2019

Moving Forward With Sustainable Investing:
A Roadmap for Asset Owners

US SIF FOUNDATION

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About the Publisher: The US SIF Foundation, a 501(C)(3) organization, undertakes educational and research activities to advance the mission of US SIF: The Forum for Sustainable and Responsible Investment, the leading voice advancing sustainable, responsible and impact investing (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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The purpose of this roadmap is to help institutional asset owners get started in sustainable investing, and to encourage institutions that have taken the initial steps to deepen their sustainable investment practices. It is relevant for retirement plans, corporations, educational institutions, philanthropic foundations, faith-based institutions, family offices, labor funds, health care funds and nonprofit organizations. The report includes a section on the basics of sustainable investing and follows with 10 steps to develop and enhance sustainable investing strategies. The appendices provide additional resources: case studies, sample investment policy statements and proxy voting guidelines, and resources on investor engagement and impact management.

INTRODUCTION

Hundreds of US institutional asset owners today are applying sustainable investing strategies across all or part of their portfolios. They consider environmental, social or governance (ESG) issues as part of their investment analysis or selection process, or they communicate with managers or portfolio companies about their ESG practices.

Some of these institutions are motivated by their mission or the concerns of their constituents or plan participants. They aim for strong financial performance and believe that their investments should not contradict their values or mission and should, at best, contribute to easing social or environmental problems. Other institutions are motivated more by the evidence that considering ESG data in the investment process and engaging with portfolio companies on ESG issues may help them manage risk and fulfill their fiduciary duties.

In response to a 2018 US SIF Foundation survey, 92 US institutions that collectively represented $1.02 trillion in assets to which they applied ESG criteria shared their reason for doing so. In asset-weighted terms, the top two motivations were to minimize risk and to improve returns over time; the respondents citing these motivations represented $1.01 trillion in ESG assets. Fulfilling fiduciary duty and meeting regulatory or legislative compliance followed, affecting $966 billion and $802 billion, respectively. Fulfilling mission and pursuing social benefit, however, were cited by the largest number of respondents, 76 and 72 respectively, including almost all the foundation, faith-based and family office respondents.[1]

A recent Morgan Stanley Institute for Sustainable Investing survey of 118 global asset owners supports these findings. Seventy-seven percent strongly or somewhat agree that "Asset owners have a responsibility to address global sustainability issues through their investments."[2] Additionally, 84 percent are pursuing or considering pursuing ESG integration in their investment process, while 78 percent seek to align their investment strategy with the United Nations Sustainable Development Goals.

When institutional asset owners ask for ESG approaches and options or express interest in having a positive impact with their investments, the money managers, financial advisors and investment consultants who serve them are encouraged to expand their sustainable investing expertise to meet the demand. As a result, while asset owners vary widely in organizational purpose and structure, they are uniquely positioned to shift the investment industry towards sustainability.

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

The next section, **Developing and Enhancing Sustainable Investing Strategies**, discusses actions that asset owners can undertake to develop or deepen their sustainable investing activities.

The **Conclusion** is followed by **five Appendices**:

- three case studies highlighting a philanthropic foundation, a family office, and a public pension fund with rigorous approaches to sustainable investing,
- sample investment policy statements,
- sample proxy voting guidelines,
- resources for proxy voting and investor engagement, and
- resources for impact measurement and management.

1. US SIF Foundation, *Report on US Sustainable, Responsible and Impact Investing Trends* (2018). Available at http://www.ussif.org/trends.
2. Morgan Stanley Institute for Sustainable Investing, *Sustainable Signals: Asset Owners Embrace Sustainability* (2018). Available at http://www.morganstanley.com/assets/pdfs/sustainable-signals-asset-owners-2018-survey.pdf.

GETTING STARTED: THE BASICS OF SUSTAINABLE INVESTING

What is sustainable investing?

Sustainable 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 practitioners consider.

In the United States, assets engaged in sustainable investing strategies grew from $8.7 trillion in 2016 to $12.0 trillion in 2018; they now account for one out of every four dollars under professional management. Figure 2 depicts the growth of sustainable investing since 2005. To learn more, visit: www.ussif.org/trends.

Just as there is no single approach to sustainable investing, there is no single term to describe it. Investors use such labels as: ESG investing, impact investing, mission-aligned investing, responsible investing, socially responsible investing and values-based investing, among others.

FIGURE 1: EXAMPLES OF ESG CRITERIA USED BY SUSTAINABLE INVESTORS

Source: US SIF Foundation

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:

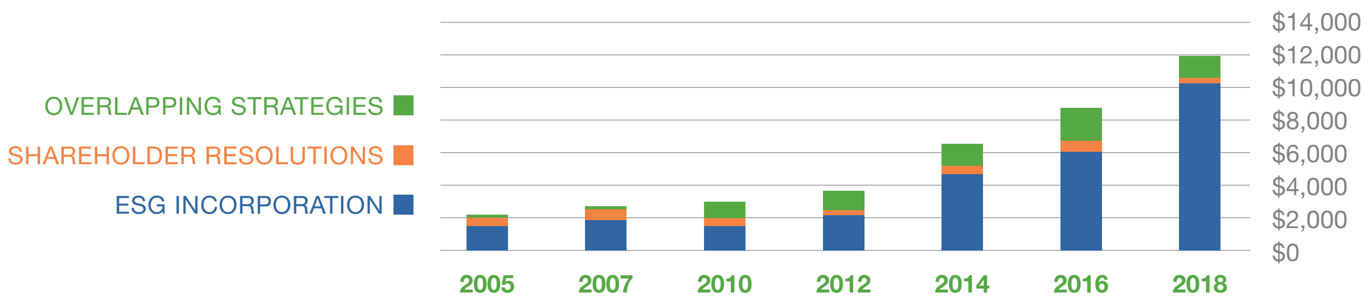
- **Positive/best-in-class screening:** Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers.
- **Negative/exclusionary screening:** The exclusion from a portfolio of certain sectors or companies based on specific ESG criteria.
- **ESG integration:** 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.[3]
- **Sustainability themed investing:** The selection of assets specifically related to sustainability in single or multi-themed funds.

Investor engagement, the other principal approach for sustainable investors, consists of the actions they take to present their concerns to issuers of securities about ESG policies and to ask management to study these issues, disclose more information about them and improve these practices. Investors can communicate directly with issuers 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.

To learn more about sustainable investing approaches, see www.ussif.org/sribasics.

3. However, "impact investing" can be applied across all asset classes.

FIGURE 2: SUSTAINABLE INVESTING GROWTH IN THE UNITED STATES (BILLIONS) 2005–2018



Source: US SIF Foundation

The case for sustainable investing

Sustainable 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 asset owners 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 sustainable investing 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."

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 for bonds of issuers with high ESG scores.

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' meta-analysis of over 2,000 empirical studies since the 1970s makes it the most comprehensive review of academic research on this topic. They found that the majority of studies suggest a positive correlation between ESG and corporate financial performance (CFP). "Roughly 90 percent of studies find a non-negative ESG–CFP relation. More importantly, the large majority of studies report 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 inception years 1998 to 2010 that seek to produce both positive, measurable social impact and risk-adjusted, market-rate financial returns. Cambridge Associates measured the 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.

