



The Forum for Sustainable
and Responsible Investment

An Introduction
to
Sustainable and Responsible Investing

What is SRI?

Sustainable and responsible investing (SRI) is an investment discipline that considers environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact.

Other SRI-Based Terms Include:

- Double- or Triple- Bottom Line Investing
- Ethical Investing
- Green Investing
- Impact Investing
- Mission Investing
- Socially Responsible Investing

Why Practice SRI?

The leading reasons cited by institutional asset owners and money managers surveyed by US SIF Foundation in 2012:

- To help manage risk
- To help improve returns
- To meet legislative mandates
- To fulfill fiduciary duty
- To help fulfill institutional mission

Recent News and Trends

The Size of the SRI Market

- \$3.74 trillion in total assets under professional management in 2012 engaged in SRI strategies.
- More than one out of every nine dollars under professional management are involved in SRI.
- SRI assets increased more than 486% from 1995 to the start of 2012, while the broader universe of professionally managed assets increased 376%.*

* SRI assets have not necessarily performed better than non-SRI assets; rather, investors are directing a larger share of their assets to SRI vehicles

SRI and Alternative Investments

- The market of alternative investment funds engaged in SRI has expanded rapidly.
 - In 2012, the US SIF Foundation identified over 300 private equity, venture capital, property and hedge funds considering ESG criteria, with total assets of \$132 billion.
 - In 2010, the US SIF Foundation had identified just \$38 billion in ESG alternative investment vehicles.
- Environmental criteria predominate (affecting \$127 billion): interest in green building, climate change, clean technology, reduction of pollution and toxic chemicals.
- These managers seek market rates of return for their clients while helping to foster businesses, generate jobs or introduce products that will yield social and environmental benefits.

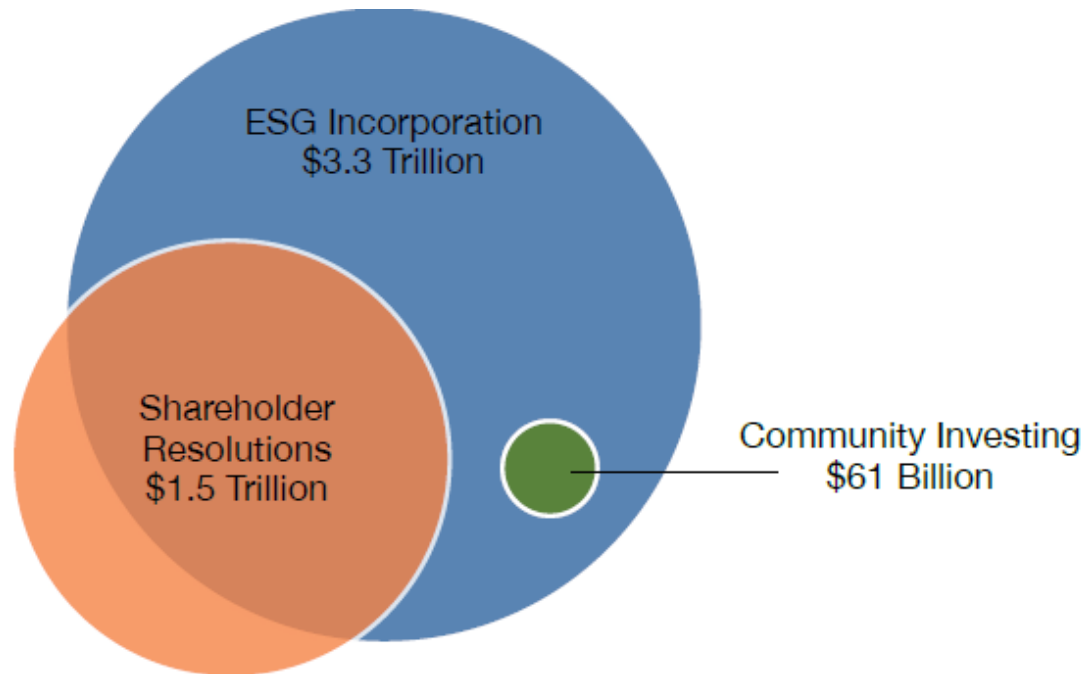
SRI in Defined Contribution Plans

A 2011 US SIF Foundation survey with Mercer found that:

- 14% of DC plan sponsor survey respondents offered one or more SRI fund options, with an additional 13% of the respondents planning to add an SRI option to their DC plan within 3 years.
- 84% of all plan sponsor respondents, both those who currently offer SRI options and those who do not, predicted increasing or steady demand for SRI over the next 5 years.
- For those who did offer an SRI option, the primary reasons for doing so were to align their plans with their organizational missions and to meet employee demand.

