US|SIF

The Forum for Sustainable and Responsible Investment

A brief overview of sustainable investing

US SIF and the US SIF Foundation

- US SIF: The Forum for Sustainable and Responsible Investment is the leading voice advancing sustainable, responsible and impact investing across all asset classes.

- The US SIF Foundation is a 501c3 organization that carries out educational, research and programmatic activities to support the public education mission of US SIF: The Forum for Sustainable and Responsible Investment.

- US SIF’s 300+ members collectively represent more than $3 trillion in assets under management or advisement and include asset managers (SMAs/mutual funds/ETFs); foundations and other asset owners; research, data and index providers; financial planners, advisors and investment consultants; community development institutions and non-profit organizations.

US SIF and the US SIF Foundation

US SIF's strategies include:

- Research: Expanding awareness of sustainable, responsible and impact investing by undertaking and publicizing cutting edge research.
- Education and Training: Providing tools for financial professionals to enhance their sustainable investment expertise through an online and live course, online resource guides and factsheets and webinars, and now a professional designation (CSRIC) through our partnership with the College for Financial Planning.
- Public Policy: Advancing public policy initiatives through outreach to legislators and regulators, through engaging members and through working with other stakeholders.
- Convenings and Networking: Providing opportunities for US SIF members to engage with one another at local events, the US SIF national conference and through listservs and US SIF committees.
- Media Engagement: Increasing public awareness of and demand for sustainable and impact investing through active engagement with the media, traditional and social.

What is sustainable investing?

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

- Other terms: responsible investing, socially responsible investing, impact investing.

Source: US SIF Foundation

US SIF FOUNDATION

THE CENTER FOR SUSTAINABLE INVESTMENT EDUCATION

What is Sustainable, Responsible and Impact Investing (SRI)?

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

Traditionally, responsible investors have focused on one or both strategies below:

- **ESG incorporation**, consideration of environmental, social and corporate governance (ESG) criteria in investment analysis and portfolio construction across asset classes.
- **Active Ownership** for those with shares in publicly traded companies, including **voting proxies** and filing **shareholder resolutions** and practicing other forms of shareowner engagement.

Common ESG Issues

Environmental

- Climate, energy efficiency and renewable/alternative energy, pollution and waste management, sustainable agriculture, and water and other resource scarcity.

Social

- Worker health and workplace safety, labor relations, workplace benefits, diversity, community relations, and human rights.

Corporate Governance

- Corporate political contributions, executive compensation, board diversity, board independence, and transparency and disclosure.

What are SRI Motivations?

- There are multiple motivations for sustainable, responsible and impact investing, including **personal values and goals, institutional mission,** and the **demands of clients, constituents or plan participants.**
- Sustainable investors aim for **strong financial performance,** and may desire to advance good **environmental, social and governance (ESG) practices.**
- Some investors embrace SRI strategies to **manage risk**. They review ESG criteria to assess the quality of management and the likely resilience of their portfolio companies in dealing with future challenges.
- Some are seeking financial outperformance over the long term; a growing body of academic research shows a **strong link between ESG considerations and financial performance**.

