# Incorporating Sustainable Investing Into Your Practice

## A Roadmap for Financial Advisors

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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 investing across all asset classes. US SIF's 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. US SIF members include 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.

## ACKNOWLEDGEMENTS

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**Special Thanks**

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Cameron J. Barsness, Kutscher Benner Barsness & Stevens, Inc.
Catherine Chen, RBC Wealth Management
Anthony Eames, Calvert Research and Management
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Publication Year: 2021

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# 1. INTRODUCTION

Financial intermediaries, such as financial advisors, registered investment advisors and institutional investment consultants, are often said to be the gateway to sustainable investing. Yet, according to a 2020 survey of US investment professionals conducted by Federated Hermes, an investment manager, 62 percent of financial advisors report being only somewhat knowledgeable about sustainable investing while 15 percent have only heard about it.[1]

The reverberations of the COVID-19 pandemic, urgent calls for racial justice and the growing effects of climate change have put environmental, social and corporate governance (ESG) issues at the top of many investors' agendas, leading to a continued increase in asset flows toward sustainable investment products.

Moreover, the myth that sustainable investing leads to below-market returns has been repeatedly proven wrong. There is now a growing body of evidence confirming that sustainable investment products achieve comparable or, at times, better financial returns than their conventional counterparts.[2] As a result, financial advisors have an enormous business opportunity if they can introduce clients to sustainable investing options and follow up when clients express interest.

Multiple surveys confirm this trend. The beforementioned Federated Hermes survey, for example, reports that nine out of ten advisors are being asked about ESG products by their clients.[3] Moreover, while overall performance history is clients' primary focus, 70 percent of advisors confirm that having responsible investment credentials is the second most important decision factor for clients. The interest in ESG products might not always be explicit, as Matt Belnap, a senior analyst at Cerulli, explains: "Based on our research, advisers generally underestimate the demand their clients have for ESG and should not interpret lack of proactive questions as a lack of client interest."[4]

This guide outlines the steps advisors can take to get started in offering sustainable investment services to clients as well as to deepen their sustainable investment practices. It is an update of the first edition of the report released in 2018 and includes insights from financial advisors and other industry professionals.

## How the guide is structured

The first section of this report, **The Basics of Sustainable Investing**, describes the key components of sustainable investment: ESG incorporation and investor engagement. It makes the business case for sustainable investing, based on a review of financial performance and risk reduction studies, recent guidance on fiduciary duty, and the growing demand for and awareness of sustainable investing among institutional and retail investors.

The next section, **Developing Your Sustainable Investing Practice**, covers activities that financial advisors can undertake to develop or deepen their sustainable investment practice.

**Appendices** include additional resources to learn about sustainable investing, sample investment policy statements and resources on impact measurement and management.

1. Federated Hermes, *The 2020 Federated Hermes ESG Investing Survey* (2020). Accessed August 15, 2021. Available at https://info.federatedinvestors.com/Responsible-Investing-Survey-2020.html.
2. See summaries of some performance studies here: https://www.ussif.org/performance.
3. Federated Hermes, *The 2020 Federated Hermes ESG Investing Survey* (2020).
4. "Advisers are missing the boat on ESG: Cerulli," *InvestmentNews,* April 12, 2021, https://www.investmentnews.com/advisers-are-missing-the-boat-on-esg-cerulli-205087.

# 2. 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 of sustainable investing consider.

The practice of sustainable investing is growing in the United States. From 2018 to 2020, professionally managed assets engaged in sustainable investment strategies in the United States grew from $12.0 trillion to $17.1 trillion, according to US SIF Foundation's 2020 *Trends* report.[5] This means that approximately one-third of all investment assets under professional management in the US—$17.1 trillion out of $51.4 trillion—are held by institutions, investment companies or money managers that either consider ESG issues in selecting investments across a range of asset classes or file shareholder resolutions on ESG issues at publicly traded companies. Figure 2 depicts the growth of sustainable investing since 1995.

FIGURE 1: EXAMPLES OF ESG CRITERIA USED BY SUSTAINABLE INVESTORS


**Source:** US SIF Foundation

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

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

### ESG incorporation

ESG incorporation refers to 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:** Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers.
- **Negative/exclusionary screening:** The exclusion from a fund or plan of certain sectors or companies based on specific ESG criteria.
- **ESG integration:** The systematic and explicit inclusion of ESG factors into financial analysis by investment managers.
- **Impact investing:** Targeted investments, often in private markets, aimed at solving social or environmental problems.[6]
- **Sustainability themed investing:** The selection of assets specifically related to sustainability in single or multi-themed funds.

