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Foreword

Global Sustainable Investment Review 2012

January 2013

The Global Sustainable Investment Alliance¹ is pleased to present the Global Sustainable Investment Review 2012. This report provides, for the first time, a high-level view of sustainable investment worldwide.

The Alliance has marshaled analysis and data from seven regions across the globe. Combining insight from regional reports that are informed by detailed surveys of the asset management industry and secondary sources, the Alliance has produced a picture of sustainable investment that represents both a global movement for change in financial markets and a local response to unique cultural, social and economic forces. The result is a sustainable investment landscape that is well-developed, diverse and culturally responsive.

The report finds that in the seven regions covered, there is a combined US$ 13.6 trillion worth of professionally managed assets incorporating environmental, social and governance concerns into investment selection and management. This comprises 21.8 percent of the funds under management in the regions surveyed, conclusively showing that the sustainable investment industry has significant scale in the global arena.

We want to thank the sponsors of the regional research reports used to prepare this document. These sponsors are noted in the back of this document. Without their generous support, this report and the research indirectly used to prepare it would not have been possible.

Sincerely,

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¹ The Global Sustainable Investment Alliance (GSIA) is a strategic collaboration of sustainable investment forums around the world with the mission to deepen the impact and visibility of sustainable investment organizations at the global level.

The following sustainable investment organizations are members of GSIA:
US SIF: The Forum for Sustainable and Responsible Investment
Eurosif, the European Sustainable Investment Forum
ASrIA, the Association for Sustainable & Responsible Investment in Asia
RIAA, the Responsible Investment Association Australasia
SIO, the Canadian Social Investment Organization
UKSIF, the UK Sustainable Investment and Finance Association
VBDO, the Dutch Vereniging van Beleggers voor Duurzame Ontwikkeling
AfricaSIF.org, the Africa Sustainable Investment Forum, has observer status
Executive Summary

The *Global Sustainable Investment Review 2012* is a collaboration of the Global Sustainable Investment Alliance (GSIA), as well as nonmember organizations AfricaSIF.org and SIF Japan and is the first report to collate the results from the market studies of regional sustainable investment forums from Europe, the US, Canada, Asia, Japan, Australia and Africa. Sustainable investment information was not available from the Latin American regions, which do not yet have an organized sustainable investment forum. The report is based on the work of seven sustainable investment forums which, using detailed surveys, localized knowledge, and secondary sources, have evaluated and compared the sustainable investment practices of asset owners, asset managers and individual investors around the world. This report includes all major asset classes, from public equities and fixed income to hedge funds and microfinance. Investment strategies such as positive and negative investment selection, best-in-class screening, ESG integration, and shareowner engagement are examined and broken down across regions.

The report finds that, globally, at least US$ 13.6 trillion worth of professionally managed assets incorporate environmental, social and governance (ESG) concerns into their investment selection and management. This represents 21.8 percent of the total assets managed professionally in the regions covered by the report, conclusively showing that the sustainable investment industry has significant scale in the global arena. This is encouraging in a time when many parts of the financial industry are under pressure to demonstrate value and it suggests that there are high levels of investor interest around the world in financing the businesses, projects and ideas needed to drive sustainable growth.

According to the definition of sustainable investment used throughout this global report, Europe is the largest region with about 65 percent of the known global sustainable investing assets under management. The three biggest regions—Europe, the United States, and Canada—together account for 96 percent of such assets.

Looking beyond the aggregates, the report finds that the most common sustainable investing strategy used globally is negative/exclusionary screening, with US$ 8.3 trillion in assets. This is followed by integration (US$ 6.2 trillion) and corporate engagement/shareholder action (US$ 4.7 trillion). Norms-based screening is also significant at US$ 3.0 trillion, but this approach is currently only found on a large scale in Europe. Positive/best-in-class screening stands at just over US$ 1.0 trillion, while impact investing and sustainability themed investments are comparatively small at US$ 89 billion and US$ 83 billion respectively.

Negative screening is the most consistently applied approach across the markets covered in this study, as it is found in significant scale in all markets except Japan. It is interesting to note the large differences in the popularity of specific strategies employed across regions. For instance, the US market contributes most of the global assets invested in positive screening and impact investing, while most thematic investments originate from Europe and Africa. These regional differences present opportunities for learning and for the exchange of knowledge and practices.

Finally, all the regions expect the proportion of assets managed with reference to ESG considerations to rise, as more and more investors realize the importance of sustainable investment to risk management and long-term performance and as the salience of ESG issues grow.
This report, a collaborative effort of the members of the Global Sustainable Investment Alliance (GSIA), is the first to provide a composite picture and analysis of the sustainable investment assets in key financial regions worldwide.
What is Sustainable Investing?

Sustainable investing is an investment approach making reference to environmental, social and governance (ESG) factors in the selection and management of investments. 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.

The sustainable investment strategies covered by this report are:

1. Screening of investments
   a. Negative/exclusionary screening - The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria;
   b. Positive/best-in-class screening - Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers;
   c. Norms-based screening – Screening of investments against minimum standards of business practice based on international norms.

2. Integration of ESG factors - The systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis.

3. Sustainability themed investing – Investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture).

4. Impact/community 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.

5. Corporate engagement and shareholder action - This strategy employs 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 definition of each sustainable investment strategy is also available in the glossary.
Report Methodology

The report is a collaboration of seven regional sustainable investment organizations using survey data and other information collected by each region and adapting it to a common framework. Most regions used a combination of proprietary surveys and other sources to collate data (for example funds data services providers). However, each region had a slightly different process for collecting data. Any discrepancies between the figures reported in the regional reports and the data stated in this report are due to certain necessary adjustments to make the data more comparable or to avoid double counting of assets. Assets are assigned to regions based on where they are managed, not based on where they are invested or sold.

Europe

In European markets, a survey designed by Eurosif was distributed to asset managers and asset owners based in Europe, covering both institutional and retail assets. While responses have been verified to ensure their accuracy, the results are based on self-reporting. Eurosif, in collaboration with its eight national SIF members and other partner organizations, covered 14 distinct markets in detail: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Norway, Poland, Spain, Sweden, Switzerland and the United Kingdom (UK). Data was collected from April to July 2012, and respondents were asked to report data as of December 31, 2011. More detail on the methodology is available in the European SRI Study 2012, available from the Eurosif website.

United States

In the United States, the US SIF Foundation, from late April through July 2012, sent a confidential, personalized survey link to approximately 1,100 investment management firms and 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, 2011. They were also asked to report their total US-domiciled assets as of year-end 2011 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. More detail on the methodology is available in the 2012 Report on Sustainable and Responsible Investing Trends in the United States, available from the US SIF Foundation website.

Canada

In Canada, the Social Investment Organization contacted asset management firms directly, requesting information on sustainable investing assets under management, effective December 31, 2011. SIO 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 SIO. 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 Canadian Socially Responsible Investment Review 2012, available from the SIO website.
Australia and New Zealand

In Australia and New Zealand, the Responsible Investment Association Australasia (RIAA) commissioned CAER – Corporate Analysis. Enhanced Responsibility, to conduct the research for the year to June 30, 2011. All requests for information occurred in the period July through October 2011. Data was gathered from a range of sources. Managed funds data was provided by managed funds industry research specialists Morningstar, while a large proportion of the data was also provided directly to CAER. Information on total assets under management and the average performance of certain managed fund categories were provided by Morningstar. Data on the other segments was collected by CAER. More detail on the methodology is available in the Responsible Investment Annual 2011, available from the RIAA website.

