
Report on US Sustainable,
Responsible and Impact
Investing Trends

2018



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Reflections on Sustainable, Responsible and Impact Investing in 2018

Sustainable and impact investing in the United States continues to grow and to make a difference. Investors now consider environmental, social and governance (ESG) factors across \$12 trillion of professionally managed assets, a 38 percent increase since 2016.

Asset management firms and institutional investors are addressing a diverse set of environmental, social and governance concerns across a broader span of assets than in 2016. Many of these money managers and institutions, concerned about racial and gender discrimination, gun violence and the federal government's rollbacks of environmental protections, are using portfolio selection and shareowner engagement to address these important issues.


Meanwhile, a number of surveys show that individual investors, too, are interested in investing for positive impact. Financial advisors are also becoming aware of the need and opportunity to offer sustainable investment options to clients. Innovation and technology advancements, such as targeted investment products, robo-advisors, and big data and artificial intelligence, have driven further interest and growth in sustainable and impact investing.

We at US SIF are heartened by these developments, and encourage investment professionals to continue learning about sustainable, responsible and impact investing and to aim for best practice. US SIF's research and resources, including our *Roadmap Series* for advisors, asset managers and asset owners, and our online and live courses on the *Fundamentals of Sustainable and Impact Investment*, can assist in these efforts. We are pleased to partner with the College for Financial Planning in its launch this year of a Certified SRI Counselor designation.

The *Report on US Sustainable, Responsible and Impact Investing Trends 2018* is a resource that provides a wealth of information on broad trends as well as detailed data on specific investment vehicles, ESG criteria and investor engagement strategies. I encourage you to dig into the contents of this report and use it to advance your organization's work and the sustainable investment field.

Please visit www.ussif.org for more information on our work.

Sincerely,



Lisa Woll, CEO
US SIF and US SIF Foundation

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Executive Summary

Sustainable, responsible and impact (SRI) investing in the United States continues to expand at a healthy pace. The total US-domiciled assets under management using SRI strategies grew from \$8.7 trillion at the start of 2016 to \$12.0 trillion at the start of 2018, an increase of 38 percent. This represents 26 percent—or 1 in 4 dollars—of the \$46.6 trillion in total US assets under professional management.

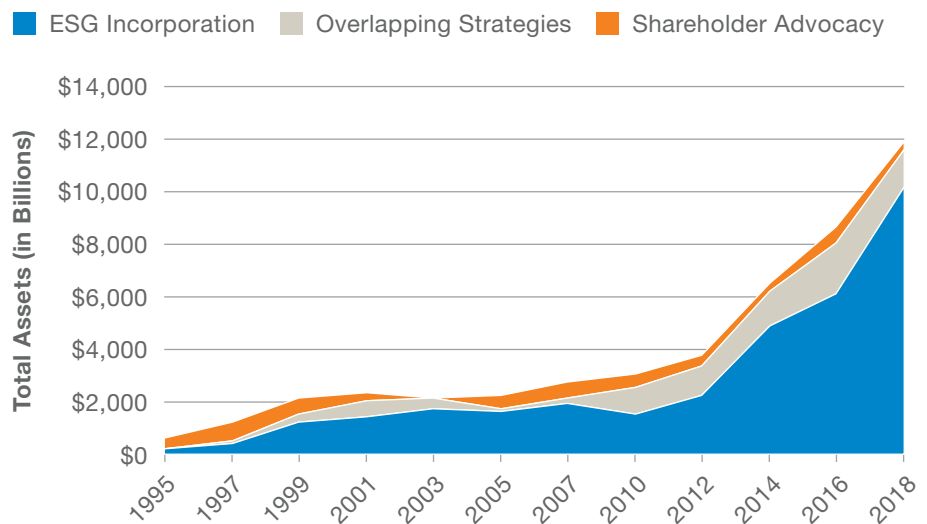
Overview

Since 1995, when the US SIF Foundation first measured the size of the US sustainable and responsible investment universe at \$639 billion, these assets have increased more than 18-fold, a compound annual growth rate of 13.6 percent. (See Figure A.)

