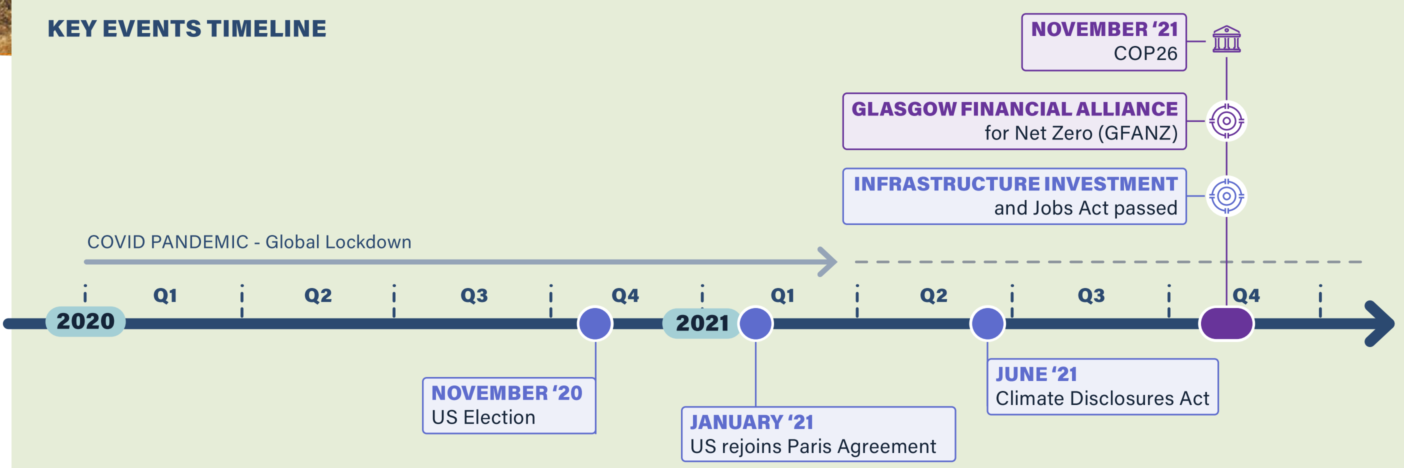
UNITED STATES



10 Year Reflections

Since 1995, when the US Sustainable Investment Forum began tracking and measuring sustainable investing assets in the United States, the field has evolved into a multi-trillion dollar industry with a considerable acceleration of ESG integration in the past 10 years.

Despite an uncertain political environment, there has been a steady increase in ESG product choices for American investors. There was a significant jump during the pandemic, with huge investment flows directed into mututal funds and exchange traded funds (ETFs) (KPMG, 2022). This follows the US rejoining the Paris Agreement in January 2021.

Since 2012, there has been a seismic shift in shareholder activism, stewardship and voting activity. This is a long-term trend which has seen asset managers increasing the internal resources allocated to stewardship and engagement, defining shareholder voting rules, and enhancing their approach to proxy season. Although the methodology change shows a decrease in responsible/sustainable assets, there is a clear ongoing commitment among asset managers to shareholder engagement, and we have seen record levels of participation and success in the past three years.

The Climate Risk Disclosure Act which passed in June 2021 looks set to change the availability of data, as publicly traded companies will be required to make climate risk disclosure reports to the US Securities and Exchange Commission (SEC). The SEC Request for Public Comment on Climate Disclosures received 550 letters (the majority from investment, banking/financial organisations and corporates), with many respondents recommending the disclosures incorporate the TCFD requirements (Kirkland & Ellis, 2021). This Act and the finance sector's response is another sign of the growing focus on climate under the Biden administration (*ibid.*).

Data collection and availability has informed investing around E, S and G themes. Historically, there has been more data available across environmental factors. More recently, there has been a focus on social criteria although measurement in this field remains challenging.

> *'Despite an uncertain political environment, there has been a steady increase in ESG product choices for American investors.'*

10 Year Forward Look

Sustainable investing in the US has become increasingly mainstream and we expect to see a trajectory of growth in reported assets for sustainable investing in the coming decade. Market demand for ESG products is expected to grow, while regulatory interventions could enhance the rigour of the field and promote the use of material financial information in investment decision-making. For example, California's landmark climate disclosure law, passed in October 2023, goes even futher than the SEC's climate change proposal, mandating disclosure of scope 1, 2, and 3 emissions for companies. This could become a de facto national standard until the SEC acts and shows that states can drive policy change, as well as the federal government.

The Congressional Sustainable Investment Caucus, formed in January 2023, is one such example of how sustainable investing is entering the mainstream. The Caucus is endorsed by the following organisations: The US Sustainable Investment Forum (US SIF), U.S. Impact Investing Alliance, Ceres, American Sustainable Business Network, As You Sow, Impact Capital Managers, Inc., Interfaith Center on Corporate Responsibility, Northwest Coalition for Responsible Investment, and Tobacco Free Portfolios. It will 'provide a space for members of congress to learn about and discuss sustainable investment practices to better inform policy making'.

Following the Covid-19 pandemic, President Biden has enacted the Build Back Better agenda, with the bipartisan Infrastructure Investment and Jobs Act passed in 2021. This Act represents an historic investment into the nation's infrastructure, including the national grid, and future policy, such as the Inflation Reduction Act of 2022, looks to direct billions into clean energy technology and manufacturing.

