Money Management Institute

TIIP The Investment Integration Project

Fundamentals of Sustainable Investment

A GUIDE FOR FINANCIAL ADVISORS

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Bank of America   HIGH MEADOWS INSTITUTE   STATE STREET   Thornburg INVESTMENT MANAGEMENT

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Welcome

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Sustainable investing is evolving rapidly. Each new week brings an article documenting the burgeoning demand from clients for sustainability-focused options or announcements of new environmental, social, and governance (ESG)-related products.

Like many other financial advisors, you probably find yourself fielding an increasing number of questions from clients—men and women, old and young—about how they can align their investments with their values or use ESG considerations to uncover investment opportunities or mitigate risk. And like many other financial advisors, you might be unsure about:

> *When to raise sustainable investment with clients. How to respond when clients raise it with you. What exactly to say. How to conduct the conversation. How to translate the discussion into action. And so on.*

Fundamentals of Sustainable Investment: A guide for financial advisors—developed in partnership with State Street's Center for Applied Research, Bank of America, the High Meadows Institute, and Thornburg Investment Management—provides you with a path forward. It addresses pervasive industry myths about sustainable investing, disentangles the complicated web of vocabulary used to describe the approach, and provides practical recommendations on how to help clients fulfill their sustainable investing goals.

Sustainable investing will have a profound impact on the future course of the financial services industry, and our organizations are committed to equipping the industry with tools to navigate this new terrain. Whether you are looking to grow a new book of business or to deepen your relationships with existing clients, this guide provides the direction and supplemental resources you need to embrace sustainable investing effectively and confidently within your advisory practice.

We hope you find the guide to be a valuable resource, and we look forward to accompanying you on the sustainable investing journey that lies ahead.

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The Fundamentals: In Brief

The Fundamentals: In Brief

More than a quarter of assets under management (AUM) worldwide are invested in "sustainable" strategies, and investors—both individual and institutional and at all wealth levels—are increasingly interested in integrating these strategies into their financial plans and investment portfolios.[1] Many asset managers and global financial institutions have embraced sustainable investment and are expanding their related services to grow their businesses. You—financial advisors (FAs)—can do the same (see Box 1).

The Investment Integration Project (TIIP) and the Money Management Institute (MMI) conducted extensive interviews with leading FAs and other sustainable investment thought leaders and influencers to develop this guide, which answers fundamental questions about sustainable investment and offers practical information and guidance for incorporating it into your practice. **In this overview section, we summarize *why* you should care about sustainable investment, *what* exactly sustainable investment is, and *how* to discuss it with your clients. Subsequent sections of the guide reiterate key points and expand on each of these discussions.**

Box 1: Sustainable investment: What's in it for me?

"We were nudged into [sustainable investment] by client demand over a decade ago. We started as reluctant disbelievers… We've since become wholehearted advocates and have built our practice around it. Eighty percent of our new business is in this space—the trajectory of new growth for us is in this space."

"You're going to run into [sustainable investment] during your career. If you ignore it, you're going to lose the edge to another guy."

"It's a differentiator—as a counselor or advisor—to be able to engage with your clients about [sustainable investment] … it isn't just another product or solution; it's a direction that the industry has to move in… If you don't get in front of this one, eventually it's going to impact the way you run your business and you're not going to be successful."

Source: Project interviews conducted by TIIP in May through July 2018.

Why Should Financial Advisors Care About Sustainable Investment?

You might be hesitant to integrate sustainable investment into your practice given myths that clients are not interested in it or that it is not for "serious" investors and sacrifices financial return for environmental or social objectives. These and other myths are addressed below and in Figure 1.

Figure 1: Sustainable investment myths vs. realities

MYTHS	REALITIES
Sustainable investment is a fad; most investors are not interested.	Sustainable investment is growing, and it's good for business.
Sustainable investment hurts financial performance.	Sustainable investment can enhance financial performance.
The environment and society do not affect investors.	Environmental and social phenomena affect investors and vice versa.

Sustainable investment is growing and it's good for business. Sustainably invested assets grew an estimated 25% worldwide and 33% in the U.S. between 2014 and 2016.[2] Although large institutional investors drove much of this growth, individual investors are increasingly interested in integrating sustainable investment into their investment strategies.

At least 84%—and as much as 90%—of Millennial investors and nearly three-fourths of women are interested in sustainable investing. They are particularly interested in how their investments affect corporate behavior and in investing in companies that make money while helping to solve social and environmental challenges.[3]

Men and older investors are interested too. In fact, a recent survey found that nearly three-fourths of all investors are interested in sustainable investment and think that environmental, social, and governance (ESG) factors affect companies' financial performance.[4] Men, in particular, are increasingly considering how they can use sustainable investment to replace their charitable giving.[5]

Many experienced FAs and industry leaders assert that incorporating sustainable investment into advisory offerings can help you attract new clients, retain existing clients, competitively position yourself relative to your peers, and provide clients with a more satisfying investment experience.[6] Further, research indicates that two-thirds of adult children and 70% of widows leave their family FA after receiving an inheritance or after a spouse's death. Considering their sustainable investing preferences might help curb such asset attrition.[7]

Sustainable investment can enhance financial performance. Maybe you have heard that investing with consideration for sustainability factors means settling for below market returns. The truth is:

- Sustainable companies can be better at managing risk and have less systemic volatility than their conventional peers, making them better overall investments.[8]
- Sustainability factors impact value (companies with strong sustainability practices have lower business risks and lower capital costs), which encourages growth and enhances shareholder returns and can ultimately lead to higher valuations. Further, intangible assets have accounted for an increasing percentage of company market value over time.[9]
- Sustainable investments—large and small—that are focused in private equity, private debt, and real assets can achieve market-rate returns.[10]
- Sustainable investment indexes can perform as well or better than their conventional counterparts.[11]

Environmental and social phenomena affect investors and vice versa. You might dismiss sustainable investment as about making investors feel good vs. making any real difference. Evidence increasingly demonstrates the contrary. For example:

Researchers predict that investors could experience losses of up to 45% should policymakers and the private sector not work together to mitigate climate change and limit global warming and warn that social unrest caused by global youth unemployment could produce significant volatility in financial markets.[12]

Investors have helped to shape important environmental and social issues throughout history (e.g. their divestment from companies doing business in South Africa prompted legislation ending apartheid).[13]

What Exactly is Sustainable Investment?

You might have heard various terms used to describe sustainable investment. Although each of these terms refers to specific financial industry stakeholders, types of clients, investment strategies, or subsectors of activity, **they fundamentally describe the same thing. They describe investment approaches that pursue:**

1. **Financial sustainability.** Protect and enhance long-term value by addressing environmental, social, or governance (ESG) risks or investing in solutions to environmental and social challenges.
2. **Environmental or social sustainability.** Protect, enhance, or otherwise positively impact the long-term health of the environment or society through expressing ESG values.

Two things motivate investors to pursue financial and environmental or social sustainability:

ENHANCING LONG-TERM PERFORMANCE: ESG issues can have a consequential (i.e. material) impact on investment returns. When poorly managed, they can introduce risk into investments; when well-managed, they can produce financial benefits. Some investors consider ESG issues in their investment decision-making to enhance long-term risk-adjusted returns. Others see financial, return-generating opportunity in investing in companies that produce solutions to environmental or social challenges.

EXPRESSING PERSONAL VALUES: Some investors desire to help build a world based on positive ESG values—a sustainable world—and adopt investment strategies that align with these values.[14]

No matter their motivations, investors act on these goals in any of three ways. They:

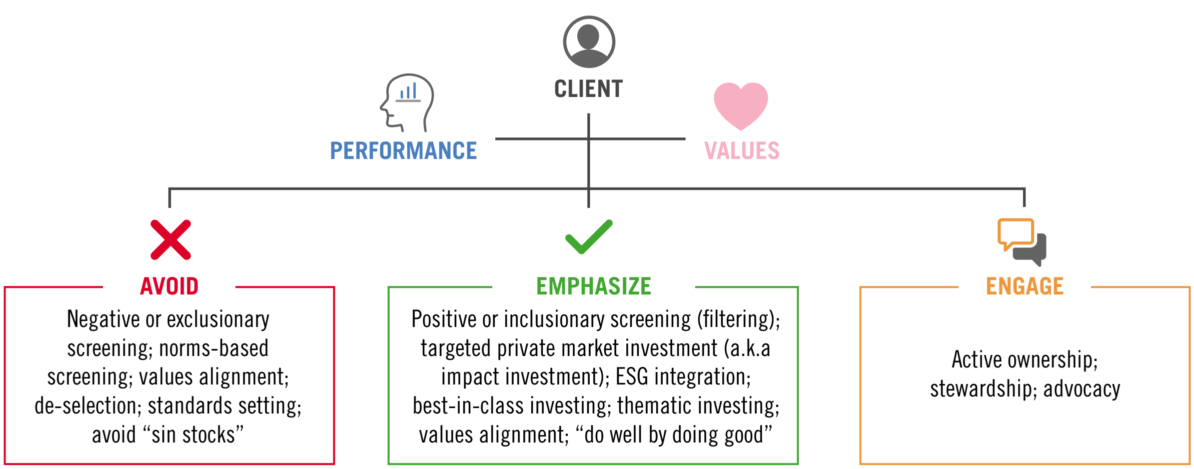
AVOID investments with poor ESG performance or that disregard widely accepted ESG norms or standards.

EMPHASIZE investments with positive ESG practices or that solve specific ESG challenges.

ENGAGE with funds or companies to encourage ESG improvements and ESG risk mitigation.

Figure 2. Summarizes these sustainable investment motivations and strategies.

Figure 2: Sustainable investment motivations and strategies



How Should You Discuss Sustainable Investment with Your Clients?

We recommend a four-step process for talking with your clients about sustainable investment (see Figure 3).

Figure 3: Steps for discussing sustainable investment with clients

1. PREPARE

OBJECTIVE: Know about the sustainable investment options that are available to your clients

Learn how your home office or other affiliated platform selects products and constructs portfolios and be able to describe one or two products by way of example so that you can make appropriate recommendations to clients.

Know your platform's **philosophy** for selecting products and constructing portfolios in the way that it does to know which products and portfolios address which issues.	Understand the **process** for evaluating products and portfolios, so that you understand the due diligence process and product standards and can convey this information to clients.	Know the **people** who select products and construct portfolios, so that you know whom to contact for information and guidance.	Understand what sort of sustainable investment **products** and portfolios are available to your clients—number available by asset class and issues—to provide clients with examples that align with their goals.	Know whether and how the platform evaluates product and portfolio sustainability **performance**, so that you understand what sustainability performance information you can relay to clients and how often.

Also learn whether your platform uses an open architecture approach, develops its own strategies, or builds its sustainable investment offerings in some other way (which could impact product support, options, and costs and fees), and investigate whether you can offer customized options to clients of certain types and sizes (e.g. HNW, UHNW, institutional).[15]

2. DISCOVER

OBJECTIVES:

- **Assess client sustainability goals as part of regular discovery processes**
- **Determine whether and how clients want to pursue these goals in their investments**

Integrate sustainable investment topics into your "regular" discovery processes. Assess client sustainability goals and interests, then determine whether and how clients want to reflect these goals and interests in financial plans and investment strategies.

WHEN to discuss sustainability goals with clients

- Use **a life event**, liquidity event, or point of change (e.g. new leadership, strategic plan) as an opportunity to discuss changes to client plans and portfolios.
- **Semi-regular client appreciation or informational events** (e.g. dinners, cocktail receptions, holiday parties) are also opportunities to highlight financial industry trends, including sustainable investment.

WHAT to say to start discussions with clients about sustainability goals (i.e. effective sequiturs)

- Reference **recent publications or events** that emphasize sustainable investment as an investment trend or opportunity.
- Mention **things that you have observed about a client's behavior**. Client interests and philanthropic activities can provide clues to their potential sustainability goals and interests (e.g., a client might drive an electric car or donate money to organizations focused on gender equality); this can lead to parallel conversations about related sustainable investment opportunities.
- Talk with your clients about **current events** and issues (extreme weather, gun violence, sexual assault cases), which can provide a segue into broader discussions about values and sustainability risks.
- Ask about **institutional governance documents** (*institutional clients only*). Institutional investors might have an Investment Policy Statement (IPS) or an Investment Belief Statement (IBS) that helps to inform the institution's investment style, including sustainable investment activities.

HOW to collect information on, and assess information about, client sustainability goals

- Ask clients a series of sustainability-related questions and note their responses on a formal checklist.
- Have clients complete an assessment questionnaire or values activity, as part of your onboarding paperwork or via a separate exercise (e.g. think2perform).[16]

Share real-life examples of how similar types of clients with similar goals are expressing them in their investments—"bring portfolios to life" to help clients better understand sustainable investment concepts.

3. RECOMMEND

OBJECTIVES:

- **Manage client expectations about how and how much they can reflect these goals in their investments**
- **Recommend a financial plan and investment strategy that considers risk appetite, financial goals, and sustainability goals**

The process for developing and recommending a sustainable investment plan is the same as the process for vetting conventional plans and approaches: understand what the client is looking for, and then solve for it. Throughout the process, be realistic with clients about:

- **Portfolio diversification.** Explain that you will consider portfolio diversification, control for financial risks, and consider their financial goals alongside their sustainable investment goals (as you do for any change to their financial plan and investment strategy).
- **Ability to "change the world."** Investors can (and do) have an impact on the environment, society, and governance issues, but few investors have the power to "change the world" single-handedly. Be clear with individual clients about their ability to solve environmental or social challenges.
- **Product availability.** Be clear with clients about the universe of products available to them and whether customized options are possible.
- **Strategy execution speed.** Especially eager clients might want to quickly and dramatically transition their entire portfolio to sustainable investment strategies. Assess the tax and other implications of portfolio changes. Gradual, incremental change might be prudent and help you to avoid unnecessarily introducing risks or negative financial consequences.

Recommend a plan that considers sustainability goals alongside performance expectations, risk appetites, and other important contextual factors as you normally would (e.g. insurance issues, tax considerations, capital gains and losses, estate plans).

4. MANAGE

OBJECTIVE: Monitor and report on sustainability performance alongside financial performance

Provide your clients with a complete understanding of the financial and sustainability performance of their sustainable investments to help assess and manage strategy alignment with and progress toward achieving sustainability goals.

WHAT is my role, as an FA, in sustainability monitoring and reporting?

Asset managers are largely responsible for collecting, analyzing, and reporting the sustainability performance information that you will provide to clients. Your platform will probably package and provide this information to you, much like it does for conventional financial reporting. When a client uses a highly customized strategy relying on individual stock selection, you will need to work with your platform to gather the relevant available analytics and data.

WHAT sustainability information should sustainability performance reports include?

Each sustainable investment approach necessitates a different reporting strategy—one that reflects the asset classes invested in, investment products used, and underlying sustainability themes and goals (given the availability of relevant data). You should work with your platform and individual asset managers as appropriate to obtain the data necessary to develop reports.

WHERE does sustainability performance information come from?

Unlike financial performance information, sustainability performance information is not standardized, and data and analysis from different sources are not necessarily comparable. Company- or fund-level sustainability analysis, for example, might be available from multiple data providers or ratings agencies, with one scoring an investment or fund higher than the other. You should understand the nuances of each data provider and ratings agency well enough so that you can explain why scores for an investment or fund might differ.

The Fundamentals: In Detail

The Fundamentals: In Detail

SECTION A: Why

In this section of *Fundamentals of Sustainable Investment: A guide for financial advisors* we **confront pervasive industry myths about sustainable investing** that might be preventing you from integrating it into your practice, such as: (a) it is a passing fad that most investors are not interested in, (b) sustainable investment hurts financial performance, and (c) the environment and society do not affect investors.

We **help you to understand the realities** that: (a) sustainable investment is the future of finance and investors of all kinds are increasingly interested in it, (b) sustainable investment can enhance financial performance, and (c) environmental and social phenomena affect investors and vice versa.

Why Should You Care about Sustainable Investment? Myth vs Reality.

You might be hesitant to integrate sustainable investment into your practice. Maybe you dismiss sustainable investment as a "passing fad" that is not for "serious" investors or think of it as a philanthropic approach that sacrifices financial return for environmental or social objectives. Myths like these—addressed below and in Figure A.1—might prevent you from integrating strategies that your clients are increasingly demanding and that can reduce risk and support long-term financial performance.

Figure A.1: Sustainable investment myths vs. realities

MYTHS	VS.	REALITIES
Sustainable investment is a fad; most investors are not interested. Sustainable investment is a fad. Further, mainstream clients are not interested in sustainable investment; it is for "do gooders" who don't care about making money.		**It is the future of finance; investors of all kinds are increasingly interested.** Sustainably invested assets grew an estimated 25% worldwide and 33% in the U.S. between 2014 and 2016. Millennials, Generation Xers, and women are particularly interested in sustainable investment, but older investors and men are increasingly interested too.[a]
It hurts financial performance. Focusing on anything but financial performance when making investment decisions will harm returns.		**It can enhance performance.** Sustainable investors can achieve at or above market-rate returns over the long-term. Companies that better manage their ESG risks have less systemic volatility than their conventional peers, making them better overall investments.[b]
The environment and society do not affect investors. Sustainable investment makes investors feel good but doesn't make a difference. Environmental and social issues do not affect investment performance.		**Environmental and social phenomena affect investors and vice versa.** Climate change, for example, could cause investor losses of up to 45% should it go unmitigated and social unrest caused by global youth unemployment could increase volatility in financial markets. Investor actions helped to change oppressive laws and end apartheid in South Africa.[c]

Sources for this figure are listed at the end of the guide.

MYTH	REALITY
Sustainable investment is a passing fad; most investors are not interested.	It is the future of finance; investors of all kinds are increasingly interested.

You might dismiss sustainable investment as not for "serious" investors. You might also think that only Millennials and women are interested in sustainable investment strategies, but not older clients or men. Both statements are false.