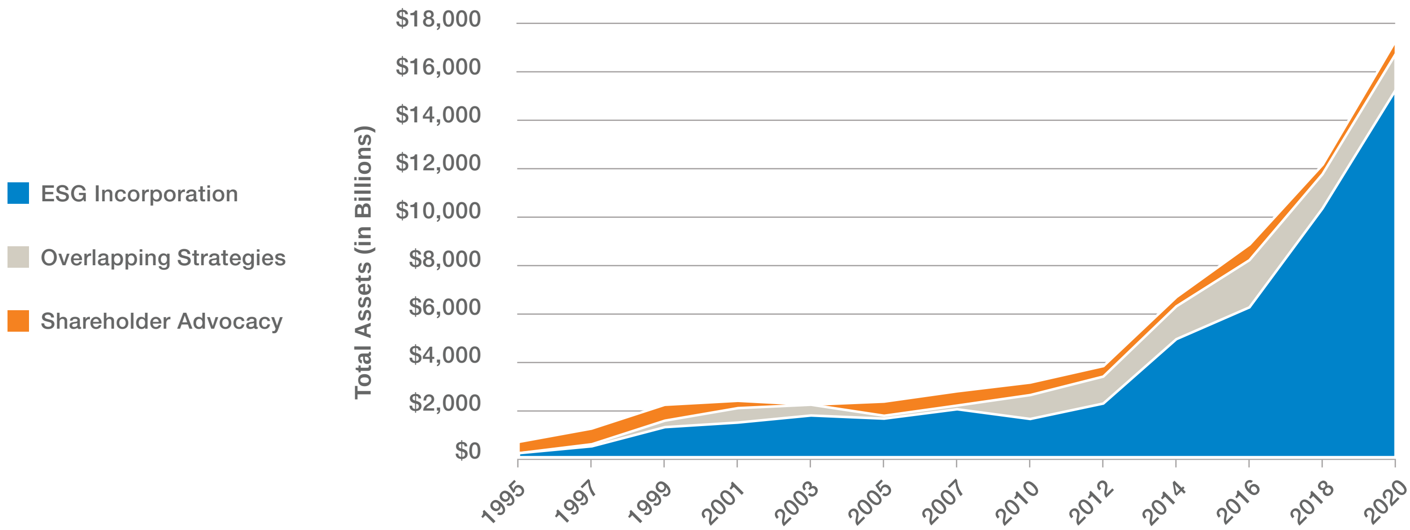
### Investor engagement

Investor engagement consists of the actions sustainable investors take to present their concerns to a company. Investors can engage by:

- **Communicating directly** with issuers through letters, meetings or investor networks and asking questions

5. US SIF Foundation, *Report on US Sustainable and Impact Investing Trends 2020* (2020). Available at https://www.ussif.org/trends.
6. However, "impact investing" can be applied across all asset classes.

## FIGURE 2: SUSTAINABLE INVESTING GROWTH IN THE UNITED STATES (BILLIONS) 1995–2020




**Source:** US SIF Foundation

regarding companies' ESG policies, issues that could pose a risk to the business, information disclosures or company practices.

- **Filing or co-filing shareholder resolutions** on ESG issues, as the shareholders of publicly traded companies.

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

# The case for sustainable investing

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

## Financial performance and risk reduction

A growing body of evidence indicates that sustainable investments achieve comparable or better financial returns than conventional investments.

In its study *Sustainable Funds Outperform Peers during 2020 Coronavirus* published earlier this year, Morgan Stanley's Institute for Sustainable Investing found that, in a year of extreme volatility and economic recession, funds that focused on "environmental, social and governance (ESG) factors, across both stocks and bonds, weathered the year better than non-ESG portfolios."[7] The research analyzed more than 3,000 US mutual funds and ETFs, finding that sustainable equity funds outperformed non-ESG peers by a median total return of 4.3 percent in 2020. Meanwhile, over the same period, sustainable taxable bond funds outperformed their peers by a median total return of 0.9 percent. In 2019, both sustainable equity funds and sustainable taxable bond funds also outperformed their non-sustainable peers.

