

2018

Moving Forward with Sustainable,  
Responsible and Impact Investing  
**A Roadmap for Money Managers**

US | SIF  
FOUNDATION



**About the Publisher:** The US SIF Foundation, a 501(C)(3) organization, undertakes educational and research activities to advance the mission of US SIF. US SIF: The Forum for Sustainable and Responsible Investment is the leading voice advancing sustainable, responsible and impact investing (SRI) 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, asset owners, mutual fund companies, research firms, financial planners and advisors, broker-dealers, community investing institutions and non-profit organizations.

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# INTRODUCTION

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As demand for sustainable and impact investing from both institutional and retail investors has grown, more money managers are incorporating environmental, social and governance (ESG) investment strategies and offering ESG-oriented products. US SIF Foundation's *Report on US Sustainable, Responsible and Impact Investing Trends 2016* found that money managers that consider ESG factors in their investment practices accounted for \$8.10 trillion in assets under management in 2016, an increase of 68 percent since 2014.

Client demand is the top reason for considering ESG and was cited by 85 percent of the survey's money manager respondents. Corroborating this finding, a recent report by the Morgan Stanley Institute for Sustainable Investing found that 89 percent of asset managers surveyed say they are familiar with sustainable investing, and 68 percent identify sustainable investing as a "business-building strategy."<sup>1</sup>

However, questions have been raised about the quality and transparency of sustainable, responsible and impact investment (SRI) practices among some money managers. Some of the newer entrants claim to consider ESG factors across all assets, but do not disclose much information on their ESG incorporation process or the ESG criteria they consider. Many industry professionals question whether this lack of information and potential "green washing" will turn investors away.

Money managers with a rigorous approach will be able to manage risk better, enhance positive ESG outcomes

and also attract discerning investors. The purpose of this roadmap is to help money managers new to sustainable, responsible and impact investing get started, and also to assist money managers who have taken the initial steps to consider ways to deepen their SRI practice. It applies to money managers with investment vehicles across all asset classes, from public equities and fixed income to private equity and real estate.

The first section, **The Basics of Sustainable, Responsible and Impact Investing**, provides an overview of the key components of SRI practice: ESG incorporation and investor engagement. It explains the business case for SRI, with a review of studies on SRI financial performance and risk reduction, recent guidance on fiduciary duty, and the growing demand for and awareness of SRI among institutional and retail investors. It also identifies the leading ESG criteria considered by money managers and institutional investors in their asset management and investor engagement activities.

The next section, **Developing and Enhancing Sustainable Investing Strategies**, discusses activities that money managers can undertake to develop or deepen their SRI activities.

A brief **Conclusion** is followed by **Appendices** with resource guides by asset class and information on impact measurement and management.

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1. Morgan Stanley Institute for Sustainable Investing, *Sustainable Signals: The Asset Manager Perspective* (2016), 1 and 10. Available at [http://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/Morgan\\_Stanley\\_ISI\\_Sustainable\\_Signals.pdf](http://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/Morgan_Stanley_ISI_Sustainable_Signals.pdf).

# THE BASICS OF SUSTAINABLE, RESPONSIBLE AND IMPACT INVESTING

## What is sustainable, responsible and impact investing?

Sustainable, responsible and impact investing is an investment discipline that considers environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact. It can be applied across all asset classes. Figure 1 identifies common ESG issues that SRI practitioners consider.

The practice of sustainable, responsible and impact investing in the United States continues to grow. From 2014 to 2016, professionally managed assets engaged in SRI strategies grew from \$6.57 trillion to \$8.72 trillion, accounting for one out of every five dollars under professional management in the United States. Figure 2 depicts the growth of SRI since 2005. To learn more, visit: [www.ussif.org/trends](http://www.ussif.org/trends).

Throughout this guide, “SRI,” “sustainable,” “responsible”

FIGURE 1: EXAMPLES OF ESG CRITERIA USED BY SUSTAINABLE INVESTORS



Source: US SIF Foundation

and “impact” investing are used interchangeably. Investors also use a number of other terms for sustainable investing, such as ESG investing, values-based investing, mission-aligned investing and socially responsible investing.

Two core approaches to sustainable investing are ESG incorporation and investor engagement.

**ESG incorporation** is the consideration of environmental, social and corporate governance criteria in investment analysis and portfolio construction across a range of asset classes. ESG incorporation can be accomplished in numerous ways:

- **Positive/best-in-class screening:** Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers.
- **Negative/exclusionary screening:** The exclusion from a fund or plan of certain sectors or companies based on specific ESG criteria.
- **ESG integration:** The systematic and explicit inclusion by investment managers of ESG factors into financial analysis.
- **Impact investing:** Targeted investments, often in private markets, aimed at solving social or environmental problems.<sup>2</sup>
- **Sustainability themed investing:** The selection of assets specifically related to sustainability in single or multi-themed funds.

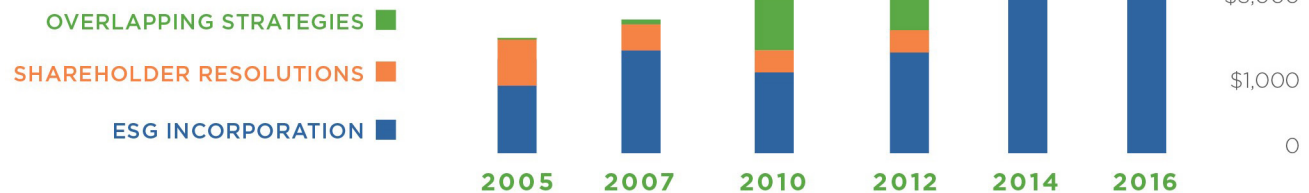
**Investor engagement**, the other principal approach for SRI investors, consists of the actions sustainable investors take to present their concerns to the management of portfolio companies about the companies’ ESG policies and to ask management to study these issues, disclose more information about them and improve these practices. Investors can communicate directly with corporate management through letters and meetings, or through investor networks. Owners of shares in publicly traded companies can file or co-file shareholder resolutions on ESG issues.

2. However, “impact investing” can be applied across all asset classes.

FIGURE 2: SUSTAINABLE INVESTING GROWTH IN THE UNITED STATES (BILLIONS) 2005–2016

## SUSTAINABLE INVESTING GROWTH SINCE 2014

33%



Source: US SIF Foundation

To learn more about SRI approaches, see [www.ussif.org/sribasics](http://www.ussif.org/sribasics).

### The case for sustainable investing

Sustainable, responsible and impact investing has become a mainstream investment practice. Numerous money managers now have decades of experience with it. An expanding library of studies has demonstrated that sustainable investing products offer similar or better financial performance compared with their conventional counterparts, and current notions of fiduciary duty underscore the importance of considering ESG factors. These developments in turn have increased awareness and demand from institutional and individual investors.

