SRI Basics

What is sustainable, responsible and impact investing?

Sustainable, responsible and impact investing (SRI) is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact. Examples of ESG criteria can be found **here**.

SRI Assets in the United States: According to the US SIF Foundation's 2016 ***Report on US Sustainable, Responsible and Impact Investing Trends***, as of year-end 2015, more than one out of every five dollars under professional management in the United States—**$8.72 trillion or more**—was invested according to SRI strategies.

Motivations: There are several motivations for sustainable, responsible and impact investing, including personal values and goals, institutional mission, and the demands of clients, constituents or plan participants. Sustainable investors aim for strong financial performance, but also believe that these investments should be used to contribute to advancements in social, environmental and governance practices. They may actively seek out investments—such as community development loan funds or clean tech portfolios—that are likely to provide important societal or environmental benefits. Some investors embrace SRI strategies to manage risk and fulfill fiduciary duties; they review ESG criteria to assess the quality of management and the likely resilience of their portfolio companies in dealing with future challenges. Some are seeking financial outperformance over the long term; a growing body of academic research shows a strong link between ESG and financial performance.

Terminology: Just as there is no single approach to SRI, there is no single term to describe it. Depending on their emphasis, investors use such labels as: “community investing,” “ethical investing,” “green investing,” “impact investing,” “mission-related investing,” “responsible investing,” “socially responsible investing,” “sustainable investing” and “values-based investing,” among others.

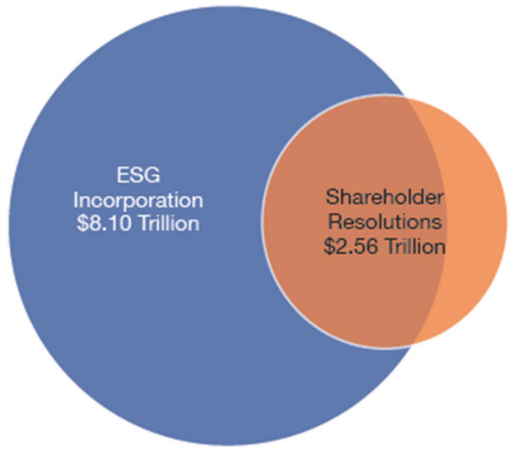
What strategies do sustainable and responsible investors use?

Traditionally, responsible investors have focused on one or both of two strategies. The first is **ESG incorporation**, the consideration of environmental, community, other societal and corporate governance (ESG) criteria in investment analysis and portfolio construction across a range of asset classes. An important segment, **community investing**, seeks explicitly to finance projects or institutions that will serve poor and underserved communities in the United States and overseas. The second strategy, for those with shares in publicly traded companies, is filing **shareholder resolutions** and practicing other forms of shareholder engagement. Sustainable investing strategies work together to encourage responsible business practices and to allocate capital for social and environmental benefit across the economy.

How large is the sustainable and responsible investing marketplace?

The US SIF Foundation's ***Report on US Sustainable, Responsible and Impact Investing Trends*** identified $8.72 trillion in total assets under management at the end of 2015 using one or more sustainable, responsible and impact investing strategies.

Sustainable and Responsible Investing
in the United States in 2016: $8.72 trillion



SOURCE: US SIF Foundation.
NOTE: ESG incorporation assets in this figure include those in community investing institutions.

From 2014 to 2016, sustainable, responsible and impact investing enjoyed a growth rate of more than 33 percent, increasing from $6.57 trillion in 2014. More than one out of every five dollars under professional management in the United States today—**22% of the $40.3 trillion in total assets** under management tracked by Cerulli Associates—is involved in SRI.

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Who are sustainable, responsible and impact investors?

SRI investors comprise individuals, including average retail investors to very high net worth individuals and family offices, as well as institutions, such as universities, foundations, pension funds, nonprofit organizations and religious institutions. There are hundreds of investment management firms that offer SRI investing funds and vehicles for these investors.

Practitioners of sustainable, responsible and impact investing can be found throughout the United States. Examples include:

- Individuals who invest—as part of their savings or retirement plans—in mutual funds that specialize in seeking companies with good labor and environmental practices.
- Credit unions and community development banks that have a specific mission of serving low- and middle-income communities.
- Hospitals and medical schools that refuse to invest in tobacco companies.
- Foundations that support community development loan funds and other high social impact investments in line with their missions.
- Religious institutions that file shareholder resolutions to urge companies in their portfolios to meet strong ethical and governance standards.