Looking at data for 2004 to 2018, the Institute also found that "in any given year … sustainable funds' median total returns were in line with that of traditional counterparts and provided more downside risk protection, especially during periods of increased market volatility."

In 2020, the NYU Stern Center for Sustainable Business and Rockefeller Asset Management released *ESG and Financial Performance: Uncovering the Relationship by Aggregating 1,000 Plus Studies Published between 2015-2020*. The authors conducted a meta-analysis of meta-studies,

7. Sustainable Funds Outperform Peers in 2020 During Coronavirus," *The Morgan Stanley Institute for Sustainable Investing*, February 24, 2021, https://www.morganstanley.com/ideas/esg-funds-outperform-peers-coronavirus.

analyzing articles on both corporate financial performance and investment performance, and concluded that most studies found a positive correlation between ESG and financial performance. Regarding investment performance, the report found that for "studies typically focused on risk-adjusted attributes such as alpha or the Sharpe ratio on a portfolio of stocks, 59 percent showed similar or better performance relative to conventional investment approaches while only 14 percent found negative results."[8] It also concluded that "ESG investing appears to provide downside protection, especially during social or economic crises."

Nuveen TIAA Investments also found "no statistical difference in returns compared to broad market benchmarks, suggesting the absence of any systematic performance penalty," after assessing the leading sustainable equity indexes over the long term for its 2018 *Responsible Investing: Delivering Competitive Performance* report. Moreover, "incorporating environmental, social and governance (ESG) criteria in security selection did not entail additional risk."[9] The report also noted that sustainable indexes had similar risk profiles to their broad market counterparts, based on Sharpe ratios and standard deviation measures.

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.

There also does not appear to be a "fee penalty" for sustainable funds. In 2020, Morningstar compared funds—sustainable and conventional alike—with their peers by asset class and style and found that "median ESG fund expense ratios are lower or match broad fund medians in 11 out of the 12 fee groups."[10] Morningstar added that the "biggest overall fee advantage for ESG funds came among world-stock funds, intermediate-term bond funds, and foreign large-cap funds. Only small-cap ESG funds posted higher median fees."

## Fiduciary duty

Numerous studies have shown that incorporating ESG criteria into investment analysis is consistent with fiduciary responsibilities.

In 2015, the Principles for Responsible Investment (PRI), United Nations Environment Programme Finance Initiative (UNEP FI) and the United Nations Global Compact 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."[11]

The PRI and UNEP FI updated the report in 2020. The report identified three reasons why ESG incorporation in investment analysis and decision-making processes is consistent with fiduciary duty – ESG incorporation is the investment norm and ESG issues are financially material. Additionally, policy and regulatory frameworks are starting to require ESG incorporation.[12]

While guidance and rules in relation to Employment Retirement Income Security Act (ERISA) governed pension plans in the United States have varied over the past several years, the Department of Labor is set to reverse rules issued under President Trump that created barriers to including ESG considerations in funds offered by ERISA governed plans.

## Increased demand and awareness

Sustainable investing has grown rapidly in recent years, with assets under professional management in the United States expanding 42 percent between 2018 and 2020, and by more than 25-fold since 1995. Most of this activity has been among institutional investors, but new studies are demonstrating interest from retail investors.

For example, a 2019 study by the Morgan Stanley Institute for Sustainable Investing found high levels of interest

8. New York University Stern Center for Sustainable Business, *ESG and Financial Performance: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015 – 2020* (2020). Available at https://www.stern.nyu.edu/sites/default/files/assets/documents/NYU-RAM_ESG-Paper_2021%20Rev_0.pdf.
9. Nuveen, *Responsible Investing: Delivering Competitive Performance* (2018). Available at https://www.tiaa.org/public/pdf/delivering_competitive_performance.pdf.
10. "Where to Find Low-Cost ESG Funds," *Morningstar*, June 6, 2020, https://www.morningstar.com/articles/987495/where-to-find-low-cost-esg-funds.
11. 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.
12. Principles for Responsible Investment and United Nations Environment Programme Finance Initiative, *Fiduciary Duty in the 21st Century* (2020), 8. Available at https://www.unpri.org/download?ac=11972.

in sustainable investing among individual investors. It reported that:

- 85 percent of all respondents—and 95 percent of millennials—were interested in sustainable investing.
- 86 percent believed that companies with leading sustainability practices may be better long-term investments.
- 84 percent were interested in sustainable investments that can be customized to meet their interests and goals.