**Financial performance and risk reduction:** A growing body of evidence indicates that ESG investments achieve comparable or even better financial returns than conventional investments.

In 2017, Nuveen TIAA Investments released *Responsible Investing: Delivering Competitive Performance*. After assessing the leading SRI equity indexes over the long term, the firm “found no statistical difference in returns compared to broad market benchmarks, suggesting the absence of any systematic performance penalty. Moreover, incorporating environmental, social and governance criteria in security selection did not entail additional risk.” It added

that SRI indexes had similar risk profiles to their broad market counterparts, based on Sharpe ratios and standard deviation measures.

*Sustainable Investing and Bond Returns*, a 2016 report by Barclays Research, examines the link between ESG incorporation and corporate bond performance. The research team constructed broadly diversified portfolios tracking the Bloomberg Barclays US Investment-Grade Corporate Bond Index. The team matched the index’s key characteristics but applied either a positive or negative tilt to different ESG factors. It found that “...a positive ESG tilt resulted in a small but steady performance advantage....” It did not find evidence of negative performance.

In 2015, Deutsche Asset & Wealth Management and Hamburg University published an article titled *ESG and Financial Performance: Aggregated Evidence From More Than 2,000 Empirical Studies*. The authors conducted a meta-analysis of over 2,000 empirical studies since the 1970s, making it the most comprehensive review of academic research on this topic. They found that the majority of studies suggest a correlation between ESG and corporate financial performance (CFP). “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.”

*From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance*, a 2015 meta-study conducted by Oxford University and Arabesque Partners, categorized more than 200 sources, including academic studies, industry reports, newspaper articles and books. According to their results, “88 percent of reviewed sources find that companies with robust sustainability practices demonstrate better operational performance, which ultimately translates into cash flows.” Furthermore, “80 percent of the reviewed studies demonstrate that prudent sustainability practices have a positive influence on investment performance.”

*Sustainable Reality: Understanding the Performance of Sustainable Investment Strategies*, a 2015 report by the Morgan Stanley Institute for Sustainable Investing, found that “investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments.” This is true on both an absolute and a risk-adjusted basis, across asset classes and over time, based on its review of US-based mutual funds and separately managed accounts. “Sustainable equity mutual funds had equal or higher median returns and equal or lower volatility than traditional funds for 64 percent of the periods examined.”

In 2015, the Global Impact Investing Network (GIIN) and Cambridge Associates jointly published the report *Introducing the Impact Investing Benchmark*. The Cambridge Associates Impact Investing Benchmark includes over 50 private investment funds of vintage years 1998 to 2010 that have the specific objective to create positive, measurable social impact and to produce risk-adjusted, market-rate financial returns. Cambridge Associates measured the Impact Investing Benchmark against a comparative universe of 705 funds with no social impact objective in the same industries, geographies and asset classes and of the same vintage years. According to its analysis, “private impact funds—specifically private equity and venture capital funds—that pursue social impact objectives have recorded financial returns in line with a comparative universe of funds that only pursue financial returns.”

A list of additional studies on performance from financial institutions and global organizations can be found on the US SIF website: [www.ussif.org/performance](http://www.ussif.org/performance).

**Fiduciary duty:** Incorporating ESG criteria into investment analysis is consistent with fiduciary responsibilities. Global law firm Freshfields Bruckhaus Deringer concluded in a 2005 study 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, the Principles for Responsible Investment (PRI), the United Nations Environment Programme Finance Initiative (UNEP FI) and the United Nations Global Compact produced a follow-on report to the Freshfields study. 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.

US regulators have also weighed in on the consideration of ESG criteria under the Employee Retirement Income Security Act (ERISA). In October 2015, the US Department of Labor rescinded a 2008 bulletin that may have discouraged

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).



fiduciaries for private sector retirement plans from considering environmental and social factors in their investment choices. The Department of Labor's new Interpretive Bulletin instead noted that "Environmental, social, and governance issues may have a direct relationship to the economic value of the plan's investment. In these instances, such 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>5</sup> This rationale also was the impetus for the Department's 2016 Shareholder Rights Bulletin.

In April 2018, the Department of Labor issued a lower level "field assistance bulletin" that generally reaffirmed its 2015 and 2016 guidance while offering specific instructions on the qualified default investment alternative.<sup>6</sup>

**Increased demand and awareness:** Sustainable, responsible and impact investing has grown rapidly in recent years, with assets under professional management in the United States expanding 33 percent between 2014 and 2016, and by 14-fold since 1995. Most of this activity has been among institutional investors, but new studies are demonstrating interest from retail investors.

For example, a 2017 study by the Morgan Stanley Institute for Sustainable Investing found high levels of interest in sustainable investing among individual investors.<sup>7</sup> It reported that:

- 75 percent of all respondents—and 86 percent of millennials—were interested in sustainable investing.
- 71 percent believed that companies with leading sustainability practices may be better long-term investments.

- 80 percent were interested in sustainable investments that can be customized to meet their interests and goals.

Similarly, a 2016 survey by Natixis Global Asset Management of participants in 401k and other defined contribution plans found:<sup>8</sup>

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

## Current trends

Approximately one-fifth of all investment assets under professional management in the United States—\$8.72 trillion out of \$40.3 trillion—are held by institutions, investment companies or money managers that state they consider ESG issues in selecting investments across a range of asset classes, or file shareholder resolutions on ESG issues at publicly traded companies. Sustainable investors consider a range of ESG issues in their investment process. In 2016, the US SIF Foundation identified conflict risk (the risk of doing business in countries that have repressive regimes or sponsor terrorism), climate change, human rights and board accountability issues as top issues of concern.

**Money managers:** Money managers and financial institutions incorporated ESG issues into their investment research, analysis and decision making across portfolios that totaled \$8.10 trillion at the start of 2016, a 68 percent increase from 2014. These ESG assets are managed by 300 money management firms and more than 1,000 community investing institutions.

5. 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>.

6. Field Assistance Bulletin No. 2018-1 provides a technical clarification regarding the qualified default investment alternative (QDIA) for 401k-type plans that offer a menu of investment fund options. The QDIA is the fund in which the plan sponsor must enroll participants if the participants themselves are unable or unwilling to make their own fund selections. The Field Assistance Bulletin says that plan sponsors may designate a fund for the QDIA that considers ESG factors, but only if this consideration is part of the economic analysis the fiduciaries undertake to ensure the QDIA will further the interests of plan participants and beneficiaries in their retirement income. More explicitly themed religious, SRI or impact funds, it says, will not be appropriate for the QDIA, even when they are permissible as part of the overall menu of options an ERISA plan offers, because the plan sponsor must be careful not to select the QDIA "based on collateral public policy goals." For more information, see: Department of Labor, Employee Benefits Security Administration, *Field Assistance Bulletin No. 2018-01* Relating to the Interpretive Bulletins of 2016-01 and 2015-01, April 23, 2018. Available at <https://www.dol.gov/sites/default/files/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2018-01.pdf>.