Sustainable investment is growing and is here to stay. Sustainably invested assets grew an estimated 25% worldwide and 33% in the U.S. between 2014 and 2016. Most of this AUM is held by institutional investors, money managers, and community investment institutions applying various ESG criteria in their investment analysis and portfolio construction.[17] Some institutional investors, like CalPERS (the California Public Employees Retirement System) and Japan's Government Pension Investment Fund, are encouraging and even requiring that their managers incorporate ESG considerations into investment selection.[18]

Investors of all kinds—men and women, old and young—are interested in sustainable investment. Although large institutional investors drove much of this growth, individual investors are increasingly interested in integrating sustainable investment into their investment strategies.

Millennials and Generation Xers—who will inherit upwards of $41 trillion dollars in the coming decades—are outspoken about the need for businesses to consider their environmental and social impacts. At least 84%—and as much as 90%—of Millennial investors are interested in sustainable investing, and many want to invest in companies that make money while contributing to solutions to social and environmental challenges.[19] Nearly three-fourths of women—who are increasingly equal participants in family financial planning and investment decision-making—are similarly interested in sustainable investing and in how their investments impact corporate behavior, the environment, and society.[20]

Men and older investors are interested too. In fact, a recent survey found that nearly three-fourths of all investors are interested in sustainable investment and think that ESG factors affect companies' financial performance.[21] Men, in particular, are increasingly considering how they can use sustainable investment to replace their charitable giving.[22]

It is good for business. Many experienced FAs and industry leaders assert that incorporating sustainable investment into advisory offerings can help you attract new clients, retain existing clients, and competitively position yourself relative to your peers.[23] It can also help you provide clients with a more satisfying investment experience—a global survey of 750 individual investors showed that 79% of sustainable investors are satisfied with their investment experience vs. 61% of conventional investors.[24] Further, research indicates that two-thirds of adult children and 70% of widows leave their family FA after receiving an inheritance or after a spouse's death.[25] Considering their sustainable investing preferences might help curb such asset attrition.

MYTH	REALITY
Sustainable investment hurts financial performance.	Sustainable investment can enhance financial performance.

Maybe you have heard that investing with consideration for sustainability factors means settling for below market returns. This is also false.

Sustainable companies can be better at managing risk and have less systemic volatility than their conventional peers, making them better overall investments.[26] Consider Volkswagen and Facebook, both of whose sub-par ESG practices were recently exposed, hurting their stock prices, reputations, and shareholders. Caught lying about car emissions tests, Volkswagen saw its stock fall almost 25% and lost nearly $18 billion in value immediately following the exposure of its environmental and governance scandal.[27] Facebook's stock value plummeted nearly $120 billion on Thursday, July 2018—the largest single day U.S. stock market loss in history—following a series of data privacy scandals and subsequent user declines.[28] Given these and other examples, some trade organizations argue that sustainable investment therefore aligns with fiduciary duty.[29]

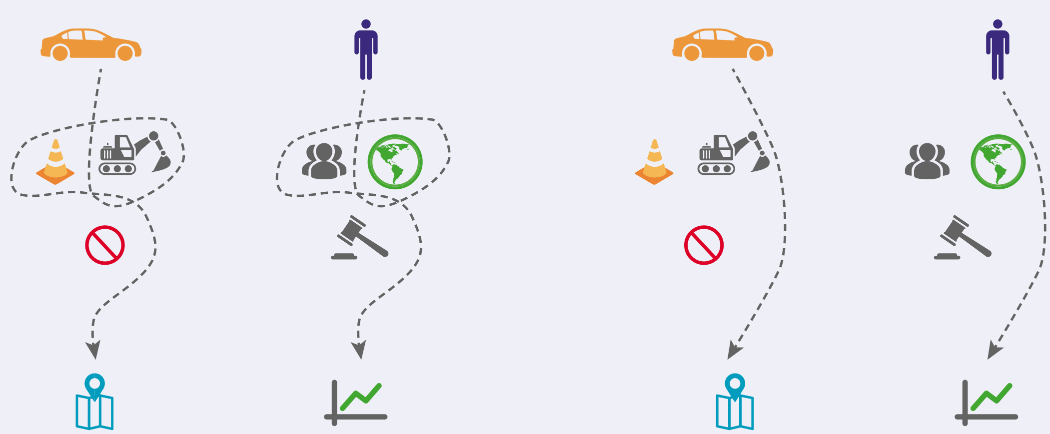
But more than poor ESG performance can *hurt* investors, good ESG performance can *help* investors. Jeff Gitterman, co-founding partner of Gitterman Wealth Management—which serves high net worth (HNW) clients, business owners, and professionals from academia—likens sustainability data to GPS (Global Positioning System) data (see Box A.1). He notes that it provides investors with information on potential "hazards" and "roadblocks" (i.e. company ESG concerns) to better inform security selection and portfolio construction.

Box A.1: Sustainability data is an investor's GPS

GPSs collect and analyze real-time data on traffic, road construction, and other hazards and help drivers to reach their destinations faster and more efficiently. Much like GPS data helps drivers, investors can now use ESG data to avoid risks and achieve long-term, positive returns more efficiently. Put another way, information about company earnings and projected growth can help investors make decisions; information about whether company operations harm the environment or people might help investors make better decisions.

Getting to your destination before GPS, **before** sustainability data

Getting to your destination **after** GPS, with sustainability data



Source: Concept borrowed from Gitterman, Jeff. Interview with The Investment Integration Project (TIIP). May 17, 2018.

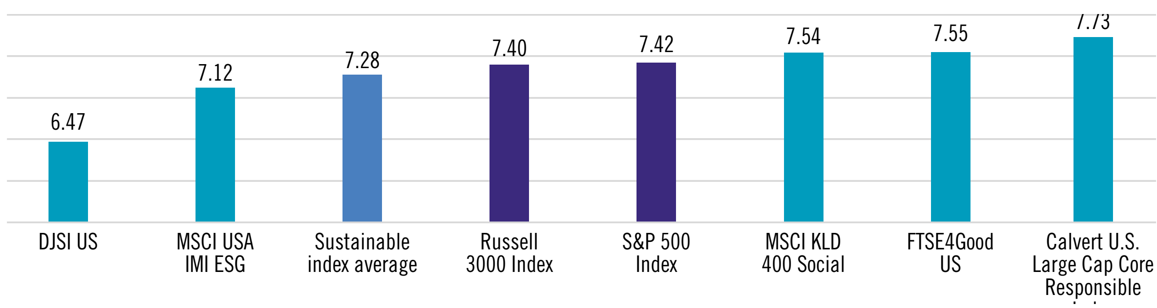
Sustainable investors can realize at or above market-rate returns over the long-term.[30] Research conducted across asset classes and investment approaches has found that:

Sustainable investment indexes can perform as well or better than their conventional counterparts. The MSCI KLD 400 Social Index, for example, which emphasizes the highest sustainability performers from various industries and avoids industries like weapons and tobacco, slightly outperformed the S&P 500 between 2007 and 2016.[31]

Other sustainable investment indexes have performed similarly well compared to the S&P 500 and Russell 3000 over a 10-year period (see Figure A.2).

Sustainable investments large and small that are focused in private equity, private debt, and real assets can achieve market-rate returns.[32] One study found, for example, that a group of 71 market-rate seeking sustainable private market investments performed in line with their conventional peers, generating average aggregate returns of 5.8%.[33]

Figure A.2: Sustainable investing index performance vs. well-known U.S. equity index performance

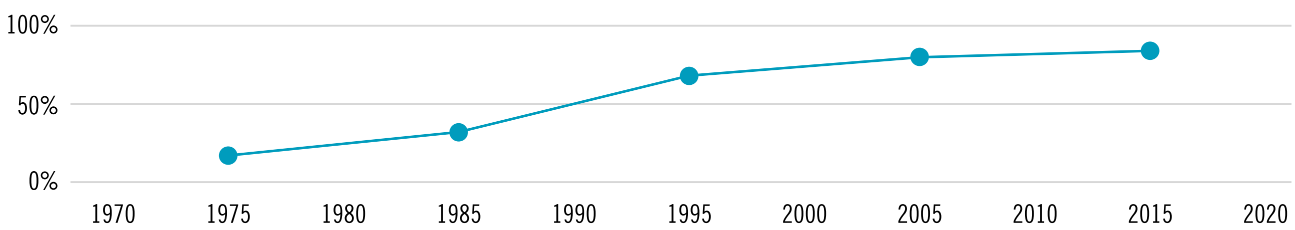


Source: Adapted from Liao, Lei (2016). "Responsible investing can deliver competitive performance." Pensions & Investments. November 2, 2016. Based on research conducted for: Nuveen and TIAA Investments (2017). Responsible Investing: Delivering competitive performance. Amy O'Brien, Lei Liao, and Jim Campagna. July 2017.

Notes: Based on daily returns for 10-year period ended 06/30/16; See original source (Liao (2016)) for standard deviations, Sharpe ratios, and tracking errors.

Sustainability factors impact value. Companies with strong sustainability practices have lower business risks (higher quality management) and lower capital costs (encouraging growth and enhancing shareholder returns), which can lead to higher valuations.[34] Further, intangible assets have accounted for an increasing percentage of company market value over time. Researchers contend that these factors are responsible for as much as 84% of a company's market value today (see Figure A.3). They also note that intangibles such as human capital (e.g. employee satisfaction) are directly correlated with shareholder returns, as are social capital (e.g. human rights and community relations, customer welfare), and environmental capital (e.g. greenhouse gas (GHG) emissions, water and wastewater management).[35]

Figure A.3: Intangible assets as a percentage of S&P 500 market value over time



Source: Adapted from Ocean Tomo. Intangible Asset Market Value Study. Cate M. Elsten and Nick Hill. Journal of the Licensing Executives Society, Volume LII No. 4, September 2017.

MYTH	REALITY
The environment and society do not affect investors.	Environmental and social phenomena affect investors and vice versa.

You might dismiss sustainable investment as about *making investors feel good vs. making any real difference*. Evidence increasingly demonstrates the contrary.

Investors are increasingly recognizing that environmental and social issues are entangled in their portfolios. Researchers are particularly worried about the negative consequences of climate change and social unrest for investors. They predict that investors could experience losses of up to 45% should policymakers and the private sector not work together to mitigate climate change and limit global warming and warn that social unrest caused by global youth unemployment (e.g. that fueled the Arab Spring) could produce significant volatility in financial markets.[36]

Investors influence the environment, society, and financial industry. History is full of examples of institutional investors shaping environmental, social, and financial issues. Take, for example, how U.S. investors divested from companies doing business in South Africa and urged companies to withdraw their operations from the country if apartheid persisted, promoting passage of legislation ending the country's racial segregation practices.[37] Or how CalPERS recently divested its holdings from the Philippines given analysis that the country "created an untenable risk/reward situation" for foreign investors, causing a 3.3% drop in the Manila exchange and leading the Philippines to changes its laws.[38]

Experts, like those at the Institute for Responsible Investment at Harvard University, assert that individual investors can harness the utility of different asset classes to affect change too.[39] They might use fixed income instruments issued by governments, for example, to support public social goods such as low-income housing, non-profit hospitals, public education, and public infrastructure. Or, smaller entrepreneurial investors with a high risk-tolerance and strong sustainability commitments might use private equity or venture capital opportunities to encourage fast and revolutionary environmental and social change. See Table A.1 for more examples.

The United Nations has gone as far as saying that not only can investors impact the environment and society, but that it needs their help to do so. It is encouraging the private sector—institutional and individual investors alike—to help it to achieve its Sustainable Development Goals (SDGs).[40] The 17 goals were jointly developed by the member countries of the U.N. General Assembly and reflect those global environmental and social challenges for which there is widespread agreement around their importance. The issues addressed in the goals are those that pose material threats to—or opportunities for—investor portfolios. The U.N. asserts that private sector investment of $2.5 trillion is necessary to achieve the goals by 2030.[41]

Table A.1: Utility of asset classes for addressing sustainable investment issues

ASSET CLASS	POTENTIAL USES	STRATEGIES
Cash and cash equivalents	Community economic development	• Operating accounts/deposits with Community Development Finance Institutions (CDFIs) • Equity investments, stock, private placements with large banks
Fixed income	Social and environmental public goods (e.g. low-income housing, public education, public infrastructure)	• Instruments issued by governments, including those with well-specified outcomes • Green bonds
Public equities	Incremental large-scale change across issues	• Direct engagement with funds invested in to influence positive ESG changes
Private equity	Fast, disruptive, revolutionary change across issues	• Direct investments in companies positively disrupting the status quo • Small-scale investments in enterprises with a strong social or environmental mission
Real estate and real assets	Sustainability in the built environment	• Direct investments in residential, commercial, and industrial properties • Investments in public equities (Real Estate Investment Trusts or publicly-traded developers) • Fixed income (residential and commercial mortgage-backed securities) • Real assets (timber land, agricultural land)

Source: Boston College, Carroll School of Management, Center for Corporate Citizenship, Institute for Responsible Investment. Handbook on Responsible Investment Across Asset Classes. Chestnut Hill, MA: 2007, updated by TIIP founder and CEO Steve Lydenberg (a founder of the Institute for Responsible Investment and author of the Handbook).

SECTION B: What

In this section of *Fundamentals of Sustainable Investment: A guide for financial advisors* we **disentangle the complicated web of vocabulary used to describe sustainable investment** and clarify the fundamental concepts buried underneath the terminology. We also introduce you to the key sustainability issues that clients are typically interested in and summarize the scope and scale of sustainable investment in practice.

What is Sustainable Investment?

You might have heard the various terms noted in Box B.1 used to describe sustainable investment—environmental, social, and governance (ESG) integration, socially responsible investing, impact investing, ethical investing, mission-related investing, values alignment, best-in-class investing, and triple-bottom-line investing, among others.

Although each of these terms refers to specific financial industry stakeholders, types of clients, investment strategies, or subsectors of activity, **they fundamentally describe the same thing**.

They describe investment approaches that pursue:

1. **Financial sustainability.** Protect and enhance long-term value through addressing environmental, social, or governance (ESG) risks or investing in solutions to environmental and social challenges.
2. **Environmental or social sustainability.** Protect, enhance, or otherwise positively impact the long-term health of the environment or society through expressing ESG values.

Box B.1: Lost in translation: so many different names for the same thing!

Here we answer the question *"What is sustainable investment?"*. We explain why investors seek financial, environmental, or social sustainability and discuss the three types of investment strategies that they use to achieve their sustainability goals. We also discuss the various sustainability issues that your clients might care about, and outline what sustainable investment looks like throughout the financial industry.

Sustainable investment motivations and strategies. Two things motivate investors to pursue their financial or environmental or social sustainability goals:

PERFORMANCE: ESG issues can have a consequential (i.e. material) impact on investment returns. When poorly managed, they can introduce risk into investments; when well-managed, they can produce financial benefits. Some investors consider ESG issues in their investment decision-making to enhance long-term risk-adjusted returns. Others see financial, return-generating opportunity in investing in companies that produce solutions to environmental or social challenges.

> **A client who is motivated by performance might:** (1) steer clear of companies that could face distracting and costly gender discrimination legal battles or sexual harassment lawsuits, or those known to perpetuate dangerous working conditions in developing countries, or (2) believe that alternative energy sources (e.g. wind, solar) will replace non-renewable energy and are an attractive long-term investment opportunity.

VALUES: Some investors desire to help build a world based on positive ESG values—a sustainable world—and adopt investment strategies that align with these values.[42]

> **A client who is motivated by values might:** (1) be inspired by the #metoo movement and recent high-profile sexual misconduct cases to support businesses that create safe work environments for women, or (2) want to invest in line with their religious beliefs.[43]

No matter their motivations, investors act on these goals in any of three ways:

AVOID investments with poor ESG performance that might negatively impact financial returns, that disregard widely accepted ESG norms or standards, or that do not otherwise align with their values.

Investment examples: An equity fund that excludes companies that produce weapons or that generate some percentage of their revenue (e.g. 5% or more) from the manufacture of tobacco products, or not investing in government bonds from countries that are known human rights violators (e.g. Burma or Sudan).

EMPHASIZE investments with positive ESG practices or that solve specific environmental or social challenges.

Investment examples: A fund that includes only those securities that meet minimum ESG standards or that includes only the least carbon intensive energy companies, or targeted private market investments in programs that provide loans to women entrepreneurs.

