

THE
IMPACT

OF SUSTAINABLE AND
RESPONSIBLE INVESTMENT

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FOREWORD

The US SIF Foundation is pleased to share this paper that highlights the positive impact that sustainable and responsible investing has had on investors and the investment industry, on companies, on individuals and communities, and on public policy. The US SIF Foundation is a 501(c)3 organization that undertakes educational, research and programmatic activities to advance the mission of US SIF: The Forum for Sustainable and Responsible Investment. This paper examines how sustainable and responsible investors have engaged the investment industry, companies, individuals, communities and governments—either individually or collectively—to address environmental, social and governance (ESG) challenges and to reform the way business is conducted. It presents examples of how these investors have made a difference through their approaches not only to public equity investing, but also to such asset classes as private equity, cash, fixed income, real estate and infrastructure.

This paper is designed to:

- a) Document some of the many successes of the sustainable and responsible investing field over the past twenty years and by so doing;
- b) Better allow sustainable and responsible investment (SRI) practitioners, such as asset managers, investment advisors and asset owners, to communicate how SRI has influenced the investment industry, companies, communities, public policy and global standards.

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This paper will be updated periodically to reflect additional examples of impact. The US SIF Foundation looks forward to your comments.

Lisa Woll, CEO

Executive SUMMARY

Sustainable and responsible investors have been, and continue to be, a force for positive change. They have helped to improve the environmental, social and governance (ESG) practices of companies in the United States and around the world, indirectly benefiting countless individuals and communities. They have pursued investment strategies that foster economic development and expand financial services in lower-income communities. To advance their principles and priorities on a larger scale, sustainable investors have advocated for national and global policies and created national and international standard-setting organizations.

Sustainable and responsible investment professionals have changed the investment industry by challenging and shifting traditional notions of investment practices. They have advanced the inclusion of ESG considerations in investment decisions to generate both positive societal impact and long-term competitive financial returns. In so doing, they have brought to market new investment options and services across a wide array of asset classes that appeal to both individual and institutional investors, perform competitively and help address serious social and environmental challenges.

It is important to note that many of these accomplishments have been achieved through close collaboration with other stakeholders including business, government and civil society. Through years of building partnerships and relationships, sustainable and responsible investors and investment professionals have worked in cooperation with others to demand positive change.

Changing the Investment Industry and Adding Options for Investors: Sustainable and responsible investors are contributing to far-reaching changes in the investment and financial services industries. Sustainable and responsible investment (SRI) is a widely practiced investment discipline with more than \$3 trillion in assets under management, according to the US SIF Foundation's *2012 Report on Sustainable and Responsible Investing Trends in the United States*, and it is gaining adherents even in investment firms that have not historically identified themselves as SRI practitioners. By building ESG criteria into investment analysis and portfolio construction, investors seek to identify more responsible companies for potential investment and to improve the sustainability performance of those in which they are already invested. In fact, many publicly traded companies aim to be selected for these funds and promote their inclusion in SRI portfolios to their stakeholders. Efforts to build ESG investment criteria into investment portfolio construction, proxy policies, and divestment strategies have resulted in positive changes in the way business is conducted. Testaments to the growing impact of SRI on the investment marketplace can be found in the creation of SRI indices and in the development of the Principles for Responsible Investment (PRI) whose signatories—with assets over \$30 trillion—are now estimated to represent 20 percent of the estimated total value of global capital markets.¹

The growth of the sustainable investing field and the mainstreaming of ESG integration have led to diverse SRI initiatives, such as program- and mission-related investing campaigns by foundations and impact investments by institutions and individuals. Individual investors have benefited by gaining access to retirement plans with SRI options and having the ability to work with specialized SRI financial advisors. Investors also benefit from their ability to invest in communities directly through banks, credit unions, and other community development

financial institutions, as well as in retail products and on retail platforms for domestic and international community development lending.

Improving Companies through Active Ownership and Engagement: Sustainable and responsible investors have made a difference by using active share ownership and engagement strategies with some of the largest global corporations to encourage more responsible and forward-thinking practices. For example, investors—often in concert with civil society organizations and multi-stakeholder groups—have persuaded numerous publicly held companies to:

- Improve climate risk disclosure
- Adopt sustainable forestry practices
- Address poor labor and human rights conditions in their global supply chains
- Pledge not to discriminate against employees on the basis of their sexual orientation
- Disclose health, safety and environmental risks associated with hydraulic fracturing
- Improve accountability of executive pay practices
- Promote gender and racial diversity on their boards of directors, and
- Issue detailed reports on sustainability

Engagement strategies have also been used successfully to help shape sustainable policies at privately held companies on such issues as the labor conditions in their global supply chains and their environmental and community relations practices.

Helping Communities and Individuals: Sustainable and responsible investors have assisted individuals and communities, both through direct investments in community development initiatives and by helping to bring about changes in corporate behavior that ultimately benefit communities or reduce harm, such as allowing access to clean water, stopping deforestation and creating better workplaces. In the United States and internationally, investments in community development financial institutions have helped ensure that capital reaches those who traditionally have been denied access to it and need it most. Through these investments, investors have improved access to affordable housing in low- and moderate-income communities, supported small businesses, helped create jobs, and provided communities with education, healthcare, and childcare. Social venture capital, investments in early stage enterprises that offer solutions to society's environmental and social needs, has also played an important role in assisting individuals and communities. Sustainable investors have provided innovative social venture and microenterprise lending in international markets. For example, these investors have made micro-financing available to many women entrepreneurs in Africa, Asia and Latin America.

Influencing Public Policy and Developing Global Standard-Setting Organizations: Sustainable and responsible investors have influenced national and global public policy and developed global standard-setting organizations.

In the United States, responsible investors played an important role in advancing key provisions of the Dodd-Frank Wall Street Financial Reform and Consumer Act of 2010 (“Dodd-Frank Act”). Among the priorities for which they successfully advocated were provisions to require greater disclosure and accountability by publicly traded companies concerning executive compensation and pay disparity, facilitate shareholders’ ability to nominate directors to the boards of portfolio companies, curtail the trade of conflict minerals from war-torn areas of Central Africa, and require publicly traded companies in the extractive

industries to disclose their payments to national governments. By advocating for the creation of the Consumer Financial Protection Bureau, another important outcome of the Dodd-Frank Act, responsible investors contributed to protecting American consumers from unfair, deceptive and abusive financial practices.

Sustainable investors have mobilized to bring about stronger environmental regulations, helping to ensure that companies report information on their greenhouse gas emissions and risks related to climate change. Sustainable investors actively endorsed the US Environmental Protection Agency's proposed—and now final—rule on curbing mercury and other toxic emissions from coal- and oil-fired electric generating units.

To help address global human rights violations, sustainable and responsible investors have joined with civil society organizations to call for an end to human rights abuses in Burma and Sudan, and many have developed targeted divestment policies for those countries. These divestment strategies have increased public awareness of the human rights concerns in both countries, thereby helping to build public support for global economic and diplomatic pressure on their governments.

Sustainable and responsible investors have played a crucial role in developing US and global standard-setting organizations, such as the CDP (formerly Carbon Disclosure Project), Ceres, Council of Institutional Investors, Global Reporting Initiative, Interfaith Center on Corporate Responsibility, Investor Environmental Health Network, Principles for Responsible Investment, United Nations Environment Programme's Finance Initiative, and US SIF, as well as other regional and national sustainable investment forums. Many of these organizations have commissioned and publicized research that underscores that environmental, social and corporate governance issues can pose material financial risks and opportunities to companies and therefore should be considered in fiduciaries' due diligence efforts. Additionally, companies that consider and report on ESG issues may, through these efforts, attract environmentally and socially focused consumers and investors and improve overall profitability.

For more background on sustainable and responsible investing and additional examples of impact, please see the following reports authored or co-authored by the US SIF Foundation at www.ussif.org:

- [*2012 Report on Sustainable and Responsible Investing Trends in the United States*](#)
- [*Investing to Curb Climate Change: A Guide for the Institutional Investor*](#)
- [*Investing to Curb Climate Change: A Guide for the Individual Investor*](#)
- [*Expanding the Market for Community Investment in the United States*](#)
- [*2012 Global Sustainable Investment Review*](#)
- [*Options and Innovations in Community Investing*](#)
- [*Sustainability Trends in US Alternative Investments*](#)
- [*Opportunities for Sustainable and Responsible Investing in US Defined Contribution Plans*](#)
- [*Resource Guide for Plan Sponsors*](#)
- [*Investment Consultants and Responsible Investing: Current Practices and Outlook in the United States*](#)
- [*Creating a Sustainable World: A Guide to Responsible Stewardship of Tribal Assets*](#)
- [*Community Investing Toolkit for the Faith Community*](#)

INTRODUCTION

Sustainable and responsible investors have used several strategies to effect change, often in partnership with other individuals and organizations. While the history of sustainable and responsible investing spans many decades and is often cited for its influence to end apartheid in South Africa,² this paper focuses on the impact that SRI has had in the past twenty years. It presents examples of how sustainable and responsible investors have made important advances through their approaches, not only with public equity investing, but also with such asset classes as cash, fixed income and alternative investments that include private equity, venture capital, real estate, hedge funds and infrastructure among others.

The past twenty years have shown that environmental, social and governance (ESG) factors can affect shareholder value and corporate and investment portfolio risk and return, discrediting the longstanding conventional perception that fiduciary duty precludes consideration of ESG criteria in institutional investment decisions. In 2005, international law firm Freshfields Bruckhaus Deringer found, after examining fiduciary law in nine developed markets, including the United States, that, "...the links between ESG factors and financial performance are increasingly being recognized."³ On that basis, integrating ESG considerations into investment analysis is clearly permissible and is arguably required in all jurisdictions. The CFA Institute, a global not-for-profit association of investment professionals that grants the Chartered Financial Analyst (CFA) designation, has published a Manual for Investors to help them understand and assess ESG factors in fulfilling their fiduciary responsibilities.⁴ Several academic studies have also shown that SRI strategies have produced financial performance comparable to that produced by conventional instruments.⁵ A working paper published by the Harvard Business School found evidence that highly sustainable companies have significantly outperformed their counterparts over the long term both in terms of stock market and accounting performance.⁶

Chapter One offers examples of how sustainable and responsible investment professionals have changed the investment industry and investors. **Chapter Two** provides examples of how sustainable and responsible investors have influenced companies through shareholder advocacy, demonstrated by active ownership and engagement strategies. **Chapter Three** illustrates how SRI has assisted communities, not only through investment in community based financial institutions, but also by changing corporate actions to benefit individuals and communities. **Chapter Four** offers examples of how sustainable and responsible investors have achieved progress on various environmental, social and governance issues, by influencing public policy and creating international standard-setting organizations.

CHAPTER ONE:

Changing The Investment Industry and Adding Options For Investors

Sustainable and responsible investment professionals have changed the world of investment by challenging the bifurcation between investment and the impacts of that investment. SRI has fundamentally altered the perception of what a sound investment must consider in addition to traditional measures of financial performance. Today, the inclusion of environmental, social and governance factors in investment decisions is no longer a novel concept.

At the start of 2012, approximately \$3.3 trillion in professionally managed assets in the US market considered ESG criteria in portfolio construction and in analysis. Working with others, sustainable and responsible investors are advocating for the development of investment standards and best practices for the broader investment industry. These changes in the professional investment industry have generated new investment options and services for both institutional and individual investors.

The evolution of the investment industry has included the growing acceptance of ESG criteria incorporation into traditional financial analysis, the creation of SRI indices and specialized stock exchanges, and the growth of alternative investment options for sustainable and responsible investing. Different categories of SRI, including program-related investing, mission-related investing, and impact investing, have gained attention from high net worth individual and institutional investors. Individual retail investors have also benefited from the changing investment industry. They have access to experienced SRI financial advisors, as well as increased product options. Importantly, a growing share of retirement plans are including or considering the inclusion of SRI options.

Sustainable and responsible investors have influenced companies by building environmental, social and corporate governance criteria into investment analysis and portfolio construction strategies. In addition to excluding, overweighting or underweighting companies on ESG criteria, some investors also practice ESG integration and use these factors to assess valuation and attractiveness. As an extension of this analytical approach, a number of SRI firms have created ESG or SRI indices to make SRI investing more accessible to a wide array of investment firms and their clients.

Sustainable and responsible investors have documented and publicly articulated the strong business case for sustainable and responsible investment.⁷ As a result, a growing number of investment firms—including many that have not historically branded themselves as SRI—now integrate ESG criteria and questions into investment analysis. Increased demand by investors for more extensive and comparable ESG data from companies has in turn galvanized the growth of corporate sustainability reports. These reports are often produced by companies' corporate social responsibility or sustainability professionals, the emergence of which is a further reflection of the influence of sustainable investing.

Impact on the Professional Investment Industry

ESG Criteria Incorporation

For many sustainable and responsible investors, impact often starts by applying ESG criteria or themes to investment analysis and portfolio selection. ESG incorporation is conducted through five principle methods and in combinations thereof:

- **Positive screening:** Seeking out companies, sectors, or projects with identifiable positive ESG impacts, product lines or commitments, such as clean technology or renewable energy solutions, or projects that revitalize urban neighborhoods.
- **Full ESG integration:** Explicit inclusion of ESG risks and opportunities into all processes of investment analysis and management.
- **“Best-of-class” approach:** Selecting companies with the best performance within a particular sector or industry group.
- **Thematic investing:** Targeting specific themes such as climate change or human rights.
- **Avoidance or Exclusionary screening:** Avoiding or divesting from poor performers regarding ESG factors.