7. Morgan Stanley Institute for Sustainable Investing, *Sustainable Reality: New Data from the Individual Investor* (2017). Available at: [http://www.morganstanley.com/pub/content/dam/msdotcom/ideas/sustainable-signals/pdf/Sustainable\\_Signals\\_Whitepaper.pdf](http://www.morganstanley.com/pub/content/dam/msdotcom/ideas/sustainable-signals/pdf/Sustainable_Signals_Whitepaper.pdf).

8. Natixis Global Asset Management, *2016 Survey of Defined Contribution Plan Participants* (2016). Available at <https://www.im.natixis.com/us/resources/2016-survey-of-defined-contribution-plan-participants>.



FIGURE 3: LEADING ESG CRITERIA FOR MONEY MANAGERS 2016



Source: US SIF Foundation

Among money managers, the issue of conflict risk is a leading concern, and was considered across \$1.54 trillion in assets under management in 2016.

Money managers' consideration of environmental criteria has grown substantially, a reflection both of increased investor concern about risks associated with climate change and of managers focusing strategies on low-carbon alternatives and climate solutions. Climate change criteria shaped the investment of \$1.42 trillion in assets under management in 2016, a more than fivefold increase since 2014.

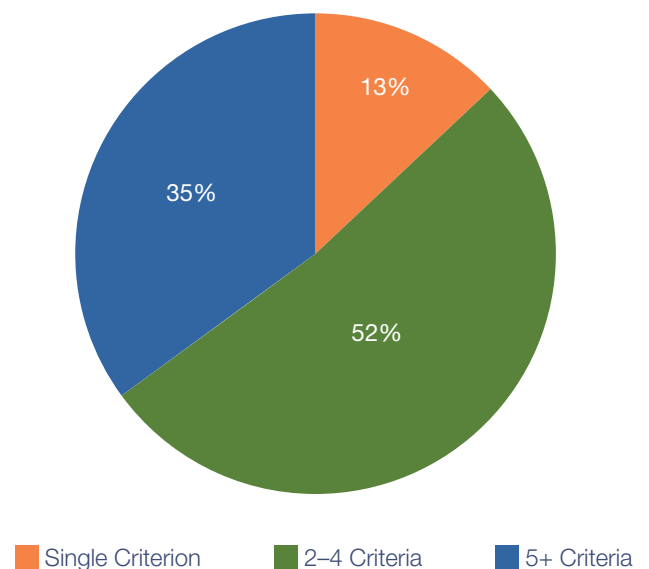
Another prominent issue for money managers is human rights, affecting \$821 billion in assets in 2016. See Figure 3 for additional information.

Money managers typically consider multiple ESG criteria within their investment vehicles. As shown in Figure 4, 87 percent of the sustainable investment vehicles the US SIF Foundation identified in 2016 incorporated at least two ESG factors, and 35 percent incorporated at least five.

**Institutional investors:** Institutional asset owners across the United States considered ESG criteria in investment analysis and portfolio selection across assets that totaled \$4.72 trillion at the start of 2016, a 17 percent increase over the corresponding total the US SIF Foundation identified in 2014. The 477 institutions that practice ESG incorporation range in size from large public employee retirement systems with hundreds of billions of dollars in assets to small private foundations with fewer than \$25 million.

In asset-weighted terms, the restriction of investments in companies doing business with conflict risk countries is the top ESG factor these institutions incorporate into their investments. Concern related to climate change and carbon emissions follows, with the issue affecting portfolios totaling \$2.15 trillion, a near quadrupling since 2014. Board issues, such as directors' independence, diversity and responsiveness to shareholders, affect \$1.24 trillion. See Figure 5.

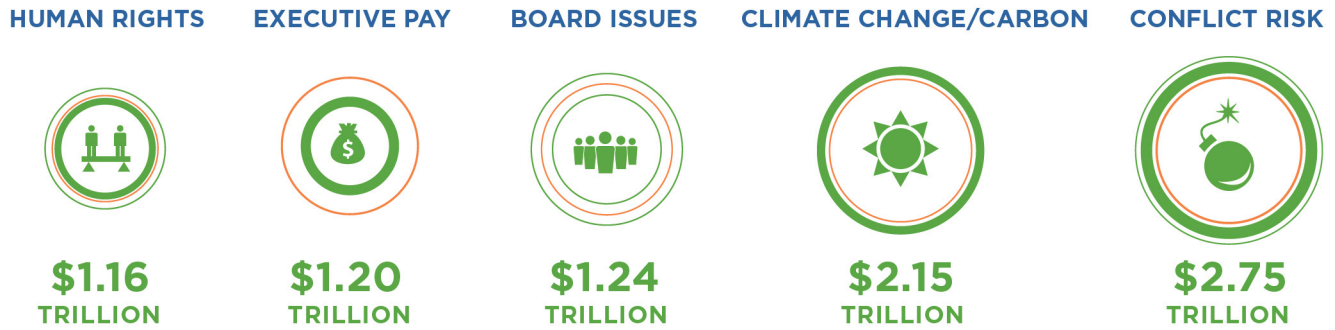
FIGURE 4: FREQUENCY OF ESG CRITERIA INCORPORATION IN INVESTMENT VEHICLES 2016



Source: US SIF Foundation

Note: The frequency of ESG incorporation is as a percentage of total number of ESG investment vehicles. (This figure excludes separate account vehicles and other/not listed vehicles.)

