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Foreword

February 2015

The Global Sustainable Investment Alliance (GSIA) is an international collaboration of membership-based sustainable investment organizations. Our mission is to deepen the impact and visibility of sustainable investment organizations at the global level. We are pleased to present the Global Sustainable Investment Review 2014. This review provides an update to our inaugural 2012 edition, which presented the first high-level view of sustainable investment worldwide.

We are delighted that in the intervening two years, sustainable investing has grown significantly, expanding its share of the professionally managed assets in all the regions covered by GSIA’s member organizations.

We also are heartened by regulatory and other developments that promise to increase investors’ access to corporate environmental, social and governance data and to further drive growth in sustainable investing products. In this review, we explore some of these important policy developments.

This edition also features a special focus on impact investing, including how this strategy is understood and practiced in Europe, the United States, Canada, Asia, Australia and New Zealand.

We want to thank the many sponsors—listed in the Acknowledgments page—of the regional research reports used to prepare the Global Sustainable Investment Review 2014. We also offer our gratitude to Bloomberg LP for the financial support it provided for the production of the global review. Without the generous support of these sponsors, this report and the research on which it is based would not have been possible.

Sincerely,

Francois Passant, Executive Director
Eurosif, the European Sustainable Investment Forum

Lisa Woll, CEO
US SIF: The Forum for Sustainable and Responsible Investment and the US SIF Foundation

Simon O’Connor, CEO
Responsible Investment Association Australasia
Executive Summary

In early 2013, the Global Sustainable Investment Association (GSIA) released the Global Sustainable Investment Review 2012, the first report to collate the results from the market studies of regional sustainable investment forums for Europe, the United States, Canada, Asia, Japan, Australasia and Africa. In the period since the launch of the inaugural study, the global sustainable investment market has continued to grow both in absolute and relative terms, rising from $13.3 trillion1 at the outset of 2012 to $21.4 trillion at the start of 2014, and from 21.5 percent to 30.2 percent of the professionally managed assets in the regions covered.

Over this two-year period, the fastest growing region has been the United States, followed by Canada and Europe. These three regions are also the largest regions in terms of assets, accounting for 99 percent of global sustainable investing assets.

Sustainable investing is an investment approach that considers environmental, social and governance (ESG) factors in portfolio selection and management. For the purpose of this global report and for articulating our shared work in the broadest way, GSIA uses an inclusive definition of sustainable investing, without drawing distinctions between this and related terms such as responsible investing, socially responsible investing and impact investing. These are collectively referred to as sustainable investing or SRI.

Sustainable investment encompasses the following activities and strategies:

1. Negative/exclusionary screening,
2. Positive/best-in-class screening,
3. Norms-based screening,
4. Integration of ESG factors,
5. Sustainability-themed investing,
6. Impact/community investing, and
7. Corporate engagement and shareholder action.

The largest sustainable investment strategy globally is negative screening/exclusions ($14.4 trillion), followed by ESG integration ($12.9 trillion) and corporate engagement/shareholder action ($7.0 trillion). Negative screening is the largest strategy in Europe, while ESG integration now dominates in the United States, Australia/New Zealand and Asia in asset-weighted terms. Corporate engagement and shareholder action is the dominant strategy in Canada.

Impact investing is a small but vibrant segment of the broader sustainable and responsible investing universe in all the markets studied. GSIA defines impact investing as targeted investments, typically made in private markets, aimed at solving social or environmental problems. Community investing, whereby capital is specifically directed to traditionally underserved individuals or communities, is included in this category, as is finance that is provided to businesses with an explicit social or environmental purpose.

In Europe, all surveyed sustainable and responsible investment strategies are continuing to grow, in aggregate, at a faster rate than the broad European asset management market. From the beginning of 2012 to the start of 2014, assets committed to sustainability-themed investments grew 30 percent in US dollar terms, and assets to which exclusionary screens were applied grew 90 percent. Impact investing is the fastest growing strategy, registering a 146 percent increase over the period. The progress of engagement and proxy voting in markets such as Italy (193 percent growth in euro terms over 2012-2014), Germany (48 percent), Belgium (94 percent), Scandinavia and Switzerland signals changes in attitudes toward stewardship among European investors.

In the United States, sustainable investing—after accounting for a fairly consistent 10-12 percent share of the overall market of professionally managed assets in the United States for the past decade—took a

1. All figures are expressed in US dollars.
significant leap forward. At the beginning of 2014, total US SRI assets were $6.57 trillion—a 76-percent increase over the $3.74 trillion identified in sustainable investing strategies at the outset of 2012. As a result, nearly 18 percent of all investment assets under professional management in the United States at the start of 2014 were held by individuals, institutions or money managers that consider ESG issues in selecting investments across a range of asset classes, or file shareholder resolutions on ESG issues at publicly traded companies.

Canada’s sustainable investment market is experiencing rapid growth. According to survey data, at the outset of 2014, assets in Canada using one or more sustainable investing strategies increased from $589 billion to $945 billion in just two years. This robust growth represents a 60 percent increase in SRI assets under management.

In Australia and New Zealand, sustainable investing assets managed by asset managers, super funds, banks and advisers continued to grow strongly due both to strong performance and increasing fund inflows, rising 34 percent to reach $180 billion.

Sustainable investment assets in Asia\textsuperscript{2}, although still comprising only a small share of total professionally managed assets in the region, now stand at $53 billion, an increase of 32 percent from the $40 billion tallied at the start of 2012. The largest Asian markets for sustainable investments are Malaysia, Hong Kong and South Korea. Across the region the landscape is beginning to evolve, in part driven by the rapid development of ESG reporting and disclosure, but also by an increasing awareness of the massive capital needed to finance the region’s transition to a low-carbon future. In Japan, growing interest in SRI is signalled by the fact that 192 financial institutions have signed the Principles for Financial Action for the 21st Century “to steer society toward sustainability by changing the flow of money to those activities which correspond to such sustainability goals.” In addition, impact investing bonds and green real estate are gaining popularity in Japan.

In many of these markets, public policy and regulatory changes are underway that could increase the level of corporate disclosure on various environmental, social and governance factors and support shareholder engagement.

\textsuperscript{2} Asian information and asset data are collated from two sources, ASrIA and Japan Sustainable Investment Forum (JSIF).
Introduction

Two years ago, The Global Sustainable Investment Association (GSIA) released the Global Sustainable Investment Review 2012, the first report to collate the results from the market studies of regional sustainable investment forums from Europe, the United States, Canada, Asia, Japan, Australia and Africa. In the period since the launch of the inaugural study, the global sustainable investment market has continued to grow both in absolute and relative terms.

A reflection of its growing acceptance and market share is the increased awareness among mainstream investors of terms that the sustainable investment community has introduced to financial markets. Concepts such as decarbonization, asset stranding and natural capital scarcity have become part of the global financial language. Products like green bonds and impact investment funds have exploded onto the markets.

While mainstream investors continue to learn about these concepts and products, innovations abound among sustainable investment pioneers, who are continuously moving the frontiers of the market towards more comprehensive understanding, incorporation, measurement and disclosure of environmental, social and governance (ESG) risks and opportunities.

This report provides a snapshot of the global market—specifically Europe, the United States, Canada, Asia and Australia—in terms of volume (assets under management), growth and practice at the start of 2014. It draws on data and insights provided by the members of the GSIA. Each of these members—Eurosif, US SIF, Responsible Investment Association Canada, ASrIA and Responsible Investment Association Australasia—offers in-depth regional and national reports that provide an abundance of information and analysis, as well as examples, of sustainable investment within their markets.
Sustainable Investing

Sustainable investing is an investment approach that considers environmental, social and governance (ESG) factors in portfolio selection and management. For the purpose of this global report and for articulating our shared work in the broadest way, GSIA uses an inclusive definition of sustainable investing, without drawing distinctions between this and related terms such as responsible investing and socially responsible investing. These are collectively referred to as sustainable investing or SRI.

