Launching Sustainable Investment into the Mainstream

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Abstract

In recent years there has been significant growth and consideration given to sustainability and Environmental, Social, and Corporate Governance (ESG) factors when making investment decisions. Investment in sustainable funds has been increasing at a rapid rate, but the majority of investable assets still do not incorporate ESG factors in the investment process. Investment firms have started to launch sustainable investment initiatives as this trend continues to grow. There is growing empirical evidence that supports the notion, investing sustainably and considering ESG metrics along with conventional financial analysis can have a positive effect on investment portfolios and add value by taking a more holistic approach to the investment process.

This thesis lays out an overview of the sustainable investment market, investigating prior academic research and industry reports to identify trends and drivers of ESG in the market. This review attempts to solidify that ESG investing can provide a range of positive benefits to investor portfolios, while illustrating that there are still major hurdles impeding the progression of sustainable investment into the mainstream. The goal of this thesis is to examine how investment firms can enhance their sustainable investment initiatives to increase assets under management (AUM) in sustainable funds.

A sample of investment industry professionals, from a range of backgrounds have been interviewed to gain further insights into the ESG phenomenon and to identify potential opportunities, trends, and obstacles facing sustainable investment. This thesis attempts to validate and compare data gathered from these interviews with previous studies and research. The research results present a range of focus areas that investment firms can explore further. Education of investors and financial advisors is a crucial piece to the progression of sustainable investing as there is a lot of confusion and misinformation about what investing sustainably entails and how benefits can be enjoyed. Successfully marketing ESG and communicating material information around sustainable investment through effective channels, particularly digital, is vital for investment firms. Increasing the transparency of ESG along with the creation of investment products that offer tangible and measurable benefits is a need. Firms should consider the changing client demographics when targeting clients with ESG solutions. Client segments such as millennials and women have a strong preference for investing sustainably which creates opportunity for investment firms, as these segments are continuing to become wealthier.

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1.0 Introduction

In the wake of the global financial crisis, business leaders and financial professionals have been forced to rethink the fundamentals of mainstream asset management and investing. The crisis exposed the vulnerability of global capital markets to systemic shocks and the devastating effect these have on economic growth and stability. The exposure of markets to shocks has brought to light the importance of businesses and financial institutions incorporating systemic environmental, social and governance (ESG) factors into fundamental financial analysis and business planning. (UNEP; WBCSD, 2010) This surge of ESG considerations has given rise to a responsible investment movement that has been growing at an exponential pace in recent years.

Responsible investing is any investment strategy that seeks to consider both financial return and the social good. (Kern CFA, 2015). The idea of providing funding to companies and investments that can produce both superior risk-adjusted returns while considering the well-being of the world and social good has been a fast-growing movement in recent years and continues to gain momentum. Responsible Investment (RI), Socially Responsible Investment (SRI), Sustainable Investment (SI), and ESG Investment (Environmental, Social, and Governance) are often used interchangeably and all refer roughly to the same phenomenon. *"ESG Factors are commonly used factors in measuring the sustainability and ethical impact of an investment in a company or business, and some investment managers refer to their product offerings as ESG strategies."* (Kern CFA, 2015) Investment funds exhibiting these ESG strategies are the focal point of this thesis and will be investigated in great depth to uncover underlying drivers of the trend along with obstacles in its way.

A great indicator of the increasing awareness of ESG issues in the market place is the rapidly growing list of signatories to the United Nations–supported Principles for Responsible Investment (PRI), which is the principal framework for investors who wish to integrate the consideration of ESG issues into their investment decision making. According to PRI, the assets under management (AUM) of its signatories have grown from less than $6 trillion at PRI's launch in 2006 to nearly $60 trillion as of April 2015. (CFA Institute, 2015)

Socially responsible investment was most commonly a faith-based phenomenon for many years, applied through investment mandates that avoided "sin" stocks such as alcohol, tobacco, gambling, and pornography. (Kern CFA, 2015) These approaches started with purely exclusionary stock screening of companies that participated in activities an investor or fund manager was actively trying to avoid. Today, ESG analysis is being done at an in-depth level right along with traditional financial analysis where firms and investors are trying to uncover value and get a whole picture of a company while attempting to forecast its future financial performance. The movement toward integrating ESG characteristics into traditional investment practices has been embraced by investors that believe that companies with stronger ESG attributes will be more innovative, will attract and retain customers and employees, and will have a competitive advantage over companies with weak ESG characteristics. (Kern CFA, 2015) While there has been substantial growth in ESG strategies over the past decade, the majority of investable assets are not directed towards sustainable investments. This thesis attempts to uncover what can be done with catalyze the sustainable investing trend to bring more assets under management.

1.1 Research Question

How can investment firms enhance their sustainable investment initiatives and reach clients to increase assets under management (AUM) in ESG funds?

There is a growing pool of data that supports the notion that ESG considerations can yield investors superior risk adjusted returns compared to traditional methods alone. It begs the question, why aren't more investment funds being directed toward such initiatives? What can be done to truly launch ESG considerations and investment options into the mainstream?

1.2 Definitions

The following are important definitions relevant to this research that are helpful for understanding descriptions and analysis throughout the thesis:

Sustainable investment: Sustainable, responsible and impact investing (SRI) is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact. (Friede, Busch, & Bassen, 2015)

Negative/exclusionary screening: The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria. (GSIA, 2014)

Positive/best-in-class screening: Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers. (ibid)

Norms-based screening: Screening of investments against minimum standards of business practice based on international norms. (ibid)

Integration of ESG factors: The systematic and explicit inclusion by investment managers of environmental, social and governance factors into traditional financial analysis. (ibid)

Risk adjusted financial returns: Risk-adjusted return refines an investment's return by measuring how much risk is involved in producing that return, which is generally expressed as a number or rating. Risk-adjusted returns are applied to individual securities, investment funds and portfolios. (Investopedia, n.d.-g)

Sustainability themed investing: Investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture). (GSIA, 2014)

Impact/community investing: Targeted investments, typically made in private markets, aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved individuals or communities, as well as financing that is provided to businesses with a clear social or environmental purpose. (ibid)

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

Retail investor: An individual investor that buys or sells securities for their personal account and not for another company or organization. They can also be known as “individual investors” or “small investors”. (Investopedia, n.d.)

Institutional Investor: A nonbank person or organization that trades securities in large enough amounts of money that it qualifies for preferential treatment such as lower commissions. These investors face fewer protective regulations because it is assumed they are more knowledgeable and better able to protect themselves. (Investopedia, n.d.-e)

High Net Worth and Ultra-High Net Worth clients: A high net worth individual or an ultra-high net worth individual is a classification used by the financial services industry to designate an individual or a family with high net worth. There is no exact description of how rich somebody must be to fit into this category, but high net worth is generally quoted in terms of liquid assets over a certain figure and this amount can vary depending on region and institution. In the United States, an estimated 1.3% of the population is described as high net worth. This could mean a net worth of $5 million plus for high net worth individuals and ultra-high net worth individuals can have assets in the hundreds of millions of dollars. (Investopedia, n.d.-d)

1.3 Sustainable Investment Basics

The US SIF Foundation defines Sustainable, Responsible, and Impact investing (SRI) as "an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact." (Friede, Gunnar; Busch, Timo; Bassen, 2015) SRI is a very broad and developing field, and just as there is no single approach to incorporating ESG to investments, there is no single term to describe it. Depending on the emphasis of the strategy and scope, investors can refer to this phenomenon using labels such as, "sustainable investing," "responsible investing," "socially responsible investing," "community investing," and "ethical investing," to name a few. (ibid) For the purpose of this thesis there will be an attempt to encompass all SRI strategies under the terms "ESG", "SRI", or "sustainable investment" to help avoid confusion. These terms can be used interchangeably and will be the umbrella terms referring to the broad universe of sustainable investment. SRI investors can come from a wide range of backgrounds. The SRI universe is comprised of individuals, from average retail investors to very high net worth individuals and family offices, as well as institutions such as pension funds, universities, non-profits, and religious organizations. (ibid) In this thesis we will try to look at a broad range of market participants to get a sense of the overall market.

1.4 History and Rise of Sustainable Investments

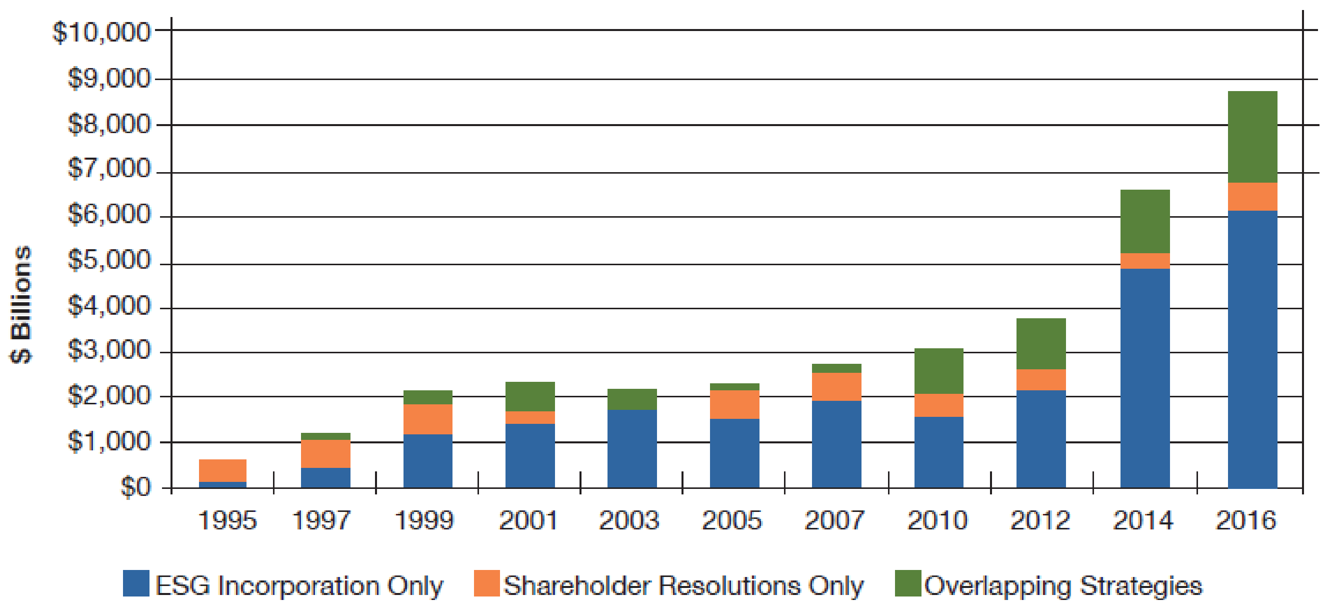
Socially responsible investing has only gained significant growth and traction in recent years but, the concept and practice has a long history. The practice of SRI has long been common among religious organizations in the United States. (D. Berry, 2013) It has thought to have started with the Quakers in the mid-1700s, as the Quakers prohibited their members from participating in the slave trade. (Kern CFA, 2015) This is one of the first known observed practices of a form of SRI. One of the founders of the Methodist church, John Wesley, was cited for his leadership through his opposition of the slave trade and called on his followers to shun profiting at the expense of their neighbors. (ibid) For many years SRI methods have been a faith based phenomenon revolving around avoiding "sinful" stocks in companies that promoted things such as alcohol, tobacco, gambling, and pornography as these activities can be seen as causing societal harm. (ibid) The Vietnam War was another example of SRI methods taking a hold in history where many investors wanted to avoid participating in companies that helped fuel the conflict. (ibid)

The apartheid in South Africa was a significant event in the evolution of SRI, as college students in the late 1980s called on pension plans and university endowments to divest from South Africa in defiance of the apartheid regime. (ibid) Environmental considerations have risen to the forefront of SRI in recent years driven by high profile environmental disasters such as the partial meltdown of the nuclear reactor at Three Mile Island and toxic waste in the Love Canal. (ibid) More recently climate change and its devastating impacts being presented by scientists have caused increased screening of high polluting energy companies. In April 2014, the $700 billion Norwegian Government Pension Fund Global, considered completely divesting its holdings in coal and petroleum companies. A few years prior that would have been inconceivable. (Nicholls, 2015) The pension fund ended up moving forward with a case by case policy of excluding fossil fuel energy companies based on severity of harm to the climate. (ibid) As time progresses SRI consideration and solutions to global problems continue to grow rapidly. The following sections will give an overview of the SRI market and make a case for the use of SRI considerations while elaborating on the methods currently being used in the SRI market along with other challenges and trends facing the industry.

1.5 Market Overview

Sustainable investment continues to increase at a fast pace. The total US-domiciled assets under management using SRI strategies grew from $6.57 trillion at the start of 2014 to $8.72 trillion at the start of 2016, an increase of 33 percent. These assets now account for more than one out of every five dollars under professional management in the United States. (US SIF, 2016) Assets engaged in sustainable investing practices at the start of 2016 represent nearly 22 percent of the $40.3 trillion in total assets under management in the United States tracked by Cerulli Associates. (ibid) From 1995, when the US SIF Foundation first measured the size of the US sustainable investing market, to 2016, the SRI universe has increased nearly 14-fold with a compound annual growth rate of 13.25 percent. (US SIF, 2016)

Figure 1: Sustainable Investing in the United States 1995-2016



Source: (US SIF, 2016)

Looking on a more global level, according to the Global Sustainable Investment Alliance (GSIA), the global sustainable investment market has continued to grow both in absolute and relative terms, rising from $13.3 trillion at the outset of 2012 to $21.4 trillion at the start of 2014, and from 21.5 percent to 30.2 percent of the professionally managed assets in the regions covered (Europe, the United States, Canada, Asia, Japan, Australia, and Africa). (GSIA, 2014) Over this two-year period, the fastest growing region has been the United States, followed by Canada and Europe. These three regions are also the largest regions in terms of assets, accounting for 99 percent of global sustainable investing assets.

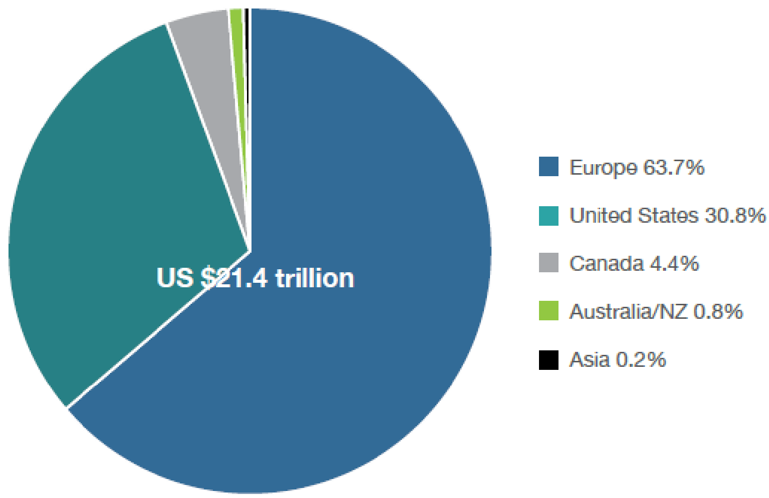


Figure 2: Proportion of Global SRI Assets by Region. Source: (GSIA, 2014)

Table 1: Growth of SRI Assets by Region 2012-2014

	2012	2014	Growth
Europe	$8,758	$13,608	55%
United States	$3,740	$6,572	76%
Canada	$589	$945	60%
Australia/NZ	$134	$180	34%
Asia	$40	$53	32%
Total	**$13,261**	**$21,358**	**61%**

Note: Asset values are expressed in billions.

Source: (GSIA, 2014)

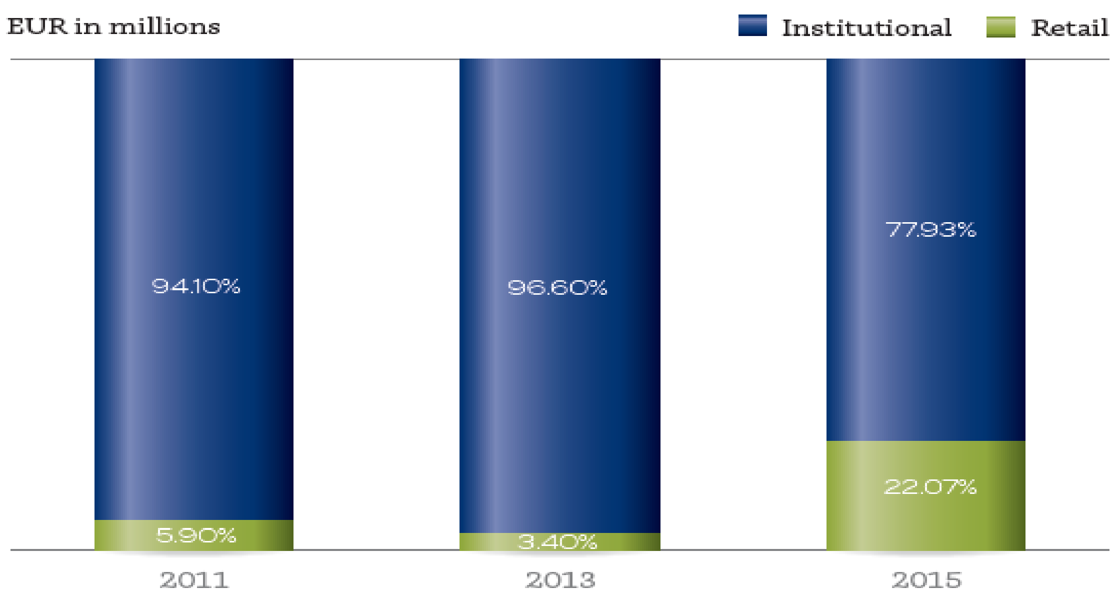
While the United States is the fastest growing region for SRI assets from 2012 to 2014 with a 76% increase, closely followed by Canada 60%, Europe still largely dominates the SRI arena with 63.7% of all SRI assets under management. This thesis will focus primarily on the US and European markets as they are currently leading the way in the ESG field with nearly 95% of the global SRI assets under management. Consequently, my research participants are from exclusively the US and

Europe. They range from wealth management professionals, portfolio managers, to experts in ESG. This is not to say that findings in this thesis and the data presented would not prove applicable to Asian markets in the east, but the momentum the western markets have gained ahead of the east prove to be more observable, with hard data and observable resources.

1.5.1 The European Sustainable Investment Market

As the European SRI market is the largest in the world, it is merited to take a closer in depth look at its key features. While institutional investors dominate the space with nearly 78% of the SRI assets under management, that gap between institutional and retail investors has been steadily closing. It is speculated that this rise in retail assets under management is due to the launch of new products by asset managers and a growing trend to focus attention on private clientele such as high net worth (HNW) individuals in recent years. (Eurosif, 2016) Figure 3 breaks down the trend of SRI assets by investor type from 2011-2015 using data gathered by Eurosif in their 2016 European SRI market study.

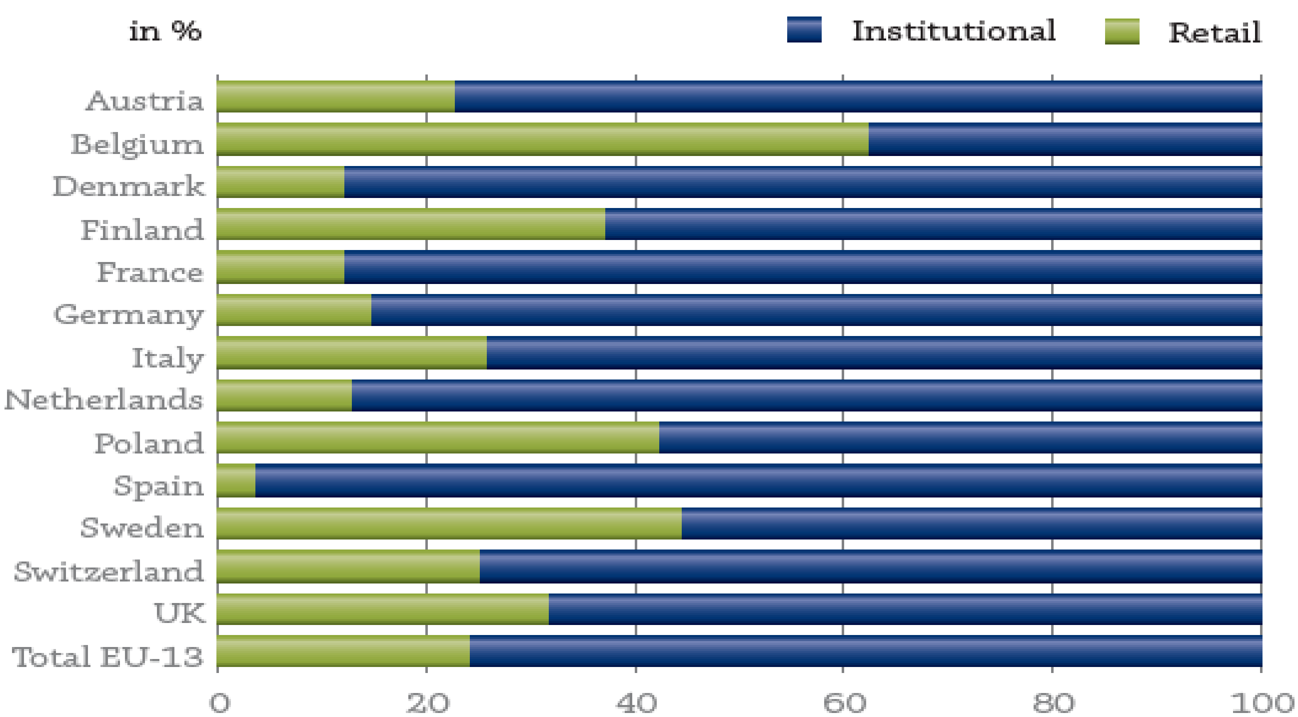
Figure 3: SRI Asset Breakdown by Type of Investor 2011-2015



Source: (Eurosif, 2016)

The gap is quickly shifting as retail investors are now gaining more access to the same ESG considerations institutions have had at their disposal. Figure 4 from the same study by Eurosif shows the breakdown of SRI assets by investor type for the following major players in Europe. Again, while the institutional investors carry most of the assets, this trend is changing and quickly. Belgium's retail space has already overtaken the institutional side as of 2015. Another significant trend going on in Europe is the shift to higher asset growth in fixed income and the declining market share equities are experiencing in the SRI space. As of December 2015, equities represented 30% of SRI asset under management domiciled in Europe. This is down from 50% the year before in 2014. Conversely there has been a sharp increase in bonds with 64% of assets domiciled in Europe as of December 2015. This is up from 40% as of December 2013. (Eurosif, 2016) This growth in the fixed income space is a reflection of the prominence of "Green Bonds" being issued by private sector corporations namely private banks. (ibid)

Figure 4: Retail/Institutional Breakdown by Country



Source: (Eurosif, 2016)

Policy is another important piece to the advancement of SRI into the mainstream. In 2014 the European Union took major steps toward requiring major European companies to report on ESG issues. (GSIA, 2014) One of these steps was the EU Non-Financial Disclosure Directive. According to the Global Sustainable Investment Alliance (GSIA), *"This Directive requires the disclosure of diversity and other ESG information by certain large listed European companies. Once approved by the Council (the body that represents the heads of state or government of the EU's member states) and passed into law, the Directive will represent an important milestone. It will be the first time that information related to environmental, social, employee, human rights, corruption and bribery matters is explicitly required to be disclosed in companies' management reports."* (ibid) Policy changes like this across Europe should continue to facilitate the growing SRI trend.

