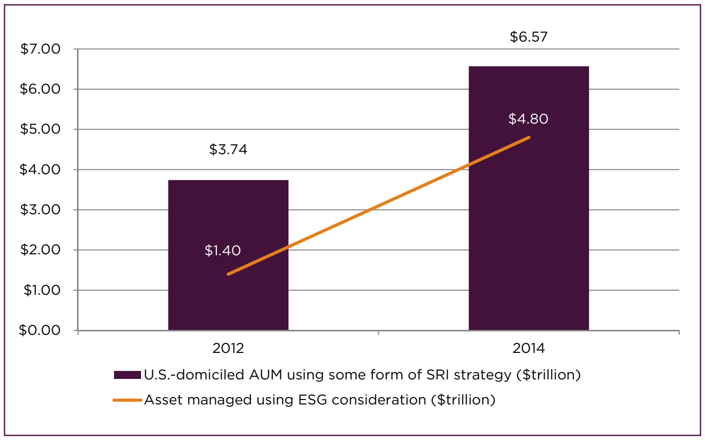
GROWTH IN RESPONSIBLE INVESTMENT STRATEGIES SET TO ENCOMPASS CLIMATE CHANGE

In November 2014, the US SIF Foundation released its 10th biennial report on trends in the sustainable, responsible and impact investing (SRI) industry.

The new report shows significant growth over the past two years in U.S.-domiciled assets managed using some form of SRI strategy. Specifically, assets under management increased from $3.74 trillion at the beginning of 2012 to $6.57 trillion at the beginning of 2014. By the authors' estimate, as of the beginning of 2014, nearly one in six dollars under professional investment management was managed using an SRI strategy. The large leap in assets is attributable primarily to the growth in the number of asset managers considering environmental, social or governance (ESG) criteria in their investment management processes, which has increased assets in that category threefold from $1.4 trillion in 2012 to $4.8 trillion at the beginning of 2014.

Figure 1: Growth of U.S.-domiciled assets managed using some form of SRI strategy



Many managers integrating the consideration of ESG factors into their investment analysis are doing so after having become signatories to the United Nations Principles for Responsible Investment (the PRI). Signing on to the PRI commits an investor to incorporating ESG issues into investment analysis, decision-making processes, and ownership policies and practices, as well as to the promotion of the PRI generally. The growth in signatories since the inception of the PRI in 2006 has been very strong, going from just under 70 signatories representing $2 trillion in assets under management in 2006 to over 1300 signatories representing $45 trillion in assets under management today. The list of signatories includes many of the world's largest institutional investors, including asset owners such as CalPERS and Canada Pension Plan Investment Board, as well as global asset managers such as Capital Group, PIMCO and Wellington Asset Management. The strength of this trend has come as something of a surprise to many U.S.-based investors, where the adoption of ESG integration, at large, has lagged other markets globally.

We have had some interesting discussions about ESG integration with clients who do not explicitly incorporate ESG factors into their investments currently. Several clients believe that any good, fundamentally-oriented money manager should already have a systematic means of evaluating ESG factors and their impacts on investment performance regardless of whether that manager considers itself to be investing "responsibly". In any case, the growth in ESG integration is a very meaningful trend and clearly set to continue.

Figure 2: Reasons managers report incorporating ESG factors

Reason	Total	% of Managers Responding
Client Demand	95	80%
Mission	92	77%
Returns	90	76%
Risk Management	87	73%
Social Benefit	82	69%
Fiduciary Duty	74	62%
Regulatory Compliance	33	28%
Total Responding	119	

Source: US SIF Foundation

Note: Managers of community development loan funds who responded to these questions are also included. Respondents could choose multiple reasons, so counts and percentages do not sum, Perhaps even more interesting and challenging to the institutional investment mainstream than the growth in ESG integration is the increased adoption and acceptance of the validity of investing through a climate change lens. Investors, particularly endowments and foundations and some large public plans, increasingly are managing their pools with an eye on the mitigation of future risks to their portfolios posed by climate change and related policy actions. Whether this is done through some degree of fossil fuel-stock divestment, increased investments in greentech/cleantech/water-related investments, or simply by measuring the carbon footprint of their investment portfolios, a growing number of prominent institutional investors are seeking ways of playing both "offense" and "defense" in response to climate change.

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THE GLOBAL SUSTAINABLE INVESTMENT ALLIANCE, an alliance of the leading regional SRI associations globally, issued a news release late February regarding its 2014 analysis of trends in the SRI market globally. Their latest combined analysis indicates that 30.2% of all professionally managed assets globally, or $21.4 trillion, use some form of SRI strategy. The breakdown by region of assets and proportion of SRI strategies is demonstrated in the table below.

Breakdown by region of assets & proportion of SRI strategies

	Proportion of SRI relative to total managed assets		Growth of SRI Assets By Region		
Country	**2012**	**2014**	**2012**	**2014**	**Growth**
Europe	49.0%	58.8%	$8,758	$13,608	55%
Canada	20.2%	31.3%	$3,740	$6,572	76%
United States	11.2%	17.9%	$589	$945	60%
Australia	12.5%	16.6%	$134	$180	34%
Asia	0.6%	0.8%	$40	$53	32%
Global	21.5%	30.2%	$13,261	$21,358	61%

While we advise readers to carefully study the data, we find that regardless of the particulars, this is further evidence of strong growth in the adoption of SRI strategies.

The *Global Sustainable Investment Alliance* study can be found here: **http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf**