



Social Investment Forum  
Foundation

# INVESTMENT CONSULTANTS AND RESPONSIBLE INVESTING

*Current Practice  
and Outlook in  
the United States*

December 2009

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## About the Social Investment Forum

The Social Investment Forum Ltd. is the US national nonprofit membership association for professionals, firms and organizations dedicated to advancing the practice and growth of socially responsible investing (SRI). Critical to responsible investment practice is the consideration of environmental, social and corporate governance criteria in addition to standard financial analysis. Forum members support SRI through portfolio selection analysis, shareholder advocacy and community investing.

The Social Investment Forum Foundation is a nonprofit organization providing research and education on socially responsible investing. The Forum Foundation provides cutting-edge research on the trends, practice, performance and impact of social investing.

Please visit the Social Investment Forum at [www.socialinvest.org](http://www.socialinvest.org) for more information.

## For Further Reading

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# INVESTMENT CONSULTANTS AND RESPONSIBLE INVESTING

*Current Practice and Outlook in the United States*

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*Reference to specific investment companies or consulting firms in this Report does not constitute an endorsement or advice concerning any investment vehicle or professional. The Social Investment Forum and the Social Investment Forum Foundation assume no legal or financial responsibility for the practices, products, or services of any businesses included in this Report.*

## Executive Summary

A broad swath of investors in the United States are practicing investment strategies that consider various corporate environmental, social or governance (ESG) criteria in addition to traditional financial analysis. These include foundations and endowments supporting their missions, public pension funds complying with legislative mandates, religious institutions incorporating faith-based tenets into their investment practices, and a wide range of mutual funds. In addition, many U.S. investors looking to integrate ESG criteria into their investment policies are motivated by academic literature pointing to links between ESG factors and corporate financial performance. Various legal opinions and regulatory developments have also provided support for socially and environmentally conscious investment strategies.

**THE SURVEY:** Investment consulting firms are often seen as “gatekeepers” because of the role they play in advising asset-owning clients on investment strategies and investment managers. The Social Investment Forum (SIF) conducted a survey of investment consultants with practices in the United States to gain a better understanding of their expertise and capacity with regard to ESG issues, the demand they perceive from clients for integration of ESG analysis into investment policy, and whether they perceive this market to be growing. SIF adapted its survey from one developed by Eurosif (a pan-European membership association dedicated to addressing sustainability through financial markets) for a study of consultant firms based in Europe. SIF conducted the survey in cooperation with *Pensions & Investments*, which sent the questionnaire by email to the contacts in P&I’s database of investment consultants.

Investors, investment managers and investment consultants use a range of terms to describe investment selection and ownership policies that take into account corporate environmental, social and governance factors. The term “socially responsible investing” is used by some, while others may prefer responsible investing, sustainable investing, ESG investing, mission-related investing or ethical investing. For the survey, SIF used the term “ESG integration” to comprise such activities as considering ESG factors in selecting or rejecting stocks and bonds for a portfolio, in proxy voting, and in shareholder advocacy and corporate engagement.

**THE RESPONDENTS:** The survey, sent in September 2009, yielded a final sample of 41 respondents from 40 firms that constituted a diverse group based on assets under advisement, percentage of revenues attributable to investment consulting, and size of staff. The firms ranged in size from four at the top end with assets under advisement of greater than \$1 trillion, down to three with assets under advisement

of less than \$100 million. In terms of staff, the respondents ranged from four firms with more than 200 full-time staff dedicated to investment consulting, down to 15 firms with fewer than 10 employees. Ten of the responding firms—a quarter of the sample—said they are signatories to the United Nations Principles for Responsible Investment.

**ESG SERVICES AND APPROACHES TO CLIENTS:** To determine to what extent investment consulting firms recognized or promoted ESG integration services as a specialty, the survey asked recipients to indicate whether they advise clients on any of six ESG integration approaches:

- Proxy voting
- Corporate engagement
- Exclusion of stock/bonds in a portfolio
- Integration of ESG analysis into investment decision making
- Inclusion of stock/bonds in a portfolio (best-in-class)
- Positive selection according to sustainable themes (climate change, etc.).

The ESG integration strategy on which respondent firms most commonly offer advisory services—reported by nearly two thirds of the respondents—is exclusion of stocks and bonds from portfolios. Approximately half of the survey respondents also said that their firms advise clients on three other strategies: integrating ESG criteria into mainstream investment analysis, using a “best-in-class” approach to portfolio selection, or positive selection according to sustainable themes. A smaller number—35 to 38 percent—advise their clients on proxy voting or corporate engagement strategies.

**VIEWS OF ESG INTEGRATION AND PERFORMANCE:** A plurality of the respondents—ranging from 38 to 49 percent—said they believe that five of the six ESG integration strategies they were asked about have a positive impact on portfolio performance, and a majority believed these five strategies do not harm portfolio performance. Collectively, they gave the highest marks to “positive selection according to sustainable themes” such as climate change (with 49 percent of respondents saying such a strategy has a positive impact), followed closely by corporate engagement (48 percent). Of the six strategies, respondents were decidedly negative about only one—excluding stocks and bonds from a portfolio—with a plurality of 41 percent saying it has a negative impact on portfolio performance. Strikingly, for each of the six strategies raised in this question, a quarter to a third of all respondents said they did not know whether the strategy had positive, negative or no impact.

**OUTLOOK:** The salient finding that emerges from this survey is the nearly unanimous view that client interest in ESG and responsible investing issues is not a passing

phenomenon, but will grow over the next three years. The surveyed consultants held these views regardless of their current level of involvement in ESG services or opinions of the ESG integration strategies on portfolio performance. Respondents cited several factors they thought will drive this growing client interest including climate change and impending climate regulation, a growing public interest in “green” issues and social responsibility, and foundations’ embrace of mission-related investing.

Even so, investment consultants are still cautious about raising ESG issues with their clients. Only 22 percent said that they raise the issue of ESG integration as

standard procedure when meeting with clients. The majority—71 percent—said that they discuss ESG integration only when clients ask about it.

One reason for this reticence is a desire among investment consultants for more data on ESG investment strategy performance, by asset class, over a longer period. Some hypothesize that certain ESG strategies deliver more alpha (higher returns) over an extended time period, but that it may come with more volatility. Several consultants suggested, too, that their firms, or investment consultant firms in general, need to boost their in-house staff expertise on ESG issues to better cater to the growing client demand they anticipate.

## I. Introduction

A broad swath of investors in the United States are practicing investment strategies that consider various corporate environmental, social or governance (ESG) criteria in addition to traditional financial analysis. According to a survey commissioned by the Social Investment Forum (SIF), 11 percent of the \$25.1 trillion under professional management in the United States in 2007—\$2.7 trillion—was engaged in screening or assessing portfolios on environmental and social issues, sponsoring or co-sponsoring shareholder resolutions on environmental or social issues, or making investments or deposits in U.S.-based community investing institutions.<sup>1</sup>

The \$2.7 trillion that the SIF report identified in such responsible investing strategies included foundations and endowments supporting their missions, public pension funds complying with legislative mandates, religious institutions incorporating faith-based tenets into their investment practices, and a wide range of mutual funds.