SRI Activity by Assets Involved, 2012

\$3.74 Trillion in SRI identified



SOURCE: US SIF Foundation.

Figure from *2012 Report on Sustainable and Responsible Investing Trends in the United States*; SRI assets represent 11.2% of \$33.3 trillion assets under professional management tracked by Thomas Reuters Nelson, 2011.

SRI and Financial Performance

Academic studies have shown that SRI strategies have produced comparable financial performance to non-SRI strategies or conventional instruments. See, for example:

- Gladman, Kimberly, *Ten Things to Know about Responsible Investing and Performance*. GovernanceMetrics International. 2011.
- Hoepner, Andreas G. F. and McMillan, David G., *Research on 'Responsible Investment': An Influential Literature Analysis Comprising a Rating, Characterisation, Categorisation and Investigation*. August 14, 2009. Available at SSRN: <http://ssrn.com/abstract=1454793>.
- Gil-Bazo, Javier, Ruiz-Verdú, Pablo and Santos, André A. P., *The Performance of Socially Responsible Mutual Funds: The Role of Fees And Management Companies* September 25, 2008. Available at SSRN: <http://ssrn.com/abstract=1307043>.

SRI and Financial Performance

A working paper published by the Harvard Business School found evidence that high sustainability companies significantly outperformed their counterparts over the long-term, both in terms of stock market and accounting performance.

Eccles, Robert, Ioannou, Ioannis and Serafeim, George. *The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance*. (Harvard Business School, November 2011)



SRI and Financial Performance

“Overall ESG scores have a predictive and positive association with subsequent total stock returns and financial performance measured by return on equity, and this result holds even after controlling for the sector effect,” with corporate governance scores being the best predictor of companies’ return on equity over time spans of three to five years.

De, Indrani, and Clayman, Michelle R., “Are All Components of ESG Scores equally Important,” *The Finance Professionals’ Post*, July 24, 2010.



SRI and Financial Performance

Incorporating environmental, social and governance data in investment analysis is “correlated with superior risk-adjusted returns at a securities level,” and SRI approaches that merely employ exclusionary screens, while showing “little upside,” do “not underperform either.”

- Fulton, Mark, Bruce M. Kahn, and Camilla Sharples. *Sustainable Investing: Establishing Long-Term Value and Performance*, Deutsche Bank Group - DB Climate Change Advisors, 2012.

ESG Incorporation

What is ESG Incorporation?

- It involves the application of environmental, social and governance factors into the investment process.
- Asset managers often include ESG integration in addition to traditional techniques of analyzing financial risk and returns.
- Asset managers and asset owners may consider ESG issues to:
 - Exclude or avoid companies with poor records
 - Identify companies that have strong policies and practices
 - To benchmark corporations to their peers
 - Evaluate risk and return factors more broadly