FIGURE 5: LEADING ESG CRITERIA FOR INSTITUTIONAL INVESTORS 2016



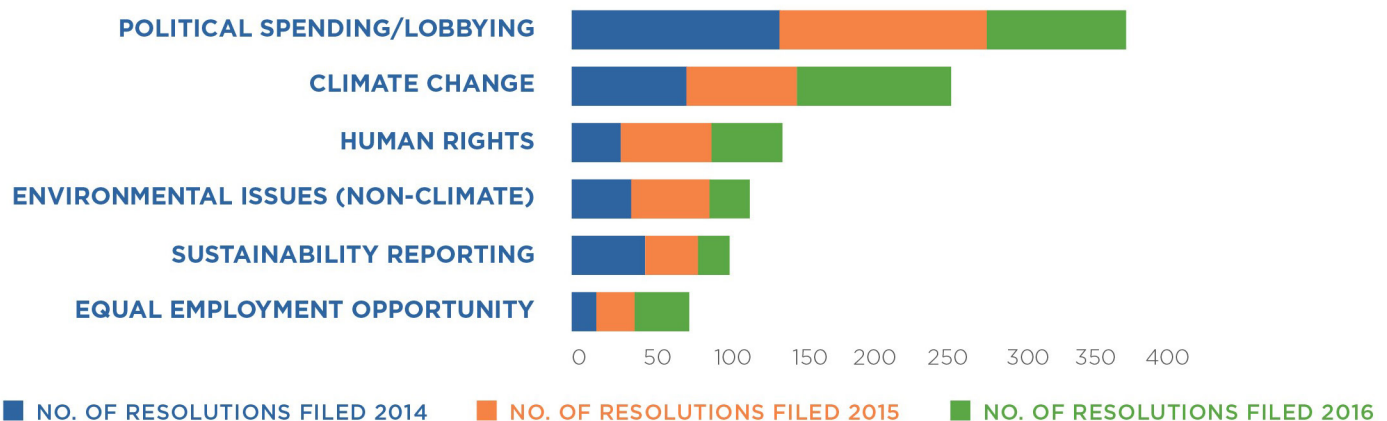
Source: US SIF Foundation

**Investor engagement:** From 2014 through the first half of 2016, 176 institutional investors and 49 investment managers collectively controlling \$2.56 trillion in assets at the start of 2016 filed or co-filed shareholder resolutions on ESG issues. (In addition to or apart from filing shareholder resolutions, 61 asset managers with \$6.9 trillion in assets under management reported in 2016 that they engaged in dialogue with companies on ESG issues.)

As shown in Figure 6, disclosure and management of corporate political spending and lobbying was the greatest single concern raised by shareholders on ESG issues from 2014 through 2016. Many of the targets were companies that have supported lobbying organizations that deny climate change science and oppose regulations to curb greenhouse gas emissions.

A prominent corporate governance issue for investor engagement has been “proxy access” to facilitate investors’ ability to nominate directors to corporate boards. From 2014 to 2016, investors filed 350 proposals at US companies on this issue. Typically, they asked that the company allow shareholders that have collectively owned 3 percent of the company’s stock for three years to nominate alternative candidates for up to a quarter of the board seats. As a result of the strong investor support for these proxy access proposals, the share of S&P 500 companies establishing proxy access measures over this period grew from 1 to 40 percent.<sup>9</sup>

FIGURE 6: LEADING ENVIRONMENTAL AND SOCIAL ISSUES BY NUMBER OF SHAREHOLDER PROPOSALS 2014–2016



Source: US SIF Foundation

9. Sidley Austin LLP, *Sidley Corporate Governance Report: Proxy Access Momentum in 2016* (2016).

# DEVELOPING AND ENHANCING SUSTAINABLE INVESTING STRATEGIES

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This section covers six steps—progressing from introductory to advanced—for money managers to develop sustainable investment programs and products.

1. Establish board and senior level oversight
2. Identify sources of ESG data, research and training
3. Develop and implement an ESG incorporation strategy
4. Develop and implement an investor engagement strategy
5. Measure and manage impact
6. Participate in building the field

## #1: Establish board and senior level oversight

For you and your firm to meaningfully explore the process of addressing ESG issues in your investment offerings, your board of directors or board of trustees as well as senior level staff should be involved from the beginning. It is also helpful to appoint either an internal “champion” who is interested in sustainable investing or to establish a special committee. The champion or special committee can set the agenda and determine goals on ESG exploration and activity for regularly scheduled board meetings. The actual implementation may be assigned to the investment or risk teams.

As preparation for this step, determine which environmental, social or corporate governance issues are of top concern or an important opportunity for incorporation within your firm. What issues have your clients raised? What are the market trends and ESG growth areas in terms of assets under management directed to specific criteria? You may also find it helpful to review what other investment firms are doing in this field. Consider ESG issues at different levels—company, sector/industry, country and global megatrends.

A good place to learn about sustainable and impact investing trends, ESG issues, and activity by type of institutional investor is in the US SIF Foundation’s biennial [Report on US Sustainable, Responsible and Impact Investing Trends](#).

A majority of money managers responding to the survey noted that they are motivated to consider ESG issues not only to address client demand, but also to reduce risk, help to ensure stronger financial performance and fulfill their own firm’s values.

For global trends, take a look at the [Global Sustainable Investment Review](#), which is produced by the Global Sustainable Investment Alliance and compiles data from sustainable investment organizations around the world, including the US SIF Foundation.

## #2: Identify sources of ESG data, research, and training

A variety of ESG data sources are available for money managers. These include third-party data providers such as Bloomberg and Morningstar, and specialty ESG research firms such as MSCI ESG Research, Sustainalytics and Vigeo EIRIS, among others. You can use the Financial Directory on US SIF’s website and select “Research & Index Providers” from the dropdown menu to generate a list. The advantages of using third-party data and research providers are that they cover large universes of data, identify important ESG factors, and provide comparable corporate data on these factors, all of which generates economies of scale.

A [2017 report by the US Department of Labor](#) identifies applications, databases, online documents or websites that “provide information on ESG aspects of investments and/or assist users in selecting and managing ESG investments.”<sup>10</sup> The majority of tools fall into two categories—ESG tools to assess individual companies and ESG indices. See Figure 7 for a list of some of the commonly used ESG investment tools.

Another guide to ESG data providers, ratings, rankings and indices is the World Business Council for Sustainable Development (WBCSD) [Reporting Exchange](#). The tool is a

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10. US Department of Labor, *Environmental, Social, and Governance (ESG) Investment Tools: A Review of the Current Field* (2017), i. Available at <https://www.dol.gov/asp/evaluation/completed-studies/ESG-Investment-Tools-Review-of-the-Current-Field.pdf>.

FIGURE 7: ESG INVESTMENT TOOLS

COMPANY ASSESSMENT	ESG INDICES
Bloomberg ESG Disclosure Score	Calvert Responsible Index Series
CDP Climate Change Scores, Water Scores, and Forest Scores	Dow Jones Sustainability Indices
Covalence EthicalQuote Ethical Snapshots	FTSE4Good Index Series
FTSE ESG Ratings	Morningstar Global Sustainability Index
GRESB ESG Data, Scorecards, and Benchmark Reports (for real estate sector)	MSCI ESG Indexes
HIP Investor Ratings	S&P ESG Index Series
Inrate Sustainability Rating	Solactive L&G ESG Index Family
ISS QualityScore	STOXX ESG Leaders Index Series
MSCI ESG Company Rating Reports	Thomson Reuters Corporate Responsibility Indices
Oekom Corporate Rating Reports	
RepRisk Company Reports	
Sustainalytics Company ESG Reports	
Thomson Reuters Corporate Responsibility Rating	
Vigeo Eiris Rating	

Source: US SIF Foundation and US Department of Labor

comprehensive, publicly available resource on sustainability reporting. You can search its database for hundreds of ESG ratings, rankings and indices by sector, subject, region and other filters.