1.5.2 The United States Sustainable Investment Market

As previously stated, the United States SRI market is the fastest growing in the world up 33% from 2014 to 2016 and it's worth taking an in-depth look at the factors in play. As of 2016 the market size of all SRI related assets in the US was one-fifth of all of the assets under professional management in the United States. (US SIF, 2016) According to the US SIF Foundation the number of funds incorporating ESG criteria has continued to grow rapidly since 2007. Excluding assets in separate account vehicles and community investing institutions there were 925 distinct ESG funds holding over $2.5 trillion in 2016. This is up from only 55 funds holding $12 billion in 1995. Figure 5 below displays the exponential growth experienced in US ESG Funds. (ibid)

Figure 5: Investment Funds Incorporating ESG Factors 1995-2016

	1995	1997	1999	2001	2003	2005	2007	2010	2012	2014	2016
Number of Funds	55	144	168	181	200	201	260	493	720	894	1,002
Total Net Assets (In Billions)	$12	$96	$154	$136	$151	$179	$202	$569	$1,013	$2,457	$2,597

Source: (US SIF, 2016)

The US SIF 2016 Trends Report cited from a survey of industry professionals that client demand was one of the main drivers for the increased SRI growth in the US. Of the money managers polled, 85% of respondents cited client demand as their motivation for incorporating ESG considerations. US asset owners hiring money management firms are increasingly focused on ESG factors for their investments as responsible fiduciaries. (US SIF, 2016) This 2016 report cited that there is now $8.72 trillion invested in SRI vehicles. The breakdown of these most significant asset categories are as follows (ibid):

Registered Investment Companies: $1.74 trillion in AUM. These include mutual funds, exchange traded funds (ETFs), variable annuities, and closed end funds.

Institutional Investors: $4.72 trillion in AUM. These include pension funds, endowments, corporations, non-profits, and family offices.

Alternative Investment Vehicles: $206 billion in AUM. These include private equity, hedge funds, and venture capital funds.

Other investment vehicle categories include pooled products, separate accounts, community investing institutions, and other unspecified vehicles. Much like in Europe, the United States' major player in the SRI space is institutional investors. Institutional investor assets have grown 17% from 2014 to 2016. While this growth is significant, it lags the overall growth rate of 33% during the same period. (US SIF, 2016) Market growth rates in the retail space of SRI are now outpacing the institutional space. This change in growth rates favoring the retail side of the market can be shown in figure 6 illustrating assets under management on a global level.

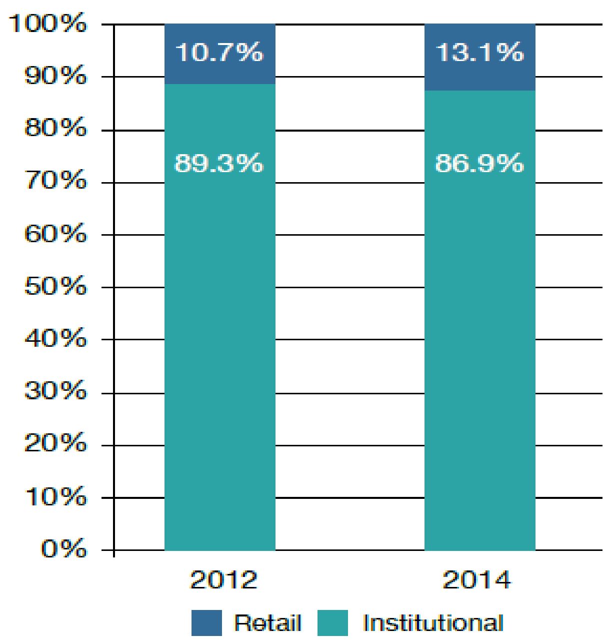


Figure 6: Global Institutional/Retail SRI Assets. Source: (GSIA, 2014)

1.6 Structure of the Thesis

This thesis began with an introduction of the sustainable investment movement along with historical background of SRI and market statistics that provide an overview of the topic and trends within the industry. The presentation of SRI subsequently led into the arrival of the research question and the issues that this thesis attempts to examine. In the following section, the methodological foundation of the thesis along with practical reasoning and explanations for the choices made will be laid out. This includes the benefits of the scope chosen along with its shortcomings. Next, a literature review that provides a point of reference for this research will be presented which will examine a variety of reports and academic studies. The goal of this review is to set the background of what is known about ESG investing and the potential benefits that can be rendered. This thesis' research question is built on the foundation that sustainable investing is a positive and beneficial activity to investors and society alike. Consequently, the literature review sets forth to demonstrate this with various studies and empirical data from secondary sources. The review delves further into the background of ESG investing, presenting what has happened in the markets thus far, highlighting key trends and presenting current obstacles facing the expansion of SRI investing.

In the following section, there will be a comprehensive analysis of interviews conducted with a sample of investment professionals. This section will identify key trends and compare responses among the research participants while referencing findings identified in the literature review for comparison. This will help shine a light on any aspects of the SRI process that may not be as well-known or reported on within the industry. The data sample will be used to examine benefits SRI can offer to client portfolios while comparing these beliefs to empirical secondary data. Demographics that could be targeted to increase the assets under management in sustainable investments along with methods to reach these client segments will be explored. Issues facing SRI will also be studied in the attempt to find solutions. Finally, the analysis will be used as a medium to address the research question and subsequently form conclusions about the research while addressing limitations and forming recommendations of further study on the topic.

2.0 Methodology

The following will describe the methodological approach of this thesis. This includes the research methods and tactics used to answer the research question, and the implications these choices have had on the result and conclusions reached.

2.1 Research Philosophy

In this thesis, the philosophical position of critical realism was taken. Critical realism agrees with positivists that there is an observable world independent of human consciousness, while at the same time suggesting that knowledge about the world is socially constructed. (Kovalainen, Anne; Eriksson, 2011) Critical realism as it is most often discussed, is an open and evolving paradigm that includes many different perspectives and criticisms. Critical realism advocates a methodological stance of research inquiry that is essentially directed to the discovery of causal mechanisms in social life. This involves the inference from a description of some phenomenon to an understanding of the causal properties producing it. (Houston, 2014) In the case of this thesis we are looking at the phenomenon of the current ESG movement and look to further examine the causes and forces producing its rise. As more understanding of these forces was gained, ideas on how to strengthen and augment these forces were presented as they could be of key interest to investment firms and wealth managers.

Critical realism being an open and evolving paradigm desires a retroductive approach, as purely inductive and deductive approaches would require a closed system. In retroduction, the aim is to hypothesize about the likely influence of multiple mechanisms producing interlinked, multiple effects, in diverse fields. This is a complex task and the inquirer needs to be able to draw on theories that examine deep causal properties in psychological and social life in order to gain a tentative understanding of what mechanisms are at play. (Houston, 2014) Critical realism subscribes to the notion that it is not enough to understand the social world. We must also act to change it to enhance human well-being. (ibid) This is extremely relevant and congruent with enhancing ESG considerations in financial decision making as the potential repercussions on human welfare from its growth or decline could be enormous. As more is learned about the factors at play in the rise of sustainable investing, stakeholders, particularly wealth management firms, need to take action with the newly gained knowledge to best position themselves in this ever changing and dynamic industry. Becoming educated on the driving forces surrounding the adoption of ESG investing is imperative to gaining assets under management and in turn making an impact on the world.

When looking at critical realism from a epistemological perspective, it very closely resembles substantialism, which takes reality as material, but acknowledges that people interpret it differently in different times and contexts. (Kovalainen, Anne; Eriksson, 2011) For this reason, in this thesis the conclusions drawn will be hard to interpret as absolute fact due to the nature of the exploratory research.

2.2 Research Approach and Data Collection

This explorative study of how to enhance SRI initiatives was undertaken by reviewing reports, literature, and academic studies on the subject, along with interviews with experts on the topic of ESG and wealth management professionals offering financial advice in the field. The best exploratory data analysis provides researchers with as much scope and room as possible for the discovery of new concepts and trends. (Stebbins, 2012) This was the goal of this thesis in attempting to uncover generalizations and insights into how to further enhance ESG fund growth. This thesis used largely qualitative data collection methods and took a primarily retroductive approach with inductive slants that allowed for the generation of meaning from the collected data. This enabled the identification of patterns and creation of recommendations on how investment firms and professionals can move forward in enhancing ESG growth. Retroduction can be interpreted as follows according to Olsen, *"Why these data, why these things happened this way, and how people interpret things themselves – which implies also asking why people see things as they do. When operating this way, the user of retroduction is not just a scientist, they are also human. They care about what people think but they are not blinded by what people say. They care about the data but are not limited to a single data type or a single dataset. They are inquirers."* (Olsen, 2014) This method was ideal for the answers obtained in the data sample because it is unlikely an absolute truth has been reached, but rather ideas haven been generated. (ibid) Retroduction is a technique that makes researchers curious and can be a guide to finding trends or theories in the most complex fields. (ibid)

2.2.1 Secondary Data

Secondary data sources were used throughout this thesis to set a firm foundation and overview of the sustainable investment industry, trends, and issues. The research question of this thesis, determining how investment firms enhance their sustainable investment initiatives and reach clients to increase assets under management was largely based on displaying that on a large scale, academic studies with a wide array of empirical evidence, have disproved that ESG considerations hamper investment performance. On the contrary, the data and studies presented in this thesis display how investing sustainably can enhance portfolio performance by reducing firms' cost of capital, increased stock price performance, and improved risk diversification. (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015)

Sources such as the annual reports from The Forum for Sustainable and Responsible Investment, US SIF and Eurosif, whom of which are leaders in the promotion of sustainable investment in the United States and Europe respectively, were used because of the rich background and in-depth data they can provide to give a firm overview of the industry and the trends currently happening along with projected changes to come. Collecting primary data of this scope and scale is beyond the reach and time frame of this project so this base foundation has been laid down with the presentation of these organizations' findings along with various other studies. Many industry reports from leading investment firms, consultancies, and data providers were also used to set forth facts about the sustainable investing landscape.

2.2.2 Primary Data

With the groundwork laid out by the presentation of the secondary data, primary data was collected in the form of ten qualitative interviews with financial industry professionals. These interviews served as an exploratory tool to dig deep into individual and specific views of working financial professionals to try and uncover common trends, hurdles, and experiences surrounding sustainable investment in today's market place. This thesis is done in the critical tradition based in "action research" setting out to enhance the adoption of sustainable investing. (Eriksson & Kovalainen, 2008)

2.2.3 Research Sample Justification

"Researchers have discussed a range of numbers for samples in phenomenological studies. Thomas and Pollio (2002) suggest that an appropriate sample size for phenomenological research can range from 6 to 12 participants—provided there is thematic redundancy after hearing the narratives of 6 participants." (Beitin, 2014) When themes started to arise from the first half of the data collected, the final number of 10 interviews, 4 experts and 6 wealth management professionals was determined. The research sample gathered was exclusively from investment professionals working in the United States and Europe. This was done for several reasons. Firstly based on the fact that these regions of the world have experienced the largest growth in SRI assets and have the most developed markets. (GSIA, 2014) Secondly, it was based on having particular access to these markets because of the author's former employment in the United States in the wealth management industry which provided a network that the research sample could be drawn from. The author's education and residence in Europe further provided opportunities. Finally, the vast majority of the world's wealth is located in these regions and therefore understanding the dynamics of these markets to further SRI expansion could have the largest possible impact given the scope of this thesis. (ibid)

Four industry experts on the ESG and sustainable investing were interviewed in order to gain a more in depth view of current trends, hurdles, demand, and availability of education/resources available to investors surrounding the topic. These experts range from a Senior Portfolio Manager and Head of ESG at a large Danish pension fund to the Head of Sustainability at Morningstar Benelux along with associates at ESG data providers. The goal was to achieve a research sample that displayed a variety of roles along with differing levels of seniority and different companies to try and cover as much ground as possible in gaining a picture of the industry and the notions across it. Six investment professionals with more "hands-on" exposure with end client investors were selected with the purpose of examining how financial advisors are incorporating ESG options in their practices and to get an overall view of how much advisors and clients are buying into sustainable investment. This portion of the sample was primarily wealth management advisors servicing end clients in helping them reach their financial goals. They ranged from the institutional side of the industry to the retail side. Some serve primarily "high net worth" and "ultra-high net worth" client whereas the others serve primarily less affluent individuals. A key goal of this part of the research was to gain an understanding of type of demand from clients, the range of resources available to clients and advisors alike, and finally the degree to which advisors are utilizing ESG or giving weight to the potential benefits these considerations can give to their client base. There are many sustainable investment platforms and initiatives currently out there with a wide range of information available. This selection of the advisor sample was made to see if these initiatives are gaining traction on the "ground" where much of the advice is being given and investments are being made.

2.2.4 Interview Design and Rationale

The interviews with the research sample were carried out primarily via e-mail in a semi-structured manner. Two phone interviews and one face-to-face interview was conducted at the request of the interviewees. The primary method of collecting data via e-mail proved particularly advantageous due to the differing geographical location of sample participants. It provided a solution to overcoming time differences and the hurdle of not being in the same physical location to conduct a face to face interview. This method was also intended to make the process easier on the participants allowing them to answer interview questions on their own time within the comfort of their own home or office. (McKerlich, Ives, & McGreal, 2013) This naturally more "concrete" data helped eliminate transcription errors along with providing the participant with the time to reflect on the questions being asked so that they could respond more thoroughly and thoughtfully. (ibid) Additionally this method could have encouraged participants to construct their own experiences with their own dialogue and interaction with the researcher, eliminating the potential influence from the interviewer's non-verbal cues or unintended suggestions that inevitably take place face to face or over the phone. (ibid)

The interview questions were written in a way that was extremely broad as to encourage the research participants to interpret them in a way that would most closely reflect their own experiences, thoughts, and beliefs surrounding the questions. In conducting the research this way, a wide range of perceptions were gathered that gave rise to common trends and responses. This method was advantageous to the nature of this investigative research, as the objective was to research a subject matter that is largely unknown and still in early growth stages. The expert research participants were asked identical questions initially as were the wealth management professionals, in order to reduce any subjective biases that could have arisen. In some cases, a follow up was done with a participant as means to delve deeper into an answer they had provided or to gain clarification. However, this was only done after the identical questions were asked across the two segments of the research sample. To mitigate the possibility of misinterpretation, interviews done over the phone and in person were recorded or notes were taken. Participants were provided with informed consent forms to let them know their rights as research participants and to outline the basis of this study. In the case of the face-to-face and phone interviews, verbal consent was obtained. Given the intangibility and lack of clear definitions of what SRI or ESG actually is, there was a range of interpretation by the research participants. This played into gaining a rich sample of data that was obtained with little influence inflicted by the interviewer. In exploratory research, you can run the risk of asking leading questions. The e-mail method of collection seemed to negate or minimize the possibility of this with the exception of some direct follow-up questions.

2.2.5 Delimitations and Critique of the Data

A major limitation of this thesis is the geographical scope covered which included only the United States and Europe in the research sample. This was limiting because SRI is a global phenomenon with benefits to be realized in every market. However, given that the western world has the most wealth and the most developed financial market systems, it is arguably the best geographical area to analyze. Findings can then be applied to eastern and emerging markets after potentially adjusting for cultural or market system differences. The scope of this thesis was to gain a picture of the SRI market in asset management overall, across western geographies and markets. However, the sample is skewed largely by location within this western market. The majority of the wealth management professionals who participated in the study, practice in the Midwestern United States. Various factors such as the political environment, client demographics, and business norms of this region could skew participants' experiences and not necessarily be completely representative of the whole population. The expert research participant sample on the other hand, is much more diverse in geography spanning three different countries. The nature of their work and solid understanding of global ESG issues is less likely to be skewed due to the nature of their careers and their education on the topic. Research was conducted with investment professionals from both the institutional side and retail side of the industry to try and gain a perspective of differing issues affecting each segment. Further primary data from wealth management professionals in the European market and other regions of the United States could have augmented the completeness of the research sample, but access proved difficult given the lack of professional network in those areas.

An aim of this thesis was to get an understanding of how SRI products are being used or presented to clients by looking at advisors in client facing positions who are on the "front lines". Many major investment firms such as BlackRock and Morgan Stanley to name a few have sustainable investment platforms with a range of information and advice. Gathering data from the heads of management in these new platforms at investment firms could have been beneficial to understanding the whole SRI picture. It could enhance the scope of this thesis which primarily examines wealth management advisors and ESG experts.

3.0 Literature Review

A comprehensive review of existing literature and empirical research has been done surrounding the SRI market. This review serves to give a solid understanding of a very broad and relatively new field as to put the research of this thesis into some context. This thesis is investigating how asset managers can enhance their SRI initiatives and reach investors to increase assets under management in sustainable funds. It is therefore paramount to set forth the research that has been done on SRI showing that when ESG considerations are taken into account in an investment process, they do indeed add value to client portfolios. The premise of gathering more assets into SRI funds must be built off the premise that ESG factors add value to investors. This review then examines the trends and challenges currently facing the sustainable investment market. This acts as a preface to the data collected from interviews with investment professionals in the analysis portion of the thesis and provides this research with a point of reference with much wider scope than the interview sample alone.

3.1 A Business Case and Motivation for SRI Considerations

In 2013, Accenture conducted a survey of 1,000 CEOs in 103 countries and 27 industries. They found that 80% of CEOs view sustainability as a means to gain competitive advantages in the market relative to their peers. The study found that *"81% of CEOs believe that the sustainability reputation of their company is important in consumers' purchasing decisions".* (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015) This shows the importance of integrating CSR strategy from a management perspective in today's market place. On the contrary, in the same study they found that only 33% of all surveyed CEOs think *"that business is making sufficient efforts to address global sustainability challenges"*. (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015) One reason for the imbalance between the acknowledgement of the importance of sustainability and then actually taking measures to implement sustainable practices, is the financial markets' focus on short-termism and the pressure on companies to yield superior risk adjusted returns to investors on a consistent basis. Short-termism can be defined by the Oxford Dictionary as, "Concentration on short-term projects or objectives for immediate profit at the expense of long-term security." ("short-termism" | Oxford Dictionaries," n.d.)

This phenomenon is illustrated in a survey conducted on behalf of McKinsey & Company and the Canada Pension Plan Investment Board (CPPIB) where 79% of C-level executives and board members stated that they felt pressure to deliver financial results within two years or less. 86% of these individuals noted that this self-imposed constraint was in contrast to their beliefs, that using a longer time horizon to make business decisions would positively affect corporate performance in a number of ways, including strengthened long-term financial returns and increases in innovation. (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015)

There is a strong business case for the consideration of ESG factors. Sustainability is central for the public image of a corporation, for serving shareholder interests, and for the preventative insurance against adverse ESG events such as some type of environmental catastrophe or labor rights violations caused by business activities. Good ESG quality leads to competitive advantages in the marketplace and therefore can have an impact on investment attractiveness. (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015) Table 2 shows a selection of ESG issues that can have a material impact.

Table 2: Selection of Material ESG Factors

ENVIRONMENTAL ("E")	SOCIAL ("S")	GOVERNANCE ("G")
Biodiversity/land use	Community relations	Accountability
Carbon emissions	Controversial business	Anti-takeover measures
Climate change risks	Customer relations/product	Board structure/size
Energy usage	Diversity issues	Bribery and corruption
Raw material sourcing	Employee relations	CEO duality
Regulatory/legal risks	Health and safety	Executive compensation schemes
Supply chain management	Human capital management	Ownership structure
Waste and recycling	Human rights	Shareholder rights
Water management	Responsible marketing and R&D	Transparency
Weather events	Union relationships	Voting procedures

Source: (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015)

According to Nasdaq, materiality can be defined as, *"The importance of an event or information in influencing a company's stock price."* (Nasdaq, n.d.) There are many factors, as displayed by this table, that can influence a company's market value and therefore arguably should be considered when valuing a company. Materiality and its accurate evaluation is a major challenge for analysts. Determining which ESG criteria is most likely to have an impact on financial performance is not always straightforward. This challenge is the balancing of two time horizons, that of the short term mission of near term performance and that of the mid to long term range performance, where ESG factors lend more value when considered in investment analysis. (Eurosif, 2016) Table 3 illustrates how ESG issues can cost firms major expenses due to ESG related issues:

Table 3: Largest Fines and Settlements Concerning ESG Issues (February 2015)

COMPANY	YEAR	SECTOR	COUNTRY	IN USD MN	CAUSE	SOURCE
Bank of America	2014	Financials	USA	16,650	Financial fraud leading up to and during the financial crisis	U.S. Department of Justice
JP Morgan	2013	Financials	USA	13,000	Misleading investors about securities containing toxic mortgages	U.S. Department of Justice
BNP Paribas	2014	Financials	France	8,970	Illegally processing financial transactions for countries subject to U.S. economic sanctions	U.S. Department of Justice
Citigroup	2014	Financials	USA	7,000	Misleading investors about securities containing toxic mortgages	U.S. Department of Justice
Anadarko	2014	Energy	USA	5,150	Fraudulent conveyance designed to evade environmental liabilities	U.S. Department of Justice
BP	2012	Energy	UK	4,500	Felony manslaughter: 11 people killed; Environmental crimes: oil spill in the Gulf of Mexico; Obstruction: misstatement of the amount of oil being discharged into the Gulf	U.S. Department of Justice, Securities
GlaxoSmithKline	2012	Pharmaceuticals	UK	3,000	Unlawful promotion of certain prescription drugs; Failure to report certain safety data to the FDA; False price reporting practices	U.S. Department of Justice
Credit Suisse	2014	Financials	Switzerland	2,800	Helping U.S. taxpayers hide offshore accounts from the IRS	U.S. Department of Justice
Pfizer	2009	Pharmaceuticals	USA	2,300	Misbranding Bextra (an anti-inflammatory drug that Pfizer pulled from the market in 2005) with the intent to defraud or mislead	U.S. Department of Justice
Johnson & Johnson	2013	Pharmaceuticals	USA	2,200	Off-label marketing and kickbacks to doctors and pharmacists	U.S. Department of Justice

Source: (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015)

Table 3 shows the ten largest fines and settlements in corporate history. Together these fines amount to approximately $45.5 billion. *"In the financial sector, banks have paid out $100 billion in U.S. legal settlements alone since the start of the financial crisis, and global pharmaceutical companies have paid $30.2 billion in fines since 1991."* (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015) Ignoring ESG factors or not having proper ESG procedures in place surely should be a red flag to any potential investor or asset manager when considering investing in a company.