Through surveying and research undertaken in 2018, the US SIF Foundation identified, as shown in Figure B:

- \$11.6 trillion in US-domiciled assets at the beginning of 2018 whose managers apply various environmental, social and governance (ESG) criteria in their investment analysis and portfolio selection, and
- \$1.8 trillion in US-domiciled assets at the beginning of 2018 held by institutional investors or money managers that

FIGURE A
Sustainable and Responsible Investing in the United States
1995–2018



SOURCE: US SIF Foundation.

filed or co-filed shareholder resolutions on ESG issues at publicly traded companies from 2016 through 2018.

After eliminating double counting for assets involved in both strategies, the net total of SRI assets at the beginning of 2018 was \$12.0 trillion.

FIGURE B

Sustainable and Responsible Investing Assets 2018

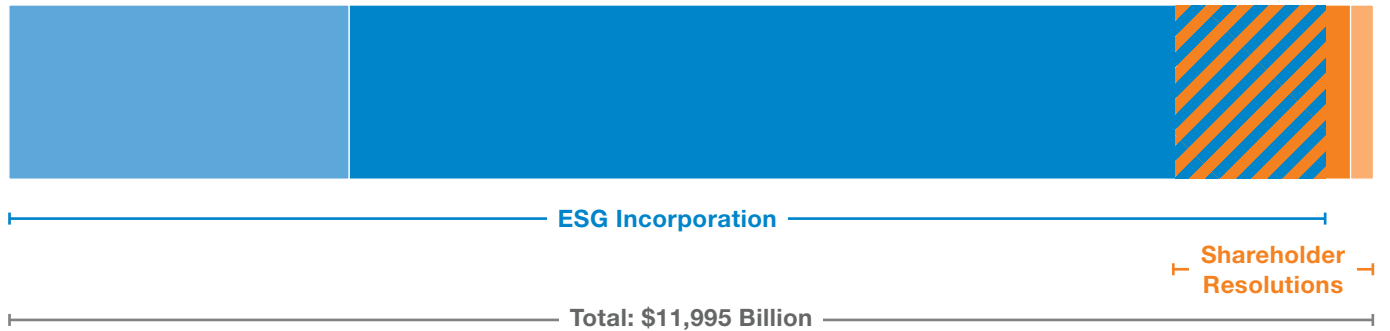
ESG Incorporation

- By Money Managers on Behalf of Individual/Retail Investors **\$3,032 Billion**
- By Money Managers on Behalf of Institutional Investors **\$8,601 Billion**

▨ Overlapping Strategies **(\$1,401 Billion)**

Filing Shareholder Resolutions

- Institutional Investors **\$1,561 Billion**
- Money Managers **\$202 Billion**



SOURCE: US SIF Foundation.

ESG Incorporation by Money Managers

The US SIF Foundation identified 365 money managers and 1,145 community investing institutions in 2018 incorporating ESG criteria into their investment analysis and decision-making processes. The \$11.6 trillion in assets under management they represent is a 44 percent increase over the \$8.1 trillion in ESG incorporation assets identified among money managers and community investing institutions in 2016.

Of this 2018 total:

- \$8.6 trillion were managed on behalf of institutional investors and \$3.0 trillion were managed on behalf of individual investors, as shown in Figure B,
- \$2.6 trillion—or 22 percent—were managed through registered investment

companies such as mutual funds, exchange traded funds, variable annuities and closed-end funds, as shown in Figure C,

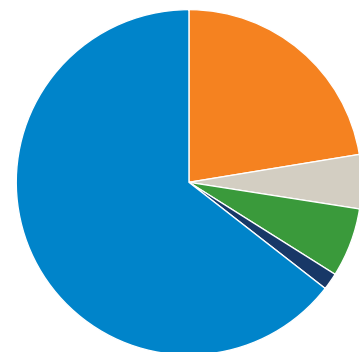
- \$588 billion—or 5 percent—were managed through alternative investment vehicles, such as private equity and venture capital funds, hedge funds and property funds,
- \$753 billion were managed through other commingled funds,
- \$185 billion were managed by community investing institutions, and
- the majority—\$7.5 trillion, or 64 percent—were managed through undisclosed investment vehicles, described here as “Uncategorized Money Manager Assets,” highlighting the limited nature of voluntary disclosures by money managers incorporating ESG criteria.