Similarly, a 2019 survey by Natixis Global Asset Management of participants in 401k and other defined contribution plans found:

- 75 percent said it was important to make the world a better place while growing their wealth.
- 60 percent would like to see more socially responsible investments in their retirement plan offerings.

# 3. DEVELOPING YOUR SUSTAINABLE INVESTING PRACTICE

This section covers six steps for financial advisors to begin or add to their sustainable investment practice.

- Step 1: Add relevant products at your firm
- Step 2: Discuss sustainable investing with your clients
- Step 3: Create or update the client's Investment Policy Statement (IPS)
- Step 4: Identify asset allocation and investment options
- Step 5: Measure and manage impact
- Step 6: Communicate your sustainable investment expertise to clients

For additional resources to learn more about sustainable investing, including courses and research, see Appendix 1.

## Step 1: Add relevant products at your firm

First, indicate to your firm that you are interested in offering sustainable investment options to your clients. Let your colleagues know the particular ESG issues or areas of impact in which your clients have already expressed interest and ask if your firm offers products that address these interests.

If your firm does not offer relevant products, you may need to make the case for their inclusion. Your talking points can include the increasing demand for sustainable investing, the deeper client relationships it can facilitate, the data on financial performance and risk reduction, the portfolio diversification possibilities, and current guidance on ESG analysis and fiduciary duty. Use stories and quantitative data to share the successes of your competitors in this space. Keep important information, such as industry trends, studies and developments, in front of decision makers. Additionally, let your management know when you lose business as a result of not having the products and services your client or prospect desired.[13]

Identify product options suitable for your clients. See step 4 for a short list. Learn about the typical process for bringing in new investment products at your firm. This will clarify the parameters for how to make requests. At the same time, make sure you understand your firm's internal hurdles and frame your requests in a way that reflects those realities.

## Step 2: Discuss sustainable investing with your clients

Many advisors have found it helpful to develop an ESG questionnaire to help them understand client motivation around sustainable investing.[14] You could also suggest that they take the US SIF Foundation's free 30-minute online sustainable investing course to learn more.[15]

Typically, investors are motivated by a combination of values, impact and performance. Value or impact investors, while desiring competitive financial returns over time, also want to ensure that their investments will have a positive social and environmental impact. These investors often include foundations, family offices and religious institutions. They may want impact stories or anecdotes about their investments or ask for more detailed impact reports. For more information, see step 5.

Investors focused on performance or risk reduction tend to consider ESG criteria in investment analysis and shareholder engagement primarily to manage risk, and to identify investments and companies that will provide superior financial performance over time. These clients may be interested in seeing studies on financial performance and risk reduction, some of which are summarized in the introduction.

To manage your client's expectations, be clear about the services and types of products you can offer. Assess your client's investment objectives, timelines and financial risk tolerance as you would with a traditional investment strategy.

13. Information on steps for adding ESG products sourced from interview with Kathy Leonard (now retired), Senior Vice President—Investments, Senior Portfolio Manager, Wealth Advisor, UBS. February 5, 2018.
14. See sample ESG questionnaire here: https://www.ussif.org/files/Sample%20ESG%20Questionnaire.pdf.
15. See: *Sustainable Investing: An Introductory Course for Individual Investors*

## Tips for Advisors with Plan Sponsor Clients

Plan sponsor clients offering a defined contribution retirement plan may be interested in adding one or multiple sustainable investment options to their plan lineup.[16]

Research the existing plan administrator platform to see if sustainable investment options are already offered. If your client is considering a new plan administrator, help identify potential administrators with sustainable investment expertise and options.

Asking the following questions of your client can allow you to narrow the list of fund candidates and help lead you towards a decision:

1. Do the plan participants have specific values or beliefs that will affect the choice of fund?
2. In the case of equity funds, do the plan sponsor or plan participants prefer products that have an ESG shareholder engagement policy in place—e.g. on proactive proxy voting, shareholder resolutions, or communications with portfolio companies?

Gauge possible investment strategies to address the ESG areas that are important to your client. As discussed in the "Basics" section, ESG incorporation strategies include positive/best-in-class, negative/exclusionary screening, ESG integration, impact investing and sustainability-themed investing. Community investing, which explicitly seeks to finance projects or institutions that will serve poor and underserved communities in the United States and overseas, may also be of interest to your clients.