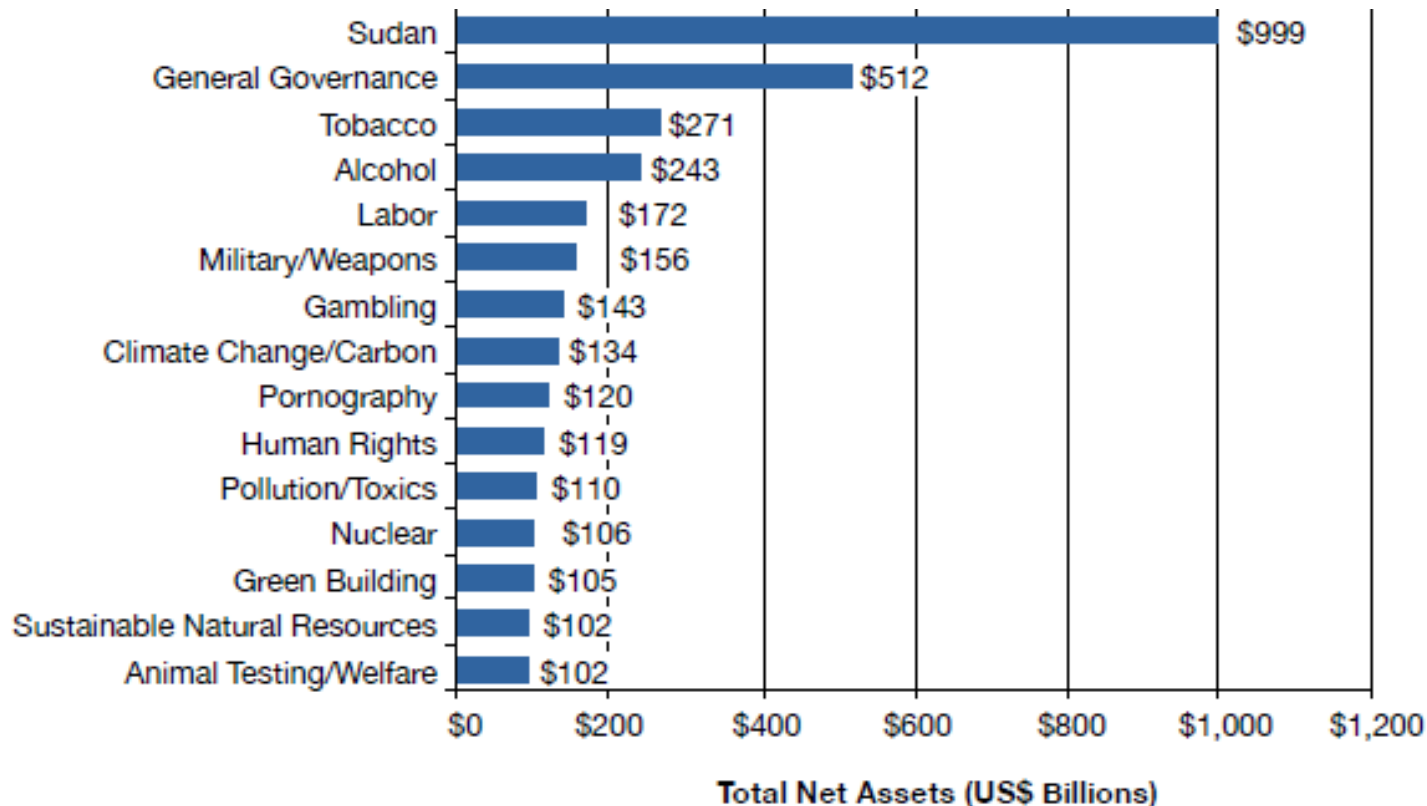
ESG Incorporation by Money Managers & Community Investing Institutions, 2012

	Number	Assets (in Billions)
Mutual Funds	302	\$455.7
Variable Annuities	31	\$184.8
ETFs	21	\$2.5
Closed-End Funds	7	\$1.4
Alternatives	301	\$132.3
Other Pooled Products, Not Listed	58	\$236.3
SUBTOTAL, INVESTMENT FUNDS	720	\$1,013.0
SEPARATE ACCOUNTS	178	\$337.7
COMMUNITY INVESTING INSTITUTIONS	1043	\$61.4
TOTAL		\$1,411.9

SOURCE: US SIF Foundation.

NOTE: Includes the assets of 65 “funds of funds,” which are otherwise controlled for double-counting effects prior to aggregation. Community investing Institutions include financial institutions such as banks and credit unions in addition to loan funds and venture capital. Some funds such as community development venture capital are classified across multiple categories so assets do not sum.