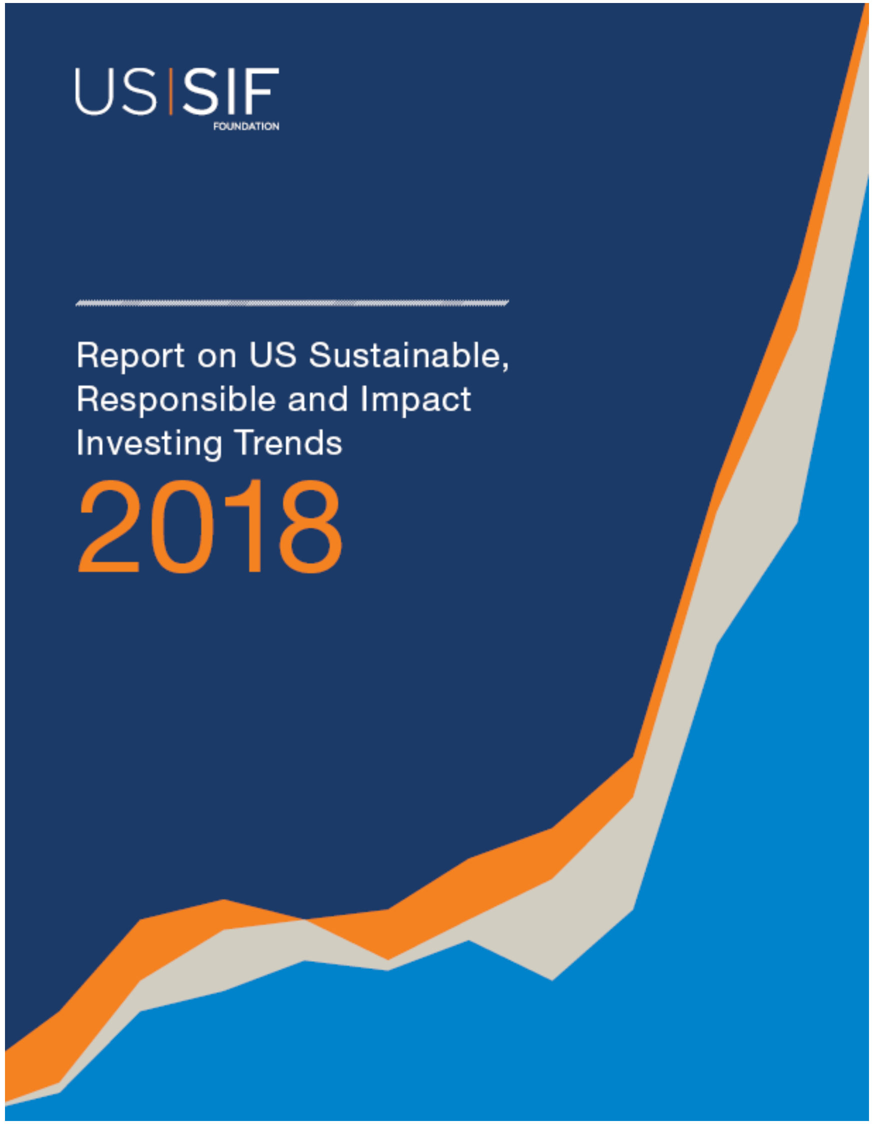
ESG Analysis of Risk

Increasingly, ESG research is being used to help investors assess and minimize the exposure to specific ESG risks at the company or portfolio level.

Examples of risk include:

- Operations in areas of significant conflict or resource constraints.
- Systematic supply chain issues such as child or forced labor, or unsafe working conditions among subcontractors.
- Poor management of human capital, such as a pattern of health and safety violations or discrimination lawsuits.
- Increased legislative or regulatory requirements.