By considering ESG criteria, money managers and institutional investors seek to identify companies that are attractive for investment because they have superior management practices or present lower risk to investors and other stakeholders. The ESG criteria are not static and have evolved over time to encompass a wide range of indicators and data points and to take into account emerging trends. This has led to more disclosure from companies, more tools and methods for the benefit of all investors to analyze these risks and opportunities, and in many cases favorable risk/return benefits for investors over the long term.

Money managers incorporate ESG issues across a range of asset classes and investment vehicles, including registered investment companies, such as mutual funds and exchange-traded funds, to alternative investment vehicles, such as social venture capital, “double- and triple-bottom line” private equity and hedge funds, responsible property funds as well as other commingled, pooled products typically reserved for specific kinds of institutions or other accredited high-net-worth investors.

Creation of SRI indices

The popularity of sustainable investing has contributed to the creation and growth of SRI indices. Since the May 1990 launch of the pioneering Domini 400 Social Index, now known as the MSCI KLD 400 Social Index, there has been a dramatic expansion of indices, along with hundreds of unique sub-indices, which incorporate ESG criteria.⁸ Both sustainable investment and research firms, such as Calvert Investments, Jantzi-Sustainalytics and WilderShares, offer such indices, as do other financial services groups, such as S&P Dow Jones Indices, FTSE and MSCI Barra. Leading global stock exchanges, such as NASDAQ OMX, NYSE Euronext, Deutsche Boerse and the Johannesburg Stock Exchange, have also launched SRI indices.

ESG indices fulfill several important functions:

- Establish performance benchmarks
- Serve as a basis for passive investment vehicles
- Provide investment universes for active managers
- Set standards for responsible corporate behavior

Indices generate historical statistics that support a deeper understanding of ESG investing through a data stream that provides objective information on how SRI affects performance, risk and financial fundamentals.

The longest historical track records come from four indices: the KLD 400, established in 1990 to address US investment; the Jantzi Social Index, established in 2000 to address investment in Canada; the Dow Jones Sustainability Index, established in 2001 to address global investment and the FTSE4Good, established in 2001 to address global investment. Since 1990, the MSCI KLD 400 index and other SRI indices have been the subject of many studies.⁹

ESG INDICES CAN SERVE AS A BASIS FOR DEVELOPING INVESTMENT PRODUCTS, SUCH AS ESG MUTUAL FUNDS AND EXCHANGE-TRADED FUNDS.

In addition to providing a historical track record that gives insights into ESG investing, indices provide asset managers with a valuable basis for developing investment products. In the United States, companies including TIAA-CREF Funds, Calvert Investments, Green Century and Northern Trust offer indexed ESG mutual funds. Additionally, iShares and Pax World Funds sponsor ESG exchange-traded funds (ETFs). Pax World Funds offers two ETFs based on MSCI sustainability indexes. Such products track the underlying index, typically providing investors with low-cost alternatives to actively managed funds. Index funds also have low turnover and fit the long-term orientation of sustainable investors.

Active equity managers—using quantitative and/or fundamental strategies—can select companies from the investment universe set by an index, which allows them to benefit from the research embedded in ESG indices' selection processes.

Another important contribution of ESG indices is that they set transparent standards for corporate behavior as it relates to ESG issues. Since indices are rules-based, they provide a consistent yardstick for the criteria that qualify companies to be selected or excluded. Corporations understand the value of inclusion in an index and, through efforts to ensure inclusion in ESG indices, may demonstrate their commitment to addressing corporate social responsibility. In this way, ESG indices provide a benchmark for corporations and investors.

Creation of Specialized Stock Exchanges

Another way that sustainable and responsible investors have influenced global investment practices is by promoting the creation of specialized stock exchanges that require companies to disclose sustainability data to qualify for listing or inclusion. Stock exchanges, often working with government agencies, also have created SRI indices or revised their listing requirements to include disclosure of social and environmental data from listed companies. The Johannesburg Stock Exchange, the London Stock Exchange, the São Paulo Stock Exchange and the Bolsa Mexicana de Valores (BMV) among other exchanges, have been influential in increasing the disclosure of environmental and social information.

As a co-owner of the FTSE Group, the London Stock Exchange was involved early in the development of SRI indices, by helping to launch the FTSE4Good Index Series in 2001. FTSE4Good enabled investors to compare company performance, based on globally recognized corporate responsibility standards. The information used in the index, which

spans environmental, social, ethical and governance indicators, is updated by the research firm EIRIS. FTSE4Good also regularly consults key stakeholders in updating its indicators and scoring model.

SPECIALIZED STOCK EXCHANGES THAT CONSIDER ESG DATA INCLUDE, AMONG OTHERS:

- **BOLSA MEXICANA DE VALORES**
- **THE JOHANNESBURG STOCK EXCHANGE**
- **THE LONDON STOCK EXCHANGE**
- **THE SÃO PAULO STOCK EXCHANGE**

In May 2004, the Johannesburg Stock Exchange (JSE) launched its Socially Responsible Investment Index, which identifies those companies listed on the JSE that meet minimum criteria for integrating sustainability principles into business practices and reporting on sustainability performance. The index's indicators cover environmental impact, social and economic sustainability and governance. The indicators are loosely aligned with the Global Reporting Initiative (GRI) guidelines, while reflecting "the complex nature of social responsibility in South Africa." Indexed companies must report on a minimum number of core and desirable indicators, as well as set targets in at least a few areas. The JSE has continued to work with EIRIS, FTSE4Good and KPMG to refine the indicators, and EIRIS has built a partnership with the

University of Stellenbosch Business School in South Africa in order to carry out the research each year.

As part of the 2012 review of the JSE SRI Index, EIRIS conducted a parallel study for the JSE that assessed standards of public disclosure of ESG issues among South African companies. The study found that twenty of the companies that qualified for the 2012 SRI Index would not have been included in that index if review of company performance had been based purely on publicly disclosed ESG information. This demonstrates the gap between what companies may be doing and what they are publicly sharing—investors need to continue to encourage greater disclosure by companies.

Similarly, in December 2005, the São Paulo Stock Exchange (BOVESPA) in Brazil, in coordination with the Brazilian Ministry of the Environment, the Brazilian Association of Pension Funds, the United Nations Environment Programme (UNEP) and a wide range of other organizations, created the Corporate Sustainability Index (ISE) as a benchmark for socially responsible investments. The Center for Sustainability Studies at the Business Administration School of São Paulo identifies companies for inclusion in the index, using a questionnaire covering social, environmental and governance criteria to assess the sustainability performance of the exchange's most liquid stocks.

Furthermore, in December 2011 the Bolsa Mexicana de Valores (BMV), the Mexican stock exchange (the second-largest exchange in Latin America after the Bovespa) announced the full launch of its sustainability index. This index is based on the seventy most liquid shares on the Mexican Stock Exchange. Companies eligible for inclusion on the index are assessed according to their performance, impact and responses to emerging ESG issues. BMV worked with EIRIS and a local research partner to develop the methodology and assess eligible Mexican companies for inclusion in the new sustainability index. To meet the listing requirements for the sustainability index, each company is evaluated in comparison to the sustainability practices of its sector globally. Mexican companies have to score in the top 50 percent of performers to be eligible for inclusion.

**AT THE OUTSET OF 2012,
ALTERNATIVE INVESTMENT
VEHICLES—PRIVATE EQUITY
AND VENTURE CAPITAL
FUNDS, PROPERTY AND
REAL ESTATE INVESTMENT
FUNDS, AND HEDGE FUNDS—
INCORPORATING ESG
CRITERIA TOTALED
\$132.3 BILLION.**

Development of New and Innovative Investment Vehicles for SRI

Investments in alternative asset classes, including private equity and real estate, have long played a vital role in the history and development of SRI and there are an increasing number of alternative investment products that incorporate ESG criteria. At the outset of 2012, alternative investment vehicles—private equity and venture capital funds, property and real estate investment funds, and hedge funds—incorporating ESG criteria totaled \$132.3 billion. This represents growth of more than 300 percent compared with the 2010 estimate of \$37.8 billion.¹⁰ The US SIF Foundation study, *Sustainability Trends in US Alternative Investments*, found that responsible property funds attracted the largest share of total alternative investments.

Responsible Property Investing: Sustainable and responsible investors have contributed to the growth in Responsible Property Investment (RPI), understood as the application of ESG analysis to investment in the built environment. This trend is a natural outgrowth of SRI interest in long-term wealth creation, as real estate investment entails tangible social and environmental impacts that investors can measure, and those impacts are material to long-term performance and risk assessment. Many real estate managers and developers adopt specific sustainability or community development strategies to differentiate themselves in the marketplace. Retail investors, in turn, can use property-specific ESG criteria to evaluate publicly traded real estate investment trusts (REITS), while large asset owners, such as endowments and pension funds, can use ESG criteria to choose real estate advisors. Despite economic challenges, there is a broader trend toward environmental sustainability in real estate, with large REITS and real estate managers adding dedicated staff and programs to address energy and resource efficiency. With the growing importance of energy and resource efficiency, RPI may gain prominence in the global real estate investment industry in the coming years.

Green Bonds: The growth of green bonds, issued to generate money to support environmentally sustainable business ventures, is an example of the investment options that have arisen due to the interest and advocacy of sustainable investors. The Climate Bonds Initiative (CBI), an international network and a project of the CDP (mentioned in Chapter Four) and the Network for Sustainable Financial Markets, is at the forefront of tracking and advocating for this growing market. The CBI estimates that as of March 2013, the total value of the climate or green bonds issued is around \$346 billion.¹¹ In 2012, \$74 billion was issued in new climate-themed bonds, up 25 percent from 2011. Two major sector recipients of the financing are carbon-efficient transport, which accounts for 75 percent of the total, and clean energy and climate finance. The CBI launched the Climate Bond Standard, designed to provide investors and governments with independently certified bonds that provide assurance that the investments are contributing to the delivery of a low carbon economy.

The World Bank developed triple-A credit quality green bonds to provide opportunities to invest in climate change solutions through a fixed income product. Green bond sales support World Bank projects to promote climate change mitigation and adaptation solutions. Since the green bonds' inaugural issue in 2008, the World Bank has issued approximately \$3.5 billion in green bonds, through fifty-eight transactions and seventeen currencies.¹² State Street

Global Advisors (SSgA), the investment management business of State Street Corporation, offers a green bond strategy for investors seeking to direct fixed income investments to climate solutions.¹³

Emergence of Program, Mission and Impact Investing

In recent years, program-related, mission and impact investing have helped to increase awareness among foundations, other institutional investors and high net worth individuals of the social and environmental impacts associated with community investing and certain alternative investment strategies.

Program-Related Investing: The Tax Reform Act of 1969 enabled US foundations to meet their annual charitable distribution requirements in part through program-related investments (PRIs) that provide below-market returns, but complement and extend their more traditional grantmaking. While grants tend to function like charitable contributions, program-related investments provide foundations with a return, either through repayment or return on equity. Foundations are thus able to recycle PRI payments for subsequent charitable investments and grants, and they can count PRIs toward the minimum 5 percent annual payout of net assets required under US tax law.

PRIs are still a developing tool for foundations. According to a study by the Indiana University Lilly Family School of Philanthropy and data from the Foundation Center, fewer than 1 percent of foundations in the United States made PRIs each year over the past two decades.¹⁴ The number of PRIs has varied in recent years: 125 in 2007, 78 in 2008, 97 in 2009, and 64 in 2010 (data for 2010 is incomplete). The Ford Foundation made the largest dollar amount of PRIs at \$302 million, while the Bodner Family Foundation made the largest number of investments at 177. A substantial portion of foundations' PRIs appears to be directed to community investing institutions. Housing, community development, and education accounted for

HOUSING, COMMUNITY DEVELOPMENT AND EDUCATION ACCOUNTED FOR 66.5% OF THE NUMBER OF PROGRAM-RELATED INVESTMENTS AND ABOUT 68% OF PRI DOLLARS BETWEEN 2000 AND 2010.

66.5 percent of the number of PRIs and about 68 percent of PRI dollars between 2000 and 2010.¹⁵ While the total numbers are still small overall, foundations' interest in program-related investing appears to be growing. For example, in 2011, the Bill and Melinda Gates Foundation expanded its program-related investment initiative from \$400 million to \$1 billion.¹⁶

Mission-Related Investing: Foundations have also become involved in mission-related investing (MRI) in recent years, applying ESG criteria to the investment of foundation endowments.¹⁷ This type of investing primarily involves market rate investments that support program goals. A recent survey conducted by the Foundation Center found that 7 percent of US foundations made MRIs as of early 2011.¹⁸ About 26 percent of the foundations with MRIs surveyed said they committed over 50 percent of their assets to MRIs, while over half said they have 5 percent or less of their assets in MRIs. Almost half started making MRIs in the last five years, compared to 10 percent that have made them for more than twenty years.

Impact investing: In the last few years, numerous institutions have begun to use the term “impact investing” to describe the active, intentional investment of capital into vehicles that create social or environmental benefits alongside financial returns. Although the terminology is new, impact investing has been practiced for decades and overlaps significantly with responsible investment, with particular resonance with domestic and international community investment. Similarly, the rise of investment in sectors like clean technology, green building and microfinance indicates that investors have an appetite for profitable investments that also alleviate poverty or reduce carbon emissions.

The Global Impact Investing Network (GIIN) was conceived in October 2007 when the Rockefeller Foundation gathered a small group of investors to discuss increasing the scale and effectiveness of impact investing.¹⁹ Today, more than fifty asset owners and managers, including large family offices, diversified financial institutions, pension funds, specialized banks, targeted impact investment funds, and private foundations, are engaged in the GIIN Investors’ Council.²⁰

Impact on Investors

The development of the sustainable investment field has allowed individual investors to have a wider array of options, including competitive products and services, when making decisions about where to place investments. This is true whether the investor is a millionaire or an individual whose investment universe is confined to contributions to a retirement fund. Investors have benefited by gaining access to more public and private equity options, including retirement plans with SRI options, and also to specialized SRI financial advisors that can help them devise investment strategies for goals such as college education and retirement.