The GSIA definitions of sustainable investment, published in the *Global Sustainable Investment Review 2012*, have emerged as a global standard of classification. These are:

1. **Negative/exclusionary screening**: the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria;
2. **Positive/best-in-class screening**: investment in sectors, companies or projects selected for positive ESG performance relative to industry peers;
3. **Norms-based screening**: screening of investments against minimum standards of business practice based on international norms;
4. **Integration of ESG factors**: the systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis;
5. **Sustainability themed investing**: investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture);
6. **Impact/community investing**: targeted investments, typically made in private markets, aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose; and
7. **Corporate engagement and shareholder action**: the use of shareholder power to influence corporate behavior, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

The sum of these individual strategies, after adjusting for double counting since some assets are subjected to more than one strategy, results in the sustainable assets under management included in this report. In the report the aggregated figure is referred to as sustainable investment or investment taking into account ESG concerns, without making a judgment about the quality or depth of the process applied.

The data and information used in this report is provided by each national or regional Sustainable Investment Forum (SIF) and collated by GSIA. Refer to Appendix 1 for more information on the methodology.
Global Sustainable Investments
2012–2014

Growth of Global SRI Assets

Global sustainable investment assets have expanded dramatically in recent years, rising from $13.3 trillion at the outset of 2012 to reach a total of $21.4 trillion at the start of 2014. This 61 percent growth outpaced the growth in total professionally managed assets. As shown in Table 1, the proportion of SRI globally in relation to professionally managed assets in the regions covered has increased to 30.2 percent, from 21.5 percent in 2012. This proportion has increased in all regions.

Table 1: Proportion of SRI relative to total managed assets

<table>
<thead>
<tr>
<th>Region</th>
<th>2012</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>49.0%</td>
<td>58.8%4</td>
</tr>
<tr>
<td>Canada</td>
<td>20.2%</td>
<td>31.3%</td>
</tr>
<tr>
<td>United States</td>
<td>11.2%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Australia</td>
<td>12.5%</td>
<td>16.6%</td>
</tr>
<tr>
<td>Asia</td>
<td>0.6%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Global</td>
<td>21.5%</td>
<td>30.2%</td>
</tr>
</tbody>
</table>

Most of the SRI assets referred to in this report are in Europe (63.7 percent), but the relative contribution of the United States has increased to 30.8 percent from 28.2 percent in 2012.

Figure 1: Proportion of Global SRI Assets by Region

- Europe 63.7%
- United States 30.8%
- Canada 4.4%
- Australia/NZ 0.8%
- Asia 0.2%

3. All figures are expressed in US dollars.
4. This figure is based on the aggregation of all SRI strategies reported in the European SRI Study 2014 without double counting, and is presented in order to be consistent with the methodology of this global report. Please note, however, that this figure is not used in the European study as there is no single European definition for sustainable investing.
Over this two-year period, the fastest growing region has been the United States, followed by Canada and Europe. These three regions are also the largest regions in terms of assets, accounting for 99 percent of global SRI.

![Table 2: Growth of SRI Assets by Region 2012–2014](image)

<table>
<thead>
<tr>
<th>Region</th>
<th>2012</th>
<th>2014</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>$8,758</td>
<td>$13,608</td>
<td>55%</td>
</tr>
<tr>
<td>United States</td>
<td>$3,740</td>
<td>$6,572</td>
<td>76%</td>
</tr>
<tr>
<td>Canada</td>
<td>$589</td>
<td>$945</td>
<td>60%</td>
</tr>
<tr>
<td>Australia/NZ</td>
<td>$134</td>
<td>$180</td>
<td>34%</td>
</tr>
<tr>
<td>Asia</td>
<td>$40</td>
<td>$53</td>
<td>32%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$13,261</td>
<td>$21,358</td>
<td>61%</td>
</tr>
</tbody>
</table>

Note: Asset values are expressed in billions.

Sustainable Investment Strategies

The largest sustainable investment strategy globally is negative screening/exclusions ($14.4 trillion), followed by ESG integration ($12.9 trillion) and corporate engagement/shareholder action ($7.0 trillion). Negative screening is the largest strategy in Europe, while ESG integration now dominates in the United States, Australia/New Zealand and Asia.

![Figure 2: SRI Assets by Strategy and Region](image)

Growth of SRI Strategies

Most of the SRI strategies experienced strong growth in the period 2012 to 2014. The fastest growing strategies were sustainability-themed investing (136 percent growth) and ESG integration (117 percent). The biggest contributors to ESG integration growth (in percentage terms) were the United States and Europe5; for sustainability-themed investing the fastest growing regions were Canada and Australia/New Zealand.

Also growing well are norms-based screening (82 percent), exclusions (74 percent) and corporate engagement/shareholder action (54 percent). For norms-based screening, traditionally a strategy confined to Europe, much of the growth originates in Canada, although Europe still has most of the assets in this strategy.

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5. Note that in Europe, exclusions mandated by legislation are not counted. If these were included the figure would be higher. However, the European figure includes “exclusions overlays,” i.e. situations where a minimum of one exclusionary criterion is deployed on a wide range of assets within a firm (typically controversial weapons or tobacco). See the European section for more information.
One strategy that has shown no growth in terms of assets since 2012 is positive/best-in-class screening (-1 percent). A partial explanation may be methodological changes in the way assets using positive screening were estimated in the United States.6

### Table 3: Growth of Strategies 2012–2014

<table>
<thead>
<tr>
<th>Strategy</th>
<th>2012</th>
<th>2014</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norms-based screening</td>
<td>$3,038</td>
<td>$5,534</td>
<td>82%</td>
</tr>
<tr>
<td>Negative/exclusionary screening</td>
<td>$8,280</td>
<td>$14,390</td>
<td>74%</td>
</tr>
<tr>
<td>Positive/best-in-class screening</td>
<td>$999</td>
<td>$992</td>
<td>-1%</td>
</tr>
<tr>
<td>ESG integration</td>
<td>$5,935</td>
<td>$12,854</td>
<td>117%</td>
</tr>
<tr>
<td>Sustainability-themed investing</td>
<td>$70</td>
<td>$166</td>
<td>136%</td>
</tr>
<tr>
<td>Impact/community investing</td>
<td>$86</td>
<td>$109</td>
<td>26%</td>
</tr>
<tr>
<td>Corporate engagement and shareholder action</td>
<td>$4,589</td>
<td>$7,045</td>
<td>54%</td>
</tr>
</tbody>
</table>

Note: Asset values are expressed in billions.

### Global Market Characteristics

#### Institutional and Retail Investors

Investments managed by professional asset managers are often classified as retail or institutional. Retail assets are personal investments by individuals in professionally managed funds purchased in banks or through investment platforms. Institutional assets are the assets of large asset owners such as pension funds and insurers. It has been a feature of the SRI market in most of the regions that professional institutional investors dominate the market, but interest by retail investors in SRI is growing.

6. In 2012, US money managers and institutional investors were asked to comment on three ESG incorporation strategies: negative/exclusionary, ESG integration and positive/best-in-class. In 2014, they were given two more options to select: impact investing and sustainability-themed investing. Respondents citing the additional two strategies in 2014 may have selected positive/best-in-class in 2012.
Indeed, as shown in Figure 4, the relative proportion of retail SRI investments in Canada, Europe and the United States increased to 13.1 percent in 2014 from 10.7 percent in 2012 (this data was not collected in Australia/New Zealand and Asia).

![Figure 4: Institutional/Retail SRI Assets](chart)

**Asset Allocation**

SRI asset allocation can vary greatly from market to market. In Canada and Europe, most of the assets are in equities (49.5 percent) and bonds (39.5 percent). The other regions did not collect data on asset allocation.

![Figure 5: SRI Asset Allocation in Canada and Europe](chart)
Regional Market Characteristics

At the regional level there are significant differences in the SRI strategies investors choose to employ. This has implications for the relative dominance of each region by strategy. For example, in Figure 6, Canada, Australia/New Zealand and Asia are more visible in sustainability-themed investing than their relative weights globally would suggest. (Canada, for instance, has 4.4 percent of global SRI assets, but 27.7 percent of global sustainability-themed assets.) For positive/best-in-class screening, the United States outperforms the other regions with 50.5 percent of global assets in this strategy compared to 30.8 percent of global SRI assets.