3.2 Responsible Investment Approaches

The growth of responsible investment has been driven by a variety of different investment objectives and approaches. Some investors are interested in strategies that allow them to better manage risk and enhance financial performance by accounting for ESG factors. Others are interested in using investing as a means to make a direct environmental and social impact. (JP Morgan, 2015) For the purpose of this thesis it will be important to understand the different strategies and approaches available in today's market place as well as the trends of these subsections in SRI to better understand what options are available to investors.

Exclusionary Screening: Also referred to as negative screening, is the often the most common strategy associated with sustainable investing. This strategy entails excluding stocks or bonds from portfolios of companies that are involved in certain activities that are often measured via percentage of revenue produced. Companies or sectors that do not align with the investors criteria are excluded. (JP Morgan, 2015) For example one could exclude tobacco companies because of the harm they do to public health or another may exclude oil companies, due to their contribution to greenhouse gases and global warming. This method provides practical applicability for an investor who wants to focus on a strategy or initiative that matters to them most or rather which activities they would most like to avoid.

ESG Integration: This approach involves integrating consideration of environmental, social, and governance (ESG) issues into investment due diligence and analysis. The principal objective of ESG integration is to ensure that relevant issues, factors, and risks that have the potential to impact companies are considered alongside traditional financial analysis during the investment process. ESG integration often entails direct engagement with companies including active discussions with management and through shareholder action. (JP Morgan, 2015) ESG integration is part of the fundamental research process and can therefore be applied to any asset class. ESG considerations are generally used to manage risk and to achieve suitable risk adjusted returns. It is not employed for the sole purpose of making a social or environmental impact, although this is often a positive side effect of such strategies. Independent research firms such as Morningstar, Bloomberg, and Sustainalytics now provide ESG data that is made available to investors and decision-making investment professionals as a means to incorporate these considerations into their financial analysis of prospective investments.

Positive/Best in Class Screening: This approach involves proactively selecting companies identified as positive performers relative to industry peers based on their management of non-financial factors. Positive screening is commonly associated with ESG integration, as the screening criteria are generally based on a measure of positive ESG performance. Positive screening often relies on fundamental ESG analysis. Managers develop their own fundamental research approach and leverage proprietary insights to identify well-established performers in certain industries or sectors. (JP Morgan, 2015)

Thematic Investing: This approach identifies companies whose business models focus on specific sectors and related innovations or improvements over industry peers with respect to social or environmental impacts. Thematic investing around sustainability related issues may focus on areas such as healthcare in emerging markets, education, clean energy or sustainable agriculture, among others. (JP Morgan, 2015)

Impact/Community Investing: This approach intentionally seeks to create positive social and environmental impacts alongside financial returns. Investors generally define the positive impacts they are targeting during investment due diligence and seek to measure the generation of those impacts throughout the lifecycle of the investment. Impact investing has most commonly involved the use of private equity or private debt either deployed through direct investments in companies, or through funds that invest in a portfolio of companies. Impact investments may support the objectives that align with the philanthropic or organizational mission of the investor. (JP Morgan, 2015)

Corporate Engagement and Shareholder Action: As defined by the Global Sustainable Investment Alliance (GSIA), this entails the use of shareholder power to influence corporate behavior, including through direct corporate engagement by communicating with senior management on boards of companies, filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines. (GSIA, 2014)

Norms-Based Screening: Can be defined as the screening of investments against minimum standards of business practice based on international norms. (GSIA, 2014)

The large universe of SRI investing has been expanding at a great rate and it is worth examining the break-down of the different strategies in terms of assets under management and the growth trends.

Table 4: Illustrates the growth of global SRI assets by strategy from 2012-2014

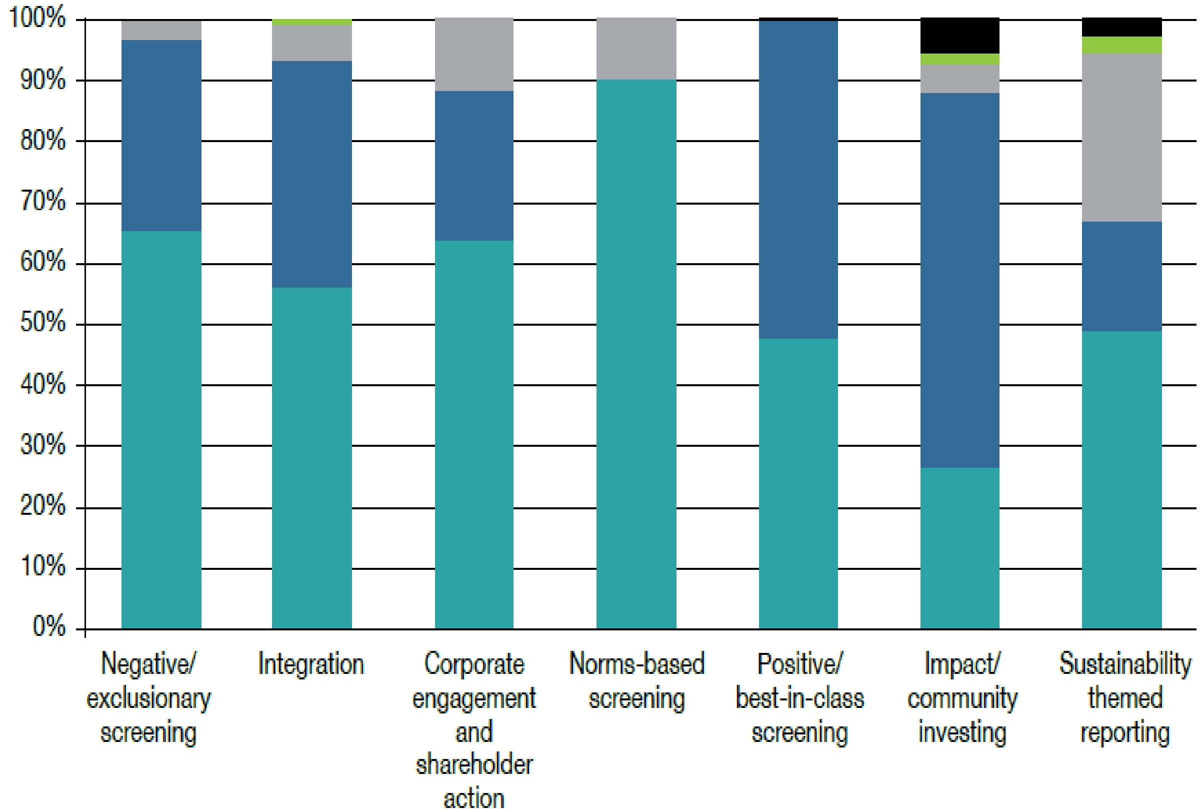
	2012	2014	Growth
Norms-based screening	$3,038	$5,534	82%
Negative/exclusionary screening	$8,280	$14,390	74%
Positive/best-in-class screening	$999	$992	-1%
ESG integration	$5,935	$12,854	117%
Sustainability-themed investing	$70	$166	136%
Impact/community investing	$86	$109	26%
Corporate engagement and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

Note: Asset values are expressed in billions.

Source: (GSIA, 2014)

ESG Integration and Thematic Investing have led the way in this time-period followed closely by Norms-Based Screening, Exclusionary Screening, and Corporate Engagement all of which have made significant gains.

Figure 7: Illustrates a global view of SRI strategies employed by assets under management in 2014.

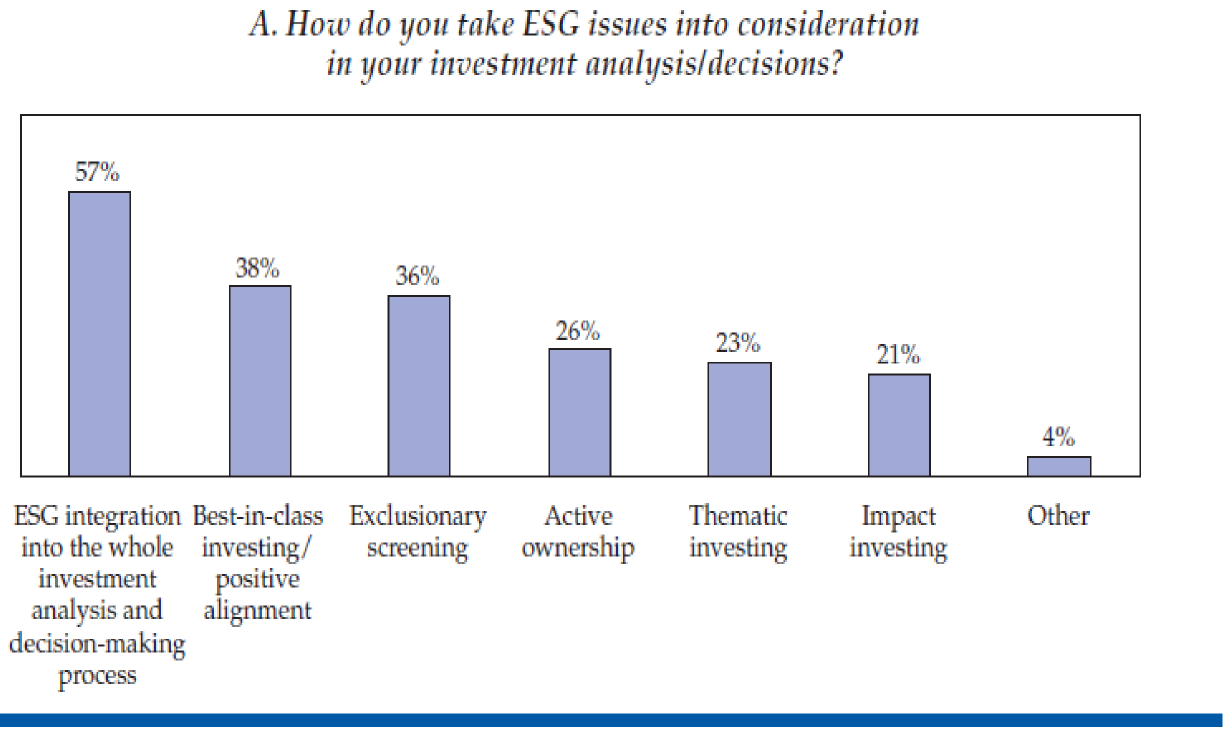


	Negative/ exclusionary screening	Integration	Corporate engagement and shareholder action	Norms-based screening	Positive/ best-in-class screening	Impact/ community investing	Sustainability themed reporting
Asia	0.1%	0.2%	0.0%	0.0%	0.2%	5.4%	2.5%
Australia/NZ	0.1%	1.2%	0.0%	0.0%	0.0%	1.8%	2.8%
Canada	3.3%	5.7%	11.6%	9.6%	0.3%	3.6%	27.7%
United States	30.9%	36.9%	24.4%	0.0%	50.5%	63.5%	18.1%
Europe	65.6%	56.0%	64.0%	90.4%	49.0%	25.7%	48.9%

Source: (GSIA, 2014)

The United states has taken the global lead in Positive/Best-in-class Screening and Impact/Community Investing, but the Europe dominates all other categories as a leader in SRI.

Figure 8: A 2015 global poll done by the CFA (Chartered Financial Analyst) Institute asked a sample of investment professionals which ESG methods are taken into consideration when making an investment decision and the results are as follows.



Source: (CFA Institute, 2015)

While many of these strategies can overlap or be concurrently considered, ESG Integration into the whole investment analysis process is in the lead followed by Positive/Best in class Screening and Exclusionary Screening. This is partially consistent with the data displayed by the GSIA in Table 4. Exclusionary screening and ESG Integration lead the way in assets under management globally and the CFA poll seems to support this. However, the Best in Class/Positive screening was considered by 38% of respondents while accounting for only $992 billion of SRI assets in 2014.

3.3 Performance of ESG Funds

"The movement toward integrating ESG characteristics into traditional investment practices has been embraced by investors who believe that companies with stronger ESG attributes will be more innovative, will attract and retain more customers and employees, and will have a competitive advantage over companies with weak ESG characteristics." (Kern CFA, 2015) There have been many studies done that have tracked the performance of investments that consider ESG characteristics as part of their investment process. The data seem to overwhelmingly support the claim that companies that actively and adequately address ESG considerations gain a competitive advantage over their peers in their industry. (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015)

A recent study by PricewaterhouseCoopers (PWC) claimed that *"sustainability is emerging as a market driver with the potential to grow profits and present opportunities for value creation — a dramatic evolution from its traditional focus on efficiency, cost, and supply chain risk"* (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015) There have been numerous academic studies done in recent years to support the notion that SRI and ESG considerations can reduce the cost of capital to a firm which can be linked to decreased risk and increased profitability. (ibid) Cost of capital can be defined in its simplest form as the cost of funds used for financing a business. (Investopedia, n.d.-a)

Table 5 displays empirical studies exploring the link between sustainability and the cost of capital. "Lower" in the far-right column indicates that better ESG lowers the cost of capital. Lower cost of capital is desirable for firms based on the principals within corporate finance.

Table 5: Empirical Studies Investigating the Relationship Between Sustainability and Corporate Cost of Capital

STUDY AUTHORS	TIME PERIOD	ESG ISSUE	ESG FACTOR	IMPACT (*)
Albuquerque, Durnev, and Koskinen (2013)	2003-2012	Composite CSR index	ESG	Lower
Ashbaugh-Skaife, Collins, and LaFond (2004)	1996-2002	Several individual corporate governance attributes and a composite governance index	G	Lower
Ashbaugh-Skaife, Collins, and LaFond (2006)	2003	Governance index and individual governance attributes	G	Lower
Attig, El Ghoul, Guedhami, and Suh (2013)	1991-2010	Composite CSR index (excl. governance)	ES	Lower
Barth, Konchitchki, and Landsman (2013)	1974-2000	Earnings transparency	G	Lower
Bauer, Derwall, and Hann (2009)	1995-2006	Employee relations	S	Lower
Bauer and Hann (2010)	1995-2006	Environmental performance	E	Lower
Bhojraj and Sengupta (2003)	1991-1996	Governance attributes (institutional ownership, outside directors, block holders).	G	Lower
Bradley, Chen, Dallas, and Snyderwine (2008)	2001-2007	Several governance indices	G	Lower (1)
Cajias, Fuerst, and Bienert (2012)	2003-2010	CSE strengths and concerns	ESG	Mixed
Chava (2014)	2000-2007	Environmental performance (net concerns)	E	Lower (2)
Chava, Livdan, and Purnaanandam (2009)	1990-2004	Reversed governance index	G	Lower (3)
Chen, Chen, and Wei (2011)	1990-2004	Governance index	G	Lower
Chen, Chen, and Wei (2009)	2001-2002	Composite governance index	G	Lower
Cremers, Nair, and Wei (2007)	1990-1997	Anti-takeover index and ownership structure	G	Lower
Derwall and Verwijmeren (2007)	2003-2005	Corporate governance quality	G	Lower
Dhaliwal, Li, Tsang, and Yang (2011)	1993-2007	CSR disclosing quality	ESG	Lower (4)
El Ghoul, Guedhami, Kim, and Park (2014)	2002-2011	Corporate environmental responsibility	E	Lower
El Ghoul, Guedhami, Kwok, and Mishra (2011)	1992-2007	Composite CSR index (excl. governance)	ES	Lower (5)
Goss and Roberts (2011)	1991-2006	CSR concerns and strengths	ESG	Lower (6)
Jiraporn, Jiraporn, Boesprasert, and Chang (2014)	1995-2007	Composite CSR score	ESG	Lower
Klock, Mansi, and Maxwell (2005)	1990-2000	Governance index	G	Lower
Lima and Sanvicente (2013)	1998-2008	Composite governance index	G	Lower
Menz (2010)	2004-2007	Binary indicator variables for social responsibility	ESG	None (7)
Reverte (2012)	2003-2008	CSR reporting quality	ESG	Lower (8)
Schauten and van Dijk (2011)	2001-2009	Disclosure quality	G	Lower (9)
Schneider (2011)	1994-2004	Environmental performance: pounds of toxic emissions	E	Lower (10)
Sharfman and Fernando (2008)	2002	Environmental risk management	E	Mixed (11)
Verwijmeren and Derwall (2010)	2001-2005	Employee well-being	S	Lower

Source: (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015)

There is evidence that the common stock of firms with superior sustainability profiles deliver higher returns than their conventional peers. (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015) There is also evidence that firms experience significant positive stock price reactions when shareholder sponsored CSR proposals are adopted by corporations. (ibid)

Table 6: Empirical Studies Investigating the Relationship of Various ESG Factors and Corporate Financial Performance. "Positive" in the far-right column indicates that better ESG has a positive effect on stock price performance.

STUDY AUTHORS	TIME PERIOD	ESG ISSUE	ESG FACTOR	IMPACT (*)
Aktas, de Bodt, and Cousin (2011)	1997-2007	Intangible Value Assessment Ratings	ESG	Positive (1)
Bebchuk, Cohen, and Ferrell (2009)	1990-2003	Entrenchment index	G	Positive (2)
Bebchuk, Cohen, and Wang (2013)	2000-2008	Governance quality/shareholder rights	G	No effect/no relation
Becchetti, Ciciretti, and Hasan (2009)	1990-2004	Sustainability index exits and entries	ESG	Positive (3)
Borgers, Derwall, Koedijk, and ter Horst (2013)	1992-2009	Stakeholder relations index	S	Mixed findings (4)
Brammer and Millington (2006)	1990-1999	Charitable giving	S	Mixed findings (non-linear) (5)
Brammer, Brooks, and Pavelin (2006)	2002-2005	Composite CSR index	ES	Mixed (6)
Capelle-Blancard and Laguna (2010)	1990-2005	Environmental disasters (explosions) at chemical plants	E	Positive (7)
Cheung (2011)	2002-2008	Sustainability index inclusion/exclusions	ESG	Positive
Core, Guay, and Rusticus (2006)	1990-1999	Governance index/shareholder rights	G	Positive
Core, Holthausen, and Larcker (1999)	1982-1984	Excessive compensation	G	Positive (8)
Cormier and Magnan (1997)	1986-1993	Amount of pollution	E	Positive (9)
Cremers and Nair (2005)	1990-2001	Reversed governance index and block holder ownership	G	Positive
Deng, Kang, and Low (2013)	1992-2007	Composite CSR index	ESG	Positive
Derwall, Guenster, Bauer, and Koedijk (2005)	1995-2003	Corporate eco-efficiency	E	Positive
Doh, Howton, Howton, and Siegel (2010)	2000-2005	Sustainability index inclusion/exclusion	ESG	Mixed (10)
Eccles, Ioannou, and Serafeim (2013)	1991-2010	Corporate sustainability index	ESG	Positive
Edmans (2011)	1984-2009	Employee satisfaction	S	Positive
Edmans (2012)	1984-2011	Employee satisfaction	S	Positive
Edmans, Li, and Zhang (2014)	1984-2013	Employee satisfaction	S	Generally positive
Faleye and Trahan (2011)	1998-2005	Employee satisfaction	S	Positive
Filbeck and Preece (2003)	1998	Employee satisfaction	S	Positive
Fisher-Vanden and Thorburn (2011)	1993-2008	Environmental performance initiative participation	E	Positive
Flammer (2013)	1980-2005	Corporate environmental footprint	E	Positive
Flammer (2014)	1997-2011	Shareholder-sponsored CSR proposals	ESG	Positive
Giroud and Mueller (2010)	1976-1995	Industry concentration	G	Positive (11)
Giroud and Mueller (2011)	1990-2006	Governance index in highly concentrated industries	G	Positive (12)
Godfrey, Merrill, and Hansen (2009)	1991-2002/03	Social initiative participation	ESG	Positive
Gompers, Ishii, and Metrick (2003)	1990-1998	Shareholder rights	G	Positive

Table 6 Continued:

STUDY AUTHORS	TIME PERIOD	ESG ISSUE	ESG FACTOR	IMPACT (*)
Hamilton (1995)	1989	Volume of toxic releases	E	Positive (13)
Jacobs, Singhal, and Subramanian (2010)	2004-2006	Environmental performance	E	Mixed findings
Johnson, Moorman, and Sorescu (2009)	1990-1999	Governance quality/shareholder rights	G	No effect/no relation
Karpoff, Lott, and Wehrly (2005)	1980-2000	Environmental regulation violations	ESG	Positive (14)
Karpoff, Lee, and Martin (2008)	1978-2002	Financial misrepresentation	G	Positive (15)
Kaspereit and Lopatta (2013)	2001-2011	Corporate sustainability and GRI	ESG	Positive
Klassen and McLaughlin (1996)	1985-1991	Environmental management awards	E	Positive
Krüger (2014)	2001-2007	CSR news events	ESG	Positive (16)
Lee and Faff (2009)	1998-2002	Corporate sustainability quality	ESG	Negative
Smithey Fulmer, Gerhart, and Scott (2003)	1998	Employee wellbeing	S	Positive (17)
Statman and Glushkov (2009)	1992-2007	Composite CSR index	ES	Positive
Yermack (1996)	1984-1991	Reductions in board size	G	Positive

Source: (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015)

For the research in this thesis it is crucially important to establish the relationship between ESG factors and links to financial performance. By presenting these empirical studies which support this notion, I believe this thesis has done that. This thesis is exploring how to increase assets under management in sustainable investments and this must be built from the concept that funds selected with the consideration of ESG factors provide more added value than funds selected based on conventional investment analysis methods alone.