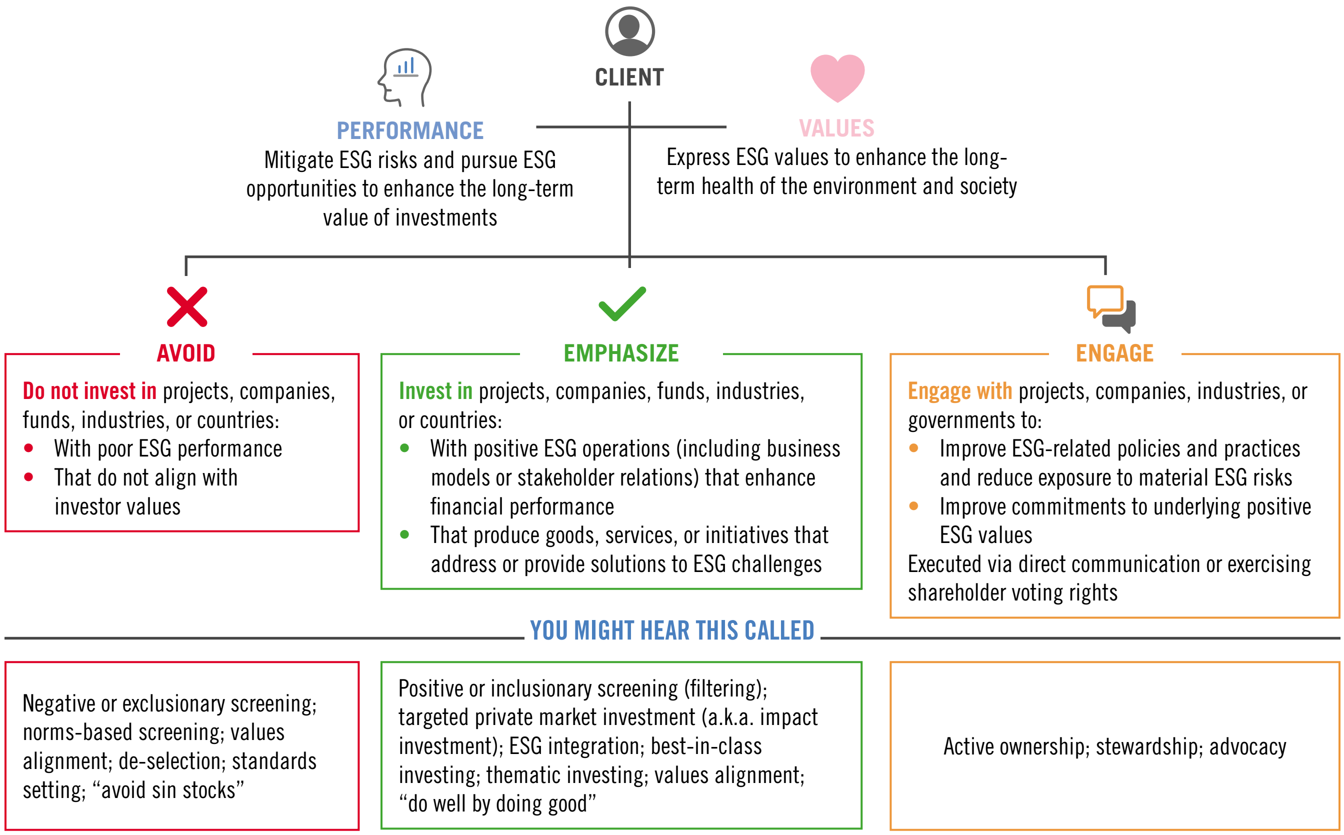
ENGAGE with funds or companies to improve their ESG policies and practices and reduce ESG risks through: direct communication (e.g. writing letters or meeting with companies), exercising shareholder voting rights (directly or through a third party), and filing shareholder resolutions. Although a strategy more commonly employed by institutional investors—the larger the investor, the greater the influence—individual investors can also use engagement to affect positive ESG change (usually in conjunction with investor advocacy groups and as part of investor coalitions).

Investment examples: Encouraging a company to address in its strategic plan the long-term risks posed to production and supply chains by poor labor relations, resource scarcity, and new environmental regulations, or to amend its family leave policy to better retain female employees.

Investors might pursue these approaches in isolation or as part of a coordinated strategy. Factors that might influence which strategies they pursue include investor size (investible assets), the issues that the investor is focused on and the intensity of their focus, and an investor's level of knowledge and sophistication regarding investment and sustainability.

Figure B.1 summarizes these sustainable investment motivations and strategies. The final row of the figure notes the terms that you might have heard—and that might be used by your home office or subscriber platform—to characterize each approach.

Figure B.1: Sustainable investment motivations and strategies



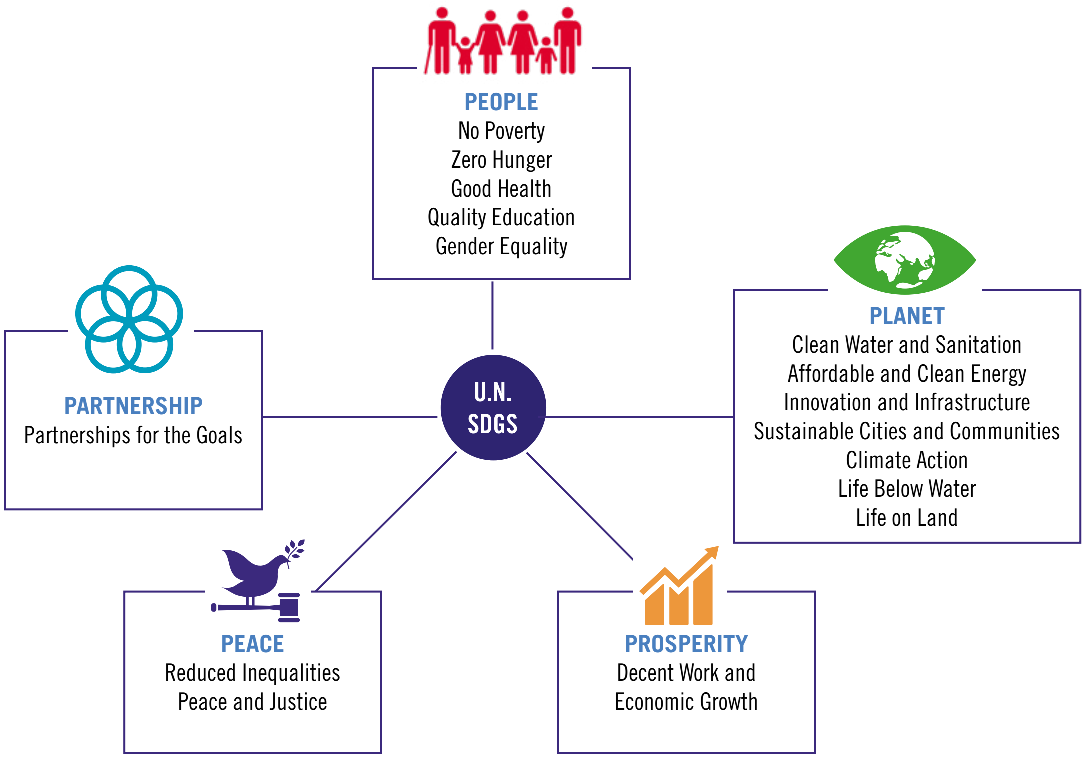
Sustainability issues. So, what sustainability issues might your clients care about? There are numerous issues that a client might want to address through their investments, and issues affect industries differently. Although the issues that your clients might want to focus on will vary, there are certain issues that you will likely encounter.

The United Nations (U.N.) Sustainable Development Goals (SDGs) provide a useful way to think about the sustainability issues that your clients might care about (see Figure B.2). Asset managers have been increasingly referencing the goals in marketing and communication materials, in part because of investor demand that they align their investment strategies with them.[44] Although some investors and managers have embraced the goals more enthusiastically than others, you will nonetheless probably encounter them, and they might reflect the sustainability issues that are on your clients' minds.

There are 17 SDGs that together target 169 outcomes. Rather than memorizing the goals and targets, you might instead familiarize yourself with their broader thematic groupings:[45]

1. **People** focuses on ending poverty and hunger and promoting health, equality, and education;
2. **Planet** refers to protecting the earth from degradation;
3. **Prosperity** aims to ensure that all lives are fulfilling and prosperous;
4. **Peace** focuses on "peaceful, just and inclusive societies"; and
5. **Partnership** refers to the participation of "all countries, all stakeholders and all people" in achieving the goals.

Figure B.2: The 17 U.N. SDGs: Grouped thematically—People, planet, prosperity, peace, and partnership



The Sustainability Accounting Standards Board (SASB) Materiality Map provides another framework for understanding sustainability issues that your clients who want to enhance performance might be particularly interested in. An independent organization that sets standards for corporate ESG disclosure, SASB assesses and maps the impact of noteworthy ESG issues across key industry sectors. It does so as per existing Securities and Exchange Commission (SEC) reporting regulations and using a thorough research and vetting process.

The 30 issues listed in Table B.1 are those that SASB has identified as "reasonably likely to affect the financial condition or operating performance of a company."[46] SASB's interactive free, web-based Materiality Map assesses the extent to which relevant issues effect financial performance for 10 industry sectors and their key sub-sectors.[47]

Table B.1: Material ESG issues as identified by SASB

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Environmental capital	**Social capital**	**Leadership and Governance**
Greenhouse gas (GHG) emissions	Human rights and community relations	Systemic risk management
Air quality	Access and affordability	Business ethics and transparency of payments
Energy management	Customer welfare	Competitive behavior
Fuel management	Fair disclosure and labeling	Regulatory capture and political influence
Water and wastewater management	Fair marketing and advertising	Materials sourcing
Waste and hazardous materials management		Supply chain management
Biodiversity impacts	**Human capital**	Data security and customer privacy
	Labor relations	Compensation and benefits
Business model innovation	Fair labor practices	
Lifecycle impacts of products and services	Employee health, safety and wellbeing	
Environmental, social impacts on assets and operations	Diversity and inclusion	
Product packaging	Compensation and benefits	
	Recruitment, development and retention	
	Accident and safety management	
	Business model innovation	
	Product quality and safety	

Source: www.sasb.org/materiality/sasb-materiality-map; grouped into environmental, social, and governance categories by the authors of this guide.

Scope and scale. Some facts and figures about the scope and scale of sustainable investment:[48]

Across the financial industry

- Sustainable investing accounted for approximately $22.89 trillion in global assets under management (AUM) in 2016—totaling just over ¼ (26%) of all AUM worldwide.
- Sustainably invested AUM in the U.S. totaled $8.72 trillion in 2016 (38.1% of AUM invested sustainably worldwide). "Avoid" is the most commonly used sustainable investment strategy, but "emphasize" strategies are the fastest growing.[49]
- Sustainable investment assets totaled $8.72 trillion in the U.S. in 2016, up 33% from $6.57 trillion in 2014 and representing nearly 22% of all AUM in the U.S.
- Given current trends, the potential of the market is greater than the present size of the sustainable investment segment alone would suggest.

At financial institutions

- Small specialist ("boutique") (e.g. Arabesque Asset Management, Sonen Capital), medium-sized asset owners and managers (e.g. Boston Common Asset Management, Pax World), and some of the world's largest financial institutions (e.g. BlackRock, Goldman Sachs, Morgan Stanley, Wells Fargo, State Street) provide sustainable investment services to clients.
- Many of the non-specialist firms operate separate sustainable investment focused divisions or programs (e.g. Social Impact Investing at Wells Fargo, UBS and Society).

And in indexes and funds

- Most of the major index providers—MSCI, Standard & Poor's/Dow Jones and FTSE/Russell, Thomson Reuters—provide extensive families of sustainability [ESG] indexes (e.g. MSCI offers more than 700 sustainability-focused indexes).
- Index providers construct these indexes using "best-in-class," values-based, or theme-based approaches and include only those companies with the best ESG performance relative to their industry peers, that meet social or environmental standards, or whose core business addresses an environmental or social issue.
- Like traditional financial indexes, these indexes serve three main purposes: (1) define sustainable investment markets available to investors, (2) provide tools for the creation of passive sustainability-oriented products, and (3) provide benchmarks for measuring the performance of sustainable managers.
- There were 235 sustainable funds available in the U.S. in 2017; many are relatively young and do not yet have 3-year performance results (important for eventual scaling).
- The GIIN's ImpactBase lists 425+ private equity funds

SECTION C: How

This section of *Fundamentals of Sustainable Investment: A guide for financial advisors* provides practical recommendations for how to talk with your clients about sustainable investment.

Supporting appendices relevant to this section of the guide include: a checklist and talking points for FA-client sustainable investment conversations (Appendix B); questions frequently asked by clients about sustainable investment and suggested responses (Appendix C); and example sustainability performance reports (Appendix D).

How Should You Discuss Sustainable Investment with Your Clients?

When should you raise sustainable investment with clients? How should you raise it or respond when clients raise it with you? What exactly should you say? How should you conduct the conversation? How do you translate the discussion into action? How do you talk with clients about the non-financial impacts of their investments?

Here we answer these and related questions and provide you with practical guidance for how to integrate discussions with clients about sustainable investment into your existing processes and with your existing procedures (see Figure C.1). We aim to empower you to better help your clients who are interested in sustainable investment to pursue related approaches, without alienating those who are not interested in integrating sustainable investment into their financial plans or investment strategies. The recommendations primarily reflect input gathered from FAs and other industry influencers during interviews conducted for this project.

Figure C.1: Steps for discussing sustainable investment with clients

1. PREPARE
Know about the sustainable investment options that are available to your clients. Understand your platform's sustainable investment:
(a) **philosophy**; (b) **process**; (c) **people**; (d) **products**; and (e) how it monitors **performance**.
Know whether you can provide customized opportunities to certain clients.

2. DISCOVER
Discuss sustainable investment goals with clients. When to do it: during a point of change/life event, at client events. What to say: reference recent publications or current events, reflect on a client's behavior (e.g. drives electric car). How to collect info: use an assessment questionnaire, values activity, or assessment checklist.

4. MANAGE
With your platform's help, obtain sustainability performance data and analysis from managers. Understand sustainability data, its providers and inconsistencies, and assess adherence to best practices. Report information to clients and use it to manage strategy alignment with, and progress toward, achieving their sustainability goals.

3. RECOMMEND
Consider sustainability goals alongside performance expectations, risk appetites. Consider other important contextual factors as you normally would (insurance issues, tax considerations, capital gains and losses, estate plans). Manage client expectations about how and how much they can reflect their values or mission in their investments.

1. PREPARE

OBJECTIVE: Know about the sustainable investment options that are available to your clients

The first step in discussing sustainable investment with your clients is not actually discussing it with them at all. It is preparing for the conversation so that you can explain the sustainable investment options available to them, make appropriate recommendations, and answer their questions. In other words, do not start a conversation with a client about sustainable investment if you do not know how you might be able to support them in pursuing related strategies.

Your product platform might directly offer numerous sustainability-focused strategies to clients and facilitate access to a variety of other funds and products. You probably do not have time to become intimately familiar with each one, but you should at least understand the processes that your platform uses to select these products and construct portfolios. You should also be able to describe one or two products to your clients by way of example.

Specifically, you should understand:

Why your platform selects the products and constructs portfolios in the way that it does (philosophy), so that you understand which products and portfolios focus on which sustainable investment strategies and issues for which clients;

How the platform evaluates prospective products and portfolios (process), so that you understand its due diligence process and product standards (e.g. how it evaluates individual companies) and can convey this information to clients;

Who selects the products and constructs portfolios (people), so that you know who to contact for information and guidance;

What kind of sustainable investment products and portfolios are available to your clients (products)—how many products are available in which asset classes and the issues they target—so that you can provide clients with examples of how they could pursue their sustainable investment goals; and

Whether and how the platform evaluates product and portfolio sustainability performance (performance), so that you understand what sustainability performance information you can relay to clients and how often.

> ***"This is a one-step-at-a-time process. Start with getting comfortable with a product."***

It is also useful to know whether your platform uses an open architecture approach (that is, primarily acquires products from third parties), develops its own strategies, or builds its sustainable investment offerings in some other way.[50] Such differences might impact product support, options, and costs and fees that you and your client must consider.

Boxes C.1a and C.1b describe how Bank of America Global Wealth and Investment Management (GWIM) and Morgan Stanley develop and select sustainable investment options to give you a basic understanding of the process at large and well-known home offices.

You might also be able to offer customized sustainable investment options to clients of certain types and sizes. Although it might not be efficient to provide customized solutions to mainstream affluent clients, your platform might provide them to high net worth (HNW), ultra high net worth (UHNW), and institutional clients.

Two of the most common customization approaches are:

Separately managed accounts (SMAs) are managed to individual client risk tolerance, financial goals (financial needs and intergenerational obligations), and sustainability goals. SMAs can account for changes in client sustainable investment preferences over time and ensure that account asset allocation always aligns with client sustainability preferences (and does not drift out of balance). They can also provide a tax efficient portfolio transition that ensures minimal capital gains realization.[51]

Tailored model portfolios or satellite portfolios can be useful for clients with unique or narrow sustainability goals. This might include, for example, a client with a targeted concern for animal rights whose portfolio includes publicly-traded companies that avoids certain industries and companies that test on or profit from animals and engagements to encourage ethical animal-related practices.

You might also provide a pre-determined set of tiered sustainable investment solutions to clients based on net worth. One FA interviewed for this project, for example, provides: (a) ESG-screened products to clients with up to $1 million in AUM, (b) ESG-screened products and products that avoid problematic industries to clients with more than $1 million AUM, and (c) ESG-screened, avoid, and targeted private market investment strategies to clients with more than $2 million AUM. Other FAs ask managers or firms that specialize in portfolio customization (e.g. Aperio Group) to assess the feasibility of portfolios constructed to meet clients' specific environmentally- or socially-related preferences and to determine likely impacts on financial returns.

Box C.1a: Sustainable investment at Bank of America GWIM	
PHILOSOPHY	Helps interested clients reflect their sustainable investment goals in their investments.
PROCESS	Encourages managers (public, private, active, passive) who identify as sustainable investment managers to demonstrate how they integrate sustainability into the investment process. Requires these managers to demonstrate how sustainability performance will be measured. Collects information on the sustainable investment profile of asset managers.
PEOPLE	Impact Investing Council, part of the wealth management business group, meets on a quarterly basis. Core team includes staff from various business units, including the CIO, portfolio strategy and construction, due diligence, investment solutions group, capital markets, alternative investments, retirement, marketing, etc. CIO personnel publishes the *Impact Investing Implementation Guide* (thought leadership on sustainable investment benefits and opportunities, responding to client demand).
PRODUCT	Offers proxy voting services, third-party mutual funds, ETFs, and SMAs, including customized accounts, hedge fund and private markets offerings, and an in-house suite of customized and values-based solutions. Also offers, at the request of clients, customized screens through MSCI ESG Research for their SMAs in accordance with environmental, social or independent values and does not apply these systematically across all managed funds.
PERFORMANCE	Tracks performance using traditional market benchmarks and establishes internal performance metrics to track performance of private market strategy without established benchmarks.