Figure 6: Regional Share, by Asset Weight, in Global Use of SRI Strategies

Note that in practice, asset managers often apply more than one strategy to their investment vehicles, such as exclusions with ESG Integration and/or engagement.
Focus 1: Impact Investing

Impact investing is a small but vibrant segment of the broader sustainable and responsible investing universe in all the markets reviewed by GSIA. GSIA defines impact investing as targeted investments, typically made in private markets, aimed at solving social or environmental problems. Community investing, whereby capital is specifically directed to traditionally underserved individuals or communities, is included in this category, as is finance that is provided to businesses with an explicit social or environmental purpose. The definitions of impact investing are still evolving, leading to certain discrepancies in the regional classifications. For example, community banking deposits and development finance are included in some regions, whereas in Europe only investment assets are counted.

**Figure 7: Impact Investing by Region**

Impact investing varies across European markets. The mix of public and private capital is affected by local history and sensitivities, as well as by how the local social and financial systems are structured.

The European impact investing market—defined here as the investments made by professional or private investors in social enterprises—has grown 146 percent since 2012, when Eurosif first started to measure the market, to reach about $28 billion at the beginning of 2014.

Over half of these impact investments by European asset owners and asset managers—about 55 percent—were in microfinance. The rest includes community investing, social business investment, as well as thematic investments, especially with environmental or renewable energy themes, and development finance.

When breaking down this European figure by market, the Netherlands and Switzerland stand out as leading markets, followed by the UK, France, Italy, Germany and Sweden.

Despite the impressive recent growth in impact investing, it remains a peripheral strategy within European SRI that has not yet realized its full potential. To secure further growth, policy-makers, both at EU level and nationally, as well as players along the investment chain (asset managers, intermediaries and distributors),
need to continue to build a more conducive environment. Efforts around transparency and the refinement of impact measurement standards as well as financial innovation will be important success factors in that regard.

**United States**

For the 2014 survey, the US SIF Foundation asked participating institutions for the first time to specify the percentage of assets under management that they considered to be involved in strategies of impact investing. In response, 86 domestic asset managers and institutional investors identified themselves as using strategies of impact investing at the beginning of 2014, affecting $36.8 billion in combined assets under management.

More than half—52 percent—were money managers, deploying $29 billion in impact investing strategies. Philanthropic foundations were the most commonly identified asset-owning impact investors—18 percent of the sample—although faith-based investors reported a higher level of assets using impact investing strategies: $1.3 billion versus $795 million by foundations. Educational institutions, family offices, healthcare institutions, public funds and other nonprofit organizations were among the other kinds of institutional investors that identified themselves as using impact investing strategies in more limited ways.

Although the terminology of “impact investing” is relatively new, the practice is not. Numerous sustainable and responsible investors have long pursued social and environmental outcomes across asset classes by investing proactively in areas such as microfinance, sustainable community development, clean technology and other environmental solutions. Listed equity investors have pursued social and environmental impact, often by engaging with publicly traded companies in a variety of ways.

Indeed, most investors identified in the US SIF Foundation research engaged in impact investing alongside other strategies of ESG incorporation; only 36 percent described themselves as engaging exclusively in impact investing. Of the $36.8 billion in impact investing assets, $12.2 billion is managed by investors engaged exclusively in impact investing. The remaining $24.6 billion is managed by investors that practice impact investing among other SRI strategies.

In addition, if the assets of specialized community development banks and credit unions attributed to retail investors’ accounts are added to the equation, the total assets engaged in impact investing rises to $69 billion in the United States.

**Canada**

Impact investment is practiced by a diverse range of organizations in Canada. Out of the total Canadian impact investment assets of $3.9 billion at the start of 2014, Québec’s “solidarity finance” sector comprises $1.1 billion, or 28 percent. Development finance organizations, the next largest category, account for $893 million, or 23 percent. This category primarily consists of Québec venture capital institutions but also some self-described development finance funds. Credit unions are the third largest player, with assets totalling $653 million.

The vast majority of Canadian impact investments—94 percent—are made directly into companies, as opposed to indirect investments via funds.

Canadian impact investment capital is placed across numerous sectors. The top sector is the nonprofit/social enterprise sector, which receives 43 percent of all Canadian impact investment assets. This number is particularly large due to Québec’s robust and established social economy. Québec’s solidarity finance sector is “made up of those institutions that invest exclusively in cooperatives, non-profit organizations and associations that have socioeconomic objectives.”

The second largest sector receiving impact investment capital is the Aboriginal business sector, receiving 15 percent of impact investment assets. Organizations allocating capital to this category include Aboriginal Financial Institutions, credit unions and development finance funds. Community development is the third
largest sector, receiving 12 percent of impact investment capital. Community development includes community-focused debt and equity financing for local initiatives, small business and traditionally underserved social groups.

Canadian impact investments are almost equally split between private debt and private equity/venture capital asset classes. Whereas 48 percent of impact investment assets are private debt, 47 percent are private equity or venture capital.

RIA Canada asked its survey respondents to identify their motivations, or their clients’, for choosing to invest for social or environmental impact. The top motivation was to contribute to local community. The next three most important motivations cited were sustainable development, personal values and financial opportunity.

### Australia and New Zealand

In Australia and New Zealand, impact investing has gained steady momentum with interest moving from private wealth markets into institutional markets. Driving this increased interest was the first issuances of social benefit bonds in 2013 directing private capital towards the delivery of social services for social and financial returns. The depth of the market continues to increase and mature, albeit from a low level.

In the period from 2012 to 2014, assets increased to $2.0 billion from $1.1 billion. This approach includes assets dedicated to financing community investment, loan portfolios dedicated to community benefit or microfinance, and impact investing funds. A wide range of organizations are active in the space, ranging from the large banks (Westpac, Commonwealth Bank), to smaller community focused banks (Bendigo Bank and Bankmecu), specialist community finance organisations (Foresters Community Finance and Community Sector Banking), and managers of social impact funds and bonds (Social Ventures Australia, Social Enterprise Finance Australia and Impact Investment Group).

### Asia

Significant potential for impact investing growth resides in Asia, with investors showing increasing concern for environmental, health and social challenges in the region. Some investors are becoming more strategic in incorporating impact investing into their investment portfolios, and the Rockefeller Foundation forecasts that Asia, especially Southeast Asia, will be the next hub for impact investing. Note that the figures for Asia ($5.9 billion) in this section only cover data from Japan, because consistent data on impact investing is not yet available in other countries in Asia.

ASrIA’s survey of market participants indicates that the main motivation in Asia for engaging in impact investing is because it is seen as a financial opportunity. Other important motivations include fiduciary duty/mandate and contribution to community and sustainable development. In many cases, it builds on the entrepreneurial tradition of creating value within communities and the understanding that return on investment may include environmental or social returns.

Impact investments are likely to grow as investment infrastructure and access to suitable investment opportunities improve, but this may require concerted effort by market participants, regulators and policymakers. Investor education and awareness-raising is also important in Asia, and platforms to elevate the transparency and accountability of impact investments over their investment cycle are essential. More specifically, in Hong Kong an increased interest in impact investing appears to be driven by the emergence and influence of social enterprises. While currently there is no legal framework on social entrepreneurship, many social enterprises have been raising capital through equity investments, private debt or hybrid instruments and venture philanthropy. Some obstacles still remain, such as the absence of a platform for investor-project matchmaking, limited information sharing and cross-sector learning, as well as incoherent policies and guidelines. However, initiatives such as the Social Innovation and Entrepreneurship Development Fund (SIE Fund)—set up in 2012 by the Hong Kong government—are aimed at helping to overcome some of these challenges.
In India, impact investing is expected to have an increasing influence on the overall sustainable investment landscape. For example, Intellecap (an India based advisory firm focused on social enterprises) estimated that $1.6 billion of capital has been invested in more than 220 impact enterprises across the country. At present, the majority of capital is sourced from outside the country. However, local institutional and high net worth investors are increasingly interested in impact investing as a defined investment strategy.