In addition, many U.S. investors looking to integrate ESG criteria into their investment policies are motivated by academic literature pointing to links between ESG factors and corporate financial performance. One recent assessment of 36 academic papers published between 1995 and 2009 concluded that 20—more than half—found evidence of a positive relationship between ESG factors and financial performance, and only three found evidence of a negative relationship. (Of the remainder, two showed evidence of a neutral-positive relationship, eight of a neutral relationship, and three of a negative-neutral relationship.)<sup>2</sup>

Various legal opinions and regulatory developments have also provided support for socially and environmentally conscious investment strategies.

In 2005, the law firm of Freshfields Bruckhaus Deringer issued a survey of the law of fiduciary duty in the United States, Europe, Japan, Canada and Australia, and concluded that the consideration of ESG factors in the investment process is clearly permissible in every jurisdiction. In fact, Freshfields concluded that the law arguably requires fiduciaries to take ESG factors into account when these factors may affect the long-term value of the portfolio.

They also noted that the law of fiduciary duty accords fiduciaries wide discretion in making this determination.<sup>3</sup> In July 2009, the United Nations Environment Program Finance Initiative (UNEP-FI) with the backing of asset managers representing \$2 trillion in assets under management, issued a 120-page follow-up to the groundbreaking Freshfields report.<sup>4</sup> The report says that professional investment advisors and service providers to institutional investors may have a far greater legal obligation than outlined in the original Freshfields report to incorporate ESG issues into their investment services or face “a very real risk that they will be sued for negligence” if they do not.

In the United States, the guidance the Department of Labor issues with regard to the Employment Retirement Income Security Act of 1972 (ERISA) has a major impact on the private pension funds under its regulatory jurisdiction. Many institutional investors also consider ERISA the “gold standard” when they are looking to understand the legal context that guides them as fiduciaries. In 1994, the Department of Labor issued a bulletin to support shareholder engagement with management and proxy voting.<sup>5</sup> In 1998, the Department issued an advisory opinion<sup>6</sup> that “socially responsible” investments are acceptable under ERISA if the investment characteristics (such as risk/return, liquidity and diversification aspects) are equivalent to other investments. (In October 2008, the Department of Labor issued two bulletins for fiduciaries of private sector pension plans that clouded the previous guidance somewhat. Socially responsible investors, among others, are now asking for clarification from the DOL on this matter.)<sup>7</sup>

A number of U.S. investors have joined global networks to support ESG-conscious investment strategies or to seek greater reporting on ESG issues by portfolio companies. Concern about climate change has been one important driver. The Carbon Disclosure Project (CDP), an annual request to more than 3,700 corporations across the globe, including the S&P 500, for reporting on greenhouse gas emissions, has grown in support from 35 institutions with \$4.5 trillion in assets under management in 2000 to more than 475 institutions with \$55 trillion in assets today.<sup>8</sup>

1. Social Investment Forum. 2008. *2007 Report of Socially Responsible Investing Trends in the United States*.

2. Mercer Consulting. November 2009. *Shedding light on responsible investment: approaches, returns and impacts*.

3. Freshfields Bruckhaus Deringer for the Asset Management Working Group of the UNEP Financial Initiative. (October 2005). *A legal framework for the integration of environmental, social and governance issues into institutional investment*.

4. The Asset Management Working Group of the UNEP Financial Initiative. (July 14, 2009). *Fiduciary Responsibility, Legal and Practical Aspects of Integrating Environmental, Social and Governance Issues into Institutional Investment*. Retrieved July 14, 2009, from <http://www.unepfi.org/fileadmin/documents/fiduciaryll.pdf>.

5. DOL's bulletin of July 29, 1994 (29 C.F.R. 2509.94-2).

6. DOL's May 28, 1998, Advisory Opinion 98-04A issued to Calvert Asset Management Company, Inc.

7. See 29 CFR 2509.08-1 and 29 CFR 2509.08-2. See also SIF's comment letter to Department of Labor at <http://www.socialinvest.org/news/releases/pressrelease.cfm?id=129>.

8. See <https://www.cdproject.net/en-US/Pages/HomePage.aspx>.

A further example of growing global investor interest in ESG integration is the support for the UN Principles for Responsible Investment (UN PRI), founded by former UN Secretary General Kofi Annan in 2005. Today, the UN PRI counts as endorsers more than 560 institutional investors from around the world managing more than \$18 trillion in assets.<sup>9</sup> In becoming signatories, investors pledge to “incorporate ESG issues into investment analysis and decision-making processes,” as outlined by UN PRI’s first principle. The second principle requires endorsement of the following statement:

*As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognize that applying these Principles may better align investors with broader objectives of society.<sup>10</sup>*

Surprisingly, with all these rapid developments, until now there has not been a comprehensive assessment of US investment consultants’ attitudes and practices towards ESG-conscious investing even though investment consulting firms are often seen as “gatekeepers” because of the role they play in advising asset-owning clients on investment strategies and investment managers. In April 2008, the Asset Management Working Group of the United Nations Environment Program Finance Initiative (UNEP FI) conducted an initial study, but it focused just on six large firms.<sup>11</sup>

Thus, in partnership with Eurosif, a pan-European membership association dedicated to addressing sustainability through financial markets, and *Pensions & Investments* (P&I), the international newspaper of money management, the Social Investment Forum set out to assess the role of investment consultants in relation to ESG-conscious investing.

To that end, SIF conducted a survey of investment consultants, specifically with regard to their expertise and capacity related to ESG issues, the demand they perceive from clients for integration of ESG analysis into investment policy, and whether they perceive this market to be growing.

Through the survey, SIF sought to determine the extent to which investment consultants are advising clients that want to develop responsible investment strategies and how

they are educating clients in general on ESG issues. Are they pro-actively raising those issues with their clients, or do they address them only once their clients have requested such expertise? Do they have ESG specialists or other resources in-house? Are they developing tools and offering services to help their clients integrate ESG issues? The survey also sought to learn from investment consulting firms—whether they have an ESG integration speciality or not—what they see as the barriers to greater ESG integration, and their outlook and recommendations for the next few years.

While Eurosif conducted a survey of the leading investment consultants based in Europe, SIF’s survey focused on the leading consultants in the United States. SIF modeled its survey after Eurosif’s, which in turn had built on the initial investment consultant survey used by the UNEP FI Asset Management Working Group. P&I, which annually surveys the leading U.S. investment consulting firms on value of assets under advisement and other basic information, agreed to send SIF’s survey to the contacts in its investment consultant database and to report on the survey results.

#### **A NOTE ON TERMINOLOGY**

Investors, investment managers and investment consultants use a range of terms to describe investment selection and ownership policies that take into account corporate environmental, social and governance factors. The term “socially responsible investing” is used by some, but others may prefer responsible investing, sustainable investing, ESG investing, mission-related investing or ethical investing. For the purposes of this survey, SIF deliberately used the term “ESG integration” as a “catch-all” rubric to comprise such activities as considering ESG factors in selecting or rejecting stocks and bonds for a portfolio, in proxy voting, and in shareholder advocacy and corporate engagement.