Sources: TIIP phone call with Anna Snider, Head of Due Diligence, Bank of America Global Wealth and Investment Management. July 31, 2018;
TIIP Investor Database

Box C.1b: Sustainable investment at Morgan Stanley	
PHILOSOPHY	Investing with Impact aims to generate market-rate financial returns while demonstrating positive environmental and social impact; it helps clients to build customized solutions that align their impact with their financial objectives.
PROCESS	The Investing with Impact team constructs risk-aware, diversified model portfolios consisting of both third-party managers and individual equity baskets focused on sustainable solutions. The Global Investment Manager Analysis (GIMA) unit within the Wealth Management division performs due diligence. Two of the unit's 60 analysts focus on the Investing with Impact Platform. Selected managers must have a documented ESG integration, thematic exposure or restriction screening process that confirms their intentionality.
PEOPLE	Institute for Sustainable Investing provides cross-business collaboration, thought leadership, and capacity building for Morgan Stanley. Wealth Management's Investing with Impact Platform leverages the input and expertise of all the firm's core businesses (e.g., investment management helps with public & private markets strategies, including ESG integration and shareholder engagement).
PRODUCT	The Investing with Impact Platform provides access to: third-party and proprietary thematic exposure, ESG integration, and restrictive screening products and firm-discretionary, low-minimum and donor-advised fund portfolios. The Platform includes 120+ equity and fixed income products across all geographies and asset classes, including alternatives. Some of the strategies and portfolios require a minimum investment; others do not. The Platform also offers customized solutions, including overlay restriction screening across 31 issue areas.
PERFORMANCE	Morgan Stanley uses a proprietary system to assess client-specific alignment of investments at the security and portfolio level with unique impact objectives. Publishes quarterly, client-facing *Impact Outcomes* report focused on key indicators and developments across the sustainable and impact investing industry. .

Source: Morgan Stanley (2018). Overview: Investing with Impact Platform.

2. DISCOVER

OBJECTIVES:

- **Assess client sustainability goals as part of regular discovery processes**
- **Determine whether and how clients want to pursue these goals in their investments**

Discussions with your clients about sustainable investment do not need to be separate, stand-alone conversations. Rather, you can integrate sustainable investment topics into your "regular" discovery processes (your initial and ongoing processes for assessing client financial health and identifying their risk tolerance and financial goals). We suggest first assessing client sustainability goals and interests before then determining whether and how clients want to reflect these goals and interests in financial plans and investment strategies.

> "When the client comes to visit you, you might have a bunch of products in your lineup and you might be able to talk generally speaking about the economy and markets and planning out the next five years, the 'typical' planner conversation. But when you can talk about impact, it changes how your clients will remember the meeting… [You might say], 'part of the reason that we picked this fund is because it has some projects, focus areas that [align with your values].' So, why would an advisor integrate sustainable investment, generally speaking? Maybe to help develop a deeper client relationship. You can talk about things that are more memorable."

Appendix B includes the Sustainable Investment Discussion Guide for Financial Advisors, which provides an outline and discussion prompts for the discovery process outlined below. Appendix C outlines questions that your clients might ask about sustainable investment and suggests potential answers.

Assess client sustainability goals as part of regular discovery processes. You should assess client sustainability goals (including whether they have any at all) during discovery, when you also assess client financial goals and risk appetite. This is the first step to determining whether a client might be interested in pursuing a sustainable investment strategy (one that is focused on risk or values or both), and to preliminarily match clients with specific strategies, products, or portfolios. Even if clients do not ultimately want to integrate sustainability considerations in their investment strategy, you will have deepened your relationships with them through these discussions and opened the door for them to integrate sustainable strategies into their investments in the future.

It is important to note that many factors—client sustainability goals being just one of them—influence whether and how they pursue sustainable investment. Characteristics such as client type (institutional vs. individual) and size (net worth) will help you to determine which sustainable investment strategies and products might appeal to which clients and prepare for sustainable investment discussions accordingly.

> Is the client a $1 billion foundation with an environmental or social impact mission that might want to pursue targeted private market investments that align with the mission or might want to influence corporate behavior through an active ownership strategy?
>
> Or, is the client a HNW family focused on saving for a comfortable retirement and navigating capital gains regulation and therefore might be interested in ESG integration to enhance long-term returns?

Of course, investor characteristics beyond type and size are important drivers of sustainable investment decision-making (e.g. intensity of sustainability concerns, sophistication regarding investment and sustainability).

The following includes concrete, practical guidance for conducting sustainable investment conversations with clients (summarized in Box C.2).

Box C.2: The when, what, and how of assessing sustainability goals

WHEN to discuss sustainability goals with clients.

- During a point of change or life event
- At client events

HOW to collect information about and assess information about client sustainability goals.

- Have clients complete an assessment questionnaire or values activity
- Use an assessment checklist or tool

WHAT to say to start discussions with clients about sustainability goals.

- Reference recent publications, conferences, discussions with other clients, etc.
- Mention things that you have observed about a client's behavior
- Discuss current events
- Ask about institutional governance documents (institutional clients only)

WHEN to discuss sustainability goals with clients

During a point of change or life event. Use a life event (e.g. retirement, marriage, divorce), liquidity event (e.g. inheritance, property or business sale) or point of change (e.g. new leadership, strategic plan) as an opportunity to discuss changes to client plans and portfolios. These events—in your or your clients' lives—can naturally lead to conversations about assessing and modifying financial plans and might be when clients are willing to explore new (sustainable) opportunities. Because these events do not occur with any predictability or regularity, however, you might have to wait some time before you can ask clients about their sustainability goals and proceed accordingly.

At client events. You probably host semi-regular (e.g. annual) client appreciation or informational events (e.g. dinners, cocktail receptions, holiday parties). You might consider using these events to highlight financial industry trends, including sustainable investment. Or, you might host a separate client event exclusively focused on sustainable investment trends and opportunities.

> "Every year we host a roundtable discussion at Gramercy Tavern, a discussion about the major trends between managers and clients to help clients to build their understanding around these topics. It is a good opportunity for us to widen the conversation a bit more, bring more people into the discussion."

WHAT to say to start discussions with clients about sustainability goals (i.e. effective sequiturs)

Reference recent publications (like this one!), firm newsletters, conferences, discussions with other clients, etc. that emphasized sustainable investment as an investment trend or opportunity. You keep clients abreast of major issues and trends in finance and investment. Introducing clients to sustainable investment is in line with that responsibility. You might, therefore, discuss the growth in sustainable investment AUM and products over time; reference publications, or conference presentations or note that other of your clients are integrating sustainability goals. You might say, "It's an area of growing interest among other clients that I work with, and I want to see if it's something that you care about [are interested in]."

Mention things that you have observed about a client's behavior. Client interests, religious beliefs, and volunteer and philanthropic activities can provide clues about their potential sustainability goals and interests. A client might, for example, drive an electric car or enjoy eco-tourism, or volunteer in underserved communities or with animals, be active in their church, or donate money to organizations focused on poverty, gender equality, or LGBTQ issues. Asking clients about these interests and commitments can lead to parallel conversations about opportunities for investing in companies that align with their values (and avoiding those that do not) or that embrace positive ESG behaviors to avoid risk.

Discuss current events. Talk with your clients about current events, including extreme weather events, gun violence, sexual assault cases, or ongoing public debates about access to healthcare and the availability of paid family leave. They might be similarly familiar with notorious cybersecurity, privacy, and product quality scandals (e.g. Equifax, Facebook, Kobe Steel). As with discussions about client hobbies and interests, discussions with clients about current events can provide a segue into broader discussions about values and sustainability risks.

Ask about institutional governance documents (institutional clients only). Institutional investors might have a formal mission statement or Investment Policy Statement (IPS) that outlines the institution's fundamental goals and how it hopes to achieve them. They might also have an Investment Belief Statement (IBS) that describes the rationale for the institution's investment style, the principles it applies to the investment process, and the strategic decisions it makes and why. You should ask your institutional clients for these documents.

HOW to collect information on, and assess information about, client sustainability goals

Use an assessment checklist or tool. You could ask clients a series of sustainability-related questions and note their responses on a formal checklist. Bespoke protocols and checklists can be targeted to client interest in issues or approaches available through the home office or subscriber platform. See the *Sustainable Investment Discussion Guide for Financial Advisors* in Appendix B, which outlines discussion prompts for risk- and values-motivated clients.

Have clients complete an assessment questionnaire or values activity. Asking clients to complete forms and questionnaires is probably already part of your onboarding and ongoing discovery processes. Consider integrating related questionnaires and activities into these procedures, particularly for your clients who are motivated to invest sustainably based on their personal values. Given that clients do not typically enjoy paperwork, ensure that doing so will not excessively inconvenience them.

You might also ask these clients to complete exercises like the think2perform values identifier, a free web-based activity through which clients highlight their core values.[52] Or ask them to complete hypothetical "limited resources" activities to help them isolate the issues that they want to address through their investments. This might include: (a) asking them to identify the issues that they care the most about and then asking them "If you had $10, how much of that $10 would you dedicate to each issue?," or (b) giving them a stack of coins and a "map" of sustainable investment themes and asking them to allocate the coins relative to how much they care about the issue.

Determine whether and how clients want to reflect their sustainability goals in their investments. Next, you can explain to clients that there are three ways that investors most commonly reflect their sustainability goals in their investments—avoid, emphasize, engage. During the discussions, you should:

- Outline the primary objectives of each approach and how they can help to express a personal value, mitigate risk, or influence corporate ESG behaviors;
- Describe the sorts of products available through your home office or subscriber platform, and customization options (if available to the client); and
- Share real-life examples of how similar types of clients with similar goals are expressing them in their investments—"bring portfolios to life" and relay stories about successful engagements or discuss how an available stock might align with a client's values to help them better understand sustainable investment concepts.

Ultimately, you are trying to determine whether and how the client wants to adopt a sustainable investment strategy.

Box C.3: Discussing whether clients want to invest sustainably

- Explain that there are three types of sustainable investment approaches through which investors pursue their sustainability goals
- Determine whether and how the client wants to adopt a sustainable investment strategy
- Share examples, "bring portfolios to life"

Box C.4: FA tips for discussing sustainable investment with clients

"It is the same—talking about [sustainable investment] with clients is the same as talking with them about anything else. It's exactly the same for onboarding a client. Talk about it in the context of performance or talk about it in the context of values."

"We're not trying to say to a client that this is the right way to express your impact, but we want to try to help them understand the various ways that they could approach doing so. Some want to exclude [avoid], some want to include a bad actor in a good sector to engage them."

"We pull out a story, highlight it, and then tie that back to the performance of the strategy."

"You have to be authentic and honest, even if having your portfolio reflecting your values means investing to make a lot of money because that's what's important to you—but you then have to say that you're not there to impose your values on the client, rather you're there to find out what they value and to help them reflect that in their investments."

Source: Project interviews conducted by TIIP, May through July 2018.

3. RECOMMEND

OBJECTIVES:

- **Manage client expectations about how and how much they can reflect these goals in their investments**
- **Recommend a financial plan and investment strategy that considers risk appetite, financial goals, and sustainability goals**

After assessing client interest in sustainable investment approaches and related goals, you can develop and recommend an appropriate plan. The process for doing so is the same as the process for vetting conventional plans and approaches: understand what the client is looking for and then solve for it. Anchor these discussions in reality; that is, be realistic with clients about their ability to pursue their goals and address different themes and issues given product availability, restrictions on portfolio customization, and their financial goals and risk tolerance.

Manage client expectations about how and how much they can reflect their values or mission in their investments. It is important to manage client expectations regarding integration of sustainable investment strategies into their financial plans given product availability, balancing sustainability goals within financial objectives, individual client ability to impact major environmental and social phenomena, and considerations regarding how quickly they can and should move assets given tax and other implications.

Product availability. As noted earlier, you can typically provide customized solutions to certain clients only (e.g. UHNW or institutional clients). You should therefore be clear with clients about the universe of products available to them.

> "Oftentimes people are getting excited about the ability to do a direct private equity deal in a super specific issue that they care about—I want to be doing water in Africa… we need to help people understand that this is an imperfect space… this is not a fully built-out space and you can't just go in and do everything bespoke as you desire."

Portfolio diversification. Explain to clients that you will help them pursue sustainable investment, but that—as you do for any change to their financial plan and investment strategy—you must carefully consider portfolio diversification, control for financial risks, and consider their financial goals alongside their sustainable investment goals.

> "Our job is to educate [clients] so that they know [sustainable investment] is available. Part of that education is about setting expectations about where we can align things to their specific impact objectives and where it might be prudent to take a broader approach, such as liquidity, asset allocation, and diversification. If a client with a strong place-based focus on Baltimore (affordable and community housing), for example, were to manage her portfolio herself, she would try to invest 100% of her portfolio in affordable housing in Baltimore… we advised her that this isn't financially prudent… we helped her to develop a portion of her portfolio dedicated to [affordable housing in Baltimore], then helped her invest in issues that are linked to this one (low income families in Baltimore and elsewhere)."
>
> "We think about asset allocation at a high level. Within their equity exposure, for example, then we'll try to consider their values as much as is possible. First, we try to make sure that a client is on the right track regarding their financial goals, and then within that we try to figure out how they can express the values that they want to express."
>
> "We wouldn't put a portfolio together that didn't have specific financial characteristics. No matter the size of the portfolio, if you identify an ESG issue—such as gender equity—and look for ways to express that value, you have to express it in the context of an asset allocation conversation and in the process of developing a well-rounded, diversified, otherwise strong portfolio."

Ability to "change the world." Although investors can (and do) have an impact on the environment, society, and governance issues, few investors have the power to "change the world" single-handedly. Encourage interested clients to pursue investments that reflect their values but be clear about their ability to solve environmental or social challenges.

> "I want them to get excited and I want them to sign up and take the next step. [They might say], 'I want to end poverty with my portfolio!' Ok, that's not going to happen, but maybe you want to start [with a small investment] with a focus on housing and social enterprise…"

Strategy execution speed. Especially eager clients might want to quickly and dramatically transition their entire portfolio to sustainable investment strategies. As with the reallocation of assets for any other reason, you and your clients must assess the tax and other implications of portfolio changes. Gradual and incremental change might be the most prudent approach to integrating sustainable investment strategies without unnecessarily introducing risks or negative financial consequences.

> "You may want to have the Tesla electric car, but we may have to start off with a used hybrid."

Recommend a financial plan and investment strategy that considers risk appetite, financial goals, and sustainability goals. When integrating sustainable investing into the process, you should consider sustainability goals alongside performance expectations and risk appetites (see Figure C.2). You should also consider other important contextual factors as you normally would (e.g. insurance issues, tax considerations, capital gains and losses, estate plans).

You might start by determining the extent to which a client's portfolio might already align with their sustainability goals. One FA interviewed for this project noted that their home office uses a propriety tool that compares clients' portfolios to their values to gauge alignment, which you should inquire about with your platform. These tools provide a starting point for conversations about portfolio adjustments and a baseline from which clients can see increased alignment over time.

In practice, this will likely mean starting with your platform's universe of available products and eliminating them in stages—those that do not meet client performance expectations, then those that do not reflect their risk appetite, and then those that do not align with their values or mission—until the appropriate products remain.

It might be difficult to find an exact match for your client's financial and sustainability goals and risk appetite; you will likely have to consult with the client to determine appropriate compromises. For instance, a client might want aggressive growth and no risk, which would be challenging to achieve. Similarly, a client might want to invest only in publicly-traded American companies that have many women on their boards; although increasingly common in some European countries (i.e. those that have mandated a minimum of 30% women on boards), such companies are rare in the U.S. The client might instead target companies with at least one woman on their board.

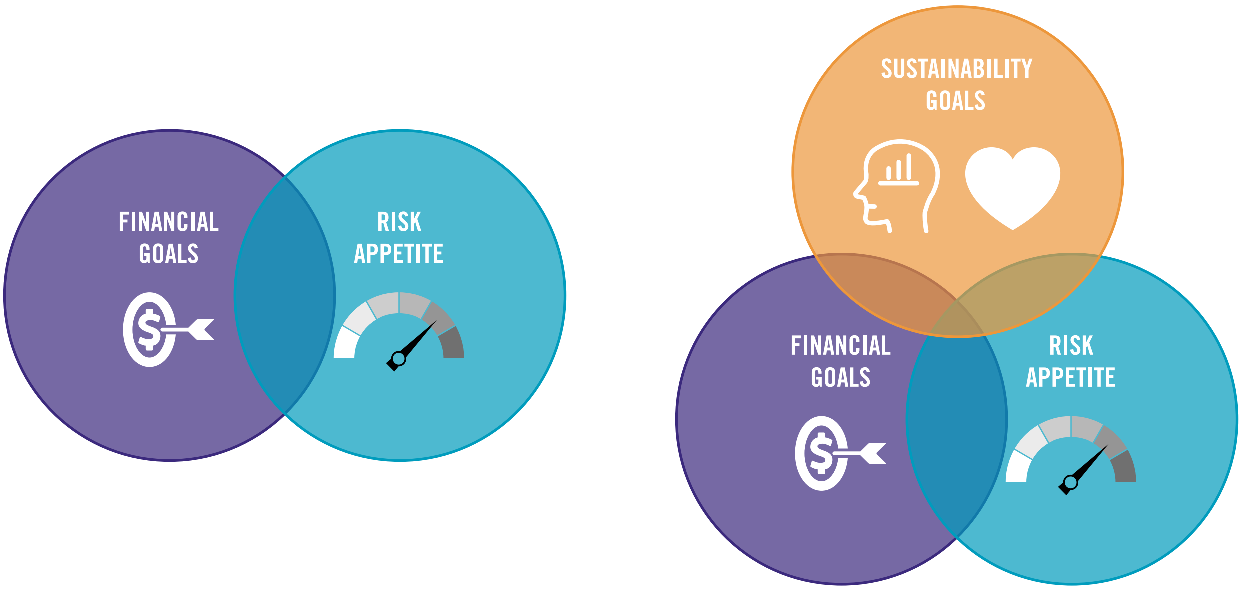
Figure C.2: Financial plan considerations: traditional vs. sustainable investment financial advising

FINANCIAL GOALS
Debt repayment, retirement, large purchase (e.g. home), college, leave inheritance, meeting beneficiary payments (pension fund), growing an endowment, etc.

RISK APPETITE
Risk tolerance and capacity in the context of financial planning goals and age, time horizon, net worth, amount of investible assets, investment experience, etc.

SUSTAINABILITY GOALS
Values; themes and issues

Traditional financial advising → Financial advising that incorporates sustainable investment



Additional considerations: overall financial health, debts, income, expenses, estate plans, etc.

This figure conveys the existence but not the magnitude of overlap between sustainability and financial goals and risk appetite.

4. MANAGE

OBJECTIVE: Monitor and report on sustainability performance alongside financial performance

It is important to provide your clients with a complete understanding of the performance of their sustainable investments, one that includes both financial and sustainability performance. Such "sustainability performance reporting" has the same basic, overall objectives of financial reporting: (a) to convey material information about the performance of a client portfolio and investment strategy, and (b) to help you assess and manage your clients' investment strategy alignment with, and progress toward, achieving their sustainability goals.

Factors such as the specific investment strategies employed and whether a client invests in established funds or uses a customized approach will affect how you might report sustainability information to your clients. Here we provide you with information to help you manage (monitor and report on) client sustainable investments of various kinds.

Appendix D includes illustrative (hypothetical) examples of sustainability performance reports. See also the Responsible Investor Magazine awards for the best sustainability performance reports for additional useful examples of potentially effective reports (e.g. useful information to include and effective layouts).[53]

WHAT is my role, as an FA, in sustainability monitoring and reporting?

Asset managers are largely responsible for collecting, analyzing, and reporting the sustainability performance information that you will provide to clients. Your platform will probably package and provide this information to you, much like it does for conventional financial reporting, though some are more advanced in doing so than others, and their ability to respond to your requests will vary.

When a client uses a highly customized strategy relying on individual stock selection, however, you will need to work together with your platform to gather the relevant available analytics and data from fund managers.

Regardless of whether a manager, your platform, or someone else provides it, you should understand which information is important to report to clients and be able to interpret and convey sustainability performance information to clients in a clear and decision-useful way (as you do with financial performance data and analysis). If financial performance lags substantially over a quarter, you identify the reason for the underperformance and interpret the information for your client. You should similarly be able to interpret and explain sustainability performance data relevant to your clients and be able to answer their questions.

WHAT sustainability information should reports include?

Each sustainable investment approach necessitates a different reporting strategy, one that reflects the asset classes invested in, investment products used, and the underlying sustainability themes and goals.

The availability of relevant data and analysis will be the primary driver regarding what information your sustainability performance reports will include. Given available data, sustainability performance reports should align with the following best practices:

- **Answers to what, how much, and who, and information about contribution and risk (the "five dimensions of impact").** Comprehensive reports will help investors to understand what sustainability outcomes they are affecting, how much of an effect they are having, who is experiencing these outcomes, the investor's contribution to the change, and the risks of not achieving the desired impact.[54]
- **Breakdowns of thematic exposures by asset classes or geography, and by sustainable investment strategy (avoid, emphasize, engage).** Many clients will adopt multiple strategies across different asset classes and geographies; therefore, sustainability performance reports should note related exposures for clients.
- **The key dimensions of investment performance consistent with client reporting preferences.** Data-driven clients might prefer that their sustainability performance reports mirror traditional financial fact sheets. Reports for these clients will contain limited narrative and will display sustainability performance metrics. This could include, for example, the number of proxies that were voted in the voting season or the specific carbon emissions offset by an investment's carbon credits.
- **Qualitative information alongside quantitative analysis, as appropriate.** Some clients best understand sustainability performance when reported via narrative stories or explanatory anecdotes (qualitatively). This might include things like describing the effects of a clean water bond on a local community, or telling the story of a woman entrepreneur who received a small business start-up loan from a bank that the client invested in.

You can integrate sustainability performance information into existing financial reports or report the information to clients via standalone reports; you might do so on an annual, quarterly, or ad-hoc basis You might include longer-term financial performance metrics (e.g. those reflecting a full market cycle) alongside sustainability information if clients opt for integrated reports (given most sustainable investors' focus on the long-term).

Table C.1 provides an overview of the sustainability information that you can obtain from your platform and asset managers and include in your reports.

Table C.1: Sustainability performance reporting by type of approach

AVOID	EMPHASIZE	ENGAGE
INVESTMENT STRATEGY INFORMATION		
• Number and types of investments (e.g. products, sectors, companies) avoided (theme(s)/issue(s) avoided) • Process used to avoid investments • Changes to fund since last report	• Number and types of investments emphasized (theme(s)/issue(s) emphasized) • Process used to select investments (e.g. ESG analysis issues, procedures, and ratings) • Changes to fund since last report	• Sustainability issue areas integrated into engagements, proxy voting • Engagement services employed (e.g. Hermes, GES)
QUANTITATIVE PERFORMANCE INFORMATION		
Number of new company exclusions over reporting period	• ESG performance relative to index or benchmark • Investment inputs (e.g. amount invested in clean energy) • Investment outputs (e.g. kWh of clean energy produced) • Investment outcomes (e.g. number of people serviced with renewable energy generated) • Investment impacts • Progress over time	*Engagement* Number of: • Companies engaged with (direct and indirect) • Engagements in process • Engagements that generated desired outcome • Resolutions withdrawn • Resolutions serving as lead or co-filer • Engagements by theme/issue *Proxy voting* Number of: • Votes exercised • Abstentions
QUALITATIVE PERFORMANCE INFORMATION		
Reasons for avoiding investments	• Stories of outcomes and impact • Description of impact generated (e.g. the overall impact an investment has had on women-owned businesses in Costa Rica)	• Stories of impact through engagement • Description of impact that has arisen from vote • Explanation of any missed votes

WHERE does sustainability performance information come from?

Understanding where sustainability data comes from and how asset managers use it to conduct performance analysis will help you better interpret findings and be effective at explaining managers' sustainability analysis to clients. **Unlike financial performance information, sustainability performance information is not standardized and data and analysis from different sources are not necessarily comparable.** Company- or fund-level sustainability analysis, for example, might be available from multiple data providers or ratings agencies, with one scoring an investment or fund higher than the other.

You should understand the nuances of each data provider and ratings agency enough that you can explain why scores for an investment or fund might differ. Specifically, you should pay attention to the following:

- **Whether sustainability scores are reported as letter grades, numbers (#), or percentages (%).** Sustainability scoring methodologies, terminology, and ranking systems vary across data providers. Some rating agencies use letter grades, some use numbers, and some use percentages to reflect their ratings.
- **The number of indicators used to generate scores.** Some research and analytics agencies use as many as 120 performance indicators to establish a rating of an investment or fund, while others use just 20.
- **Data sources.** Different agencies rely on different data sources to inform their evaluations; some rely exclusively on publicly available information, others use questionnaires and corporate self-disclosure, and still others use a combination of sources to inform their ratings. Many ratings rely heavily on corporate social responsibility and sustainability reports to inform their sustainability assessments, which can vary substantially from company to company and are not usually audited.[55]
- **Unit of analysis.** Rating agencies may differ in what dimensions of performance they are evaluating. One might, for example, score companies based on the extent to which they produce environmentally-beneficial products, and another might assess how much the company tries to mitigate environmental risks in its operations. While both assessments are of environmental performance, these two scores are based on very different factors.[56]

Table C.2 outlines a sampling of sustainability performance data providers and analysis and ratings agencies to provide you with examples of the kinds of data providers and entities that you will encounter. Data providers and analysis and ratings entities not listed in the table but that provide additional helpful examples also include RepRisk and Thomson Reuters. You can also consult resources like the GIIN's IRIS catalog of targeted private market investment performance indicators. This free online tool does not provide data or analysis; rather it recommends impact metrics across 11 sectors ranging from agriculture to microinsurance to housing and community development. Users identify metrics applicable to an investment, then solicit needed information from individual fund companies.

Table C.2: Example sustainability performance data providers and analysis and ratings agencies

SCORE	INDICATORS	DATA	ANALYSIS
The Bloomberg Terminal. Reports ESG data for 9,500 publicly-listed companies in 83 countries, displayed alongside financial data. Assigns to companies absolute and relative scores and indicates performance over time. Data dashboards also include Bloomberg's annual *ESG Disclosure Score* and third-party sustainability ratings.			
Company ESG ratings: n/a *ESG Disclosure Score*: An absolute score between 1 and 100	120 indicators	Self-reported (directly to Bloomberg and via publicly available documents (annual reports, websites, sustainability reports, etc.)); checked and standardized	*Company ESG ratings*: Assesses, among other things: carbon emissions, climate change effect, pollution, waste disposal, political contributions, discrimination, diversity, human rights, executive compensation, shareholders' rights, and independent directors *ESG Disclosure Score*: Assesses disclosure of quantitative and policy-related ESG data
ImpactBase. ImpactBase is a free online database of 425+ impact investing funds and products.			
n/a	34 indicators (14 overview, 15 financial, 5 impact)	Self-reported by fund managers	Does not rate or score funds or products; rather, provides overview, financial, and impact-related information
Institutional Shareholder Services (ISS). Publishes the *Environmental & Social QualityScore (E&S QualityScore)*—a measure of the quality of E&S data disclosure for ~4,700 publicly-traded companies—and the *Governance QualityScore (G QualityScore)*—a measure of the quality of governance practices for 5,600+ publicly-traded and widely-held companies. ISS also provides a suite of other sustainability data and research services through its DataDesk platform; includes collecting and providing data on boards and their directors and company executives and data on specific sectors and issues. Operates ISS Ethix, which provides advice for integrating sustainability factors into investment decision-making.			
E&S QualityScore and G QualityScore: companies are placed into deciles (1–10) that represent a relative score	*E&S QualityScore*: 380 indicators *G QualityScore*: 200 indicators	*E&S QualityScore and G QualityScore*: Collected from company websites, sustainability reports, company policies, etc.; verified	*E&S QualityScore*: Assesses depth and extent of E&S information disclosure as a proxy measure for companies' understanding of their E&S risks and preparedness for addressing them *G QualityScore*: Assesses corporate governance quality across 4 dimensions: board structure, compensation/remuneration, shareholder rights, and audit practices; factors are weighted based on governance practices and voting and regional governance standards
Morningstar. The *Morningstar Sustainability Rating* assesses sustainability performance of ~20,000 mutual funds and ETFs. Higher sustainability ratings oftentimes (but not always) correlate with high star ratings for risk-adjusted returns.			
Rating of 1 to 5 globes, indicates performance relative to industry group ratings	2 (underlying companies' ESG scores and ESG controversies)	*Underlying companies' ESG scores*: assessed by Sustainalytics using 70+ indicators *ESG controversies*: n/a	Fund ratings are calculated first by assigning ESG scores to underlying companies' ESG scores (1 to 100, measures of ESG preparedness, disclosure, and performance relative to peers) then subtracting points for ESG controversies (incidents that negatively impact the environment and society).
MSCI. MSCI generates *ESG Ratings* for 6,500 companies and 590,000+ fixed income securities worldwide. These ratings are one part of MSCI's larger ESG data, research, and analysis services, which also include: company, industry, and thematic reports; portfolio analytics; data feeds; and indexes.			
A relative, industry-specific score from AAA to CCC	96 indicators	Collected from government and non-government organization datasets, company disclosure documents, and media sources; data are verified	Assesses exposure to ESG risks and risk management capabilities

Sources: www.bloomberg.com/impact/impact/esg-data/; www.issgovernance.com/; www.msci.com/esg-ratings; www.sustainalytics.com/our-solutions/#esgintegration; Davis Polk (2017). ESG Reports and Ratings: What They Are, Why They Matter?. July 12, 2017; www.investopedia.com/terms/m/morningstar-sustainability-rating.asp; www.impactbase.org.

Note: Table is for illustrative purposes and does not represent an endorsement of these entities.

There are also various investment benchmarks that are especially useful for private market investments where company-specific sustainability ratings will not be available. These benchmarks can help you to compare the financial performance of a client's private-market sustainable investment strategy to that of comparable investments with similar thematic sustainability characteristics.

The Impact Investing Benchmark, for example, is a private equity and venture capital benchmark that tracks the financial performance of funds targeting sustainability issues that include financial inclusion, economic development, job creation, education, environmentally sustainable products and services, and sustainable agriculture. This and similar benchmarks focused on issues including affordable housing, renewable energy, climate change mitigation, and water resource management track financial performance and specify how impact is measured for each.[57]

SECTION D: "Real World" Examples

"REAL WORLD" EXAMPLES

What does the guidance outlined in the preceding sections look like in practice? Here we outline hypothetical scenarios of what interactions with clients about sustainable investment might look like in the "real world." That is, what our recommendations for how to discuss sustainable investing might look like in practice. Although hypothetical, the scenarios are informed by actual interactions with clients and interviews conducted for this project.

Scenario 1: Married couple with young daughters inherits $1 million

Seeking a financial advisor to use inheritance to help them realize various long-term goals

The family recently inherited $1 million and needs a financial advisor to help them navigate their newfound wealth to save for a comfortable retirement (in 20+ years) and to send their two daughters to college in approximately 15 years. You think that they might be interested in investments that consider ESG issues given the long-term nature of their financial goals.

1. PREPARE

Preliminary conversations with the couple hint that they:

- Do not have investment experience or sophistication (sustainable investment will likely be a new concept to them)
- As parents of two young girls, they are passionate about women's issues and gender equality

Identify illustrative examples of sustainable investment strategies that might align with their goals and passions, such as:

- Gender diversity themed portfolios that focus on exposures to companies that empower female leadership (a.k.a. gender lens investing), and that have required minimums that align with the couple's wealth level
- Funds that emphasize best-in-class ESG investments to reduce risk and enhance long-term performance (no required minimums)

2. DISCOVER

Discover the couple's financial goals and risk tolerance as you normally would; discuss family legacy. Identify their sustainability goals; ask:

- Are there social or environmental issues that you feel passionate about?
- Do you volunteer time or support these causes with charitable donations?

- Do you think the companies you invest in have a responsibility to make the world better or at least not make it worse, particularly regarding certain issues?
- How do you feel about potentially altering the risk/return profile of your portfolio to address these issues? (Note, the client can invest sustainably without altering the profile)

3. RECOMMEND

- Recommend one or more strategies that will help to align the couple's portfolio with their gender-focused values, including mutual funds, ETFs, and SMAs that address gender equality
- Also recommend an ESG strategy in line with their long-term performance goals
- Explain that more strategies get added to the platform each year that include deeper integration of sustainability considerations and/or consideration of the issues they care about, but in different and sometimes novel ways
- Explain that as their wealth grows so too will their opportunities for higher customization in their portfolio

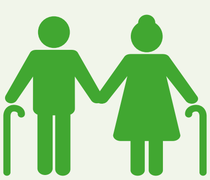
4. MANAGE

Couple requests an integrated approach to reporting that includes sustainability performance information reported alongside financial information. They want frequent reports in the first year (quarterly), then annual reports thereafter. Contact your home office to determine:

- What tools are available to you to be able to provide this kind of reporting
- If it is possible to provide quarterly reporting and, if so, if there are any constraints on which strategies this information is available for

See Example 2: Private Equity Fund with ESG Emphasis Strategy in Appendix D for a related sustainability performance information reporting example.

Scenario 2: Wealthy elderly couple is considering their legacy



They want to ensure that they use their wealth to "do well and do good"

The couple is confronting their mortality and wants to ensure that their wealth (approximately $5 million) helps to secure their family's financial future and to "make the world a better place." They have heard about sustainable investment and wonder if it might help them achieve these goals. They have an entrepreneurial spirit.

1. PREPARE

Prepare to educate them on the fundamental ways they might broadly act on sustainability goals, given that they do not appear have a specific issue of interest.

Preliminarily identify your platform's issue-agnostic approaches and how it examines potential sustainable investment strategies—you want to be able to provide the couple with a comprehensive sense of the sustainable investing opportunities that are available to them.

2. DISCOVER

Ask about why the family is interested in sustainable investing: What do they know about it? What role are they hoping their wealth plays for their family and society?

Ask about what resonates most about sustainable investing:

- Avoiding companies that produce things like weapons or tobacco, and not investing in government bonds from countries that are known human rights violators (e.g. Burma or Sudan)
- Emphasizing opportunities that include those companies assessed to be least carbon intensive or that are producing solutions to global needs or issues
- Engaging with companies invested in (alone or together with other shareholders) to ensure that they consider the long-term risks posed to production and supply chains by things like resource scarcity, climate change, and new environmental regulations

Assess the extent to which they want to align their wealth with their values (e.g. 50%?, 100%?).

Note that entrepreneurism is fundamental to how the couple sees the potential for progress in the world; they view emergent industries and technological innovation as essential to sustainability.

3. RECOMMEND

Consider:

- Risk tolerance (they are preparing for retirement, but they have an entrepreneurial spirit and are not necessarily as risk averse as you might expect for people entering retirement)
- Financial goals (secure their retirement but also provide for future generations)
- Sustainability goals (they want to go “all in” on impact, aligning 100% of the investments with social and environmental considerations)

Recommend an approach that includes investing:

- 50%+ of their money into stocks in public companies that are emphasizing solutions to global issues like climate change and income inequality and decreasing this allocation over time, given that the couple thinks that the private markets can better help them to achieve “deep impact”
- Other portions of their money in impact-focused fixed income and private equity, a donor-advised fund, and in microfinance

Determine the implications of the shift towards sustainable investing on taxes and capital gains before presenting the plan to the clients.

4.MANAGE

Ask the client what they hope to learn from their sustainability performance reports, whether qualitative or quantitative data (or both) might resonate better, and how often they want updates.