Availability of SRI Options in Retirement Plans

Today, more and more Americans rely on defined contribution (DC) pension plans for their retirement. More public sector and private sector employers are offering retirement plans with one or multiple sustainable investing options. The 2011 US SIF Foundation/Mercer report *Opportunities for Sustainable and Responsible Investing in US Defined Contribution Plans*, found that the number of US-based DC retirement plans offering an SRI choice could double in the next two to three years. Fourteen percent of the 421 DC plan sponsors responding to the survey already offer one or more SRI options, while an additional 13 percent of survey respondents either are considering adding an SRI option or intend to do so in the next two to three years. Twenty years ago, very few sustainable investment opportunities existed within individual retirement plan options. Today, many public and private sector employees are able to choose a “triple-bottom-line” approach to their retirement assets. However, federal employees have no sustainable and responsible investment options in their retirement plan. For several years, US SIF has been encouraging The Federal Retirement Thrift Investment Board to offer at least one SRI option in the Federal Thrift Savings Plan, the largest retirement program in the United States.

Access to Experienced SRI Financial Advisors

In the same way that millions of Americans ask questions about whether their coffee is fair trade or organic, what kind of supply chain produced their clothing, and the carbon footprint of their electricity company, they also want to ensure that their investment portfolio supports companies working to advance environmental, social and governance issues. In other words, many Americans see investing as part of their overall activity towards building a more

sustainable world. These investors now have access to experienced financial advisors and money managers who have in-depth knowledge about investing in a sustainable manner and can help clients define and meet their investment goals. Many advisors will also work with their clients to vote their proxies, a process that allows them to influence company actions and policies, thus assisting their clients in becoming engaged investors.

Increased Product Options

The average American investor who wants his or her investments to address environmental, social and governance issues has multiple product options. The investor can find many resources—such as websites, studies and academic journals—with information on sustainable investing.

Individual investors interested in SRI not only have mutual fund, bond and stock portfolio products, but also community investment options, such as making cash deposits in credit unions and community banks, investments in loan funds and in vehicles such as Community Investment Notes from the Calvert Foundation. Retail investors, aided by platforms such as Microplace, can engage in international microenterprise lending. High net worth individuals—and other accredited investors—also can invest in private equity and other alternative investments.

CHAPTER TWO:

Improving Companies Through Active Ownership And Engagement

Sustainable investors have engaged in shareholder advocacy for decades, using active ownership and engagement strategies to bring critical ESG issues to the attention of company senior management and other stakeholders. Such engagement is focused on driving positive change in corporate policies, programs and performance. Engagement is more common in publicly traded companies, but can also occur in privately held companies, though the options are more limited.

The impact of shareholder advocacy is significant and growing steadily. Between 2010 and the first half of 2012, more than 200 institutional investors and investment managers controlling at least \$1.54 trillion in assets filed or co-filed shareholder resolutions on ESG issues. During the same period, there has been an upward trend in vote support on social and environmental issues, with at least 24 percent of these resolutions annually receiving support from at least 30 percent of the shares voted. These figures represent a significant increase from the 2007–2009 period, when only 15 to 18 percent of ESG resolutions won the same level of support.

Investors in publicly traded companies can pursue a number of responsible ownership practices to encourage their portfolio companies to improve their policies, practices and strategic planning with regard to ESG issues, whether or not they use ESG criteria to select these companies for their portfolios.

Publicly Traded Companies

Sustainable and responsible investors have used their position as shareholders in publicly traded companies to encourage corporate improvements. The tools that they can use individually or in concert with other investors and non-investor organizations include:

- Voting proxies and filing shareholder resolutions
- Dialoguing with company executives
- Conducting letter-writing and e-mail campaigns
- Attending and speaking at annual shareholder meetings
- Publishing research reports or industry analyses
- Participating in multi-stakeholder dialogues

Active ownership strategies can create a halo effect: investors urge a few companies to take action on an issue, and other companies take note and choose to adopt a more sustainable policy in order to avoid being the target of similar shareholder action.

Proxy Voting and Shareholder Resolutions

The US proxy system is the most direct way for investors in US companies to influence corporate behavior. It is often the principal means for shareowners and companies to communicate with one another and for shareowners to weigh in on important issues. Each year, companies seek votes from shareholders on hundreds of items pending on their annual

proxy ballots, ranging from the approval of boards of directors to shareholder proposals on ESG issues. According to the US Securities and Exchange Commission (SEC), more than 600 billion shares are voted at more than 13,000 shareholder meetings every year.²¹ The SEC requires investment managers to disclose to clients their policies for voting proxies and their voting records. Many sustainable and responsible investors disclose their proxy voting guidelines and decisions prominently on their websites. Unfortunately, many investment managers and traditional mutual funds still fail to vote their clients' proxies responsibly, choosing instead to vote automatically in line with corporate managements' recommended positions.

Filing shareholder resolutions is an important tool for advancing change at publicly traded companies. Under SEC rules, a proposal that consistently gets the support of at least 10 percent of the shares voted can be re-filed indefinitely, assuming it meets the overall requirements for proper subject matter. Investors now file about 50 percent more shareholder proposals on ESG issues than they did a decade ago, with nearly 400 each year.²² As of February 13, 2013, investors had filed a total of 365 shareholder resolutions on environmental, social and governance issues for the 2013 proxy season. In the environmental and social arenas, concerned shareholders have focused particularly on improving disclosure and oversight of corporate political spending, environmental policy—especially with regard to climate change—and overall sustainability.

The percentage of votes supporting shareholder resolutions raising concerns on ESG issues has grown in recent years. According to the Proxy Preview 2013 report, the biggest change in shareholder proposal results has been an increase in their average support level, which has grown from 11.9 percent in 2003 to 18.5 percent in 2012.²³ Resolutions on political spending made up nearly one-third of the filings in 2012, a further increase from one-quarter in 2011, and just over 40 percent of all the votes.²⁴ While vote support over 50 percent is still rare for social and environmental proposals, it is no longer uncommon for such proposals to receive the support of 30 to 40 percent of the shares voted.

However, shareholder resolutions do not need majority support to be effective. In some cases, directors heed the concerns raised in advisory proposals and find ways to make improvements, or disclose more information to respond to investors, even when votes in favor are below 50 percent.²⁵ Shareholder resolutions that never come to votes can also be effective. The mere process of filing often prompts productive discussion and agreements between the filers and corporate management, and that may lead to the filers withdrawing their resolutions. Many companies are open to negotiating with shareholder proponents, either to find common ground on an issue or to be able to agree to remove potentially controversial items from the proxy statement. In the last few years, shareholder proponents have annually withdrawn more than 100 resolutions on environmental, social and governance issues, usually after obtaining concessions or commitment from management on the issues they have raised.²⁶

There are countless examples of impact by effective shareowner engagement. The following are just a few examples to demonstrate how concerned investors, often in concert with other organizations, have effected change in publicly held companies.

Environmental Issues

Climate Risk

Sustainable and responsible investors have paid close attention to companies' policies and performance with regard to climate change issues. Concerned about the warming of the atmosphere and the change in global average temperatures due to rising greenhouse gas emissions from human activity, these investors have encouraged companies to reduce carbon emissions and to set specific, actionable climate change goals.

In recent years, investor persistence has paid off in increasingly high votes on climate-related shareholder resolutions and in numerous companies' policy changes. In 2009, for the first time, a shareholder proposal related to climate change risk won majority support. A proposal from Trillium Asset Management and As You Sow Foundation requested that the electric utility Idacorp set greenhouse gas emission reduction goals and won the support of 51 percent of the shares voted. In 2010, a proposal asking Massey Energy to report on company plans to "significantly reduce the social and environmental harm associated with its operations carbon emissions" won 53 percent vote support. The annual meeting took place only weeks after the worst US coal-mining disaster in decades killed twenty-nine workers at Massey's Upper Big Branch mine in West Virginia. In 2010, proponents withdrew twenty-one proposals on climate change issues, often after winning specific commitments from the targeted companies. In 2010, Newground Social Investment withdrew its proposal at TJX, an apparel and home fashions retailer, when the company agreed to produce a full sustainability report by 2011, disclose its climate risks and create a US green team with the sole purpose of improving the company's sustainability performance. The agreement followed several years of dialogue between TJX and investors.²⁷

INVESTOR PERSISTENCE HAS PAID OFF IN INCREASINGLY HIGH VOTES ON CLIMATE-RELATED SHAREHOLDER RESOLUTIONS AND IN NUMEROUS COMPANIES' POLICY CHANGES.

In another development, in 2005, after a long-term dialogue with sustainable investors, including Christian Brothers Investment Services (CBIS), F&C Asset Management, Trillium Asset Management, Domini Social Investments and others, JPMorgan Chase adopted a comprehensive environmental policy that addresses global warming, illegal logging, protection of habitats and the concerns of indigenous peoples, and also hired its first Director of Environmental Affairs. Similarly, after productive discussions with Stryker Corporation, Walden Asset Management reported in its Q1 2013 *Research*

& *Engagement Brief* that it withdrew its shareholder proposal seeking a comprehensive greenhouse gas emissions management plan. Stryker committed to fully assess its facilities, including a future integration of acquired companies, and will set targets and goals for controlling emissions. The company also committed to responding to the CDP in 2013. Stryker is a large medical devices manufacturer with a market cap of about \$24 billion. The company competes with other medical device makers like Boston Scientific, Medtronic and Johnson & Johnson, which already have robust emission mitigation programs in place.

Over the past three years, 230 sustainability-focused resolutions were filed by investors in the network coordinated by Ceres, the nonprofit organization mobilizing companies and investors on climate change and other sustainability challenges. Nearly half of those resolutions were withdrawn by investors after the targeted companies agreed to address issues of concern. In 2011, consulting firm David Gardiner and Associates evaluated the effectiveness of those

withdrawals and assessed company follow-through on agreements negotiated by investors between 2007 and 2010. Findings indicated that more than 75 percent of the 110 withdrawals were fully or substantially implemented. In several cases, the withdrawal agreements resulted in tangible environmental improvements.

Water Conservation

In 2012, Walden Asset Management's engagement prompted several companies, including Qualcomm, Sysco, and United Natural Foods, to consider using water risk assessments to examine the business impact of water scarcity.²⁸

Sustainable Forestry Practices

Sustainable and responsible investors have helped to persuade companies to adopt more sustainable and responsible forestry practices in order to protect the world's endangered forest areas, which play a critical role in curbing the pace and extent of global climate change. For example, investors worked successfully with a coalition of civil society organizations and environmental activists to help persuade Home Depot, the world's largest home improvement retailer and one of the world's largest retailers of old-growth lumber, to phase out sales of wood products from endangered forests in 2002. As part of a new timber purchasing policy, Home Depot agreed to give preference to the sale of timber certified and managed by the Forest Stewardship Council (FSC) wherever possible, to promote ways to use wood more efficiently, and to support alternatives to wood products. In 2009, Home Depot sold more FSC-certified wood than any company in North America. Companies that offer sustainable forest products can open doors to new markets and customers, as evidenced by the preference of many large forest product retailers, such as IKEA and the LEED building industry, to use these products.

Hydraulic Fracturing

SRI shareholders succeeded in persuading several companies to provide more information to shareholders and the general public about their hydraulic fracturing operations. Hydraulic fracturing—or “fracking”—is a technique used in drilling for natural gas, in which chemicals are injected at high pressure underground to break up rock and force natural gas to the surface. There are concerns that the procedure may harm water supplies for local communities.

In 2010, shareholder resolutions at six companies won notably high levels of support for a first-year campaign, ranging from 21 percent to 42 percent. One proposal that received significant support was filed by Green Century Management with the Williams Companies. The proposal asked the company to report on the environmental impact of its hydraulic fracturing operations and to develop policies, above and beyond regulatory requirements, to reduce or eliminate hazards to air, water and soil quality caused by fracking. The New York State Common Retirement Fund decided to withdraw similar resolutions it had filed with Range Resources and Hess when the companies agreed to disclose the chemicals they use in hydraulic fracturing. Miller/Howard Investment withdrew a hydraulic fracturing proposal at El Paso.

In December 2011, the Investor Environmental Health Network (IEHN), a coalition of investors and environmental organizations, and the Interfaith Center on Corporate Responsibility (ICCR) published an investor guide outlining disclosure expectations and risks from hydraulic fracturing.²⁹ The investor guide has been supported by 55 major investors on three continents (North America, Europe and Australia) responsible for more than \$1.3 trillion in assets under management. The guide cites numerous examples from seventeen companies already implementing various practices and encourages “a race to the top.” The guide has been a

IN 2010, SHAREHOLDER RESOLUTIONS REGARDING HYDRAULIC FRACTURING— OR “FRACKING” —AT SIX COMPANIES WON NOTABLY HIGH LEVELS OF SUPPORT FOR A FIRST-YEAR CAMPAIGN, RANGING FROM 21% TO 42%.

valuable resource in investor discussions with several companies, including Apache and ConocoPhillips.³⁰ In early 2011, Southwestern Energy and Anadarko agreed to improve the quality of information available to the public about fracking, including through better website disclosure, after they received resolutions on the subject. Southwestern Energy also issued a public statement supporting a hydraulic fracturing disclosure bill.

Social Issues

Global Supply Chain and Factory Conditions

Over the past few decades, much of US manufacturing shifted to the developing world as companies outsourced production to local, independently owned contractors or vendors. Conditions at overseas factories vary tremendously. Many of these factories have unsafe working conditions, provide very low wages, or use forced or child labor. Sustainable and responsible investors have been at the forefront of numerous efforts to collaborate with multi-stakeholder groups to improve the working conditions in global supply chains of consumer products. There have been several successes.