FIGURE C

Money Manager Assets, by Type, Incorporating ESG Criteria 2018

Total Net Assets (in Billions)

- Registered Investment Companies **\$2,608**
- Alternative Funds **\$588**
- Other Commingled Funds **\$753**
- Community Investment Institutions **\$185**
- Uncategorized Money Manager Assets **\$7,499**

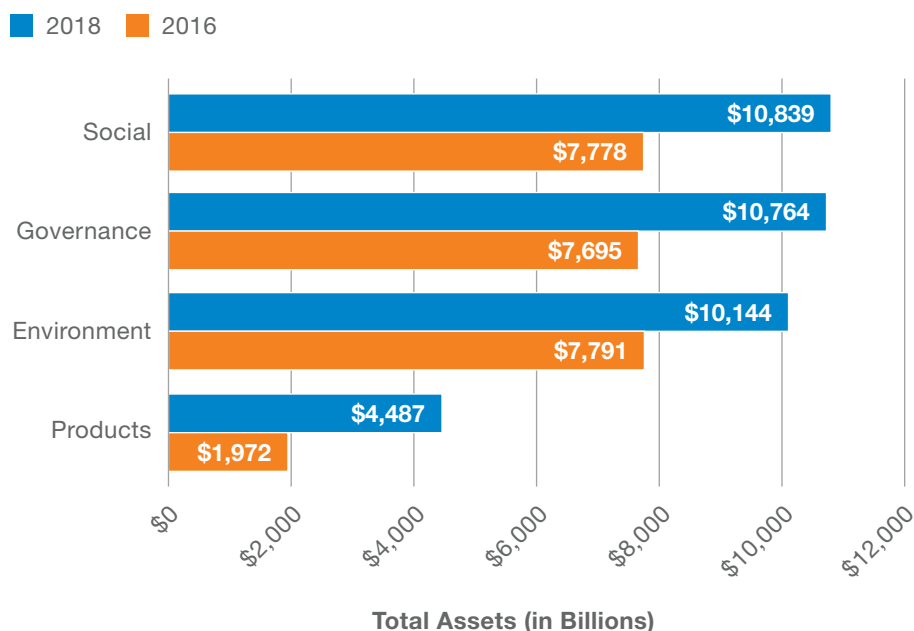


SOURCE: US SIF Foundation.

In terms of assets, money managers as a whole incorporated ESG factors fairly evenly across environmental, social and governance categories, as shown in Figure D.

- Overall, in terms of the assets affected, money managers incorporated social factors slightly more than environmental and governance criteria. Social criteria incorporation by money managers increased 39 percent from 2016 to \$10.8 trillion.
- The largest growth over the past two years was in the product-specific category, at over 125 percent, from \$2.0 trillion to nearly \$4.5 trillion. **Tobacco**-related restrictions saw the greatest growth of any ESG criteria, increasing 432 percent from 2016 to \$2.9 trillion.

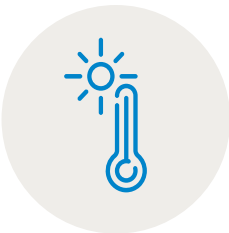




FIGURE D
ESG Categories Incorporated by Money Managers 2016–2018



SOURCE: US SIF Foundation.

NOTE: Social category includes all community-related criteria.

FIGURE E
Top Specific ESG Criteria for Money Managers 2018

| Climate Change/ Carbon | Tobacco | Conflict Risk (Terrorist or Repressive Regimes) | Human Rights | Transparency and Anti-Corruption |
|---|---|---|--|---|
|  |  |  |  |  |
| \$3.00 Trillion | \$2.89 Trillion | \$2.26 Trillion | \$2.22 Trillion | \$2.22 Trillion |
| Percent Increase in Assets Affected since 2016 | | | | |
| 110% | 432% | 47% | 171% | 206% |