The Biennial US SIF Trends Report



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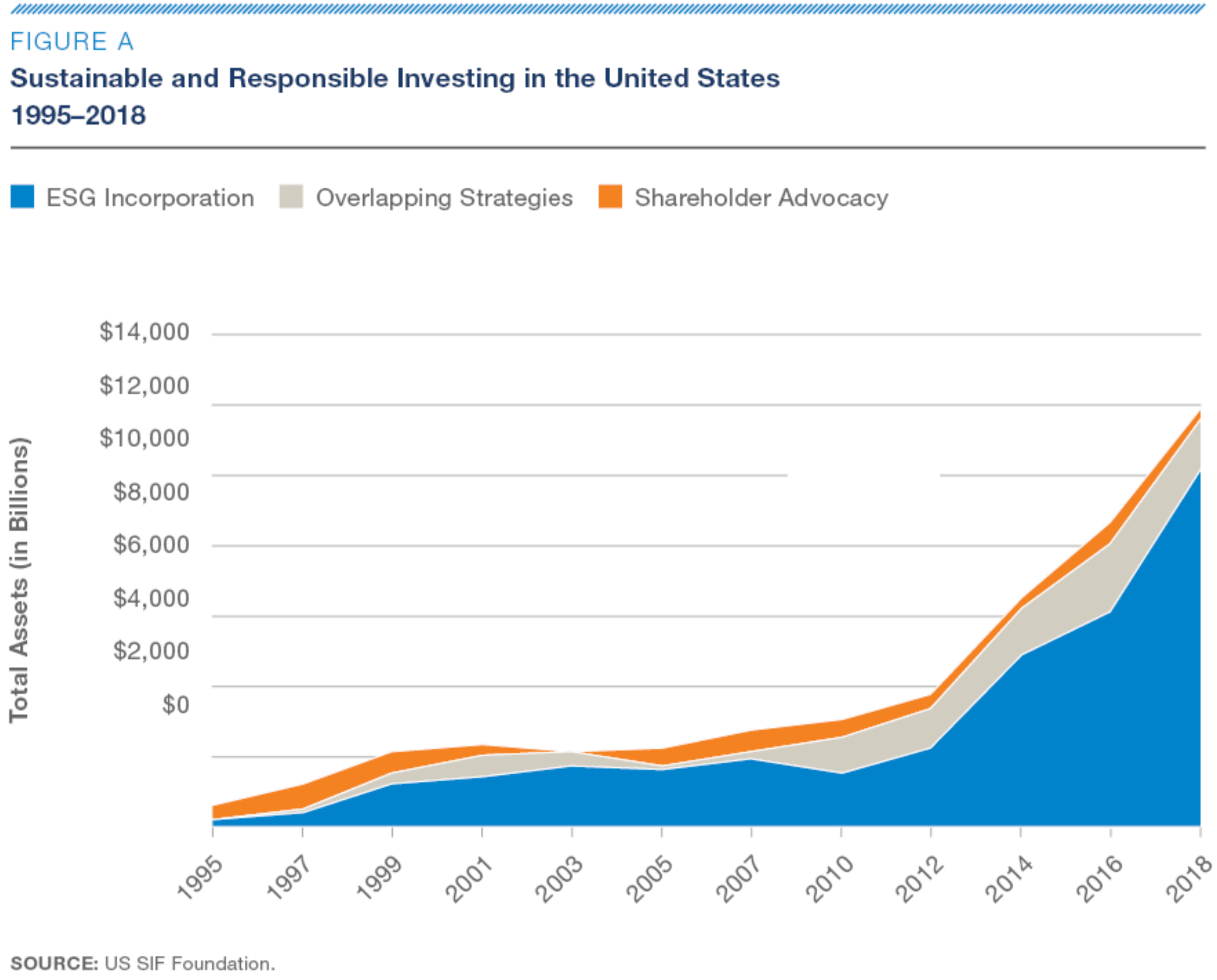
US SIF Foundation Trends Report 2018