Your client may wish to be involved in filing or co-filing shareholder resolutions. Basic instructions on filing shareholder resolutions are offered by US SIF, As You Sow, Ceres, and the Interfaith Center on Corporate Responsibility.

## Step 3: Create or update the Investment Policy Statement (IPS)

An Investment Policy Statement (IPS) is an agreement between an advisor and client outlining how the client's assets will be managed. It generally includes the client's goals and objectives and information on asset allocation, risk tolerance and liquidity, but can vary in form and length. The IPS should be reviewed annually and updated as necessary.

The IPS:

- Explains the motivations for sustainable investing,
- Defines your fundamental fiduciary obligations and the relationship to addressing ESG issues in investments,
- Clarifies your preferred terms, such as "sustainable investing" or "responsible investing" and your definitions,
- Describes your desired ESG objectives and impacts, and what success will look like,
- Illustrates how you will evaluate current holdings and identify new investment opportunities over time,
- Includes the scope of sustainable investing, such as the specific asset classes, investment approaches and regions to which it applies,
- Identifies the process and tools for selecting, organizing, evaluating and reporting on specific impact metrics for each asset class, and
- Provides a framework for monitoring and evaluating the performance of a portfolio that is aiming for both competitive financial returns and positive ESG impact.[17]

It will be helpful to review other Investment Policy Statements that address sustainable investing. Some examples are listed in Appendix 2.

16. For more information, see: US SIF Foundation, *Adding Sustainable Funds to Defined Contribution Plans: A Resource Guide for Plan Sponsors* (2021). Available at https://www.ussif.org/files/Publications/Plan%20Sponsor%20Guide%202021%20FINAL.pdf.
17. 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/download?ac=1605.

## Step 4: Identify asset allocation and investment options

In the Investment Policy Statement, you and your client will have identified whether sustainable investing is to be applied in one asset class or several. When the risk, return and impact profile is altered in one asset class, consider the investment options or adjustments that should be made in other asset classes to achieve the overall objectives of the portfolio. You should work with your firm's asset managers to ensure that your clients' portfolios appropriately reflect their financial goals and objectives as well as ESG criteria.

The US SIF Foundation identified more than 1,700 ESG investment funds and 1,204 community investing institutions in 2020 that were domiciled in the United States, up from approximately 1,000 each in 2018. Numerous money managers offer separate account strategies that assess ESG criteria. There are sustainable investment options across all asset classes.

Following is an overview of some investment options and resources to help identify ESG products across asset classes. You may need to check if specific products are on your platform, and, if they are not, consider adding them. See step 1.

### Public equity options

Sustainable investing equity funds are available in a range of risk and return characteristics.

ESG strategies are available in separate accounts, mutual funds, ETFs and other commingled funds. US SIF's website lists member mutual funds and ETFs that employ ESG criteria. A similar page offers information on separate accounts.

In addition, ESG ratings are available for thousands of mutual funds and ETFs. These ratings measure the ESG performance of funds. Ratings are offered by Bloomberg, Institutional Shareholder Services, Morningstar, MSCI and others. Many of the services require a fee or subscription, but some are free including Morningstar's list of ESG funds with sustainability ratings. The methodology of each provider is different, and consequently the ratings can diverge. You should explore which type or types of ratings might be most useful to your clients' needs and interests.

### Fixed income options

US SIF's website includes a list of mutual funds and separate accounts comprised of bonds that represent various diversification and risk levels.

Examples of such bonds include:

- School bonds receiving state enhancements support
- World Bank and other green bonds
- Taxable municipal bonds
- Agency bonds supporting affordable housing, non-profits and small business loans
- Corporate bonds that pass ESG criteria

ESG integration 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, as they do in analyzing equities. For sovereign bonds, they will look at country ESG risk. Your client may also have ESG criteria and preferences regarding whether to include or exclude US Treasuries.

### Alternative investments

Most of the alternative ESG funds and growth have been within venture capital and private equity funds. In 2020, these funds added up to $438 billion. Property funds accounted for $242 billion, and hedge funds are still in a nascent phase with $35 billion.[18]

One resource to help identify alternative investments geared towards advancing sustainability is ImpactAssets 50. This is 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 are private debt and equity fund managers.