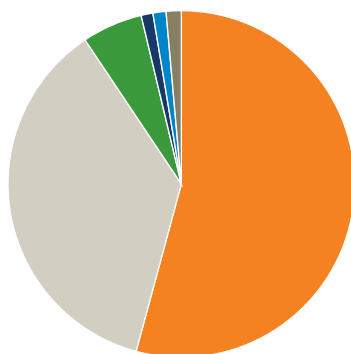
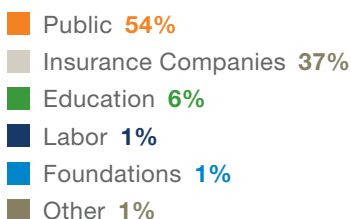
SOURCE: US SIF Foundation.

- However, **climate change** was the most important specific ESG issue considered by money managers in asset-weighted terms; the assets to which this criterion applies more than doubled from 2016 to 2018 to \$3.0 trillion, as shown in Figure E.
- **Conflict risk** was the leading social criterion at \$2.3 trillion assets under management, but assets managed with human rights criteria were next at \$2.2 trillion and experienced much larger growth from 2016.
- **Transparency and anti-corruption**, also affecting \$2.2 trillion in money manager assets, was the top specific governance criterion, with growth over 200 percent from 2016.
- Although not shown in Figure E, concern among money managers and their clients about civilian firearms was reflected in the fact that \$1.9 trillion in assets were subject to restrictions on investments in **weapons**, a nearly five-fold increase from 2016.

ESG Incorporation by Institutional Investors

In addition to money managers, the US SIF Foundation also conducted research on 496 institutional investors with \$5.6 trillion in ESG assets. Because money managers do not disclose information about their institutional clients, the data received from these institutional asset owners shows how and why they incorporate environmental, social and governance criteria into their investment analysis and portfolio selection. The group included institutional asset owners

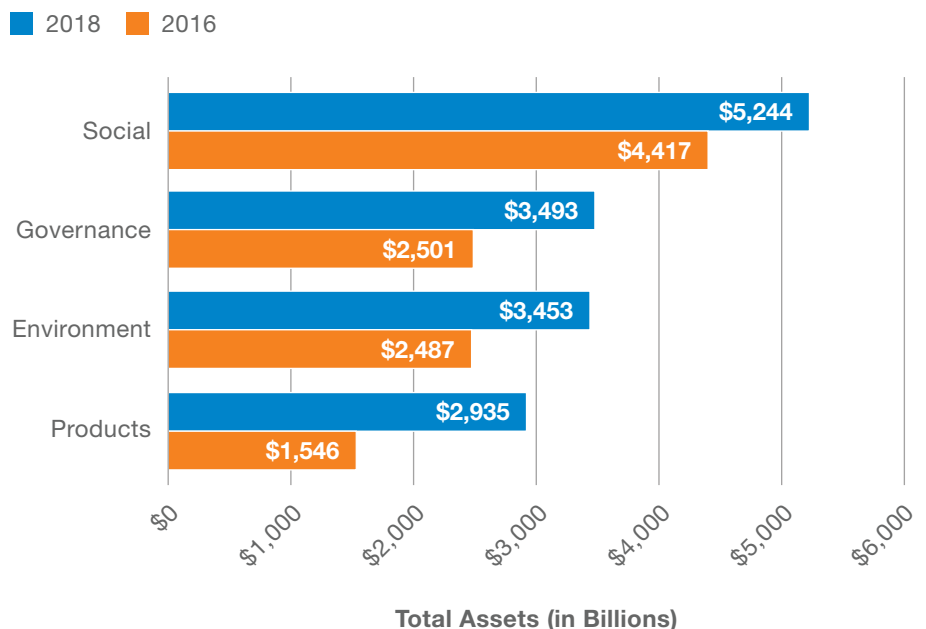
FIGURE F
Institutional Investor ESG Assets, by Investor Type, 2018



SOURCE: US SIF Foundation.

NOTE: Other consists of family offices, healthcare institutions, faith-based institutions and other nonprofits that collectively represent about 1 percent of ESG assets in 2018.