The Sustainability Accounting Standards Board (SASB) also provides resources for evaluating ESG issues at a sector or industry level. SASB has developed standards for the material ESG information that companies on US exchanges should disclose in their annual filings. The organization maintains sustainability accounting standards for 79 industries, focusing on the industry-specific sustainability factors that are reasonably likely to have material impacts. The [SASB Materiality Map™](#) highlights which of the 30 environmental, social and governance indicators are likely to be material for companies in industries across 10 broad sectors.

In addition to using external data sources, some money managers choose to develop in-house ESG research expertise. Figure 8 shows where asset managers currently obtain ESG data and research, based on findings from a Morgan Stanley survey. Other sources cited include government or agency data, direct company engagement, and sell-side research.

FIGURE 8: SOURCES OF ESG DATA AMONG ASSET MANAGERS

Third-Party Data Providers (e.g., Bloomberg, Thomson Reuters)	49%
In-House Research	48%
Third-Party Ratings, Rankings and/or Indexes	42%
Government or Agency Data	38%
Direct Company Engagement (e.g., Phone Calls, Questionnaires)	35%
Other Third-Party Research (e.g., Specialty ESG Research Firms)	35%
Sell-Side Research	26%

Source: Morgan Stanley Institute for Sustainable Investing, *Sustainable Signals: The Asset Manager Perspective* (2016)

As you consider how your firm will obtain ESG data, you will also need to think about how best to absorb the work of analyzing and using it. Options include having a dedicated staff member or team of ESG analysts, training all employees to factor in ESG issues, or allocating ESG functions to a portion of staff who are responsible for other functions.<sup>11</sup> Hiring new staff may be necessary.

11. Morgan Stanley Institute for Sustainable Investing, *Sustainable Signals: The Asset Manager Perspective* (2016), 13.

The positions of “ESG Analyst,” “Director of ESG Research” and similar roles are increasingly common. Job boards at US SIF and the Global Impact Investing Network, among others, can help you post openings for a targeted audience.<sup>12</sup>

A wide range of materials is available to help you and your firm learn about sustainable, responsible and impact investing. Formal education and training includes *Fundamentals of Sustainable and Impact Investment*, an introductory course the US SIF Foundation offers, which can be taken online or in a classroom setting. The Principles for Responsible Investment and other organizations also offer courses on sustainable investing. Georgetown University’s Beeck Center for Social Impact + Innovation published a 2016 report *From Innovation to Practice: Impact Investing Education and Training*, which lists and analyzes the education resources available.

### #3. Develop and implement an ESG incorporation strategy

As you and your firm identify the ESG incorporation strategies suitable for your investments, you may choose to vary the ESG criteria you apply and the approaches to ESG incorporation you use within your investment vehicles. As discussed in more detail on p. 5 of the “Basics” section, ESG incorporation strategies include positive/best-in-class screening, negative/exclusionary screening, ESG integration, impact investing and sustainability-themed investing.

A key question for your firm from a business strategy perspective is how much emphasis to place on firm-wide ESG integration versus impact or sustainability-themed strategies. Some firms start by implementing some level of ESG integration and later leverage their ESG expertise to develop sustainability-themed strategies, impact investing, positive/best-in-class screening and negative screening. Other firms stop at ESG integration. Yet others start by developing sustainability-themed strategies and may later adopt a broader ESG integration approach across the rest of their assets.

Whether or not you pursue an ESG integration approach, you may choose to divest from or screen out a particular set of companies, such as fossil fuel producers or firearm manufacturers. Sustainability or impact-themed vehicles might target investments in clean technology or companies providing leadership on women’s issues and diversity. For additional resources on ESG incorporation and sustainable investing approaches by asset class, see Appendix 1.

### ESG integration

The strategy of ESG integration, defined as the systematic and explicit inclusion by investment managers of ESG factors into financial analysis, has seen rapid growth since 2012. Based on responses to US SIF Foundation’s biennial *Trends* surveys and information from PRI *Transparency Reports*, ESG integration is being applied across trillions of assets under management, more than any other ESG incorporation strategy.

ESG integration encompasses a wide range of techniques, including adjusting estimated future cash flows or modeled discount rates based upon evaluation of ESG-related risks and opportunities, identifying and measuring the impact of off-balance-sheet assets and liabilities related to ESG issues, and creating inter-company comparative rankings using ESG-related criteria.

Because of the wide range of ESG integration strategies, disclosure and transparency are essential to distinguishing your unique products and services to clients. Disclose the criteria you consider and whether your ESG integration practice is systematic and consistent across all affected assets. Many sustainable investing advocates have criticized the opaque nature of some money managers’ ESG integration practices.

Further resources on ESG integration approaches are available from the Principles for Responsible Investment and from the US SIF Foundation.<sup>13</sup>

12. See US SIF’s job board here: [https://www.ussif.org/jobs\\_search.asp](https://www.ussif.org/jobs_search.asp) and the Global Impact Investing Network’s job board here: <https://jobs.thegiin.org/>.

13. See: Principles for Responsible Investment, *A Practical Guide to ESG Integration for Equity Investing* (2016). Available at <https://www.unpri.org/about/pri-teams/investment-practices> and Principles for Responsible Investment, *Fixed Income Investor Guide* (2014). Available at <https://www.unpri.org/about/pri-teams/investment-practices>. See also: US SIF Foundation, *Unlocking ESG Integration* (2015). Available at <https://www.ussif.org/files/Publications/UnlockingESGIntegration.pdf>.



## Voting proxies

If you or your firm are considering ESG criteria in public equity funds or strategies, you should also be voting your proxies in a way that is consistent with the importance you assign these factors in your ESG incorporation practice.

Proxy voting by fund managers is receiving heightened scrutiny. While shareholder proposals on ESG issues, on average, win higher levels of support now than a decade ago, many responsible investing advocates question why thoughtfully crafted proposals on climate change risk and other critical ESG issues fail to win majority support at most US companies. They are criticizing large money management firms that have consistently voted against these proposals.

Establish your firm's proxy voting policies and guidelines regarding how you will vote on specific ESG issues. This will speed up voting decisions and ensure consistent voting on your priority issues. Many money managers publish their ESG proxy voting guidelines on their website, serving as a helpful resource to others developing their own.<sup>14</sup>

Money managers can turn to a number of outside firms for assistance in digesting and analyzing the often dense and complicated questions that appear in company proxy statements before casting their shares. In the United States, the major proxy advisory firms are Institutional Shareholder Services (ISS) and Glass Lewis. They generally issue vote recommendations a few weeks before each US company's annual meeting on the proposals submitted by management and also, if any, by shareholders. They will also execute votes on behalf of clients in line with clients' guidelines.