Fiduciary duty: Incorporating ESG criteria into investment analysis is consistent with fiduciary responsibilities.

In 2005, the United Nations Environment Program Finance Initiative (UNEP FI) commissioned global law firm Freshfields Bruckhaus Deringer to study fiduciary law in nine Western countries for guidance as to whether fiduciaries were permitted to consider ESG factors in addition to traditional financial indicators. The resulting study concluded 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.”[4]

In 2015, the Principles for Responsible Investment (PRI), 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.”[5] 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 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

4. 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.
5. 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.

considerations or tie-breakers, but rather are proper components of the fiduciary's primary analysis of the economic merits of competing investment choices."[6] 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.[7]

Increased demand and awareness: Sustainable investing has grown rapidly in recent years, with assets under professional management in the United States expanding 38 percent between 2016 and 2018, and by 18-fold since 1995. Most of this activity has been among institutional asset owners, but new studies are demonstrating interest from individual investors, including retirement plan participants.

For example, a 2016 survey by Natixis Global Asset Management of participants in 401k and other defined contribution plans found:[8]

- 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.

Similarly, a 2017 study by the Morgan Stanley Institute for Sustainable Investing found high levels of interest among individual investors.[9] It reported that 75 percent of all respondents—and 86 percent of millennials—were interested in sustainable investing, and that 71 percent believed that companies with leading sustainability practices may be better long-term investments.

Current trends

Approximately one-fourth of all investment assets under professional management in the United States—$12.0 trillion out of $46.6 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 2018, the US SIF Foundation identified climate change, conflict risk (the risk of doing business in countries that have repressive regimes or sponsor terrorism), tobacco, 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 $11.63 trillion at the start of 2018, a 44 percent increase from 2016. These ESG assets are managed by 365 money management firms and over 1,100 community investing institutions, and approximately 65 percent of these assets are managed on behalf of institutional clients.

Among money managers, climate change is the leading ESG concern and was considered across $3.00 trillion in assets under management in 2018, an increase of 110 percent since 2016. This is a reflection both of increased investor concern about climate risk and of managers focusing strategies on low-carbon alternatives and climate solutions.

6. Department of Labor, Employee Benefits Security Administration, *Interpretive Bulletin Relating to the Fiduciary Standard under ERISA in Considering Economically Targeted Investments*, October 26, 2015. Available at https://www.federalregister.gov/articles/2015/10/26/2015-27146/interpretive-bulletin-relating-to-the-fiduciary-standard-under-erisa-in-considering-economically.
7. 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, sustainable 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 Bulleting 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.
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.
9. 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.

FIGURE 3: LEADING 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

Other prominent issues for money managers are tobacco, affecting $2.89 trillion in assets, conflict risk ($2.26 trillion), human rights ($2.22 trillion) and transparency and anti-corruption ($2.22 trillion). See Figure 3 for additional information.

Asset owners: In addition to money managers, the US SIF Foundation conducted research in 2018 on 496 institutional asset owners with $5.61 trillion in assets to which they applied ESG criteria. The group included public funds, insurance companies, educational institutions, philanthropic foundations, labor funds, hospitals and healthcare plans, religious institutions, other nonprofits and family offices.

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 tobacco follows, with the issue affecting portfolios totaling $2.56 trillion. Climate change and carbon emissions affect $2.24 trillion, growing slightly from 2016 but almost four-fold since 2014. Board issues, such as directors' independence, diversity and responsiveness to shareholders, affect $1.73 trillion, and executive pay affects $1.69 trillion. See Figure 4.

Investor engagement: From 2016 through the first half of 2018, 165 institutional asset owners and 54 investment

FIGURE 4: LEADING ESG CRITERIA FOR ASSET OWNERS 2018

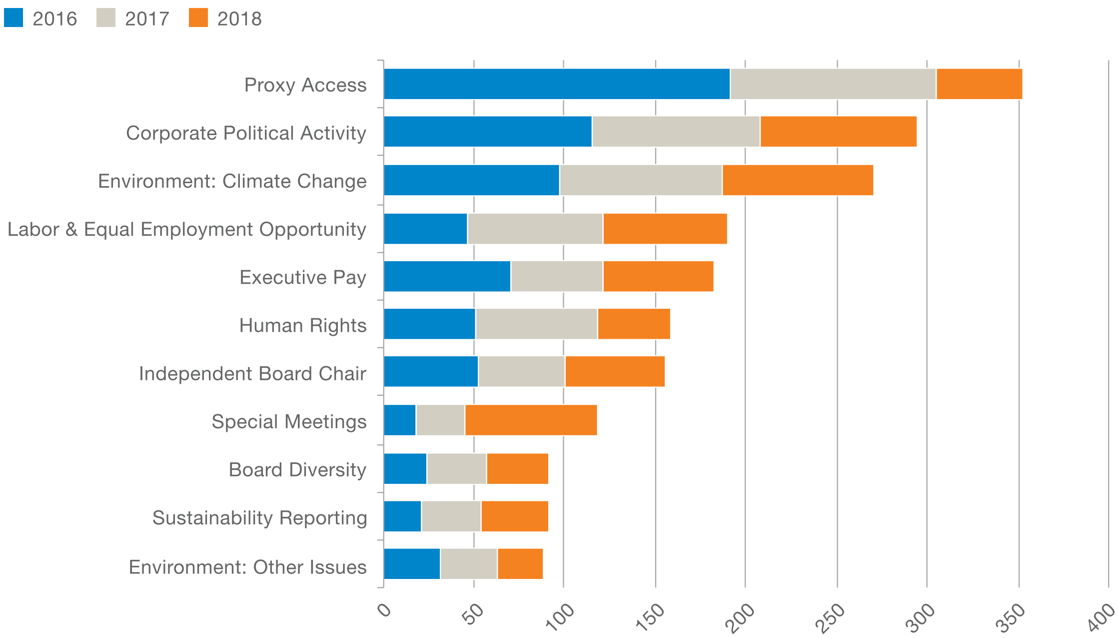
Conflict Risk (Terrorist or Repressive Regimes)	Tobacco	Climate Change/ Carbon	Board Issues	Executive Pay
$2.97 Trillion	$2.56 Trillion	$2.24 Trillion	$1.73 Trillion	$1.69 Trillion

Percent Increase in Assets Affected since 2016

8%	121%	4%	39%	41%

Source: US SIF Foundation

FIGURE 5: 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.

managers collectively controlling a total of $1.76 trillion in assets at the start of 2018 filed or co-filed shareholder resolutions on ESG issues. In addition to or apart from filing shareholder resolutions, 49 institutional asset owners, with more than $1 trillion in total assets, reported to the US SIF Foundation that they engaged in dialogue with companies on ESG issues, as did 88 asset managers, with $9.1 trillion in assets under management.