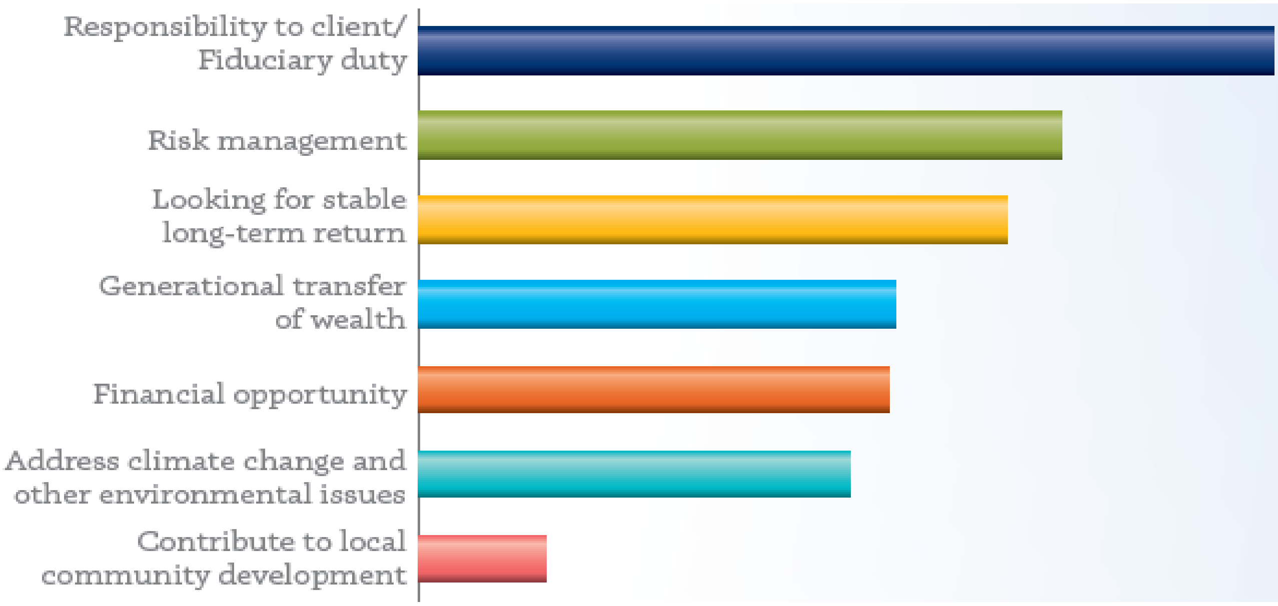
3.4 Trends and Challenges Facing the SRI Market

With such strong empirical evidence supporting the benefits of accounting for ESG factors in investment decisions, it begs the question why aren't all money managers and investors focusing on sustainable investments? There are still major barriers to sustainable investment going "mainstream" as some investment professionals still reject that ESG considerations can create a material benefit. This section will examine trends in the SRI market such as the drivers of SRI along with SRI deterrents from the skeptics that have yet to buy into the value of SRI.

Drivers of SRI Demand

In a study done by EuroSif in 2016, when asked which elements survey respondents thought were the biggest drivers of SRI expansion, the results were as follows.

Figure 9: Drivers to SRI Strategies



Source: (Eurosif, 2016)

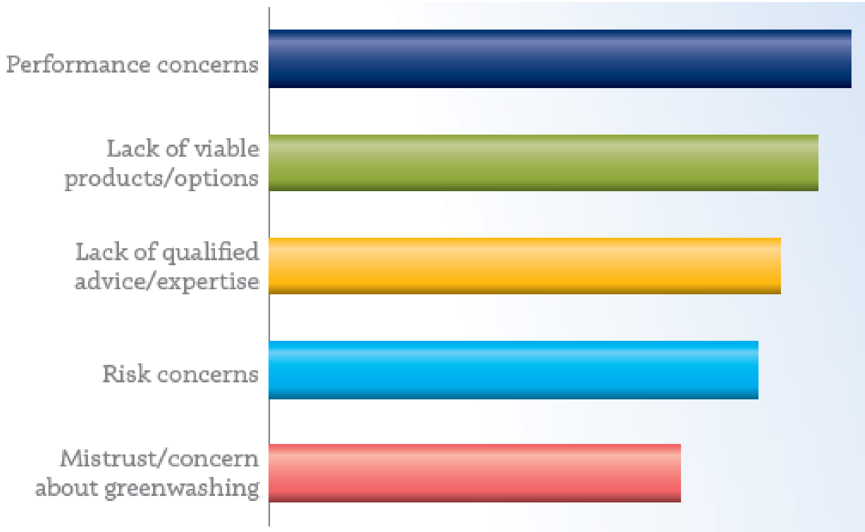
Fiduciary duty was by the biggest element named by survey participants. *"A fiduciary is a person or organization that owes to another the duties of good faith and trust. The highest legal duty of one party to another, it also involves being bound ethically to act in the other's best interests."* (Investopedia, n.d.-b) There has been a long-time attitude that fiduciary duties excluded ESG factors in making investment decisions. In 2005, an international law firm called Freshfields Bruckhaus Deringer found after examining nine developed markets that, *"The links between ESG factors and financial performance are increasingly being recognized. On that basis, integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions."* (US SIF, 2016) A follow up report to this study by Freshfields Bruckhaus Deringer was created in 2015 by Principles for Responsible Investment (PRI), United Nations Environment Program Finance Initiative (UNEP FI), and the United Nations Global Compact (UNGC). This report found after interviewing policy makers, lawyers, and investment industry professionals, that *"failing to consider long-term investment value drivers, which include environmental, social and governance issues, in investment practice is a failure of fiduciary duty."* This responsibility as a fiduciary to act in the best interest of the client is a duty not a choice, and these findings argue that ESG incorporation is part of this duty.

The value of ESG considerations in seeking to manage risk and looking to obtain stable long-term financial returns have been discussed previously when examining empirical studies which illustrated how ESG considerations are a proven way to help manage risk and gain a competitive long-term advantage in the market place. The fourth most mentioned driver of SRI in this study by Eurosif was "Generational transfer of wealth". Studies indicate that over the next several decades it is estimated that roughly $30 trillion in assets will transfer from aging "baby-boomers" to their "Gen X" and "millennial" children in the United States. This is the largest generational transfer of wealth in the country's history. (Osterland) This poses a massive opportunity for the SRI market as a study done by Morgan Stanley indicates that millennials are the most open to the idea of sustainable investing with 84% of those surveyed indicating interest as opposed to 79% of Gen X and only 66% over baby boomers. (Burkhard) This study also found that "Millennials are twice as likely to both invest in companies or funds that target specific social/environmental outcomes and divest because of objectionable corporate activity." (ibid) How investment firms capitalize on this demographic shift in wealth may further catalyze the SRI market expansion.

Deterrents to Demand

In the same study done by Eurosif in 2016, when asked which elements survey respondents thought were the biggest deterrents to SRI strategies, performance concerns, lack of viable products, and lack of qualified advice were cited as top concerns. Figure 10 highlights these major deterrents.

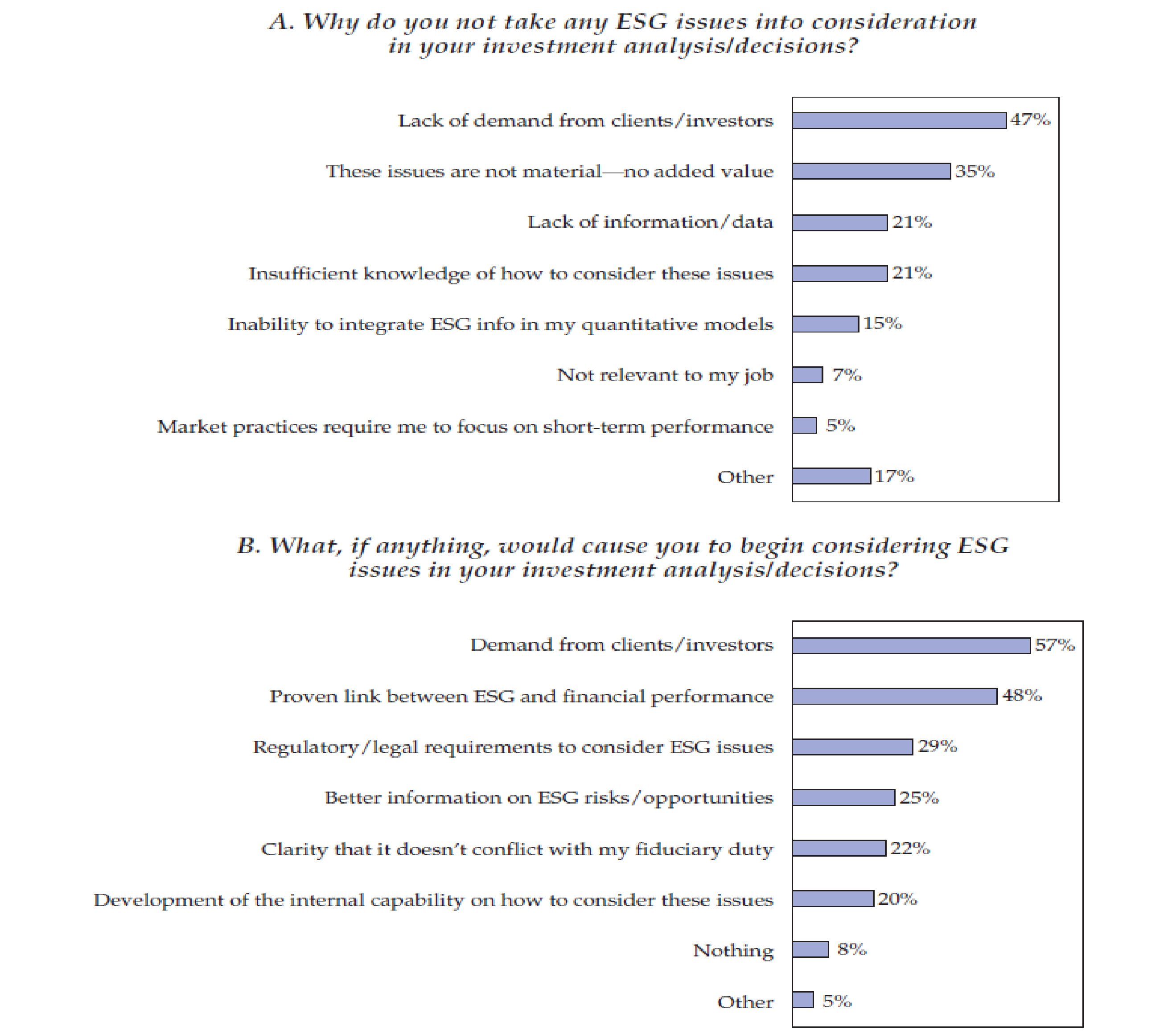
Figure 10: Deterrents to SRI Strategies



Source: (Eurosif, 2016)

The biggest concern reported by respondents was that of financial performance. Even while there have been numerous studies done on how SRI considerations can enhance financial performance and mitigate long-term risk, some investors remain uninformed and skeptical to the fact that integrating ESG factors into investment strategies can positively impact financial returns. (ibid) The second and third largest concerns indicated were lack of viable investment products and options, and lack of qualified advice respectively. These are two areas seem to go hand in hand in that they are issues of availability or supply. This could be problematic for SRI expansion if there are not enough SRI fund options or qualified investment professionals to meet SRI market demand. This could also be a matter of marketing and education rather than actual lack of physical investment options. Meaning if the "perceived" availability in the market is inaccurate and investors are unaware of their true options, the problem of "availability" remains the same. Mistrust or "greenwashing" concerns are prevalent as well. Greenwashing can be defined as *"When a company, government or other group promotes green-based environmental initiatives or images but actually operates in a way that is damaging to the environment or in an opposite manner to the goal of the announced initiatives. This can also include misleading customers about the environmental benefits of a product through misleading advertising and unsubstantiated claims."* (Investopedia, n.d.-c) This concern touches on the possibility of transparency issues in the market and a potential need to enhance or reform regulation and auditing practices with regards to ESG data. A study done by the CFA Institute, polled investment professionals with regards to their use or lack of use of ESG considerations in their investment processes.

Figure 11: Reasons for Not Considering/Considering ESG Issues



Source: (CFA Institute, 2015)

Looking at the results of this study, it is clear that client demand and proof of superior financial performance are at utmost importance for investment professionals who currently do not trust in the benefits the use of ESG can have. Another major hurdle in the further development of ESG considerations is disclosure and relevant data. Investors can only consider ESG in their investment decisions if they have relevant data to do so. Currently mandatory corporate disclosures provide only limited information on ESG related risks and opportunities. (CFA Institute, 2015) There is a long way to go but availability of data and disclosure of ESG metrics is on the rise. Initiatives like the Sustainable Index Initiative, show how exchanges can work with companies, regulators, and investors to enhance corporate ESG transparency and improve disclosure. (ibid) The lack of formal regulation in the disclosure of ESG activities can lead to biased data as companies will be inclined to disclose data that reflects positively on their firm and withhold data that can be seen as negative, or "greenwashing". The CFA Institute polled a sample of investment professionals exploring the issue of data and disclosure of ESG activities. The results showed that the vast majority of those surveyed believe there needs to be some kind of independent verification of ESG disclosures put out by listed companies. It was suggested that these types of verifications could be done much like an audit is done on a firm's conventional financial statements. (ibid)

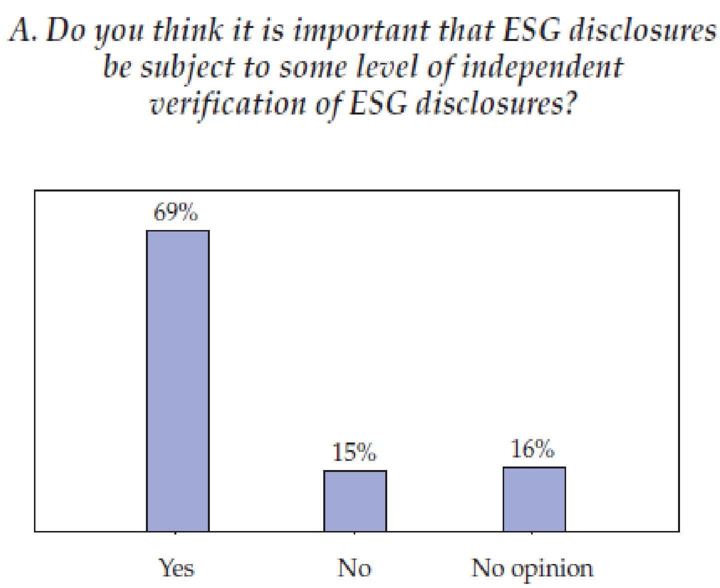
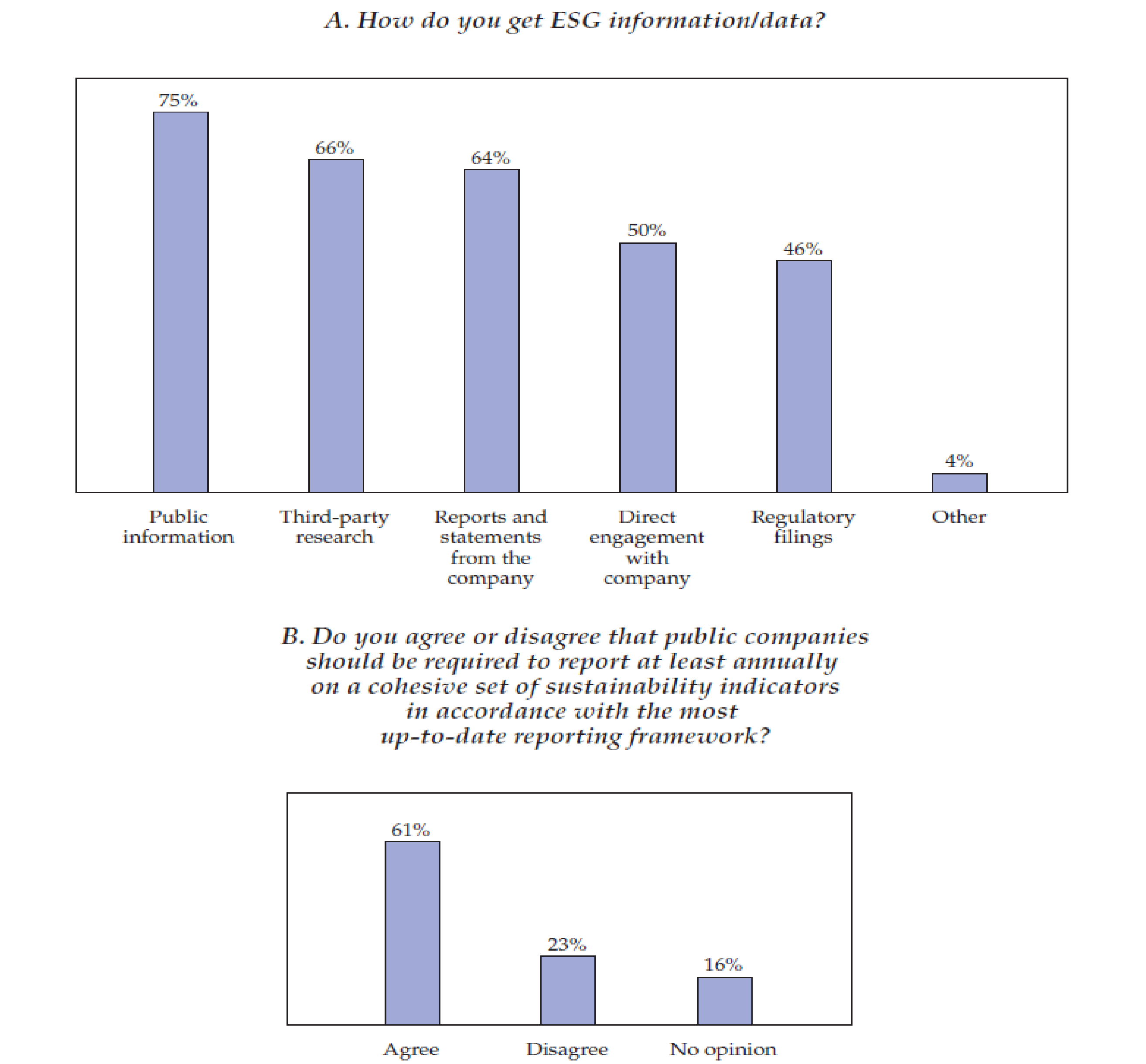


Figure 12: Verification of ESG Disclosures. Source: (CFA Institute, 2015)

This same study done by the CFA Institute, investment professionals were asked how they get their ESG data and if public companies should be required to disclose a set of sustainability indicators related to the firm annually. The results show that the majority of industry professionals believe that annual disclosures should be required.

Figure 13: ESG and Mandatory Reporting



Source: (CFA Institute, 2015)

The lack of standardization in ESG data reporting and the lack of mandatory disclosure is a major hurdle for investors to accurately and efficiently take ESG considerations into the investment decision making process. There are also issues with transparency with regards to how asset managers are incorporating SRI into their investment strategies. A study done by USSIF in 2016 found that 114 money managers of their surveyed sample reported little to no detail for ESG assets worth $5.38 trillion, and much of it was identified through their PRI Transparency Reports. These managers did not provide information on the specific products that were subject to ESG criteria and generally divulged few if any details on the specific ESG criteria incorporated. (US SIF, 2016) Addressing transparency issues at both the corporate reporting and investment fund reporting levels could be a key piece to the progression and growth of ESG while instilling trust into the SRI process for investors.

Although there are currently major transparency issues in the industry, ESG data and standardized independently reviewed data is on the rise. Implementing ESG strategies has been made more feasible and accurate due to the rising availability and usage of third party verified ESG Data and professional services from companies like Morningstar, Bloomberg, Sustainalytics, and Thomson Reuters. According to Bloomberg, the number of its customers using ESG data grew by 76% during 2013–2014. (CFA Institute, 2015)

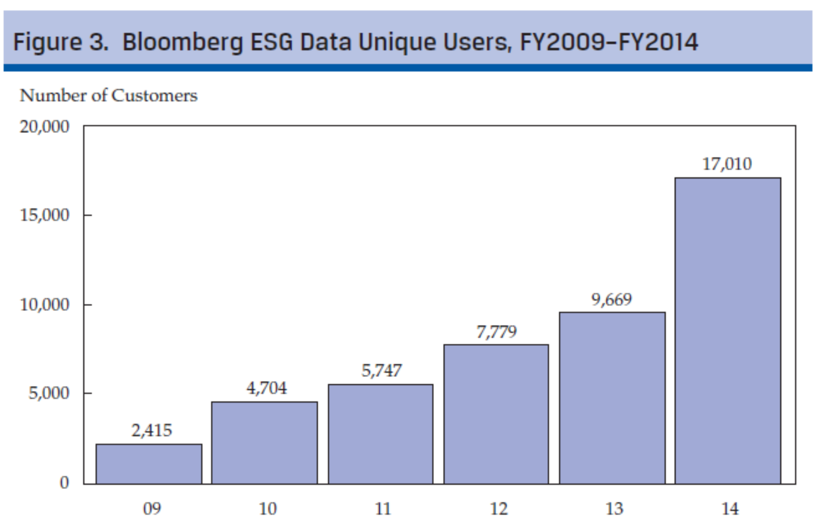


Figure 14: Bloomberg ESG Data Unique Users from 2009-2014. Source: (CFA Institute, 2015)

In an interview with Thomson Reuters, Jackie VanderBrug, Managing Director at Bank of America's U.S. Trust, who also leads their Impact Investing Platform stated, *"The rise of ESG data is one of these massive trends that I think we have yet to get our hands around. But you can think of it like what the X-ray did for medicine. All of a sudden you have so much more information and insight that allows you to do your job better."* Verified and trustworthy ESG data is crucial to implementing SRI strategies successfully and accurately. As this area continues to grow it opens a whole new realm of how we can look at company metrics and make better informed decisions.