Policy & Regulatory Drivers

In the US, there are multiple concurrent regulatory developments. The current administration has made efforts to move the field forward in the use of ESG in retirement assets, enhancing rules related to funds, and creating the first mandated climate-related disclosures climate for corporations.

In June 2021, the Climate Risk Disclosure Act passed, requiring the US Securities and Exchange Commission (SEC) to issue rules within two years on climate risk reporting for all public companies. Public companies would need to both disclose the climate risks they are exposed to, and their strategy to mitigate these risks.

The same month the Act became law, the SEC announced its annual regulatory agenda, including plans for rule amendments on climate risk disclosure. In efforts to increase transparency, the SEC has sent letters asking publicly traded companies to make climate risk information available to investors, and initiated a 90-day input period for feedback on mandatory climate disclosure.

The SEC has released two proposals that focused on preventing misleading or deceptive fund names and requiring more detailed environmental, social and corporate governance (ESG) disclosure by funds and advisors. This mirrors similar developments around the globe, including the European Union.

While not solely focused on sustainable investing, the SEC enhanced the Names Rule for funds (first created in 2001) that should lead to more clarity in fund objectives and marketing, which will help individual investors seeking sustainable investing products.

The SEC also released a proposal on climate change disclosure for issuers, and the US Department of Labor (DOL) released a new rule clarifying the use of ESG criteria and proxy voting in ERISA-governed retirement plans. This clarification regarding the use of ESG data in investment decision-making has played a part in the increase of sustainable investment assets within retirement plans (both public and private sector).

Rules proposed by the SEC could lead to mandated reporting for some areas of climate (emissions – scope 1, 2, and potentially 3) and human capital. Should any become final rules, they would be the first standards in the US for climate and social criteria reported by corporations.

Industry Collaboration

US SIF regularly seeks industry collaboration, particularly as it relates to policy drivers. This includes policy recommendations, comment letters created with the input of our many member firms, and Investor sign-on letters, amongst other efforts:

- Toward a Just and Sustainable Economy | Policy Proposals for the Next Administration (October 2020)
- US SIF letter to Congress on strong climate provisions in reconciliation bill (October 2021)
- US SIF letter in response to DOL request for information on climate risk in retirement plans (5/2022)

Customer Drivers

We have seen both investors and politicians debate climate change mitigation strategies, net-zero commitments, and virtually all environmental, social, and governance topics. Despite recent political headwinds in the US, individual customer interest in sustainable investing remains high across multiple demographics.

Surveys and studies from the reporting period show that investors across generations and political parties increasingly want ESG objectives in their investment products. It is worth noting that there is a generational gap with a larger proportion of younger generations interested in climate action within their investments.

Schroders 2021 Institutional Investor Study showed that 41% of North American investors felt that sustainable investment became more important as a result of Covid-19 (Schroders, 2021). The same study revealed investor appetite around sustainability is maturing, with 54% of respondents saying their primary driver to invest sustainably was to positively impact society and the planet (*ibid.*).

Market Drivers

Russell Investments' 2021 Manager ESG Survey found that globally, asset managers were increasing efforts to improve the overall quality of inputs when integrating ESG considerations, with 55% of respondents hiring dedicated ESG professionals.

The US SIF Trends Report identified 349 money managers and 1,359 community investing institutions incorporating ESG criteria into their investment decision-making and portfolio construction across a total of $5.6 trillion in AUM.

Climate change was the most important specific ESG issue reported by money managers in asset-weighted terms, addressed across $3.4 trillion in assets.

The US Trends Report also researched the ESG incorporation practices of institutional asset owners (e.g., public funds, educational institutions, foundations, etc.). The report identified 497 institutional investors applying ESG incorporation practices across $6.6 trillion in AUM.

Public funds represented both the largest value of ESG AUM and the greatest number of institutional investors incorporating ESG in their investments.

For the first time, institutional investors reported climate change and carbon emissions as the leading ESG criteria they addressed, in asset-weighted terms.

Other leading ESG issues include the restriction of investments in companies doing business with conflict risk countries, board issues, sustainable natural resources/agriculture and exclusions on tobacco.

History of the US Sustainable Investment Forum

US SIF was founded in 1984 under the name Social Investment Forum (SIF) and produced research on the growth trends of sustainable investing in the United States since 1995.

US SIF is the leading voice advancing sustainable investing across all asset classes. Our mission is to rapidly shift investment practices toward sustainability, focusing on long-term investment and the generation of positive social and environmental impacts. Our vision is that environmental, social and governance impacts are meaningfully assessed in all investment decisions resulting in a more sustainable and equitable society.

Our members, representing 5 trillion in assets under management or advisement, include investment management and advisory firms, mutual fund companies, asset owners, data and research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development financial institutions and non-profit associations. US SIF is supported in its work by the US SIF Foundation, a 501(C)(3) organization that undertakes educational, research and programmatic activities to advance the mission of US SIF. US SIF is a member of the Global Sustainable Investment Alliance (GSIA) and a member of the US Impact Investing Alliance's Industry Advisory Council. Visit the US SIF website.