Asia

In Asian markets outside of Japan, ASrIA used several methods to arrive at reported figures including a survey sent to 300 Asia-based asset owners and managers from August to October 2012, data from the ASrIA sustainable investment funds database, selected interviews with investment houses, information from sustainable investment forums based in Asia and third party sources including ASrIA member Bloomberg’s ESG reporting service. Assets from twelve markets are included: Bangladesh, China, Hong Kong, India, Indonesia, Malaysia, Pakistan, Singapore, South Korea, Taiwan, Thailand and Vietnam. Respondents were asked to report data as of December 31, 2011. More detail on the methodology is available in the Asia Sustainable Investment Review 2012, available from the ASrIA website.

Japan

In Japan, SIF Japan 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 SIF Japan member Daiwa Securities Group for fixed income securities. SIF Japan publishes its findings quarterly, which are available from the SIF Japan website. Figures were excerpted from the quarterly SRI Market survey, which had data as of 31 December 2011.

Africa

In African markets, AfricaSIF.org canvassed more than 500 investment managers globally who invest in Africa across any asset class through surveys and selected follow-up interviews. Respondents were requested to report all assets invested in Africa as of December 31, 2011, and detail the portion of investments in Africa that are subject to any of the ESG strategies. Secondary and market research included data, reports, network statistics and information, secondary desk-based research reviewing media reports, company and investor websites, and data from project partners, for example RisCura, MSCI, Bloomberg, Thomson Reuters and others, as well as recent market reports commissioned by the International Finance Corporation (IFC) in Sub-Saharan Africa and Middle East North Africa regions. More detail on the methodology is available in the AfricaSIF.org Trends 2012 Report, available from the Africasif.org website.
What is a national or regional sustainable investing market?

Assets under management can be assigned to specific national markets based on where: (1) the asset owner or manager is located, (2) the investment solutions are distributed/sold (3) the solutions are domiciled legally and (4) the assets are invested. In today’s global asset management industry, sustainable investment funds can be domiciled in one country, managed in a second and registered for sale in several jurisdictions. As a result, defining national sustainable investing markets is not straightforward. While fund managers are rather easy to locate, the ultimate investors are not.

GSIA defines a national market by the country where the sustainable investing assets are managed (i.e. where the sustainable investing asset management team is located). As a consequence, the report attempts to measure the size of the sustainable investing asset management market in each region, rather than the sustainable investing market (the supply not the demand). For example, if sustainable investment flows into Asia were tallied, based on both management location and sales and distribution, then the reported figures would be prone to double counting.

The historically large centers for asset management tend also to dominate the sustainable investment fund industry. For example, sustainable investing fund management in Asia lags behind sales of Asian sustainable investing funds, as providers of sustainable investing products for Asia continue to base their fund management near to the major sources of global sustainable investing demand, namely Europe, Australia and North America.

In this report, all regions except Africa have measured sustainable investment assets according to the same methodology, by measuring the number of assets managed by asset managers domiciled in the region, regardless of where the funds are invested or owned. The figure for Africa measures the sustainable investment assets invested in Africa by asset managers domiciled in Africa. The difference is that assets managed by African respondents but invested outside of Africa are excluded.

Links to access the regional reports that formed the basis for this report are provided below:

- Europe: European SRI Study 2012
- Canada: Canadian Socially Responsible Investment Review 2012
- Australia: RIAA - Responsible Investment Annual 2011
- Asia: Asia Sustainable Investment Review 2012
- Japan: 2011 Review of Socially Responsible Investment in Japan
- Africa: AfricaSIF.org Trends 2012 Project
GLOBAL SUSTAINABLE INVESTMENTS
Global and Regional Sustainable Investment Assets

The estimated size of the global sustainable investment market as defined by this report and managed in the regions covered is at least US$ 13.6 trillion as of December 31, 2011\(^2\), based on data gathered from members of the Global Sustainable Investment Alliance. This represents 21.8 percent of the total assets managed in the regions covered by the report\(^3\), conclusively showing that the sustainable investment industry has significant scale. This is encouraging at a time when many parts of the financial industry are under pressure to demonstrate value. The global assets taking into account ESG considerations are shown by region in Figure 1.

The global market for investments making reference to ESG considerations is driven by Europe, which represents almost two-thirds of total assets, as shown in Figure 2. Other significant regions in terms of proportion of total assets are the United States and Canada, and these three regions combined account for 96 percent of the assets covered by this report.

\(^2\) Australia/NZ assets under management data is to June 30, 2011

\(^3\) The total assets under professional management for the regions—whether engaged in sustainable investment or not—were reported by the members of GSIA at US$ 62.3 trillion. In comparison, TheCityUK estimates global managed assets at US$ 79.8 trillion which excludes alternative funds and private wealth funds but covers more of the globe. See: http://www.thecityuk.com/assets/Uploads/Fund-Management-2012.pdf
Figure 2. Global Sustainable Investment by Region (%)

- Europe: 49%
- United States: 27.6%
- Canada: 4.3%
- Australia/NZ: 1.3%
- Africa*: 1.7%
- Asia ex-Japan: 0.5%
- Japan: 0.1%

*As noted in the methodology section, the African figure is measured differently from the other regions as it is investments in Africa by African domiciled asset managers and owners. The denominator in this calculation is the total assets invested in Africa, as estimated by the IFC. See African regional section for more detail.
The size of the European market is driven by a higher proportion of assets taking into account ESG considerations in the overall asset management industry relative to the other regions. As shown in Figure 3, asset managers engaged in strategies incorporating ESG considerations account for as much as 49 percent of European professionally managed assets, compared with 11.2 percent of professionally managed assets in the United States and less than 3 percent of the corresponding assets in Asia. The market share in Canada and Australia/New Zealand falls in a middle range of 20 and 18 percent respectively.

Looking beyond the totals, Figure 4 shows the amount invested globally in each of the seven strategies, which together make up the total sustainable investment assets. Two methodological issues should be noted about these figures. First, the sum of these individual approaches is greater than the figure for total assets incorporating ESG considerations because many investors use more than one strategy. In Figure 4, if an investor reports using two strategies for certain assets, the assets are counted twice (once in each strategy) whereas the regional totals in Table 1 have eliminated this double counting. Second, the figures for impact/community investing and corporate engagement/shareholder action are not entirely comparable across regions, as discussed later. Figure 4 shows the amounts of assets covered globally by the various strategies, stacked by region.