Money managers can also use other resources for background and better understanding on the environmental, social and governance issues they will see during the annual meeting season. As You Sow issues a proxy season preview early in the calendar year highlighting the key environmental and social issues that will be raised in companies' proxy statements. The preview is publicly available on the As You Sow [Proxy Preview](#)

website. The Interfaith Center on Corporate Responsibility (ICCR) publishes, usually in January, a compilation of the shareholder resolutions its members are filing for that calendar year. Sustainable Investments Institute (SI2) provides proxy-related issue briefing papers, company-specific analyses, and an online tool providing detailed tracking of shareholder proposals for its clients.

## #4. Develop and implement an investor engagement strategy

If your firm offers equity funds or vehicles and implements proxy voting guidelines on ESG issues, you might consider taking the additional step of directly engaging with the companies in which you invest. Money managers, as well as institutional investors and other stakeholders, can use 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. Moreover, engagement on ESG issues can be a differentiator that helps money managers attract and serve clients. Engagement can also occur with privately held companies. Sometimes bondholders also engage companies since they are lending capital to them.

### Publicly traded companies

If your firm decides to pursue an engagement program, the board of trustees should formalize the policy in writing to share with the companies approached. Trustees should be given the oversight, and staff the authorization, to engage on ESG issues.<sup>15</sup>

Decide on which ESG issues your firm will engage. These may be the same issues your firm addresses in ESG incorporation as a means of amplifying impact. For example, a money manager that incorporates gender-related factors in its investment selection may file shareholder resolutions or engage in dialogue with companies on board diversity, gender pay equity and related issues.

Methods of investor engagement include conducting letter-writing and email campaigns, meeting with company executives and filing or co-filing shareholder resolutions.

14. For example, see ClearBridge Investments' proxy voting guidelines: <https://www.clearbridge.com/environmental-social-governance/esg-education/proxy-guidelines.html> and Trillium Asset Management's: <http://www.trilliuminvest.com/approach-to-sri/proxy-voting/>.

15. Ceres, *21st Century Investor: Ceres Blueprint for Sustainable Investing* (2016), 27. Available at <https://www.ceres.org/resources/reports/21st-century-investor-ceres-blueprint-sustainable-investing>.



These activities can take place in coordination with other investors and with non-investor organizations.

**Conducting letter-writing and email campaigns:** Your firm may choose to write a letter to express concern about specific corporate practices. If other shareholders are also sending letters regarding the same issue, the message will be reinforced. Your letter should be clear and brief and demonstrate your knowledge of the company and the ESG issue or issues you are contacting them about.

Instead of writing your own letter, you may opt to support a letter written by another shareholder or industry stakeholder by adding your firm's signature. This will save your firm time and resources, while also conveying your position. The organization or investor that initiates a letter will often reach out to other investors via membership associations such as US SIF, PRI and the Ceres Investor Network on Climate Change (INCR).

Sometimes the company will respond by holding an in-person meeting or phone call with the concerned shareholders. Ideally the company will address the issue and change its policies and practices.

**Meeting with company executives:** As a shareholder in a company, your firm may want to meet in person with representatives of the company to indicate support for leadership the company is providing or convey concerns about its environmental, social or governance practices. This often takes place prior to filing a shareholder resolution to learn more about the company and its position. It can also occur after filing a shareholder resolution to discuss the company's response and any actions it plans to address the issue, and whether the resolution should be withdrawn as a result.

A meeting exclusively between your firm and the company enables you to share your specific concerns and requests, and proceed on your own timeline. A joint meeting organized with a group of investors also has benefits. Members of the group can pool their resources to share information and better learn about the ESG issue at hand.

In addition, a group dialogue can provide a clear and consistent "investor voice," which will aid companies in understanding the concern and taking it seriously.<sup>16</sup> If a group meeting is preferred, you will need to consider which other investment firms and stakeholders can or should join and how decisions will be made among the group.

Whether your firm is pursuing engagements on its own or as a part of a collective effort, the first step is to conduct in-depth research on the issue of concern: consult external experts as needed, see how NGOs are addressing the issue, and review industry reports. Determine your specific request to the company. The PRI recommends that your firm "[a]lign requests with international standards, where possible"<sup>17</sup> as companies have indicated the challenge of addressing disparate requests and questions on related ESG issues. Next, decide what your desired outcome is of the meeting and an action plan and timeline for the engagement.

Determine the corporate representatives with whom to meet. This could be the CEO, but more likely it is the corporate secretary along with investor relations and relevant individuals within the corporate social responsibility or sustainability department. Another option is to try connect with a board member, but in practice this is less commonly done. If you do not have a contact, you can start by reaching out to the corporate secretary or investor relations department.

If you are part of a group, agree on common talking points beforehand. During the meeting itself, state your purpose and request succinctly. Demonstrate your understanding of the issue as well as the company's policies, practices and position on the issue.

If your firm's desired outcomes are not achieved from the meeting, additional steps can be taken through proxy voting, filing or co-filing shareholder resolutions, issuing statements to the press, or even divesting from the company. At the same time, maintaining a relationship with the company is beneficial for potential future engagements, on the issue at hand or others.

16. Blackrock and Ceres, *21st Century Engagement: Investor Strategies for Incorporating ESG Considerations into Corporate Interactions* (2015), 27. Available at <https://www.blackrock.com/corporate/en-us/literature/publication/blk-ceres-engagementguide2015.pdf>.

17. Principles for Responsible Investment, *Introductory Guide to Collaborative Engagement* (2013),13. Available at [https://www.unpri.org/download\\_report/8528](https://www.unpri.org/download_report/8528).

**Filing or co-filing shareholder resolutions:** In the United States, the regulations and bulletins that the Securities and Exchange Commission (SEC) has issued under Section 14a-8 of the Securities Exchange Act of 1934 govern the inclusion of shareholder proposals in proxy statements. This shareholder proposal rule permits your firm to file a proposal at a company if you own at least \$2,000 or 1 percent of the company's shares and have held the shares continuously for the year prior to the company's annual submission deadline.

Under SEC rules, shareholder proposals are limited to 500 words and cannot contain false or misleading information or be based on or motivated by a personal grievance. Proposals also generally need to address corporate environmental, social and governance policy questions that are considered significant public issues; they cannot pertain to "ordinary business" issues such as employee benefits, personnel changes or the sale of particular products. Finally, a staff member of your firm—or a designated representative (proxy)—must attend the annual meeting in person to present the proposal formally. Companies typically treat a resolution that is not presented as if it had never been filed.

Companies receiving proposals can challenge them at the SEC based on the proposal's content and ask proponents to prove they meet share ownership requirements. The SEC acts as a referee in these cases by sending a letter to both corporate management and the filers of the resolution with its opinion on whether the company can omit the proposal from its meeting agenda and proxy statement—or must include it.