Their approach is wide-ranging and spans numerous asset classes and issues, so you need to determine which sustainability performance information they are most interested in you obtaining from your platform.

Contact your platform to determine requirements for different asset classes:

- Private equity and fixed income (whether and how managers collect and analyze sustainability data)
- Public equities (whether fund managers provide sustainability data, due diligence conducted on the benchmarks, and ratings agencies used)

Ensure that you understand relevant shareholder engagement guidelines. To demonstrate 100% alignment, include in the reports examples of how individual investments bring the clients closer to achieving their sustainable investment goals.

See Example 2: Private Equity Fund with ESG Emphasis Strategy and Example 3: Equity Mutual Fund with Engagement Strategy in Appendix D for related sustainability performance reporting examples.

Scenario 3: Teacher does not want to invest in gun manufacturers

She is concerned about investments in guns given recent school shootings

An elementary school teacher with a modest investment portfolio, she wants to ensure that she is not invested in the manufacturers of AR-15 rifles like those used in recent school shootings (e.g. American Outdoor Brands Corp, previously known as Smith & Wesson).

1. PREPARE

Confirm whether the client’s holdings include firearms manufacturers (they do).

Identify whether your platform has any products that avoid weapons manufacturers and whether the products have minimum investment requirements.

Draft questions to help you to identify and clarify other sustainable investment goals.

2. DISCOVER

Identify her sustainability goals, ask if there are other social or environmental issues that she feels passionate about (e.g. tobacco, education).

3. RECOMMEND

You recommend a set of solutions that align with her sustainability goals but that—given her low net worth—are also cost effective, tax-efficient and have low minimums. So, you:

- Establish expectations regarding product availability given level of investible assets.
- Recommend incorporating ESG screened funds that actively avoid firearm manufacturers, and commonly also avoid distributors and producers of tobacco products.
- Recommend a set of automated ETF portfolios so that the client can choose by impact theme (as opposed to specific funds), making the process as streamlined as possible (something younger investors prefer), as well as leveraging the low costs and tax-efficiency associated with ETFs.
- Given minimal fees and low barriers to entry—and the combination of various long- and short-term goals—you suggest investing in a sustainable IRA that enables the client to express her values while also yielding tax benefits. The fund you identify for her—an option that invests in relevant sectors of interest—has a 0.5% expense ratio and a $100 minimum initial investment.
- You suggest mutual fund options that have low account minimums (as little as $1,000).

4. MANAGE

Given the client's wealth level and sustainable investment approach you can:

- Provide the client the platform-wide sustainable performance reporting that is produced at your firm to give her a high-level sense of how your firm is impacting the world
- Request from your platform the impact reports of the funds she holds that are also held by other of your clients to leverage economies of scale
- Share with her media clippings on developments regarding the issues she cares most about

See Appendix D for related sustainability performance reporting examples.

Scenario 4: Foundation's new CEO wants to deepen its impact

The $50 million Cleveland, OH-based family foundation funds community and economic development initiatives in Cleveland

The family patriarch, who hired you many years ago, is retiring from his position as the foundation's CEO and Chair of the Board. His daughter, who you do not know well, will succeed him. She wants to: (a) deepen the foundation's impact on community and economic development in Cleveland given limited resources; and (b) involve young family members in the foundation's work to solidify its legacy.

1. PREPARE

Review the foundation's mission statement and Investment Policy Statement (IPS) and/or Investment Belief Statement (IBS) (typically available only for institutional clients; describes investment strategy, rationale, and principles).

Given the foundation's mission to increase economic opportunity for residents of Cleveland, you preliminarily identify the following as potentially effective asset classes for related sustainable investment efforts:

- Cash and cash equivalents (microfinance)
- Fixed income (affordable housing, Small Business Agencies bonds, municipal economic improvement bonds)
- Real estate (public and private options)

Identify sustainable investment products more generally available to a client of this type and size, which might include: mutual funds, SMAs, ETFs, private equity fund of funds, and other private market offerings.

Investigate whether an SMA manager might be able to include public companies which are headquartered in, or that do a lot of business in, Cleveland.

2. DISCOVER

Discuss with the CEO her vision for the foundation and major short- and long-term changes; she sees the foundation:

- Fully aligning its investments with its mission to maximize its impact
- Better engaging future generations of the family to be active in the foundation
- Minimizing risk (both financial and social), optimizing liquidity, and managing transaction costs

Discuss the foundation's sustainable investment goals:

- Ensure companies invested in do not exacerbate economic and community development challenges
- Invest in companies that adopt best practices related to labor issues
- Consider entrepreneurial innovations that support socioeconomic progress

Present to the foundation's Board on how sustainable investment can help the foundation achieve the above.

Determine whether IPS/IBS reflects sustainable investment priorities that the foundation:

- Has a responsibility to use its resources to promote economic and community development, particularly for the poor and disenfranchised
- Will consider the social impact of corporate behavior
- Encourages corporate transparency, accountability, and disclosure to affected stakeholders
- Believes that all investments harm or help the world

Determine with the CEO and Board which types of investments align with its mission. Given its mission and goals, the foundation might:

- Pursue direct and indirect investments in public and private debt and equity (e.g. microfinance revolving loan funds, bank deposits and accounts with a local bank in Cleveland, federal agency bonds, local transit oriented real estate developments offered by a Cleveland real estate developer)
- Use an array of financial tools, including its grant-giving programs, to support a diverse group of enterprises (including nonprofits, for-profits, and government entities)

The foundation wants to start with 50% portfolio alignment with mission.

3. RECOMMEND

Assess alignment of financial plan and investment strategy with the foundation's mission:

- Exposed to tobacco, gambling, and arms manufacturing (contrary to its mission)
- No investments integrate ESG analysis

Recommend multi-pronged sustainable investment approach that includes:

- Avoiding investments associated with poor environmental or labor standards and human rights concerns, and avoid investments in tobacco, gambling, and arms manufacturing
- Emphasizing ESG analysis and companies with products or services that provide solutions to social and economic development issues that the foundation cares about (e.g. fair labor practices and responsible supply chain management, stakeholder analysis, and shared value approaches to business practices)
- Customized targeted private market investments (screened portfolios of government bonds, corporate bonds, and bond funds constructed with rigorous ESG criteria)

Before presenting to the client, analyze ex ante changes in risk and performance profile that will likely result from recommendations and related mitigation strategies.

Suggest revisions to IBS/IPS that clarify how the foundation's investment style, investment managers, asset allocation, and security selection can support its mission.

4. MANAGE

Discuss options for reporting style, frequency, and dimensions of sustainability performance that will be captured:

- Determine the sustainability performance measurement and reporting requirements your home office requires of managers for how they measure and report sustainability performance data of investments.
- Determine what your platform can provide you on the performance of specific strategies and how often.
- Given the client’s size and interest in private market solutions, consider whether it might be feasible to retain a strategic advisor that focuses on community and economic development issues to help you provide to the client additional impact measurement and reporting competencies.

See Example 1: Integrated ESG Fund with Exclusionary ESG Screening and Example 2: Private Equity Fund with ESG Emphasis Strategy in Appendix D for related sustainability performance reporting examples.

Breakthroughs Needed

Breakthroughs Needed

Although *Fundamentals of Sustainable Investment: A guide for financial advisors* provides comprehensive, practical instructions for financial advisors (FAs), there is still a lot of work to be done for sustainable investing to reach its full potential as an advisable, manageable, and implementable opportunity. We describe the necessary breakthroughs here.

Support navigating the challenges that arise when establishing sustainable investment services. Success in establishing sustainable investment services depends on several factors, including the FA's or firm's commitment to the strategy, available resources, their current and projected future client base, in-house sustainability expertise, and aspirations for market positioning. Further, a tension might exist between:

- Standardizing strategies for efficiency's sake and creating a range of offerings to serve the broadest possible client base;
- Building capacity via acquisition, strategic hiring, or in-house staff development;
- The availability of necessary technology and the building of needed models;
- Quickly acquiring sustainable investment clients and the slow and steady launch of new sustainability products.

Firms and FAs need support beyond what is provided in this guide to help them navigate these decisions.

Guidance on identifying managers with best practices in sustainability product development and services. Fund managers are continuously developing new sustainability strategies and services. Beyond the sustainability products that they offer, they might:

- Participate in coalitions that set industry-specific sustainability standards;
- Advocate for the availability and quality of environmental, social, and governance (ESG) data across asset classes;
- Support sustainable investment-related public policy initiatives; or
- Integrate their sustainable and financial investment annual reporting into a single publication.

Firms and FAs need guidance on how to assess the relative performance of these sustainability initiatives: who is doing the best job, whose approach is the most effective, and who provides the best fit for your clients' needs.

Information on passive vs. active sustainable investment approaches. An array of approaches to achieving sustainability goals exists within both strategies. Among other things, some products stress sustainability solutions, others engagement; some exclude holdings on sustainability grounds, others overweight and underweight them; some rate and rank securities on relative sustainability performance, others rely on absolute criteria for inclusion. FAs need help understanding the nuances, sustainability implications, and pros and cons of these approaches.

Assistance with integrating "system-level" frameworks. Some clients will not be content with reports on how many kilowatt hours of electricity have been saved or units of affordable housing created by the holdings in their portfolios. They will want to know about broader progress related to climate change or homelessness; they will want to know about progress at a "system level," or whether they are helping to positively influence complex, global, interconnected environmental and social issues.

The Investment Integration Project (TIIP), Money Management Institute (MMI), and others, will pursue these topics over the coming months.

Conclusion

Conclusion

Sustainable investment—the practice of investing in pursuit of financial sustainability or environmental or social sustainability—is increasingly popular. Major financial institutions are developing sustainable product platforms; leading index providers offer extensive families of sustainability indexes; and asset management firms provide opportunities and products that range across all asset classes. All told, the sustainable investment industry now accounts for over one fourth of AUM worldwide.[58]

You—FAs, who number in the hundreds of thousands in the U.S. alone—have an opportunity to respond to increasing client demand for access to sustainable investing strategies that enhance long-term financial performance and promote social or environmental sustainability. Doing so can help you to retain existing clients and grow your book of business.

This guide can help you to seize this opportunity. It dispels common myths, defines what sustainable investing is, and explains how to incorporate consideration for your clients' sustainability goals into your pre-existing processes. It also demonstrates how you can identify and address clients' sustainable investment wants and needs.

In many ways this is the first inning of what promises to be a long game, and other forces are at work in the financial services industry—from changing demographics, technological innovation, behavioral finance, and a rethink of modern portfolio theory (MPT) to name just a few. Each will have profound implications for the financial services industry, although what they mean for FAs is still emerging. What is certain, however, is that many of your clients are sending a clear signal: they want to invest sustainably and expect you to help them do so. We hope this guide helps you in meeting this demand.

About This Guide

About This Guide

Who is This Guide for?

This guide is written for all types of financial advisors (FAs) and their support teams. FAs include various types of professionals who dispense financial guidance and related investment services. Some are registered with the U.S. Securities and Exchange Commission (SEC) and others are not; some work with institutional clients and others with individual clients (from mainstream affluent to high net worth (HNW) and ultra high net worth (UHNW)). Some are independent, while others are affiliated with major financial institutions or "home offices" (e.g. Morgan Stanley, Merrill Lynch, or UBS). The latter are subject to the institutions' compliance rules and offer products to clients that are approved by the home office and available via its product platform. The former operate independently, but commonly subscribe to a product platform that functions similarly to that of a home office.

Despite differences, FAs share common overarching objectives and core job functions. This guide provides foundational information and recommendations that can be adopted by various types of FAs and adapted to individual FAs' styles, solving for major differences as appropriate. All FAs must prepare for client meetings, conduct discovery activities with new clients, and propose investment strategies that align with client wants and needs. They also must monitor investment performance over time and re-balance portfolios and otherwise modify approaches and strategies as appropriate.

This guide includes information for FAs with different levels of experience with sustainable investment; that is, FAs who are trying to understand the basics of sustainable investment or who are skeptical of its utility, value, and importance; those who are ready to implement sustainable investment into their practices but do not know how to start; and FAs who already integrate sustainable investment into their practice, but who want to expand and improve upon their work in this area.

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For their time and insights during project interviews, TIIP would also like to thank each of the members of the project working group, the financial advisors, and the industry thought-leaders who generously contributed their time and knowledge to this project. They are listed in Appendix A.

Disclaimers

TIIP generally relies on information that is provided by the subject entity, self-reported to third parties by subject entities or is otherwise publicly available. Such information has not been independently verified by TIIP.

This report is provided for informational purposes only. The information presented is not intended to be investment advice. Any references to specific investments are for illustrative purposes only. The information herein does not constitute a personal recommendation or consider the investment objectives, financial situations, or needs of individual clients.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. Some of the data contained herein or on which the research is based is current public information that TIIP considers reliable, but TIIP does not represent it as accurate or complete, and it should not be relied on as such. Nothing contained in this report should be construed as the provision of tax or legal advice. Past performance is not indicative of future performance. Broad-based securities indexes are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index. Any information or opinions provided in this report are as of the date of the report, and TIIP is under no obligation to update the information or communicate that any updates have been made. Information contained herein may have been provided by third parties, including investment firms providing information on returns and assets under management, and may not have been independently verified.

About TIIP and MMI

TIIP. The Investment Integration Project (TIIP) has partnered with Money Management Institute (MMI) to develop this guide, *Fundamentals of Sustainable Investment: A guide for financial advisors,* to help investment professionals of all kinds and experience levels—including financial advisors and their support teams—to effectively discuss sustainable investment with clients.

TIIP's mission is to help investors understand the feedback loops between their investments and the planet's overarching systems—be they environmental, societal or financial—that make profitable investment opportunities possible. TIIP provides these investors with the research, analysis, and guidance to manage the impacts of their investment policies and practices on these systems.

MMI. Money Management Institute (MMI) is the industry association representing financial services firms that provide financial advice and investment advisory solutions to investors. Through conferences, educational resources, and thought leadership, MMI facilitates peer-to-peer connections, fosters industry knowledge and professionalism, and supports the development of the next generation of industry leadership. MMI provides to its members industry research and analysis, white papers on emerging trends, and interviews with industry thought leaders.

About the Authors

William Burckart. Mr. Burckart is TIIP's President and COO. He has been at the forefront of impact investing and has contributed to the field through groundbreaking research, including leading a multiyear field building effort focused on the financial services industry in collaboration with the Money Management Institute; managing the production of (and as a contributing author to) the New Frontiers of Philanthropy: A Guide to the New Tools and Actors that Are Reshaping Global Philanthropy and Social Investing (Oxford University Press: 2014), and was involved in the writing of the Status of the Social Impact Investing Market: A Primer (UK Cabinet Office: 2013) that was distributed to policymakers at the inaugural G8-level forum on impact investing. Mr. Burckart is a visiting scholar of the U.S. Federal Reserve and is a founder or co-founder of two impact investment advisory firms (Burckart Consulting and Impact Economy LLC).

Jessica Ziegler. Ms. Ziegler is Director of Research at TIIP and oversees all the organization's research projects. She has extensive experience in research design, data collection, and rigorous data analysis. She honed her research skills at Mathematica Policy Research—an industry-leading policy research and evaluation firm—where she spent eight years conducting social policy evaluations. Ms. Ziegler has authored numerous reports on the implementation, costs, and effectiveness of employment, family support and education programs. Her reports are used by programs and policymakers to guide reforms and improvements. She holds a Master of Public Policy from Johns Hopkins University and a Bachelor of Arts in Policy Studies from Dickinson College.

Endnotes

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Figure 1 Source Notes

Nearly ¾ of all investors are interested in sustainable investment.

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Sustainable investors can achieve at or above market-rate returns over the long-term.

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Companies that better manage their ESG risks have less systemic volatility than their conventional peers, making them better overall investments.

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Climate change, for example, could cause investor losses of up to 45% should it go unmitigated and social unrest caused by global youth unemployment could increase volatility in financial markets.

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Investor actions helped to change oppressive laws and do things like end apartheid in South Africa.

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Hawley, James and Jon Lukomnik (2017). The Purpose of Asset Management. *Working document.* Pension Insurance Corporation. December 2017.

Appendices

APPENDIX A.
Data Sources

TIIP collected and analyzed data from four sources to develop Fundamentals of Sustainable Investment: A guide for financial advisors.

1. **Literature reviews.** TIIP reviewed literature on sustainable investment and related practices and topics, and on financial advisor (FA) integration of sustainable investment into discussions with clients.
2. **FA and industry influencer interviews.** TIIP interviewed a range of industry thought leaders and experienced FAs about sustainable investing for their insights on how FAs should approach discussions with clients. During interviews, TIIP also inquired about best practices for, and challenges to, sustainable investing and for discussing sustainable investing with institutional and retail clients. TIIP research staff conducted interviews using an interview guide that ensured the systematic collection of comparable information across respondents while also allowing interviewers to pursue questioning specific to individual respondent's expertise and experience. TIIP provided select interviewees with an early draft of the guide; their reactions and feedback informed revisions and the content of this final version.
3. **Consultation with project working group.** TIIP also interviewed and otherwise consulted with a project advisory working group of industry influencers. TIIP staff met one-on-one with group members at the project outset to obtain their feedback on the project plan and recommendations for literature and project interview respondents, and to gather initial insights about the existing landscape for sustainable investing and how FAs should approach related discussions with clients. TIIP provided group members with an early draft of the guide; their reactions and feedback informed revisions and the content of this final version.
4. **TIIP's institutional knowledge and theoretical frameworks.** TIIP is an industry thought leader on sustainable investment theory and practice and has conducted various research projects related to sustainable investing and the topics explored through this project. This guide builds on that work as appropriate and incorporates theoretical frameworks established in *TIIP's Systems-Level Considerations and the Long-Term Investor: Definitions, Examples, and Actions* occasional paper and in *Tipping Points 2016: Summary of 50 Asset Owners' and Managers' Approaches to Investing in Global Systems* (with IRRC Institute), and research recently conducted for the *Measuring Effectiveness: Roadmap to Assessing System-level and SDG Investing* (with IRRC Institute) report. It also leveraged information from TIIP's advisory projects, including reviews of client engagements.