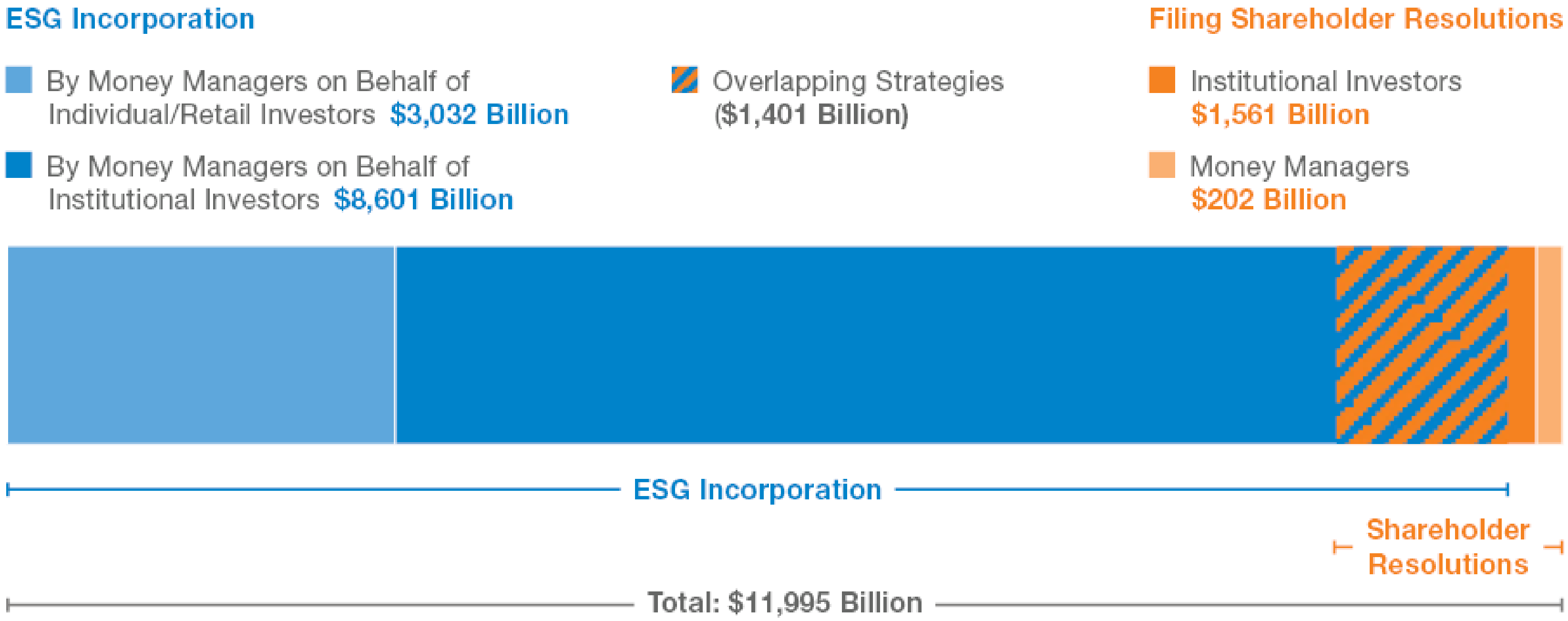
Sustainable, responsible and impact (SRI) investing in the United States continues to expand at a healthy pace. The total US-domiciled assets under management using SRI strategies grew from $8.7 trillion at the start of 2016 to $12.0 trillion at the start of 2018, an increase of 38 percent. This represents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

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

US SIF Foundation Trends Report 2018

FIGURE B

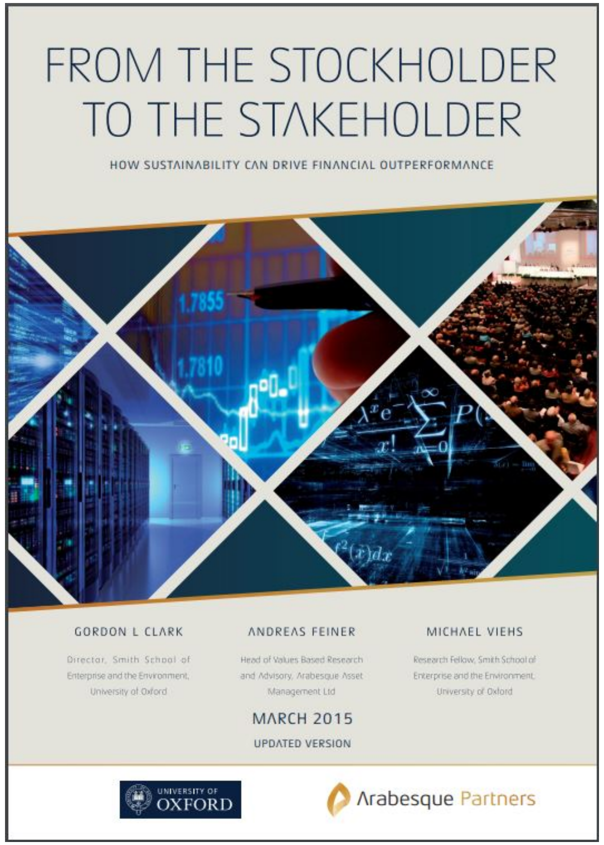
Sustainable and Responsible Investing Assets 2018



SOURCE: US SIF Foundation.

