

According to the recently released biennial investment review of the Global Sustainable Investment Alliance (GSIA), sustainable investment assets reached an impressive \$22.9 trillion in early 2016, up 25% from levels reported in 2014. The international trend toward greater sustainable oriented investing is growing both in absolute and relative terms.

In this inaugural issue of **ESG Perspectives**, we take a step back and briefly review sustainable investing from a broader perspective and assess the important growth trends associated with this approach within the investment management industry.

Defining Sustainable Investing:

Despite broad media coverage and interest from investors of all sizes, defining sustainable investing remains a challenge. Socially Responsible, Sustainable, ESG, Impact, Ethical, Green... The list of names is long and the different types of investing are often wrongly grouped together, when in reality some of these strategies are designed to have different outcomes. We view and define the sustainable investing universe into 3 main categories:

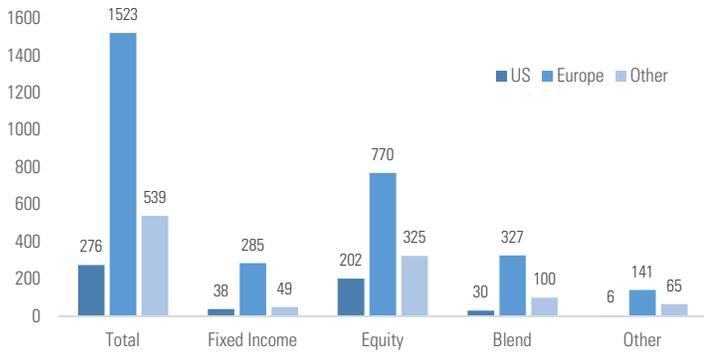
- **Socially Responsible Investing (SRI)**, the oldest, most prevalent, and most well-known category, involves avoiding entire sectors according to the asset owner's social preferences. Common sectors include tobacco, weapons, and other "sin stocks". While by far the largest category (GSIA estimates, that this approach accounts for the largest share of sustainable oriented investment assets globally), the investment processes within SRI are very disparate given the varying preferences of numerous asset owners. The primary objective of SRI is divestment and maximizing financial return is often secondary, which leads to the common criticism that sustainable investing means giving up financial return.
- **ESG Integrated Investing**, involves aligning financial interests with an investor's environmental, social, and governance (ESG) values. Integration includes identifying those ESG practices by public companies that are material to the company's financial performance and evaluating those factors in addition to conventional investment financial analysis. The result is an investment portfolio constructed with dual objectives: the achievement of desired environmental, social and corporate managerial outcomes as well as the maximization of investment portfolio returns. It is worth noting that according to the GSIA, ESG Integrated investing currently accounts for \$10.4 trillion of assets invested in this manner globally.
- **Impact Investing**, this approach involves advancing particular causes through direct investment. Causes could include clean energy, disease eradication, education, etc. Due to the importance of control, impact investments are often expressed through private markets. Similar to SRI, financial return is a secondary objective - the primary objective of impact investing is advancing a particular cause.

Sustainable Investing Fund Landscape:

Sustainable investing has grown significantly and asset size numbers often appear in media, reports, and academic papers. In this report we examine one area of sustainable investing assets: open-ended funds and ETFs with sustainable investing mandates. We delved into Morningstar's database to lay out the sustainable investing landscape, combing over 250,000 open ended funds and ETFs. This data is of funds with reported assets as of February 28, 2017.

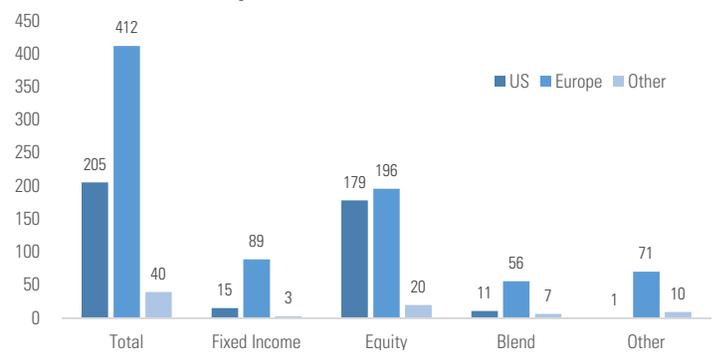
There are a total of 2,338 funds currently with \$657 billion in assets. The majority of those assets are in European domiciled funds with a \$412 billion. Equity strategies comprise the bulk of the fund assets with \$395 billion under management.

Number of Funds - Open Ended and ETFs



Source: Sage, Morningstar as of 2/28/17

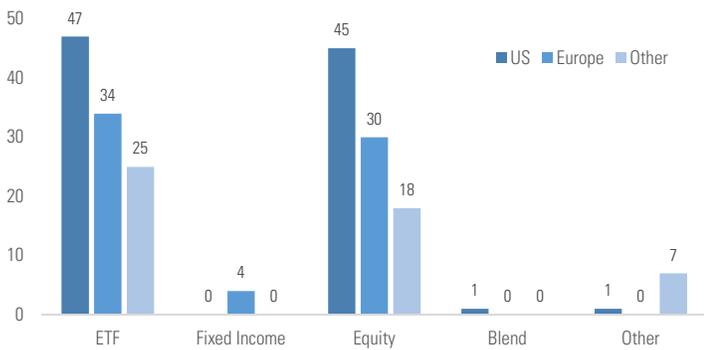
Assets - Open Ended and ETFs (USD Billions)



Source: Sage, Morningstar as of 2/28/17

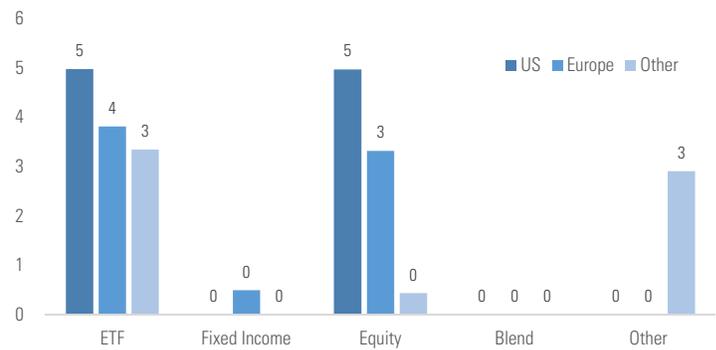
ETFs are a small portion of sustainable fund assets with only \$12 billion under management, (1.8% of total sustainable fund assets). Interestingly, the US leads Europe in this regard with 47 ETFs vs. 34 for Europe. Also especially notable, there are little to no options in Fixed Income in the ETF space, especially in the US.

Number of Funds - ETFs



Source: Sage, Morningstar as of 2/28/17

Assets - ETFs (USD Billions)



Source: Sage, Morningstar as of 2/28/17

Disclosures

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