Interview respondents and working group members are listed below. Note that company affiliations are listed for identification purposes only and do not imply endorsement by listed firms. Respondents were affiliated with these organizations at the time of the interviews in March through August 2018.

ORGANIZATION	NAME AND ROLE
	Interview Respondents
Align Impact	Hummayun Javed, *Senior Analyst*
Athena Capital Advisors	Bill McCalpin, *Managing Partner, Impact Investments*
Blue Rider Group (Morgan Stanley)	Lauren Sparrow, *Executive Director, Private Wealth Advisor* Maryanna McConnell, *Private Wealth Advisor*
BMO Private Investments Council	Tony Bennett, *President and CEO*
ClearBridge Investments	Mary Jane McQuillen, *Managing Director, Portfolio Manager, Head of Environmental, Social and Governance Investment*
Colorado Capital Management	Steve Ellis , *Founder and President*
Cordes Foundation	Ron Cordes, *Co-Founder*
Domini Impact Investments	Carole Laible, *CEO*
Gitterman Wealth Management	Jeff Gitterman, *Co-Founding Partner*
Godeke Consulting	Steven Godeke, *CEO*
Graystone Consulting (Morgan Stanley)	Kelly Green, *Financial Advisor, Institutional Consultant* Jake Barnett, *Institutional Consultant*
Independent	Stephen Freedman
Indigo Group (Morgan Stanley)	Mark Callaway, *Senior Vice President, Financial Advisor, Senior Portfolio Manager, Investing with Impact Director* Alora Clark, *Analyst*
Morgan Stanley Wealth Management	Lily Trager, *Executive Director, Director of Investing with Impact*
Nuveen Investments	Megan Fielding, *Senior Director, Responsible Investment*
Paul Ellis Consulting	Paul Ellis, *Principal*
Pell Wealth Partners (Ameriprise Financial)	Katie McGinn, *Financial Advisor*
Raymond James	Meggie Tapp, *Director, Private Client Group Planning and Strategy* Samantha Trebesch, *Assistant to the Chairman*
The Leonard-McDevitt Sustainable Investment Group (UBS)	Kathy Leonard, *Senior Vice President—Investments, Senior Portfolio Manager*
The Pacarro Group (Morgan Stanley)	Noel Brown, *Financial Advisor and Senior Investment Management Consultant*
Toniic Institute	Lisa Kleissner, *Co-Founder* Charly Kleissner, *Co-Founder*
UBS Wealth Management	Andrew Lee, *Head of Americas Sustainable and Impact Investing, Chief Investment Office*
US SIF	Michael Young, *Manager of Education Programs*
Wells Fargo Private Bank	Lloyd Kurtz, *Senior Portfolio Manager, Head of Social Impact Investing*
Wells Fargo Asset Management	Isaac Khurgel, *ESG Investment Strategist*
Wetherby Asset Management	Deb Wetherby, *Founder and CEO* Justina Lai, *Director of Impact Investing*

ORGANIZATION	NAME AND ROLE
Working Group Members	
Bank of America Global Wealth and Investment Management	Anna Snider, *Head of Due Diligence*
CFA Institute	Bob Dannhauser, *Head, Global Private Wealth Management*
High Meadows Institute	Chris Pinney, *President*
Legacy Advisors	Ron Albahary, *CEO*
Money Management Institute	Craig Pfeiffer, *President & CEO* Joan Lensing, *Senior Vice President, Chief Marketing Officer* Tim Williams, *Director, Education Initiatives*
Morningstar	Jon Hale, *Global Head of Sustainability Research*
Regenerative Investment Strategies	Mark Sloss, *President and CEO*
State Street Corporation	Mirtha Kastrapeli, *Global Head, Center for Applied Research* Mimmi Kheddache Jendeby, *Vice President, Senior Research Strategist* Philip Palanza, *Senior Research Analyst*
Thornburg Investment Management	John Burnham, *Managing Director; Director, Research Communications* Danan Kirby, *Portfolio Specialist* Jim Gassman, *Portfolio Manager and Managing Director*
Work Capital	Mackenzie Colgan Reinoso, *Business Development*

APPENDIX B.
Sustainable Investment Discussion Guide for Financial Advisors

This appendix contains a checklist for your first sustainable investment conversation with a client and notes specific prompts for various phases of the discussion. It provides ideas only; you will need to customize it to reflect your personal style and to accurately reflect the sustainable investment services and products available to your client.

Complementary tools to what we provide here include the Impact Management Project's forthcoming discovery guide—which similarly provides discussion prompts and includes a supplemental spreadsheet for matching client goals to strategies—and State Street Corporation's Values Discovery Tool—an online resource for assessing client sustainability values. Check these organizations' websites for more information.

☐ Start the Conversation

Approach 1: Reference recent publications, conference presentations, firm newsletters, etc.

- "Did you happen to see the article in our [month] newsletter about our commitment to providing sustainable investment options to clients?"
- "I recently attended a conference/read an article that discussed growing interest among people like yourself in sustainable investment strategies. The conference/article discussed how more and more investors are interested in assessing risks associated with a company's environmental or social behaviors or operating procedures, or are interested in aligning investments with personal values."

Approach 2: Mention things that the client has said or that you have observed about the client's behavior

- "You've mentioned a number of times that you're interested in/like to [activity/hobby/etc.]."
- "You've mentioned in the past that you'd like to use your wealth to 'do some good' and to 'make the world a better place.'"
- "I know that you are very committed to [specify environmental or social issue(s).]"
- "Your philanthropic giving/volunteer activity in recent years has focused on [specify environmental or social issue(s).]"

Approach 3: Discuss current events

- "Did you see the [scandal (e.g. Facebook, Equifax, VW, Kobe Steel)] on the news?"
- "Have you been following the [scandal/movement (e.g. #metoo)]?"
- "I know you have kids in [X, Y, and Z] grades; have you had to talk with them about the recent school shootings?"

Approach 4: Ask about institutional governance documents (institutional clients-only)

- "Are there governing documents that outline how your organization wants to reflect its mission or values in its investments, such as an investment belief statement (IBS)?"

☐ Assess Client Sustainability Goals

Approach 1: Ask questions—performance

- “Do you believe that environmental and social considerations are material to a company’s long-term financial performance?” [Questions that help the FA assess if the client might be interested in sustainability/ESG factors to help mitigate long-term investment risks.]

Approach 2: Ask questions—values

- “Are there social or environmental issues that you feel passionate about?”
- “Do you volunteer time or support any social or environmental causes with charitable donations?”
- “Do you think the companies you invest in have a responsibility to make the world better or at least not make it worse, particularly with regards to a certain issue?”

Approach 3: Complete a values activity

- “I’m going to give you $10 in $1 bills. How much of the $10 would you dedicate to each of these issues?” [Have the client place the money on a chart that lists the sustainability themes or issues that you can help them address through their investments (i.e. that you have product for or the ability to customize for).]

☐ Determine Whether and How the Client Wants to Pursue These Goals in Their Investments

☐ Introduce sustainable investment concepts to the client

- [Explain the two reasons why people incorporate sustainable investment goals into their financial plans and investment strategies (performance and values) and note the three approaches that they take to pursue these goals (avoid, emphasize, engage). Share with them figures and tables like the ones provided throughout this guide.]

☐ Describe the types of sustainable investment strategies and products available to the client

- “We have been building our platform of sustainable development products and have products that reflect the avoid and emphasize strategies that I described earlier. That is, products that avoid—or do not include—certain types of investments, such as investments in guns or tobacco; and products that emphasize investments in companies with good environmental or social performance or that are helping in some way to solve an environmental or social challenge, such as investments in renewable energy and female entrepreneurs. We can also help clients to engage with companies to encourage them to make positive social or environmental changes.” [Describe specific products/groups of products.]

☐ Share real-life examples of sustainable investment in practice from your or your peers’ practices

☐ **Ask the client if they would like you to propose some sustainable investment options to them**

- "In line with industry trends based on increasing evidence that (a) company environmental and social behaviors affect their long-term financial performance, and (b) that people can invest in line with their values without sacrificing financial returns, we have been adding sustainable investment products to our product platform."
- "We have been building our platform of sustainable development products in line with client demand. It now includes products that avoid certain types of investments—such as investments in gun manufacturers or in fossil fuels, and others that emphasize investments in companies with good environmental or social performance or that are helping in some way to solve a major environmental or social challenge—such as investments in renewable energy. When possible, we are also supporting our clients in engaging with companies that they want to invest in or are currently invested in to encourage them to make positive social or environmental changes."

☐ Manage Client Expectations about How and How Much They Can Reflect Their Sustainability Goals in Their Investments

☐ **Emphasize commitment to diversification and helping clients achieve their financial goals**

- "My main objective as your financial advisor is to help you achieve your financial goals. I will help you pursue your sustainable investment goals within the context of ensuring that you maintain a diversified portfolio that first and foremost aligns with your financial goals."

☐ **Discuss product availability**

- "We have an intensive due diligence process and strict criteria for selecting investments and strategies for our product platform. We might therefore not yet have identified products for some of the issues that you've indicated as important to you that meet our high standards."

☐ **Temper expectations about individual impact**

- "It's exciting that you want to address [issues] through your investments. While it is rare that any solo investor can solve an issue on their own, the collective investment community can certainly influence corporate behavior in positive ways."

☐ **Note the likely timeframe for a portfolio transition like the one you've discussed**

- "As I would for the reallocation of your assets for any reason, I will assess the tax and other implications of portfolio changes like the ones we have discussed. It will likely be that we need to integrate sustainability considerations into your investments gradually and incrementally so that we don't unnecessarily introduce risks or negative financial consequences."

☐ Discuss Next Steps

- "I'll take what I've learned from you during this conversation and will develop a plan for integrating sustainable investment into your investment strategy moving forward. I'll circle back with my recommendations and we'll proceed from there."

APPENDIX C. Client FAQs

1. **Will integrating a sustainable investment strategy get in the way of my financial goals? Will it hurt the financial performance of my portfolio?**
   Not necessarily. Numerous recent studies have found that sustainable investors can realize at or above market-rate returns for their investments over the long-term.[1] Notable findings of this research, which has been conducted across asset classes and investment approaches (e.g. public and private markets, explicitly impact-focused strategies and those focused on risk mitigation), include: sustainable investment indexes can perform as well or better than their "non-sustainable" counterparts; companies with strong environmental, social, and governance practices achieve higher profits and dividends, lower business risks, and lower capital costs (encouraging growth and enhancing shareholder returns); and sustainable investments large and small that are focused in private equity, private debt, and real assets can achieve market-rate returns.

2. **Why should I care about a company's environmental and social impact?**
   For numerous reasons. Strong sustainability practices can positively influence company stock price (i.e. lead to higher valuations).[2] Companies with poor sustainability practices, on the other hand, might be "vulnerable to increased regulation or be required to pay punitive fines." Firms with strong ESG records are also better at managing risk and have less systematic volatility than their comparable "non-sustainable" peers, and indeed there is a causal link showing that an "improvement in ESG characteristics has led to increasing valuations over time."[3] Finally, there is growing evidence that relates the materiality of intangible ESG factors to long-term, financial performance (e.g. reputation, customer welfare and labor relations, business ethics, and transparency of payments). Today, such factors as these, along with other intangibles such as brand value and intellectual property, account for as much as 84% of a company's market value, an increase of 18 percentage points since 1995.[4]

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1 Studies include:
Global Impact Investment Network (2017). Evidence on the Financial Performance of Impact Investments. Abhilash Mudaliar and Rachel Bass. November 2017.

Harvard Business School (2015). Corporate Sustainability: First Evidence on Materiality. Khan, Mozaffar N., George Serafeim, and Aaron Yoon. Harvard Business School Working Paper, No. 15-073, March 2015.

Journal of Sustainable Finance (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. Gunnar Friede, Timo Busch, and Alexander Bassen. Journal of Sustainable Finance & Investment, 5:4, 210–233.

Morgan Stanley Institute for Sustainable Investing (2015). Sustainable Reality: Understanding the Performance of Sustainable Investment Strategies. March 2015.

MSCI (2017). Foundations of ESG Investing. Part 1: How ESG Affects Equity Valuation, Risk and Performance. Giese, Linda-Eling Lee, Dimitris Melas, Zoltan Nagy, and Laura Nishikawa. November 2017.

Nuveen and TIAA Investments (2017). Responsible Investing: Delivering competitive performance. Amy O'Brien, Lei Liao, and Jim Campagna. July 2017.

Oxford University and Arabesque Partners (2014). From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Performance. Gordon Clark, Andreas Feiner, and Michael Viehs. September 2014.

University of Pennsylvania (2016). Great Expectations: Mission Preservation and Financial Performance in Impact Investing. Jacob Gray, Nick Ashburn, Harry Douglas, and Jessica Jeffers. The Wharton Social Impact Initiative of the University of Pennsylvania. September 2016.

2 MSCI (2017). Foundations of ESG Investing. Part 1: How ESG Affects Equity Valuation, Risk and Performance. Giese, Linda-Eling Lee, Dimitris Melas, Zoltan Nagy, and Laura Nishikawa. November 2017.

Oxford University and Arabesque Partners (2014). From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Performance. Gordon Clark, Andreas Feiner, and Michael Viehs. September 2014.

3 MSCI (2017). Foundations of ESG Investing. Part 1: How ESG Affects Equity Valuation, Risk and Performance. Giese, Linda-Eling Lee, Dimitris Melas, Zoltan Nagy, and Laura Nishikawa. November 2017.

4 Skroupa, Christopher P. (2017). "How Intangible Assets Are Affecting Company Value in the Stock Market". Forbes.com. November 2017.

3. **How can I learn more about sustainable investing? Do you know any other investors with similar interests that I might connect with?**
Great resources for information on sustainable investment include USSIF, Eurosif, and other national and regional sustainable investment forums (SIFs). Reviewing online news services such as Responsible Investor, ImpactAlpha, or the websites of the Principles for Responsible Investment (PRI) or Global Impact Investing Network (GIIN) are good ways to stay current. Conferences and webinars sponsored by PRI or the GIIN, the various SIFs, and sustainable investment product and service providers provide overviews and in-depth knowledge of current issues and initiatives.

   Your firm might already offer opportunities to connect like-minded clients on the topic of sustainable investing, or you can start hosting quarterly receptions to let them know what the firm is doing, expose them to thought leaders, and provide them with opportunities to meet their peers.

4. **How can our foundation's mission be translated into investible opportunities?**
Translating mission into portfolio decision-making can be viewed as a five-step process that includes:

   - Reviewing your mission to establish a consensus agreement as to its current meaning and focus.
   - Assessing the relative ability of the various asset classes in which you are invested to have impact that directly relates to your mission.
   - Within each asset class, identifying as many investment opportunities as possible that have the potential to align directly with your mission.
   - Taking financial considerations into account, to see if any changes in your asset allocation or holdings within each asset class have the potential to enhance the alignment of your investments with your mission.
   - Developing and implementing a transition plan for any adjustments in asset allocation or holdings over a reasonable period of time that will minimize any financial disruptions to your portfolios.

5. **What is your background advising on sustainable investing?**
Note how long you and your firm have been advising on sustainable investing, the range of clients served, and how integrated expertise on the topic has become. If you are new to advising on sustainable investing, emphasize that you will partner with experienced individuals within your firm who you can rely on. You can also recruit and maintain an advisory group that provides additional expertise as needed on certain issues, strategies, or other dimensions that you or your firm might otherwise be lacking.

6. **What happens if one of my sustainable investments underperforms socially or environmentally? Do I stick with it or not?**
You might want to retain your investment and use your leverage as a shareholder to promote change that will address the underperformance. If, however, you believe that the underperformance signals a fundamental change that is irreversible, you might want to divest immediately.

   Typically, you or I will learn about a sustainability-related problem through the press or other third-party accounts. My first step will be to contact the company, verify the facts of the matter, and understand its position. I will ask how the company plans to address the controversy or to reinstate a positive sustainability-related initiative it may have abandoned. If its plans seem reasonable to you, you will probably want to remain invested, pending the implementation of the company's remediation plan. If, after my contact with the company, it can come up with no plan of action or fails to implement a plan it has developed despite promises to do so, then you may want to sell some or all of the holding.

7. **How can we ensure the long-term impact of an investment after we exit?**
Unfortunately, there are no guarantees that you can. You can, however, continue to monitor the sustainability performance of a firm in which you were once invested, communicate with the firm as an interested observer, and join with coalitions of stockowners in engagement on sustainability issues as they arise. But you will have lost much of the power of your "voice" and the ability to initiate actions once you are no longer an owner.

8. **I'd hoped that you could offer me a wider selection of sustainable investment opportunities. Can you do anything to improve this situation?**
Not at the current time. There are often limitations and tradeoffs on the types of opportunities available to investors. You might wish, for example, that more opportunities to achieve greater returns with less risk were available, but that is not always the case. The same principle applies to sustainable investment opportunities. However, the number and variety of sustainable investment products have increased steadily over the years and are likely to continue to do so. More strategies are added to our platform each year that include deeper integration of ESG considerations and/or consideration of the issues that you care about.

9. **I saw the recent labor scandal on <<insert company name>>. Is this company in my holdings? If so, how did we miss this?**
Even companies with the best sustainability records can find themselves unexpectedly involved in substantial controversies. I will assess the degree of seriousness of the controversy, whether this is a one-off event or part of an emerging pattern, and how management is responding. I will then discuss with you whether you might want to engage with the firm or if you want to divest. We shouldn't jump to conclusions too quickly while we see how the situation unfolds, especially if the company has a past record of strong sustainability commitment.