SRI Performance Studies & Meta-Studies

From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance is a 2015 meta-study conducted by Oxford University and Arabesque Partners, which 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*."

SRI Performance Studies & Meta-Studies

In 2017, Nuveen TIAA Investments released Responsible Investing: Delivering Competitive Performance.

After assessing the leading SRI 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 (ESG) criteria in security selection did not entail additional risk.”

It added that SRI indexes had similar risk profiles to their broad market counterparts, based on Sharpe ratios and standard deviation measures.

nuveen

TIAA INVESTMENTS

July 2017

Responsible Investing:

Delivering competitive performance

Amy O'Brien
Head of Responsible Investment

Lei Liao, CFA

Jim Campagna, CFA
Quantitative Portfolio Managers
Social Choice Equity Strategy

GROWING INTEREST IN RI, BUT PERFORMANCE QUESTIONS PERSIST

Interest in Responsible Investing (RI) is increasing rapidly. From 2012 to 2016, RI assets in the U.S. more than doubled to $8.72 trillion,[1] according to the Forum for Sustainable and Responsible Investment (US SIF Foundation). This represents more than 20% of assets under professional investment management in the U.S. as tracked by Cerulli Associates.

RI strategies apply various environmental, social and governance (ESG) criteria in selecting public companies for inclusion in a portfolio. The process of incorporating nonfinancial criteria restricts the range of investment opportunities, potentially limiting returns. On the other hand, companies that wisely manage ESG risks and opportunities may also improve financial measures, potentially enhancing stock performance.

The key question for investors: Does investing in an RI strategy require sacrificing performance or taking on additional risk, compared to a broad market index?

EXECUTIVE SUMMARY

- Growing interest in Responsible Investing (RI)—also known as Socially Responsible Investing (SRI)—raises an important question: Does pursuing social goals—limiting the range of potential investment opportunities—require sacrificing performance?
- A TIAA analysis of leading RI equity indexes over the long term 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 (ESG) criteria in security selection did not entail additional risk. RI indexes and their broad market counterparts had similar risk profiles, based on Sharpe ratios and standard deviation measures.
- Although return patterns were similar over the long term, there were significant return and tracking error differences between RI indexes and broad market benchmarks over shorter periods. By narrowing the range of eligible investments, the RI process introduced biases that caused short-term index performance to deviate from broad market benchmarks, resulting in tracking error.
- RI index construction methodology is an important determinant of tracking error. Investors should consider specific ESG methodology and the relevant market benchmark when selecting an RI strategy.

