Sustainable and Impact Investing is Here to Stay

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Why should you care?

Sustainable and impact investing, the consideration of environmental, social and governance (ESG) criteria in order to governate long-term competitive financial returns and positive societal impact, is here to stay. According to the Global Sustainable Investment Alliance, of which US SIF is a founding member, global sustainable investment assets reached $30.7 trillion at the start of 2018, a 34 percent increase from $22.9 trillion at the beginning of 2016.

The US SIF Foundation's 2018 Report on US Sustainable, Responsible and Impact Investing Trends (Trends Report) found that there are $12 trillion in US assets under management (AUM) engaged in one or more strategies of sustainable investment in the United States. This comprises more than 25 percent of the professionally managed assets across the country and represents a 38 percent increase from 2016. Since 1995, when the US SIF Foundation first measured US sustainable investment assets at $639 billion, assets have increased 18-fold at a compound annual growth rate of 13.6 percent.

Sustainable investors consider a range of ESG issues in their investment process. The Trends Report identified climate change, conflict risk (the risk of doing business in countries that have repressive regimes or sponsor terrorism), tobacco, human rights and corporate board accountability as top issues of concern.

Among registered investment companies—including mutual funds, variable annuity funds, exchange-traded funds and closed-end funds—both the number of funds and assets under management increased by approximately 50 percent between 2016 and 2018. The total number of such funds increased from 519 to 730 and assets under management increased from $1.74 trillion to $2.61 trillion. Alternative ESG assets—including venture capital and private equity funds, property funds and REITs, and hedge funds—almost tripled from $206 billion to $588 billion, and the number of funds increased 89 percent from 413 to 780.

The rapidly expanding US landscape is illustrated by the growing number of firms with impact platforms, as well as associations and conferences that are developing content and sustainable investment trainings for financial advisors and other financial professionals. In 2018 the College for Financial Planning launched the Chartered SRI Counselor™ (CSRIC™) professional designation, the first sustainable investment designation in the United States (US SIF is the content expert for the designation).

The financial media and, increasingly, more general media outlets frequently write about trends and innovations in sustainable investing, such as gender-lens investing options, weapons-free investment products and green bonds. Journalists have focused on the opportunity for financial advisors in the sustainable investing space, driven by growing demand from individual investors, including millennials and women.

Individual investors are also showing a desire for retirement plans that offer one or more sustainable investment options.

Asset managers in the Trends Report cited client demand as their main motivation for incorporating ESG criteria into their investment process. The majority of institutional asset owners, on the other hand, cited mission fulfillment, followed by pursuing social benefit, as their primary reasons. In recent years, philanthropic foundations and family offices have expressed more interest and activity in sustainable investing, with a growing number of associations and conferences catering to them.

Most sustainable investing activity has been among institutional asset owners, but individuals are also engaged. The Trends Report identified $3.0 trillion of assets managed for individual retail or high-net-worth clients.

New studies are demonstrating substantial interest from individual investors. A 2019 Morgan Stanley Institute for Sustainable Investing survey of individual investors found that 85 percent of all respondents—and 95 percent of millennials—were interested in sustainable investing, compared to 75 percent and 86 percent, respectively, in 2017. A survey of high-net-worth individuals from Nuveen also reveals strong—and growing—interest. Eighty percent of respondents said that their investments should strive to make a positive impact on society, compared to 75 percent in 2015.

Many financial advisors are on the receiving end of this interest. According to the Eaton Vance Spring 2019 Top of Mind Index Survey of Financial Advisors, 73 percent of respondents said that they have at least some clients who have expressed interest in sustainable investing. Forty-three percent of advisors reported that aligning investments with values for clients is extremely important.

As the growth of and interest in sustainable investing has expanded, the US SIF Foundation has released comprehensive guides for financial advisors, money managers and asset owners on how to begin the sustainable investment journey.

The surge in sustainable investment assets, along with demonstrated demand from clients, presents a compelling case that financial advisors without expertise in sustainable investment will miss a significant business opportunity. Organizations like US SIF are here to help ensure that this doesn't happen.

US SIF: The Forum for Sustainable and Responsible is the leading voice advancing sustainable, responsible and impact investing across all asset classes. Its mission is to rapidly shift investment practices toward sustainability, focusing on long-term investment and the generation of positive social and environmental impacts.

Our hundreds of members, representing more than $3 trillion in assets under management or advisement include investment management and advisory firms, mutual fund companies, asset owners, research firms and data providers, financial planners and advisors, broker-dealers, community development financial institutions and non-profit associations.

Disclosure

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