3.5 Summary of Literature Review

To summarize the discoveries from this literature review presented here, the ESG phenomenon has taken root in a meaningful way in investment universe. There is significant academic empirical evidence that supports the notion that ESG considerations can both help diversify away risk and bolster the financial performance of firms that employ sustainable methods. It seems the issue at hand with the further expansion and adoption of ESG practices is the acceptance among investment professionals and investors that ESG can benefit their bottom line. Also, it is imperative that viable SRI products, expertise, and hard data are made available to all market participants. There are still many dissidents who do not believe financial performance is superior to conventional investments. Therefore, the further growth of ESG investment could hinge on factors such as further education or regulation in the realm of ESG practices to name a few. This literature review solidifies that this is an area that must be researched further so that improvements can be made.

4.0 Analysis

In this section, this analysis will dig deep into the issues facing the current SRI market through interviews with industry professionals across a spectrum of roles, experience, geography, and investment firms. This diverse sample of research participants was collected with intent to get a broad understanding of the current ESG market as to see the issue of sustainable investment from many different perspectives. This will help to address the issue of how investment firms can increase sustainable investment assets under management. This sample ranges from professionals in leadership roles, wealth management associates, portfolio managers, ESG data analysts, to financial advisors. The experience level varies from the associate/analyst level up to Senior Vice President/CEO levels, and the research subjects' firms range from pension funds, financial data companies, to asset management firms. The industry specialization of the research participants covers both the institutional side and retail side of the industry. The sample of research participants has been divided into two segments, a "wealth management advisor" sample and an "ESG expert" sample. These segments were asked different interview questions based on their assumed knowledge on sustainable investment, professional role, degree of client facing activity, and differing categories of clients they service.

Table 7: Overview of Investment Professional Interview Sample

Research Participants Overview			
Wealth Management Advisor Sample			
Name	**Company**	**Occupation/Title**	**Region**
Lisa Tyley	BlackRock	Institutional Defined Contribution Associate	USA
Scott Mila	Northwestern Mutual Financial Network	Financial Advisor	USA
Matt Drvaric	Riverwater Partners LLC	Vice President of Research and Client Relations	USA

Henry Otten	Stifel Financial Corp.	Senior Vice President	USA
Janet Kiefer	Jefferies Bank	Wealth Management Associate	USA
Anthony Mlachnik	Ameriprise Financial	Financial Advisor	USA
ESG Expert Sample			
Paul Connors	Bloomberg	Former Sales Representative	USA
Andreas Stang	PFA Pension	Senior Portfolio Manager and Head of ESG	Denmark
Anonymous	Independent ESG Data Provider	Expert/Analyst	N/A
Steven Smit	Morningstar	Head of Sustainability/CEO of Benelux	Benelux

4.1 Consideration of SRI Factors in the Investment Process

This thesis is investigating *How investment firms enhance their current sustainable investment fund initiatives to increase assets under management (AUM) in these funds?* Therefore, a good starting point is establishing to what degree ESG is being considered in today's investment industry. When the research participants were asked if sustainable investment/ESG considerations were a factor when selecting investments for clients, mixed results were obtained. An Institutional Defined Contribution Associate at BlackRock stated in her interview that, *"BlackRock is committed to empowering clients who wish to consider or target environmental, social and governance goals in addition to their financial risk and return goals. Our firm has, therefore, actively built a competitive platform of products and capabilities across asset classes and continue to work with our clients to ensure their needs are efficiently met. We readily embrace all aspects of investing that clients are seeking to implement and this includes both financial and non-financial purposes. We believe we have resources ideally positioned to use BlackRock's growing suite of products, scale, and relationships so clients* *achieve their multi-faceted goals."* (Appendix 4) BlackRock's stance on expanding investment options to its client base is a growing trend in the industry that many large firms have adapted. It seems logical that they would want to capitalize on this growing trend and meet the demand of investors.

However, some participants stated that ESG considerations are not factors they consider when looking at suitable investment options for their clients. Research participants indicated while ESG investments are not directly factored in they are also not explicitly avoided. A Wealth Management Associate operating in the asset management side of Jefferies Global Investment Bank cited that, *"Whether we're selecting individual securities or a separate manager, we don't consider sustainable investments. When choosing separate managers for our clients, we factor in things like performance history, how they perform in down markets, fees, various types of risk (credit, liquidity, etc.), top 10 holdings, client suitability, etc. If one (or more) of their holdings happens to be a sustainable investment, great. But that has no impact on our decision to hire them for our client."* (Appendix 9) Similarly, a Senior Vice President at Stifel Financial Corp. stated in regard to ESG consideration, *"At Stifel, it is up to each advisor to select what they feel is best in achieving their client's objectives. When I construct client portfolios I do not consider whether the company/fund/ETF uses ESG principals. My concern is providing the client with the asset(s) that provides the best risk/reward using value based metrics. If the company/fund/ETF employs ESG principals I view that as an extra benefit."* (Appendix 7) Views on ESG considerations such as this are commonplace among financial advisors as illustrated by the figure 15.

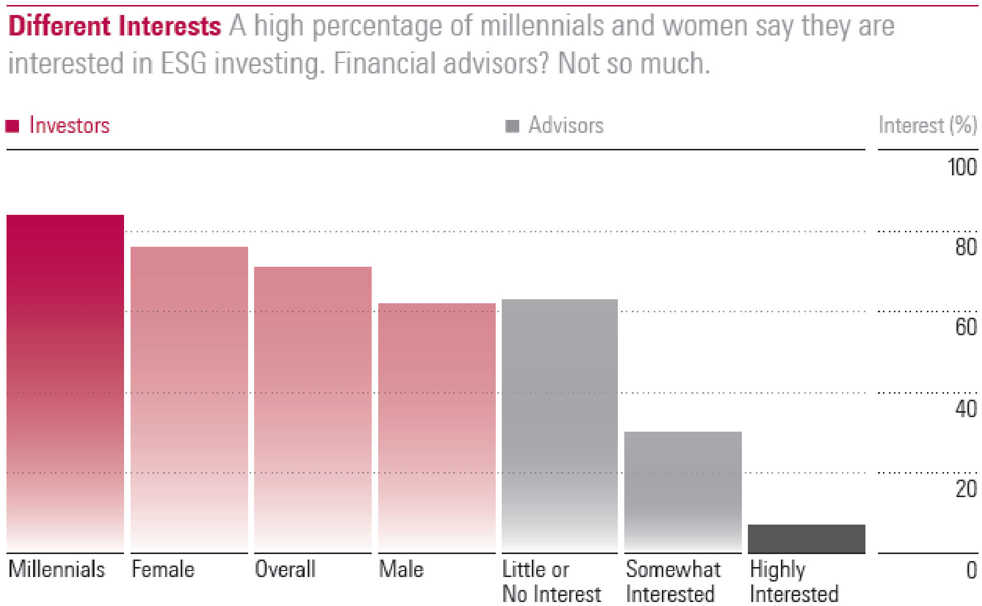


Figure 15: Differing Levels of Interest in ESG Investing Between Investors and Advisors. Source: (Morningstar, 2016)

This data collected by Morningstar in 2016 lays out how investor interest in ESG investing outpaces that of financial advisors. This gap is interesting and could be a key piece to the enhancement of the SRI trend. This difference in attitude between investors and investment professionals will be explored throughout this analysis examining different pieces potentially causing the rift. In summary, some research participants see SRI as an opportunity to meet client needs and manage risk while others don't directly consider it at all. Rather they use other conventional analysis metrics when choosing investment offerings and if an investment offering also happens to be SRI related they view this as a positive "side-effect" that isn't actively sought out.

4.2 How SRI is currently Trending in the Investment Industry

SRI continues to grow and as the word is getting out about the potential benefits and solutions it can provide to clients, firms are buying into the ESG movement. Availability of data/information and the ability in which to capitalize on ESG options is key to its expansion. Many large investment firms have built out platforms to address client need and demand for ESG options. An Institutional Defined Contribution Associate at BlackRock cited, *"Due to the increased popularity across various client types, both retail and institutional, many large investment managers (BlackRock, StateStreet, Vanguard, Capital Group, etc.) have built out platforms to accommodate the demand for sustainable investing. Additionally, there are also firms that have been built around the ESG framework and only* *offer funds/investments that meet their ESG criteria (e.g. Parnassus Investments, PaxWorld). There has been more interest in sustainable investing from clients and prospects in Europe, but interest in the US has been increasing over the past few years."* (Appendix 4)

A Senior Portfolio Manager at PFA Pension stated with regards to the current SRI trend, *"In the asset management industry there has been a significant development when considering the ambitions related to why ESG is being integrated. Historically ESG has been integrated as an additional risk metric and also to "do no harm". Currently managers are increasing their focus on using ESG metrics to assess company potential and to "do good" instead of do no harm. In a sense, the area is developing towards a more positive metric."* (Appendix 1) This is a significant change in how the SRI movement started. Originally it was used as an avoidance mechanism to evade "sin stocks" or high polluting companies, for an example.

An analyst from an independent ESG data provider stated the following in regard to the use of ESG within the investment universe, *"Globally we see how ESG investments have increasingly entered the mainstream, with local differences. While Northern Europe is progressive globally, there has been a real ESG boom in the US the last couple of years. Important to note is that market drivers for incorporating ESG into the investment process differs between markets. While in some countries pension funds are leading the way, in other regions NGOs and citizen awareness drives the development."* (Appendix 3)

In the same interview, the analyst stated, *"These days, nearly all big investors apply ESG considerations to their investment decisions in some form. Exclusions, proxy voting and integration are the most popular strategies, followed by engagement. Impact investing is still relatively new, but is growing rapidly with the SDGs receiving a lot of attention."* (Appendix 3) SDGs stands for "Sustainable Development Goals". The United Nations Development Program defines these goals as follows, *"The Sustainable Development Goals (SDGs), otherwise known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity."*(UNDP, n.d.) This claim that nearly all big investors apply ESG considerations to their investment decisions in some form implies that major investors see the value in doing so. Can the same be said for the "small" investors? Is there a push from the investment professionals they work with to do so?

A former Sales Representative from Bloomberg saw the ESG trend greatly increasing during his time at the company. Not only investors, but corporations have become increasingly concerned about their ESG metrics and how their firm's operations are perceived by the public. He stated with regard to the ESG trend, *"Well from my experience at Bloomberg it was definitely growing. More so when I worked with Corporations for the short time that I did (a few months). Because they were always more concerned with what their ESG scores looked like. They had to deal with their institutional shareholders, pension funds, endowments, etc. Entities that definitely had more socially conscience mandates than the industry overall. These clients were always on their (corporations they invested in) backs for ESG data, the reporting, what are they doing to improve, not only their data but their initiatives to raise their scores. Corporations were concerned with how they looked to the investing public. Concerned with what their scores were like in comparison to their peers. How is that being reported? So that they could go out an appease their existing shareholders or go out and recruit new ones."* (Appendix 2) From this anecdote, it could be argued that investors have the power to influence how corporations operate their businesses. The rising trend of ESG business practices and the increasing knowledge investors have around the issue can pressure corporations to have good ESG practices and records. It has become good business to conduct business in a socially conscious way.

Client demand continues to be a main driver of companies adopting ESG initiatives and mandates. *"Growing demand from asset owners is the primary driver of ESG integration. In the United States, 85 percent of investors cite "client demand" as the main reason for integrating ESG into their investment decisions. In Europe, 81 percent of institutional investors believe that ESG integration is in the interest of fiduciary duty."* (Roy, 2012) The interview results of the research sample seem to somewhat dispute these findings in that, 4 of the 6 participants in the "wealth management advisor" segment of the data sample cited that they don't actively consider ESG considerations when selecting investment offerings for clients. Nor did they say clients were actively seeking out investments with ESG considerations with few exceptions such as religious or political reasons. On the contrary the expert research participants in financial data companies and in portfolio management cited a lot of attention given to ESG considerations in the investment process. This is no surprise due to the nature of their roles and companies they work for, but it could also suggest that there is a gap in the financial industry that is preventing initiatives at large investment firms and data providers from "trickling down" to other areas of the financial services universe i.e. financial advisory to retail clients.

4.3 Benefits to Client Portfolios

A wide variety of responses from the research sample was obtained with regard to how each investment professional saw benefits of ESG for client portfolios. The Vice President of Research and Client Relations at Riverwater Partners, an investment management firm, stated, *"A Morgan Stanley study that looked at the performance of 10,228 mutual funds over seven years. It found that 64 percent of the time, sustainable strategies matched or outperformed traditional funds in terms of returns. What's more, the sustainable strategies had equal or lower volatility most of the time. We use the methodology to enhance our risk assessment framework."* (Appendix 8) He specified that ESG considerations were an active component of his firm's investment process.

An Institutional Defined Contribution Associate at BlackRock stated in her interview that, *"The most important benefit that ESG investments have on client portfolios is that since many clients have a preference for this type of investment, and are excited about their investment offering, the thought is that they will save and invest more than they otherwise would have. For example, some Defined Contribution Plan Sponsors have received requests from their participants to add ESG funds to their investment lineup. This shows that when investors believe in and agree with the philosophy of the companies that they are invested in, they will potentially invest more and therefore this will increase the likelihood of those retirement plan participants to be more prepared for retirement. Additionally, another viewpoint is that ESG factors are often a signal of, or proxy for, management quality – particularly over the longer term."* (Appendix 4) When asked as a follow up if she thought that there is a lack of marketing and/or lack of transparency in the industry when it comes to the ESG trend? And if she thought more interest could still be garnered from investors with further strategic marketing? She responded with the following, *"Yes, I think that increased marketing, particularly around performance of ESG funds, would increase interest in these funds. Also, I think that interest and assets in these funds will grow over time even without increased marketing, simply because of the growth of wealth for the millennial generation, who are one of the largest groups of interested investors in ESG." (ibid)* This focus on the wealth transfer to the millennial generation in the coming years was a significant trend throughout the interview data collected and will be touched upon in greater detail later in this analysis.

A Wealth Management Associate at Jefferies Bank saw diversification as a main benefit of ESG incorporation into client portfolios. (Appendix 9) On the contrary a Financial Advisor from Ameriprise Financial, saw ESG considerations as a potential hindrance to client portfolios because it could limit investment options for the portfolio and therefore limit overall diversification. (Appendix 6) A smaller portfolio universe via ESG screening can limit risk diversification which can be a drawback. This can be a common perception with regards to SRI. Portfolios that exclude whole industries run the risk of unintentional industry biases, concentration risk, and factor risk. (Eurosif, 2016) This financial advisor, may be right in that negative screenings can limit the portfolio universe, but exclusionary screening is only one component of the overall ESG universe. It can sound logical in that by excluding or screening out potential investments based on ESG factors could keep profitable investment companies out of clients' portfolios. For example, a high performing tobacco company is a classic example. This company could be a perennial performer that could be screened out of a portfolio and therefore an opportunity forgone. It can also be argued that companies that cause such social harm from their product's use, illnesses in this case, risk exposure to the changing business climate. The United States and many countries around the world put taxes on tobacco due to the social harm they can cause. Further potential changes in laws or taxes on these products pose significant business risk to these companies.

To further examine these stances taken on diversification, a comprehensive report on sustainable investment performance conducted in conjunction by Oxford University and Arabesque Partners presented the following, *"A recent study which relates an aggregate sustainability score to stock market performance finds that a 'high-sustainability' portfolio outperforms a 'low-sustainability' portfolio by 4.8% on an annual basis (when using a value-weighted portfolio, the results indicate an annual outperformance of 2.3%) Overall, these findings point to the possibility of earning an alpha by investing in firms with a superior sustainability profile. Against this, there is some evidence indicating a negative relationship between aggregate sustainability scores and stock market performance exists, however such evidence is scarce. Despite several studies showing no relationship, or a negative relationship, between sustainability scores (both aggregated and disaggregated) and stock price performance, the majority of studies find a positive relationship where superior ESG* *quality translates into superior stock price performance relative to firms with lower ESG quality."* (Clark, Gordon L.; Feiner, Andreas; Viehs, 2015) The potential diversification benefits of ESG considerations seem to have great value and potential for the long-term investors avoiding short-termism in their portfolios. Craig Metrick of Cornerstone Capital Group stated, *"ESG investing can result in sector or style biases that will cause ESG strategies to outperform or underperform in a given time period, but over the long term we expect tilts toward sustainability and governance will pay off."* (Ambachtsheer & Investments, 2016)

A Wealth Management Advisor at Northwestern Mutual cited that, *"At this point I haven't seen any quantitative benefits to these funds."* (Appendix 5) Lack of proof regarding outperformance from ESG funds over conventional funds and even proof that ESG funds don't underperform conventional funds is often cited as reasons why financial professionals are skeptical about SRI investments for their clients' portfolios. A Senior Vice President at Stifel Investments said, *"I understand the concept of ESG investing. I like to use investments that have a long term track record, preferably 10 years. Most of the ESG style funds/ETF's do not qualify with that parameter. I am a value investor. Ultimately, I am judged on performance. If the ESG investment has a better risk/reward I will use it."* (Appendix 7) He isn't opposed to ESG investments, but the performance must be superior to other options he has available to present to his clients. He is judged on the bottom-line return he can provide. Jon Hale, head of sustainability research at research provider Morningstar, touches on this misconception of underperformance surrounding ESG concluding that it is a myth. He says, *"Like most myths, there is a kernel of truth to it-that exclusionary screening for non-financial reasons can limit portfolio performance. We found evidence in the research that exclusionary screening can have a negative effect. But the research also finds intriguing evidence of a positive ESG inclusion effect, which is bolstered by company-focused research suggesting that firm-level sustainability performance is associated with better financial outcomes."* (Basar, 2016) This is an interesting finding that could bring some of the cynics on board with ESG integration in their investment process. Exclusions based on a "do no harm" basis rather than using ESG to find opportunity is an old way of thinking that is being phased out. Senior Portfolio Manager and Head of ESG at PFA said there is a changing trend in the industry where currently managers are increasing their focus to use ESG metrics to assess company potential to do good instead of "do no harm", which is an outdated approach. (Appendix 1) This change in attitude by money managers could make the most out of ESG considerations for their clients.

The 2016 US SIF Report defines these two differing ESG strategies as the following:

POSITIVE/BEST-IN-CLASS: Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers. This also includes avoiding companies that do not meet certain ESG performance thresholds. (US SIF, 2016)

NEGATIVE/EXCLUSIONARY SCREENING: The exclusion from a fund or plan of certain sectors or companies involved in activities deemed unacceptable or controversial. (ibid)

By selecting best in class investments based on positive ESG performance you aren't necessarily limiting clients' exposure to whole sectors or industries, but you are still potentially adding value. The Morgan Stanley Institute for Sustainable Investing released a report researching the performance of sustainable investment strategies in 2015. This report laid out the following key findings:

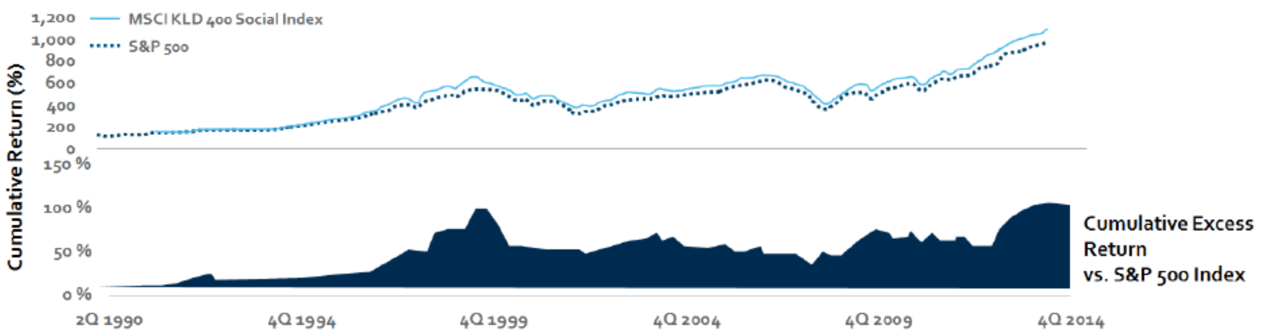
- Investing in sustainability has usually met, and often exceeded, the performance of comparable traditional investments. This is on both an absolute and a risk-adjusted basis, across asset classes and over time, based on our review of US-based Mutual Funds and Separately Managed Accounts (SMAs).

- Sustainable equity mutual funds had equal or higher median returns and equal or lower volatility than traditional funds for 64% of the periods examined

- There is a positive relationship between corporate investment in sustainability and stock price and operational performance based on a review of existing studies.

- Long-term annual returns of one index comprising firms scoring highly on environmental, social and governance criteria exceeded the S&P 500 by 45 basis points since its inception in 1990. (Morgan Stanley Institute of Sustainable Investing, 2015)

Figure 16: Index Performance, MSCI KLD 400 vs. S&P 500 (July 1990-December 2014)



	Annualized Return (%)	Standard Deviation (%)	Sharpe Ratio	Beta vs. S&P 500 Index	Annualized Excess Return vs. S&P 500 (%)	Cumulative Excess Return vs. S&P 500 (%)	Alpha vs. S&P 500 Index (%)	Tracking Error vs. S&P 500 Index (%)
MSCI KLD 400 Social Index	10.14	16.80	0.42	1.03	0.45	102.36	0.19	2.68
S&P 500 Index	9.69	16.09	0.41	1.00	0.00	0.00	0.00	0.00

Source: (Morgan Stanley Institute of Sustainable Investing, 2015)

Figure 16 shows how the MSCI KLD 400 has outpaced the S&P 500 on an annualized basis since its inception in 1990. The MSCI KLD 400 achieved an annualized return of 10.14% while the S&P 500 has achieved an annualized return of 9.69%. A difference of 0.45%. This difference may seem small but it adds up to a cumulative excess return of 102.36% from 1990 to 2014. (ibid) The MSCI KLD 400 is broad-based index which only includes firms that meet very high Environmental, Social and Governance ratings relative to their peers. It also excludes certain sectors, such as alcohol, gambling, tobacco, weapons and adult entertainment. (ibid) This example seems to show that sustainable investing can at the least keep pace with traditional investment options if not outperform traditional investments on the average.

