

# **Sustainable Investing: An Overview**

Betsy Zeidman  
Milken Institute

Los Angeles Fire and Police Pensions  
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# What is the name for this type of investing?

- Sustainable investing
- Targeted investing
- Double (or triple) bottom line investing
- Environmental, social, and corporate governance (ESG) investing
- Socially responsible investing (SRI)
- Blended value investing
- Aligned investing
- Active investing
- Full value investing
- Mission-related investing
- Mission-based investing
- Mission investing
- Ethical investing

# The premise

- Investments can generate collateral benefits – or costs – in addition to financial returns
- Social, environmental and governance factors can positively (or negatively) affect the performance of the financial asset
- Investment decisions are better when based on financial returns and extra-financial impacts

# Targeted investing and fiduciary responsibility

- Pension funds may undertake targeted investing without violating fiduciary rules, regardless of which rule applies to them:
  - Prudent Investor Rule: A fiduciary may consider the social implications of her investments only if they do not take precedence over financial considerations
  - Business Care Rule: A fiduciary may consider social and financial factors equally when making investment decisions
  - Baker & McKenzie Opinion: Public retirement systems may target social investments if the expected financial return is equal or greater to a similar investment without social objectives
  - Freshfields Opinion: A fiduciary must consider extra-financial factors when there is potential for financial impact

# Sustainable investing performance

- October 2007 Mercer/UN review of research of ESG investing -- 20 key academic and 10 broker studies -- finds no cost to incorporating ESG into investment decisions
  - 10 academic studies found positive relationship, 7 neutral, 3 negative
  - 5 qualitative broker studies were positive; 3 quantitative were positive, 2 neutral

# Returns on “green” investing

Mutual fund	Investment focus	Annualized 10-year total return	Benchmark
Green Century Balanced	Stocks and bonds of companies with clean environmental records	7.29%	4.20%
Green Century Equity	Stocks of the environmentally and socially responsible Domini 400 Social Index	1.49%	3.06%
Winslow Green Growth Fund	Domestic companies within green market sectors; environmentally responsible companies across all market sectors	7.01%	-0.42%

Sources: Social Investment Forum, Green Century Funds, Winslow Management Company.

Note: Returns for Green Century Funds as of 9/30/08. Returns for Winslow as of 11/30/08.

# Principles for Responsible Investment (PRI)

- Aim is to help investors integrate consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices (consistent with fiduciary duty), and thereby improve long-term returns to beneficiaries
- Principles include commitment to incorporating ESG into investment analysis, to be active owners, and to seek ESG disclosure
- PRI signatories include 400 asset owners, investment managers and professional service partners from around the world
- Represents \$15 trillion in assets under management

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