#### **ACKNOWLEDGEMENTS**

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First of all, this report could not have gone forward without the generous sponsorship of four of SIF’s member firms: Bloomberg, Calvert Investments, Sentinel Investments and TIAA-CREF. (Please see the inside front cover for more information on each of these firms.)

9. See <http://www.unpri.org/about/>.

10. See <http://www.unpri.org/principles/>.

11. Published in July 2009 as Part II of the “Fiduciary responsibility” report. [www.unepfi.org](http://www.unepfi.org).



The staff at Eurosif, particularly Executive Director Matt Christensen, Research Director Marion de Marcillac and Communications Director Sarah Clawson, shared ideas, insights and drafts to ensure a successful trans-Atlantic research initiative.

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At the Social Investment Forum, CEO Lisa Woll and Director of Programs and Marketing Peter DeSimone provided helpful comments on earlier drafts of the survey and this report, and Program Coordinator Kristin Lang exhibited profound reserves of patience in guiding the survey through several drafts.

Jenny Thullier of Twee-A Graphic Design designed the cover and layout of this report.

## II. The Survey

The survey to U.S.-based investment consultants consisted of 20 questions and was adapted from the survey developed by Eurosif. The full survey can be viewed in Appendix 1. Working with the staff of P&I and its parent firm, Crain Communications, SIF sent the survey in mid-September to a list of 94 investment consulting firms with practices in the United States that P&I had identified on June 30, 2008, as the top investment consultants by worldwide institutional, tax-exempt advisory assets. The 94 investment consultants had assets under advisement ranging from \$3.6 trillion to \$90 million. In addition, P&I sent the survey to a broader list of investment consultants as well as other consultants in the investment industry.

The survey introduction notified recipients that the final report analyzing the survey results would provide a list of the firms that responded, but that none of the recipients' responses would be attributed to their firms by name. Recipients who completed the survey, including the mandatory questions regarding their name, email address and firm name, were promised a copy of the final report.

The two rounds of survey invitation yielded complete or nearly complete responses from 19 recipients at 18 firms on the initial target list of 94 firms—a response rate of 19 percent. (At one of the 18 firms, two individuals provided responses.) The survey to the broader list of investment consultants and other advisors produced another 45 responses. Of these responses, however, SIF excluded 23 from analysis because they:

- did not appear to be investment consultants (i.e., received zero percent of their revenues from investment consulting),
- had less than \$15 million in assets under advisement,
- did not appear to have investment consulting clients in the United States,
- did not specify a dollar value of assets under advisement.

This winnowing process thus yielded a final sample of 41 respondents from 40 firms. The firms are described further in the next section.

### III. Who The Respondents Are

The 40 investment consulting firms that provided complete or nearly complete responses to the survey are listed by name in Table 1.

**BASIC INFORMATION:** As shown in Tables 2 and 3, the 40 firms constitute a diverse group based on assets under advisement, percentage of revenues attributable to investment consulting, and size of staff.

As shown in Table 2, the firms ranged in size from four at the top end with assets under advisement of greater than \$1 trillion, down to three with assets under advisement of less than \$100 million.

Well over half of the responding firms said that 95 percent or more of their revenues came from investment consulting. At the opposite end of the spectrum, five respondents said that investment consulting accounted for 10 percent or less of their firms' revenues, and at one of these firms, for only 1 percent. That firm, however, still reported that it had \$15 billion in assets under advisement.

In terms of the staff numbers, as shown in Table 3, the respondents ranged from four firms with more than 200 full-time staff dedicated to investment consulting, down to 15 firms with fewer than 10 employees.

**STAFF SPECIALIZATION:** Relatively few of the survey respondents said their firms have staff who specialize in ESG. Of the 38 respondents on this question, 15 said that their firms had no full-time equivalents dedicated to ESG integration services, and another four said their firms had a fraction of a single full-time staff member specializing in ESG.

While it may not be surprising that firms with small staffs would report no or nominal staff specializing in ESG, the firms that reported a paucity of fulltime specialists on ESG were not limited to the smallest firms in terms of overall staff engaged in investment consulting. Table 4 compares the top three firms—in terms of full-time ESG specialists—with the bottom 15 firms that reported no ESG specialists. Of the 15 firms with no employees specializing in ESG, one has 100 employees, and three have 20 to 30 employees, engaged overall in investment consulting.

For the three firms reporting the largest number of fulltime staff specializing in ESG integration, the proportion of overall staff that these specialists represent varies considerably. The firm with the greatest reported number of ESG specialists—30—has 100 employees in total engaged in investment consulting. The firm reporting the next highest number of ESG specialists—15—had 900 employees in investment consulting overall.

**Table 1: Investment Consulting Firms Covered in this Report, by Name**

• Acacia Wealth Advisors	• Hubbell Consulting, LLC
• Alan Biller & Associates	• JT Advisors LLC
• Americh, Massena and Associates	• LBA Associates
• Asset Strategies Portfolio Services	• Marco Consulting Group
• Asset Strategy Consultants	• Meketa
• Callan Associates	• Mercer Investment Consulting
• Cambridge Associates	• Merrill Lynch
• Capital Advisory Group	• Milliman
• CapTrust	• Morgan Keegan & Co.
• Cedarpoint Capital Mgt., Inc.	• NEPC
• Clearbrook Investment Consulting	• NEVP LLC
• Colonial Consulting, LLC	• Oppenheimer & Co.
• DIAM USA	• Pinnacle
• Elevation Investment Consulting	• Prime Buchholz
• Evaluation Associates	• Proteus
• Frontier Investment Consulting	• SHDR Investment Advisers, Inc.
• Goldman Sachs	• Smith Breeden Associates
• Graystone Consulting	• Stratford Advisory Group
• Hammond Associates	• Graystone Consulting
	• Thistle Asset Consulting
	• USI Consulting Group
	• Watson Wyatt Worldwide Inc.

**Table 2: Survey Respondents, by Size of Business**

ASSETS UNDER ADVISEMENT	NO. OF FIRMS
\$1 trillion or greater	5
\$100 billion to < \$1 trillion	4
\$10 to <\$100 billion	15
\$1 to <10 billion	9
\$100 million to <\$1 billion	4
<\$100 million	3
<b>Total</b>	<b>40</b>
<b>% of Revenue from Investment Consulting</b>	
95% or more	25
45 to 60%	5
20 to 30%	5
10% or less	5
<b>Total</b>	<b>40</b>

**Table 3: Survey Respondents, by Full-time Staff Dedicated to Investment Consulting**

	# OF FIRMS
202 to 900	4
100 to 150	6
20 to 65	7
10 to 17	8
1 to 9	15
<b>Total</b>	<b>40</b>

**SOURCE OF RESEARCH:** As shown in Table 5, more than three quarters of the respondents said that they conduct ESG research internally, and 41 percent said they look to external research providers in addition to or instead of internal research. Six respondents provided additional detail on their research sources: Two cited KLD (a research firm recently acquired by RiskMetrics Group), one cited research provider RiskMetrics and another said it subscribes to newsletters and monitors what plan sponsors are doing. Two more said their choice of external research providers varies by project or is still emerging.