With these caveats in mind, the most common strategy used globally is negative/exclusionary screening (US$ 8.3 trillion). ESG integration (US$ 6.2 trillion) and corporate engagement/shareholder action (US$ 4.7 trillion) are the next two most widely applied strategies.
Judging by the information collected by the research partners, the processes used by asset managers for negative screening, positive screening and integration appear to be well defined, and the reported figures can be reasonably used to compare assets across regions. There will still be a difference in the degree of application by asset managers, so for example within negative screening some will only exclude tobacco producers while others will have a few dozen exclusion criteria, but the process is still comparable. Beyond the strategies of negative screening, positive screening and integration, however, the data becomes less comparable. For example, norms-based screening, which is one of the largest and fastest-growing strategies in Europe, is not widely identified in other regions, so almost all of these assets are managed in Europe7.

Similarly, sustainability themed investments, such as clean energy and water are not counted separately in the United States. Instead, the focus of US reporting is on what specific ESG issues affect fund management. Many of these issues, such as climate change, would overlap with thematic investments counted elsewhere, but incorporating a thematic issue in fund management and managing a fund according to a dedicated theme is not the same thing. This difference in counting assets goes some way to explaining why 75 percent of reported global thematic investments are managed in Europe, although appetite for these investments clearly exists in the US. The relative dominance of Europe is therefore likely over-emphasized in relation to other regions for both norms-based screening and thematic investments.

A different methodological challenge presents itself under the umbrella of impact investing as this strategy can have different connotations in the various markets and regions. In this report, impact investing is considered to be a strategy within sustainable investing referring to targeted investments, typically made in private markets, aimed at providing solutions to social or environmental problems. This can take the form of financing businesses or enterprising (i.e. revenue-generating) non-profits with a clear social or environmental purpose. It also includes community investing, where capital is specifically directed to traditionally underserved individuals or communities.

According to the reported figures there is US$ 89 billion invested globally in impact/community investments. Of this, US$ 61 billion in assets is reported in the US from community investing institutions, defined as banks, credit unions, loan funds and venture capital funds with an explicit mission of serving low- and moderate-income communities. The US$ 7 billion reported in Japan is mostly social impact bonds and community investments, and the US$ 1.5 billion reported in Australia is primarily community investment assets. In Europe, about half of the US$ 11 billion in this category is microfinance investments (both in developing countries and elsewhere), while the rest is local community investments or social business/entrepreneurship funds. Development finance investments such as the European Investment Bank and the European Bank for Reconstruction and Development, and client deposits in banks that support community finance or ethical banks are not counted in impact investing in Europe. In Canada, impact investing is a mix of community investment funds, aboriginal investment vehicles, targeted regional development loan funds and private equity funds with strong social and environmental mandates.

7 There may for example be instances of norms-based screening in other regions, but this is not captured as a separate data point outside of Europe and Africa.
Turning to the relative proportional contribution by each region to the various strategies in Figure 5, we see that the appetite for ESG strategies is certainly not uniform across regions. This figure shows what proportion of the total for each individual strategy derives from which region.
The biggest strategy in terms of assets, negative screening, approximately mirrors the overall balance of regional sustainable investment assets shown in Figure 1. However, the types of screens vary even if the process is the same. For example, the most common negative screens in the United States are for investments in controversial regimes such as Sudan and Iran. In Europe and Canada, in contrast, the most common negative screens are for financing of controversial weapons such as cluster munitions and anti-personnel mines. In Asia, negative screening in many cases is for Shariah-compliant investments, especially in fixed income.

Positive screening or best-in-class approaches are significantly more prevalent in the United States compared to the other regions. Positive screening globally is measured at just over US$ 1 trillion, and the United States accounts for at least 60 percent of this figure.

ESG Integration is proportionally more utilized as an investment strategy in Europe and Canada than in the US, if one compares the proportions to the total numbers in Figure 1. It is also by far the most common strategy in Africa.

Norms-based screening is, as previously mentioned, only found in European and African asset managers. This is a strategy that originated in the Northern part of Europe, and has now spread to much of the rest of the continent. Subsequent global studies will no doubt reveal whether this proliferation can extend beyond Europe's borders in any significant volume.

The figures for sustainability themed assets and impact investing, as discussed, may be influenced by methodology. They are also very small in comparison to the other numbers, so small differences in the absolute figures can have a large impact on the proportions. However, in general terms, it is fair to state that sustainability themed assets are most common in Europe, while impact investing is concentrated in the US.

The last strategy, corporate engagement and shareholder action, is discussed later in the report.

The point to make here is not that the data from the various regions are incomparable, but that cultural and historical diversity fosters different solutions to the same challenges. In many cases, the choice of investment vehicle is also driven by the legal framework or tax consideration of each country or region. This rich diversity of approaches within investments that incorporate ESG considerations represents an opportunity for industry players to learn from each other by sharing experiences. See also the section on shareholder stewardship for insight into the differing approaches used globally to address the principal-agent issue inherent in company ownership.
Global and Regional Sustainable Investment Characteristics

Having already established the range of sustainable investment strategies across the world, it may not be surprising that there is also variation in the type of investor who engages in these strategies. One normally segments the investment industry into two parts—institutional and retail investors. Professional investors and asset owners managing assets on behalf of clients or beneficiaries comprise the institutional category and retail covers individuals investing or saving on their own behalf.

Using approximations in some markets, we estimate that the global sustainable investment figure of US$ 13.6 trillion is comprised 89 percent of institutional assets and 11 percent of retail assets.

In Europe, the retail industry has struggled to build significant assets overall, with 94 percent of assets reported as institutional. However, there is great variability within European markets. The proportion of retail assets ranges from over half the total in Switzerland to almost none in Spain.

In the US, the retail market is more buoyant than in Europe, with over US$ 830 billion out of US$ 3.74 trillion reported as retail assets. Indications are that, compared to Europe, Africa and Asia, the US market benefits from its larger overall size and the lack of fragmentation in terms of legislation and language, which assists in fund marketing and can lead to funds with greater scale than in elsewhere.

In Canada, sustainable investments began in the retail market. However, as in Europe, this segment is now dwarfed by the growing number of large pension funds with active sustainable investment programs.

In contrast to the traditional hubs of sustainable investment in Europe, Australia, and North America, sustainable investment strategies managed in Asia predominately have retail clients. Investment mandates with ESG provisions issued by Asia-based institutional asset owners are limited. Institutional asset owners headquartered in Japan and Korea have generally been the exceptions with Thailand and Malaysia also showing capacity.

In terms of asset allocation, the asset classes mirror the type of investor concerned. For example, as most of the investors incorporating ESG concerns in Europe are institutional, the asset allocation is similar to institutional investors in general, with approximately 50 percent of assets in fixed income and 30 percent in equities. Looking beyond equities and bonds, however, there is a noticeable appetite for sustainable property investments, especially in Europe and the US. Asia’s private markets tend to adopt a sustainability-themed investment approach, particularly in environmental technology, with ten infrastructure fund managers involved in sustainability-themed strategies based in Asia. Other asset classes where significant sustainable investments are reported include private equity, venture capital, and hedge funds.
Responsible and sustainable investors are often keenly interested and engaged in the companies and projects in which they are invested. However, historical, cultural and legal differences between regions have resulted in markedly different approaches to shareholder stewardship. In some markets the main form of shareholder stewardship is voting of company shares, whereas in others, the preferred vehicle for instigating change is private or public dialogue with company management or the board of directors. In addition, they can be very active in political and legislative issues.