As shown in Figure 5, the leading issue raised in shareholder proposals, based on the number of proposals filed, from 2016 through 2018, was "proxy access." Investors filed 353 proposals at US companies during this period to facilitate shareholders' ability to nominate directors to corporate boards and to have access to companies' proxy statements to discuss their nominees. 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[10] to 65 percent in 2017.[11]

Disclosure and management of corporate political spending and lobbying is also a top concern. Shareholders filed 295 proposals on this subject from 2016 through 2018. 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 surge in shareholder proposals on climate change that began in 2014, as investors wrestled with the prospects of "stranded" carbon assets and US and global efforts to curb greenhouse gas emissions, 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 through 2015, only three shareholder proposals opposed by management on environmental and social issues crested 50 percent support, in contrast to the 18 proposals that did so in 2016 through 2018.

10. Sidley Austin LLP, Sidley Corporate Governance Report: *Proxy Access Momentum in 2016* (2016). Available at https://www.sidley.com/en/insights/newsupdates/2016/06/proxy-access-momentum-in-2016.
11. Sidley Austin LLP, Sidley Corporate Governance Report: *Proxy Access – Now a Mainstream Governance Practice* (2018). Available at https://www.sidley.com/en/insights/newsupdates/2018/02/proxy-access.

DEVELOPING AND ENHANCING SUSTAINABLE INVESTING STRATEGIES

This section covers 10 steps for institutional asset owners to develop and enhance their sustainable investment policies and practices. The steps are numbered but do not necessarily need to be followed in the order presented. Asset owners may choose to prioritize the steps differently based on their size, structure, goals and current level of familiarity with sustainable investing.

1. Establish the oversight process
2. Create or update the investment policy statement
3. Identify sources of ESG data, research and training
4. Develop an ESG incorporation strategy
5. Identify asset allocation and investment options
6. Select managers for externally managed assets
7. Develop proxy voting guidelines and vote proxies
8. Develop and implement an investor engagement strategy
9. Measure and manage impact
10. Participate in building the field

#1. Establish the oversight process

The catalyst for sustainable investing in an institution is usually an employee or board member who champions the idea that addressing environmental, social or governance issues is important in the investment process or in engagement with issuers. If you are this person, the "Getting Started" section of this report has given you some background on the sustainable investing field.

Information beyond these basics can be found in the US SIF Foundation's biennial ***Report on US Sustainable, Responsible and Impact Investing Trends***, which breaks down trends and activity by type of institutional asset owner. The ***Global Sustainable Investment Review***, which is produced by the Global Sustainable Investment Alliance, compiles data from sustainable investment organizations around the world, including US SIF.

In addition, a wide range of other materials is available to help you learn about sustainable 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.

With this knowledge, you are better prepared to think about what sustainable investing in practice would look like at your own institution. Consider which environmental, social and/or corporate governance issues are of top concern or interest within your organization. What issues have your board and staff raised? Have the constituents you represent, such as students for educational endowments and future retirees for retirement plans, brought certain concerns to your attention?

You may also find it helpful to review what other asset owners and particularly your peer organizations are doing. Appendix 1 presents case studies of a philanthropic foundation, a family office and a public pension fund with rigorous approaches to sustainable investing. Some additional asset owners share their ESG activities on their website. For example:

- Corporate—Bloomberg LP: https://data.bloomberglp.com/company/sites/39/2018/07/Bloomberg-Sustainability-Impact-Report-2017-Web-3.pdf (p 44–45)
- Educational institution—Columbia University: https://finance.columbia.edu/content/socially-responsible-investing
- Faith-based institution—Presbyterian Church (USA): https://www.presbyterianmission.org/ministries/mrti/
- Private foundation—Rockefeller Brothers Fund: https://www.rbf.org/mission-aligned-investing
- Community foundation—Silicon Valley Community Foundation: https://www.siliconvalleycf.org/social-impact-pool

- Nonprofit—World Resources Institute: https://www.wri.org/sustainability-wri/sustainable-investing-wri-endowment
- Public fund—Office of the Treasurer, City of Chicago: https://www.chicagocitytreasurer.com/home/esg/

You can also reach out directly to peer institutions or engage with membership associations (see step 10) to seek concrete examples of sustainable investment in practice.

Establish board and executive-level oversight: It is essential to have key decision makers in agreement on how the exploration of sustainable investing will proceed. This may involve staff and board education, and developing a process to identify the board's priorities.

Approach the decision-makers to present your findings and ideas for sustainable investing at your institution, and request senior level involvement in further exploring sustainable investing. As an asset owner, your governing body, whether a board of trustees or board of directors, and executive leadership should be involved in the process. It will be helpful to appoint a special committee, which could be a subcommittee of the investment committee or have a broader composition. The special committee can set the agenda for the process to explore sustainable investing and report progress and findings at board or committee meetings. The actual implementation may be assigned to the investment team.

Hire an advisor: A financial advisor and/or investment consultant with sustainable investing expertise may be valuable in helping to develop your institution's strategy. They can help with many of the subsequent steps outlined in this report, such as developing the investment policy statement and asset allocation. Because advisors and consultants have different areas of expertise, determine which services will be most helpful for your institution and ask potential partners questions about capabilities and previous experience. Examples of ESG-related questions in advisor requests for proposals (RFPs) are also available.[12] One place to find financial professionals is the directory of financial services offered by US SIF members. Under "Directory Categories," select "Investment Consulting Firms" or "Financial Planners, Advisors and Brokers." In addition, the College for Financial Planning recently launched a graduate level curriculum for financial professionals in sustainable investing; financial advisors and investment consultants with the CSRIC designation have successfully completed this program.

#2. Create or update the investment policy statement

Depending on your institution's processes, this step may happen now or later and may employ the services of a financial advisor or consultant with sustainable investing expertise.

Review your core goals as an investor. In addition to considerations included in a traditional investment approach, such as risk tolerance and liquidity, discuss and determine your impact goals. These should be formalized in written documentation. As a first step, establish your investment beliefs. These are a statement of the core principles and most important issues driving the investment decisions.[13] These statements of investment beliefs can vary in length from a few key sentences to several paragraphs. Areas covered can include the case for ESG investing, the regulatory environment, stakeholder expectations on ESG issues, peer activity in the sustainable investment field and future opportunities.[14]

Next, create or update an investment policy statement (IPS) to outline how your institution's money will be managed given these investment beliefs. The document generally includes your goals and objectives and information on asset allocation, risk tolerance and liquidity. It should be

12. See for example: Intentional Endowments Network, *Hiring an Investment Consultant: Making Your ESG Intention Actionable* (2018). Available at http://www.intentionalendowments.org/hiring_an_investment_consultant_resource.
13. Principles for Responsible Investment, *How Asset Owners Can Drive Responsible Investment: Beliefs, Strategies and Mandates* (2016), 18. Available at https://www.unpri.org/about/pri-teams/investment-practices.
14. Mercer, *An Investment Framework for Sustainable Growth: Capturing a Broader Set of Risks and Opportunities for Integrating ESG and Sustainability Themes* (2014), 4. Available at https://www.mercer.com/content/dam/mercer/attachments/global/investments/responsible-investment/An-investment-framework-for-sustainable-growth.pdf.

reviewed annually and updated as necessary. In terms of ESG and sustainable investing aspects, the IPS:[15]

- Defines your fundamental fiduciary obligations and the relationship to addressing ESG issues in investments
- Provides a framework for monitoring and evaluating the performance of a portfolio that is aiming for both competitive financial returns and positive ESG impact
- Clarifies your preferred terms, such as "sustainable investing" or "responsible investing" and your definitions
- Includes the scope of ESG investing, such as the specific asset classes, investment approaches and regions to which it applies
- Illustrates how you will evaluate current holdings and identify new investment opportunities over time
- Identifies the process and tools for selecting, evaluating and reporting on specific impact metrics for each asset class
- Assigns responsibilities to the board, investment committee, staff, consultants and investment managers, as appropriate

It may be helpful to review other investment policy statements that address sustainable and impact investing. Appendix 2 lists several examples for educational institutions, faith-based institutions, private foundations and public pension funds.