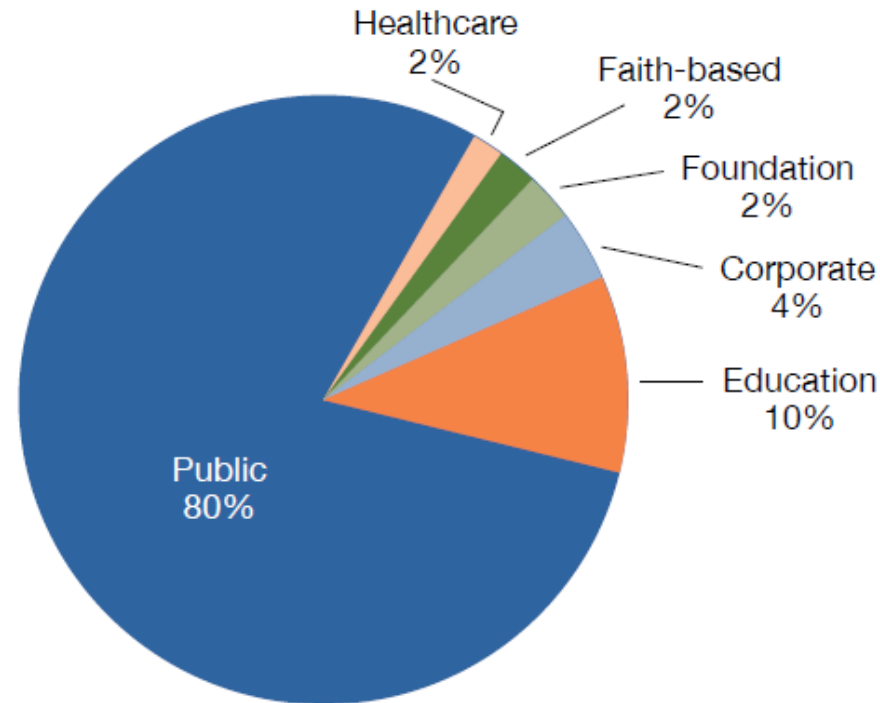
ESG Incorporation by Money Managers, 2012



SOURCE: US SIF Foundation.

Figure from US SIF Foundation, *2012 Report on Sustainable and Responsible Investing Trends in the United States*