Japan is the most mature of the Asian markets on impact investing, which explains the availability of data for the country. The impact investment bonds market is very active: to date, 81 bonds totalling $9.3 billion have been issued, of which $5.6 billion remains outstanding. Approximately half of these bonds—41—were for ventures addressing climate change, with the remainder focusing on vaccines, poverty, water issues and other impact themes. In addition, community investing is becoming popular among Japan’s 23 not-for-profit banks, as well as among micro investing funds and microfinance institutions. Crowd-funding is attracting a great deal of attention as a new method of fundraising, and over 50 platforms have been created.
Regional Highlights

European Highlights

In Europe, all surveyed sustainable and responsible investment strategies are continuing to grow, in aggregate, at a faster rate than the broad European asset management market. From the beginning of 2012 to the start of 2014, assets committed to sustainability-themed investments grew 30 percent in US dollar terms, and assets to which exclusionary screens were applied grew 90 percent. Impact investing is the fastest growing strategy, registering 146 percent growth over the period. For context, over the same period, the overall European asset management industry has grown by an estimated 22 percent in euro terms.

Exclusionary screens now represent the largest and most consistently used SRI strategy across Europe and have thus gone “mainstream.” Exclusions cover about 41 percent of European total professionally managed assets, with voluntary exclusion policies that single out cluster munitions and anti-personnel landmines affecting about 23 percent ($5.5 trillion) of the overall European investment market.

Other strategies like norms-based screening or engagement and voting also exhibit impressive adoption rates (65 percent and 79 percent growth, respectively) and assets but are not deployed as consistently as exclusions across countries. The progress of engagement and voting in non-traditional markets such as Italy (193 percent growth in euro terms over 2012-2014), Germany (48 percent), Belgium (94 percent), Scandinavia and Switzerland signals changes in attitudes toward stewardship among European investors.

Assets subject to ESG integration have grown 74 percent since the start of 2012, making this strategy one of the fastest growing. ESG integration practices in Europe fall into two broad categories:

- “non-systematic ESG integration,” in which ESG analysis is made available to mainstream analysts and fund managers but no formalized process exists.
- explicit and systematic ESG integration, whereby investors systematically consider or include ESG analysis when rating or valuing investments, either voluntarily or under mandates.

Systematic ESG integration covers about 40 percent of all forms of integration in the countries where data is available, and is estimated to cover at least 11 percent ($2.7 trillion) of all European professionally managed assets.

The most prevalent perceived market driver for the near future remains institutional demand. Institutional investors such as pension funds continue to drive the market with an even higher market share than in 2012. However, several national and European legislative developments will also support future growth. For instance, the revision of the European Shareholder Rights Directive has the potential to foster engagement and voting practices.

United States

In 2014, sustainable investing—after accounting for a fairly consistent 10-12 percent share of the overall market of professionally managed assets in the United States for the past decade—took a significant leap forward. The US SIF Foundation’s 2014 report documented:

- $6.20 trillion in US-domiciled assets as of January 1, 2014, held by 480 institutional investors, 308 money managers and 880 community investment institutions that apply ESG criteria in their investment analysis and portfolio selection, and
- $1.72 trillion in US-domiciled assets at the start of 2014 held by 202 institutional investors or money managers that filed shareholder resolutions on ESG issues from 2012 through 2014.
After eliminating double-counting for assets involved in both strategies (or held by money managers on behalf of institutional investors), total US SRI assets were $6.57 trillion—a 76-percent increase over the $3.74 trillion identified in sustainable investing strategies at the outset of 2012.

As a result, nearly 18 percent of all investment assets under professional management in the United States were held by individuals, institutions or money managers that consider ESG issues in selecting investments across a range of asset classes, or file shareholder resolutions on ESG issues at publicly traded companies.

This growth is largely driven by demand from a range of retail and institutional actors. Indeed, of the 119 money managers who responded to a question on why they offer ESG or SRI products, the top factor—cited by 80 percent—was client demand. More than 70 percent of the money managers responding to this question also said they considered ESG factors in order to fulfill their mission (or their clients’), to improve returns and to manage risk.

Of the money managers that responded to an information request about their ESG incorporation strategies, more than half reported that they use negative screening within their funds. Others reported using strategies of positive screening, impact investing and sustainability-themed investing. Yet the incorporation strategy that affected the highest number of assets, $4.74 trillion, was ESG integration.

Numerous money managers have introduced funds that consider various ESG factors or begun incorporating ESG criteria in existing products. From 2012 to 2014, for example:

- the number of mutual funds considering ESG factors grew from 333 with $641 billion in assets, to 456 with $1.92 trillion in assets,
- the private equity and other alternative investment funds considering ESG factors grew from 301 with $132 billion in assets, to 336 with $224 billion in assets,
- the investment vehicles that consider climate change and carbon-related issues grew from 280 with $134 billion in assets, to 325 vehicles with $276 billion in assets, and
- the investment vehicles restricting holdings in weapons manufacturers grew from 248 with $156 billion in assets, to 291 with $590 billion in assets as investors responded to the horror of the December 2012 elementary school shooting in Newtown, Connecticut.

In addition, from 2012 through 2014, more than 200 money managers and institutional investors, representing $1.7 trillion in assets, filed hundreds of resolutions at portfolio companies on a range of environmental, social and governance issues. Through these efforts, investors have persuaded hundreds of companies to exercise better oversight of their political spending and lobbying, to disclose and reduce their greenhouse gas emissions and strengthen their fair employment policies.

Canada

Canada’s sustainable investment market is experiencing rapid growth. According to survey data from the Responsible Investment Association Canada, at the outset of 2014, assets in Canada using one or more responsible investing strategies totalled more than $945 billion, up from $589 billion two years earlier, a 60 percent increase. RIA Canada uses “responsible investing” to describe investment approaches that consider ESG factors.

The industry’s significant growth can be attributed to at least three factors. First, Canada’s large pension funds under SRI guidelines grew by $246 billion to a total of $768 billion, which comprises 81.2 percent of Canadian SRI assets under management.

Second, there have been many new entrants to the industry, particularly among investment managers. Whereas only 24 investment management firms reported Canadian sustainable investing assets at the start of 2012, there are now 41. In a similar trend, whereas there were only 12 Canadian investment manager signatories to the UN-supported Principles for Responsible Investment (PRI) at the start of 2012, there are
now 29. Investment management firms now account for $179 billion in SRI assets. Canadian investment managers are increasingly aware of ESG risks, and they are taking steps to manage those risks by integrating ESG factors into the investment decision-making process.

Third, qualitative factors including personal values, increased awareness of ESG risks, and generational transfer of wealth are playing an important role in the growth of sustainable investing in Canada, particularly on the retail side. Total retail assets now stand at $58 billion. Retail SRI funds, which include mutual funds and retail venture capital funds, have grown from $13 billion to $16 billion, or 24 percent over the last two years.

Canadian investors and investment managers employ numerous sustainable investing strategies, but four strategies stand above the rest. The dominant strategy is corporate engagement and shareholder action, which is used in the management of 86.5 percent of Canadian responsible investing assets. The top three engagement issues in 2013 were executive compensation, human rights and greenhouse gas emissions. ESG integration is the second most prominent strategy, representing 77.5 percent of assets, while norms-based screening and negative screening represent 56.3 percent and 50.8 percent, respectively.

Impact investment is a small but important category of SRI. Canadian impact investment assets now stand at $3.9 billion, a 26 percent reduction, in US dollar terms, since the beginning of 2012. Notably, RIA Canada’s impact investment survey found that 87 percent of impact investors who target competitive returns either met or outperformed expectations in 2013.

**Australia and New Zealand**

Responsible investment assets managed by asset managers, super funds, banks and advisers in Australia and New Zealand have experienced strong growth and outperformed against their benchmarks.

In Australia, investments in core responsible investment—ethical, socially responsible, impact, community finance and sustainability-themed investments—grew by 30 percent in US dollar terms in a single year to reach just over $22 billion in assets under management at the start of 2014. For the first time in a decade, their market share has grown, expanding from 1.6 percent of total assets under management at the start of 2012 to 2.3 percent in at year-end 2013, the best proxy available for retail client demand.

This growth is explained both by performance and inflows. On the performance front, when compared to benchmark indices and the average returns of mainstream funds, core responsible investment funds have outperformed across the majority of fund categories and time horizons:

- **CORE RESPONSIBLE INVESTMENT AUSTRALIAN EQUITIES FUNDS** have outperformed the ASX 300 index and the large cap Australian equities fund average over one, three, five and 10 years.