The data produced for this study show that corporate engagement and shareholder action as a sustainable investment strategy is, in relative proportion to the total figures, more common in the US and Canada compared to the other regions. That the US and Canada are the most active markets globally in terms of corporate engagement and shareholder activism partly results from the shareowner structure, which tends to be less concentrated, but also from an activist culture which has carried over into investment management.

The use of shareholder-sponsored resolutions at annual meetings, in particular, sets these two markets apart, as this is much less common in other markets. In the US, more than 400 sustainability-related shareholder proposals were on company ballots in 2011, whereas in Canada, which is roughly one-tenth the size of the overall market in the US, there were 72 resolutions brought before companies. In contrast, in many European markets, shareholder resolutions are almost unheard of.

However, as noted already, the figures are not entirely comparable, and very different strategies are measured across the regions covered in this study. For example, in the US, the reported figure of US$ 1.54 trillion consists of assets involved in filing or co-filing shareholder resolutions in the years 2010-12. Shareholder engagement activities with companies conducted privately is not added to the US figures, because this is outside their measurable definition. If one adds in the estimated US$ 4.9 trillion worth of assets in the US reported to be used in corporate engagement outside of filing or co-filing a resolution, the US is by far the biggest of the regional markets for shareholder engagement.

In other markets, private or public engagement with companies is included in the figures, as this is often the main form of shareholder action besides the active voting of company shares. In Canada, for example, if a fund manager has a comprehensive sustainable or responsible investing policy and a formal corporate engagement strategy that addresses ESG issues, and if direct dialogue with companies is undertaken on these issues in a systematic manner, the fund’s assets will then be considered under the engagement category.

8 In the US and Canada, voting by asset owners and managers is practically ubiquitous because it is seen as part of fiduciary duty. This is not the case in most other markets.
The level of activism can also be attributed to legal and other barriers. While shareholder rights have been strengthened in Asia since the Asian financial crisis some fifteen years ago, a mixed picture in rules and practices continues. At a regional level, stewardship activities are still relatively weak due to high barriers to exercising rights and short term investment horizon; conflicts of interest between the investment management business and corporate and/or investment banking businesses within the same firm; and the political influences surrounding pension fund management. At root, many Asian issuers still perceive active shareowner stewardship as hostile to their interests.

In India, independent proxy advisory services have only been established in the last two years, spurred by the 2010 requirement of the Securities and Exchange Board of India for Indian mutual funds to report how they vote at shareholder meetings. In Japan, stewardship activities have a longer history, but have not necessarily involved ESG issues. Many of the early actions in Japan involved getting cash-rich companies to pay higher dividends.

In Europe, the European Union has in recent years taken steps to improve shareholder rights, especially on a cross-border basis through legislation such as the Shareholder Rights Directive (2007/36/EC). However, barriers to effective voting and engagement still exist, and new legislative proposals are expected to address some of these issues.

African shareholder activism is nascent. Intra-country shareholder involvement is limited by the relatively small market capitalization and concentrated company ownership. In South Africa however, shareholder engagement is actively promoted by business media and more formally by asset owners and some investment managers. As an example, shareholder participation and access to voting platforms is on the increase due to industry initiatives such as the Code for Responsible Investing South Africa (CRISA) by institutional investors as well as major investors responding directly to socio-economic issues.

Because of the differences across regions, shareholder activism is difficult to measure with certainty; however, it is evident that it is on the rise globally. This is partly in response to the financial crisis and the many corporate indiscretions unearthed in recent years. Shareholders are taking a closer interest in their companies in order to manage risk. Legislative advances in many regions have also contributed to shareholders increasingly using their power and voice.

As voting of shares becomes easier on a cross-border basis, and engagement practices proliferate, one can also expect more investors to take an active interest in the companies in which they are invested.
REGIONAL HIGHLIGHTS
Europe

Europe is the largest of the regional markets for sustainable investment covered in this study, both in absolute terms and relative to the size of the overall market. The commitment by European asset managers and owners to incorporate environmental, social and governance issues in their investment decisions is most evident in the amount of assets covered by one or more of the sustainable investment strategies. Beyond investment, European politicians and society at large have a strong history of supporting sustainable growth initiatives. Even while Europe is struggling under the burden of austerity, the commitment of the European Union to sustainable and inclusive growth remains.

Eurosif’s *European SRI Study 2012*\(^\text{10}\), now in its fifth edition, shows that all sustainable and responsible investment strategies surveyed have outpaced the growth of the overall market, and four have grown by more than 35 percent per annum since 2009. In total, the amount of ESG-related investments in Europe has grown to US$ 8.76 trillion at the end of 2011, up from US$ 7.15 trillion at the end of 2009.

However, beyond the European averages, national markets continue to vary considerably in terms of which strategies are used the most, the relative asset allocation, and whether most of the sustainable investment is retail or institutional. In short, there is no homogenous market for sustainable investment in Europe, which indeed reflects the cultural and historical diversity of Europe itself.

The fastest growing individual strategy from 2009 to 2011 is norms-based screening, closely followed by negative/exclusionary screening, and best-in-class/positive screening. However, the growth is not uniform across the markets, and is typically characterized by a small number of large asset owners or managers adopting a certain strategy for all or a significant portion of their assets. Nevertheless, as experience shows, a few large pioneers can have strong influence on the market and lead to a proliferation of certain strategies.

The largest strategy in absolute terms is negative/exclusionary screening, and the most common screen is for weapons banned by international conventions such as cluster munitions and anti-personnel mines. Almost half of Europe’s total assets under management have policies in place that specify the exclusion of companies involved in the manufacture of these weapons, although this is mandated by legislation in some jurisdictions\(^\text{11}\). The high growth numbers reported for negative/exclusionary screening strategies should however not overshadow the continuous and strong development of positive screening and ESG integration strategies in Europe.

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\(^9\) For more on Europe’s growth strategy see: [http://ec.europa.eu/europe2020/index_en.htm](http://ec.europa.eu/europe2020/index_en.htm)

\(^{10}\) The study is produced by Eurosif in collaboration with the national SIF members and other researchers, and is available for download at [www.eurosif.org](http://www.eurosif.org)

\(^{11}\) The figure reported by Eurosif for exclusions is € 3.8 trillion, which is lower than the estimated € 6.7 trillion that excludes controversial weapons. This is because Eurosif does not count investment exclusions that are mandated by law, as is the case in Belgium and France for companies involved in cluster munitions, anti-personnel mines and weapons with depleted uranium.
Beyond the strategies traditionally covered by Eurosif, impact investing is attracting a lot of attention in Europe, even if numbers remain relatively modest. This approach of financing companies and projects that benefit society through targeted investments has been the purview of few, but is now gaining attention both in the institutional and retail markets. European and national policy-makers have recently expressed strong interest in launching initiatives aimed at strengthening this emerging segment. Eurosif estimates the current European impact investing market at US$ 11.3 billion, although this excludes national and international development banks and community bank deposits.