4.4 Demographics to Target

A key piece to accelerating the continuing trend of sustainable investing is having asset management firms and investment professionals ready to adapt to an ever-changing market climate. This includes demographic shifts in current and future client segments. Investment firms must prepare for these changes to best position themselves for when the changes take root. In the coming decades, there will be an unprecedented transfer of assets from aging baby boomers to their children and grandchildren. This transfer of assets has been dubbed "The Great Wealth Transfer" as an estimated $30 trillion in assets is expected to be passed down to their millennial heirs in the United States. (Robaton, 2016)

Figure 17 and Figure 18 show how US household assets are expected to grow from $87 trillion in 2016 to $140 trillion in 2030, $64 trillion of which is expected to be investable assets. A staggering $36 trillion is expected to be transferred from baby boomers to their millennial heirs between 2007 and 2061. This clearly stresses the importance for investment firms and investment professionals to successfully position themselves to best serve the next generation of clients adjusting to their preferences and needs. (Kador, 2017)

Increase in the Value of U.S. Household Assets

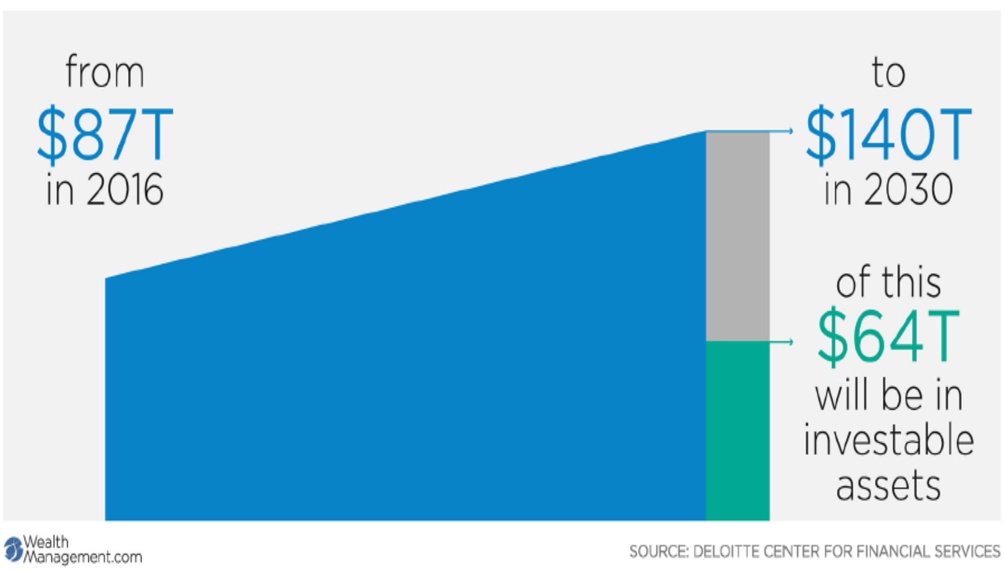


Figure 17: Projected Growth of US Household Assets 2016-2030.

Source: (Kador, 2017)

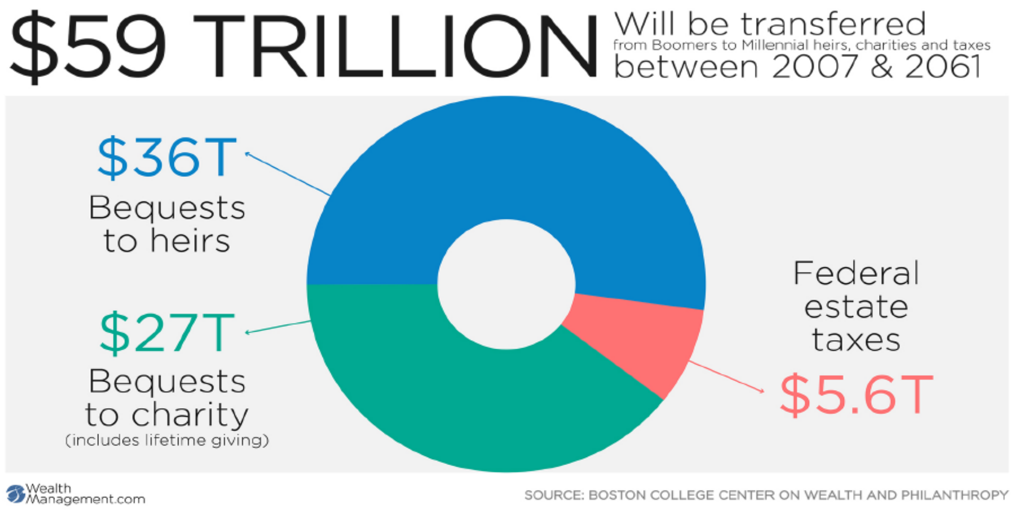


Figure 18: Breakdown of Projected Wealth Transfer 2007-2061
Source: (Kador, 2017)

Overwhelmingly when asked which client categories are most attractive for sustainable investments, the research sample segment of wealth management advisors answered "millennials" as the common denominator. An Institutional Defined Contribution Associate at BlackRock said, *"ESG funds seem to appeal to a wide audience. For example, among the retail individual client segment, millennials are increasingly interested in ESG investing."* (Appendix 4) The Vice President of Research and Client Relations at RiverWater Partners stated, *"Millennials will account for 1/3 US adults by 2020 and are the driving force of future growth as they are 2x more inclined to invest sustainably than by traditional means. 71% of women consider it an important factor when investing and they control ~40% of wealth today but will have two-thirds by 2030."* (Appendix 8) A study done at the University of DePaul in Chicago supports his statement. The study looked at if there was a particular profile of an SRI investor that was significantly different from that of a non-SRI investor. The results showed that the typical SRI investor tended to be female, more likely to be single, younger, better educated, and yet less wealthy than the typical non-SRI investor. (Junkus & Berry, 2010)

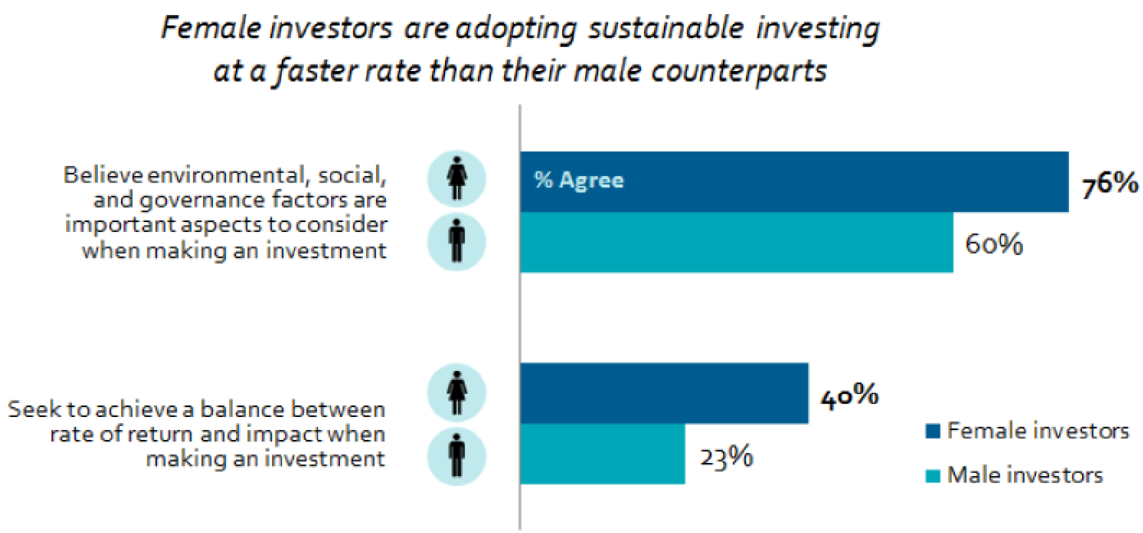
Based on this "consensus" or idea of a prototypical SRI investor it begs the question, how can investment professionals and firms gain or keep market share when this transfer of wealth evolves over the next several decades? Additionally, does there need to be an increased effort in recruiting the non-SRI investors or skeptics of the ESG movement? The study done by Junkus and Berry at DePaul University suggested that additional efforts must be made to recruit wealthier male investors on the advantages of sustainable investing. (Junkus & Berry, 2010) By enhancing ESG platforms, investment firms can strongly position themselves to better serve the growing millennial client segment interested in investing sustainably. Firms can take advantage of the growing assets owned by women, as these could be the "low hanging fruit" for SRI. In addition, there seems to be arguably the most to be gained by going after the large volume of assets held by wealthy males in attempting to change their beliefs surrounding SRI.

According to Greg Cobb, the Director of Fixed Income for Boyd Watterson Asset Management, *"the industry is moving from a passive investor population, which is dependent on the income from defined benefit and pension plans to a population that is self-funding via their defined contribution plans. These millennials will demand more active involvement in their own investments as they wish to be more actively involved in controlling their own destiny. Along with this more active approach will come more activist tendencies."* (EY, 2017) This shift to defined contribution plans in recent decades where investors can actively choose their own individual investments will continue to shape and enhance the SRI phenomenon. According to a recent Morgan Stanley survey 84% of millennials cited investing with a focus on ESG impact as a central goal of theirs. (ibid) Sustainable investing can be used to create a competitive advantage over rivals in the market, but adopting socially responsible practices is quickly becoming a requirement for doing business in the investment industry. To stay competitive with this trend, investment firms must adjust cultures, training programs, technology, and operations to align themselves with SRI investing. (ibid)

The majority of children that inherit their parents' assets fire their parents' financial advisor. According to Fidelity Investments, historically 90%-95% of heirs select their own new advisor upon the transition of their deceased parents' estate. (Fidelity Investments, 2010) Many clients that plan and save for a lifetime have goals of leaving a legacy of wealth to their family, yet research shows that in nearly 70% of cases, the inherited estate is squandered and the estate collapses. (ibid) This extremely low advisor retention rate can potentially be addressed with proactively engaging clients' children far before they inherit their parents' wealth in order for them to get to know the advisor and the firm their parents work with. (ibid) A financial advisor at Ameriprise stated his firm was rolling out an interactive platform for current clients to increase client engagement. The platform will also be educational for the next generation of clients. (Appendix 6) Given the data known about the interest garnered by millennials on investing sustainably, offering these types of investment tools seems to be an excellent opportunity to gain interest from the next generation of clients and position assets under management for the future while increasing retention rates. It could prevent the potential of being viewed as out of touch with younger clients and can address their desires for the investment process and client experience.

Women were cited by several wealth management advisor research participants as a potential "strong" client segment for sustainable investing. Women's wealth is now growing faster than men's wealth globally, with the highest growth rates in the developed world followed by emerging markets. (Leonhardt, 2016) Women now control $39.6 trillion of the world's wealth (30%) up from 25% held several years ago. A lot of this wealth gain is attributed to inheritances, divorce settlements, and increasingly self-generation. (ibid) This demographic shift requires adjustments in how this growing client segment of women is serviced. As study done by Boston Consulting Group found that when women clients are allocated to client segments based solely on wealth levels, their needs are diluted which leads to high levels of dissatisfaction. (Brent Beardsley, Bruce Holley, Mariam Jaafar, Daniel Kessler, Federico Muxi, Matthias Naumann, Tjun Tang, André Xavier, 2016) In this same study, 65% of the women clients surveyed, cited feeling misunderstood or unhappy with customer service as their reasons for switching financial advisors. (ibid) Women are more likely than men to believe it is important for wealth managers to be up to date and knowledgeable on sustainable investment options. (RIA, 2016) This creates a real opportunity for advisors and investment firms to gain assets under management by providing ESG investment solutions for this segment. Additionally, women are also twice as likely than men to say they are unsure or uninformed on sustainable investment and its potential benefits. (ibid) This creates a huge education opportunity for investment firms as a large segment of the female investor population could be persuaded on the issue. It could prove more difficult to change the minds of male investors who are firm on the idea that ESG doesn't add benefits to their portfolios. This thesis will touch on education as a driving factor of enhancing the ESG phenomenon and its ability as a tool to increase assets under management in sustainable investment products later in this analysis. The figure below displays how a higher percentage of female investors believe ESG is an important factor when making investment decisions when compared to men. Female investors are also more inclined than men to seek to achieve a balance of investment return and making an impact with their investable assets.

Figure 18: Female Investor Adoption of Sustainable Investing

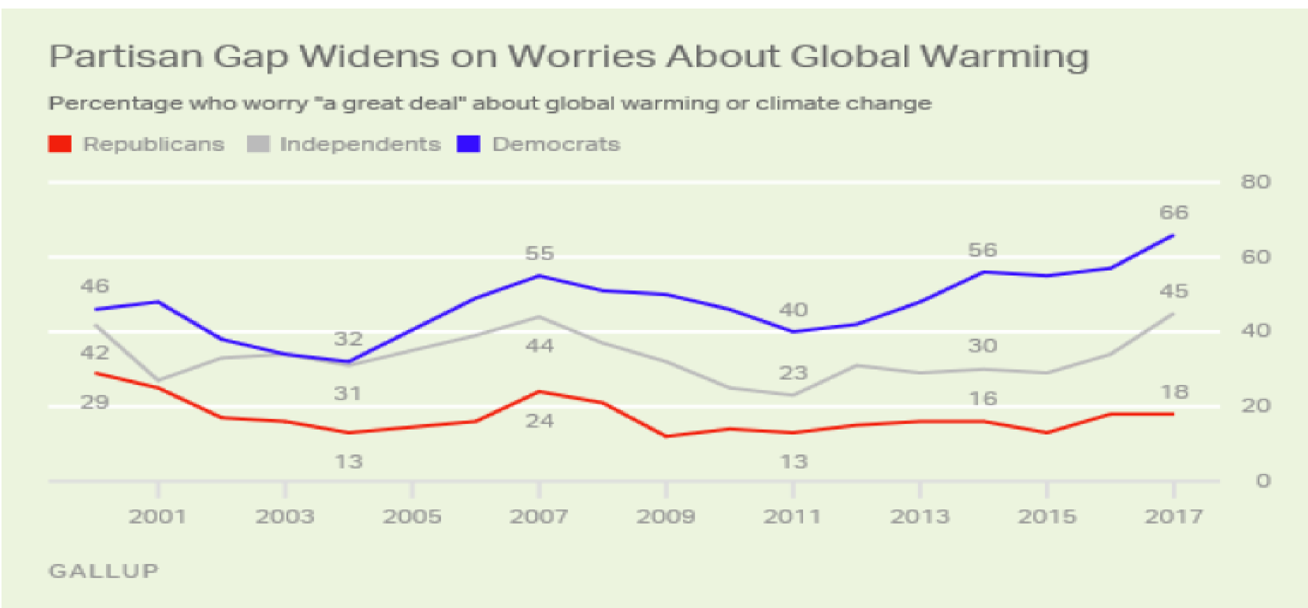


Source: (Morgan Stanley, 2015)

Political or religious reasons were other key trends identified in the wealth management advisor research sample. A Wealth Management Advisor at Northwestern Mutual, cited Muslim clients as a segment of his practice where ESG considerations are desired by the clients to avoid investments that are in conflict with their religious beliefs. (Appendix 5) It makes sense in this circumstance that an exclusionary approach of screening out negative investments based on client values be taken, as it serves a purpose and addresses the moral conflict. However, as previously mentioned this is however a very "old school" approach to SRI that likely could miss out on portfolio benefits in the form of performance enhancement and risk diversification if other positive ESG metrics aren't considered in conjunction with the exclusions. It's very thought-provoking that political beliefs were cited as an element in determining which client categories sustainable investing could best match. A Senior Vice President at Stifel Investments stated, *"It has been my limited experience that people that have a more "liberal" political view have been more inclined to use the ESG style."* (Appendix 7) A Wealth Management Advisor at Northwestern Mutual regarding ideal client segments for ESG cited, *"Clients who are for lack of a better term, very liberal in their political stance."* (Appendix 5) A Financial Advisor at Ameriprise Financial said, *"Women and LGBT groups, 50% of my clients in Colorado may bring it up as opposed to nearly no demand or interest from clients in Illinois. Liberal political base is more inclined to use or consider ESG options."* (Appendix 6) The notion that sustainable investing and sustainability in general is a political issue rather than a scientific or all-inclusive issue encompassing all people is worth examining further.

A Gallup poll done on the political affiliation of the United States showed that as of June 2017, 26% of people identified as Republicans (conservatives), 30% identified as Democrats (liberals), and 42% identified as Independents with no particular party affiliation. (Gallup, 2017a) Following the notion that clients are inclined to invest based on political affiliation suggests that approximately 30% of the investing public could have potentially strong interest in investing sustainably in the United States with 42% up for grabs depending on their views or values surrounding ESG. While sustainable investing encompasses a wide range of issues and considerations, stances on climate change and the environment are often at the forefront of issues considered when discussing SRI. Figure 19 displays the results of polls done by Gallup on Americans' concerns about global warming by political party affiliations. The most recent poll showed that 66% of Democrats "worry a great deal" as opposed to just 18% of Republicans and 45% of Independents. The responses gathered in this thesis' research interviews seem to support this notion that SRI issues such as climate change are indeed political matters.

Figure 19: Concern Over Global Warming by Political Affiliation in the United States



Source: (Gallup, 2017b)

Environmental factors such as global warming are just a piece of the whole pie that incorporates ESG investing. Even so, with two thirds of Democrats and nearly half of Independents citing great concern over the changing climate. There could be massive opportunity for addressing these concerns at an asset management level giving conscious investors an avenue to make a difference or feel that they are empowered to help the situation. In reality, with the large amount of issues SRI investing can cover and the largely studied benefits of risk diversification and performance enhancement it can create for portfolios, it should be important to all investors regardless of religious or political beliefs. SRI metrics can be tailored down to the individual client level based on individualized goals. Therefore, neglecting an SRI element from the investment process entirely could lack an element of due diligence and thoroughness of research.

Institutional investors such as retirement and pension plans present another potential opportunity for increasing assets under management in SRI funds. A Wealth Management Associate at Jefferies Bank cited she thought ESG funds would be great in 401-K plans particularly with millennials desiring to invest responsibly while saving for their retirements. (Appendix 9) While an Institutional Defined Contribution Associate at BlackRock stated, *"Among U.S. institutional investors, Family Offices, Foundations, and Endowments, are more likely to include ESG funds than Defined Contribution or Defined Benefit Pension Plans. However, this is different in Europe, where ESG investing is more common across all institutional investors. Additionally, a few institutional investors have even taken the approach of evaluating investment managers through an ESG lens when conducting a search process for a non-ESG specific fund."* (Appendix 4) A follow-up was done, asking why she thought Defined Contribution and Defined Benefit Plans are lagging in the US? She went on to say, *"I think that DC and DB plans are lagging in the US for a couple reasons. 1) DC plans typically move extremely slow when it comes to making changes to their plan. This is because they need to undergo a process of researching, documenting, making a recommendation to their investment committee, and notifying participants of the upcoming change. Additionally, since many DC and DB plans are intermediated by investment consultants, the process can be made even more lengthy by starting with the consultant, then the consultant will have a series of meetings and conduct research to vet the funds before potentially adding the funds to their short or long recommended list. After this is done, then they will need to have buy in from the plan sponsor (unless the plan is fully delegated with* *all decisions being made by the consultant). 2) The concern from the DC plan sponsor's perspective is that they are a fiduciary for their plan and need to make decisions that will benefit the broadest set of participants. As such, they are hesitant to add any fund to their investment lineup at the request of a few participants, but need to make sure that each fund on their lineup makes sense to offer to the majority of participants."* (ibid) It seems clear that the process of setting up a retirement plan is bureaucratic process with many moving pieces. The process is complex and lengthy making it hard to implement any kind of change. The relative infancy and fast growth ESG fund movement could be a current hindrance to having ESG funds being included in retirement plan options on a wide scale. As time goes on they could likely be added due to client demand and increased knowledge on the subject. Wealth mangers and investment firms could potentially catalyze this adoption process by implementing more stream lined operation processes and buying into the benefits ESG can provide.

Changing standards on what constitutes "fiduciary duty" could also come into play with SRI market expansion. European institutional investors and most of the pension schemes in Europe are further ahead of the US. The fact that they have strongly implemented ESG into their investment processes is interesting. There is a common view in Europe that reviewing ESG related issues in the investment process is the fund managers fiduciary duty to their clients. (Eurosif, 2016) The US however, is gaining ground in this area now as well. A few years back the Department of Labor (DOL) changed their stance with a statement that could be a breakthrough for the future of sustainable markets in the US. The statement proposes, *"Fiduciaries need not treat commercially reasonable investments as inherently suspect or in need of special scrutiny merely because they take into consideration environmental, social, or other such factors. When a fiduciary prudently concludes that such an investment is justified based solely on the economic merits of the investment, there is no need to evaluate collateral goals as tie-breakers".* (Medland, 2015) Fiona Reynolds, Managing Director of the Principles of Responsible Investment (PRI) said, *"This is a huge game changer for responsible investment in the United States, an exciting and welcome development".* (ibid) As described in this analysis there are many different demographics of investors that desire the opportunity to invest for both social impact and financial return. This move by the DOL helps Americans to more easily do that.

While the demographics previously discussed in this analysis present opportunities for the people already most interested in SRI options, it's important to look at what can be done to reach the skeptics or investors disengaged from SRI. As previously stated a study done at DePaul University in Chicago looked at the demographic profiles of socially responsible investors. It found that wealthier male investors were most likely to be disengaged from investing responsibly. The study concluded that additional efforts SRI funds and investment activists must be made to convince wealthier and male investors of the merits of SRI. (Junkus & Berry, 2010) This is consistent with the experiences of a Wealth Management Associate at Jefferies Bank who services high net worth and ultra-high net worth clients. When asked how she sees ESG investment trending in the industry she stated, *"I don't see ESG investment considerations trending at all in my industry niche. I would imagine smaller clients, who have more of a social conscience but not enough money to make a cash donation directly to sustainable investment/ESG related organization, would be more inclined to invest in sustainable investments/ESG. The clients I work with have portfolios of >$10mm (up to $150mm), and look at their portfolios solely as a means to build and protect wealth. Many end up donating directly to socially or environmentally conscious organizations or name them as beneficiaries to fulfill their desire to make a positive impact on the world."* (Appendix 9) As she stated, the main goal of these investors is to solely build and protect wealth. They address their desire to be philanthropists in other ways via charity or donations. This way of thinking or strategy completely dismisses any risk diversification benefits or performance enhancements SRI investing can provide to their portfolios.

4.5 Communication is Key

With a large sample of academic studies and mounting evidence that SRI can add real return benefits despite the socially conscious agendas, it is important to examine how to reach the segments of investors that do not buy into ESG or don't believe they offer any value. When asked if she thought there is a lack of marketing or a transparency issue in the financial industry when it comes to the ESG trend and if she thought more interest could still be garnered from investors with further strategic marketing, an Institutional Defined Contribution Associate at BlackRock replied, that increased marketing, particularly concerning the performance of ESG funds could increase interest in these sustainable options. (Appendix 4) Finding an effective way to best reach clients on the merits of ESG investing could be paramount to wealth managers gathering more assets.