If this is not one of your sustainable investment clients, then this is a great opportunity to introduce them to sustainable investment and determine whether they might be interested in pursuing this approach.

APPENDIX D.
Example Sustainable Investment Performance Reports

Example 1: Integrated ESG Fund with Exclusionary ESG Screening

This report summarizes the performance of the Sustainability Equity Fund relative to a benchmark. The portfolio contains only public equities. The Fund's manager retrieves the data from Bloomberg terminals, then provides it to you.

SUSTAINABLE EQUITY FUND

About

The Fund assesses environmental stewardship and labor and human rights policies of holdings companies to determine contributions to the company's competitive advantage in the market. Does not invest in companies that:

- Have <30% women on their board
- Derive more than 2% of revenue from the production of tobacco, weapons, anti-personnel mines, cluster bombs, or munitions
- Derive 30%+ of their revenue from fossil fuel production or extraction
- Have a track record of egregious human rights violations

Asset allocation

FUND ASSET ALLOCATION	
Domestic Stock	63.9%
Foreign Stock	25.7%
Cash and Cash Equivalents	5.2%
Other	2.0%

SECTOR EXPOSURES	FUND	BENCHMARK
Financials	28.2%	26.5%
Infrastructure	4.6%	2.6%
Retail	17.4%	5.0%
Energy	10.4%	32.6%
Healthcare	12.9%	8.4%
Technology & Communications	26.5%	24.9%

Performance

SUMMARY	FUND		BENCHMARK		ESG SCORE TREND
	ESG SCORE	WEIGHT	ESG SCORE	WEIGHT	
% Covered by ESG Analysis (Gross)	—	100.0%	—	97.6%	⬆
Overall ESG Score	68.7	100.0%	50.9	100.0%	⬆
ABSOLUTE PILLAR SCORES					
Environmental	69.4	43.2%	53.3	41.9%	⬆
Social	66.6	29.2%	50.1	28.9%	⬆
Governance	70.0	27.6%	48.3	29.2%	➡

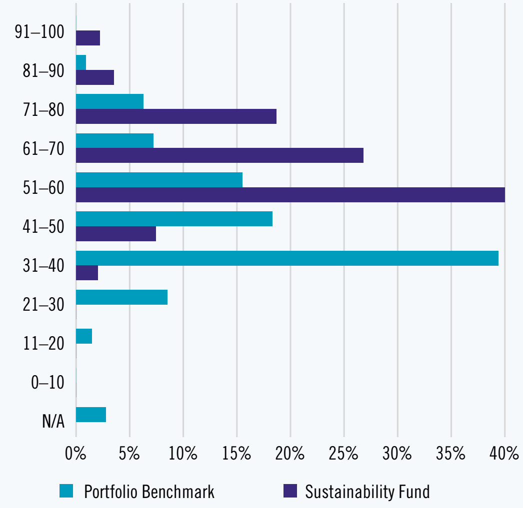
Notes for FAs on each report section

High-level summary of the fund. Identifies strategy implemented and thematic issues of focus.

Indicates asset allocation across types of equities to provide context for what markets the client is invested in and can be sourced from fund managers.

Demonstrates ESG scores of the fund vs. the benchmark. The benchmark score reflects the aggregate ESG scores of the underlying companies relative to their weighting. Overall ESG scores can be used to compare ESG performance to the benchmark.

ESG ISSUE	PORTFOLIO SCORE	BENCHMARK SCORE
Environmental Themes		
Climate change	73.8	55.4
Sustainable land use	56.2	48.2
Renewable energy	78.1	56.2
Social Themes		
Gender diversity	57.1	47.9
Human rights	56.3	50.3
Employment & labor rights	86.3	52.1
Governance Themes		
Board diversity	87.3	40.1
Board independence	52.6	56.5



Notes for FAs on each report section

Demonstrates distribution of ESG scores of holdings across the portfolio vs. the benchmark. Fund managers can use company-level ESG data available through platforms like Bloomberg to determine scores for the portfolio and benchmark and their relative distribution.

Q3 ESG Highlights

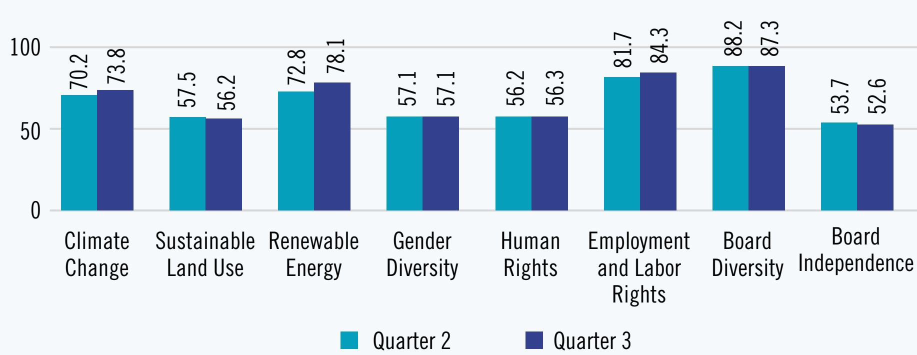
- **Trucking company.** Pledged to transition 100% of its diesel delivery fleet to electric vehicles by 2025. Partnered with a well-known electric car manufacturer to aid with this transition. Has already phased out 10% of its diesel delivery fleet with electric and hybrid vehicles.
- **Company.** Introduced a new 10-week paid parental leave program for all employees.

Added to fund: A health services company and two energy companies

Removed from fund: an insurance company, a company that scored poorly on Board diversity, and an extractives corporation that scored poorly on human rights issues

Performance vs. Previous Quarter

ESG PERFORMANCE OF SUSTAINABILITY FUND QUARTER 3 VS. QUARTER 2



Demonstrates trajectory of the fund's ESG performance over time. Might inform investment decision-making.

Example 2: Private Equity Fund with ESG Emphasis Strategy

This report is for a private equity fund or fund of funds and was developed by the FA with information provided by the fund manager.

Notes for FAs on each report section

GLOBAL WOMEN'S EMPOWERMENT FUND

About

The Fund is dedicated to empowering women in developing countries. It mobilizes capital to provide women with educational and skills training opportunities. It aligns with *SDG 1: No Poverty, SDG 5: Gender Equality and SDG 8: Decent Work and Economic Growth and with SDG 3: Good Health and Well-being and SDG 4: Quality Education*.

Provides high-level overview of fund, helpful in putting the company-specific narrative in context (e.g. reporting the total investment amount helps client to understand what portion of the fund's capital is allocated to each of the investments discussed). The fund is aligned with the U.N. SDGs.

Fund snapshot:

- Total capital deployed since fund inception: $6,500,000
- Number of companies invested in: 18
- Number of companies with female executives and/or management: 16
- Number of countries invested in: 10
- Jobs created in 2017: 11,500
- Jobs maintained in 2017: 10,760
- Jobs maintained by women: 8,897

Performance

Vocational Academy ($1,300,000 invested)

No Poverty

Gender Equality

Decent Work and Economic Growth

Mobile academy providing skills training in reading and writing, the arts (such as tie-dye making, beading and soap making), business (such as mathematics, accounting and marketing), and farming (such as subsistence farming, hydrology and conservation) to women across West Africa. Offers one-month training courses (four hours per day, six days a week with option to study in the morning or afternoon). To be eligible, women must demonstrate basic literacy in a formal assessment prior to enrollment. If they do not meet the literacy threshold they automatically qualify for enrollment in a literacy course offered by the Academy every three months. Each skills-training course is taught by a specialized academic faculty who travel cross-country every month. All courses are offered every six months.

In 2017:

- 41,472 hours of training were offered in cities and towns across Burkina Faso, Guinea, Guinea Bissau, Mauritania, Niger and Senegal
- 3,621 women received skills-based training with a 97% graduation rate

Tells the impact story of your client's investments. Depending on a client's reporting preferences, you can do this qualitatively, quantitatively or can supplement narrative with key figures that reflect non-financial achievements.

References U.N. SDGs that align with the investment.

Notes for FAs on each report section

- Graduates of the Academy experienced a 268% increase in annual income, on average
- 86% of graduates found employment within two months of completing their training with 100% earning a greater income than they had prior to their enrollment

In 2018–2019 the Academy intends to increase its presence in existing countries by adding additional communities to the network it serves while also expanding into Mauritania and Sierra Leone.

Microfinance Lender ($1,500,000 invested)

No Poverty

Gender Equality

Decent Work and Economic Growth

Provides lending to microfinance institutions and small- and medium-sized enterprises (SMEs) across West Africa. Mobilizes capital for women-led or women-owned SMEs and microfinance institutions and offers courses on financial literacy (financial planning, business and marketing).

In 2017:

- Served 29,845 borrowers, 72% women and 54% in rural communities
- 12,871 clients enrolled in financial literacy programs, 65% completed the course
- 80% of loans issued were productive loans, with the average loan totaling $1,750 for microfinance institutions and $28,500 for SMEs

Health Services Company ($500,000 mobilized)

Gender Equality

Good Health and Well-Being

Mobile clinic providing 1.2 million+ people in West Africa with health care and pharmacy services, including: vaccinations, blood pressure testing, routine examinations, confidential sexual health testing, and reproductive health advisory for women. Provides menstrual care and education services to women and girls, given the negative impact that lack of feminine hygiene projects has on school attendance and graduation rates for girls in the communities that it serves.

In 2017:

- Served communities in Togo, Ghana, Cote D'Ivoire and Benin
- Increased usership by 13%
- Reached an additional 156,000 people, 86% of which were women
- Provided feminine hygiene products to nearly 83,000 women and girls, which is expected to increase school retention rates in these communities by 5–15%

Example 3: Equity Mutual Fund with Engagement Strategy

Report on engagement for a mutual fund. Reflects data provided by fund managers (required to publicly disclose how their proxies are voted). All Form N-PXs, required by all U.S. mutual funds and include information on how proxies were voted, can be found on the SEC's EDGAR database.

Notes for FAs on each report section

EQUITY MUTUAL FUND

2017 Proxy Voting: Summary

- 402 votes filed
- Primarily voted on corporate governance issues (not all companies in the holdings had environmental or social resolutions to vote on)
- Fund manager filed 5 resolutions, 4 through participation in a collective investor network
- 4 of the 5 resolutions filed by the manager/investor network were withdrawn due to favorable dialogue with the companies and commensurate positive, intentional steps to address issues
- Of the remaining 398 votes, 32% were filed against management

High-level summary of the engagement strategy and achievements over the reporting period. Includes how many resolutions were voted on, how many resolutions were filed by the fund manager over the reporting period, and the positions taken in these votes.

2017 Proxy Voting: Detail

RESOLUTION THEME	# ISSUES VOTED ON	% VOTES AGAINST MANAGEMENT	# RESOLUTIONS FILED	# RESOLUTIONS WITHDRAWN
Corporate governance	381	29%	0	0
Climate change	6	100%	2	2
Board diversity	5	100%	1	1
Human rights	4	100%	1	1
Vendor relations	2	100%	1	0
Total	**398**	**32.0%**	**5**	**4**

Provides overview of all votes exercised on behalf of your client. Demonstrates how many resolutions the fund filed on behalf of your client and any progress that was made through company engagement, including those engagements that resulted in a withdrawn resolution.

# FILED	WITH MANAGEMENT	INDEPENDENT OR COLLECTIVE	DETAILS	OUTCOMES
CLIMATE CHANGE				
2	Yes	Collective	Requested report on the effect of coal combustion residuals.	Has begun preparing coal combustion residual management reports for all energy centers, expected completion date September 2018.
		Collective	Requested formal reporting on renewable energy goals.	Has integrated renewable energy goals into their 2018 Sustainability Report.
BOARD DIVERSITY				
1	Yes	Collective	Requested disclosure of concrete steps towards improving board diversity.	Agreed to integrate formal commitment to diversity (gender, race and ethnicity) within hiring and recruitment.
HUMAN RIGHTS				
1	Yes	Collective	Requested report on their approach to minimizing risk of human trafficking, slavery or bonded labor in supply chains.	Company has begun preparing this report for its core supply chains in Bangladesh, Cambodia and Thailand with an expected completion date of November 2018.
VENDOR RELATIONS				
1	Yes	Independent	Requested report on vendor standards, policies, and practices throughout all supply chains.	No positive outcome came from dialogue; therefore, the resolution came to a vote.

Notes for FAs on each report section

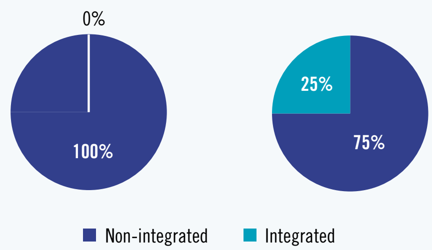
Provides an overview of the impact generated through engagement. Helps the client understand how their values are being translated into action and how active ownership has contributed to impact.

Example 4: Sustainable Investment Performance—Portfolio Summary

Report that summarizes the sustainability performance of an entire sustainability-focused client portfolio; that is, a summary of Examples 1, 2, and 3 above.

Notes for FAs on each report section

Portfolio Transition Progress



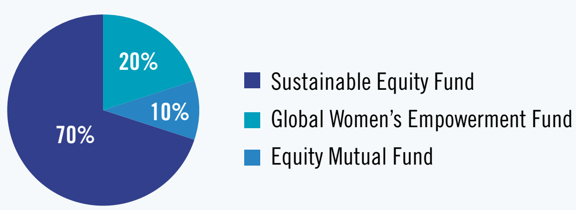
- Amount of capital allocated to sustainable investment to date: $625,000
- Target amount: $750,000
- Percentage of capital allocated to sustainable investment to date: 25%
- Target percentage: 30%

Outlines for the client: the dollar amount percentage of their portfolio that is dedicated to sustainable strategies (“integrated”), and how those figures have changed over time.

Summary

Sustainable Equity Fund. Assesses environmental stewardship and labor and human rights policies of holdings companies to determine contributions to the company’s competitive advantage in the market. Does not invest in companies that: have <30% women on their board; derive 30%+ of their revenue from fossil fuel production or extraction; derive more than 2% of revenue from the production of tobacco, weapons, anti-personnel mines, cluster bombs, or munitions; or have a track record of human rights violations.

Summarizes the objectives of each strategy. Notes what % of the client’s sustainable investment approach each strategy represents.



Global Women’s Empowerment Fund. Dedicated to empowering women in developing countries. Mobilizes capital to provide women with educational and skills training opportunities. Aligns with certain of the U.N. SDGs.

Equity Mutual Fund. Seeks long-term growth; is primarily invested in large cap U.S. companies. Managers take ESG consideration into account when voting proxies.

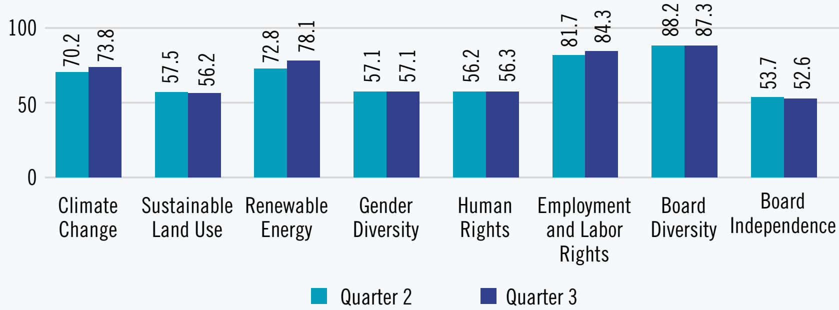
Sustainable Equity Fund

Provides select performance highlights for each strategy.

SUMMARY	FUND		BENCHMARK	
	ESG SCORE	WEIGHT	ESG SCORE	WEIGHT
% Covered by ESG analysis (Gross)	—	100.0%	—	97.6%
Overall ESG Score	68.7	100.0%	50.9	100.0%
Environmental	69.4	43.2%	53.3	41.9%
Social	66.6	29.2%	50.1	28.9%
Governance	70.0	27.6%	48.3	29.2%

Notes for FAs on each report section

ESG PERFORMANCE OF SUSTAINABILITY FUND QUARTER 3 VS. QUARTER 2



Global Women's Empowerment Fund

Jobs created in 2017: 11,500; Jobs maintained in 2017: 10,760; Jobs maintained by women: 8,897

No Poverty

Gender Equality

Decent Work and Economic Growth

Good Health and Well-Being

HIGHLIGHTS

Vocational Academy. In 2017: 41,472 hours of training were offered in cities and towns across Burkina Faso, Guinea, Guinea Bissau, Mauritania, Niger and Senegal; 3,621 women received skills-based training with a 97% graduation rate; graduates of the Academy experienced a 268% increase in annual income, on average; 86% of graduates found employment within two months of completing their training with 100% earning a greater income than they had prior to their enrollment.

Health Services Company. In 2017: Served communities in Togo, Ghana, Cote D'Ivoire and Benin; Increased usership by 13%; reached an additional 156,000 people, 86% of which were women; provided feminine hygiene products to nearly 83,000 women and girls, which is expected to increase school retention rates in these communities by 5–15%.

Equity Mutual Fund

402 votes filed: 4 withdrawn due to favorable dialogue with the companies and commensurate positive, intentional steps to address issues; 32% of remaining 398 were filed against management.

5 resolutions filed, 4 through a collective investor network.

RESOLUTION THEME	# ISSUES VOTED ON	% VOTES AGAINST MANAGEMENT	# RESOLUTIONS FILED	# RESOLUTIONS WITHDRAWN
Corporate governance	381	29%	0	0
Climate change	6	100%	2	2
Board diversity	5	100%	1	1
Human rights	4	100%	1	1
Vendor relations	2	100%	0	0
Total	**398**	**32.0%**	**5**	**4**

Fundamentals of

Sustainable Investment

A GUIDE FOR FINANCIAL ADVISORS

William Burckart and Jessica Ziegler

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