Some asset owners have created an ESG investing policy in a separate document, which can create confusion internally and externally about its role in the ongoing management of assets. Integration of ESG considerations within the IPS makes a clear statement to readers.

#3. Identify sources of ESG data, research, and training

Asset owners will often rely on their consultants and managers to utilize ESG data, rather than use it themselves. Nonetheless, it is helpful to be familiar with the range of ESG data resources available.

ESG data and research resources have expanded in the past several years as interest in sustainable investing has grown. These resources 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. Increasingly, ESG data is easily accessible for bond issuers as well as public companies around the world.

Some investment managers utilize the data to apply exclusionary screens to the portfolio, while others use it as an input into research and analysis on potential portfolio companies. Asset owners that have internally run portfolios can use ESG data or indexes to tilt portfolios towards desired ESG characteristics.

A *2017 report by the US Department of Labor* identifies applications, databases, online documents or websites that institutions can use as resources in selecting and managing ESG investments.[16] The majority of tools fall into two categories—ESG tools to assess individual companies and ESG indices. See Figure 6 for a list of some 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 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

15. List adapted from *ImpactAssets, Construction of an Impact Portfolio: Total Portfolio Management for Multiple Returns* (2015), 5. Available at http://www.impactassets.org/files/Issuebrief_No.15.pdf and *The Principles for Responsible Investment, Investment Policy: Process & Practices—A Guide for Asset Owners* (2016), 12-13. Available at https://www.unpri.org/about/pri-teams/investment-practices.
16. *US Department of Labor, Environmental, Social, and Governance (ESG) Investment Tools: A Review of the Current Field* (2017). Available at https://www.dol.gov/asp/evaluation/completed-studies/ESG-Investment-Tools-Review-of-the-Current-Field.pdf.

FIGURE 6: 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

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 26 environmental, social and governance indicators are likely to be material for companies in industries across 11 broad sectors.

Some service providers are using big data, machine learning and artificial intelligence to better analyze the ESG information of companies. Proponents of such technology driven approaches tout their application of unbiased algorithms and ability to capture and rapidly analyze vast quantities of data beyond the information a company decides to disclose. Examples of AI-driven ESG data platforms are Arabesque's S-Ray® and TruValue Labs Insight360™.

#4. Develop an ESG incorporation strategy

Your institution's ESG incorporation strategy will be shaped by its preferences regarding active versus passive management, its asset allocation and the depth of impact it is seeking. ESG incorporation approaches can be implemented over time. For example, you can test the waters with a one-off investment or create a carve-out (e.g., 5 percent of your portfolio). **A financial advisor or consultant with sustainable investing expertise can help you determine various options and shape your approach.**

The US SIF Foundation's 2018 *Trends* report, in its survey of institutional asset owners, obtained responses from asset owners collectively representing more than $470 billion

FIGURE 7: PASSIVE VS. ACTIVE ESG ASSET MANAGEMENT BY ASSET OWNERS 2018

	Number of Institutional Investors	Affected Assets (in Billions)	Percent of ESG Assets
Actively Managed	36	$352	71%
Passively Managed	42	$146	29%
Total Responding	**42**	**$498**	**100%**

Source: US SIF Foundation
Note: Some institutional asset owners reported using both active and passive management across their ESG assets, so totals do not sum.

in ESG incorporation assets who provided information on how these assets were divided among active versus passive strategies and by asset class.

Forty-two institutions voluntarily disclosed information about their use of passive versus active ESG management strategies as shown in Figure 7. All these respondents used passively managed strategies across at least some of their holdings, and a smaller number—though still a majority—also employed active management. Of the nearly $500 billion in combined ESG assets reported by these respondents, the breakdown between passive and active management was 29 percent and 71 percent, respectively.

Seventy-nine asset owners disclosed information about the asset class breakdown of their ESG assets, as shown in Figure 8. Among this group, 68 institutions had $263 billion of their aggregate ESG assets in publicly traded equities, while 70 institutions had $94 billion of their aggregate ESG assets in fixed income. Sixty- two institutions invested in other asset classes, such as cash and private assets, for $116 billion of their aggregate ESG assets.

The US SIF Foundation's 2018 *Trends* report also identified the top ESG incorporation strategies among asset owners. See Figure 9. A subset of 86 asset owners collectively representing $615 billion in assets responded to a question about the ways in they incorporate ESG factors in their investment process. ESG integration, practiced by 60 percent of the respondents, affects the largest portion of assets under management—at $537 billion. At least 70 percent of these institutional investors use either impact investing and/or negative screening. However, the assets these respondents reported under impact investing strategies are low: just $4 billion, compared with $441 billion for negative/exclusionary screening.

Steps 5 and 6, on identifying asset allocation and investment options and selecting managers for externally managed assets, expand on how to develop and implement an ESG incorporation strategy.

FIGURE 8: ESG INCORPORATION STRATEGIES BY ASSET CLASS BY ASSET OWNERS 2018

	Number of Institutional Investors	Affected Assets (in Billions)	Percent of ESG Assets
Publicly Traded Equity	68	$263	56%
Other (e.g. Cash, Private Assets, Real Assets)	62	$116	24%
Publicly Traded Bonds or Fixed Income	70	$94	20%
Total Responding	**79**	**$473**	**100%**

Source: US SIF Foundation
Note: Some institutions reported investing in more than one asset class, so totals do not sum.

FIGURE 9: ESG INCORPORATION STRATEGIES BY ASSET OWNERS 2018

	Number of Institutional Investors	% of Institutional Investors Responding	Affected Assets (in Billions)
ESG integration: the systematic and explicit inclusion by investment managers of ESG risks and opportunities into traditional financial analysis	52	60%	$537
Negative/exclusionary: the exclusion from a fund or plan of certain sectors or companies based on specific ESG criteria	60	70%	$441
Sustainability themed investing: the selection of assets specifically related to sustainability in single- or multi-themed funds	47	55%	$14
Positive/best-in-class: investment in sectors, companies or projects selected for positive ESG performance relative to industry peers	53	62%	$10
Impact investing: targeted investments aimed at solving social or environmental problems	61	71%	$4
Total Responding	**86**		**$615**

Source: US SIF Foundation
Note: Some institutions disclosed using multiple strategies within funds, so affected assets may overlap and percentages do not sum.