An interview with a Senior Portfolio Manager at PFA Pension further demonstrates the crucial need of effective communication between investment firms and their stakeholders. He presented, *"We* *currently have the data needed but we need an efficient way of communicating the material to all portfolio managers and to create relevant information to our end clients."* (Appendix 1) As a follow-up, he was asked if he thought there was a transparency issue and if the data information gap that exists is a key piece to the further adoption of ESG. He replied, *"It is not really a transparency issue, it is more an issue of materiality comprehension and data labels. Many investment professionals have already been looking at ESG related issues when making investments for the past years 10 years. It just didn't have the label ESG data. The issue then becomes that ESG is confused with ethics, which is related to a more negative approach of not investing in sin stocks, that approach is outdated and not what we want to do here at PFA, but it is often what investment professionals think with they hear about ESG ambitions. Hence, we need to be able to better communicate the material to highlight that this is not ethical investments 2.0 but something else."* (ibid)

This strong association of ESG with "ethical investments" is abundantly clear in the interview sample of wealth management advisors. The question becomes how can investment firms and wealth managers reach their clients and internal stakeholders to bridge the communication gap and make the materiality of SRI clearer? The landscape of the wealth management world is rapidly changing and the shifting client demographics demand a different client experience and service process. A key piece to the adoption of sustainable investing on a larger scale is client engagement and getting the merits, facts, and a clear definition of what sustainable investing entails to the public.

4.6 Education

The head of Sustainability/CEO of Morningstar Benelux cited that one of the biggest hurdles facing sustainable investing is that there are still a number of asset managers that do not believe sustainable investing contributes any added value. He states the notion that sustainable investing costs performance is a misconception. (Appendix 10) As laid out throughout this thesis, the belief of ESG underperforming conventional funds has been largely disproved academically. He went on to stress that education is a key piece to the advancement of sustainable investing. The goal at Morningstar is to educate people on the issue of sustainable investing and bring it to the mainstream. Morningstar is trying to bring change to the industry and has launched the Morningstar sustainability ratings last year. The ratings are available across regions via Morningstar's websites in order to provide as much reach and relevant information to investors as possible. (ibid) Morningstar also publishes articles around the topic of sustainable investing to educate people on ESG. Given the information is coming from a data provider which is a neutral party as opposed to an asset manager or investment firm selling proprietary products, the information is more inclined to be accepted and trusted. Awareness of the public surrounding the issue is key and that is largely the goal of Morningstar. (ibid) He goes on to say, Morningstar is in a great position because of the global platforms they have to get information out there. It provides investors with the tools to learn about ESG, how the ESG funds are doing, and how they can be evaluated, etc. The internet platform helps with this. Media is key for the dissemination of information on the issue. (ibid)

When looking at the research sample of wealth management advisors in this thesis, there is a trend of advisors stating that their firms were provide them with ample ESG investment options to present to their clients and that information around the issue is available if they wanted it. A Wealth Management Advisor at Northwestern Mutual cited *"My firm (NM) has a list of socially responsible funds that have passed our research process. This equips me with a list of 20-30 funds that I can confidently discuss with clients."* (Appendix 5) He continued that *"I do feel confident that my firm is providing me with the ammo (pun intended) to help my clients make an informed decision if an ESG investment is important to them*" (ibid) A Senior Vice President at Stifel Investments stated, *"Our firm, Stifel, provides a "buffet table" of investments for the advisor. The ESG style is included on the "buffet table". We also have performance/risk measurements for all funds/ETF's. If the ESG approach has the historical performance I will use it. At this time, I am not aware of many fund/ETF's using this approach that warrant purchase."* He then elaborated that, *"Stifel offers investments that are on the cutting edge for new portfolio strategies. However, I prefer investments that have a long track record before investing my clients' money. I have found that most of the "new" strategies, generally do not have a high success rate."* (Appendix 7)

Advisors cited having ample access to sustainable investment options while also citing that they do not actively incorporate ESG considerations when making investment recommendations to clients. This piece is worth examining as there are investment firms with sustainable investing capabilities and campaigns that employ advisors who may be skeptical of SRI for their clients.

The head of Sustainability/CEO of Morningstar Benelux when asked about how to best move forward with education on ESG, responded that education in the US, particularly with financial advisors on the top level was key. (Appendix 10) Morningstar is developing sustainable investment knowledge alliances with various education providers in an attempt to reach and educate advisors. He went on to say financial advisors in the US and UK are very essential to ESG in their markets as they play a more integral role in the distribution of financial advice than other markets in Europe where banks play a larger role. Advisors are the weakest link in these markets and are needed to reach the mainstream in the US and UK. He offered that many advisors want to learn about ESG and are interested around the topic when presented with it. For advisors, it could be a way to distinguish themselves in the industry because as of now many aren't doing it. It allows for a different conversation with clients and adds a new angle to the financial planning relationship. It can also be a profitable. Given the demand from younger generations around the issue, it can be used as a tool to keep assets under management when these children eventually inherit their parents' assets. (ibid)

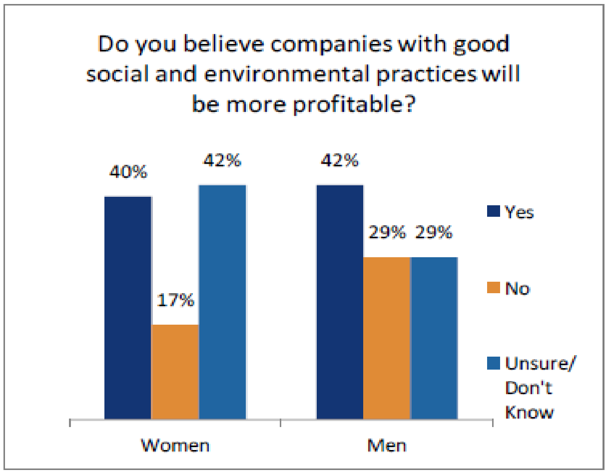
In the same interview, the Head of Sustainability and CEO of Morningstar Benelux pointed out that firms like JP Morgan, BlackRock, and State Street, etc. are launching more sustainable products both active and passive. (Appendix 10) This displays how there are large global investment firms investing in this trend. An interview with Institutional Defined Contribution Associate at BlackRock confirmed this. When asked if she felt that BlackRock was providing adequate resources to seek out ESG fund options and to educate herself on the topic, she replied *"BlackRock has a large ESG platform with a wide selection of fund offerings, I am able to seek out appropriate fund offerings and educate myself on this topic. For example, we have had internal trainings, as well as resources available, to help keep up with the growing popularity of ESG investing."* (Appendix 4) When asked the same question, an independent ESG data provider cited, *"We keep a close relation with clients and the market to stay on top of the latest developments. Our staff continually stays abreast of market developments and trends through continuing education courses and industry conference participation. For example, our staff participates in the PRI academy, we have frequent knowledge sharing sessions, and every employee has an annual education credit."* (Appendix 3) Education is integral to people investing sustainably on a larger scale. The effects of education and information regarding investing sustainably is already being observed. The CEO of Morningstar Benelux stated that the data from software used at Morningstar which monitors 35,000 plus funds shows that the inflows to sustainable funds are increasing faster than that of conventional funds that are directly comparable. (Appendix 10) It could be hypothesized that the sustainable investment trend will continue to grow larger and increase its scale even if no additional action is taken by investment firms. The goal of this thesis however is to explore how investment firms can play into this trend to accelerate it further.

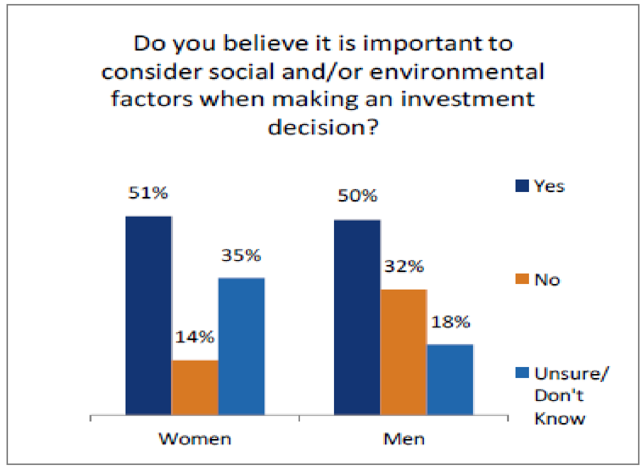
4.7 Channels of Education

When it comes to education on sustainable investing there are many channels in which to reach investors. As laid out in the previous section, the online capabilities and reach of ESG data providers can be an extremely useful tool for SRI education. Other methods such as professional investment events can be a great venue to get the word out. (Appendix 10) Former Sales Representative at Bloomberg described his experiences surrounding ESG education as follows, *"I think Bloomberg did a good a job as anyone as they are a data provider. They started working a few years back with Sustainalytics to really make a push to bring in some good quality ESG data early on. That went a long way. Then they started doing ESG scores and templates and then made that a big initiative holding seminars, getting specialists out in the field to get the word out to sell these services to their corporate clients and our investor clients as well in case they had any socially conscious funds."* (Appendix 2) It's been laid out in the previous section that advisors particularly in the US and UK markets can be perceived as a weak link in the ESG trend. The CEO of Morningstar Benelux described the use of alliances with education providers to help address this need. He also described the usefulness of webinars and social media to spread information on ESG. (Appendix 10) Next this thesis will look at how wealth advisors who buy into ESG can reach their client base.

Wealth advisors must find a way to engage clients on the ESG issue. Many client segments are still largely uninformed on the benefits ESG can offer to their portfolios. While women were found to be more inclined than men to value ESG in their portfolios, a much larger proportion of these women claimed to be unsure of the benefits ESG can offer when compared to men. The figures below illustrate how in a study done by the Responsible Investment Association (RIA), 42% of women cited themselves as "unsure/don't know" if companies with good social and environmental practices will be more profitable and 35% cited themselves as "unsure/don't know" if they believe it is important to consider social and environmental factors when making an investment decision. (RIA, 2016)

Figure 20: Differing Beliefs Between Men and Women on ESG Investing

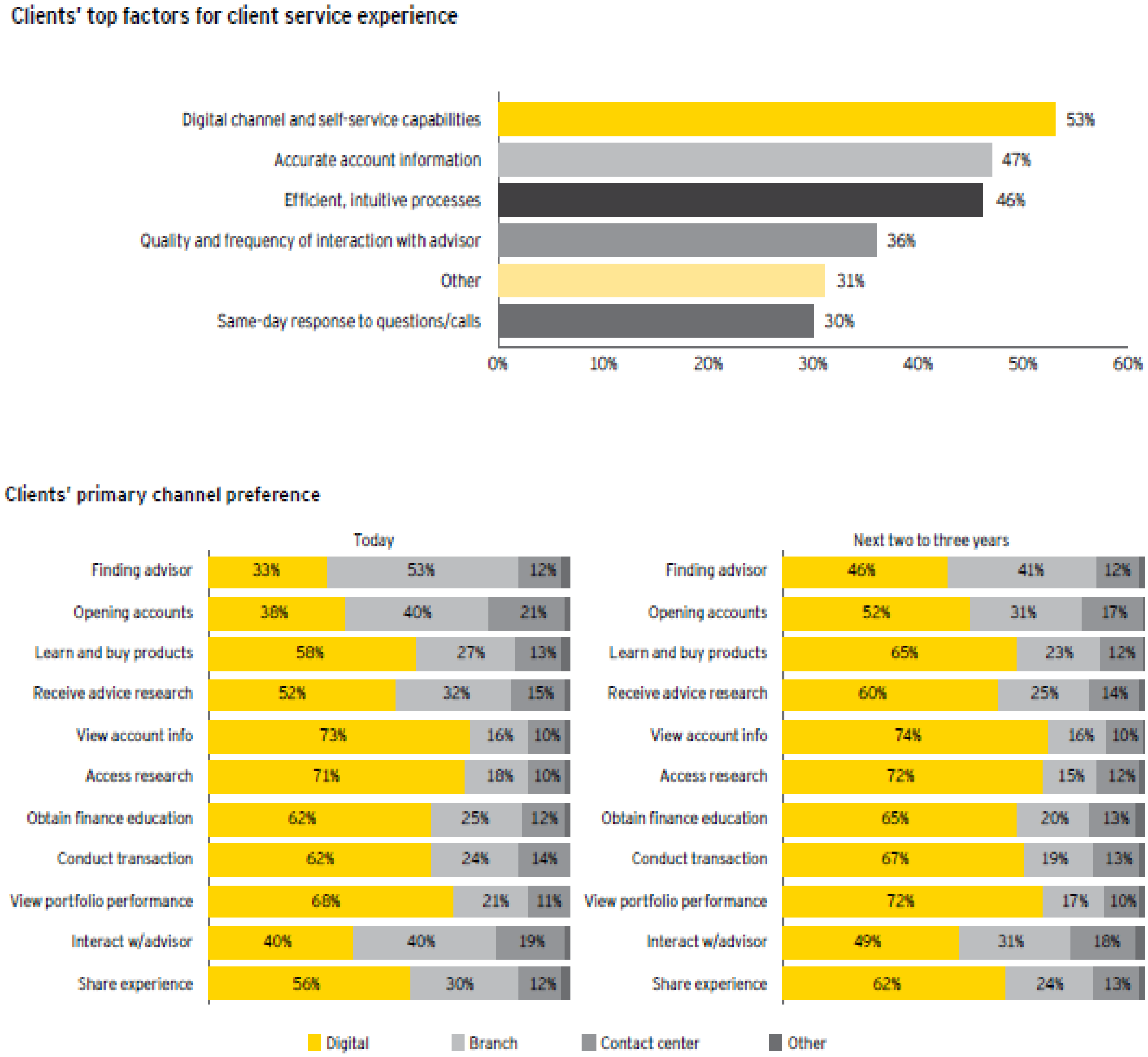




Source: (RIA, 2016)

Engaging these clients on the benefits of SRI and at a minimum making them generally aware of ESG products is imperative. Engaging clients and delivering information or advice through the channels clients most desire is a great place to promote SRI merits. A report issued by Ernst and Young found that clients' top preferences for client service experience is digital capabilities as illustrated by Figure 21.

Figure 21: Client Service and Channel Preferences



Source: (EY, 2015)

This report highlighted that clients currently prefer to receive financial advice, access research, and obtain financial education overwhelmingly through a digital channel and this preference is expected to grow over the next two to three years. (EY, 2015) The growing SRI trend and the increasingly digital financial services industry could be a perfect match that can grow together. Startups are currently leveraging technology and taking aim to make “robo advisors” a central part of sustainable investing. (Davidson, 2015) Some of these “robo advisors” are marketing themselves to millennials and will select investments for clients based on the clients' answers about investment preferences. The platform then uses a logarithm to put together a sustainable portfolio. (ibid)

4.8 Increasing Transparency

There is an enormous need in the financial industry for increased transparency surrounding SRI. There is a lot of confusion among the industry of what ESG actually entails, as it is a large universe of factors. Presenting a way to measure materiality and benefits associated with ESG is a large need. One of the main issues is a lack of uniform information for both individual and institutional investors on ESG. The meanings and definitions of ESG vary depending on who is using it. This can make navigating investment decisions difficult for people when deciding how to interpret the data. (Davidson, 2015) Senior Portfolio Manager at PFA Pension touched on the need for an efficient way to communicate material information to portfolio managers and having relevant information for end clients. He then goes on to say, *"It is hard to show which factors impact an investment and also how it creates positive value."* (Appendix 1) Meaning it's hard to pinpoint and measure which ESG factor in particular created a benefit and how big that benefit was.

A Former Sales Representative at Bloomberg described his take on transparency and materiality issues as follows, *"How do you make it more tangibly measured? Right now this is idea of ESG is E.. S.. G.. its hard to compare having 60% women on the board with not having good environmental records. It's not a 1 for 1 and there is no correlation among the different elements. You could be really big on social initiatives but have a board with ridiculously long tenures and staggered elections or something like that. Each factor is so different while being under one umbrella so it's hard to measure. How do we go forth and measure that in a context of what drives performance? I think there is probably enough evidence that one could conclude that good governance leads to a better stock price and certain environmental initiatives could lead to that as well. Within the context of each other do we know they relate to each other? I think this variable (ESG) needs to be broken out, looked at in pieces and proven."* (Appendix 2)

The introduction of sustainability ratings from firms that provide financial data like Morningstar and Bloomberg is definitely a step in the right direction in addressing the issue of standardization, materiality, and comparability of sustainable investing metrics. Morningstar makes the ratings public on their website and lays out the methodology of how the ratings are determined to increase transparency for clients so they know where the data is coming from and how it is being analyzed. (Appendix 10) Morningstar employs an ESG expert team to study the field, write about it, come up with new metrics. Taking data and translating it into something with material value. To make information from data is a big enterprise. (ibid)

An independent ESG data provider stated, *"We have a dedicated client adviser team that is increasingly working with mainstream portfolio managers and analysts to help them understand and gain insights from ESG research, in order to meaningfully be able to integrate the information into their investment processes. This in practice includes support for integration of ESG research on a day to day basis, providing insights on specific ESG issues, helping train staff on material key ESG issues and in using the research to get the most out of it. The client and business development teams also work closely with our clients to help them develop marketable products. For example, in a recent case we have supported one of our clients to develop its own proprietary Sustainability Indicator, which is tailored to the types of investments and solutions offered by the client. Using ESG scores, selected preparedness indicators and controversy research from our firm, along with its own information, this Sustainability Indicator is an in-house solution that benefits portfolio managers as it provides them with ESG information on companies. Additionally, the Sustainability Indicator is also used by advisors in their conversations with clients."* (Appendix 3) This is a good example of how steps can be taken to present solutions for making ESG more material and measurable so that investors and advisors alike can intelligently use the data to make informed investment decisions.

There are also steps being taken on the governmental and regulative level to further standardize SRI. The Head of Sustainability and CEO of the Morningstar Benelux cited that the European Commission currently sets ESG reporting standards but they can certainly be improved upon from where they are now. (Appendix 10) Jean Rogers the chief executive and founder of the non-profit Sustainability Accounting Standards Board, is trying to develop uniform standards for about 80 industries across 10 sectors in the economy. (Davidson, 2015) The current group of data surrounding sustainability relies too much on voluntary corporate disclosures that is not uniform. Rogers says, *"Individual investors are quite challenged to obtain this type of information in a way that is easily available and informs investment decisions—either specific stock selections or products to manage or fund your 401(k)."* She adds, "*We need better investible products,"* (ibid) Senior Portfolio Manager at PFA Penison added, *"Currently there is a lot of attention on showing how investment can positively* *impact the UN Sustainable Development Goal, there is definitely a market potential for a smart investment product that delivers a return and is able to show how it is positively impacting its surroundings."* (Appendix 1) The Vice President of Research and Client Relations at RiverWater Partners expressed a desire for increased standards of reporting stating, *"Standards for reporting will be a welcome change. Governance is well documented but environmental and social impact spans a broad range by sector."* (Appendix 8) This anecdotal evidence shows that there is a large need for measurable investment solutions for those wanting to invest sustainably. This is an important piece of the way forward for sustainable investment in the industry.

5.0 Discussion

The purpose of this section is to interpret and examine the significance of what has been learned through the analysis of the research data directed at answering the research question:

How can investment firms enhance their sustainable investment initiatives and reach clients to increase assets under management (AUM) in ESG funds?

Significant findings that this research has identified will be linked to what was already known about sustainable investing. This critical analysis will attempt to fill any "gaps" regarding the way forward for sustainable investing. Limitations of thesis research will be addressed and views of future research to build on what was learned in this thesis will be examined.

While there have been many studies done on sustainable investing and the value it can add to portfolios and the investment process, there is a lack of established theory around sustainable investment. There is not a science around how to invest sustainably, and the broad universe that SRI encompasses makes navigating this complex field a difficult task for the experts, let alone the average investor. A goal of this thesis is to build the foundation proving that ESG investing produces value for those who participate in it by presenting relevant empirical research. Based on this premise, investment professionals in the field were interviewed to get a holistic view of the market and factors at play surrounding ESG.

The review of existing studies set forth that investing sustainably doesn't cost performance but rather can act as a tool to enhance it. The primary data collected from experts in field confirmed this citing benefits to investor portfolios. The primary data collected from the wealth management advisor segment of the interview sample showed that there are dissidents in the field that are skeptical of SRI or unaware of benefits that can be garnered for client investors. This is congruent with what was laid out by the expert interview with the CEO of Morningstar Benelux in that advisors are the weak link in ESG, particularly in the United States and the United Kingdom. (Appendix 10) Financial advisors are lagging clients, especially client segments such as millennials and women. This dissidence around benefits of investing sustainably was identified in the literature review and established in the research sample.

To address the SRI skeptics in the financial industry, communication of the benefits and proof of performance to investors and advisors is extremely important. Investors can't intelligently act on information they are unaware of. Some large investment firms have made a push to get information out about the possibilities SRI can provide, but the reach seems to be somewhat limited as verified by firsthand account from advisors in the field. Further education of investors and advisors alike is a need. ESG Data providers have made great progress in recent years in building relevant information from raw data and making this information available to the investing public. The use of research reports, online media, company led trainings, webinars, and investment conferences have all been cited as ways to reach investors. Structured training programs formulated in collaboration with ESG data providers and education providers have been made in an attempt to reach financial advisors in particular.

The disruption caused by digital technologies is wide spread in the global economy. The financial services industry is no exception. Investment firms and advisors must adjust their client service models to meet the increasing demand for advice, research, and financial education through digital channels. The rise of digitization and SRI can be paired together to simultaneously address the rising demand of each trend. The literature review examines the competitive advantage companies can enjoy when implementing sustainable practices. The research collected does the same by identifying SRI as way for investment managers to differentiate themselves in a changing market. There aren't many advisors in the field offering a client service model with robust exposure and discussion around investing sustainably. If wealth management firms become first movers in this area there are be profits to be made given the demand and growing interest. Engagement of clients surrounding the issue could be a massive opportunity to gain market share for investment firms.

