the most sophisticated investors around the world now understand that SRI provides important insights and mitigates risks while also benefiting society.

The investment industry has changed significantly as the dissemination and practice of these concepts have spurred the growth of various innovative investment vehicles. The growing number of stock exchanges with ESG listing requirements also demonstrates the impact that sustainable investors have had on global capital markets. Individual investors can now reach out to specialized SRI financial advisors, and many individuals have the opportunity to invest in retirement plans that include one or more SRI options. Community development finance and social impact venture capital initiatives are embraced by numerous foundations, high net worth individuals and other investors as part of mission investing and impact investing commitments.

The examples of impact captured in this paper demonstrate that SRI has contributed to fundamental changes in the way companies operate. A growing number of companies look at environmental, social and governance issues in a more formal way as part of their decision-making, and measure and disclose their ESG performance. Many companies have changed the way they do business as a result of engagement with sustainable investors.

Sustainable, responsible and impact investment has contributed to the creation of intermediaries to finance community initiatives and has helped build wealth in underserved communities worldwide. Better public policies have been developed as a result of the work of sustainable investors, and an array of field-building and standard-setting organizations have been created—many of them started and managed by SRI professionals.

A growing number of individual and institutional investors are searching for investments that can address global environmental crises, build community and improve economic opportunity. Ultimately, the path to a sustainable future requires awareness that corporate performance, investment performance, and environmental, social and governance issues are interconnected and inseparable.

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# APPENDIX: ADDITIONAL SRI RESOURCES

## MORE REPORTS BY US SIF FOUNDATION

- [2014 Report on US Sustainable, Responsible and Impact Investing Trends](#)
- [2014 Global Sustainable Investment Review](#)
- [Confronting Corporate Money in Politics](#)
- [Expanding the Market for Community Investment in the United States](#)
- [Family Offices and Investing for Impact: How to Manage Wealth, Expand Legacies and Make a Difference in the World](#)
- [Investing to Advance Women: A Guide for Individual and Institutional Investors](#)
- [Investing to Curb Climate Change: A Guide for the Individual Investor](#)
- [Investing to Curb Climate Change: A Guide for the Institutional Investor](#)
- [Opportunities for Sustainable and Responsible Investing in US Defined Contribution Plans](#)
- [Options and Innovations in Community Investing](#)
- [Unleashing the Potential of US Foundation Endowments: Using Responsible Investment to Strengthen Endowment Oversight and Enhance Impact](#)
- [Sustainability Trends in US Alternative Investments](#)
- [Unlocking ESG Integration](#)

## HELPFUL US SIF WEBPAGES

- [Research by the US SIF Foundation](#)
- [Research by US SIF Members](#)
- [SRI Basics](#)

## NETWORKS AND ORGANIZATIONS

- CDP: [www.cdp.net](http://www.cdp.net)
- Ceres: [www.ceres.org](http://www.ceres.org)
- Climate Bonds Initiative : <http://www.climatebonds.net/>
- Community Development Venture Capital Alliance: [www.cdvca.org](http://www.cdvca.org)
- Confluence Philanthropy: [www.confluencephilanthropy.org](http://www.confluencephilanthropy.org)
- Council of Institutional Investors: [www.cii.org](http://www.cii.org)
- Divest-Invest Initiative: <http://divestinvest.org/>

- EIRIS Conflict Risk Network: <http://www.eiris.org/about-us/eiris-conflict-risk-network/>
- Fossil Free, a 350.org Project: <http://gofossilfree.org/>
- Global Impact Investing Network: [www.thegiin.org](http://www.thegiin.org)
- Global Reporting Initiative: [www.globalreporting.org](http://www.globalreporting.org)
- Global Sustainable Investment Alliance: <http://www.gsi-alliance.org/>
- Initiative for Responsible Investment: <http://hausercenter.org/iri/>
- Interfaith Center on Corporate Responsibility: [www.iccr.org](http://www.iccr.org)
- International Corporate Governance Network: [www.icgn.org](http://www.icgn.org)
- Investors' Circle: [www.investorscircle.net](http://www.investorscircle.net)
- Investor Environmental Health Network: [www.iehn.org](http://www.iehn.org)
- Investor Network on Climate Risk: [www.incr.com](http://www.incr.com)
- Mission Investors Exchange: [www.missioninvestors.org](http://www.missioninvestors.org)
- National Community Investment Fund: [www.ncif.org](http://www.ncif.org)
- National Federation of Community Development Credit Unions: [www.cdcu.coop](http://www.cdcu.coop)
- Opportunity Finance Network: [www.opportunityfinance.net](http://www.opportunityfinance.net)
- Principles for Responsible Investment: [www.unpri.org](http://www.unpri.org)
- Responsible Endowments Coalition: [www.endowmentethics.org](http://www.endowmentethics.org)
- Slow Money Alliance: [www.slowmoney.org](http://www.slowmoney.org)
- Sustainable Endowments Institute: [www.endowmentinstitute.org](http://www.endowmentinstitute.org)
- The ImPact: [www.theimpact.org](http://www.theimpact.org)
- Thirty Percent Coalition: <http://www.30percentcoalition.org/>
- US SIF and the US SIF Foundation: [www.ussif.org](http://www.ussif.org)
- United Nations Environment Programme Finance Initiative: [www.unepfi.org](http://www.unepfi.org)



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