**PRINCIPLES FOR RESPONSIBLE INVESTMENT:** Survey recipients were asked whether their firms are signatories to the UN Principles for Responsible Investment, since

becoming a signatory can help firms flag their interest in offering ESG and responsible investing services as well as provide them with research and networking services. Ten of the responding firms—a quarter of the sample—said they are signatories to the United Nations Principles for Responsible Investment; 28 said they are not; and two did not respond.

Respondents of firms that are not UN PRI signatories offered a number of reasons. Six said simply that they were unaware of the PRI. Thirteen other commentators, however, evinced some awareness of the PRI but said they were either inapplicable or inappropriate to their business, with two specifically citing their understanding of ERISA guidance from the U.S. Department of Labor. Two respondents, though, indicated that they are considering becoming signatories.

**Table 4: Staff Specialists in ESG at Selected Firms**

Number of Firms	Number of Fulltime Staff in:	
	ESG Investment	Investment Consulting
1	30	100
1	15	900
1	14	202
-----		
1	0	100
1	0	30
1	0	29
1	0	20
1	0	17
3	0	15
1	0	10
6	0	1-7

**Table 5: How do you conduct your ESG research? (check all that apply)**

Answer Options	Response Percent	Response Count
Internally	76.9%	30
External ESG research providers (if so, specify which ones below)	41.0%	16
Other (please specify)	2.6%	1
Comments:		6
		<b>Answered question 39</b>
		<b>Skipped question 2</b>

## IV. What the Respondents Do

**ESG SERVICES AND APPROACHES TO CLIENTS:** To determine the extent to which investment consulting firms recognize or promote ESG integration services as a specialty, the survey asked recipients to indicate whether they advise clients on any of six ESG integration approaches:

- Proxy voting
- Corporate engagement
- Exclusion of stock/bonds in a portfolio
- Integration of ESG analysis into investment decision making
- Inclusion of stock/bonds in a portfolio (best-in-class)
- Positive selection according to sustainable themes (climate change, etc.).

As shown in Table 6, the ESG integration strategy on which respondent firms most commonly offer advisory services—reported by nearly two thirds of the respondents—is exclusion of stocks and bonds from portfolios. Approximately half of the survey respondents also said that their firms advise clients on three other strategies: integrating ESG criteria into mainstream investment analysis, using a “best-in-class” approach to portfolio selection, or positive selection according to sustainable themes. A smaller number—35 to 38 percent—advise their clients on proxy voting or corporate engagement strategies.

As shown in Figure 1 below, only nine respondents—or 22 percent of the sample—said that they raise the issue of ESG integration as standard procedure when meeting with clients. The majority—29 respondents, or 71 percent—said that they discuss ESG integration with clients only when clients ask about it. Another three respondents—7 percent—said they refer clients interested in ESG to specialist advisors.

**Table 6: What kind of ESG integration strategies does your firm advise on? (check all that apply)**

Answer Options	Response Percent	Response Count
Proxy voting	37.8%	14
Corporate engagement	35.1%	13
Exclusion of stocks/bonds in a portfolio	64.9%	24
Integration of ESG factors into mainstream investment analysis	48.6%	18
Inclusion of stocks/bonds in a portfolio (best-in-class)	45.9%	17
Positive selection according to sustainable themes (climate change, water, renewable energy, etc.)	51.4%	19
<b>Answered question 37</b>		
<b>Skipped question 4</b>		

Four respondents provided additional comments on this:

*ESG is not yet standard procedure, but we discuss it as something we believe in and which will pay dividends over the next 20 years.*

*[It] really depends on the specific needs of the client.*

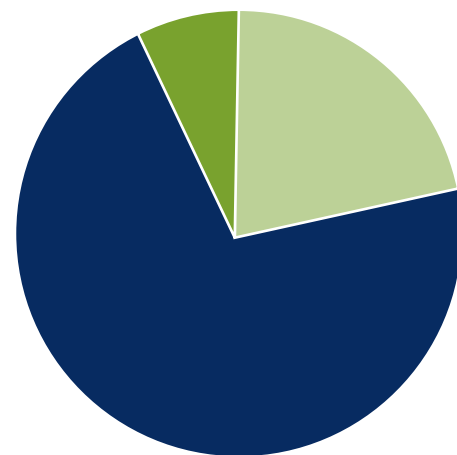
*More and more clients express interest in green investments, socially responsible investing and related issues.*

*We are more proactive with certain client types, particularly those that have been active in some area of Responsible Investing.*

### CLIENTS’ MOTIVATIONS IN SEEKING ESG SERVICES:

Asked what they perceive to be the primary motives for those clients that request integration services, respondents gave first priority to clients’ desire to be known as responsible asset owners, as shown in Figure 2. On a scale of 1 to 5, respondents collectively rated that motive at 3.5. A very close second, in respondents’ collective view, was clients’ desire to fulfill their fiduciary duty, rated at 3.1.

**Figure 1: When meeting with clients, which best describes your firm’s approach?**



- Raises the issue of ESG integration as standard procedure
- Discusses the issue of ESG integration only when clients ask about it
- Refers interested clients to specialist advisers

Four respondents offered additional comments on this question. Two commented that among their clientele, interest in ESG is muted:

*They are rarely extremely concerned.*

*[The] issue rarely comes up among the public retirement and health care funds we advise.*

Another respondent, representing a firm with more than \$1 trillion in assets under advisement, said that it was difficult to rank the given factors because “all feature at some point” in motivating her clients’ interest in ESG.

Another respondent added:

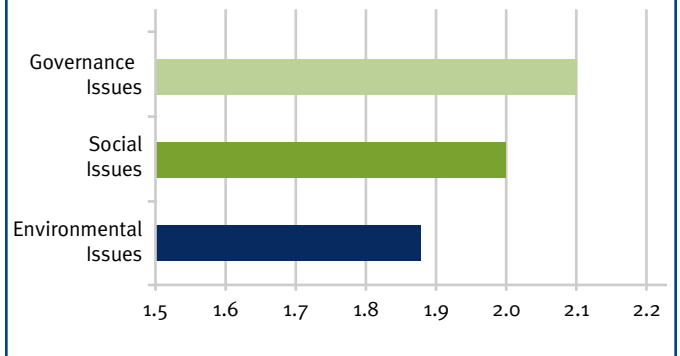
*A lot of our clients interested in social investments are foundations that view mission-related investing as an extension of their grant-making activities. Others have a desire to align their investments with their values. We do not work with many UN PRI signatories or pensions with beneficiaries.*

Asked about which of the subject areas (environmental, social or governance) in “ESG” clients seek the most advice, respondents narrowly gave first place to governance issues, collectively ranking it at 2.1 on a scale of 1 to 3. Social issues came in close behind, at a rank of 2.0. (See Figure 3.)