#5. Identify asset allocation and investment options

In the investment policy statement, your institution will have identified the asset classes where sustainable investing will be deployed. It may be in just one asset class or several. Work with your asset managers to ensure that your portfolio appropriately reflects your financial goals and objectives as well as ESG criteria.

The number of ESG investment options has increased in recent years. The US SIF Foundation identified 730 investment funds from registered investment companies, 780 alternative investment vehicles and 1,145 community investing institutions or funds in 2018 that were domiciled in the United States.

The following paragraphs discuss some investment options and resources to help identify ESG products across asset classes.

Public equity options: Sustainable investing equity funds represent a wide range of styles and risk and return characteristics and include:

- Small-cap
- Mid-cap
- Large-cap
- Value
- Growth
- US
- International
- Emerging Markets
- Global
- Thematic

Strategies are available in separate accounts, mutual funds, ETFs and other commingled funds. US SIF's website includes a list of member mutual funds and ETFs that employ ESG criteria. A similar page offers information on separate accounts. Click on the "View funds (or strategies) by type" dropdown to select your fund or strategy type preference. Click on the "Screening & Advocacy" tab to see the ESG issues considered, such as pollution/toxics, community development, executive pay and screens on tobacco, weapons and animal welfare. The charts also show which equity funds and strategies file shareholder resolutions or communicate with portfolio company management on ESG issues and actively vote proxies in support of ESG issues. In the mutual funds and ETFs chart, the "Proxy Voting" tab provides quick links to the funds' proxy voting guidelines and records.

In addition, ESG ratings are available for thousands of mutual funds and ETFs. Morningstar, in partnership with Sustainalytics, assigns a sustainability score to more than 35,000 mutual funds and ETFs. The sustainability rating is found on the right side of fund quote pages on Morningstar.com. MSCI's ESG Fund Metrics measures the ESG characteristics of the portfolio holdings and now covers over 23,000 mutual funds and ETFs. The data is available directly from MSCI ESG Research and also from third-party platforms.

Fixed income options: US SIF's website includes a list of mutual funds and separate accounts comprised of bonds that incorporate or exclude US Treasuries, focus on particular impact areas, such as affordable housing and small business lending, and represent various diversification and risk levels. Fixed income strategies centered on municipals or agency securities can often target a specific geographic region of interest.

Examples of bonds found in sustainable investing strategies include:

- School bonds receiving state enhancement support
- World Bank green bonds
- Taxable municipal bonds
- Agency bonds supporting affordable housing
- Corporate bonds that pass ESG criteria

ESG incorporation techniques within fixed income portfolios vary by bond type. In selecting corporate bonds, managers may identify corporate leaders on ESG issues and/or exclude certain issues or sectors, similar to the equities process. For sovereign bonds, they will look at country ESG risk.

Alternative investments: The assets and capital commitments of US alternative investment vehicles—venture capital, private equity, real estate, real assets, private debt and hedge funds—incorporating ESG criteria totaled $588 billion at the beginning of 2018, almost tripling since 2016. Environmental criteria predominated, affecting $580 billion (compared to $197 billion in 2016) with themes such as renewable energy, clean technology, green building/smart growth and pollution/toxics. Other themes and areas of impact are also available, including funds focused on affordable housing, debt to underserved communities and entrepreneurs and growth equity strategies across multiple sectors.

Numerous resources and networks exist to help identify alternative investments geared towards advancing sustainability. Two of these are:

- ImpactAssets 50: An annually updated list of experienced impact investment firms that are selected to demonstrate a wide range of impact investing activities across sectors, geographies and asset classes. Most of the 50 are private debt and equity fund managers. The project is managed by ImpactAssets.
- ImpactBase: A searchable, online database of impact investment funds and products designed for accredited investors. The majority of funds are alternative investments, but the database includes other funds as well. ImpactBase is a project of the Global Impact Investing Network.

Community Investments: Community investments can be made via traditional asset classes as well as alternative investments across a range of impact areas, including:

- Affordable housing
- Small businesses within underserved neighborhoods
- Community services such as child care, education, health care and cultural preservation
- Living wage jobs for low and moderate-income residents
- Environmental and resource conservation activities
- Food system security and access

For cash and short-term fixed income, community development banks and credit unions are options. These offer the same investment products, services and federal insurance as conventional institutions, but also serve low-income communities and finance sustainability initiatives. There are hundreds across the country, suitable for all investors. To find a credit union or bank committed to supporting such communities, see:

- Community Development Bankers Association
- Inclusive (formerly known as the National Federation of Community Development Credit Unions)
- National Community Investment Fund

For fixed income funds/intermediaries, you can consider community development bond funds, which are mutual funds investing in marketable community development securities.

Another potential option is community loan funds, which include both domestic and international options. Domestic loan funds are local, nonprofit lenders throughout the United States. International loan funds, including microfinance funds, often focus on assisting fair trade and agriculture and women entrepreneurs.

Two sources of information on community development loan funds active in the United States are Opportunity Finance Network (OFN) and Aeris. OFN provides a CDFI Locator, an online directory of loan funds (and other financial institutions) that are certified by the US Treasury as Community Development Financial Institutions, searchable by the states served and the type of lending provided (e.g. microenterprise, affordable housing). Aeris offers an online search guide to CDFI loan funds that have undergone its due diligence evaluation. Its Fund Selector enables investors to search for investment opportunities by impact area, including women, food access, healthcare and education.

More background on community investing can be found on US SIF's website: www.ussif.org/communityinvesting.

#6. Select managers for externally managed assets

Consider ESG-related issues during manager selection for externally managed assets. These include a manager's ESG policy and governance, ESG incorporation approach, voting and engagement activities (discussed in steps 7 and 8), ESG resources, and impact measurement, monitoring and reporting capabilities (step 9). **Your investment consultant should be able to assist in this process.**

The Principles for Responsible Investment offers detailed steps and examples, some of which are summarized here.[17] First, determine your expectations regarding ESG issues. For the manager selection process, include ESG questions in initial screening questionnaires, requests for proposals (RFPs), and manager clarification meetings. You can also request specific examples of their sustainable investing approaches in practice.

Once the manager is selected, the terms and conditions can be written in the investment management agreement (IMA) or in a separate document to cover issues such as ESG standards, the reporting process and voting guidelines.

The next step is manager monitoring. Reporting should include items agreed on from the IMA and similar documents. Determine if your institution requires custom reporting from your investment manager, or if generic reports are suitable.

#7. Develop proxy voting guidelines and vote proxies

The proxy system is often the principal means for shareowners and companies to communicate with one another and for shareowners to weigh in on important issues. Establish your institution's guidelines regarding how you will vote on specific ESG issues. This will speed voting decisions and ensure consistent voting on your priority issues. Some asset owners publish their ESG proxy voting guidelines on their websites, serving as a helpful resource to others developing their own. See Appendix 3 for several examples of proxy voting guidelines of educational institutions, faith-based institutions, private foundations and public pension funds.

Your institution can turn to a number of outside firms for assistance in digesting and analyzing the questions that appear in company proxy statements before casting your 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,

17. For more information, see: Principles for Responsible Investment, *Aligning Expectations: Guidance for Asset Owners in Incorporating ESG Factors into Manager Selection, Appointment and Monitoring* (2013). Available at https://www.unpri.org/download?ac=1614.

by shareholders. They will also execute votes on behalf of clients in line with their guidelines.