From the European SRI Study 2012, it is clear that the European asset management industry is continuing to support growth for sustainable investment in its various forms. However, one regret is that the retail market, while growing in aggregate, is not growing as fast as the institutional market. Better communication and education are necessary for European retail investors to take up sustainable investing with the same enthusiasm evidenced by institutional investors.
In the US, approximately 11 percent of assets under professional management are invested according to sustainable investing strategies. This represents total sustainable investing assets of US$ 3.74 trillion, a 22-percent increase since year-end 2009.

US SIF Foundation, the supporting organization to US SIF, has been tracking the growth and trends in sustainable investing since 1995. In its 2012 survey, it found growth across all major asset classes and investment strategies.

As in Europe and Canada, institutional investors dominate the sustainable investing landscape. Institutional asset owners across the United States now consider environmental, social or corporate governance criteria in investment analysis and portfolio selection for aggregate assets of US$ 2.48 trillion, a 23-percent increase since the start of 2010. This growth reflects, in large part, the growing incorporation of ESG issues into investment analysis, particularly those held by public funds. Notable issues in the last two years include governance issues relating to executive pay or the quality and accountability of boards of directors as well as environmental issues, particularly relating to climate change and carbon emissions.

As with Europe, negative/exclusionary screening is by far the single biggest sustainable investing strategy practiced in the US. Concerns related to the volatile and repressive Sudan regime continue to drive institutional investors and money managers to pursue targeted divestment from the country. Indeed, Sudan-related investment policies are the most prevalent ESG criteria incorporated into investment management, affecting more than US$ 1.63 trillion in institutional assets and over US$ 999 billion across all investment vehicles included in the money manager phase of research. Product-specific exclusionary criteria in the US include such things as restrictions on investment in tobacco and alcohol.

The second most prominent strategy in the US that the US SIF Foundation has traditionally measured is the filing of shareholder resolutions. A wide array of institutional investors—including public pension funds, religious investors, labor funds, foundations and endowments—and money managers file or co-file shareholder resolutions at US companies on ESG issues, and hundreds of these proposals come to votes each year. From 2010 to 2012, 176 institutional investors with US$ 1.28 trillion in assets and 32 investment management firms with total assets under management of US$ 251.3 billion filed or co-filed proposals. This level of involvement, both in terms of the numbers of institutions and managers involved and their overall assets under management, has been consistent since 2010, when US SIF Foundation similarly identified slightly more than 200 institutions and managers with combined assets of US$ 1.5 trillion that filed resolutions from 2008 through mid-2010.

In addition, the 2012 US survey found 82 money managers with US$ 4.9 trillion in assets under management who reported that they pursue dialogue with portfolio companies, another form of shareholder engagement that US SIF Foundation has not traditionally measured. This is up substantially from the 54 managers with US$ 3.8 trillion in assets that answered this way at year-end 2009.
Positive screening or best-in-class approaches are significantly more prevalent in the US compared to the other regions.

Since 2010, the US has also seen a notable rise in community investing. Consumer demand and campaigns persuading retail and other customers to “Move Your Money” from the large banks tarnished by the recent financial crisis boosted deposits in community-oriented banks and credit unions. Community development bank assets were up to US$ 30.1 billion at the outset of 2012, a 73-percent increase since 2010. Community development credit unions experienced similarly strong growth, up 54 percent since 2010 to US$ 17.1 billion.

Sustainable investing in the US is more than holding its own. From 1995, when USSIF first measured the size of the US sustainable investing market, to 2012, the sustainable investing universe has increased 486 percent, while the broader universe of assets under professional management in the US has grown 376 percent. Despite the increasing recognition that incorporation of ESG analysis helps address risks to long-term shareholder value, it is interesting to see that much of the growth in sustainable investment is rooted in ethical considerations. In its 2011 survey, US SIF found that client demand and values were the reasons most commonly cited by managers for the motivations of engaging in sustainable investing.
Canada

Canada has a robust sustainable investing market with strong representation in the retail and institutional spheres and asset allocation in all major investment strategies. The Canadian Social Investment Organization’s (SIO) review of the sustainable investing market, now in its seventh edition, found significant growth in sustainable investing over the last year-and-a-half (the last report measured assets to June 30, 2010) finding that sustainable investing assets equal US$ 589.1 billion, commanding 20 percent of total assets under management in the financial industry. This amount represents 16 percent growth in assets since the last survey and shows a marginally larger share of the overall market – in 2010, sustainable investing comprised 19 percent of the market.

The strongest growth area since 2010 is in the institutional sphere, with pension plans increasingly integrating environmental, social and governance considerations into the selection and management of investments and adopting comprehensive ESG engagement and proxy voting strategies.

Retail investment assets also grew – by approximately 8 percent -- continuing a trend dating back to the first Canadian study in 2000 of consistent year-over-year growth (with the exception of the period between 2008 and 2010 when retail assets were dragged down by the global financial crisis). This demonstrates that Canadian individual investors continue to have an appetite for sustainable investment and confidence in the funds.

With respect to the strategies employed by Canadian investors, three strategies dominate the market, in descending order of market size, they are: corporate engagement and shareholder action, negative/exclusionary screening, and integration. This is largely a function of these being the main strategies employed by Canada’s large pension funds, which ultimately control the vast proportion of sustainable investing assets in Canada.

Canada has a large and well-respected system of public management of our public pensions. These institutions represent some of the largest investment managers in Canada, as well as some of the largest institutional investors in the world. Many of these institutions have been early adopters of responsible investment policies and continue to show leadership in responsible investment worldwide.

While corporate engagement and shareholder action are mainstays of sustainable investment for large institutional owners, it is remarkable, in the Canadian context, how many also screen assets to exclude investments in cluster munitions and landmine manufacturers. Unlike in some parts of Europe, there is no legal mandate restricting Canadian investors from holding shares in these companies.

Negative or exclusionary screening is also the single largest strategy employed in the mutual fund industry, with 38 percent of funds screening on items such as alcohol, military weapons contracting, pornography and tobacco. However, it should be noted that many mutual funds are managed by a combination of sustainable investing strategies. The two other most significant strategies in the retail market include positive screening and integration. Approximately 11 percent of retail funds are managed with comprehensive corporate engagement strategies.
Given the growing interest in impact investing in the media, it is interesting to note that this area also saw significant growth since 2010, increasing by 20 percent to US$ 5.2 billion in assets.

In 2010, when the SIO last surveyed the financial industry, markets were just beginning to recover from one of the worst financial crises in recent history. Since that time, markets have improved, with the S&P/TSX Composite Index rising 5.8 percent and total assets under management growing by 9 percent. At the same time, total sustainable investing assets have grown by 16 percent, with gains among institutional asset owners and managers, in the retail industry, and in impact investing. This growth, at levels outpacing that of the market as a whole, is good news for sustainable investing in Canada.

In Canada total sustainable assets have grown by 16 percent
Australia/New Zealand

Sustainable investment in Australia amounted to US$ 178.5 billion, representing approximately 18 percent of total assets under management, a figure similar to the Canadian sustainable investing industry\(^1\). Compared to 2010, there was 8 percent growth in the overall sustainable investing market.

Australia is also one of only two regions in the report, the other being Africa, where integration is the single largest strategy employed by sustainable investors\(^2\). All told, integration is employed on behalf of US$ 127 billion in assets, or 71 percent of all sustainable investing assets in Australia.