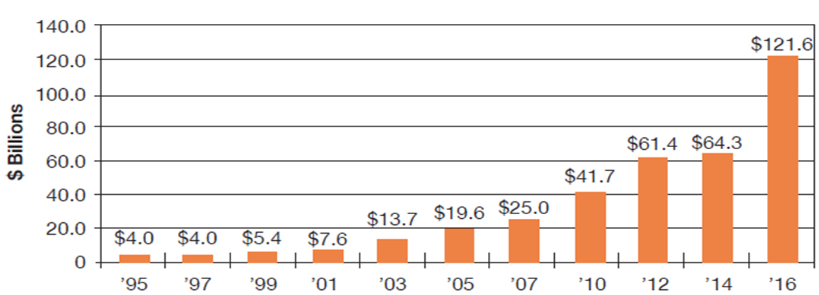
- Venture capitalists that identify and develop companies that produce environmental services, create jobs in low-income communities or provide other societal benefits.
- Responsible property funds that help develop or retrofit residential and commercial buildings to high energy efficiency standards.
- Public pension plan officials who have encouraged companies in which they invest to reduce their greenhouse gas emissions and to factor climate change into their strategic planning.

What are the fastest growing areas of sustainable and responsible investing?

Money Managers: The assets to which money managers apply ESG criteria have increased significantly from $4.8 trillion in 2014 to $8.1 trillion in 2016. The significant growth in ESG assets reflects demand from individual and institutional clients, growing market penetration of SRI products, the development of new products that incorporate ESG criteria and the incorporation of ESG criteria by numerous large asset managers across wider portions of their holdings.

Community Investments: After a period of minimal growth from 2012 to 2014, the community investing sector has reclaimed its position as one of the SRI field's fastest growing segments, with assets nearly doubling over the last two years, from $64.3 billion to $121.6 billion. This rapid growth in the field stems from multiple sources. More than 100 community banks and credit unions have become newly certified, or re-certified, as CDFIs. Community development credit unions in particular have experienced increased membership and the largest growth in assets within the sector. New online platforms have helped lower barriers of entry for investors seeking opportunities to support CDFIs and other community-related investments.

Community Investing Growth 1995-2016



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

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How do SRI funds perform?

Sustainable and responsible investing spans a wide and growing range of products and asset classes, embracing not only public equity investments (stocks), but also cash, fixed income and alternative investments, such as private equity, venture capital and real estate. SRI investors, like conventional investors, seek a competitive financial return on their investments.

Several research studies have demonstrated that companies with strong corporate social responsibility policies and practices are sound investments. Studies with such findings have come from Oxford University, Deutsche Asset & Wealth Management, Morgan Stanley Institute for Sustainable Investing, TIAA - CREF Asset Management and the United Nations Environment Programme Finance Initiative, among others. For example, 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.

Learn more about the competitive performance of SRI.

What is Shareholder Engagement?

Owning shares in a company gives investors a channel through which to raise environmental, social and corporate governance issues of concern. By filing or co-filing advisory shareholder resolutions at US companies, which may proceed to a vote by all shareholders in the company, active shareholders bring important issues to the attention of company management, often winning media attention and educating the public. Moreover, resolutions need not come to a vote to be effective. The process of filing often prompts productive discussion and agreements between the filers and management that enable the filers to withdraw their resolutions.

From 2014 through the first half of 2016, more than 200 institutional investors and money managers collectively controlling a total of at least \$2.56 trillion in assets filed or co-filed shareholder resolutions on ESG issues. Investors filed more than 700 resolutions relating to environmental, social and key governance issues for the 2016 proxy season. Included in this group were resolutions asking firms for better disclosure and oversight of their political contributions and activities. Recent social and environmental resolutions have addressed climate change, equal employment opportunity, human rights and sustainability reporting. In addition, investors also filed resolutions questioning companies on their governance structures and practices, particularly those involving board elections, executive pay and responsiveness to shareholders. In recent years, these proposals have been gaining traction, and frequently receive majority support.

In addition to filing or co-filing shareholder resolutions, investors can also actively vote their proxies, engage in dialogue with corporate management or join shareholder coalitions as a means to encourage companies to improve their environmental, social and corporate governance practices. In addition, investors can participate in public policy initiatives, working with government regulatory agencies, and testify and report on ESG investment issues to Congress.

A few of the many examples of how shareholder resolutions make a difference can be found **here**. To learn more about the impact that sustainable and responsible investors have had on companies, the investment industry and public policy, see ***The Impact of Sustainable and Responsible Investment***.

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