Other resources also provide background information and clarity on the environmental, social and governance issues you 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. See Appendix 4 for resources on proxy voting.

#8. Develop and implement an investor engagement strategy

Shareholder engagement is another strategy of sustainable investing. Asset owners 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.

First, determine if an engagement program is right for your institution by addressing the issue with key decision makers.[18] If your institution 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.[19] **Your external managers, if they have expertise in engaging on ESG issues, can help with this step.**

Decide which ESG issues your institution will engage in. To amplify your institution's impact, you may want to focus on the issues it will address in ESG incorporation. For example, an asset owner that incorporates climate-related factors in its investment selection may file shareholder resolutions or engage in dialogue with companies on the issue.

Tools of shareholder engagement include conducting letter-writing and email campaigns, meeting with company executives, and filing or co-filing shareholder resolutions. These activities can take place in coordination with other investors and non-investor organizations. See Appendix 4 for resources on investor engagement.

Conducting letter-writing campaigns: Your institution may choose to write a letter to express concern about specific corporate practices. 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 the Ceres Investor Network on Climate Change (INCR), the Interfaith Center on Corporate Responsibility, PRI and US SIF.

Meeting with company executives: As a shareholder in a company, your institution may want to meet in person with representatives of the company to indicate support for leadership the company is providing or to convey concerns about its environmental, social or governance practices.

A meeting exclusively between your institution and the company enables you to share your specific concerns and requests, and proceed on your own timeline. A joint meeting organized with other 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.[20]

Whether your institution 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

18. Blackrock and Ceres, *21st Century Engagement: Investor Strategies for Incorporating ESG Considerations into Corporate Interactions* (2015), 5. Available at https://www.blackrock.com/corporate/en-us/literature/publication/blk-ceres-engagementguide2015.pdf.
19. Ceres, *21st Century Investor: Ceres Blueprint for Sustainable Investing* (2016), 27. Available at https://wuww.ceres.org/resources/reports/21st-century-investor-ceres-blueprint-sustainable-investing.
20. 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.

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 institution "[a]lign requests with international standards, where possible" as companies have indicated the challenge of addressing disparate requests and questions on related ESG issues.[21] Next, decide on your desired outcome 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 to 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 your institution'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.

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 currently permits your firm to file a proposal at a company if it owns at least $2,000 or 1 percent of the company's shares and has 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 ESG 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 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 modest 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 (which excludes abstentions) in its first year, 6 percent in its second and 10 percent in its third year and all years thereafter. If a proposal fails to meet the requisite resubmission thresholds, the filer must wait three years to resubmit it.

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.

21. Principles for Responsible Investment, *Introductory Guide to Collaborative Engagement* (2013),13. Available at https://www.unpri.org/download?ac=4156.

Instead of filing a shareholder resolution, your institution may choose to co-file. Simply add your institution'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.

#9. Measure and manage impact

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

Instead of developing the capability in-house to measure and report your investments' impact, you can ask your investment managers if they have this ability. Similarly, you can work with specialized advisory firms that offer impact measurement services for investors.

However you choose to proceed, your institution, or your advisors and managers, will need to formulate a process to monitor and evaluate your portfolio's impact performance.

Important steps include establishing impact targets, determining the relevant metrics to use, collecting data, assessing the data to measure impact, and reporting on results. Your institution will have a unique set of values and goals, and preferences may change over the timeframe of an investment.

The Impact Management Project, a multi-stakeholder initiative established in 2016, has identified five dimensions of impact, as shown in Figure 10: what the impact is, who is affected, how much impact occurs (scale, depth and duration), the contribution (additionality) of the impact, and the risks that would take place in the absence of the impact. This provides the ability to communicate on impact to a diverse group of stakeholders regardless of the specific framework, measurement approach or standards used.

FIGURE 10: THE FIVE DIMENSIONS OF IMPACT

The IMP reached global consensus that impact can be deconstructed into five dimensions: What, Who, How Much, Contribution and Risk.

IMPACT DIMENSION	IMPACT QUESTIONS EACH DIMENSION SEEKS TO ANSWER
WHAT	• What outcome occurs in period? • How important is the outcome to the people (or planet) experiencing it?
WHO	• Who experiences the outcome? • How underserved are the affected stakeholders in relation to the outcome?
HOW MUCH	• How much of the outcome occurs—across scale, depth and duration?
CONTRIBUTION	• What is the enterprise's contribution to the outcome, accounting for what would have happened anyway?
RISK	• What is the risk to the people and planet that impact does not occur as expected?

Source: The Impact Management Project

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.[22] 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 11, with those most commonly used highlighted in boldface.

22. 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.

FIGURE 11: 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)

While discussions about impact often focus on private investments, sustainable investors' scrutiny of public equities has also had a positive impact. For decades, sustainable 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.[23] In the United States, around $30 trillion is invested in the primary stock exchanges, so this is an asset class that should not be overlooked for its impact potential.[24]

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

- 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
- Changes to a company's end product (e.g., additional megawatts of wind power, new healthy and organic food product lines).

For additional resources on impact measurement and management, see Appendix 5.

#10. Participate in building the field

Associations advancing the sustainable investing field are available to keep you updated on the latest education, research and other initiatives to help you move forward with your practice.

The sustainable investing space is large and growing, with a number of active associations, organizations and initiatives. Asset owners can support sustainable investing and continue learning about it by joining sustainable investment field-building institutions such as the Interfaith Center for Corporate Responsibility, the Global Impact Investing Network, the Principles for Responsible Investment and US SIF. Some associations cater to specific types of asset owners, such as The ImPact for family offices, the Intentional Endowments Network for educational institutions, and Mission Investors Exchange and Confluence Philanthropy for foundations. Many of these associations organize major conferences and events that can help you meet potential investment managers, consultants and financial advisors, as well as learn about developments in the broader field.

23. 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.
24. *"What Is The Stock Market? Before You Invest In The Stock Market, Make Sure You Know What It Is*, The Balance, March 21, 2019, accessed April 18, 2019, https://www.thebalance.com/what-is-the-stock-market-how-it-works-3305893.

Philanthropic foundations also have the ability to make grants to support the work of sustainable investment field-building organizations.

Knowledge sharing and research: A valuable contribution your institution can make is sharing your ESG investment policy on your website. This helps other asset owners that are thinking about sustainable investing to become more comfortable with pursuing it.

In addition, US SIF and the Principles for Responsible Investment offer opportunities to report on your ESG investments and shareholder engagement activity.

The US SIF Foundation's biennial *Report on US Sustainable, Responsible and Impact Investing Trends* has been 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, that are engaged in sustainable investing strategies. Both US SIF members and non-member institutional asset owners and money managers are encouraged to submit data, which is kept anonymous and aggregated, for the *Trends* report via a survey released 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 sustainable investing policies and practices, benchmark performance against peers, and receive feedback and tools for improvement, among other benefits.[25] Transparency Reports are publicly available online.