- **CORE RESPONSIBLE INVESTMENT INTERNATIONAL EQUITIES FUNDS** have outperformed the MSCI index and large cap international equities fund average over five and 10 years, but have underperformed over one and three years (despite stellar performances from some individual responsible funds).

- **CORE RESPONSIBLE MULTI-SECTOR GROWTH FUNDS** (i.e. balanced funds) have outperformed the mainstream fund average over one, five and 10 years, with slight underperformance over three years.

In New Zealand, responsibly managed assets now account for $22 billion in assets, representing a very significant 40 percent of total assets under management.

In both countries combined, investment in broad responsible investment—those asset managers deeply integrating environmental, social and governance practices across their investments—have grown by 34 percent since the beginning of 2012 to reach $180 billion in assets under management.

In sum, the sustainable investing industry in Australia and New Zealand is becoming more interesting and complex, with a plethora of responsible investment approaches in use. Increasingly, investors are using a combination of approaches—such as screening, ESG integration and sustainability-themed investing—to get the best investment outcomes.
Asia

The overall market for sustainable investment in Asia is robust and growing, having increased to $53 billion at the start of 2014 from $40 billion at the start of 2012 in the 13 markets where data was collected (Bangladesh, China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, Pakistan, Singapore, Taiwan, Thailand and Vietnam).

The largest Asian markets for sustainable investments, by asset size, are Malaysia, Hong Kong and South Korea. The fastest growing markets are Indonesia and Singapore.

Despite the growth trend elsewhere, Japan, historically the most mature market in the region, has seen a decline. Its overall sustainable investment assets—in both SRI funds and impact investing vehicles—dropped from $10.2 billion to $8.0 billion. Despite the fact that the stock market rebounded in the two years to September 30, 2014, the net assets of SRI funds in Japan dropped from $2.7 billion to $2.1 billion. The number of SRI funds fell to 72 from a peak of 93 because several SRI funds reached maturity and no new funds were created.

The most commonly adopted sustainable investment strategies in Asia are ESG integration at $23.4 billion (44 percent of sustainable investment assets) and exclusion/negative screening at $16.6 billion (31 percent of sustainable investment assets). There are indications that significant assets also exist in impact investing; however, reliable data only exists for Japan, which alone stands at $5.9 billion in this strategy.

The fastest growing strategy in Asia is exclusion/negative screening with 53 percent growth since the start of 2012, followed by ESG integration at 42 percent. Outside of Japan, sustainability-themed investing grew significantly, by 142 percent. However, due to a fall in such assets in Japan the overall Asian growth in this strategy was 24 percent.

Islamic funds are a major contributor to sustainable investment assets in the region, particularly in Malaysia, where the government has been actively supporting development of the Islamic funds market for a number of years, and in Indonesia.10

According to the survey conducted for ASrIA’s 2014 Asia Sustainable Investment Review, respondents consider climate change an important issue, and targeted investments to tackle environmental challenges and resource efficiency are growing in importance. This is also reflected in the increased availability of sustainability-themed funds and products. Nearly two-thirds of respondents—62 percent—indicate that climate risk will become more important in the next two years, and 74 percent say they intend to take natural capital risks and valuation into account on a case-by-case basis in the next two years.

The same survey shows that the main motivations for the use of sustainable investment strategies are fiduciary duty, financial opportunity and risk management rather than ethical or other concerns. And the sustainable investing strategy that most respondents—87 percent—view as having a positive risk-adjusted return is ESG integration.

In Japan, investors have signalled their interest in sustainability through the Principles for Financial Action for the 21st Century, which had 192 signatory financial institutions as of the end of October 2014. The aim of the principles is “to steer society toward sustainability by changing the flow of money to those activities which correspond to such sustainability goals.” There is also growing interest in green real estate that meets LEED standards or Japan’s own CASBEE standards.

A notable change in engagement in the last two years has been the involvement of municipal bodies, such as the Tokyo Metropolitan Government as a major shareholder of Tokyo Electric Power Company and Osaka City as a shareholder of Kansai Electric Power Company. Other institutional investors also are

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9. This section uses data and information from two regional sources: ASrIA and Japan Sustainable Investment Forum (JSIF). Note that 2014 asset data for Japan used in this review is as of September 30.

10. Islamic funds are included on the basis that assets managed according to Sharia principles require additional screening to traditional asset management. In many instances, these funds have much in common with certain “ethical funds” (e.g., exclusion of alcohol as used by many other funds based on religious principles).
increasingly pursuing engagement with companies. Almost none of this activity takes place publicly, but there is lively discussion of such issues as the problems of outside director and outside auditor independence as well as compensation and retirement benefits for officers. Companies are responding by appointing highly independent outside directors, and introducing performance-related compensation and abolishing retirement benefit systems for officers.

In Asia as a whole, new and emerging developments of note are the significant green financing initiatives introduced by a number of governments including China and Indonesia, the issuance of Asia’s first green bonds from the ADB and KEXIM, and widespread developments on ESG-related disclosure policies.

Investors’ growing concerns about sustainability issues, particularly relating to climate change, energy and resource scarcity, are expected to be an important driver for the development of the sustainable investment market in Asia in the coming two to three years.
In many of the markets represented by GSIA, public policy and regulatory changes are pending that could increase the level of corporate disclosure on various environmental, social and governance factors and support shareholder engagement.

Europe

The European Union took major steps in 2014 toward requiring major European companies to report on ESG issues. EU bodies are also proposing and considering proposals to spur better engagement by investors—and with a longer term view—in their portfolio companies.

EU NON-FINANCIAL DISCLOSURE: On April 15, 2014, the European Parliament voted overwhelmingly to approve a Directive requiring the disclosure of diversity and other ESG information by certain large listed European companies. Once approved by the Council (the body that represents the heads of state or government of the EU’s member states) and passed into law, the Directive will represent an important milestone. It will be the first time that information related to environmental, social, employee, human rights, corruption and bribery matters is explicitly required to be disclosed in companies’ management reports. The Directive is a clear improvement on legislation that is currently in place, as it expands the areas to be covered in the disclosure and implements a mandatory “comply or explain” approach.

The directive sends a clear signal to companies that information not historically considered financial can nonetheless be material to their performance and competitiveness at a time when a growing number of investors are taking ESG information into account in their investment decisions.


The overarching objective of the proposal is to increase the level and quality of engagement of institutional investors and asset managers in investee companies in order to tackle corporate governance shortcomings and excessive short-termism. The Commission also hopes that improved investor engagement will improve the long-term competitiveness of European listed companies. According to the Commission, the recent financial crisis showed that in many cases, shareholders supported managers’ excessive short-term risk taking. The Commission’s services also note that the level of shareholder engagement and “monitoring” of investee companies is “sub-optimal.”

As a result, the proposal includes a number of measures aimed at facilitating the exercise of shareholder rights and at enhancing those rights where appropriate. It also comes with additional transparency requirements along the investment chain.

The key specific measures included in the proposal are:

- Mandatory disclosure by institutional investors and asset managers on their voting and engagement and certain aspects of asset management arrangements, in particular around how they integrate long-term perspective and considerations into their investment policies;

- Disclosure of the remuneration policy and individual remunerations, combined with a shareholder vote (European “say on pay”);
• Additional transparency and an independent opinion on more important related party transactions and submission of the most substantial transactions to shareholder approval;

• Binding disclosure requirements on the methodology and conflicts of interests of proxy advisors;

• Creating a framework to allow listed companies to identify their shareholders and requiring intermediaries to rapidly transmit information related to shareholders and to facilitate the exercise of shareholder rights.

The proposal is being examined by the co-legislators (European Parliament and Council).

**COMMUNICATION ON LONG-TERM FINANCING OF THE EUROPEAN ECONOMY:** The Communication the European Commission published in March 2014 on long-term financing of the European economy follows on the Green Paper it published in Spring 2013. Its provisions include how to encourage investors to consider ESG issues and will likely feed into the work plan of the new Commission. It establishes a clear link with the work regarding Shareholder Rights.

