

# Sustainability Brief

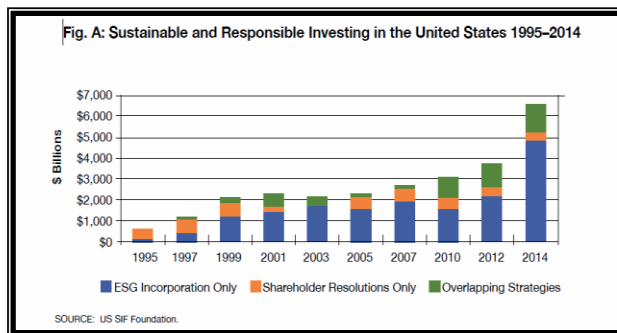
## Sustainability Investing Shift to Inclusive Strategies

### What should you know about today's Sustainability-focused investor strategies?

- Investment assets under management (AUM) with inclusive Sustainability investment strategies now exceed AUM with exclusionary investment strategies in the U.S.<sup>(1)(2)</sup>
- ESG/Sustainability investment strategies are growing at a faster rate in Europe than the broad asset management market there and now dominate invested AUM in Europe.<sup>(2)(3)</sup>
- Two-thirds of all institutional shares are now managed by investors being signatories of at least one major international agreement on Sustainability, i.e. UNPRI, CDP.<sup>(4)</sup>

### Why is it important for companies to pay attention to ESG/Sustainability?

- ✓ To compete for desired related long-term capital in these evolving capital markets.<sup>(4)(5)</sup>
- ✓ To fully utilize Investor Relations communications strategies for competitive positioning to highlight ESG leadership, performance, materiality, and risk mitigation.<sup>(4)(6)(7)(8)</sup>



### Sustainability Investment Strategies<sup>(9)</sup>

Exclusionary/Values Based	Inclusive/Performance Based
Negative/Exclusionary	Positive/Best-in-class
Ethical/Social motivation	Integration of ESG Criteria
Norms-based Screening	Industry/Theme Specific
Narrow Select Social	Impact Investing <sup>(9a)</sup>
Divestment	Index Trackers <sup>(9a)</sup>

### Growing evidence of ESG/Sustainability in mainstream investing focus:

- Global ESG/Sustainability investments are now 30% of all professionally managed funds, since increasing 61% in two years, to \$21.4trn AUM in 2014 from \$13.3trn AUM in 2012; 64% of the total AUM is currently in UK/Europe, 31% in the U.S. and 4% in Canada.<sup>(1)(2)(6)</sup>
- \$1 in every \$6 investment AUM in the U.S. (\$6.57 trn) is invested using ESG/Sustainability investing strategies – a 76% increase since 2012; 66% (\$4.35trn) uses inclusive strategies.<sup>(1)</sup>
- 59% of total European AUM uses ESG strategies as of 2014, up from 49% in 2012 – all ESG integration/inclusive strategies grew 74%, while exclusionary strategies still dominate.<sup>(2)(3)</sup>
- Investment firm focus on Sustainability, not just portfolio/funds specific, is becoming norm as firms transition to full ESG integration to improve returns and to manage risk.<sup>(1)(4)</sup>
- Sustainability investing is expanding across all asset classes; “green bonds” tripled in one year to \$36bn in 2014, as companies increasingly issue to fund environmental projects.<sup>(6)(8)</sup>

**Next Level Investor Relations LLC** is an Investor Relations consultancy with dual IR and ESG specialties. We focus on both traditional IR issues and leading edge opportunities within the rapidly-emerging mainstream ESG/Sustainability investment community, as relates to Investor Relations. We help clients bring investor relations, stakeholder relations, corporate communications and supporting efforts to the next level, no matter where your company is on the spectrum of developed relations or communications programs. More about NLIR: [www.nextlevelinvestorrelations.com](http://www.nextlevelinvestorrelations.com). Call us to discuss your needs. Please direct inquiries to Pam Styles - 703-864-5711 or [info@nextlevelinvestorrelations.com](mailto:info@nextlevelinvestorrelations.com).

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## Notes

**Europe: Defined by European Fund and Asset Management Association (EFAMA), includes 27 countries.** <sup>(2)(3)(6)</sup>