The second largest strategy practiced in the region is corporate engagement, and as in other jurisdictions, this strategy is a mainstay of institutional investors. In Australia, there are two specialist engagement organizations, Regnan and the Responsible Engagement Overlay offered by F&C Management. These organizations provide corporate engagement services on behalf of superannuation funds and institutional investors with total shareholdings of US$ 57.6 billion. This is up a modest 4 percent from 2010 in local currency terms.

It is interesting to note that negative/exclusionary screening represents a small part of the Australian sustainable investing industry, putting it in contrast to the major markets of Europe, the US and Canada. However, from 2010, this strategy grew by 30 percent. This is mainly due to Local Government Super (which manages pension assets of local government and related employers throughout NSW Australia) expanding its sustainable investing overlay to its large international equities portfolio. The Local Government Super sustainable investing overlay now excludes investments in companies that derive more than 10 percent of their revenues from a number of areas including: armaments, gambling, nuclear/uranium, old growth logging, tobacco, poor mining practices, questionable workplace practices, and questionable environmental, social or corporate governance practices.

Impact investing and sustainability themed investing, as in other markets, are represented by relatively few assets.

Looking at the portfolio management industry in Australia, between 2010 and 2011, managed sustainable investing portfolios rose by 33 percent from US$ 13.2 billion to US$ 17.5 billion. The increase in sustainable investment portfolios in Australia fared better than the broader market with total assets under management of all types of managed portfolios rising 1.8 percent in that same period, compared to a 7 percent increase of sustainable investments in local currency terms.

The main factor contributing to this growth is the number of new funds adopting sustainable investing policies amounting to US$ 1.42 billion and net inflows to existing portfolios of US$ 186 million. The average responsible investment fund delivered higher returns than the average mainstream fund across one, three, five and seven years, and for Australian, overseas and balanced funds.

Direct asset portfolios managed by financial advisers also increased from US$ 1.25 billion in 2010 to US$ 1.63 billion, up 30 percent. This reflected the recovery in the Australian stock market as well as a trend towards direct share portfolios, both in responsible investment and across the financial services industry.

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\(^1\) Australian assets were measured as at June 30, 2011.
\(^2\) The ESG integration segment in Australia, as determined by RIAA, counts the relevant assets under management of fund managers that achieve an above average ESG rating of 22 percent.
Sustainable investing portfolios rose by 33 percent in Australia
Asia (excluding -Japan)

As Asia’s share of the global economy continues to rise, investors based outside the region are increasing their exposure to Asian public and private markets. Against this backdrop, the development of an Asia-based sustainable investment industry has taken root, driven both by capacity growth of regional investors and global investors placing investment staff in Asia. It is increasingly clear that Asia will play a key role in the future development of the sustainable investment industry.

As of year-end 2011, over 130 investment managers in Asia were using sustainable investment strategies, with US$ 74 billion of identified sustainable investment assets under management (AUM) in the region including Japan. For Asian markets outside Japan, identified sustainable investment AUM totaled US$ 64 billion.

Asset management based on a range of sustainable investment practices has a growing foothold in the region’s public markets, particularly for listed equities. Sustainable investment in private markets (private equity, real estate, infrastructure, etc.) tends to be limited to a themed investment approach, for example, in environmental technology. Ten infrastructure fund managers involved in sustainability-themed strategies are based in Asia. In addition, 52 private equity managers based in Greater China currently invest, or plan to invest, in environmental technology, committing allocations of over US$ 19 billion.

Lack of credible ESG data has often been cited as a key obstacle to sustainable investing in the region. Market exchanges in Asia are getting a well deserved reputation for taking ESG disclosure more seriously by issuing ESG guidelines for listed issuers. With exchanges from Hong Kong to Malaysia to Thailand increasing their oversight in this area, there is an expectation that sustainable investors in public equities will benefit with more material ESG data.

Regional bond managers using an ESG integration approach lag behind their peers in listed equities. The expected increase in reliable ESG data is an opportunity for bond managers to take these disclosures more seriously, as ESG-related event risk, spurred by extreme weather events, environmental disasters, and labor unrest, has been shown to affect credit analysis and cost of debt.

For global investors headquartered in Asia, sustainable investing is still a relatively new practice. Due in part to ASRIAs work over the past ten years, there is considerable evidence that these investors are increasingly aware of the concepts of sustainable investment and ESG integration. However, there is a distinction between being aware of the concept and having the experience and tools needed to put ESG integration and other relevant methodologies into practice. A small but growing cohort of asset owners, such as Korea’s National Pension Service (NPS), are actively building capacity in this area. The US$ 306 billion NPS has allocated a growing share to sustainable investment including in mutual funds and customized mandates. From year end 2009 to 2011, NPS’s allocation to sustainable strategies grew 36 percent annually, reaching nearly US$ 5.5 billion.
Asia’s sustainable investment assets are limited but growing
Japan

During the past two years, the sustainable investment market in Japan has suffered the impact of the long-term stagnation of Japanese listed equities, as evidenced by the contraction of the market for publicly offered sustainable investment trusts. The total net assets of these trusts peaked in October 2007 at US$ 10.8 billion, but declined to US$ 4.2 billion, off 74 percent from its peak as of September 2011.

However, there have still been developments that warrant attention. Among these developments are: the appearances of funds that operate based on green economy-related themes or invest in green bonds, funds that invest in environment-related companies in rapidly growing regions such as China and other parts of Asia, funds that base investment evaluations on a company’s biodiversity initiatives, and funds that finance microfinance institutions. These funds all represent efforts to preemptively respond to future trends.

Another positive development is the rapid expansion of the market for bonds based on themes such as “social contribution,” poverty alleviation, and climate change (impact investment bonds). Over the period from 2008 to the end of 2011, total sales of these bonds reached an impressive US$ 7.0 billion.

Japan’s sustainable investment industry is unique because most of its assets under management are impact investing (about US$ 7 billion) and thematic. Following the Great East Japan Earthquake on March 11, 2011, there was a surge in community investment and donation activities to support economic restoration. This demonstrates the progress in individual investors considering how their money is used. These developments are important factors to consider when predicting future trends in the sustainable investment market in Japan.

The difference between the sustainable investment market of Japan and those of Europe, Australia, and North America has been attributed to the lack of influence of sustainable investment principles on the markets for public and corporate pension plans. However, in the last two years there have been signs of change. The Guidelines on Responsible Investment of Workers’ Capital released by RENGO, the Japanese Trade Union Confederation, in 2010, have begun to influence the investment community. Since 2011, RENGO has disseminated the Guidelines to its regional subsidiary organizations and encouraged them to adopt similar guidelines for their own pensions. Just as the OECD has encouraged the GPIF (Government Pension Investment Fund), the world’s largest public pension fund, to become active and outspoken in sustainable investment, the RENGO guidelines are an important development in the Japanese pension fund market.