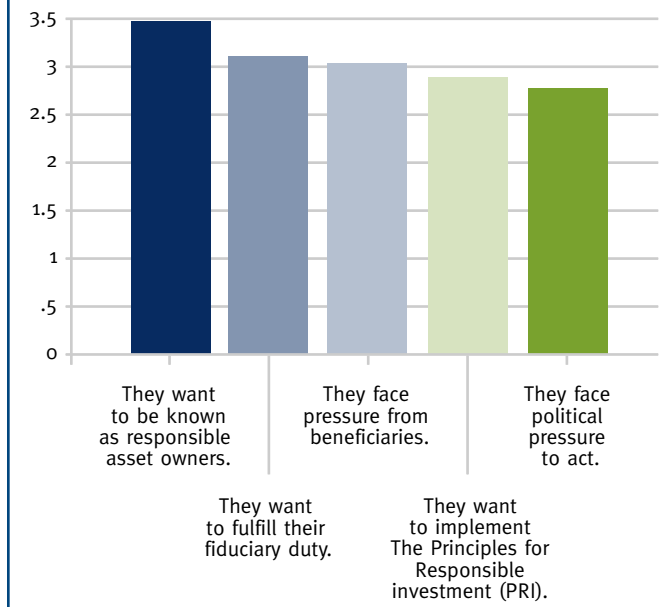
**EVALUATION OF MONEY MANAGERS:** The extent to which investment consultants advance ESG integration is a function not only of how they interact with their clients—the asset owners—but also how they select and interact with investment managers.

When it comes to issuing RFPs (requests for proposals), nearly three quarters (72 percent) said they incorporate questions on ESG integration only for specific mandates, but 15 percent said they routinely incorporate questions on environmental and social issues into RFPs, while 10 percent do this now for governance issues. (See Figure 4.)

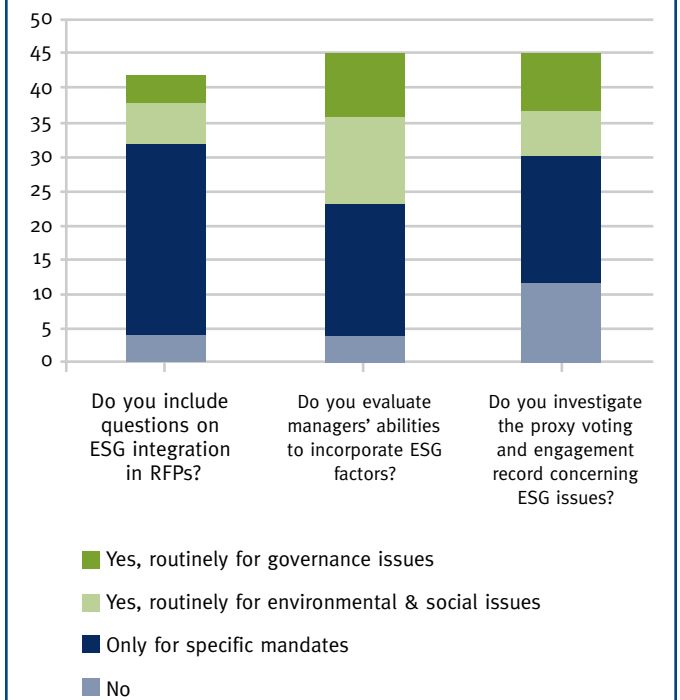
**Figure 3: On which of the following do your clients seek the most advice? Please rank by order of importance, with 1 being most important:**



**Figure 2: What motivates your clients to request consulting services on ESG integration? Please rank in order of importance:**



**Figure 4: Please check the description that best describes your firm’s practice with regard to the following activities:**



Apart from the RFP process, 47.5 percent of respondents say they evaluate potential managers' abilities to incorporate ESG factors only for specific mandates, but 22.5 percent say they do this now routinely for governance factors, and 32.5 percent do so routinely for environmental and social issues. (More than one response was allowed on this question, so results tally to more than 100 percent.)

**Table 7: If you evaluate competence in ESG issues, what criteria do you use? (check all that apply)**

Answer Options	Response Percent	Response Count
Research capacity on ESG issues and publications	82.9%	29
Staff experience	74.3%	26
Evidence of systematic consideration of material ESG issues in investment decisions (stock/sector weighting, etc.)	60.0%	21
Existence of ESG integration policy	57.1%	20
Extent to which ESG competence applies to all asset classes	40.0%	14
Quality of reporting	34.3%	12
Other (please specify):	5.7%	2

**Answered question 35  
Skipped question 6**

Notably, investment consultants overall were far less likely to assess potential money managers on their proxy voting or corporate engagement records: 30 percent said they do not look into this at all, and 45 percent said they check money managers' proxy voting and engagement records only for specific mandates.

Although 10 percent of the respondents said they do not assess potential money managers on their knowledge of ESG issues, the majority offered more nuanced responses, as shown in Table 7. The respondents look most often for research capacity (for example, as demonstrated through newsletters) and staff experience. A majority of respondents look for evidence that a money manager has an ESG integration policy, but better yet that the manager shows evidence of making systematic consideration of material ESG issues in investment decisions.

One of the respondents that chose the "other" option explained:

*I do not advise ESG principles in an ERISA plan. If a client wishes to pursue this approach, I would refer them to a consultant with that expertise. I would also resign or recuse myself or my firm from being hired as a "co-fiduciary."*

## V. What the Respondents Believe

**VIEWS ON ESG INTEGRATION AND PERFORMANCE:** The extent to which investment consultants offer ESG and responsible investing services, and the advice they offer clients, presumably is colored by their perceptions of how ESG integration affects portfolio performance. Thus, survey recipients were asked how they thought the following six approaches affect portfolio performance:

- Proxy voting.
- Corporate engagement.
- Exclusion of stock/bonds in a portfolio.
- Integration of ESG analysis into investment decision making.
- Inclusion of stock/bonds in a portfolio (best-in-class).
- Positive selection according to sustainable themes (climate change, etc.).

Their responses are presented in Table 8 and Figure 5.

A plurality of the respondents—ranging from 38 to 49 percent—said they believe that most of these ESG integration strategies have a positive impact on portfolio performance. Collectively, they gave the highest marks to positive selection according to sustainable themes such as climate change (with 49 percent of respondents saying such a strategy has a positive impact), followed closely by corporate engagement (48 percent). Next came integration of ESG analysis into investment decision making (46 percent), inclusion of stock/bonds (41 percent), and proxy voting (38 percent).

When these responses are tallied together with the responses saying that these strategies have no impact on portfolio performance, majorities ranging from 54 to 72 percent said these five strategies do not harm portfolio performance.