### Community and place-based investments

Community investments across a range of impact sectors can be made via traditional asset classes as well as alternative investments. Many community investment products may not be available on your platform because of

18. US SIF Foundation, *Report on US Sustainable and Impact Investing Trends* 2020 (2020), 32. Available at https://www.ussif.org/trends.

their small size, but your clients may be willing to invest in some of these funds or institutions on their own.

Their themes and impact areas include:

- Affordable housing
- Small businesses within underserved neighborhoods
- Community services such as childcare, education, healthcare 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. To find a community development credit union or bank visit:

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

For fixed income funds, 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 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.

Impact notes are an additional fixed income investment option. Impact notes are debt-finance instruments that use the proceeds from their issuances in projects, funds or intermediaries for underserved communities across the United States and around the world. Examples of target sectors include affordable housing, microfinance lending, improving access to healthcare and job training. Impact notes often have low minimum investments and availability through brokerage accounts, making them accessible for a range of investors. Impact notes are offered by Calvert Impact Capital, Capital Impact Partners and the Local Initiatives Support Council (LISC), among others.

More background on community investing can be found on US SIF's website.

## Step 5: Measure and manage impact

Increasingly, investors are interested in better understanding the impact of their investments. Some clients may desire narrative explanations, others may require quantitative impact measurements.

Impact measurement standards and capabilities vary across asset classes, making the availability of impact data uneven. However, this data gap is likely to narrow over time, in line with the growing number of impact data providers.

Important steps for measuring the impact of an investment include establishing impact targets, determining relevant metrics, collecting and assessing the data, and reporting on results. Each client will have different values and goals, and preferences may change over the timeframe of an investment.

Check with your firm about compliance issues related to impact measurement and reporting and determine your ability to offer this service. If offered, your system assessing the impact of your client's portfolio should be included in the IPS.

Instead of developing your own impact assessment system, you can also ask your investment managers if they can evaluate the impact of their investments. You can contact your mutual fund or separate account managers to assess their ability to provide impact reports. Similarly, you

FIGURE 3: THE FIVE DIMENSIONS OF IMPACT

| Impact Dimension | Impact questions each dimension seeks to answer |
|---|---|
| What | • What outcome is occuring in the period?<br>• Is the outcome positive or negative?<br>• How important is the outcome to the people (or planet) experiencing them? |
| Who | • Who experiences the outcome?<br>• How underserved are the affected stakeholders in relation to the outcome? |
| How Much | • How much of the outcome is occuring—across scale, depth and duration? |
| Contribution | • Would this change likely have happened anyway? |
| Risk | • What is the risk to people and planet that impact does not occur as expected? |

Source: The Impact Management Project

can work with specialized advisory firms that offer impact measurement services for sustainable investors.

## Impact measurement frameworks

A 2020 Global Impact Investing Network report, *The State of Impact Measurement and Management Practice, Second Edition*, provides detailed analysis on motivations for measuring and managing impact and reviews several tools for impact measurement. The top tools and frameworks used by survey respondents are the UN Sustainable Development Goals and IRIS Catalogue of Metrics (part of the IRIS+ system).[19]

An example of an impact measurement framework used predominantly in private markets is the Impact Management Project, a multi-stakeholder initiative established in 2016. It utilizes a set of five questions (see Figure 3) and provides the ability to communicate on impact to a diverse group of stakeholders.

## Stakeholder engagement

For decades, sustainable investors have engaged with public companies in order to improve their policies and practices on a broad range of ESG issues.[20] With the United States representing approximately $40 trillion in the primary stock exchanges,[21] the impact potential of company engagements should not be overlooked.

Positive impact in public equities as a result of investor engagement can be assessed in several ways, including

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

For more on impact measurement, see the list of resources in Appendix 3.

19. Global Impact Investing Network, *The State of Impact Measurement and Management Practice, Second Edition* (2020), 37. Available at https://thegiin.org/assets/GIIN_State%20of%20Impact%20Measurement%20and%20Management%20Practice_Second%20Edition.pdf.
20. 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.
21. "NYSE: What is the New York Stock Exchange?" *Forbes*, April 9, 2021, https://www.forbes.com/advisor/investing/nyse-new-york-stock-exchange/.