Companies in the consumer goods sector, which includes apparel, footwear, and toy industries, were among the first to face public controversy over poor labor practices in supplier factories. In the 1990s, two of America’s largest and most successful clothing retailers, Nike and Gap, became the targets of massive public criticism for sweatshop and other poor working conditions at their supplier factories. Following investor pressure, both companies responded by more closely monitoring supplier labor practices and reporting on their findings.

For example, many investors, including members of the Public Reporting Working Group formed in 2002 (Domini Social Investments, Calvert Investments, As You Sow, Center for Reflection, Education and Action, and Interfaith Center on Corporate Responsibility) worked with Gap to improve conditions in the company’s more than 300 factories. Resulting state-of-the-art vendor standards reports, published in 2004 and 2005, documented the company’s progress and included concrete data on compliance and remediation efforts. Gap’s stakeholder engagement strategy, which included investors, transformed the way Gap approached ethical trading problems. Today, Gap has a social and environmental responsibility department with approximately seventy full-time staff dedicated to these issues. This department partners with hundreds of factory owners and managers, NGOs, and industry associations worldwide. Gap is also a founding member of the Better Work program, sponsored by the International Labor Organization (ILO) and the International Finance Corporation. Better Work seeks to help governments, workers, and companies achieve compliance with national labor laws and the ILO’s core labor standards. As a result of investor engagement, the paradigm has shifted and many companies are taking concrete steps to develop vendor codes of conduct, monitor supplier factories, and publish reports disclosing key data about their supply chains.

Indigenous Peoples' Rights

For more than a decade, investors have advocated for the rights of indigenous peoples, including the elimination of negative portrayals and insensitive stereotyping of indigenous people and their cultural heritage. According to a 2008 report by First Peoples' Worldwide, more than 50 corporations, mostly US but increasingly Canadian and a couple of non-North American, have been engaged through the filing of shareholder proposals and company dialogues, especially with resource extraction companies.³¹

For example, after shareholder engagement and a resolution filed in 2007 by Christian Brothers Investment Services (CBIS) and other members of the Interfaith Center on Corporate Responsibility (ICCR), Newmont Mining, the second largest producer of gold in the world, was commended by CBIS in 2009 for its commitment to understand the root causes of community conflict in its mining operations. Investors applauded the company for the release of a report that included an extensive review of policies and practices relating to its relationships with local communities, including indigenous peoples. The findings from the report, "*Community Relationships Review Global Summary Report*," written by the law firm of Foley Hoag, revealed that the company must manage community relationships more effectively and encouraged the development of a comprehensive management plan for community relations, assigning accountability to local managers for implementing policies, conducting regular social impact and risk assessments, and managing community concerns before conflict arises.³²

In 2011, following more than eight years of deliberative and constructive engagement led by Boston Common Asset Management and the Church of the Brethren Benefit Trust, the multi-billion dollar oil company ConocoPhillips finally revised its Human Rights Position statement to include Indigenous Peoples' rights.³³ These investors demanded that the company be transparent in implementing its new policy and include grievance mechanisms for indigenous communities affected by its operations. ConocoPhillips' Human Rights Position now states that the company's approach to local indigenous communities "...is consistent with the principles of the International Labour Organization Convention 169, concerning Indigenous and Tribal Peoples, and the United Nations Declaration on the Rights of Indigenous Peoples." ConocoPhillips is one of the first energy companies to adopt such a commitment.³⁴

Investors have also been seeking to remove negative and offensive images and/or portrayals of indigenous peoples, especially in advertising and branding. For example, investors were concerned about apparel designer Liz Claiborne's use of the Crazy Horse name to market a line of clothing. Crazy Horse is the name of one of the Lakota tribe's most respected leaders. Shareholders, along with the Native American community, argued that Liz Claiborne had misappropriated and desecrated the name and legacy of a revered spiritual and political leader by using it as a commodity. In 2002, Calvert Investments filed a shareholder resolution with Liz Claiborne. For several years before the filing, ICCR members had also engaged Liz Claiborne over the company's marketing of the Crazy Horse brand. Over 800 institutional investors signed on to a letter asking Liz Claiborne to cease its use of the name. Despite the mounting pressure, Liz Claiborne refused to relent, offering only to alter the name to all lowercase letters, and to make "horse" plural. Calvert eventually sold its shares in Liz Claiborne in opposition of the company's stance. In 2007, Liz Claiborne discontinued the Crazy Horse label.

Freedom of Expression and Privacy

Companies around the world face government pressure to comply with domestic laws and policies on censorship and disclosure of personal information that may conflict with internationally recognized human rights of freedom of expression and privacy. Investors have long engaged these companies to protect and advance human rights. In 2008, a diverse coalition, including investors (Boston Common Asset Management, Calvert Investments, Domini Social Investments, F&C Investments, and Trillium Asset Management), prominent human rights organizations, press freedom groups, academics, and leading information and communication companies (Google, Microsoft, and Yahoo) launched the Global Network Initiative (GNI). The GNI has developed a set of principles and implementation guidelines to help companies navigate these difficult issues consistent with international human rights law. Shareholder resolutions have also made a difference on privacy issues. In December 2012, in response to Trillium Asset Management’s shareholder proposal regarding privacy issues, Apple Inc. updated its Board’s Audit and Finance Committee charter to include responsibilities for the legal, regulatory, and reputational privacy risk issues raised in the resolution.³⁵ Investors view the inclusion of privacy risk issues in the charter as an important step in improving accountability at the highest levels of corporate governance.”

SINCE THE MID-1990S, MORE THAN 200 RESOLUTIONS HAVE BEEN FILED TO ADVANCE SEXUAL ORIENTATION NON-DISCRIMINATION POLICIES, WITH 150 WITHDRAWN SUCCESSFULLY UPON THE ADDITION OF SEXUAL ORIENTATION AND/OR GENDER IDENTITY TO THE COMPANY’S NON-DISCRIMINATION POLICY.

Governance Issues

Equal Employment Opportunity (EEO)

The effort to advance sexual orientation nondiscrimination policies has been one of the most successfully sustained shareholder campaigns in the United States. Since the mid-1990s, more than 200 resolutions have been filed to advance sexual orientation nondiscrimination policies, with 150 withdrawn successfully upon the addition of “sexual orientation” and/or “gender identity” to the company’s nondiscrimination policy.³⁶ A watershed moment occurred in 2002, when such a resolution, filed by the New York City pension funds at CBRL Group, the parent company of Cracker Barrel Old Country Stores, won the support of 58 percent of the shares voted. This was the first ever majority vote in favor of a social issues resolution opposed by management. In the years since, similar resolutions—when they have come to votes—have achieved high levels

of support. In 2012, seven of fifteen companies approached by Walden Asset Management agreed to modify their EEO policies to include sexual orientation and gender identity.³⁷

“Say on Pay”

Sustainable and responsible investors, including public pension funds, labor funds and SRI firms, have worked to reform the governance of portfolio companies so that directors and executives consider and adopt compensation policies in the long-term interest of the companies, their shareholders and other stakeholders. Too frequently, executives have little incentive—in their pay and bonus structures—to consider the company’s share price and other indicators of corporate health beyond a one- to three-year horizon.

According to US SIF Foundation’s 2012 *Report on Sustainable and Responsible Investing Trends in the United States*, shareowner engagement, combined with regulatory changes, are

SHAREHOLDER RESOLUTIONS ASKING COMPANIES TO INSTITUTE AN ADVISORY VOTE ON COMPENSATION EARNED AVERAGE SUPPORT OF MORE THAN 40% FROM 2008 THROUGH 2010 AND, BY MID-2010, HAD HELPED PERSUADE ABOUT 75 COMPANIES TO VOLUNTARILY IMPLEMENT AN ADVISORY VOTE ON PAY.

allowing shareholders greater scrutiny and influence over executive pay packages. In 2006, a coalition of institutional and individual investors that eventually numbered 75 investors with combined assets of more than \$1 trillion, joined forces to urge companies to adopt an advisory vote on executive compensation. This practice, also known as “say on pay” is common in British corporate governance and refers to an official channel for shareholders to express their concerns to corporate boards when huge pay packages seem unrelated to the companies’ long-term performance. The shareholder campaign received a boost when the SEC required that corporate proxy statements, beginning in 2007, provide full disclosure of the details and total value of compensation packages. Shareholder resolutions asking companies to institute an advisory vote earned average support of more than 40 percent from

2008 through 2010 and, by mid-2010, had helped persuade about 75 companies to voluntarily implement an advisory vote on pay.

The enactment in July 2010 of the Dodd-Frank Wall Street Financial Reform and Consumer Protection Act, discussed more fully in Chapter Four, has since made it mandatory for publicly traded companies to allow an advisory vote on pay at least every three years.

The current challenge for shareholders is to use the advisory vote on pay to hold management accountable, and for boards to ensure that the executive compensation policies they craft are defensible and align executives’ incentives with their companies’ long-term financial health. A small number of shareholders have seized the initiative to show they will not necessarily rubber-stamp the pay policies presented to them. In 2010, shareholders voted a majority of their shares against three of the sixty companies where they had a chance to weigh in on executive pay as the new rule went into effect. These thumbs-down votes came at KeyCorp, Motorola and Occidental Petroleum.

Although only a relatively low percentage of companies have failed their advisory votes, there is anecdotal evidence that many companies consider the threat of failure as a major incentive to ensure their pay packages are defensible. A Wall Street Journal analysis found that 25 percent of the CEOs of the companies that failed their advisory votes in 2011 had left by the 2012 meeting, a turnover rate nearly three times greater than among corporate CEOs in general.³⁸

Board Diversity

Sustainable and responsible investors have long pressed companies to seek racial and gender diversity on their boards. These investors apply the rationales that boards should ideally reflect our society’s make-up, and that considerable evidence indicates that companies that integrate gender, racial, and ethnic diversity into their business models are likely to be more successful than their competitors. While rates of board diversity in the United States have made only slow progress over the past decade, investors have persuaded numerous companies to broaden their board search criteria.

In 2003, Calvert Investments developed model nominating committee charter language for corporate boards. This model language aimed to give companies a means to formalize their commitment to creating an independent and inclusive board. Typically, investors are able to withdraw the resolutions when target companies agree to modify their nominating committee charter language by explicitly establishing racial and gender diversity as a priority. Shareholder advocates for board diversity received a boost in 2010 with a new SEC rule requiring companies to report on their board diversity policies. For example, Calvert and the Connecticut Retirement Plans and Trust Funds were particularly pleased when Netflix, with whom they had negotiated the expanded charter language, named its first woman

SHAREHOLDERS HAVE GIVEN STRONG SUPPORT TO PROPOSALS ASKING COMPANIES TO REPORT ON SUSTAINABILITY; THESE PROPOSALS AVERAGED SUPPORT OF MORE THAN 30% ANNUALLY IN 2010–2012. PROPONENTS WITHDREW THE MAJORITY OF SUSTAINABILITY REPORTING PROPOSALS THEY FILED FROM 2010–2012, USUALLY AFTER SUCCESSFUL NEGOTIATIONS WITH THE TARGET COMPANIES.

director in July 2010. In 2011 and 2012, the California State Teachers Retirement System became an active proponent on this issue, filing ten resolutions in 2011 and 2012. In 2012, the Thirty Percent Coalition, a group of institutional investors controlling approximately \$1.2 trillion in assets, petitioned forty-one S&P 500 companies to include women in their boards of directors. The group aims to increase the percentage of board seats held by women in US companies to 30 percent by 2015.

Some sustainable and responsible investors also urge other investors to withhold support from corporate proxy slates where boards lack gender and racial diversity.

Corporate Social Responsibility (CSR) Reports

In recent years, numerous shareholder groups have asked firms to review and report on the sustainability of their operations, not only in terms of their environmental impact, but also in how they deal with labor and community issues. Since the SEC does not require sustainability reporting by publicly traded companies

in the United States, voluntary reporting is often the only way that investors and other stakeholders can monitor companies for issues of concern. Comprehensive sustainability reports, issued on a regular basis, provide valuable information that allows investors to evaluate companies' environmental, social, and governance risks and opportunities. Additionally, the reporting process frequently has a transformative impact on companies, as they begin to measure and comprehensively manage risks and other opportunities, including energy and water use, waste management, emerging supply chain risks and other stakeholder concerns. Today, few companies can ignore sustainability reporting while also attracting—or maintaining—sustainable and responsible investors.

Shareholders have given strong support to proposals asking companies to report on sustainability; these proposals averaged support of more than 30 percent annually in 2010–2012.³⁹ A shareholder proposal filed by Walden Asset Management at Layne Christenson received a record 92.8 percent support in 2011.⁴⁰ These high support levels may help to persuade companies to increase their disclosure. Proponents withdrew the majority of the sustainability reporting proposals they filed from 2010 through 2012, usually after successful negotiations with the target companies.