ESG Incorporation by Institutional Asset Owners, 2012

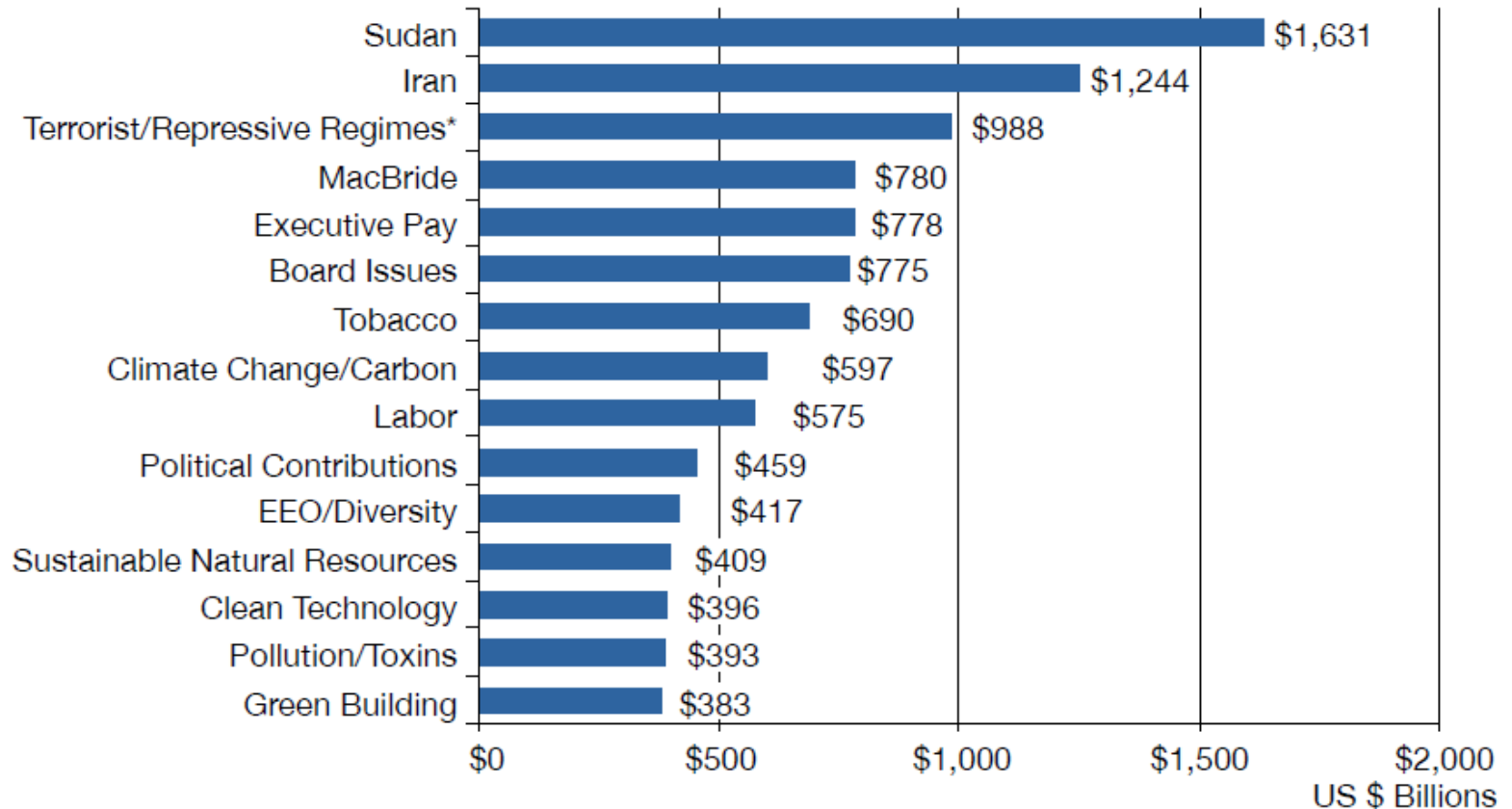


SOURCE: US SIF Foundation.

NOTE: The other types of institutional investors (labor, family offices, nonprofit, and others) collectively represent less than 1 percent of ESG Assets in 2012.

Figure from US SIF Foundation, *2012 Report on Sustainable and Responsible Investing Trends in the United States*

ESG Incorporation by Institutional Asset Owners, 2012



SOURCE: US SIF Foundation.

* Refers to policies on terrorist or repressive regimes that are not specific to Sudan or Iran.

Figure from US SIF Foundation, *2012 Report on Sustainable and Responsible Investing Trends in the United States*