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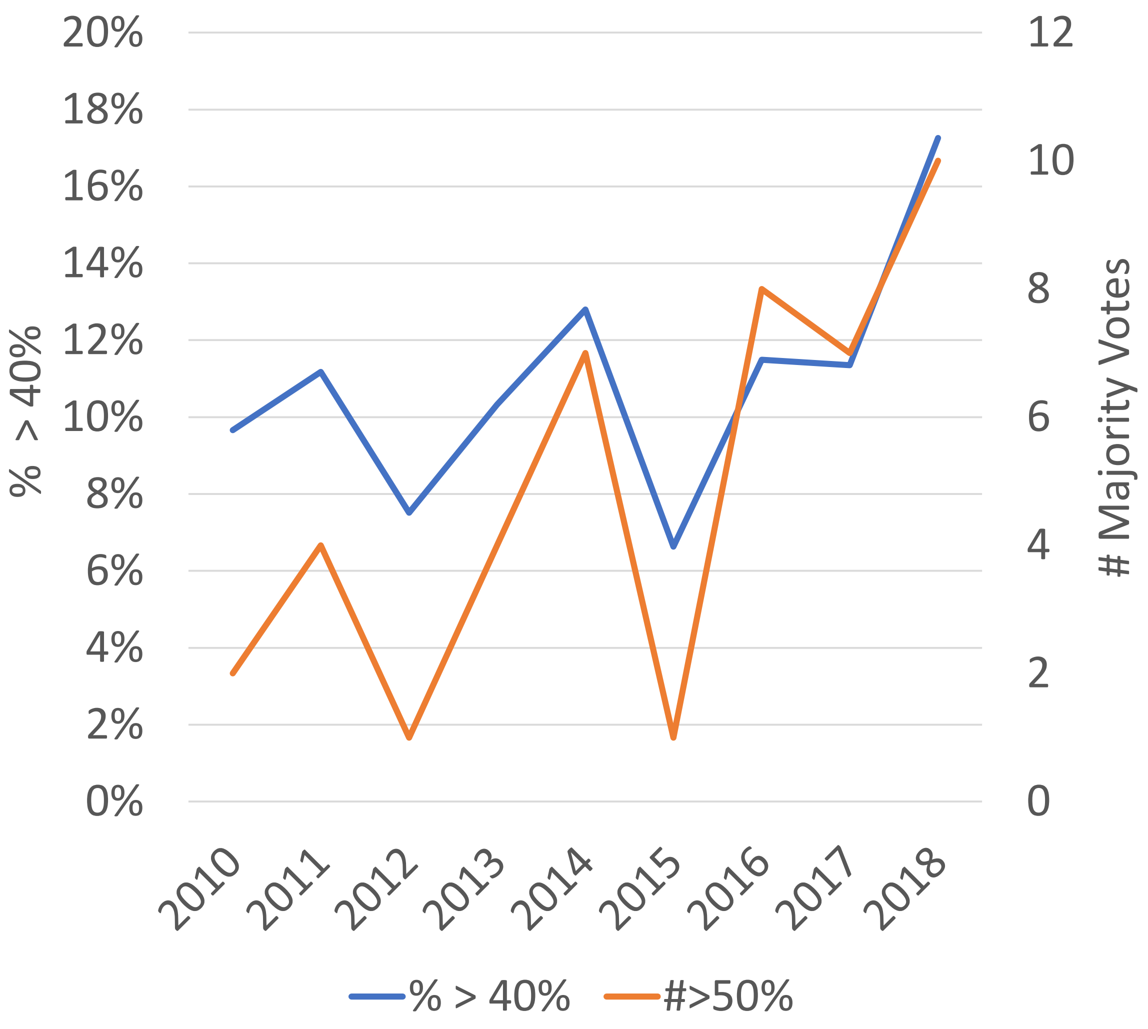
Active Shareowner Strategies

- Investors are reaching out to engage companies regarding policy and behavior on specific ESG issues by:
    - Conducting Letter-writing and E-mail Campaigns
    - Engaging in Dialogue with Management and/or Boards of Companies
    - Sponsoring Shareholder Resolutions
    - Voting Proxies
- Occasionally, the company management will respond to the issue raised and the resolution is then withdrawn.
- Dialogue can continue for years!

How Often Do Proposals Succeed?

- Resolutions have a significant impact on company policies and practices since they often stimulate negotiations that can result in agreements leading to withdrawals.
- Majorities in 2018:

Sturm, Ruger	Report on gun safety	68.8%
Depomed	Report on opioid crisis	62.3
Kinder Morgan	Publish sustainability report	60.4
Kinder Morgan	Report on 2° analysis/strategy	59.7
Genesee & Wyoming	Adopt GHG reduction targets	57.2
Middleby	Publish sustainability report	57.2
Ameren	Report on coal ash risks	53.2
Anadarko Petroleum	Report on 2° analysis/strategy	53.0
Amer. Outdoor Brands	Report on gun safety	52.2
Range Resources	Report on methane	50.3



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