Today, the number of CSR reports issued by companies is increasing, as is the quality of those

THE NUMBER OF RESOLUTIONS FILED ON CORPORATE POLITICAL SPENDING ROSE TO MORE THAN 100 A YEAR IN 2011 AND 2012, UP FROM AN ANNUAL AVERAGE OF ABOUT 60 IN 2007 THROUGH 2010, AS SHAREHOLDERS REACTED TO THE CITIZENS UNITED DECISION REMOVING RESTRICTIONS ON CORPORATE POLITICAL ADVERTISING AND SPENDING.

reports. A 2011 report by KPMG indicates that 95 percent of the Global Fortune 250 companies disclosed their CSR data. Eighty-three percent of US-based companies in this group engaged in CSR reporting. This figure represented an increase from 74 percent in 2010 and 37 percent in 2005.⁴¹

Corporate Political Spending

Since January 2010, when the Supreme Court's decision in *Citizens United v. Federal Election Commission* removed restrictions on political advertising and spending by corporations and other organizations, concerned investors have been calling for disclosure of policies, oversight mechanisms, and a detailed listing of political spending and lobbying expenditures. Such transparency helps management and investors better evaluate business risk

associated with efforts to influence regulatory and legislative processes. As shown by the number of shareholder proposals filed each year in the US SIF Foundation's *2012 Trends Report*, disclosure and management of corporate political spending and lobbying has emerged as the greatest single concern of shareholders and now dominates the social issues proxy season. The number of resolutions filed on this subject rose to more than 100 a year in 2011 and 2012, up from an annual average of about 60 in 2007 through 2010, with average vote support of more than 21 percent in 2012.⁴²

The campaign on political spending has been led by the Center for Political Accountability (CPA) with the support of an investor coalition that includes pension funds, labor unions, environmental groups and sustainable investment managers. Since the start of this campaign in 2004, the CPA and its allies have persuaded 100 large companies, including more than half the S&P100, to disclose and require board oversight of their political spending with corporate funds. The campaign's effectiveness has been aided by strong investor support, including by many members of US SIF. In the 2012 season, proponents were able to withdraw more than two dozen proposals in exchange for substantive commitments from the target companies. Trillium Asset Management, for example, announced that it was able to withdraw resolutions at Chubb, State Street and Halliburton.

In addition to asking for disclosure of corporate political contributions, sustainable investors filed resolutions with 40 companies in 2011 and 2012 specifically asking for disclosure of lobbying expenditures made both directly as well as indirectly through trade associations such as the US Chamber of Commerce and not for-profits such as the American Legislative Exchange Council (ALEC) and the Heartland Institute. Many companies had responded positively by 2013. For example, PepsiCo agreed to disclose direct lobbying and contributions made to trade associations,⁴³ as well as funds paid to grassroots lobbying and tax exempt groups that write and endorse model legislation. Walden Asset Management withdrew its resolution at 3M after winning the company's commitment to disclose lobbying activities and expenditures to trade associations. After discussions with Domini Social Investments, JPMorgan Chase completed a series of important changes to its political spending policies, effectively withdrawing from electoral politics. The bank's new policies prohibit the use of corporate treasury funds for any electoral activities—directly or indirectly (through trade associations, for example)—including political advertising. As a result of these significant

policy commitments, Domini withdrew its shareholder proposal.⁴⁴ In response to shareholder engagement, Accenture adopted a new policy that prohibits political spending with corporate funds. Companies such as Johnson & Johnson, Microsoft and Procter & Gamble adopted policies to increase transparency in their political spending reports. In addition, Johnson & Johnson, Procter & Gamble and McDonald's ended their involvement with ALEC, and Pfizer ended its involvement with the Heartland Institute.⁴⁵

Privately Held Companies

Shareowner engagement is not limited to publicly held securities. Private equity investment managers often have a close relationship with—and direct access to—company management. As a result, there is great opportunity to engage, influence and shape their portfolio companies' policies and performance on ESG issues. Depending on the strategy, private equity investment managers often hold investments for several years—a time period that allows for actions to add value on environmental, social and governance issues, such as energy efficiency, carbon reduction and workplace health and safety programs. In addition to SRI money managers, prominent private equity firms such as KKR, The Blackstone Group, The Carlyle Group and others are raising questions about ESG integration with company management. This section addresses some valuable case studies of privately held company approaches to sustainability and responsibility.

Levi Strauss: Labor and Human Rights Issues in the Global Supply Chain

Over the years, investors in Levi Strauss & Co.⁴⁶ have collaborated with other groups to engage the company on a variety of issues, focusing on supply chain transparency, particularly related to labor and human rights conditions at overseas factories. Twenty years ago, Levi Strauss issued its first Terms of Engagement to bring its global suppliers in line with its policies on labor, health and safety and environmental impact. In 2008, after receiving inquiries from a range of stakeholders, including sustainable and responsible investors, about the forced child labor in the Uzbek cotton harvest, the company took action. Levi Strauss informed all of its textile suppliers and licensees that, until it saw clear evidence of action to eliminate the use of forced child labor, it would prohibit Uzbek cotton in the production of the company's branded products. With this move, Levi Strauss became the first US apparel brand or retailer to prohibit the use of Uzbek cotton in its supply chain. In September 2011, Levi Strauss was among more than sixty of the world's best known apparel companies and brands to sign a pledge calling for the elimination of forced child labor in Uzbekistan.

TXU Energy: Environmental Performance

Increasingly, buyout firms are realizing the benefits of good environmental and governance performance. In 2006, environmental, community and other civil society organizations, along with sustainable and responsible investors, were concerned when utility company TXU Energy, Texas's largest power producer, announced plans to build eleven coal-fired plants. A number of lawsuits and community protests resulted. When KKR & Co., TPG Capital and Goldman Sachs began considering a leveraged buyout (LBO) of the utility, they understood that they had to get the support of environmentalists and they actively consulted environmental groups. TXU's new owners decided to build just three plants, rather than the initially planned eleven. The owners also agreed to cut TXU's carbon emissions to 1990 levels by 2020, spend \$400 million on energy efficiency efforts, and tie executive pay to environmental goals. The \$45 billion LBO was announced four days later.⁴⁷

Northern Pulp and Blue Wolf Capital: Community, Indigenous Peoples' Rights, Environmental and Workplace Issues

Blue Wolf Capital, a private equity fund founded in 2005, considers responsible investing to be the core of its business strategy. Improving resource efficiency and resolving employee and community stakeholder concerns are central to Blue Wolf's portfolio company turnarounds. The case of portfolio company Northern Pulp, a pulp and paper mill in Abercrombie Point, Nova Scotia, provides an instructive example of Blue Wolf's investment strategy and ESG approach at work. When Blue Wolf acquired the mill in 2008, Northern Pulp had high operational costs and a contentious relationship with the neighboring First Nations community, the Pictou Landing Band, due to longstanding environmental problems. Early in Blue Wolf's ownership, Northern Pulp negotiated with the Communications, Energy and Paperworkers Union of Canada, which represented the majority of the mill's 300 employees, to find a way to preserve the company's financial viability while maintaining fairness to workers. Ultimately, Northern Pulp implemented an early retirement plan that eliminated sixty permanent positions, a move that lowered Northern Pulp's labor costs while avoiding wider layoffs.

During Blue Wolf's ownership, Northern Pulp worked with regulators to decrease the mill's environmental footprint. The company's engineers were able to reduce the water area used by the mill's effluent treatment facilities by 80 percent. Northern Pulp also obtained a \$15 million government loan to replace a long-damaged pipeline to the treatment plant. While the remediation of the waters surrounding the plant is ongoing, the Pictou Landing Band chief now regards Northern Pulp as an "ally" in the environmental restoration effort. The goodwill generated by these advances helped Northern Pulp secure a \$75 million loan from the provincial government in 2010. The company used the loan to purchase 475,000 acres of timberland, providing a reliable source of wood with Sustainable Forestry Initiative certification for the mill. At the same time, the firm sold 55,000 acres to the Province of Nova Scotia for environmental conservation. The loan also helped finance a \$5 million odor reduction facility for the mill, to further reduce harmful environmental impacts and improve relations with the Pictou Landing Band and the surrounding communities. After strengthening environmental standards and stabilizing stakeholder relationships at Northern Pulp, Blue Wolf and its co-investor, Atlas Holdings, exited their investment in May 2011. With support from the workers' union, Northern Pulp was sold to Paper Excellence Canada, a Vancouver-based subsidiary of Sinar Mas Group.

Synagro: Community Health and Environment Justice

In 2006, Mercy Investment, along with two agencies in the South Bronx, Mercy Center and Sustainable South Bronx (SSB), purchased stock in Synagro, the parent of New York Organic Fertilizer Company, a solid waste processing plant in the Hunts Point section of the Bronx, shortly before it was purchased by the Carlyle Group and taken private. Mercy, along with the Interfaith Center on Corporate Responsibility (ICCR), filed a shareholder resolution with Synagro asking the company to engage with the community and produce a facilities report on the environmental, health and safety impacts of its operations. Investors were deeply concerned about the impact of the Synagro facility on the health of the residents at Hunts Point, a one square mile peninsula in the South Bronx that is one of the poorest congressional districts in the United States and has among the highest incidence of childhood asthma. This community bears heavy environmental burdens from local industrial and commercial facilities, and residents complain about noxious odors emanating from the plant onto their public school and neighborhood.⁴⁸ After investors filed a resolution that received 31 percent vote support,

the company agreed to engage with the investors, public officials, the local community board, teachers and organizations of youth, mothers and environmentalists. Ultimately, the company agreed to improve plant operations. While all problems were not resolved, positive changes have been made at the plant.⁴⁹

CHAPTER THREE:

Helping Communities and Individuals

Sustainable and responsible investment benefits individuals and communities in a number of ways. Through active ownership and engagement with corporations, as discussed in Chapter Two, sustainable and responsible investors have helped to bring benefits to communities and individuals impacted by these corporations. In this chapter, two different strategies are discussed through which sustainable and responsible investors can benefit communities and individuals: through collaboration with community and worker organizations, and through community investing.

Collaborating with Community and Worker Organizations

Investors can influence companies and hold them to account for the labor and human rights violations, environmental degradation, and other negative impacts that communities might experience due to company operations. The following example highlights how groups of investors were able to successfully influence changes in corporate behavior and accountability in collaboration with other groups in the community.

Tomato Harvesters in Florida

In 2001, sustainable and responsible investors became aware of the plight of thousands of tomato harvesters in Immokalee, Florida, after community-based worker organizations launched a boycott against fast-food chain Taco Bell. Through the Coalition of Immokalee Workers (CIW), organized in 1993, the workers asked growers to increase wages by one cent per picked pound. The workers also demanded a third-party mechanism for monitoring workers' complaints of abuse. Farm workers typically earn less than \$12,000 annually and lack rights to overtime pay, association, and collective bargaining. To address these challenges, investors joined civil society coalitions to urge companies that purchase tomatoes to ensure safe, healthy working conditions and a sustainable living wage for the tomato harvesters. After years of engagement, major buyers reached agreements with worker organizations that provide for better working conditions. On March 8, 2005, Taco Bell signed an agreement with CIW. On April 9, 2007, McDonalds followed suit, also signing an agreement with CIW. Burger King and Subway signed agreements in 2008, and, in 2009, Whole Foods Market signed a similar agreement. Additionally, CIW and the Florida Tomato Growers Exchange, a trade association, developed a code of conduct that improved wages and increased workplace protections, by including minimum-wage guarantees and a zero-tolerance policy on forced and child labor.

Community Investment

Sustainable and responsible investors have also transformed communities across the United States and overseas through their support of community investing, one of the fastest growing areas of SRI. While a wide range of investment vehicles fall under the banner of community investing, they all share three characteristics:

- 1) A focus on marginalized areas or communities that conventional market activity does not reach (in practice, low-income neighborhoods or regions, communities of color, and underserved geographic regions such as rural communities);
- 2) A focus on enabling the delivery of explicit social benefits (affordable housing, economic development, provision of needed goods and services at affordable rates, healthier outcomes) to those areas or communities; and
- 3) A financial product available for investment that can be managed in terms of risk and return.

Community investment vehicles can range, for example, from concessionary loans and equity investments in nonprofit community groups to market-rate investments in for-profit real estate development. Investors and lenders typically have engaged in community investing through Community Development Finance Institutions (CDFIs) and other community investing institutions (CIIs).

CIIs fall into four major categories (please see the US SIF Foundation's *2012 Trends Report* for details):

- community development banks
- community development credit unions
- community development loan funds and international microfinance funds
- community development venture capital funds

Investors can place capital directly into any one of the four options above, or they may invest in pooled funds or specialized community investment portfolios. An important source of funding is the CDFI Fund, a program of the US Department of Treasury that was established in 1994 to promote economic revitalization and community development in the United States through investment in and assistance to approved CDFIs.

Historical Context for Community Investing

Today's community investing advocates and practitioners can be placed in a historical context, particularly with respect to community investing's roots in the movements of the 1960s. Congress passed the Economic Opportunity Act of 1964, and established the federal Office of Economic Opportunity (OEO). The Act aimed at empowering poor white, black, Hispanic and Native American rural and urban communities left out of the mainstream of society.⁵⁰

Earlier in the 1960s, the Ford Foundation had been experimenting with an economic development vehicle called "community development corporations" (CDC). Congress amended the Act to create funding for CDCs, local development and investment entities designed to foster "community investing" as we know it today. Among the first funded by the Office of Economic Opportunity was the Bedford Stuyvesant Restoration Corporation in Brooklyn, New York. Its then chief executive, Frank Thomas, went on to serve as president of the Ford Foundation, which joined the federal government in ongoing funding of these entities.

Thus began what has now been fifty years of "community development" practice and policy in the United States. The Community Reinvestment Act (CRA) was passed by Congress as part of the Housing and Community Development Act of 1977. The purpose of CRA was to provide regulatory incentives for commercial banks and savings associations to make loans to borrowers in underserved low- and moderate-income neighborhoods and rural regions,

thereby reducing discriminatory credit practices known as redlining. The National Community Reinvestment Coalition, a Washington, DC-based, 600-member strong network of community developers and organizers, and the watchdog for CRA, notes that trillions of dollars of private capital have been invested in underserved communities as a result of CRA.