The SEC presently sets fairly low support thresholds for first-time shareholder proposals, recognizing that it may take a few years for shareholders to learn about the issues underlying proposals. To resubmit resolutions in subsequent years after an initial filing, the proposal must win the support of at least 3 percent of the shares voted in its first year, 6 percent in its second and 10 percent in its third year and all years thereafter. The SEC calculates support levels by dividing the total votes cast for the proposal by the total votes cast for and against the proposal. It does not count abstentions. If a proposal fails to meet the requisite resubmission thresholds, the filer must wait three years to resubmit it. In sum, a proposal that consistently

gets the support of at least 10 percent of the shares voted can be re-filed indefinitely, assuming it meets the overall requirements for proper subject matter.

Often, a shareholder resolution will fail to win a majority of the shares voted, but still succeed in persuading management to adopt some or all of the requested changes because the resolution was favored by a significant number of shareholders.

Instead of filing a shareholder resolution, your firm may choose to co-file. Simply add your firm's name to the shareholder resolution by sending in a co-filing letter. No other action needs to be taken, and the name itself adds weight and credibility to the resolution.

### **Privately held companies**

Investor engagement is not limited to publicly traded securities. If your firm is a private equity investor, you likely have a close relationship with—and direct access to—company management over a long-term holding period. As a result, there is great opportunity to influence and shape your portfolio companies' policies and performance on ESG issues. Determining relevant ESG issues and beginning engagement early on, especially during discussions prior to the investment in a portfolio company, will help set expectations for both sides and clarify what, if anything, should be included in legal documentation and post-investment monitoring plans.

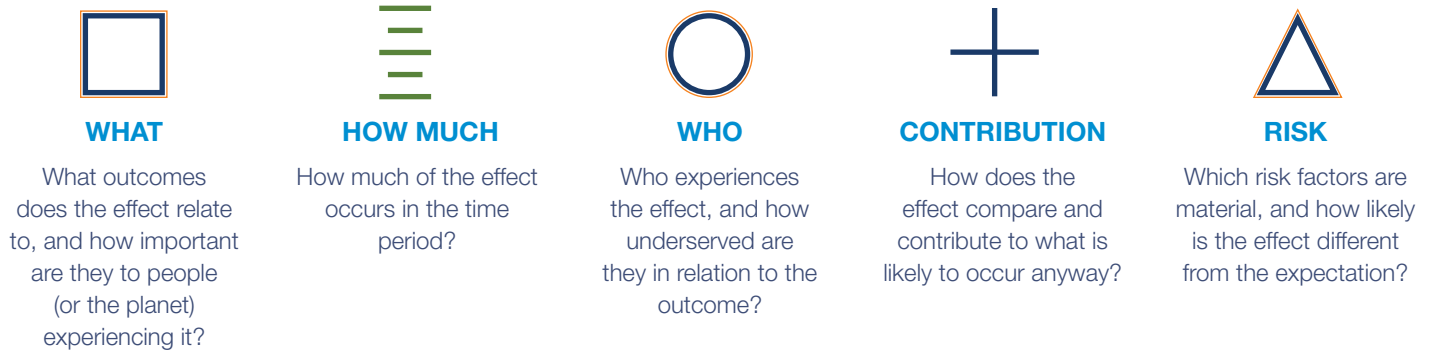
## **#5. Measure and manage impact**

Making a positive impact is a key motivation for sustainable and responsible investors, and reporting on the impact of your investments is a way to demonstrate the positive work your firm is accomplishing. You can report to your clients, industry-related organizations and the wider public.

Important steps for measuring the impact of an investment include establishing impact targets, determining the relevant metrics to use, collecting data, assessing the data to measure impact and reporting on results.

The [Impact Management Project](#), a multi-stakeholder initiative established in 2016, has identified five dimensions of impact investing, as shown in Figure 9: what the impact is, how much impact occurs (depth, scale and duration)

FIGURE 9: THE FIVE DIMENSIONS OF IMPACT



Source: The Impact Management Project

in a specific time period, who is affected, the contribution (additionality) of the impact, and risk factors involved. This provides the ability to communicate on impact to a diverse group of stakeholders regardless of the specific framework, measurement approach or standards used.

According to survey findings from a [2017 Global Impact Investing Network report](#), the most common types of impact measured are environmental and social outputs, environmental and social outcomes, and breadth of impact.<sup>18</sup> The report also provides detailed analysis on motivations for measuring and managing impact and reviews several tools for impact measurement. Specific tools, indicator sets and standards used by survey respondents are listed in alphabetical order in Figure 10, with those most commonly used highlighted in boldface.

While discussions about impact often focus on private investments, sustainable investors' scrutiny of public equities has also had a positive impact. For decades, sustainable, responsible and impact investors have used engagement strategies to bring critical ESG issues to the attention of public company senior management and other stakeholders and to drive positive change in corporate policies and performance.<sup>19</sup> In the United States, \$28 trillion is invested in the primary stock exchanges, so this is an asset class that should not be overlooked for its impact potential.

Positive impact in public equities as a result of investor engagement can be measured, for example, by looking at:

1. Improvements in a company's environmental, social, and governance practices and policies (e.g., separating chair and CEO, adopting greenhouse gas reduction emission goals), and
2. Changes to a company's end product (e.g., additional megawatts of wind power, new healthy and organic food product lines).

FIGURE 10: TOOLS, INDICATOR SETS AND STANDARDS IN IMPACT MEASUREMENT AND MANAGEMENT

- Aeris CDFI ratings system
- B Analytics/GIIRS**
- Global Alliance for Banking on Values (GABV)
- Global Reporting Initiative (GRI)
- IRIS**
- Leadership in Energy and Environmental Design (LEED) ratings system
- Principles for Responsible Investment (PRI)
- PRISM
- Social Return on Investment (SROI)
- SP14/Social Performance Task Force (SPTF)
- Sustainability Accounting Standards Board (SASB)
- Total Impact Measurement and Management
- United Nations Sustainable Development Goals**

Source: Adapted from Global Impact Investing Network, *The State of Impact Measurement and Management Practice* (2017)

18. Global Impact Investing Network, *The State of Impact Measurement and Management Practice, First Edition* (2017), 15. Available at [https://thegiin.org/assets/2017\\_GIIN\\_IMM%20Survey\\_Web\\_Final.pdf](https://thegiin.org/assets/2017_GIIN_IMM%20Survey_Web_Final.pdf)

19. See US SIF Foundation, *The Impact of Sustainable and Responsible Investment* (2016), pp. 23-35. Available at [https://www.ussif.org/files/Publications/USSIF\\_ImpactofSRI\\_FINAL.pdf](https://www.ussif.org/files/Publications/USSIF_ImpactofSRI_FINAL.pdf).

For additional resources on impact measurement and management, see Appendix 2.

## #6. Participate in building the field

The sustainable, responsible and impact investing space is large and growing, with a number of active associations, organizations, and initiatives. Consider joining industry associations to stay abreast of important developments in SRI. These associations organize major conferences and events that you can consider participating in as sponsors, speakers or attendees, and are a way both to showcase your firm's work and to learn about developments in the broader field.