Of the six strategies, respondents were decidedly negative about only one—excluding stocks and bonds from a portfolio—with a plurality of 41 percent saying it has a negative impact on portfolio performance. Interestingly, as discussed in the previous section, the exclusion of stocks and bonds from portfolios is the ESG strategy on which investment consulting firms are most likely to offer advice. This suggests that some firms may be offering this advice reluctantly in response to clients’ questions. Indeed one respondent expressed concern about having to advise a state pension fund that by law must divest from a “Scrutinized Company” list of companies by September 2010. In the respondent’s view, “This should be the manager’s decision. It interferes with the Board’s fiduciary responsibility to the plan participants and beneficiaries.”

Strikingly, for each of the six strategies raised in this question, a quarter to a third of all respondents said they did not know whether the strategy had positive, negative or no impact. The largest number of “don’t know” answers appeared for “positive selection according to sustainable themes,” which was also the strategy that yielded the highest number of “positive impact” responses.

Respondents collectively said proxy voting was the most likely of all the six strategies to have no impact on portfolio performance; 33 percent said it had no impact, slightly below the percentage that believed it has a positive impact.

Asked whether their responses were based on experience, respondents provided the following comments.

*Limiting the investment universe or focusing investment decisions on issues that are not related to fundamentals will likely have a negative impact on performance, at least short-term. Longer-term may be positive, but impossible to project.*

**Table 8: In your view, how do the following ESG integration approaches affect performance?**

Answer Options	Positive impact # (%)	Negative impact # (%)	No Impact# # (%)	Don't know # (%)	Response Count
Proxy voting	15 (38)	1 (3)	13 (33)	10 (26)	39
Corporate engagement	18 (47)	1 (3)	7 (18)	12 (32)	38
Exclusion of stocks / bonds in a portfolio	3 (8)	16 (41)	9 (23)	11 (28)	39
Integration of ESG analysis into investment decision-making	18 (46)	4 (10)	9 (23)	11 (28)	39
Inclusion of stocks/bonds in a portfolio (best-in-class)	16 (41)	4 (10)	7 (18)	12 (31)	39
Positive selection according to sustainable themes (climate change, etc.)	19 (49)	3 (8)	3 (8)	14 (36)	39

**Answered question 39**  
**Skipped question 2**



*The ESG investments I have monitored for my clients are in line with the non-ESG products.*

*ESG integration requires a committee and managers to become fully engaged and involved in making it a positive rather than a negative experience.*

*Answers above with the following caveat: Difficult to answer without knowing time horizons, risk tolerance, benchmarks and asset allocation. For example, I believe that sustainable themed investments can have positive impacts over time compared to a mainstream benchmark, but there is increased risk and volatility and we would not recommend this as a large allocation to most clients.*

*Can't categorically say, as limited and mixed evidence to support any of above.*

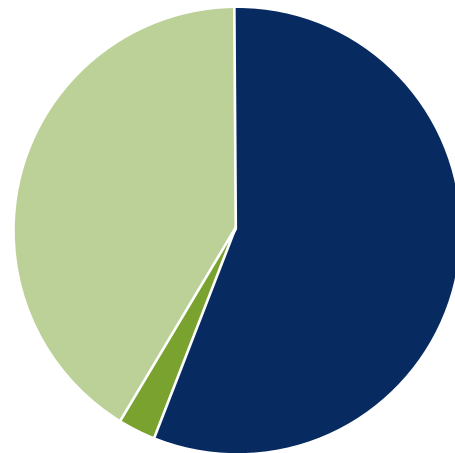
*We believe these approaches MAY have the impacts that are indicated in our answers, but integrating ESG or negatively screening could have negative or positive effects, depending on how they are applied. Some of these approaches can result in higher volatility.*

**MARKET DEMAND:** Over half of the respondents (56 percent) said that they noted a growing interest among their clients in ESG integration over the past 12 months, as shown in Figure 6, and an overwhelming majority—88 percent—expect growing client interest in the next three years (Figure 7). Notably, none of the respondents think client interest in ESG will decrease. Two thirds of respondents said that the recent financial crisis had had no impact on client interest in ESG integration, but intriguingly, nearly a quarter said the crisis had increased clients' interest.

Elaborating on these predictions, one respondent, representing a firm with \$100 million in assets under advisement, said:

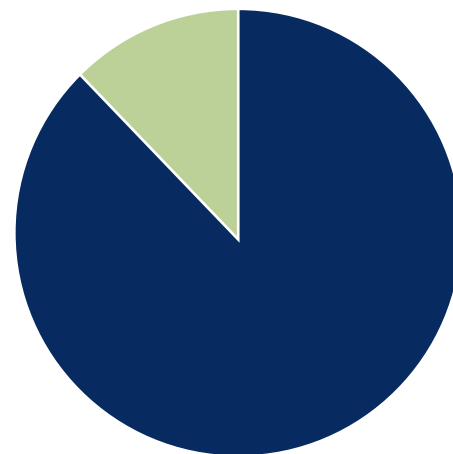
*While I'm not certain there is empirical evidence that "social" factors contribute to positive investment*

**Figure 6: Has your clients' interest in environmental, social and governance (ESG) matters changed in the last 12 months?**



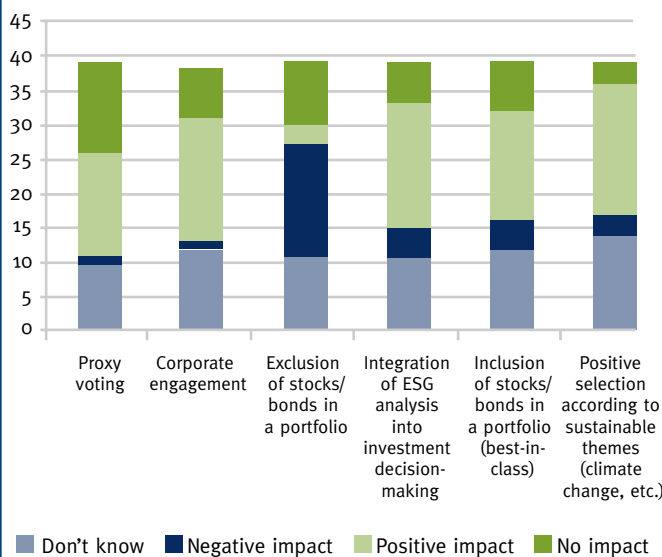
■ Yes, more interest  
 ■ Yes, less interest  
 ■ No change

**Figure 7: In your opinion, will clients' interest in ESG matters change in the next three years?**



■ Yes, will increase  
 ■ Yes, will decrease  
 ■ No, will remain about the same

**Figure 5: In your view, how do the following ESG integration approaches affect performance?**



*returns/alpha, I suspect this will be a growing element of investment decision making as the U.S. population gravitates toward a more “social” mindset both in terms of our government and corporate cultures.*

And another respondent, representing a firm with over \$2 billion in assets under advisement, commented:

*It has to! [Clients] hold the purse strings of too many financial and other sector companies who desperately need guidance from their shareholders.*

**HELP FOR INVESTMENT MANAGERS:** As shown in Figure 8, when asked to choose from among a list of factors that prevent fund managers from doing more ESG integration, respondents assigned the most weight to lack of explicit client demand. On a scale of zero (not important) to 5 (most important), this factor collectively got a rank for 4.4. Next in line were lack of knowledge and understanding of fund managers’ staff (4.0) and concerns over legal and performance issues (3.5).