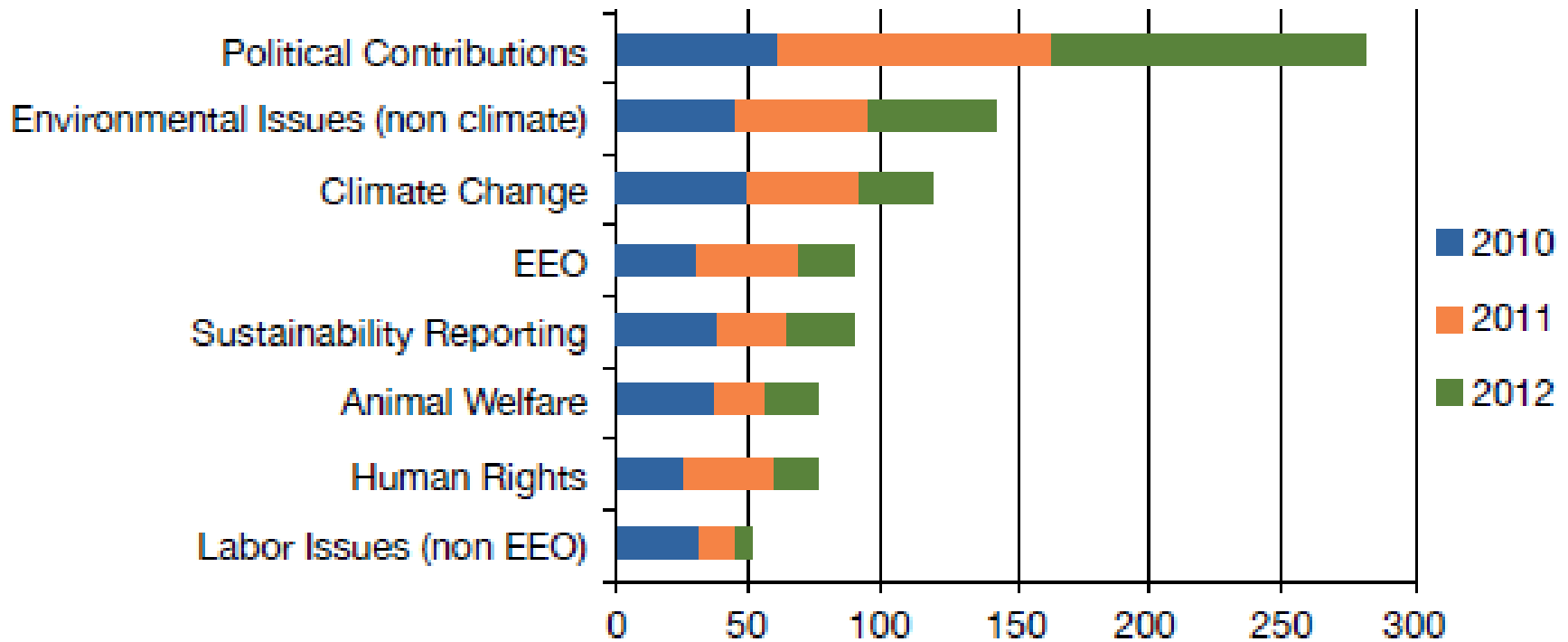


Shareholder Advocacy and Engagement

What is Shareholder Advocacy?

- Shareholder advocacy involves investors using their voice and votes to hold corporations accountable for their policies and practices related to social, environmental, and corporate governance issues.
- Shareholder advocates engage companies in dialogue, actively vote their proxies, propose resolutions for votes at corporate annual meetings, and take other actions in cooperation with other institutions and investors.

Leading Categories of Environmental and Social Shareholder Proposals, 2010-12



SOURCE: Sustainable Investments Institute, Interfaith Center on Corporate Responsibility.

Figure from US SIF Foundation, *2012 Report on Sustainable and Responsible Investing Trends in the United States*

Shareholder Advocacy Success Stories

- 19 percent of S&P 500 companies had independent board chair in 2012, up from 10 percent in 2006
- 79 percent of S&P 500 firms had adopted majority voting provisions in 2012, up from 70 percent in 2010.
- >50 percent of S&P 100 have agreed to disclosure and board oversight of corporate political spending.
- Shareholder advocates have been to withdraw hundreds of resolutions on fair employment, environmental and sustainability issues after securing agreements from companies for better disclosure or policies.

Community Investing

What is Community Investing?

- Community Investing is capital from investors and lenders that is directed to communities that are underserved by traditional financial services.
- Community investments provide access to credit, equity, capital, and basic banking products that low-income communities would otherwise lack.

Community Investing Institutions 2012

Type of Institutions	Number	Assets (In Billions)
Community Development Banks	88	\$30.1
Community Development Credit Unions	311	\$17.1
Community Development Loan Funds	620	\$13.9
Community Development Venture Capital Funds	24	\$0.3
TOTAL	1,043	\$61.4