**United States**

In the United States, advocates of responsible investing and corporate disclosure have pressed the US Securities and Exchange Commission (SEC) to fulfill its regulatory obligations under the Dodd-Frank financial reform law and to use its authority to require corporations to disclose their political spending.

**DODD-FRANK FINANCIAL REFORM LAW:** In 2010, shareholder advocates in the United States won an important victory when the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. It gave explicit authority to the SEC to implement a rule to allow shareholders, within certain parameters, to nominate directors to the boards of their portfolio companies and to have access to the company’s proxy statement to make the case for their nominees. The law specified, too, that publicly traded companies must allow shareholders—at least once every three years—to hold an advisory vote on their executives’ pay packages—an important tool shareholders have used to hold management more accountable.

However, four years after its passage, some of the provisions of the Dodd-Frank law that are of particular interest to sustainable and responsible investors have not been activated by implementing regulation. Although the SEC has the authority to draft a proxy access rule to enable shareholders to nominate board directors, its first attempt at drafting a rule was overturned after a court challenge by business groups, and it has not made a second attempt, dismaying investor advocates.

Investor advocates also continue to press the SEC to issue the regulations for two Dodd-Frank provisions that would require heightened disclosure from publicly traded companies.

• **PAY DISPARITY:** Dodd-Frank requires publicly traded companies to report the median of the annual total compensation of all employees, excluding the chief executive officer; the annual total compensation of the CEO; and the ratio of the median pay to the CEO’s.

• **PAYMENTS BY EXTRACTIVE INDUSTRIES TO HOST GOVERNMENTS:** Dodd-Frank requires companies registered with the SEC to disclose the payments they make to foreign governments or the US government for the commercial development of oil, natural gas or minerals. The SEC’s first attempt at rulemaking for this provision was stymied by a legal challenge from the American Petroleum Institute. A US federal court ruled that the SEC must revise the rule to provide discretion to companies to make only summaries of their filings—rather than the filings themselves—public. The SEC, which chose not to appeal the decision, has yet to issue the revised rule.

**PETITION FOR DISCLOSURE OF CORPORATE POLITICAL SPENDING:** While the Dodd-Frank Act provided new authority to the SEC to hold companies accountable in specific areas, the agency can also take steps under its previously existing authority to improve corporate disclosure to investors. Responsible investors have thus turned to the SEC to limit the damage from a 2010 US Supreme Court decision (*Citizens United v. Federal Election Commission*), which removed restrictions on political advertising and spending by corporations and other organizations. In August 2011, 10 corporate and securities law professors submitted
a rulemaking petition urging the SEC to require full disclosure by companies of their political spending. Three years later, the SEC had received more than 1 million comments on the proposal—a record in SEC rulemaking history—with the overwhelming majority of the comments in favor of disclosure. Although the rulemaking was on the SEC’s work plan for 2013, the SEC had not issued a rule by the year’s close and did not put it on the regulatory agenda again for 2014, an omission that has attracted controversy and comment.

**FEDERAL THRIFT PLAN:** Efforts are also underway in the United States to offer SRI options in the Thrift Savings Plan (TSP), the federal retirement plan that serves four million current and former federal employees. The governing board of the TSP has recommended moving toward allowing a mutual fund investment window option for federal employees; this would enable federal employees to select mutual fund options in addition to the 10 non-SRI funds currently offered by the TSP.

**Canada**

In Canada, action by the provincial government of Ontario now requires mandatory ESG reporting by pension plans under its jurisdiction. In addition, the federal government is reviewing the basic legislation governing corporations, providing an opportunity for responsible investors to give input.

**DEVELOPMENTS IN ONTARIO:** The Ontario Benefits Act has recently been amended, and now requires pension plan administrators to establish a statement of investment policies and procedures (SIPP) that contains information about whether ESG factors are incorporated into the plan’s investment policies and procedures and, if so, how those factors are incorporated. It is widely anticipated that other Canadian provinces will follow suit. The adoption of this legislation is perceived as a watershed moment for responsible investment in Canada.

Ontario has also taken action to increase the number of women in high-ranking positions in the workforce by approving securities law rule amendments that will encourage greater representation of women on corporate boards and in senior management teams.

**FEDERAL REVIEW OF CANADA’S BUSINESS CORPORATIONS ACT:** Industry Canada, the government department charged with assisting the global competitiveness of Canadian businesses, is reviewing the Canada Business Corporations Act (CBCA), which provides the basic corporate governance framework for many Canadian businesses. Increasing the scope of the Act could dramatically change the way that Canadian companies report on material ESG factors.

In 2014, the Responsible Investment Association, along with many of its members, made the following recommendations to Industry Canada:

- Consistent with the “Say on Pay” approach, the CBCA should contain a policy requiring companies to allow shareholders to conduct regular reviews of executive compensation to help both to protect the rights of shareholders and to address the problem of growing income inequality.

- The CBCA should oblige large companies of over 500 employees either to report on their social and environmental performance using standardized guidelines such as the Global Reporting Initiative (GRI), or to publish an explanation for their decision to abstain. This practice, which is widely used internationally, helps investors and consumers make informed decisions vis-a-vis social and environmental challenges.

- Consistent with the 2014 EU directive on disclosure, the CBCA should require Canadian companies to report on the diversity of their Boards of Directors.

- The CBCA should explicitly acknowledge the key drivers for corporate social responsibility and sustainability reporting in Canada, which include: the respect for human rights; the need to address climate change and other environmental problems; and the need to combat corruption, among other responsibilities aligned with Canadian principles and standards.

- Although the CBCA should mandate practices such as corporate social responsibility reporting and “Say on Pay,” the policy framework should not overburden companies with costs and bureaucracy. The CBCA
should integrate a transition period before the policy comes into full force in order to enable companies to first establish the practice as a part of their internal management practices.

- The CBCA should consider the growing body of international norms and standards that promote corporate social responsibility. These include: the UN Guiding Principles on Business and Human Rights; the OECD Guidelines for Multinational Enterprises including Canadian companies working abroad, and the Voluntary Principles on Security and Human Rights.

Asia

The following section presents high-level updates on policy-related initiatives in the markets covered in the 2014 Asia Sustainable Investment Review as well as in Japan (sourced from the Japan Sustainable Investment Forum) that are helping to promote sustainable investing across the region.

ESG DISCLOSURE: Across Asia, rapidly developing national policy and regulatory frameworks are enhancing ESG disclosure and reporting requirements.

THE ROLE OF CORPORATE DISCLOSURE: In several countries, regulators are imposing more stringent reporting requirements on corporations relating to responsible business practices. Examples include the Indian Ministry of Corporate Affairs’ new Corporate and Social Responsibility policy under the Companies Act 2013, the Annual Corporate Governance Report implemented by the Philippines Securities Exchange Commission in 2013, and Vietnam’s Sustainability Reporting Handbook for Vietnamese Companies introduced in 2013 by the State Securities Commission.

STOCK EXCHANGES: The region’s stock exchanges are also playing a critical role in enhancing ESG reporting.

- In China, both the Shenzhen Stock Exchange (SZSE) and the Shanghai Stock Exchange (SSE) have introduced more comprehensive guidelines for listed companies.
- In 2012, Hong Kong Exchanges and Clearing Limited (HKEx) introduced the ESG Reporting Guidelines. The guidelines, which currently are voluntary, have been subject to consultation since their publication.
- In October 2014, the Singapore Stock Exchange (SGX) announced that it is mandating listed companies to publish sustainability reports on a “comply or explain” basis.

PRODUCT DEVELOPMENT: Stock exchanges are also developing sustainable investment products that factor in ESG data.

- In China, the Shanghai Stock Exchange has introduced a number of sustainability-related indices including the SSE Sustainable Development Index.
- In Malaysia, Bursa Malaysia launched an ESG Index in December 2014 — FTSE4Good Bursa Malaysia (F4GBM) Index—intended to give it a competitive advantage within the ASEAN region in attracting global investors seeking exposure to socially responsible companies.

PUBLIC PENSION FUNDS: Some public pension funds are making moves to integrate ESG principles in their investment activities, which could significantly influence capital flows in domestic sustainable investment markets.