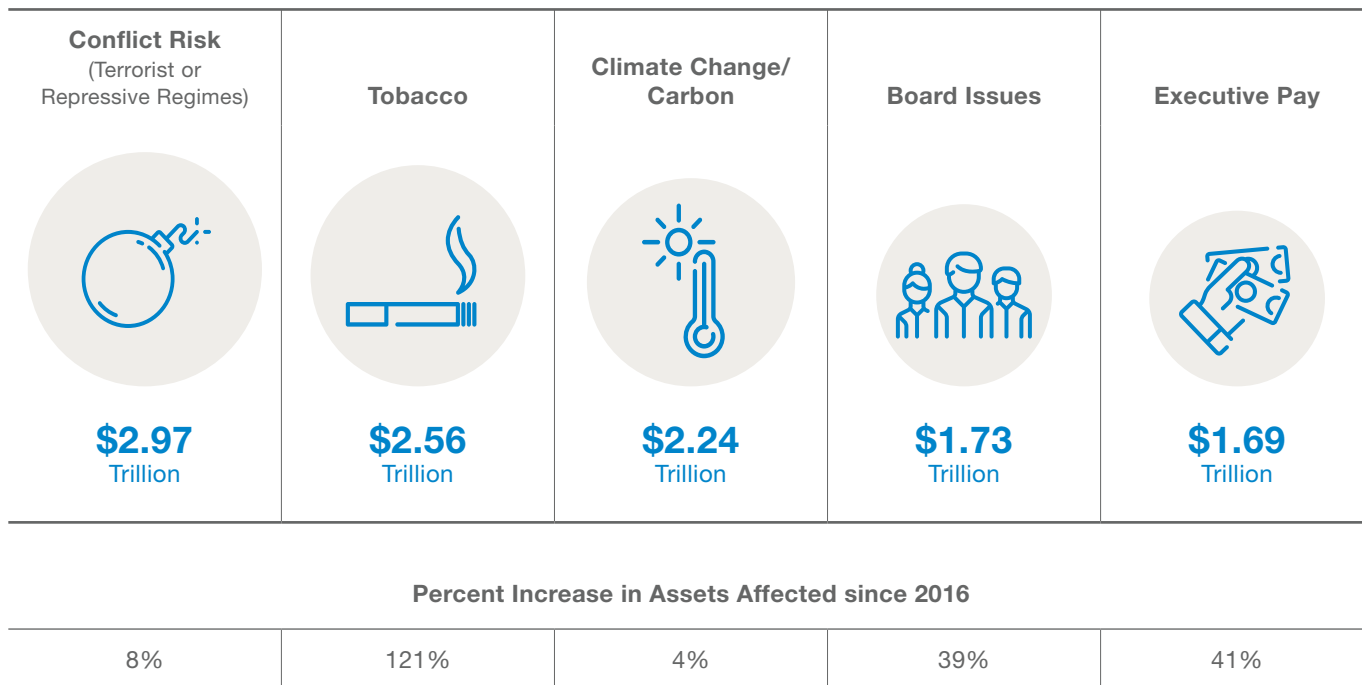
FIGURE G
ESG Categories Incorporated by Institutional Investors 2016–2018



SOURCE: US SIF Foundation.

FIGURE H

Top Specific ESG Criteria for Institutional Investors 2018



SOURCE: US SIF Foundation.

and plan sponsors such as public funds, insurance companies, educational institutions, philanthropic foundations, labor funds, hospitals and healthcare plans, faith-based institutions, other nonprofits, and family offices.

Of this \$5.6 trillion in institutional ESG assets:

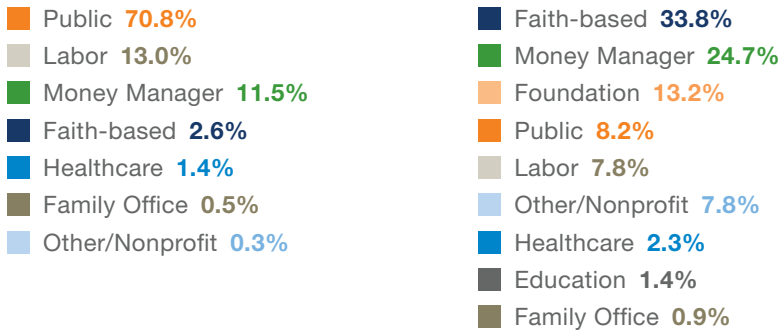
- Public funds represented the largest share (more than \$3.0 trillion), as shown in Figure F.
- Social criteria were applied to \$5.2 trillion (more than 93 percent), a 19 percent increase since 2016, as shown in Figure G.