**HELP FOR INVESTMENT CONSULTANTS:** Eighteen respondents answered an open-ended question about what resources investment consultants need to encourage ESG integration. Their comments coalesced around five themes, as shown below.

**1) CLIENT DEMAND AND WILLINGNESS TO PAY—**

*Ultimately, it is a function of demand for it from clients.*

*[There] needs to be demand from clients and a willingness to pay for additional consulting services.*

*More client and participant/beneficiary interest.*

*The ability to charge more for ESG portfolio mandates.*

**2) BENCHMARKS AND PERFORMANCE DATA—**

*More work on comparative performance of ESG compliant portfolios vs. standard benchmarks.*

*Better benchmarks and uniform standards that are broadly recognized.*

*Case studies and track records across asset classes.*

*Better performance track records.*

*Conclusive evidence that any of the three areas do not reduce risk-adjusted returns and that such a change in investment policy would pay off in terms of the desired ESG goal. Benchmark creation assistance, including peer group analysis.*

**3) GREATER EXPERTISE AND AWARENESS BY STAFF—**

*Additional staff with requisite expertise who can integrate with broader consulting team.*

*Education and experience.*

*Add staff with Climate Change/Social Investment Background to serve as sector experts.*

*Consultants need a clear understanding of the client’s mission and impact on its stakeholders and long term results. Quarterly results matter, but to the new generation of stockholders, this will surely wane. ‘Green’ is coming like a freight train and not likely to fade easily.*

*Industry education.*

*Consultants need to be educated and have a view on the value of ESG. Right now investment managers are looking to clients, and clients are looking to investment managers. Consultants can be a bridge if they’re willing and able.*



**4) GOVERNMENT REGULATION**—One respondent said what is needed is a:

*clear vote in the U.S. Senate on national position towards Clean Energy Act. It has passed in the House and now we are awaiting direction from Senate to better project medium-long term existence of clean energy as a sector within which investment capital can be deployed with hope of generating superior returns.*

This commentator, who represents a boutique firm specializing in ESG-related consulting services, added:

*The investment community cannot deny climate change is the most important generational social and environmental investment opportunity – the chance exists to concurrently address social/environmental problem while also deploying capital in a manner which should deliver solid returns.*

**5) RESEARCH AND DATABASES ON ESG CRITERIA**—

*Reliable databases on which managers implement ESG; reliable third-party screening on the various ESG models —i.e., Catholic Values, Environmental Values, etc.*

*Access to research and databases.*

**CAUTIONARY AND DISSENTING VIEWS**—Nonetheless, a few commentators did not think that greater ESG integration was advisable, or at least for certain types of clients. One respondent, representing a firm of \$100 million in assets under advisement, volunteered his view that ESG-conscious investment strategies could be deemed to be incompatible with ERISA guidance.

Two other commentators were more categorical in rejecting an ESG approach. One, a representative of a firm with \$20 billion in assets under advisement, said

*Human rights is a real issue that should be confronted on both political and economic levels. Climate change is a myth. Global warming is a hoax.*

Another labeled efforts to take ESG into account in investment strategies simply an exercise in “political correctness.”

## VII. Conclusions

The salient finding that emerges from this survey is the **unanimous** view of the entire sample that client interest in ESG and responsible investing issues is not a passing phenomenon. There is unanimity that client interest will not decrease and nearly 90 percent believe it will grow over the next three years. The surveyed consultants held these views regardless of their current level of involvement in ESG services or opinions of the ESG integration strategies on portfolio performance.

Some of the factors individual respondents cited that will drive this growing client interest are climate change and impending climate regulation, a growing public interest in “green” issues and social responsibility, and the embrace of mission-related investing by foundations. Respondents say that their clients who currently express an interest in ESG services do so to be seen as responsible asset owners, and also to fulfill their fiduciary duty.

Even so, investment consultants are still cautious about raising ESG issues with their clients. Only nine respondents—or 22 percent of the sample—said that they raise the issue of ESG integration as standard procedure when meeting with clients. The majority—29 respondents, or 71 percent—said that they discuss ESG integration with clients only when clients ask about it. (The remainder say they refer clients to specialist advisors.)

There are a number of reasons for this reticence, but a belief that ESG integration approaches hurt portfolio performance is not a factor—at least for the majority of respondents. Most respondents appeared to believe that ESG integration strategies—if they were not already embracing them for certain segments of clients—merited further examination. A plurality of the respondents—ranging from 38 to 49 percent—said they believe that five of the six ESG integration strategies on which they were asked to comment have a positive impact on portfolio performance, and a majority said these five strategies do not harm portfolio performance. Collectively, they gave the highest marks to “positive selection according to sustainable themes” such as climate change (with 49 percent of respondents saying such a strategy has a positive impact), followed closely by corporate engagement (48 percent).

Strikingly, however, a quarter to a third of all respondents said they simply don’t know the impact of ESG strategies on portfolio performance. In additional comments, several respondents said they need more data on performance over a longer period. They may have hypotheses that certain

ESG strategies deliver more alpha over an extended time period, but that it may come with more volatility. Thus, as one respondent said, it is difficult to predict the likely performance of ESG approaches “without knowing time horizons, risk tolerance, benchmarks and asset allocation.”

Given these uncertainties, many investment consultants seem to prefer to wait for clients to pop the question about ESG-conscious approaches. Much depends, though, on the type of client. One respondent noted that her firm is “more proactive” with clients that have already been “active in some area of responsible investing.” Two respondents said that ERISA guidance—or at least their interpretation of that guidance—makes it difficult or impossible for them to develop ESG-conscious investment strategies for their private pension fund clients. (As noted in the introduction to this study, these respondents’ interpretations of ERISA guidance are open to question. In the 1990s, the Department of Labor issued a bulletin to support shareholder engagement with management and proxy voting and an advisory opinion that “socially responsible” investments are acceptable under ERISA if the investment characteristics—such as risk/return, liquidity and diversification aspects—are equivalent to other investments.)

Several consultants suggested, too, that their firms, or investment consultant firms in general, need to develop their in-house staff expertise on ESG issues.

The barriers that were identified for investment consultants moving forward on ESG approaches are mirrored in their views of the barriers keeping fund managers from doing more ESG integration. Respondents assigned the most weight to lack of explicit client demand, followed by lack of knowledge and understanding of fund managers’ staff and concerns over legal and performance issues.

Clearly, investment consultant firms in the United States are growing increasingly interested in ESG-conscious investing. While some firms are already actively involved and comfortable in this space, others are looking for more guidance—such as additional information on fund performance over time and advisory opinions from regulatory authorities and legal experts.