- In South Korea, amendments to the National Pension Service (NPS), the fourth largest pension fund in the world, were proposed in the Korean National Assembly in April 2014 to enhance the NPS’s control over its asset managers and to increase their consideration of ESG issues.
- In Malaysia—where the majority of sustainable investment assets come from Sharia-compliant products—the country’s pension managers, including civil service pension fund Kumpulan Wang Persaraan and state-run Employees Provident Fund, have issued mandates focused on Sharia-compliant instruments and ESG investments.
POLICY INCENTIVES FOR CLEAN ENERGY INVESTMENT: Several Asian countries, in light of their massive energy and infrastructure needs, are exploring policy incentives to channel large-scale private capital flows towards the clean energy sector. Macro and micro policy examples include:

- In Vietnam, the government, in coordination with the Asian Development Bank, has developed a plan for low-carbon investments in the power, transport and industrial sectors, funded by the Climate Investment Funds’ Clean Technology Fund.

- Authorities in India have deployed multiple policy tools—such as Renewable Purchase Obligations and Renewable Energy Certificates—to close the demand gap by encouraging investment into renewable energy growth.


- Thailand has more than doubled its installed clean energy capacity with the help of the feed-in premium program introduced in 2010.

EXAMPLES OF GOVERNMENT LEADERSHIP IN ASIA: While most sustainable investment markets in Asia remain in the early stages of development, a number of governments are actively promoting growth on a larger scale.

- In Japan, 160 institutions, including Government Pension Investment Fund and the Pension Fund Association for Local Government Officials, had endorsed the “Principles for Responsible Institutional Investors” within six months of its introduction in February 2014 by Japan's Financial Services Agency.

- In Malaysia, the government has committed to promoting the country as a regional center for sustainable investment, primarily by establishing ESG-related products, launching dedicated investment funds, and adopting ESG principles for government-managed assets.

- In China, regulatory bodies are requiring greater attention to ESG risks and encouraging “green finance” initiatives in order to develop the markets.

- Singapore’s government is taking steps to develop its regional profile as a “springboard” for global corporations and financial institutions to serve other markets in the region with technology and sustainable investment products.

- In South Korea, one of the first countries in Asia to embrace “green growth” as a development strategy, the government has introduced initiatives to shift the country towards a low carbon and resource efficient economy.
Conclusion

In all the markets represented by GSIA members, sustainable investing has grown in both absolute and relative terms in the two years since the beginning of 2012. As a result, it represents a significant share of the market not only in Europe, where more than half of professionally managed assets practice an ESG strategy, but also now in Australia, the United States and Canada, where its share of the market ranges from 17 to 31 percent. Although sustainable investing is not practiced on the same scale in Asia, the growth of interest in investment products that address sustainability challenges such as climate change and resource efficiency is likely to continue.

The growing visibility of sustainable investing produces a virtuous cycle, in which institutional and retail clients feel empowered to ask money managers for SRI options, and more traditional investment firms are motivated to develop products and services to serve a market that no longer can be characterized as niche.

The growth in global SRI reflects the consensus among investors that accurate valuations and proper risk management require greater disclosure and consideration of ESG issues such as climate change, human rights, consumer protection and health and safety. Increasingly, managers are using ESG criteria to identify risks that are not adequately addressed by traditional investment analysis and to better predict financial performance. Managers are also using ESG criteria to identify opportunities to invest in sustainable businesses that are involved in energy efficiency, green infrastructure, clean fuels and other sectors that provide adaptive solutions to some of the most challenging issues of our time.

In addition, policy developments in these markets—particularly relating to corporate ESG disclosure—are likely to further facilitate or promote sustainable investing strategies. In Europe, the largest European companies could soon be required to report on diversity and other ESG information, while a proposed shareholder rights directive could require institutional investors and asset managers to disclose their voting and engagement activities. In the United States, the anticipated regulation to require disclosure of executive relative to non-executive employee compensation will provide a key tool to investors by which to assess portfolio companies. In Canada, a government review of the basic corporation law is offering opportunity to press for greater corporate disclosure of various ESG issues. In Asia, many countries are adopting more comprehensive corporate and ESG disclosure requirements, a trend that is likely to advance sustainable investing in the region.
Appendix I—Methodology and data

Each region covered by this report uses a slightly different methodology to collect data for their respective regional reports. The consolidation made in this Global report is made on a best effort basis, but some regional inconsistencies may remain, notably in impact investing. All assets are reported as of December 31, 2013, except Japan which reports as of September 30, 2014. Data for Asia is consolidated from ASrIA and Japan Sustainable Investment Forum. Data for 2012 in Asia (ex-Japan) and Australia/New Zealand has been restated due to changes in methodology used. Readers should consult the regional reports for more detail on data and data collection methodologies. The 2012 Global report included data from Africa, but new data was not available for the 2014 edition. African data has therefore been removed from 2012 figures in this report in order to provide comparable growth rates.

Europe

In European markets the backbone of the regional study remains an extensive market participant survey, designed by Eurosif, using a template questionnaire sent to asset managers and asset owners (for the self-managed part of their assets). A large portion of the figures used in the European study is therefore self-reported, covering both institutional and retail assets. Eurosif, in collaboration with its national SIF members and other partner organizations, covered 13 distinct markets in detail: Austria, Belgium, Finland, France, Germany, Italy, Netherlands, Norway, Poland, Spain, Sweden, Switzerland and the United Kingdom. Data was collected from April to June 2014, and respondents were asked to report data as of December 31, 2013. To mitigate the risk of error, misallocation of assets, sample biases or insufficient market coverage, Eurosif and its partners have exercised due diligence on a best-effort basis to maintain the highest possible data integrity and quality. More detail on the methodology is available in the European SRI Study 2014, available from the Eurosif website.

United States

In the United States, the US SIF Foundation, from May through July 2014, sent a confidential, personalized survey link by email to 479 investment management firms and 1,099 institutional asset owners identified in previous surveys as practicing sustainable investing strategies or believed to be new entrants to sustainable investing practice. Survey recipients were asked to detail whether they considered ESG issues in investment analysis and portfolio selection, to list the issues considered, and to report the value of the US-domiciled assets affected as of December 31, 2013. They were also asked to report their total US-domiciled assets as of year-end 2013 and whether they filed shareholder resolutions or engaged in other shareholder engagement activities. The research team also collected additional data from public and third-party sources. In total, the US SIF Foundation and its research partner, Croatan Institute, researched the SRI activities of 630 money managers and 1,572 institutional investors. More detail on the methodology is available in the Report on US Sustainable, Responsible and Impact Investing Trends 2014, available from the US SIF Foundation website.

Canada

In Canada, the Responsible Investment Association contacted asset management firms directly, requesting information on sustainable investing assets under management, effective December 31, 2013. RIA emailed survey questionnaires to participants, and followed up by telephone. The survey results were combined with publicly available data on retail sustainable investing funds compiled by the RIA. Data on impact investing was obtained from a survey of community investment providers across Canada and was combined with other publicly available information and other data. Pension fund assets were gathered from publicly available sources combined with interviews with fund representatives. More detail on the methodology is available in the 2014 Canadian Responsible Investment Trends Report, available from the RIA website.
Asia (ex-Japan)

In Asian markets outside of Japan, ASrIA used several sources for data including asset data collated from investment fund data provided by the Bloomberg Professional service; survey data from an online questionnaire responded to by asset owners and asset managers based in Asia; data and country information from national SIFs in Asia (including China SIF, KoSIF and India SIF); interviews and other input from industry experts, including individual asset manager responses; and additional desk-based research. All figures are reported at December 31, 2013. Assets from 12 markets are included: Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, Pakistan, Singapore, South Korea, Taiwan, Thailand and Vietnam. More detail on the methodology is available in the Asia Sustainable Investment Review 2014, available from the ASrIA website.

Australia and New Zealand

In Australia and New Zealand, the Responsible Investment Association Australasia (RIAA) undertook a survey of over 70 investment industry organizations to collect data as of December 31, 2013. Primary data was then collated along with a range of other sources. Information on total assets under management and the average performance of certain managed fund categories were provided by Morningstar, and the AUM for those funds integrating ESG was contributed by Mercer. More detail on the methodology is available in the Responsible Investment Annual Report 2013, available from the RIAA website.