- Investment policies related to **conflict risk** affected \$3.0 trillion, as shown in Figure H, making it the single most prominent ESG criterion, in asset-weighted terms.
- Similar to trends among money managers, **tobacco** saw some of the largest growth as a single ESG factor, at over 120 percent.
- Continuing a trend that began in 2012, criteria related to **climate change and carbon** emissions remained the most important environmental issue for these institutions, affecting \$2.2 trillion.

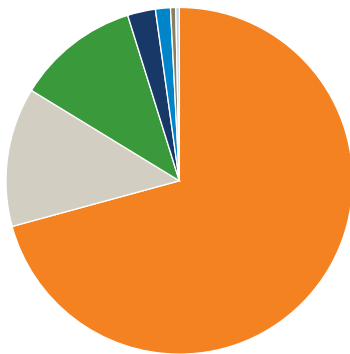
- Although not shown in Figure H, the most prominent social issue after conflict risk was **equal employment opportunity and diversity**, addressed in \$1.6 trillion of institutional assets, a 128 percent increase from 2016.
- Investment restrictions related to **weapons** now affect just over \$1.5 trillion in assets, a 78 percent increase since 2016.

FIGURE I

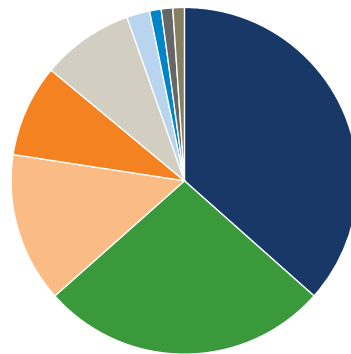
Types of Investors Filing Shareholder Proposals 2016–2018



ESG Shareholder Proponents 2016–2018, by Assets



ESG Shareholder Proponents 2016–2018, by Number



SOURCE: US SIF Foundation.

Investor Advocacy

From 2016 through the first half of 2018, 165 institutional investors and 54 investment managers collectively controlling nearly \$1.8 trillion in assets at the start of 2018 filed or co-filed shareholder resolutions on ESG issues. (See Figure B.)

- As shown in Figure I, the faith-based institutions and money managers constituted the majority of these shareholder proponents, while public funds represented the largest share of assets involved.
- As shown in Figure J, the leading issue raised in shareholder proposals from

2016 through 2018, based on the number of proposals filed, was “proxy access.” Investors filed 353 proposals at US companies during this period to facilitate shareholders’ ability to nominate directors to corporate boards. As a result of the strong investor support for these proposals, the share of S&P 500 companies with proxy access policies grew from 1 percent in 2013 to 65 percent in 2017.