### Knowledge sharing and research

A valuable contribution you can make is reporting on your firm's sustainable and impact investing activity. In turn, your firm will benefit from visibility with potential investors and other potential partners in the field. A number of initiatives seek to provide industry data and resources for the institutions involved in sustainable and impact investing.

The US SIF Foundation's biennial [\*Report on US Sustainable, Responsible and Impact Investing Trends\*](#) is the definitive overview of the institutions, organizations and money managers that consider ESG criteria to generate long-term competitive financial returns and positive societal impact. The report provides valuable market research by identifying and documenting the ESG themes and developments of growing interest to investors. It also provides a detailed breakdown of the professional assets under management, across all asset classes, engaged in SRI investing strategies. Both US SIF members and non-member money managers and institutional investors are encouraged to submit data for the Trends report via a survey conducted every two years. The more data provided, the more accurate the results and analysis of the trends identified.

Signatories of the Principles for Responsible Investment are required to annually submit information on their responsible investment activities. [Reporting to PRI](#) enables signatories to illustrate their SRI policies and practices, benchmark performance against peers, and receive feedback and tools for improvement, among other benefits.<sup>20</sup> Transparency Reports are publicly available online, enabling institutional investors and others to easily review your responsible investment activity.

[ImpactBase](#) is a database from the Global Impact Investing Network for fund managers, accredited investors and advisors. Fund managers are invited to list their impact investing funds and products in the database, and are required to disclose their impact objectives, measurement, and targets. A key benefit for fund managers is exposure to impact-oriented accredited investors. Fund managers primarily with venture capital/private equity, real assets, and fixed income funds list in the database.<sup>21</sup>

### Public policy

An important way to advance sustainable, responsible and impact investing is through influencing public policy. Your firm may engage independently or through networks and membership organizations such as US SIF and the Ceres Investor Network on Climate Risk (INCR) to advocate for a policy environment conducive to sustainable investment. These organizations in recent years have met with US executive branch and Congressional offices to support efforts to curb greenhouse gas emissions and set a price on carbon, to improve corporate disclosure on ESG issues and to defend shareholder rights, among other issues.

In 2016, 36 money managers with collective assets under management of \$4.6 trillion told the US SIF Foundation that they had attempted to influence governmental policy or industry regulation between 2014 and 2016 to require companies to improve their ESG impacts.<sup>22</sup>

20. Principles for Responsible Investment, *About Reporting and Assessment*, <https://collaborate.unpri.org/report/about-reporting-and-assessment>, accessed July 31, 2018.

21. Global Impact Investing Network, *ImpactBase for Funds*, <https://www.impactbase.org/info/funds>, accessed November 12, 2017.

22. US SIF Foundation, *Report on US Sustainable, Responsible and Impact Investing Trends* (2016), 75. Available at <http://www.ussif.org/trends>.

# CONCLUSION

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Sustainable, responsible and impact investing has become mainstream in the United States. A growing number of money managers, responding to client demand, are launching ESG units, products and strategies. Investment firms are also practicing sustainable and responsible investing strategies in order to pursue positive social and environmental impact, to minimize risk, to improve financial returns over time and to fulfill fiduciary duty.

Money managers have also driven innovation in the sustainable investment field. Examples range from fossil fuel free mutual funds and gender-lens ETFs to separate account strategies excluding weapons-related companies and private equity funds supporting entrepreneurial ventures in low-income communities.

Yet some skepticism and questions have been raised about potential “green washing” by money managers that say they consider ESG issues in the investment process or invest for positive impact, but do not disclose specific details on their approach.

To address these concerns, the US SIF Foundation has pursued a strategy to increase the rigor of the sustainable investment field and to disseminate best practices. The Roadmap Series is a central part of this strategy. Upon its completion, it will include not only this guide and a previously released Roadmap for Financial Advisors, but a forthcoming Roadmap for Asset Owners as well.

Additionally, the Principles for Responsible Investment has adopted rules to delist signatories that have not met its minimum standards within a two-year period.

In this evolving and increasingly competitive environment, money managers that are rigorous in their approach and clearly articulate their policies and practices will be better positioned to differentiate their offerings and attract investors. This guide provides money managers with the steps to get started and to move, over time, toward a deeper practice. We welcome your comments at [info@ussif.org](mailto:info@ussif.org).

# APPENDIX 1: RESOURCE GUIDES BY ASSET CLASS

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## Public equities

- Practical Guide to ESG Integration for Equity Investing, Principles for Responsible Investment (2016). Available at <https://www.unpri.org/download?ac=10>.

## Fixed income

- Fixed Income Investor Guide: Putting Responsible Investment into Practice in Fixed Income, Principles for Responsible Investment (2014). Available at <https://www.unpri.org/download?ac=32>.

## Private Equity

- Incorporating Responsible Investment Requirements into Private Equity Fund Terms, Principles for Responsible Investment (2017). Available at <https://www.unpri.org/download?ac=271>.
- ESG in Private Equity: A Fast Evolving Standard, Insead (2014). Available at: <https://centres.insead.edu/global-private-equity-initiative/research-publications/documents/ESG-in-private-equity.pdf>.

## Real Estate

- Sustainable Real Estate Investment - Implementing The Paris Climate Agreement: An Action Framework, Principles for Responsible Investment (2016). Available at <https://www.unpri.org/download?ac=3006>.

## Hedge Funds

- ESG and Sustainable Hedge Fund Investing: Observations, Alternative Investment Group (2017). Available at <http://www.altinv.com/PDF/AltInv%20ESG%20Hedge%20Funds%20White%20Paper%20July%202017.pdf>.
- Impact Investing: A Sustainable Strategy for Hedge Funds, Deloitte (2016). Available at <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/financial-services/us-fsi-hedge-fund-impact-investing.pdf>.
- Responsible Investment and Hedge Funds: A Discussion Paper, Principles for Responsible Investment (2012). Available at <https://www.unpri.org/download?ac=4155>.



# APPENDIX 2: IMPACT MEASUREMENT AND MANAGEMENT

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[Global Impact Investing Rating System \(GIIRS\)](#), B Lab

[Guidebook for Impact Investors: Impact Measurement](#), Purpose Capital

[The Impact of Sustainable and Responsible Investment](#), US SIF Foundation

[Impact Management Project](#)

[Impact Reporting and Investment Standards \(IRIS\)](#); [Getting Started with IRIS](#), Global Impact Investing Network

[Measuring Impact: Subject Paper of the Impact Measurement Working Group](#), Social Impact Investment Taskforce

[Public Equities as Impact Investments](#), ClearBridge Investments

[The State of Impact Measurement and Management Practice](#), Global Impact Investing Network



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