By the 1990s, the field—now represented by community development loan funds, credit unions, banks, and micro funds—came together to advocate for special sources of capital for community lending organizations that would become known collectively as community development financial institutions (CDFIs). The growing network of CDFIs and their trade associations came together as the CDFI Coalition to create the 1994 Riegle Community Development and Regulatory Improvement Act as a bipartisan initiative. The purpose of the Act was to create a source of investment capital specifically for community development lenders organized primarily as financial institutions. The CDFI Fund was created in the Department of the Treasury along with a certification process to qualify CDFIs (at least 60 percent of their assets must be in financial transactions). Today, the national trade association, Philadelphia-based Opportunity Finance Network, which serves as a voice of the CDFI industry, calculates over \$30 billion of financing among fewer than 200 CDFIs across America.

OEO, CRA and the CDFI Fund are three of the major federal regulatory and resource programs that formed the backbone of community development. Governmental resources have been crucial in spurring community development and the creation of specific community development entities to carry out the job of investment.⁵¹

The CDFI field is now a vibrant infrastructure and network of some 1000 CDFIs and many more CDCs and national “intermediaries” that, like the Local Initiative Support Corporation (LISC) in New York City, aggregate private and public capital, and provide resources for community development.

The impact of the community investment field on the local, regional and national level has grown over the years. With expanded investment opportunities across asset classes, community investing serves as another avenue of opportunity for “impact investors.” The CDFI industry has taken the vital step of creating a rating service called the CDFI Rating and Assessment System (CARSTM). This rating system is described as a “...comprehensive, third-party analysis of community development financial institutions that aids investors and donors in their investment decision-making.”⁵² Subscribers of the CARSTM service can use its analysis of financial strength and impact performance to assist with investment decision-making processes.

Examples abound of the ways in which community investing initiatives have aided individuals, strengthened neighborhoods, and delivered social and environmental benefits. A short list is presented below.

Self-Help Credit Union and the Revitalization of Downtown Areas

In 2005, Self-Help Credit Union bought, renovated and leased more than 500,000 square feet of downtown office space in North Carolina cities including Asheville, Charlotte, Durham and Greensboro—much of it in abandoned or historical buildings. In 2004, Self-Help made its largest single loan up to that point—\$40 million—to renovate the American Tobacco complex, an abandoned tobacco mill in downtown Durham, a neighborhood that had declined for

decades, first because of suburbanization, and then because of the mill's closure in 1987. When the developer had been turned down by the conventional loan market, it turned to Self-Help. As Self-Help reports:

Local development professionals agree that the rehabilitation of American Tobacco accelerated the pace of change and opened up the investment landscape in downtown Durham after piecemeal redevelopment during the 1980s and 1990s. The numbers support this. Less than one significant development project was completed downtown each year during the 17 years American Tobacco sat vacant (1987-2003). In the five years following the opening of Phase I (2005-2009), 16 major projects were completed, a pace of more than three per year. Between 2000 and 2003, the average number of development approvals was 3.75 per year downtown; over the five years since the opening of the revitalized complex (2005-2009), the average number jumped to 11.80 per year. The number of property sales increased by 62 percent from 2005 to 2007, compared to sales between 2002 and 2004; the average sales price increased by 115 percent.⁵³

The Reinvestment Fund (TRF) and Access to Healthy Food

Community investing organizations in the United States are also involved in providing access to healthy food and eliminating food deserts in poor and underserved communities, initiatives that also help to revive economically depressed downtowns and other areas. As the CDFI Fund notes:

Food deserts are urban neighborhoods and rural towns with limited access to affordable and nutritious food. USDA estimates that more than 23 million people in America live in low-income areas that are more than a mile from a supermarket. Well-targeted financing, technical assistance, and community partnerships can help to improve access to healthy foods, develop and equip grocery stores, create new markets for small businesses and farmers, strengthen the producer-to-consumer relationship, and support broader economic development efforts to revitalize distressed rural and urban communities.⁵⁴

For example, The Reinvestment Fund (TRF), a community development organization that operates in the mid-Atlantic region, has made an impact through its Pennsylvania Fresh Food Financing Initiative (FFFI), a statewide financing program designed to improve access to fresh foods in underserved urban and rural communities. As of 2010, FFFI had attracted 206 applications from across Pennsylvania, with ninety-three applications approved for funding. Projects approved for financing are expected to bring 5,023 jobs and leasing of 1.67 million square feet of commercial space.

Brown's ShopRite of Island Avenue, Philadelphia, was the first store to receive financing through FFFI. In 2005, the store received \$250,000 in FFFI grant funding to help with workforce development training costs, plus a loan from TRF's New Markets Tax Credits program. Most of the supermarket's 258 jobs are filled by local residents. The presence of the new 57,000 square foot supermarket is encouraging other business development and job creation.

Similarly, the Montana Community Development Corporation of Missoula, Montana, provided financing in 2006 to a Butte native to convert the boarded-up Sears Building in the once bustling neighborhood of upper Butte into a grocery store. Upon opening, the Hennessey Market had thirty employees, 75 percent of whom previously had been unemployed.

Other Small Business Loans and Development

Small businesses represent the vast majority of businesses in the United States. They often drive innovation and economic development, and can help stabilize and revitalize distressed communities by helping people move above the poverty line. To help incubate small businesses, community development organizations can provide mentoring and assistance in obtaining financing or contracts.

The CDFI industry has been able to support small businesses and has created a host of innovative products and services. Through community loan funds and technical assistance, sustainable and responsible investors have helped to provide communities with the resources they need to assist themselves. Many community investment institutions are also addressing environmental needs. Community development banks, such as ShoreBank Pacific and Community Bank of the Bay, as well as community development venture capital firms like CEI Ventures and SJF Ventures, provide critical financing to emerging green businesses at work in underserved communities.

Generating Alternatives to Predatory Lending

Faith Community United Credit Union, which was founded in 1952 by the members of Mt. Sinai Baptist Church in Cleveland, provides an example of the benefits that community investing institutions offer. Since 1999, the credit union has offered its members a “Grace” loan as an alternative to payday lenders, which typically charge as much as 300 percent in annualized terms for short-term loans. Most of the Grace loans go to single mothers when school starts in August and again at the Christmas holidays. After one year, recipients of Grace loans who are in good standing are eligible to receive a line of credit—which the credit union terms “Amazing Grace.”

Supporting Native Culture and Values

Through a partnership with the Low Income Investment Fund, the General Board of Pension and Health Benefits of the United Methodist Church helped the Friendship House American Indian Healing Center in San Francisco to enlarge its community facilities. With its emphasis on Native American culture and values, the Friendship House offers addiction treatment, transitional housing and job training programs primarily to Native Americans located in California and nearby states. Partly through the General Board’s loan, the Friendship House was able to replace a smaller, older facility. The new Friendship House, located in San Francisco’s Mission District, is a four-story, 26,000-square-foot facility with eighty beds available for residential treatment. Friendship House also has a sweat lodge, basketball courts and a great hall, which is used for events and meetings.

Expanding Solar Power and Creating Green Jobs

Boston Community Capital launched Solar Energy Advantage, which re-trains and employs workers in “green” jobs. Working with public and private partners, the project installed solar units at five low-income housing developments that serve 950 families. Solar energy will now provide 25 percent of the electricity for these units, enabling them to avoid cutting other services to pay for spikes in electricity prices.

Growing Small Businesses and Extending Micro-Loans

In 2011, ASI Federal Credit Union, a CDFI founded in 1961 and based in Greater New Orleans with 75,000 members, 60 percent of whom fall below the poverty level, launched Kiva New Orleans, in cooperation with micro-lender Kiva and the Good Work Network. Kiva New Orleans

aimed to direct more than \$500,000 in micro-loans to small businesses in New Orleans. The Good Work Network educates, coaches and supports small business owners to help them improve their skills, realize their full potential and become active participants in the local economy. The Network is leading the effort to recruit, prepare and support small businesses interested in receiving a micro-loan through Kiva New Orleans.

ASI Federal Credit Union works with the small businesses referred by Good Work Network, underwrites the micro-loans, analyzes loans for risk, and administers approved loans. Kiva is featuring New Orleans-based borrowers on the Kiva website, enabling the people of New Orleans and the broader Internet community to invest in and champion the success of New Orleans businesses, \$25 at a time. One entrepreneur participating in the Kiva New Orleans micro-loan program is the founder of the Creative Hands Day Care and Preschool Center in New Orleans. Her \$10,000 micro-loan enabled her to purchase toys and equipment for the children she cares for and to support the expansion of her business.

Municipal Finance

In the United States, municipal bonds are issued by communities at the state and local level, and help finance education, health care, housing, transportation, economic development and environmental recovery and protection. Supported by a relatively liquid market, municipal finance is one of the most cost-efficient vehicles for financing community impact. Bonds for schools and public projects are often approved directly by voters, assuring the projects are a priority for the communities, and reflecting the loan's purpose. Although municipal bonds in the United States are generally issued with tax exempt interest, more recently approximately 10 percent of the market has been issued as taxable bonds—which may make them suitable impact investments for pensions, endowments, and foundations.⁵⁵

In June 2013, Massachusetts became the first US state to sell “Green Bonds,” modeled on a similar financing initiative of the World Bank.⁵⁶ Although municipal bonds targeted to environmental programs have been previously issued, these are the first ones to explicitly be marketed as “Green Bonds.” The \$100 million bond quickly sold out, receiving \$130 million in orders from 29 institutions as well as 154 individual investors. Eight to ten of these institutional investors were first time Massachusetts bond purchasers that became interested because of the ‘green’ component. The capital raised will be directed towards environmental projects such as energy efficiency, conservation and clean water projects, and river revitalization. The 20-year bonds offer interest rates ranging between 3.20 percent and 3.85 percent.

Social Venture Capital

Social venture capital is a form of venture capital investing that seeks out early-stage investments in companies that have identified ways to be more environmentally or socially responsible before they are publicly traded. Venture capital funds specializing in alternative energy and clean technology companies have attracted considerable capital from mainstream venture capital investors over the last decade.⁵⁷ These companies are often run by visionary entrepreneurs who have identified profitable ways of addressing society's needs. For example, Minneapolis-based North Sky Capital's renewable energy infrastructure projects include investments in a 4.5 megawatt biogas fuel cell facility in San Diego, which would be the largest of its kind in the United States. Calvert Special Equities' investments include GRO Solar, one of the largest distributors and installers of solar energy systems in the United States.

Microenterprise Business

Lending to micro-enterprises is an important strategy in the effort to improve the economic well-being of low-income families. Through loans and loan funds set up for small, medium and micro-enterprises, SRI investors have made capital available to a critical, underserved segment of the business marketplace both in the United States and abroad. In Africa and Asia, microfinance has improved the socio-economic status of many women with little or no capital or credit by providing small loans to them to start their own businesses and to reduce their economic dependence on behaviors that put them at risk of contracting HIV. Sustainable and responsible investors have helped channel investment dollars to the small, medium and micro-enterprises that are best meeting sustainability challenges in their communities.

For example, upfront investments from Oikocredit, an international community development institution, to Divine Chocolate, a chocolate manufacturer co-owned by the Kuapa Kokoo cooperative in Ghana, generated hope and new opportunities for cocoa farmers in the West African country of Sierra Leone. In February 2010, Divine Chocolate purchased the first shipment of Fair Trade Certified cocoa from the Sierra Leone cooperative Kpeya Agricultural Enterprise (KAE) for inclusion in its chocolate bars and other fair trade chocolate products. The fair trade system provides farmers with a fair price for their products, offering a social premium over conventional market prices. The partnership with Divine Chocolate, co-owned by the Kuapa Kokoo cooperative in Ghana, has resulted in numerous community development projects, including new schools, water wells, bridges and a community-based credit union available to cooperative members for new entrepreneurial products.

CHAPTER FOUR:

Influencing Public Policy and Developing Global Standard-Setting Organizations

For years, sustainable and responsible investors have influenced national and global policy in order to advance their principles and priorities. When sustainable investors are successful in winning legislative, regulatory and other public policy changes, they can achieve broad change. Responsible investors have also made progress at the national and global level by creating organizations to coordinate public policy work or to advance research and set standards for the investment industry.

These strategies are growing in importance in the context of increasingly complex global economic and social challenges. Sustainable and responsible investors have worked with and asked for regulatory changes from US government agencies, testified and advocated to Congress on multiple SRI priorities, and worked with other organizations and coalitions to pursue policy advances in the United States. Investors have also worked with international organizations such as the United Nations (UN), the Global Reporting Initiative, the Principles for Responsible Investment, the Global Sustainable Investment Alliance, and other sustainable finance organizations around the world.

Impacts on Public Policy

SRI has influenced both domestic and international policy. Domestically, public policy efforts have focused on the Securities and Exchange Commission (SEC), the US Environmental Protection Agency (EPA) and other government agencies, as well as Congress and the White House.

As the advocate for the SRI community before the US government, US SIF coordinates public policy efforts to promote sustainable and responsible investment. US SIF offers members the opportunity to help shape policy on sustainability issues by convening investor-only meetings with policymakers, publishing position papers, submitting comment letters, providing model letters for members to adapt for their own use, training members on advocacy strategies and writing opinion pieces for media placement. For example, in 2007, US SIF played a significant role in ensuring that sustainable investors reached out to the SEC with their concerns about a preliminary announcement to substantially raise the vote support thresholds required for resubmission of shareholder proposals. The SEC ultimately chose not to move forward on efforts to limit the right to file shareholder resolutions.