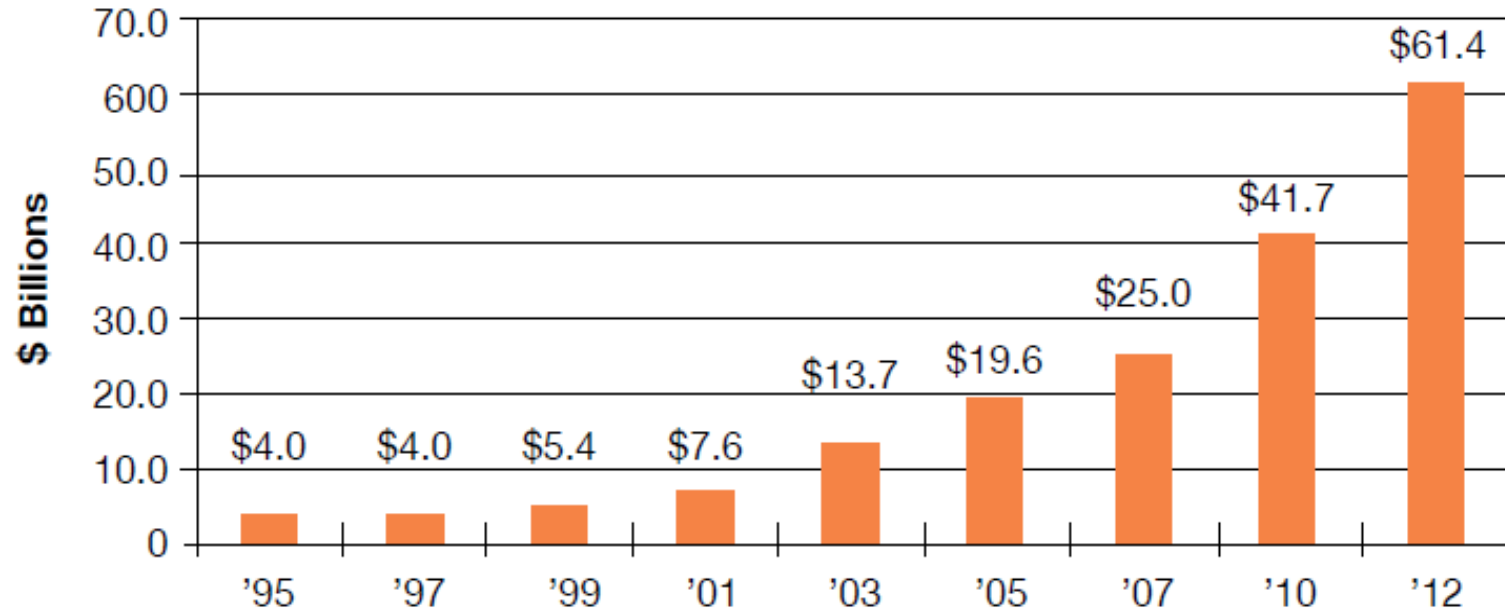
SOURCE: NCIF; NFCDCU; CDFI Fund; OFN; US SIF Foundation.

NOTE: Only the assets of venture capital funds that are certified CDFIs are included in this table; according to CDVCA, capital commitments to CDVC fund are greater than the disclosed portfolio assets under management. Loan funds include US-based international microfinance vehicles. Credit Unions include all members of the National Federation of CDCUs as well as those certified as CDFIs.

Figure from US SIF Foundation, *2012 Report on Sustainable and Responsible Investing Trends in the United States*



Growth in Community Investing Capital 1995-2012



SOURCE: Calvert Foundation, CDFI Fund, CDVCA, National Community Investment Fund, National Federation of Community Development Credit Unions, Opportunity Finance Network, US SIF Foundation.

Figure from US SIF Foundation, *2012 Report on Sustainable and Responsible Investing Trends in the United States*



Community Investing Success Stories

- Providing alternatives to payday lenders in low-income communities
- Job creation
- Development of supermarkets and access to healthy food in food “deserts”
- Revitalization of urban neighborhoods
- Maintenance or provision of affordable housing
- Financing of health clinics

US SIF: The Forum for Sustainable & Responsible Investment



Who is US SIF?

We are the membership association for professionals, firms, institutions and organizations engaged in sustainable and responsible investing in the United States.

- **Mission:** US SIF advances investment practices that consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact.
- **Our vision** is a world in which investment capital helps build a sustainable and equitable economy.



Who are our Members?

- Financial planners
- Analysts
- Banks
- Mutual funds
- Portfolio managers
- Public educators
- Institutional Investors
- Researchers
- Foundations
- Community Development Organizations

Member Benefits

- Professional development and networking with industry leaders
- Invitations and discounts to conferences, receptions and briefings
- A stronger voice in public education and policy
- Access to cutting-edge industry research
- Listing, if applicable, in online Mutual Fund Performance Chart and in online chart of Separate Account Managers in SRI
- Listing in US SIF's online directory of financial services
- Special sponsorship and visibility opportunities

Visit the US SIF Website

Go to www.ussif.org for:

- Education Center
- Mutual Fund Performance Chart
- Separate Account Managers in SRI
- Financial Services Directory
- Public Policy Statements
- SRI Job Postings
- Information on US SIF Annual Conference



Contact Us

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