Public policy: Policymakers and regulators have a profound impact on the environment in which sustainable investment occurs and on many of the issues sustainable investors care about. Engagement by sustainable investors with policymakers is vital to the continued growth and positive impact of the industry.

The US SIF Foundation's 2018 *Trends* report found that 24 asset owners with collective assets under management of $957 billion said that they attempted to influence governmental policy or industry regulation between 2016 and 2018 to require companies to improve their ESG impacts.[26]

25. Principles for Responsible Investment, *About Reporting and Assessment*, https://collaborate.unpri.org/report/about-reporting-and-assessment, accessed March 27, 2019.
26. US SIF Foundation, *Report on US Sustainable, Responsible and Impact Investing Trends* (2018), Available at http://www.ussif.org/trends.

CONCLUSION

Today, a diverse range of stakeholders, including students, governments, religious leaders and other engaged citizens are asking the institutions with which they are affiliated to assess how their investments address specific environmental, social and governance issues. Portfolio companies are under public and legal scrutiny on a range of concerns, including climate change, gun control, sexual harassment, data privacy breaches and even—for some technology companies—election interference.

The case for sustainable investing is further supported by recent guidance on fiduciary duty and by studies demonstrating that sustainable investing achieves comparable or even better financial returns than conventional investments.

There are more data, resources and service providers than ever before to help institutions move forward with sustainable investing. Many asset owners are responding by developing or expanding investment policies that better align with their organizational missions or give closer consideration to ESG risks and opportunities.

A key strategic objective of the US SIF Foundation is to disseminate best practices and increase the rigor of the field. The Roadmap Series is a central part of this strategy. It includes not only this guide, but roadmaps for financial advisors and money managers. We welcome your comments at info@ussif.org.

APPENDIX 1: CASE STUDIES OF THREE INSTITUTIONAL ASSET OWNERS

Three short case studies in this appendix provide examples of asset owners with rigorous sustainable investment approaches. Featured are a philanthropic foundation, a single-family office and a public pension fund.

Philanthropic Foundation Case Study: Wallace Global Fund

The mission of the Wallace Global Fund is "to promote an informed and engaged citizenry, to fight injustice, and to protect the diversity of nature and the natural systems upon which all life depends."[27] Its Board has determined that the foundation's fiduciary duty is to align its investments with its grantmaking strategies, thus enabling more resources to advance the organization's programmatic mission.

In 2009, the Wallace Global Fund began a process of transitioning to a comprehensive mission investing portfolio. The Board evaluated incorporating ESG factors into the investment portfolio and decided to shift to a sustainable investing strategy. In 2010, the Wallace Global Fund hired RBC Wealth Management to review its portfolio and create a plan to transition investments to an ESG strategy. An ESG investment policy statement was drafted to include new goals, including 100 percent exclusion of coal investments and a "best-in-class" environmental screen. In addition, the Wallace Global Fund formed a new investment committee to advise on ESG investment policy.

Eighty-eight percent of the portfolio applied ESG criteria by 2011. The investment committee approved an updated IPS with a goal of targeting 5 percent for "high impact investments," which it describes as direct investments with the potential to create significant impact in the Wallace Global Fund's priority areas. Returns can be below-market or market rate. Today, 10 percent of the portfolio is in high impact investments.

In 2013, the Wallace Global Fund expanded its goal to divest from coal to all fossil fuels and created an investment sub-committee to focus on investing in climate solutions. The foundation also approached its investment managers about meeting the fossil free standard. In 2015, the foundation's investments became 100 percent fossil fuel free. To encourage and support foundations, family offices and others to divest from fossil fuels and invest in climate solutions, the Wallace Global Fund launched Divest-Invest Philanthropy.

Shareholder advocacy is another component of the Wallace Global Fund's mission investing strategy. The organization is open to filing shareholder resolutions, engaging in dialogue with companies or joining multi-stakeholder coalitions to effect change.

The Wallace Global Fund also evaluates its investment managers based on their sustainable investment strategies, and has shifted over time to managers with higher impact approaches.

Resources

Wallace Global Fund website
Mission investing approach
Investment Policy Statement and ESG Investment Policy Statement
Divest-Invest Philanthropy

27. The Wallace Global Fund, *About Us,* http://wgf.org/about-us-2/, accessed April 18, 2019.

Family Office Case Study: Blue Haven Initiative

Blue Haven Initiative is a single-family office that takes a total portfolio approach to impact investing. It orients all of its wealth-management activities with market-rate financial performance standards, including ESG and impact analysis.

Established by Liesel Pritzker Simmons and her husband Ian Simmons in 2012, Blue Haven takes a relatively traditional approach to asset allocation, striving to populate each asset class with best-in-class ideas. While it looks for opportunities in a range of sectors, areas of particular interest include renewable energy, affordable and green real estate, and financial services.

Blue Haven uses outside investment managers with ESG expertise to invest in traditional assets. For public equities, its advisors review criteria such as workplace and employee policies, political spending, business practices and executive decision making. Working with partners, the family office engages in proxy voting and shareholder advocacy regarding governance issues. For fixed income, third party-managers apply "a combination of quantitative scoring and a qualitative assessment of the use of proceeds for underlying issuers."[28] Private equity, venture capital and real estate are also part of the investment portfolio. The family office screens alternative investment managers based on the criteria the managers use for making investments.

Blue Haven's direct investment portfolio in sub-Saharan Africa, which is professionally managed in-house, is focused on renewable energy, fintech, human capital solutions and last-mile distribution.

Through their investments, philanthropy and advocacy, Blue Haven's co-founders and principals seek to encourage capital flows into investing with positive impact. Liesel Simmons has been a voice for the millennial generation in impact investing. She is a frequent speaker at "next gen" events, where she advocates the merits of sustainable finance. Ian Simmons is an advocate for policies that facilitate long-term investing, including proper corporate disclosures and political accountability. Liesel and Ian are also co-founders of The ImPact, a nonprofit organization of family offices and other family enterprises that are committed to making impact investments and sharing information about best practices.

Resources

Blue Haven Initiative website
Impact investing approach
Investment portfolio

Public Pension Fund Case Study: California State Teachers' Retirement System (CalSTRS)

CalSTRS is one of the largest pension funds in the United States, with over $200 billion in assets under management. Its investment beliefs document states that "…in addition to traditional financial metrics, timely consideration of material environmental, social and governance (ESG) factors in the investment process for every asset class, has the potential, over the long-term, to positively impact investment returns and help to better manage risks."[29] It also adds that "CalSTRS can enhance the value of its plan assets by taking a leadership role through voting proxies."

The pension fund's investment policy and management plan describes its ESG principles, policy and CalSTRS' ESG Risk Factors, of which there are currently 25.[30] It explains:

28. Blue Haven Initiative, *All In For Impact: Investing Across Asset Classes*, http://www.bluehaveninitiative.com/portfolio/, accessed April 18, 2019.
29. CalSTRS, *Investment Beliefs*, accessed April 18, 2019. Available at https://www.calstrs.com/sites/main/files/file-attachments/calstrs_investment_beliefs.pdf.
30. CalSTRS, *Investment Policy and Management Plan*, accessed April 18, 2019. Available at https://www.calstrs.com/sites/main/files/file-attachments/a_-_investment_policy_and_management_plan.pdf.