In April 2012, as part of the Dodd-Frank Act, the SEC established a new Investor Advisory Committee to advise the Commission on regulatory priorities, the regulation of securities products, trading strategies, fee structures, and the effectiveness of disclosure. The Committee is also responsible for advising on initiatives to protect investor interests and to promote investor confidence and the integrity of the securities marketplace.⁵⁸ US SIF member representatives from the AFL-CIO, Ariel Investments and Domini Social Investments serve on the SEC's 18-member Investor Advisory Committee and bring insight and experience of sustainable and responsible investment to the Commission's deliberations.

Dodd-Frank Financial Reform Law

In 2010, sustainable investors in the United States won an important victory with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The law affects many aspects of the financial services industry and is one of the most significant changes to the financial regulatory system in decades. This law is aimed at restoring public confidence in the financial system and preventing another financial crisis. For example, the Dodd-Frank Act specifies that publicly traded companies must allow shareholders to hold an advisory vote on their executives’ pay packages at least once every three years. Dodd-Frank also includes other provisions important to sustainable and responsible investors, discussed below.

Executive Compensation and Pay Disparity: The Dodd-Frank Act includes a provision that requires public companies to disclose CEO-to-worker pay ratios. The provision reflects investor concern that the dramatic rise in US CEO pay levels over the past three decades has come at the expense of shareholders and other stakeholders, including company employees. Moreover, executive pay packages that are tied primarily to short-term financial indicators and stock prices can provide incentives for CEOs to take excessive risks. Inappropriate executive compensation packages at financial services companies have been identified as contributing factors in the Wall Street financial crisis. In March 2012, after increasing pressure from lawmakers and investors awaiting action, the SEC announced its intention to issue regulations implementing pay ratio disclosure requirement “in the next couple of months.” Sustainable and responsible investors continue to provide the SEC with input concerning the rulemaking process and await the SEC rule.⁵⁹

SINCE THE PASSAGE OF THE DODD-FRANK ACT, INVESTORS AND OTHER STAKEHOLDERS HAVE ENGAGED WITH THE SEC IN THE RULEMAKING PROCESS FOR THE DISCLOSURE OF CONFLICT MINERALS. IN 2012, THE SEC ISSUED FINAL RULES REQUIRING COMPANIES TO DISCLOSE THEIR USE OF CONFLICT MINERALS.

Conflict Minerals: Dodd-Frank also requires publicly-traded US companies that source minerals such as tin, tungsten, tantalum and gold to report efforts, including independent private sector audits, to ensure that they are not sourcing minerals from conflict areas in and around the Democratic Republic of the Congo (DRC). The eastern part of the country has been engulfed in a horrific factional war, which has claimed more than 5.4 million lives since 1998. Humanitarian observers believe that the DRC’s mineral mines, many of which are controlled by various armed factions, provide financing that fuels the conflict. Since the passage of the Dodd-Frank Act, investors have worked actively with other stakeholders to engage with senior representatives at the SEC on the rulemaking process for the provision. Their goal is to support procedures to ensure that minerals from legitimately

managed mines in conflict-free areas of the DRC can continue to be purchased to support communities in this country. As part of the multi-stakeholder group, investors submitted to the SEC recommendations endorsed by companies such as AMD, Dell, Ford, Hewlett-Packard, and Microsoft. The SEC announced final rules on conflict minerals in August 2012, requiring companies to disclose their use of conflict minerals if those minerals were “necessary to the functionality or production of a product.” In October 2012, the US Chamber of Commerce and National Association of Manufacturers took issue with the ruling, bringing a federal suit against the SEC. In July 2013, the DC District Court upheld the rule and dismissed the lawsuit filed by

the US Chamber of Commerce, the National Association of Manufacturers, and the Business Roundtable.

Payments to US or Foreign Governments: Sustainable and responsible investors were leading advocates of the Dodd-Frank Act provisions that require companies registered with the SEC to disclose the payments they make to foreign governments or to the US government, for the commercial development of oil, natural gas, or minerals. Several human rights organizations and concerned investors have called for greater disclosure because the secrecy of extractive companies' payments to host governments can facilitate corruption and misappropriation of revenues, leading to social unrest and unstable commercial operating environments. However, while the SEC must issue a rule to implement this provision of Dodd-Frank, it hit a snag when a business coalition challenged the rule in court. On July 2, 2013, the US District Court for the District of Columbia made a ruling in *American Petroleum Institute et al. vs. SEC* that requires the SEC to review this payment disclosure rule. While the ruling was a disappointment, investors representing more than \$1.2 trillion in assets under management submitted comments supporting the SEC's rule making and emphasized the materiality of the disclosures required by the law.

Consumer Financial Protection Bureau: In response to the late-2000s recession and financial crisis, in which deceptive and predatory home lending practices were a significant contributing factor,⁶⁰ sustainable and responsible investors supported the creation of an independent federal agency to improve disclosure standards and protections to consumers of financial products. The Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB) and gave it the primary responsibility to enforce federal laws and issue regulations to protect financial consumers. Sustainable and responsible investors then urged the White House and Congress to nominate a director and oppose any efforts to restructure the Bureau. The CFPB officially began operations on July 21, 2011.

Public Policy Impact on Corporate Political Contributions

Sustainable and responsible investors have also engaged with the SEC to use its existing authority to improve disclosure of corporate political contributions. Since January 2010, when the Supreme Court's decision in *Citizens United v. Federal Election Commission* removed restrictions on political advertising and spending by corporations and unions, concerned investors have looked to regulatory and legislative means to limit the damage from the decision. In November 2011, US SIF, along with US SIF members and other investors managing more than \$690 billion, asked the SEC to support a rulemaking petition that urged the SEC to require full disclosure by companies of their political spending. The Committee on Disclosure of Corporate Political Spending, which is comprised of 10 corporate and securities law professors, submitted the petition. As of May 2013, the SEC had received over 600,000 comments on the proposal - a record in SEC rulemaking history. The SEC announced in January 2013 that it would consider requiring public companies to disclose political spending.

Public Policy Impact on Environmental Issues

Sustainable and responsible investors have long sought to improve companies' disclosure and action on climate change, and they achieved successes through advocacy before the SEC and Environmental Protection Agency (EPA).

Climate Change Issues: In a multi-year campaign, concerned investors successfully encouraged the SEC to issue guidance to companies on disclosing the material impacts they face from climate change. Investor coalitions wrote to the SEC about this issue in 2004 and 2006, and, in 2007, a group of twenty-two investors and environmental organizations formally petitioned the SEC to provide interpretive guidance on climate change risk disclosure in securities filings. Shortly after the petition was filed, the Senate Banking Committee's Subcommittee on Securities, Insurance, and Investment held a hearing in which leading institutional investors repeated their calls for detailed climate risk disclosure in securities filings.

IN JANUARY 2010, THE SEC RESPONDED TO INVESTOR CONCERNS BY ISSUING INTERPRETIVE GUIDANCE ON CORPORATE REPORTING ON MATERIAL IMPACTS FROM CLIMATE-RELATED DEVELOPMENTS.

In January 2010, the SEC issued the definitive guidance these investors had sought. Specifically, the SEC's interpretative guidance says that companies should report to investors if they are likely to face material impacts from climate-related developments in the following areas: legislation and regulation, international accords and treaties, regulation or business trends, and the physical impacts of climate change. A few months earlier, in October 2009, the SEC Division of Corporation Finance had signaled its growing awareness of this issue when it issued guidance that it would no longer allow companies to routinely omit shareholder proposals that ask companies to evaluate risk from climate change and other health and environmental issues.

The sustainable investment community has also supported regulations requiring companies to report their greenhouse gas (GHG) emissions. In June 2009, US SIF issued a formal comment to the EPA on its proposed rule for mandatory reporting on greenhouse gas emissions. The rule, which was adopted in October 2009, required annual reporting to begin on March 31, 2011, for emissions during 2010. Companies subject to the rule include fossil fuel suppliers, engine and vehicle manufacturers, and all facilities that directly emit 25,000 metric tons or more of carbon dioxide equivalent. US SIF's comment welcomed the proposed rule as a critical first step in managing and eventually curbing US greenhouse gas emissions. The comment also underscored US SIF members' interest in obtaining GHG emission data not only by facility, but also for the entire parent company, particularly if it is publicly traded. US SIF said, "we believe that the rule, especially with certain modifications we are proposing, could greatly assist investors in assessing the climate-related risk of portfolio companies."

The EPA appeared to respond to the specific suggestions in US SIF's comment letter in March 2010, when it issued a proposed amendment, since implemented, to the Mandatory Greenhouse Gas Reporting Rule to require reporting facilities to provide the name, address and ownership status of their US parent company, and their primary and all other applicable North American Industry Classification System (NAICS) codes. US SIF in turn issued a formal comment letter to the EPA, endorsing this amendment.

In August 2011, US SIF filed a comment with the EPA endorsing its proposed standard for curbing mercury and other toxic emissions from coal- and oil-fired electric generating units. In the comment, US SIF said the rule would improve public health, create jobs and spur innovation, producing benefits such as reduced absenteeism and improved productivity across a broad range of economic sectors. Many other organizations and investors also wrote in support of the rule, and the EPA announced

the final rule in December 2011. One commentator explained the significance of the EPA's decision:

It's worth lifting our heads out of the news cycle and taking a moment to appreciate that history is being made. Finally controlling mercury and toxics will be an advance on par with getting lead out of gasoline. It will save tens of thousands of lives every year and prevent birth defects, learning disabilities, and respiratory diseases. It will make America a more decent, just, and humane place to live.⁶¹

Public Policy Impact on International Issues

Building on lessons from the anti-apartheid divestment campaign of the 1970s and 1980s, sustainable and responsible investors have advocated diplomatic and economic pressures against Burma and Sudan, two countries whose governments have perpetrated severe human rights abuses against their people.

Burma: After a military junta seized power in 1988 and ruthlessly suppressed democracy, the International Labor Organization and other UN agencies documented pervasive human rights violations by the Burmese dictatorship, including forced or compulsory labor (especially at oil and gas pipeline facilities), forced relocation and political repression. Because the military government depended on foreign trade and investment to sustain its military and purchase weapons, sustainable and responsible investors responded with policies to prohibit investment in companies in strategic sectors and asked portfolio companies to stop conducting business with the military government.

Many of these investors also advocated US state and federal policies to increase pressure on the Burmese government, such as the “selective purchasing” law that the state of Massachusetts passed in 1996 to limit its purchases from companies that did business in Burma. Sustainable investors, such as US SIF member Clean Yield Asset Management, also successfully advocated for a Vermont law, enacted in 1999, that requires the state treasurer to vote in favor of shareholder resolutions raising concerns at companies doing business in Burma. Although the US Supreme Court eventually ruled the Massachusetts law to be unconstitutional, as it infringed on federal powers, the US government imposed sanctions that barred new US investment in Burma beginning in April 1997. The federal government further tightened these sanctions in 2003 by banning imports from Burma and the provision of financial services to the country.

Over this period, sustainable and responsible investors, in addition to supporting these policy initiatives, continued to apply pressure on companies continuing to do business in the country. Facing growing restrictions and public disapproval, companies continued to withdraw.

Unocal—The oil company Unocal faced particular pressure when in 2002, the US Ninth Circuit Court of Appeals ruled that two lawsuits, filed in 1996 by Burmese villagers against Unocal under the US Alien Tort Claims Act, could proceed. The plaintiffs alleged that Unocal was responsible for human rights violations in connection with the construction of an oil pipeline to bring natural gas from offshore Burma through the jungle into Thailand. Burma's military, which already had a well-documented history of human rights abuses by then, had insisted on providing security for the pipeline. In December 2004, just months after the US Supreme Court decision upheld the use of the Alien Tort Claims Act, Unocal

announced that it had reached a settlement with the plaintiffs. The monetary payout was reputed to be significant. As the lawsuits proceeded, sustainable and responsible investors engaged with Unocal and other companies about the potential liabilities they could face with regard to their operations in Burma because of allegations of human rights abuses. On August 10, 2005, Unocal merged with Chevron Corporation and continues to operate in Burma.

Toyota—Another watershed event occurred in October 2010, when Toyota Motor North America, after years of engagement with sustainable and responsible investors, confirmed that its major trading partner, Toyota Tsusho (TTC), divested its ownership stake in Myanmar Suzuki Motor. Toyota’s announcement followed three years of dialogue with a coalition of investors, including Trillium Asset Management Corporation, Domini Social Investments, Boston Common Asset Management and the Interfaith Center on Corporate Responsibility. Toyota announced that its trading partner had ended its joint venture with the Burmese government.

The economic pressures on Burma that sustainable and responsible investors helped to set in motion seem to have had an effect, as the military-backed government is proceeding with a cautious reform process. In 2011, after facing concerted pressure, the Burmese government released democracy activist and Nobel Peace laureate Aung San Suu Kyi from house arrest and freed hundreds of political prisoners. Former US Secretary of State Hillary Clinton traveled to the country in November 2011—the first visit of a top-level American official in more than fifty years. President Obama visited Burma a year later in November 2012 after normalizing US diplomatic relations with Burma and also announcing “targeted sanctions” against the country. Using a presidential waiver, he suspended broad trade and investment sanctions. Aung San Suu Kyi has been elected to the parliament and hundreds of political prisoners have been released. In 2013, President Obama extended by one year certain targeted US sanctions against Burma.

Sudan: Concerned investors have questioned companies doing business in Sudan since 1999, when oil was first extracted from the country. The oil revenues that enriched the government and military did not prove beneficial to the Sudanese people as a whole, particularly when the Khartoum government began to sponsor attacks against communities living in the oil-rich southern areas of the country to clear the way for oil exploration. A few years later, the Khartoum government, through the use of proxy militias, began fomenting violence in the western province of Darfur. Although some tribes in this area had been rebelling against the central government, the broad indiscriminate nature of the attacks suggested a war for land was underway. In 2004, the US Congress passed a resolution declaring the human rights abuses in Darfur to be genocide.