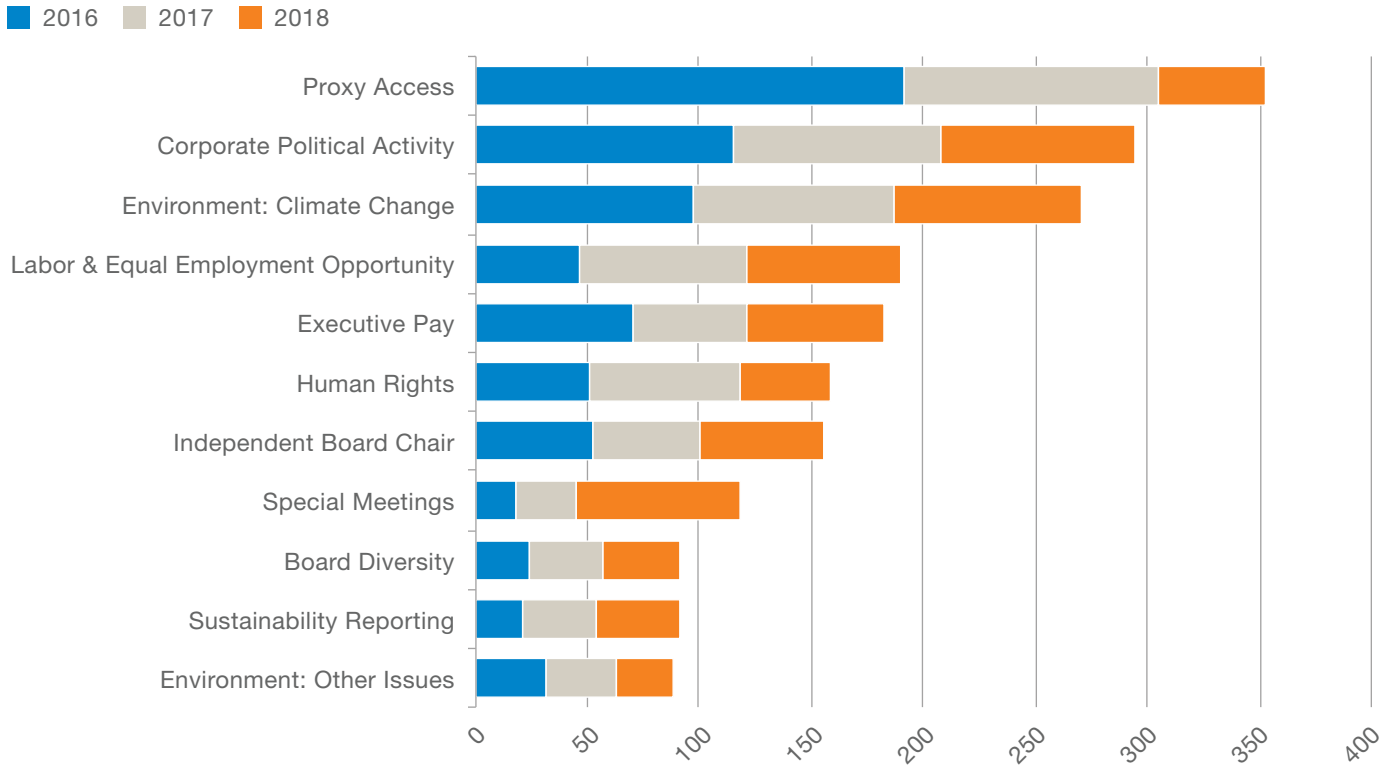
- Disclosure and management of corporate political spending and lobbying were also top concerns. Shareholders filed 295 proposals on this subject from 2016 through 2018. Many of the targets were companies that have supported lobbying

organizations that oppose regulations to curb greenhouse gas emissions.

- A surge in shareholder proposals on climate change that began in 2014, when investors wrestled with the prospects of “stranded” carbon assets and US and global efforts to curb greenhouse gas emissions, has continued: 271 proposals were filed from 2016 through 2018.
- The proportion of shareholder proposals on social and environmental issues that receive high levels of support has been trending upward. During the proxy seasons of 2012-2015, only three shareholder proposals on environmental and social issues that were opposed by management received majority support, while 18 such proposals received majority support in 2016 through 2018.
- Investors are increasingly engaging in ways other than filing shareholder resolutions. A subset of survey respondents, including 49 institutional asset owners with more than \$1 trillion in total assets and 88 money managers with \$9.1 trillion in assets under management, reported that they engaged in dialogue with companies on ESG issues. The extent of engagement reported by money managers has increased notably since 2016, when only 61 managers with \$6.9 trillion in assets reported that they engaged companies on ESG issues.

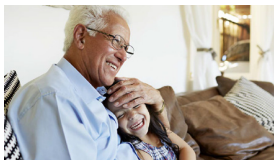
FIGURE J

Leading ESG Issues 2016-2018, by Number of Shareholder Proposals Filed



SOURCE: ISS, Sustainable Investments Institute.

NOTE: Data for 2018 show numbers of proposals filed for 2018 meetings through July 15, and all vote results known as of July 15.