> Consistent with its fiduciary responsibilities to CalSTRS members, the Board has an obligation to ensure that the corporations and entities in which CalSTRS invests strive for long-term sustainability in their operations. Managers of our investments who do not strive for sustainability jeopardize achieving the long-term expected rate of return we expect. Therefore, CalSTRS incorporates ESG considerations into its analysis of the riskiness of its investment decisions and its ownership policies and practices, to the extent that ESG factors are material to the long-term success of an investment.

CalSTRS uses its ESG Risk Factors to assist the pension fund and its external investment managers in the investment process. Examples of risk factors are human rights issues, discrimination based on race, sex, disability, language or social status, and environmental factors such as water quality and climate change. These factors, relevant for all asset classes and geographies, are not meant to be exhaustive but rather provide a framework for issues to be considered.

CalSTRS has established a series of steps to be taken if it encounters a major ESG problem as identified by its ESG Risk Factors. First, the CIO will assess the extent of the issue. Next, the investment staff will engage directly with the company's management for more information. And last, the CIO and investment staff will submit a report to the investment committee with findings and recommendations.

Shareholder engagement is a key part of CalSTRS sustainable investing approach. The pension fund files shareholder resolutions, sends letters to companies and participates in investor coalitions to amplify its work. Issue areas include diversity, executive compensation, and climate and other environmental risks. CalSTRS has filed hundreds of shareholder resolutions over the past 10 years.[31]

CalSTRS also uses its proxy voting to encourage companies to mitigate and disclose their ESG risks. Each year CalSTRS casts about 8,000 votes.[32]

In 2007, CalSTRS created a Green Initiative Task Force to help identify opportunity and manage risk regarding climate change issues. The initiative has since expanded its remit beyond carbon emissions to address other sustainability areas including water sourcing, land use and waste disposal. The initiative is an internal program with representatives across all asset classes.

Resources

CalSTRS website
Sustainable investment practices
Investment beliefs
Investment Policy and Management Plan and Investment Policy for Mitigating ESG Risks
Proxy voting guidelines

31. CalSTRS, *Corporate Governance Annual Report* (2017). Available at http://resources.calstrs.com/Publications/CG2017/document.pdf.
32. Ibid

APPENDIX 2: SAMPLE INVESTMENT POLICY STATEMENTS

Educational institutions

- Hampshire College: https://www.hampshire.edu/sites/default/files/shared_files/Hampshire_ESG_Policy.pdf
- Stanford University: https://stars.aashe.org/media/secure/293/6/568/4093/Stanford%20University%20Statement%20on%20Investment%20Responsibility.pdf
- For more, see http://www.intentionalendowments.org/investment_policy_statements

Faith based institutions

- Baptist Foundation of Oklahoma: https://www.bfok.org/investment-policy-0
- Unitarian Universalist Association: https://www.uua.org/uuagovernance/manual/limits/appendices/183775.shtml
- United Church Funds: http://ucfunds.org/wp-content/uploads/2011/08/UCF_Statement_of_Investment_Policy_appr.Oct2011_ver.2013Feb01.pdf

Private foundations

- FB Heron Foundation: http://www.heron.org/engage/publications/investment-policy-statement
- Rockefeller Brothers Fund: https://www.rbf.org/sites/default/files/rbf_investment-policy-statement_6-23-16.pdf

Public pension funds

- California State Teachers' Retirement System (CalSTRS): http://www.calstrs.com/sites/main/files/file-attachments/a_-_investment_policy_and_management_plan.pdf and https://www.calstrs.com/sites/main/files/file-attachments/calstrs_esg_policy.pdf
- Los Angeles Fire & Police Pension System: https://www.lafpp.com/sites/main/files/file-attachments/section-iii-board-investment-policies.pdf
- Vermont Pension Investment Committee: http://secure2.vermonttreasurer.gov/legacywebsite/www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireVPIC/policy/Investment%20Policy%20Statement%20APPROVED%2031Mar2015.pdf

APPENDIX 3: SAMPLE PROXY VOTING GUIDELINES OR STATEMENTS

Educational institutions

- Columbia University: https://finance.columbia.edu/content/sri-proxy-voting-guidelines
- Middlebury College: http://www.middlebury.edu/offices/administration/vpfin/finance-office/investments/proxy-voting-principles
- For more, see http://www.intentionalendowments.org/endowment_proxy_voting_policies_guidelines_activities

Faith based institutions

- Mercy Investment Services: http://www.mercyinvestmentservices.org/socially-responsible-investing/proxy-voting
- Portico Benefit Services: https://www.porticobenefits.org/-/media/Files/PDF/ProxyVotingPolicy.pdf?la=en
- The Episcopal Church: https://www.episcopalchurch.org/files/6-proxy_voting_policy_intro_for_web_final_070813_proofed.pdf

Private foundations

- Nathan Cummings Foundation: https://nathancummings.org/our-investments/#section-2
- Rockefeller Brothers Fund: http://www.rbf.org/sites/default/files/Proxy_Guidelines.pdf
- Swift Foundation: https://swiftfoundation.org/investments/

Public pension funds

- California Public Employees' Retirement System (CalPERS): https://www.calpers.ca.gov/page/investments/governance/proxy-voting
- California State Teachers' Retirement System (CalSTRS): https://www.calstrs.com/proxy-voting-0
- Chicago Teachers' Pension Fund: https://www.ctpf.org/sites/main/files/file-attachments/ctpf_proxy_policy_final_031716.pdf
- Florida State Board of Administration: https://www.sbafla.com/fsb/Portals/FSB/Content/CorporateGovernance/ProxyVoting/2017%20SBA%20Corporate%20Governance%20Voting%20Guidelines.pdf?ver=2017-05-25-120900-293
- New York State Common Retirement Fund: https://www.osc.state.ny.us/pension/proxyvotingguidelines.pdf

APPENDIX 4: PROXY VOTING AND INVESTOR ENGAGEMENT RESOURCES

Proxy Voting Resources

- As You Sow Proxy Preview
- Glass Lewis
- Institutional Shareholder Services (ISS)
- Interfaith Center on Corporate Responsibility (ICCR)
- Sustainable Investments Institute (Si2)

Investor Engagement Resources

- Ceres Investor Network on Climate Risk (INCR)
- Principles for Responsible Investment
- US SIF: The Forum for Sustainable and Responsible Investment

APPENDIX 5: IMPACT MEASUREMENT AND MANAGEMENT RESOURCES

The Five Dimensions of Impact, Impact Management Project

Global Impact Investing Rating System (GIIRS), B Lab

Having a Positive Impact Through Public Markets Investments: The Investor's Perspective, Impact Management Project and Neuberger Berman

The Impact of Sustainable and Responsible Investment, US SIF Foundation

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

Measuring the Sustainability Impact of 25 European ESG Funds, Impact-Cubed

Public Equities as Impact Investments, ClearBridge Investments

The State of Impact Measurement and Management Practice, Global Impact Investing Network

US SIF

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