Since 1997, US law has barred US firms from operating in Sudan due to concerns about the country’s support of terrorism. Thus, sustainable and responsible investors concerned about investment exposure to Sudan began to focus on the two dozen Chinese and other multinationals engaged in oil, mineral extraction and power industries, and the mutual funds that held shares in them. In 1999, after China National Petroleum Corporation (CNPC), a Chinese state-owned company with major oil operations in Sudan, announced plans to issue \$10 billion in shares on the New York Stock Exchange, human rights groups argued that the share offering would finance CNPC’s operations in Sudan. CNPC responded by creating a subsidiary, PetroChina, which was ostensibly responsible solely for domestic Chinese operations and not for operations in Sudan.

Rather than offer shares in CNPC, the company only listed shares in PetroChina. Nonetheless, the initial offer of PetroChina shares on the NYSE raised only \$2.9 billion, far short of the target. In 2007, a shareholder advocate filed a resolution with Berkshire Hathaway asking the company to not invest “...in the securities of any foreign corporation or subsidiary thereof that engages in activities that would be prohibited for US corporations by Executive Order of the President of the United States...”, and made clear in the supporting statement that she was concerned about Hathaway Berkshire’s investment in PetroChina.⁶² Several months later, Berkshire sold its shares. Similar resolutions were subsequently filed at several mutual funds.

CRITERIA RESTRICTING INVESTMENTS IN COMPANIES DOING BUSINESS WITH THE SUDAN CONTINUE TO TOP THE LIST OF ESG ISSUES THAT INSTITUTIONS INCORPORATE INTO THEIR INVESTMENT. US SIF FOUNDATION SHOWS THAT \$1.63 TRILLION IN INSTITUTIONAL ASSETS HAVE SUDAN CRITERIA.

Investor activism also led to the enactment of the Sudan Accountability and Divestment Act, signed into law by President George W. Bush on December 31, 2007. Among other provisions, the law permitted, but did not require, states and localities to adopt and enforce measures requiring divestment from companies operating in four sectors: oil, power production, mineral extraction and military equipment. For investment companies and investment advisors that divest from such business operations in Sudan, the law also provided a safe harbor from lawsuits from clients, including state and local governments, provided that the investment companies and advisors followed certain disclosure requirements.

The federal law also provided further encouragement to the Sudan divestment movement. Concerned investors, including public funds in California, Illinois, New Jersey and other states, have adopted Sudan-specific policies,

engaged companies, and pulled their investments out of Sudan. For institutional investors, in asset-weighted terms, investment criteria related to Sudan displaced tobacco as the most prominent ESG factor incorporated into institutional investment policies. Research by the US SIF Foundation shows that \$1.63 trillion in institutional assets have Sudan criteria.⁶³

Creation of Global Standard Setting & Professional Organizations

Sustainable and responsible investors, in addition to advocating for various laws and regulations in the United States and elsewhere, have contributed to significant changes through the creation and support of professional investor initiatives and organizations around the world.

Creation of Global SIFs

Sustainable and responsible investors have created global sustainable investment forums (SIFs)—membership associations that work to promote sustainable investing in a specific area of the world.

- **North America:** US SIF: The Forum for Sustainable and Responsible Investment (United States); Social Investment Organization (Canada).
- **Europe:** UKSIF; Eurosif; BELSIF (Belgium); Dansif (Denmark); Forum pour l’Investissement Responsable (France); Forum Nachhaltige Geldanlagen (Germany/Austria/Switzerland); Forum per la Finanze Sostenibile (Italy); Spainsif (Spain); VBDO (The Netherlands) and SWESIF (Sweden).

- **Asia:** Association of Sustainable and Responsible Investors in Asia (ASrIA); Responsible Investment Research Association (India); SIF-Japan; and KoSIF (Korea).
- **Australasia:** Responsible Investment Association of Australasia (RIAA).
- **Africa:** AfricaSIF, a web-based platform.

These organizations represent investment practitioners and other stakeholders that are committed to SRI. The SIFs use media and produce research to raise awareness of SRI, engage with policymakers to advocate sustainable investment in their respective regions, and gather members to work on various programs and initiatives. Additionally, global SIF initiatives are undertaken by the Global Sustainable Alliance (GSIA) through the leadership of US SIF, UKSIF, Eurosif, VBDO, SIO, RIAA and ASrIA.

CDP (formerly Carbon Disclosure Project)

Formed in the UK in 2000, the CDP is an independent not-for-profit organization with the largest database of primary corporate climate change information in the world. The CDP acts on behalf of 551 institutional investors, holding \$71 trillion in assets under management and some fifty purchasing organizations, such as Dell and PepsiCo. The CDP partners with businesses to measure their carbon footprints, thus facilitating company efforts to reduce their carbon footprints. The CDP sent its first carbon data request to corporations in 2003, and 235 companies responded. Today, more than 3,000 organizations in about sixty countries measure and disclose their greenhouse gas emissions, water management efforts, and climate change strategies through CDP, in order to set reduction targets and make performance improvements. This data is made available to a wide audience of institutional investors, corporations, policymakers and their advisors, public sector organizations, government bodies, academics and the general public.

The CDP also engages municipal governments. In its second disclosure cycle, the CDP invited the municipal governments of 140 of the world's most populated cities to report information on their greenhouse gas emissions and climate change strategies. The CDP has also begun to request municipal data on water use and water risks, in addition to disclosing carbon data, thus recognizing the significant risk posed by water scarcity.

Ceres and the Investor Network on Climate Risk (INCR)

Sustainable and responsible investors have spent decades demanding improved disclosure from portfolio companies of the material financial risks they face related to the environment and climate change. A landmark event that raised investors' awareness of such risks occurred in 1989, when a major environmental disaster, the Exxon Valdez oil spill, shook public confidence in corporate America. Nearly 11 million gallons of oil poured into Alaska's Prince William Sound, devastating one of the world's most pristine habitats. Just six months after the spill, a group of sustainable investors launched Ceres. Ceres is a national non-profit coalition of investors, environmental organizations and public interest groups that works with companies to address sustainability challenges, such as global climate change and water scarcity. Ceres directs the Investor Network on Climate Risk (INCR), a group of nearly 100 leading institutional investors managing close to \$10 trillion in assets focused on the business impacts of climate change. The organization also launched Business for Innovative Climate & Energy Policy (BICEP), a coalition of leading consumer brand companies advocating for strong climate and clean energy policies in the United States. The impact of sustainable investors in driving Ceres forward has meant that there is now a much more widespread practice of corporate self-auditing and environmental risk disclosure.

The Council of Institutional Investors (CII)

Founded in 1985, the Council of Institutional Investors (CII) is a non-profit association of over 125 pension funds and employee benefit funds, foundations and endowments with combined assets that exceed \$3 trillion. It was founded at a time when shareowners had little say in most corporate decisions and did not appreciate the potential power of their votes. Partly as a result of the growth of SRI, CII has become one of the leading voices for good corporate governance and strong shareholder rights. CII continues to file many comment letters on regulatory reform proposals and speaks out to help shape regulations to implement the Dodd-Frank financial reform law.

Interfaith Center on Corporate Responsibility (ICCR)

Beginning with calls for greater corporate social responsibility from religious investors who opposed apartheid South Africa over 40 years ago, members of ICCR continue to advocate for the integration of social and environmental dimensions in corporate decision-making. Today, the ICCR coalition includes 300 institutional investors including faith-based congregations, responsible asset management companies, unions and pension funds representing more than \$100 billion in invested capital. ICCR members regularly engage global companies in an effort to improve their performance on a wide range of issues including their human rights impacts throughout their supply chains, and the impacts of their operations on the environment and on the safety and sustainability of our planet's food and water supplies.

Investor Environmental Health Network (IEHN)

Sustainable and responsible investors have been concerned about the growing dangers of toxic components in consumer products. Problems regarding toxic chemicals not only threaten a company's brand image, but also pose potential risks to consumer and worker health. The IEHN was formed as a partnership of investment managers and non-governmental organizations concerned about the financial and public health risks associated with corporate toxic chemicals policies. IEHN encourages companies to reduce or eliminate the toxic chemicals in their products and activities.

Principles for Responsible Investment (PRI)

The Principles for Responsible Investment (PRI) is a global investor network, founded by former UN Secretary General Kofi Annan in 2005, which highlights the growing global investor interest in corporate management of ESG issues. The PRI Initiative has grown significantly since its inception to over 1,200 signatories from more than 50 countries, including many of the world's largest pension funds, insurance companies, and investment managers. They manage combined assets of more than US \$34 trillion. Signatories commit to the following six principles:

PRI Principles

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices.

Reporting Initiatives

Global Reporting Initiative—Sustainable and responsible investors played a significant role in creating the Global Reporting Initiative (GRI), which started as a project of Ceres, but became an independent entity in the late 1990s. GRI is now the de facto international standard used by more than 1,800 companies for reporting on environmental, social and economic performance. An increasing number of GRI reports are easily accessible to global investors through such platforms as Bloomberg terminals that enable monitoring and analysis of real time financial market data. According to GRI, US government agencies that either reference GRI in their sustainability reports or do full GRI reporting include the US Postal Service, US Army and the US Air Force, among many others.

The International Integrated Reporting Council: Thanks in large part to the work of GRI, the nature and scope of sustainability reporting has also fundamentally changed. The International Integrated Reporting Council (IIRC), a coalition of regulators, investors, companies, accounting professionals, standard setters and civil society organizations, was established in 2010 to demonstrate the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. The IIRC plans to publish a global framework for integrated reporting in December 2013. Many sustainable and responsible investors are supporting such comprehensive, substantive and integrated reporting as it will enable them to make better-informed short-and long-term investment decisions.

The Sustainability Accounting Standards Board (SASB): SASB, a non-profit incorporated in July 2011, is developing standards—by sector and industry—for the material environmental, social and governance information that companies traded on US exchanges should disclose in their annual filings. The organization believes that every investor has the right to material information. In April 2013, SASB released its draft guidelines for the financial sector which listed material issues and key performance indicators (KPIs) most relevant to seven industries: commercial banks, investment banking and brokerage, asset management and custody activities, consumer finance, mortgage finance, security and commodity exchanges, and insurance. SASB also plans to develop reporting standards that identify the material ESG issues and standardized performance metrics, including KPIs for 88 specific industries across 10 sectors.

United Nations Environment Programme Finance Initiative—Asset Management Working Group

The United Nations Environment Programme Finance Initiative (UNEP-FI) is a coalition of more than 200 global financial institutions working in partnership with the UNEP to promote sustainable finance. UNEP-FI has been active in international public policy debates in this area, most notably through its work to support UNEP's Green Economy program in advance of the 2012 RIO+20 conference in Brazil.

UNEP-FI produces highly influential reports through its Asset Management Working Group (AMWG). One of these reports, written by law firm Freshfields Bruckhaus Deringer and titled *A Legal Framework for the Integration of Environmental, Social, and Governance Issues into Institutional Investment*, made the fiduciary case for ESG investing. The report concluded that

this type of analysis is legally permissible and “arguably required” as part of fiduciary obligation in nine jurisdictions: Australia, Canada, France, Germany, Italy, Japan, Spain, the UK and the United States. In addition, the AMWG, currently co-chaired by Julie Fox Gorte from US SIF member Pax World, released a series of reports examining the materiality of environmental, social and governance issues to equity pricing, starting in 2004. These reports helped usher in a period of the mainstreaming of responsible investment, including the growth of the Principles for Responsible Investment (PRI), created by a coordinated process of the UNEP-FI and the UN Global Compact.

CONCLUSION

This paper details the impressive impact of sustainable and responsible investment (SRI). It provides stories, facts, and figures that describe how these strategies have definitively and positively affected the investment industry, investors, companies, communities, public policy and global standard setting.

The ideas and practices advanced by sustainable and responsible investors have captured global attention. There is growing acceptance that environmental, social and governance issues are material; some of the most sophisticated investors around the world now understand that SRI provides important insights and mitigates risks while also benefiting society.

The investment industry has changed significantly as the dissemination and practice of these concepts have spurred the growth of various innovative investment vehicles. The growing number of stock exchanges with ESG listing requirements also demonstrates the impact that sustainable investors have had on global capital markets. Individual investors can now reach out to specialized sustainable investment financial advisors who present a growing array of investment opportunities. Many individuals have the opportunity to invest in retirement plans that include one or more SRI options. Community development finance and social venture capital initiatives are embraced by numerous foundations, high net worth individuals, and other investors, as part of program-related investing and impact investing commitments.

The examples of impact captured in this paper demonstrate that SRI has contributed to fundamental changes in the way companies operate. A growing number of publicly traded companies and private equity firms look at environmental, social and governance issues in a more formal way as part of their decision-making. Some companies are disclosing their environmental and social performance in the same way as they report their financial performance. As illustrated in the examples, many companies have changed the way they do business as a result of engagement with sustainable investors. In short, the entire investment chain has been altered by the sustainable and responsible investing field.

Responsible investment has contributed to the creation of intermediaries to finance community initiatives and has helped build wealth in underserved communities worldwide. Better public policies have been developed as a result of the work of sustainable investors, and an array of field-building and standard-setting organizations have been created—many of them started and managed by sustainable and responsible investment professionals as non-profit organizations.

Sustainable and responsible investors have often achieved these results by working in close collaboration with civil society organizations, government agencies and other non-investor stakeholders.

At a time of increasing concerns about global economic and environment crises, and global health and poverty concerns, people are searching for investments that can address these challenges. Ultimately, the path to a sustainable future requires awareness that corporate performance, investment performance, and environmental, social and governance issues are interconnected and inseparable.

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910 17th Street, NW, Suite 1000
Washington, DC 20006
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