In terms of trends in the activism of shareholders, there were no significant developments in relation to shareholder proposals based on ESG factors. One instance that drew a great deal of attention was the general meeting of shareholders of the Tokyo Electric Power Company (TEPCO), the owner of the Fukushima Daiichi Nuclear Power Plant that suffered major damage from the earthquake and subsequent tsunami in March 2011. The company has apologized to the people of Fukushima and broader society. While the meeting agenda proposed by the company was approved, the meeting stirred debate about the fundamental responsibilities
Impact investing heavily influences Japan’s sustainable assets of a company’s shareholders. However, this issue did not lead to a discussion about the appropriateness of government investment in nuclear power from a sustainable investment perspective.

The community investment market in Japan is still in its infancy and its size is quite small. The total outstanding loans by non-profit banks — so called NPO banks even though legally they are not depository financial institutions under Japan’s Banking Act — that operate targeting socially active companies falls short of US$ 3.89 million. However, the flow of capital in this area is growing more diverse. Also, a number of new initiatives have begun to appear in this field, including citizen-operated funds and funds that finance microfinance institutions and post-earthquake reconstruction.

There has been a full-fledged movement toward evaluating real estate in Japan based on environmental factors, as evidenced by the certification systems for green buildings and the environmentally friendly building evaluation systems developed by individual financial institutions. While these domestic movements are being advanced following international movements, there is still a great deal of potential concealed within the trend of consideration for the realisation of a low-carbon society.

A notable development in the CSR initiatives of Japan’s financial institutions is the establishment of the Principles for Financial Action towards a Sustainable Society in November 2011. This development is significant because, in contrast to previous government-led initiatives in Japan’s financial industry, the Principles are industry-driven.
There is approximately US$ 228.7 billion in sustainable investing assets in Africa, with the largest investment market (South Africa) representing the majority of assets and 95 percent of the sustainable investment market in Sub-Saharan Africa. ESG integration accounts for the single largest strategy of sustainable investment, applying to US$ 198.1 billion of the total. Negative/exclusionary screening is the second most common strategy in assets. As in other markets, sustainability-themed investing (for example low-cost housing, clean tech or alternative energy) and impact investing\(^{14}\) represent relatively small percentages of the market. Based on the 2012 AfricaSIF.org survey, most institutional investors had some form of sustainable investing policy as large retirement funds increasingly move toward adopting ESG considerations at the policy level. A significant driver in the region has been the US$ 121 billion South African Government Employees Pension Fund (GEPF), Africa’s largest institutional investor and the world’s sixth-largest pension fund.

Africa’s 54 countries have very different investment markets. South Africa, Morocco and Egypt are emerging markets; Nigeria, Ghana, Kenya, Mauritius, Tunisia, Botswana and Zimbabwe are frontier markets. The lion’s share of sustainable investing activity and data is in South Africa, but Kenya, Ghana, Nigeria, Egypt, Namibia, Mauritius and Botswana are markets where ESG investment is growing, starting with a focus on corporate governance. Outside of the most advanced African markets, institutional investors have limited activity, mostly in government bonds, private equity or project/corporate financing. The largest institutional investment market on the continent is South Africa, which accounts for 95 percent of the sustainable investment market in Sub-Saharan Africa. The institutional investors based in South Africa are adopting various forms of sustainable investing policies\(^{15}\) and increasingly using shareholder engagement as a tool. Research in 2011\(^{16}\) identified 1 percent of assets under management in South Africa invested in ESG-branded portfolios, with self-described ESG integration close to US$ 125 billion (about 20 percent of general asset management). As South African institutional investors have increased allocations to Africa and more companies grow market share in Africa, more ESG-integrated investment decisions will have an impact in Africa.

**Focus on South Africa**

South Africa has laws and regulation enabling sustainable investment. A global best practice has been the launch of new pension regulation explicitly referencing the opportunity for fiduciaries to include ESG factors in their decision-making (Pension Funds’ Act Regulation 28). The investment industry association ASISA (Association for Savings and Investment South Africa) has been actively promoting ESG via the Responsible Investment Standing Committee. A multi-stakeholder group promoted a locally developed voluntary investor initiative, the Code for Responsible Investment in South Africa (CRISA) with five principles creating a supply-side incentive for institutional investors to be proactive and report on ESG. Also, integrated reporting since 2011 has been mandatory as part of JSE-listing requirements\(^{17}\).

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\(^{14}\) Impact investing, especially, is garnering increased interest on both the supply and demand sides. For example, the 16 GIRS funds (girs.org) investing in Africa have almost a US$1 billion in committed capital and are seeking to raise another US$ 500 million.

\(^{15}\) For example Old Mutual Investment Group South Africa, Investec Asset Management, StanLib, Sanlam Investment Management and Allan Gray together represent nearly US$ 214 billion and have pledged to apply CRISA.

\(^{16}\) Sustainable Investment in Sub-Saharan Africa, SinCo + RisCura commissioned by IFC, July 2011. Primary drivers are: Good investment returns; Explicit and tangible ESG benefits/impact; More information; Government/regulator incentives; Demands from clients/investor mandate/shareholder pressure.

\(^{17}\) In February 2010, the JSE Listings Requirements made it compulsory for all JSE-listed companies to comply with King III, including the recommendation for a company to produce an integrated report for its financial year starting on and after March 1, 2010, or to explain.
Large retirement funds in Africa increasingly move toward adopting ESG considerations

Barriers slowing the growth of sustainable investment include, on the demand side, low levels of awareness among pension fund trustees about sustainable investment opportunities and the need for better standards and reporting. On the supply side, small illiquid markets and few listed equity investments reduce the market for investment, and ESG research vendor coverage in Africa is skewed to high-impact, high-visibility sectors in South Africa and dual-listed major companies, for example Safaricom (Kenya) or Dangote (Nigeria). Along the investment value chain, there is a need for increased ESG expertise and services from asset consultants, analysts and advisors.
Conclusion

This report finds that there is US$ 13.6 trillion worth of professionally managed assets incorporating environmental, social and governance factors into investment selection and management. This comprises 21.8 percent of the funds under management in the regions surveyed, conclusively showing that the sustainable investment industry has significant scale in the global arena.

While overall, the sustainable investment market is larger in Europe, it commands significant portions of the United States, Canadian and Australian markets, at 11.2, 20.2, and 18 percent respectively. These three regions together account for 96 percent of sustainable investing assets across all regions covered in this report.

While relatively small in the other regions covered in this report, and at an emerging or non-existent level in most of Africa, other than South Africa, there is a growing appetite by investors in these areas for investment incorporating ESG factors. In addition, in growth markets like South Korea and South Africa, leading organization such as Korea’s National Pension Service and South Africa’s Government Employees Pension Fund are having tremendous impact on local investment landscape through their own sustainable investment policies and practices.

Across the different regions, the use of a particular sustainable investment strategy is very much a function of the legal, structural, cultural and other differences that characterize that region. For example, shareholder stewardship varies greatly across jurisdictions. In some markets, such as the US and Canada, shareholders take an active role in filing and co-filing shareholder resolutions and voting shares. In other markets, such as in Europe, the preferred vehicle for instigating change is private dialogue with company management or the board of directors and pushing for change on the political legislative front.