You don't have to sacrifice your financial goals to stay true to your values. Impact investing could help you invest for positive change while staying focused on pursuing competitive financial returns.

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Impact investing and/or Environmental Social Governance (ESG) investing has certain risks based on the fact that ESG criteria excludes securities of certain issuers for nonfinancial reasons and therefore, investors may forgo some market opportunities and the universe of investments available will be smaller.

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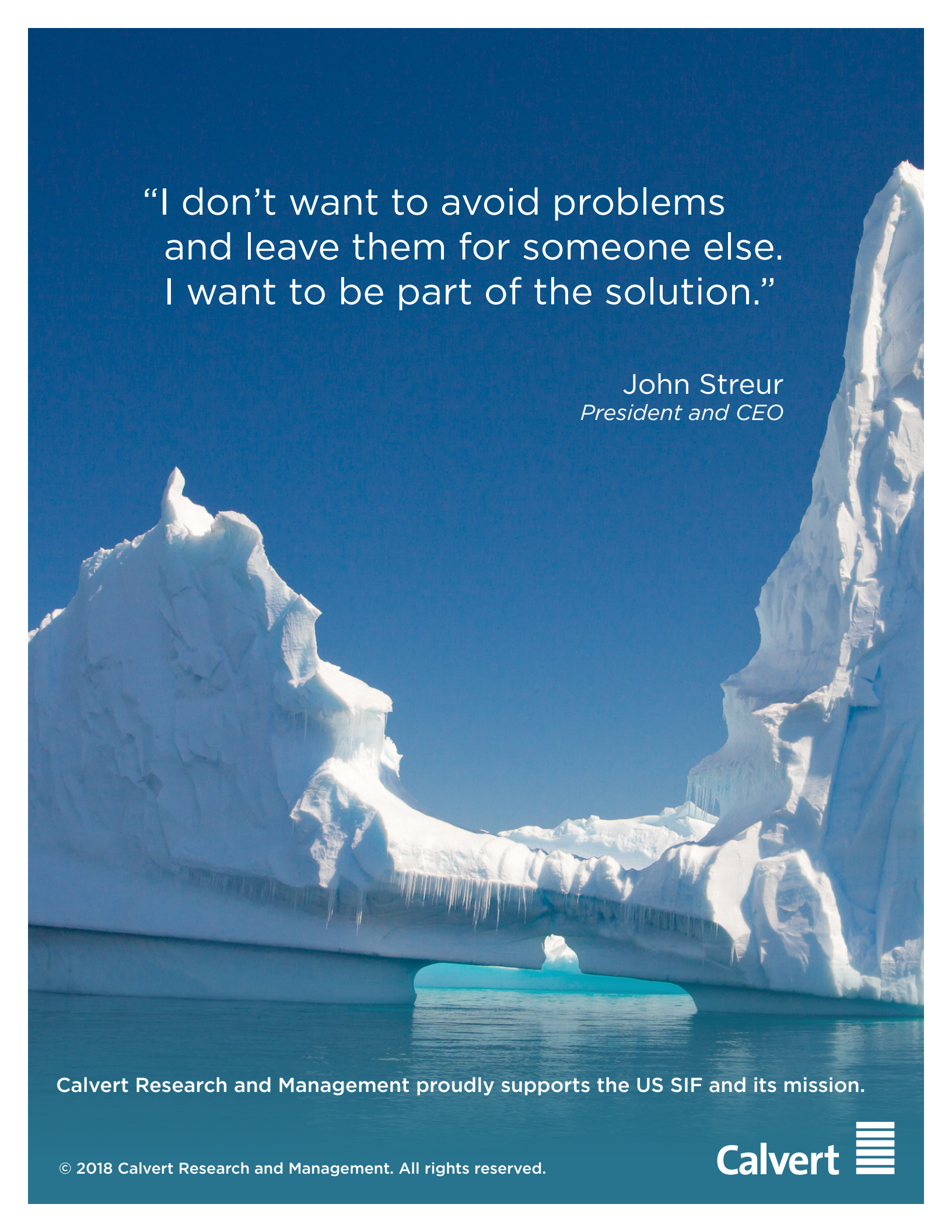
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