## Step 6: Communicate your sustainable investment expertise to clients

Share your sustainable investment expertise with existing and potential clients. To generate new business, ask your clients to refer you to others with an interest in sustainable investment. Mention your expertise in external communications, including your website and presentations. Identify and use media and social networks focused on sustainable investing. In addition, consider attending, exhibiting and speaking at sustainable investing events.

Messages about the benefits of sustainable investing can help you connect with potential clients. Examples of such messages include:

- One in three dollars in the United States is invested using ESG strategies leading to an increasing number of products and services.
- Multiple studies indicate that sustainable investment products achieve comparable or better financial returns than conventional ones.
- ESG analysis can assist in uncovering both additional investment opportunities and risks.
- Through community investing, clients can invest in products that help underserved areas, in the United States and abroad.
- Clients can invest in companies tackling climate change, addressing racial and gender inequality and contributing to a more just society.

# APPENDIX 1: ADDITIONAL RESOURCES TO LEARN ABOUT SUSTAINABLE INVESTING

## Education and Training

Fundamentals of Sustainable and Impact Investment: Offered by the US SIF Foundation, this is an introductory resource for investment advisors, financial planners and other financial professionals who want to learn the basics of sustainable and impact investment and incorporate it into investment portfolios and client conversations. It covers the integration of ESG data into security analysis, the latest trends and research, and communicating your expertise in sustainable and impact investment. The course can be taken online, virtually or in-person.

Chartered SRI Counselor (CSRIC)™: In partnership with the College for Financial Planning, US SIF offers the only professional services designation for sustainable investing in the United States, the Chartered SRI Counselor™ (CSRIC™). A graduate-level program, the CSRIC™ course provides financial advisors and investment professionals with the history, definitions and latest trends in sustainable investing. It also covers portfolio construction principles, fiduciary responsibilities and best practices in the industry.

## Research and Content

US SIF Foundation: Find a broad range of publications and research, as well as resources on specific issues including racial justice and climate-friendly investing.

US SIF's Research by our Members: Over 100 research reports by US SIF members are listed on this webpage. Topics range from community investment and gender lens investing to agriculture, climate risk and corporate governance issues.

# 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://stanford.app.box.com/v/stmt-investment-responsibility
- Yale University: https://investments.yale.edu/social-responsibility

## Faith based institutions

- Metropolitan New York Synod of the Evangelical Lutheran Church of America: https://www.mnys.org/assets/1/6/mnys_investment_policy_statement_(feb_2016)1.pdf
- Unitarian Universalist Association: https://www.uua.org/uuagovernance/manual/limits/appendices/183775.shtml
- United Church Funds: https://ucfunds.org/wp-content/uploads/2019/09/UCF-Statement-of-Investment-Policy_FINAL2017.pdf

## Private foundations

- Jessie Smith Noyes Foundation: https://noyes.org/wp-content/uploads/2018/10/Noyes-IPS.pdf
- Park Foundation: https://parkfoundation.org/wp-content/uploads/2017/04/Park-Foundation-Revised-ESG-Policy-Statement-Approved-March-2017.pdf
- Rockefeller Brothers Fund: https://www.rbf.org/sites/default/files/rbf_investment-policy-statement_6-17-20_tree-graphic.pdf
- Swift Foundation: https://swiftfoundation.org/investments/

## Public pension funds

- California Public Employees' Retirement System (CalPERS): https://www.calpers.ca.gov/docs/total-fund-investment-policy.pdf
- California State Teachers' Retirement System (CalSTRS): http://www.calstrs.com/sites/main/files/file-attachments/a_-_investment_policy_and_management_plan.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/pension-funds/investment-guidelines.html

# APPENDIX 3: RESOURCES ON IMPACT MEASUREMENT AND MANAGEMENT

## Frameworks

- Impact Management Project
- Operating Principles for Impact Management, International Finance Corporation (IFC)

## Indicator Catalogues

- Global Impact Investing Rating System (GIIRS), B Lab
- IRIS+, Global Impact Investing Network (GIIN)

## Research

- A Case for Impact Investing in Public Equities, Sustainalytics
- Impact Due Diligence: Emerging Best Practices, Pacific Community Ventures
- Public Equities as Impact Investments, ClearBridge Investments
- Standardization in Impact Management, Impact Management Project
- The State of Impact Measurement and Management Practice, Second Edition, Global Impact Investing Network

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