Other strategies, broadly speaking, are used in similar fashion across regions, including negative and positive screening and integration. Negative screening is the most consistently applied approach across the markets covered in this study, as it is found in significant scale in all markets except Japan.

Presently, the US market accounts for the largest portion of impact investing assets but all regions that track these investments have seen significant growth. It is expected that growing interest in this area will drive future investment growth.

Today, there are seven billion people in the world, a number that is likely to rise to nine billion by 2050. This growth will be associated with dramatic increases in demands for energy, water and other resources. Our current patterns of economic activity, where many social and environmental impacts remain off the balance sheets and outside of mainstream business and financial models, will simply not be able to continue without serious negative consequences. The Global Sustainable Investment Alliance believes that ESG factors will increasingly affect investment risk and opportunity as issues like climate change, water scarcity, and human rights become progressively more important to long-term performance and sustainability.

The investment strategies highlighted in this report represent the predominant approaches to managing environmental, social and governance issues. The asset owners and managers that direct these funds are the leaders who, by demonstrating the critical link between ESG factors and financial performance, will be joined by an increasing number of other investors concerned about sustainability and sustainable investment returns.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Best-in-Class/Positive screening</td>
<td>Refers to investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers.</td>
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<tr>
<td>Divestments</td>
<td>When companies are sold from a fund portfolio because they no longer meet the ESG criteria for that fund, or for purely financial reasons.</td>
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<tr>
<td>Corporate engagement and shareholder action</td>
<td>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.</td>
</tr>
<tr>
<td>ESG</td>
<td>Environment, social, and governance - Refers to the broad set of sustainable investment criteria used alongside traditional financial criteria in managing and selecting investments.</td>
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<tr>
<td>Institutional investors</td>
<td>Institutional investors are organisations which pool large sums of money; they include pension funds, insurance companies, investment companies, foundations, charities, public authorities and universities.</td>
</tr>
<tr>
<td>ESG integration</td>
<td>Explicit consideration of environmental, social and governance factors in the investment decision-making process. Integration must be demonstrated to be guided by a transparent and systematic process.</td>
</tr>
<tr>
<td>Impact investing</td>
<td>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.</td>
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<tr>
<td>Mandates/Separate/Segregated Accounts</td>
<td>This category includes investment vehicles where investment policy is defined in cooperation with a unique investor.</td>
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<tr>
<td>Norms-based screening</td>
<td>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.</td>
</tr>
<tr>
<td>Sustainable investment</td>
<td>An approach to investment where environmental, social and governance factors, in combination with financial considerations, guide the selection and management of investments.</td>
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<tr>
<td>SRI</td>
<td>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.</td>
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<tr>
<td>Sustainability-themed investment</td>
<td>Strategy that addresses specific sustainability issues such as climate change, food, water, renewable energy/clean technology, agriculture, etc.</td>
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About the contributing GSIA members

European Sustainable Investment Forum (Eurosif)

Eurosif is the leading European membership association whose mission is to develop sustainability through European financial markets. It was founded in 2001 and works as a non-for-profit partnership of eight Europe-based national Sustainable Investment Forums (SIFs) with the support and involvement of Member Affiliates. The national SIF members of Eurosif are based in Austria, Belgium, France, Germany, Italy, the Netherlands, Spain, Sweden, Switzerland and the UK. Affiliation to Eurosif is open to organisations with a commitment to sustainable investing at a European level and its Member Affiliates include a range of stakeholders covering the value chain of the sustainable investment industry, from institutional investors and asset managers to financial services providers, ESG analysis firms and NGOs. Eurosif mainly focuses on advocacy work at the European level, on the promotion of the European SRI Transparency Code and on research around market practices and their evolution.

www.eurosif.org

US SIF: The Forum for Sustainable and Responsible Investment

US SIF – formerly the Social Investment Forum (SIF) – is the U.S. membership association for professionals, firms, institutions and organizations engaged in sustainable and responsible investing. US SIF and its members advance investment practices that consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact. Its vision is a world in which investment capital helps build a sustainable and equitable economy.

US SIF’s members include investment management and advisory firms, mutual fund companies, research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development organizations, non-profit associations, and pension funds, foundations and other asset owners.

US SIF is supported in its work by the US SIF Foundation, a 501c3 organization that undertakes educational, research and programmatic activities to advance the mission of US SIF, including the 2012 Report on Sustainable and Responsible Investing Trends in the United States. Both organizations have staff in Washington, DC and a 17 member board.

www.ussif.org
Social Investment Organization (SIO)

The Social Investment Organization (SIO) is a national membership-based organization that includes financial institutions, investment firms, financial advisors, and various organizations and individuals interested in socially responsible investment.

The SIO’s mandate is to promote the practice of sustainable and socially responsible investment (SRI) in Canada. SRI is the integration of environmental, social and governance factors in the selection and management of investments.

For more information, visit: www.socialinvestment.ca

Responsible Investment Association of Australasia (RIAA)

Responsible Investment Association of Australasia (RIAA) is the peak industry body for professionals working in responsible investment in Australia and New Zealand. Almost every financial adviser, fund manager and consultant working in responsible investment is a member of RIAA together with many other professionals who work towards similar goals.

In addition to helping professionals in the industry, RIAA also helps individuals and organisations to learn more about how they can make investment choices that take environmental, social, ethical or governance issues into account as well as financial objectives. For more information, visit: www.responsibleinvestment.org

Association for Sustainable & Responsible Investment in Asia (ASrIA)

ASrIA is a Hong Kong based not-for-profit membership association dedicated to promoting sustainable finance and responsible investment (SRI) in the Asia Pacific region. ASrIA aims to build market capacity for responsible investing by fostering the creation of sustainable investing products and services and providing training and support services, including conferences, seminars, workshops, research projects and publications. ASrIA members are drawn from the Asian and international financial services industry who work to build momentum and raise the standards for sustainable investing practice in Asia and beyond.
ASrIA's goal is to build market capacity for sustainable investing with our associates at SIF Japan, Korea SIF and Responsible Investment Research Association (India). We provide insightful, up to date and accessible information on the development of sustainable investing in Asia and globally. We have also become the platform for different sectors within the community to exchange information and perspectives on sustainable investing, and to take practice forward.

ASrIA has taken a leadership role in promoting sustainable investment in Asia since our founding in 2001. ASrIA has run conferences, seminars and workshops, and published wide-ranging research on sustainable investing issues. ASrIA has also created a very wide network of organizations and individuals interested in the broad range of policy issues and investment strategies which are essential to the implementation of sustainable investing in Asia.

www.asria.org

About the additional contributing regions

SIF-Japan

SIF-Japan's mission is to establish a social norm which supports investing in socially responsible companies, organizations, and projects, which in turn will be able to solve various social problems and develop SRI markets.

www.sifjapan.org

AfricaSIF.org

AfricaSIF.org is an independent, pan-African, not-for-profit network, knowledgebase and advocate promoting investment in sustainable development across the continent launched in June 2010. The AfricaSIF.org Project is run by volunteers building a network of institutions and individuals promoting sustainable investment in Africa by investors in public, private and philanthropy sectors across asset classes, countries and stakeholders from its platform @africasif.org.

www.africasif.org
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