- (1) "Report on US Sustainable, Responsible and Impact Investing Trends", by US/SIF Foundation, 2014. [http://www.ussif.org/Files/Publications/SIF\\_Trends\\_14.F.ES.pdf](http://www.ussif.org/Files/Publications/SIF_Trends_14.F.ES.pdf)
- (2) "Global Sustainability Investment Review", by Global Sustainability Investment Alliance (GSIA), 2014. [http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA\\_Review\\_download.pdf](http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf) .
- (3) "European SRI Study", by Eurosif, 2014. <http://www.eurosif.org/publication/european-sri-study-2014/>.
- (4) > 1,300 UNPRI signatories and >820 CDP signatories have committed \$45trn AUM and \$95 trn AUM, respectively, to ESG-focused investing; 94% of UNPRI investor signatories have a responsible investment policy that covers an increasing range of asset classes; 71% ask companies to integrate ESG into financial reporting. <http://www.unpri.org/news/pri-fact-sheet/> , <https://www.cdp.net/en-US/WhatWeDo/Pages/investors.aspx>  
"5 Reasons Why SRI Should Matter to You", by M Santistevé <http://www.nasdaqomx.com/aboutus/marketinsite/readpost?contentId=54738&title=5-Reasons-Why-SRI-Should-Matter-to-You>
- (5) 72% of the companies in The S&P 500 Index have published a sustainability or corporate responsibility report. Governance & Accountability Institute, June 2014. <http://www.ga-institute.com/nc/issue-master-system/news-details/article/seventy-two-percent-72-of-the-sp-index-published-corporate-sustainability-reports-in-2013-dram.html>
- (6) "Introduction to Sustainable Investing", by Contrast Capital. [http://contrast-capital.com/cc/wp-content/uploads/Introduction\\_Sustainable\\_Investing\\_Contrast\\_Capital.pdf](http://contrast-capital.com/cc/wp-content/uploads/Introduction_Sustainable_Investing_Contrast_Capital.pdf)
- (7) "Corporate Sustainability – First Evidence on Materiality", by George Serafeim, Mozaffar Khan and Aaron Yoon, Mar, 2015. [http://www.hbs.edu/faculty/Publication%20Files/15-073\\_8a7e13e5-68c5-4cc3-a9a0-a132bbef3bc7.pdf](http://www.hbs.edu/faculty/Publication%20Files/15-073_8a7e13e5-68c5-4cc3-a9a0-a132bbef3bc7.pdf).
- (8) "Corporate Responsibility Review", by Oekom Research, 2015. [http://www.oekom-research.com/homepage/english/oekom\\_CR\\_Review\\_2015\\_EN.pdf](http://www.oekom-research.com/homepage/english/oekom_CR_Review_2015_EN.pdf);  
"Green Bonds: The Growing Market for Environment-Focused Investment", by Luke Spajic & Ben Emons, Sept 2014. <http://nl.pimco.com/EN/Insights/Pages/Green-Bonds-The-Growing-Market-for-Environment-Focused-Investment.aspx>  
"Green bonds sell big in 2014 as finance bids to help climate," by Kerber & Russ -ThomsonReuters. Dec, 2014. <http://sustainability.thomsonreuters.com/2014/12/18/green-bonds-sell-big-2014-finance-bids-help-climate/>
- (9) General investment strategy categories, condensed descriptions, incl.: **Contrast Capital** [www.contrast-capital.com](http://www.contrast-capital.com); **USSIF** <sup>(1)</sup>; **GSIA** <sup>(2)</sup>; **Eurosif** <sup>(3)</sup>; and **UNPRI** <sup>(4)</sup>; and "SRI Primer", by **SRI-CONNECT** [www.sri-connect.com](http://www.sri-connect.com) :

**Inclusive Investors** use active strategies with longer term investments horizons. Inclusive Investors are also referred to as performance-oriented or new mainstream Sustainability investors; seeking adding shareholder value.

- Positive / Best-in-class:* Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers; often involves selecting the top percentage of companies within a sector.
- Integration of ESG criteria:* Systematic and explicit inclusion by investment managers of ESG risk and opportunity factors into traditional financial analysis based on a systematic process.
- Industry/Theme Specific:* Systematic and explicit inclusion of ESG factors into traditional financial analysis; related to single or multi-themed funds.
- Impact Investing:* Targeted to generate both a financial return and to make a clear social or environmental impact; often made in private markets; made in both emerging and developed markets.
- (9a) *Index Trackers:* While passive, we include Sustainability Index Trackers as an inclusive investment strategy. Dow Jones Sustainability Index (DJSI) was the first (est. 1999), many others formed since.

**Exclusionary Investors** historically associated with activism, divestment or ethical decision criteria; often challenged by sacrificed portfolio returns. Investments are largely binary yes/no decisions.

- Negative /Exclusionary:* Various motivations, from risk management to values-based (moral, ethical, mission-based), controversial activities or products; remove companies or sectors from investible universe.
- Ethical / Social Motivation:* Screening of investments on ethical, moral or religious grounds; or other social motivation.
- Norms-based Screening:* Excludes companies (or government debt) on account of failure to by issuer to meet international group(s) accepted 'norms', e.g. UN Global Compact, Kyoto Protocol, etc.
- Narrow Select Social:* Focus on narrow selection of social or environmental criteria.
- Divestment:* Exclude on controversial topic; associated with public and academic institution pension funds.