Japan

In Japan, the Japan Sustainable Investment Forum (JSIF) used two main methods to arrive at reported figures: regular web-based research including data collection at the individual sites for identified SRI funds and data provided by JSIF member Daiwa Securities Group for fixed income securities. JSIF publishes its findings quarterly, which are available from its website. Figures were excerpted from the quarterly SRI Market survey, which had data as of September 30, 2014.
Appendix 2—Glossary

Best-in-Class/Positive screening
Refers to investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers.

Divestments
When companies are sold from a fund portfolio because they no longer meet the ESG criteria for that fund, or for purely financial reasons.

Corporate engagement and shareholder action
Strategy employs shareholder power to influence corporate behavior through direct corporate engagement (i.e. communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

ESG
Environment, social, and governance—Refers to the broad set of sustainable investment criteria used alongside traditional financial criteria in managing and selecting investments.

Institutional investors
Institutional investors are organisations that pool large sums of money; they include pension funds, insurance companies, investment companies, foundations, charities, public authorities and universities.

ESG integration
Explicit consideration of environmental, social and governance factors in the investment decision-making process.

Impact investing
Targeted investments, typically made in private markets, aimed at solving social or environmental problems. Impact investing includes community investing, where capital is specifically directed to traditionally underserved individuals or communities, or financing that is provided to businesses with a clear social or environmental purpose.

Mandates/Separate/Segregated accounts
This category includes investment vehicles where investment policy is defined in cooperation with a unique investor.

Norms-based screening
Screening of investments based on compliance with international norms and standards such as issued by OECD, ILO, UN, UNICEF, etc. May include exclusions of investments that are not in compliance with norms or standards or over and underweighting.

Sustainable investment
An approach to investment where environmental, social and governance factors, in combination with financial considerations, guide the selection and management of investments.

SRI
SRI, a generic term covering sustainable, responsible, socially responsible, ethical, environmental, social investments and any other investment process that integrates financial analysis with the influence of environmental, social and governance (ESG) issues.

Sustainability-themed investment
Strategy that addresses specific sustainability issues such as climate change, food, water, renewable energy/clean technology, agriculture, etc.
### Appendix 3—Data table

<table>
<thead>
<tr>
<th></th>
<th>2012 $Bn</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Europe</td>
<td>United States</td>
<td>Canada</td>
<td>Australia/NZ</td>
<td>Asia</td>
<td>Global</td>
<td></td>
</tr>
<tr>
<td>Negative/exclusionary screening</td>
<td>$4,958.35</td>
<td>$2,820.00</td>
<td>$464.38</td>
<td>$26.21</td>
<td>$10.82</td>
<td>$8,279.76</td>
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</tr>
<tr>
<td>Integration</td>
<td>$4,148.84</td>
<td>$1,204.00</td>
<td>$462.40</td>
<td>$103.51</td>
<td>$16.53</td>
<td>$5,935.28</td>
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<tr>
<td>Corporate engagement and shareholder action</td>
<td>$2,525.48</td>
<td>$1,540.00</td>
<td>$523.57</td>
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<td>$0.00</td>
<td>$4,589.06</td>
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</tr>
<tr>
<td>Norms-based screening</td>
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<td>$0.00</td>
<td>$0.00</td>
<td>$3,038.12</td>
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<tr>
<td>Positive/best-in-class screening</td>
<td>$366.71</td>
<td>$623.00</td>
<td>$7.06</td>
<td>$0.00</td>
<td>$2.31</td>
<td>$999.07</td>
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<tr>
<td>Sustainability themed investing</td>
<td>$62.27</td>
<td>$0.00</td>
<td>$1.32</td>
<td>$3.29</td>
<td>$3.37</td>
<td>$70.26</td>
<td></td>
</tr>
<tr>
<td>Impact/community investing</td>
<td>$11.33</td>
<td>$61.40</td>
<td>$5.20</td>
<td>$1.09</td>
<td>$7.14</td>
<td>$86.15</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$8,757.52</strong></td>
<td><strong>$3,740.00</strong></td>
<td><strong>$589.14</strong></td>
<td><strong>$134.11</strong></td>
<td><strong>$40.17</strong></td>
<td><strong>$13,260.94</strong></td>
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<tr>
<td></td>
<td>2014 $Bn</td>
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<td></td>
<td></td>
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<td>United States</td>
<td>Canada</td>
<td>Australia/NZ</td>
<td>Asia</td>
<td>Global</td>
<td></td>
</tr>
<tr>
<td>Negative/exclusionary screening</td>
<td>$9,435.15</td>
<td>$4,441.00</td>
<td>$479.99</td>
<td>$16.84</td>
<td>$16.55</td>
<td>$14,389.53</td>
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<tr>
<td>Integration</td>
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<td>$23.41</td>
<td>$12,853.76</td>
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<td>$0.02</td>
<td>$1.16</td>
<td>$7,044.62</td>
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<tr>
<td>Norms-based screening</td>
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<td>$0.00</td>
<td>$531.94</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$5,534.22</td>
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<tr>
<td>Positive/best-in-class screening</td>
<td>$486.70</td>
<td>$501.00</td>
<td>$2.74</td>
<td>$0.00</td>
<td>$1.73</td>
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<tr>
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<td>$81.17</td>
<td>$30.00</td>
<td>$45.93</td>
<td>$4.70</td>
<td>$4.17</td>
<td>$165.96</td>
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<tr>
<td>Impact/community investing</td>
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<td>$69.00</td>
<td>$3.86</td>
<td>$1.99</td>
<td>$5.91</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$13,607.64</strong></td>
<td><strong>$6,572.00</strong></td>
<td><strong>$944.94</strong></td>
<td><strong>$180.03</strong></td>
<td><strong>$52.92</strong></td>
<td><strong>$21,357.53</strong></td>
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</table>

<table>
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<th>Growth 2012-14</th>
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<tbody>
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<td>Europe</td>
<td>United States</td>
<td>Canada</td>
<td>Australia/NZ</td>
<td>Asia</td>
<td>Global</td>
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</tr>
<tr>
<td>Negative/exclusionary screening</td>
<td>90.3%</td>
<td>57.5%</td>
<td>3.4%</td>
<td>-35.8%</td>
<td>53.0%</td>
<td>73.8%</td>
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<tr>
<td>Integration</td>
<td>73.6%</td>
<td>293.6%</td>
<td>58.4%</td>
<td>51.2%</td>
<td>41.6%</td>
<td>116.6%</td>
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<tr>
<td>Corporate engagement and shareholder action</td>
<td>78.6%</td>
<td>11.4%</td>
<td>56.2%</td>
<td>122.9%</td>
<td>nc</td>
<td>53.5%</td>
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<tr>
<td>Norms-based screening</td>
<td>64.7%</td>
<td>na</td>
<td>56.2%</td>
<td>122.9%</td>
<td>na</td>
<td>53.5%</td>
<td></td>
</tr>
<tr>
<td>Positive/best-in-class screening</td>
<td>32.7%</td>
<td>-19.6%</td>
<td>-61.2%</td>
<td>na</td>
<td>-25.2%</td>
<td>-0.7%</td>
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<tr>
<td>Sustainability themed investing</td>
<td>30.3%</td>
<td>nc</td>
<td>3380.3%</td>
<td>42.6%</td>
<td>23.5%</td>
<td>136.2%</td>
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<tr>
<td>Impact/community investing</td>
<td>146.3%</td>
<td>12.4%</td>
<td>-25.7%</td>
<td>82.9%</td>
<td>-17.2%</td>
<td>26.1%</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55.4%</strong></td>
<td><strong>75.7%</strong></td>
<td><strong>60.4%</strong></td>
<td><strong>34.2%</strong></td>
<td><strong>31.7%</strong></td>
<td><strong>61.1%</strong></td>
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</tr>
</tbody>
</table>

*Note: Exchange rates for 2014 data are based on rates from Oanda.com at September 30, 2014, for Japan, and December 31, 2013, for all other regions.*
Acknowledgements

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