This presents an opportunity for outreach to investment consultants. A growing body of data is available on the impact of responsible investing and should be more widely disseminated to investment consultants. This includes:

- Academic literature, including the database at <http://www.sristudies.org/> and the papers that receive

the Moskowitz Prize, a global honor awarded annually to outstanding quantitative research on socially responsible investing.<sup>12</sup>

- Research commissioned by the UNEP Finance Initiative and other multilateral bodies, and
- Such resources on fund performance as SIF's mutual fund performance chart.<sup>13</sup>

It also offers opportunities for membership associations that promote awareness of corporate environmental, social and governance performance to organize conferences where investment consultants can share examples and best practice and discuss the latest developments in the responsible investing field. Transatlantic conferences are particularly helpful, as European investment consultants, in general, are further along in integrating ESG considerations into

investment strategies than their U.S. counterparts, though there is significant room for growth.<sup>14</sup>

Finally, there is a role for U.S. regulatory agencies. Some investment managers, asset owners and investment consultant firms are unclear as to how to sort through and interpret the various bulletins and advisory opinions on ERISA obligations from the U.S. Department of Labor. Second, regulatory agencies such as the SEC can offer guidance to ensure greater disclosure by publicly traded companies on ESG issues.<sup>15</sup> With more consistent disclosure by corporations of material ESG issues, it will be easier for investment analysts to assess the relationship with ESG issues, financial performance and shareholder value over time.

12. See <http://www.socialinvest.org/resources/research/>.

13. See <http://www.socialinvest.org/resources/mfpc>

14. See the Eurosif's *Investment Consultants and Responsible Investment Study* at [http://www.eurosif.org/publications/investment\\_consultants\\_ri](http://www.eurosif.org/publications/investment_consultants_ri).

15. SIF has submitted a proposal to the Securities and Exchange Commission on this question. See [http://www.socialinvest.org/documents/ESG\\_Letter\\_to\\_SEC.pdf](http://www.socialinvest.org/documents/ESG_Letter_to_SEC.pdf).

## Appendix: Text of the Questionnaire

The Social Investment Forum (SIF), in cooperation with Pensions & Investments (P&I), is surveying the leading investment consultant firms in the United States on the level of client demand for expertise on integrating environmental, social and corporate governance factors into investment management and ownership practices. We invite you, as a representative of a leading investment consulting firm, to participate in this survey. Your responses will be confidential and will not be attributed to your firm. The Social Investment Forum will analyze and publish the aggregate survey results later this year, and Pensions & Investments will report on the survey's findings. All survey respondents will be provided with a copy of the report and a link to the P&I story.

The Social Investment Forum is the U.S. membership association for professionals, firms and organizations dedicated to the integration of environmental, social and governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance. This investment approach, often called responsible investment, can be practiced across all asset classes.

Pensions & Investments is the international newspaper of money management, covering consultants, money managers and institutional investors such as pension funds, endowments and foundations

Note: This survey has 20 questions and will require 5–10 minutes to complete.

### Part I. Market Demand

1. Has your clients' interest in environmental, social and governance (ESG) matters changed in the last 12 months?
  - Yes, more interest
  - Yes, less interest
  - No change
2. How has the recent financial crisis changed their interest in ESG matters?
  - More interest
  - Less interest
  - No impact on interest
3. In your opinion, will clients' interest in ESG matters change in the next three years?
  - Yes, will increase
  - Yes, will decrease
  - No, will remain about the same

### Part II. Your Approach to ESG Integration

4. Are you a signatory to the UN Principles for Responsible Investment? Yes/No (If not, please tell us why.)
5. When meeting with clients, which best describes your firm's approach?
  - Raises the issue of ESG integration as standard procedure
  - Discusses the issue of ESG integration only when clients ask about it
  - Refers interested clients to specialist advisers
6. What motivates your clients to request consulting services on ESG integration? Please rank in order of importance.
  - They want to fulfill their fiduciary duty.
  - They want to implement The Principles for Responsible Investment (PRI).
  - They face political pressure to act.
  - They face pressure from beneficiaries.
  - They want to be known as responsible asset owners.
7. On which of the following do your clients seek the most advice? Please rank by order of importance, with 1 being most important:
  - Environmental issues
  - Social Issues
  - Governance issues

### Part III. ESG Integration and Performance

8. In your view, how do the following ESG integration approaches affect performance? [Respondents could select from: No impact, Positive Impact, Negative impact and Don't know.]
- Proxy voting
  - Corporate engagement
  - Exclusion of stock/bonds in a portfolio
  - Integration of ESG analysis into investment decision making
  - Inclusion of stock/bonds in a portfolio (best-in-class)
  - Positive selection according to sustainable themes (climate change, etc.)

### Part IV. ESG Money Manager Evaluation Process

9. Please check the description that best describes your firm's practice with regard to the following activities: [Respondents could select from: Yes, routinely for governance issues,; Yes, routinely for environmental & social issues; Only for specific mandates; and No.]
- Do you include questions on ESG integration in RFPs?
  - Do you evaluate managers' abilities to incorporate ESG factors?
  - Do you investigate the proxy voting and engagement record concerning ESG issues?
10. If you evaluate competence in ESG issues, what criteria do you use? (check all that apply)
- Research capacity on ESG issues and publications
  - Staff experience
  - Signatory and/or member in responsible investor networks
  - Existence of ESG integration policy
  - Extent to which ESG competence applies to all asset classes
  - Evidence of systematic consideration of material ESG issues in investment decisions (stock/sector weighting, etc.)
  - Quality of reporting
  - Other (please specify):

### Part V. Existing Framework & Incentives

11. Based on your experience, how important are the following factors in preventing fund managers from doing more ESG integration?
- Lack of knowledge and understanding of staff
  - Incentive structure for individual portfolio managers
  - Incentive structure for business development staff
  - Lack of explicit client demand
  - Concerns over legal/performance issues
  - Research/resources constraints
  - Too short a timeframe to evaluate manager financial performance
  - Tracking error limits or index-referenced mandates
  - Lack of explicit extra fees for doing "extra" work
  - Other (please specify)
12. What resources do consultants need to encourage ESG integration?
13. Do you have comments to add?

## Part VI. General Information

14. Please provide us with the following information:

- Company
- Name
- Email address

15. What is the value of your firm's assets under advisement (in U.S. \$)?

16. How much of your firm's revenue comes from investment consulting (in %)?

17. How many full time equivalent(s) are dedicated to investment consulting within your firm?

18. How many full time equivalent(s) are dedicated to ESG integration services within your firm?

19. What kind of ESG integration strategies does your firm advise on? (check all that apply)

- Proxy voting
- Corporate engagement
- Exclusion of stocks / bonds in a portfolio
- Integration of ESG factors into mainstream investment analysis
- Inclusion of stocks / bonds in a portfolio (best-in-class)
- Positive selection according to sustainable themes (climate change, water, renewable energy, etc.)

20. How do you conduct your ESG research? (check all that apply)

- Internally
- External ESG research providers (if so, specify which ones below)
- Other (please specify)





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