This research identified key demographics that could be targeted with SRI solutions on account of the strong interest shown by these groups. The literature review identified millennials and the pending "great wealth transfer" in which millennial heirs are expected to inherit vast amounts of wealth as key client segment that will impact SRI. This was overwhelming confirmed in the interview sample. Millennials' preference for investing sustainably is expected to further catalyze the growth of SRI. The research sample also identified women as a strong segment for SRI. Their growing wealth and partiality for ESG should be explored further along with their desire for a different type of client experience when working with wealth managers. ESG options integrated into retirement plans particularly defined contribution plans such as 401-k's were cited as having strong potential. Offering sustainable options in these plans could motivate employees to save more based on philanthropic desires. It was made known that despite demand from clients, changes to these plans is slow and often hard to implement due to administrative challenges. Addressing these challenges to make a more streamlined administrative process could enhance the growth of ESG assets.

"Liberal" political views and religious beliefs were cited as common traits of a sustainable investor. While it makes sense to use ESG as a tool to address the desire to avoid certain investments based on morals or beliefs, it is interesting that the positive implications ESG can have on investment performance and risk diversification is ignored. This theme further shed light on the issue of correctly labeling or defining what sustainable investing actually is. Despite having historical roots in ethics, ESG is much more than ethical investing. This association of ESG being ethically based is largely outdated. There needs to be steps taken to address the need for standardization in SRI. It needs to become more clearly defined not only so it can be correctly identified, but also so it can become more tangibly measured. There are huge problems around transparency regarding ESG in the industry. Steps are being taken by governmental and regulative bodies to standardize ESG reporting so that investors can have insight into how to analyze this information along with being able to directly compare ESG information across different investments. Demand for increased standardization in reporting was cited across the research sample and the demand for smart investment solutions that can explicitly show how and where added value from ESG considerations is coming from along with a way to measure it in terms of performance has been expressed. The current market is focusing a lot of attention on showing how investments can positively impact the UN Sustainable Development Goals (SDGs). If investment firms could construct investment solutions that provide this transparency of positive impact while providing risk adjusted returns, this could act as a key driver for SRI. Increased standardization from independent ESG data providers, with transparent methodologies, have helped address the murkiness within ESG by providing a level of comparability among funds across assets classes. Many of these data providers are well integrated into the financial industry. Therefore, the sustainability metrics they provide are greatly changing the industry and helping the SRI trend. Investment firms can work with these data providers to use ESG to create proprietary sustainability solutions that provide increased transparency for portfolio managers and supply talking points for advisors when addressing clients on ESG solutions. Inflows to ESG funds are already growing faster than that of conventional funds that are directly comparable. (Appendix 10)

5.1 Limitations

Data was gathered in this thesis by conducting semi-structured qualitative interviews with investment professionals focusing on two different sub-categories. A sample of four ESG experts and a sample of six wealth management advisors, for a total of ten research participants. Each sub-category was asked a set of identical questions (for that category) in order to best gain insights into their own personal experiences surrounding SRI. As this thesis is conducting exploratory research the goal was gain a broad overview of the market and the trends within it. The initial interview design was setup via e-mail, but two of the interviews were done over the phone and one was done face-to-face at the request of the participants. These differing interview methods could have opened to door for more subjectivity in the results as the interviews done over the phone and in person tended to flow more like a conversation than the cut and dry questions and answers shared over e-mail.

While the interview sample of ESG experts was quite diverse by company and region, the interview sample of wealth management advisors was geographically concentrated to the Midwestern United States due to network connections of the author. This region provided particular ease of access to investment professionals willing to partake in this research. Results collected and conclusions made could be skewed by focus on this region. It is possible that results collected in the study may not accurately apply to other regions of the United States, Europe, and the rest of the world. Additionally, these qualitative interviews required participants to self-report data when responding to the interview questions. By nature, this data is limited by the fact that it can’t be independently verified meaning it must be taken at face value. To help limit this effect, where possible this thesis attempted to support interview responses with secondary reports, studies, and insights to validate their answers. To further verify trends identified in this research a larger more geographically diverse sample could be useful. This might further solidify the research findings or identify new trends.

6.0 Conclusion

This thesis has investigated the sustainable investment phenomenon and examined how investment firms can enhance their position when facing the SRI trend. The focus of this research has been to build a meta study and comprehensive background establishing the merits of sustainable investing. Based on this premise, the thesis sought to answer how investment firms can enhance sustainable investment initiatives and reach clients to increase assets under management in SRI funds. Trends in the SRI market have been identified and could be exploited by investment firms. Benefits to client portfolios and empirical evidence that proves adequate to superior performance must be effectively communicated by firms to encourage investors and advisors to invest sustainably. Education is a key component to the progression the SRI. There are a variety of channels firms can utilize to reach investors, but digital channels are of particular importance given shifting client service preferences in the industry.

Client segments such as millennials and women have great interest in sustainable investing. Given that these segments are growing and will continue to grow in the coming decades provides investment firms with a massive opportunity to come up with transparent SRI solutions to meet this growing client demand. It is an opportunity for firms to differentiate themselves from others in the market and to engage clients to bring in more assets, as well as to retain assets when clients inevitably pass on their wealth to the next generations. If firms can manage to increase the transparency and the measurability of ESG funds they offer, assets under management in these funds is likely to increase given this great demand for such investment solutions.

6.1 Future Research

There are several potential research opportunities from this point that can further build on this thesis. Now that it has been identified that education is a key to the progression of SRI, it would be worth examining which education methods are the most effective. Looking at how to best reach investors of different demographics, along with examining differences among regions across the world, could provide more in-depth insights. Different drivers of ESG by region could be studied to learn how to best tap into each market. Should firms go after the groups that is now known have a strong interest in SRI or should they spend efforts trying to recruit the cynics and the skeptics? Is there a best way forward regarding standardization of ESG data? Can ESG reporting be made into an auditable process? There are many potential ways to further investigate how to enhance ESG. However, even if nothing else is done by investment firms to catalyze the SRI trend, sustainable investing will likely continue to grow due to the fact that ESG funds are now growing at a greater rate than their conventional counterparts. (Appendix 10) Given this reality, it is crucial for investment firms to align their practices and policies with the ESG trend not only to gain market share, but to stay competitive in this rapidly changing environment.

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8.0 Appendices

Appendix 1 - E-mail Interview with Andreas Stang, Senior Portfolio Manager and Head of ESG at PFA Pension.

April 7, 2017

-How do you see ESG investment considerations currently trending in the industry?

In the asset management industry there has been a significant development when considering the ambitions related to why ESG is being integrated. Historically ESG has been integrated as an additional risk metric and also to "do no harm". Currently manager are increasing their focus on using ESG metrics to assess company potential and to "do good" instead of do no harm. In a sense the area is developing towards a more positive metric.

-What do you see as the biggest hurdles currently facing the integration of ESG considerations into investments offerings?

That there are so many different approaches and also a lot of quick fixes where creative index creation all of a sudden can be presented as the solution to a bunch of ESG related issues with no governance oversight this can lead to agency problems if there is no dialogue between the investors and the companies.

-How are you/your firm equipping yourselves for these hurdles?

We focus on working with and integrating ESG considerations in our actively managed portfolios.

-How are you/your firm currently equipping yourself with ESG knowledge/resources to best serve your clients' needs?

We currently have the data needed but we need an efficient way of communicating the material to all portfolio managers and to create relevant information to our end clients.

-Which types of ESG related products/services that your firm provides do you see as the most demanded by investment professionals in the industry currently?

Currently there is a lot of attention on showing how investment can positively impact the UN Sustainable Development Goal, there is definitely a market potential for a smart investment product that delivers a return and is able to show how it is positively impacting its surroundings.

April 18, 2017

Follow up e-mail to gain sent to gain clarification on certain responses.

If you don't mind, I wanted to follow up on two of your responses to explore a bit deeper on a few of your answers that I found really interesting:

-How are you/your firm currently equipping yourself with ESG knowledge/resources to best serve your clients' needs?

We currently have the data needed but we need an efficient way of communicating the material to all portfolio managers and to create relevant information to our end clients.

This is interesting. Would you say it is a transparency issue? Do you think a lot of the "data information gap" that exists is a key piece to the further expansion/adoption of ESG? In other words, you have the data you need but it's not in the hands of all the stakeholders it should be?

-Which types of ESG related products/services that your firm provides do you see as the most demanded by investment professionals in the industry currently?

Currently there is a lot of attention on showing how investment can positively impact the UN Sustainable Development Goal, there is definitely a market potential for a smart investment product that delivers a return and is able to show how it is positively impacting its surroundings.

This sounds like another issue/opportunity regarding transparency? There is a lot of interest around ESG but it seems that it is often difficult to illustrate the direct positive impact being done. Do you think this is because of how hard these impacts are to quantify or due to another reason such as the measurable information isn't being collected or other?

I know these are vague questions and there may not be a known answer but any opinions or ideas of yours are definitely appreciated.

April 19, 2017 Reponses to follow up received.

Hi Paul,

Would you say it is a transparency issue? Do you think a lot of the "data information gap" that exists is a key piece to the further expansion/adoption of ESG? In other words, you have the data you need but it's not in the hands of all the stakeholders it should be?

It is not really a transparency issue it is more an issue of materiality comprehension and data labels. Many investment professionals have already been looking at ESG related issues when making investments for the past years 10 years. It just didn't have the label ESG data. The issue then becomes that ESG is confused with ethics, which is related to a more negative approach of not investing in sin stocks, that approach is outdated and not what we want to do here at PFA, but it is often what investment professionals think with they hear about ESG ambitions. Hence, we need to be able to better communicate the material to highlight that this is not ethical investments 2.0 but something else.

I agree that it is a transparency issue related to your second question. It is hard to show which factors impact an investment and also how it creates positive value, this is of course not including companies that e.g. manufacture wind turbines which has a positive impact on air quality relative to a coal fired plant.

Appendix 2 - Face-to-Face Interview with Paul Connors, Former Sales Representative at Bloomberg

June 21, 2017

-How do you see ESG investment considerations currently trending in the industry?

Well from my experience at Bloomberg it was definitely growing. Moreso when I worked with Corporations for the short time that I did (a few months). Because they were always more concerned with what their ESG scores looked like. They had to deal with their institutional shareholders, pension funds, endowments, etc. entities that definitely had more socially conscience mandates. These clients were always on their (corporations) backs for ESG data, the reporting, what are they doing to improve, not only their data but their initiatives to raise their scores. Keep in mind I'm also working with oil and gas firm so that's where are saw the most of it along with a few mining companies. Corporations were concerned with how they looked to the investing public. Concerned with what their scores were like in comparison to their peers. How is that being reported? So that they could go out an appease their existing shareholders or go out and recruit new ones.

-What do you see as the biggest hurdles currently facing the integration of ESG considerations into investments offerings?

How do you make it more tangibly measured? Right now this is idea of ESG is E.. S.. G.. its hard to compare having 60% women on the board with not having good environmental records. It's not a 1 for 1 and there is no correlation among the different elements. You could be really big on social initiatives but have a board with ridiculously long tenures and staggered elections or something like that. Each factor is so different while being under one umbrella so its hard to measure. How do we go forth and measure that in a context of what drives performance? I think there is probably enough evidence that one could conclude that good governance leads to a better stock price and certain environmental initiatives could lead to that as well. Within the context of each other to we know they relate to each other? I think this variable (ESG) needs to be broken out, looked at in pieces and proven.

-How are you/your firm equipping yourselves for these hurdles?

I think Bloomberg did a good a job as anyone as they are a data provider. They started working a few years back with Sustainalytics to really make a push to bring in some good quality ESG data early on. That went a long way. Then they started doing ESG scores and templates and then making that a big initiative holding seminars, getting specialists out in the field to get the word out to sell these services to their corporate clients and our investor clients as well in case they had any socially conscious funds. Pension funds on the institutional side as well. All in all they were trying to some of the first movers in that area (ESG data). They also bought New Energy Finance a few years back which became Bloomberg New Energy Finance. All of this was pretty head of the curve moves for the industry at that time. Bloomberg was definitely trying to claim their "kind of corner" in that market. That was definitely a big push for them. In terms of my role in it was identifying when a customer may be interested in these types of services or had a need in which case I would set up a seminar or webinar or have an expert come visit. We used to sell

the New Energy Finance service but I believe it became completely integrated at some point. It used to be some was free some had to be paid for.

-How are you/your firm currently equipping yourself with ESG knowledge/resources to best serve your clients' needs?

This is blended into his previous answer to the previous question.

-Which types of ESG related products/services that your firm provides do you see as the most demanded by investment professionals in the industry currently?

That was pretty biased for me as I covered so much of the oil and gas sector at Bloomberg. It was really the environmental segment in that sector. So to say social and governance wasn't important is unfair but to a lesser extent. When everyone out their fracking to produce energy, environmental issues are on the forefront.

Appendix 3 - E-mail Interview with Analyst at Independent ESG Data Provider

May 3, 2017

-How do you see ESG investment considerations currently trending in the industry?

Globally we see how ESG investments have increasingly entered the mainstream, with local differences. While Northern Europe is progressive globally, there has been a real ESG boom in the US the last couple of years. Important to note is that market drivers for incorporating ESG into the investment process differs between markets. While in some countries pension funds are leading the way, in other regions NGOs and citizen awareness drives the development.

These days, nearly all big investors apply ESG considerations to their investment decisions in some form. Exclusions, proxy voting and integration are the most popular strategies, followed by engagement. Impact investing is still relatively new, but is growing rapidly with the SDGs receiving a lot of attention.

-How are you/your firm equipping yourselves for these hurdles?

While we cannot comment on the hurdles that institutional investors face in the integration of ESG considerations into their investment offerings, we can discuss how we support them in their integration efforts.

We have a dedicated client adviser team that is increasingly working with mainstream portfolio managers and analysts to help them understand and gain insights from ESG research, in order to meaningfully be able to integrate the information into their investment processes. This in practice includes support for integration of ESG research on a day to day basis, providing insights on specific ESG issues, helping train staff on material key ESG issues and in using the research to get the most out of it. The client and business development teams also work closely with our clients to help them develop marketable products. For example, in a recent case we have supported one of our clients to develop its own proprietary Sustainability Indicator, which is tailored to the types of investments and solutions offered by the client. Using ESG scores, selected preparedness indicators and controversy research from our firm, along with its own information, this Sustainability Indicator is an in-house solution that benefits portfolio managers as it provides them with ESG information on companies. Additionally, the Sustainability Indicator is also used by advisors in their conversations with clients.

As ESG has entered the mainstream and is increasingly being used by investment teams, the need is also increasing to provide more ESG data. We increasingly see a need for both qualitative and quantitative analysis, which we provide both to our clients. In order to integrate ESG in the investment process we also offer data services to our clients that make it easier to integrate qualitative ESG data into quantitative models.

-How are you/your firm currently equipping yourself with ESG knowledge/resources to best serve your clients' needs?

We keep a close relation with clients and the market to stay on top of the latest developments. Our staff continually stays abreast of market developments and trends through continuing education courses and industry conference participation. For example, our staff participates in the PRI academy, we have frequent knowledge sharing sessions, and every employee has an annual education credit.

Our firm also regularly solicits client feedback through a bi-annual customer survey as well as multiple other means. This feedback helps to inform our product and service enhancements as well as the development of new products and services.

-Which types of ESG related products/services that your firm provides do you see as the most demanded by investment professionals in the industry currently?

Again, this is very dependent of region and investment strategy of the investment professional. Very broadly, in Europe we have historically seen a more norms based focus, which has really transformed into demand for ESG integration the past few years. Meanwhile the US has traditionally had a more compliance orientated focus, but ESG integration is also growing quickly there. Looking at Europe, we see different demands per country for ESG ratings, ethical and/or norms based screening or climate/carbon ratings.

Appendix 4 - E-mail Interview with Lisa Tyley, Institutional Defined Contribution Associate at BlackRock

April 7, 2017

-Are sustainable investment/ESG considerations a factor for you/your firm when selecting investments for clients?

BlackRock is committed to empowering clients who wish to consider or target environmental, social and governance goals in addition to their financial risk and return goals. Our firm has, therefore, actively built a competitive platform of products and capabilities across asset classes and continue to work with our clients to ensure their needs are efficiently met. We readily embrace all aspects of investing that clients are seeking to implement and this includes both financial and non-financial purposes. We believe we have resources ideally positioned to use BlackRock's growing suite of products, scale and relationships so clients achieve their multi-faceted goals.

-How do you see ESG investment considerations currently trending in the industry?

Due to the increased popularity across various client types, both retail and institutional, many large investment managers (BlackRock, StateStreet, Vanguard, Capital Group, etc.) have built out platforms to accommodate the demand for sustainable investing. Additionally, there are also firms that have been built around the ESG framework and only offer funds/investments that meet their ESG criteria (e.g. Parnassus Investments, PaxWorld). There has been more interest in sustainable investing from clients and prospects in Europe, but interest in the US has been increasing over the past few years.

-What benefits to client portfolios do you see if any?

The most important benefit that ESG investments have on client portfolios is that since many clients have a preference for this type of investment, and are excited about their investment offering, the thought is that they will save and invest more than they otherwise would have. For example, some Defined Contribution Plan Sponsors have received requests from their participants to add ESG funds to their investment lineup. This shows that when investors believe in and agree with the philosophy of the companies that they are invested in, they will potentially invest more and therefore this will increase the likelihood of those retirement plan participants to be more prepared for retirement. Additionally, another viewpoint is that ESG factors are often a signal of, or proxy for, management quality – particularly over the longer term.

-Are there particular client categories for whom you think ESG funds are most attractive?

ESG funds seem to appeal to a wide audience. For example, among the retail individual client segment, millennials are increasingly interested in ESG investing. Whereas among U.S. institutional investors, Family Offices, Foundations, and Endowments, are more likely to include ESG funds than Defined Contribution or Defined Benefit Pension Plans. However, this is different in Europe, where ESG investing is more common across all institutional investors. Additionally, a few institutional investors have even taken the approach of evaluating investment managers through an ESG lens when conducting a search process for a non-ESG specific fund.

-If so, what are the key metrics you look for within an investment offering that utilizes ESG considerations?

Certain BlackRock funds have investment processes which consider issuer ESG ratings or other sustainability characteristics. Certain ETFs track sustainability indexes or have investment criteria which consider issuer ESG ratings or other sustainability characteristics of issuers. These funds are featured on the BlackRock Impact platform of sustainable investment strategies. The specific key metrics and features of the ESG investment offering depends on the client's preference and reason for seeking this type of investment. For example, for some large institutional clients, we are able to build customized separate accounts to allow for specific exclusions or preferences of the client.

-How are you currently equipping yourself with ESG knowledge/resources to best serve your clients' needs?

BlackRock's strategies span three segments, reflecting the evolution of the market, exclusionary screens, ESG factors, and impact targets. Our strategies can range across vehicle types, including Mutual Funds, ETFs, Collective Trusts, and Separate Accounts. In 2015, we integrated key ESG metrics into our investment and risk management platform, Aladdin. As a result, BlackRock's global investors have available to the ESG metrics to take into consideration in their investment analysis. We also have developed in Aladdin portfolio-level ESG scores to enable active investors to measure ESG risk and performance against benchmarks.

-Do you feel that your firm is providing you with adequate resources to seek out ESG fund options and to educate yourself in this area?

Yes, since BlackRock has a large ESG platform with a wide selection of fund offerings, I am able to seek out appropriate fund offerings and educate myself on this topic. For example, we have had internal trainings, as well as resources available, to help keep up with the growing popularity of ESG investing.

April 11, 2017

Follow up e-mail to gain sent to gain clarification on certain responses.

Thanks Lisa!

Hope your weekend was good! Your answers were awesome and definitely gave me a lot to work with I really appreciate it. I wanted to follow up/dig deeper on a few items if you don't mind.

For this question/answer.....

-What benefits to client portfolios do you see if any?

The most important benefit that ESG investments have on client portfolios is that since many clients have a preference for this type of investment, and are excited about their investment offering, the thought is that they will save and invest more than they otherwise would have. For

example, some Defined Contribution Plan Sponsors have received requests from their participants to add ESG funds to their investment lineup. This shows that when investors believe in and agree with the philosophy of the companies that they are invested in, they will potentially invest more and therefore this will increase the likelihood of those retirement plan participants to be more prepared for retirement. Additionally, another viewpoint is that ESG factors are often a signal of, or proxy for, management quality – particularly over the longer term.

Do you think there is a lack of marketing and/or transparency in the industry when it comes to the ESG trend? Do you think more interest could still be garnered from investors with further strategic marketing?

And for this question/answer.....

-Are there particular client categories for whom you think ESG funds are most attractive?

ESG funds seem to appeal to a wide audience. For example, among the retail individual client segment, millennials are increasingly interested in ESG investing. Whereas among U.S. institutional investors, Family Offices, Foundations, and Endowments, are more likely to include ESG funds than Defined Contribution or Defined Benefit Pension Plans. However, this is different in Europe, where ESG investing is more common across all institutional investors. Additionally, a few institutional investors have even taken the approach of evaluating investment managers through an ESG lens when conducting a search process for a non-ESG specific fund.

Why do you think that Defined Contribution and Defined Benefit Plans are lagging in the US? You stated in your previous answer that some plan sponsors are starting to receive requests from participants for ESG fund options. Could it be a lack of education on the topic or perhaps no perceived value added by the plan sponsors?

I know these are tough questions so any crack at it you can take is helpful. Can be completely your own opinion. Trying to dig a bit deeper here.

Reponses to follow-up received April 11, 2017

-What benefits to client portfolios do you see if any?

The most important benefit that ESG investments have on client portfolios is that since many clients have a preference for this type of investment, and are excited about their investment offering, the thought is that they will save and invest more than they otherwise would have. For example, some Defined Contribution Plan Sponsors have received requests from their participants to add ESG funds to their investment lineup. This shows that when investors believe in and agree with the philosophy of the companies that they are invested in, they will potentially invest more and therefore this will increase the likelihood of those retirement plan participants to be more prepared for retirement. Additionally, another viewpoint is that ESG factors are often a signal of, or proxy for, management quality – particularly over the longer term.

Do you think there is a lack of marketing and/or transparency in the industry when it comes to the ESG trend? Do you think more interest could still be garnered from investors with further strategic marketing?

Yes, I think that increased marketing, particularly around performance of ESG funds, would increase interest in these funds. Also, I think that interest and assets in these funds will grow over time even without increased marketing, simply because of the growth of wealth for the millennial generation, who are one of the largest groups of interested investors in ESG.

-Are there particular client categories for whom you think ESG funds are most attractive?

ESG funds seem to appeal to a wide audience. For example, among the retail individual client segment, millennials are increasingly interested in ESG investing. Whereas among U.S. institutional investors, Family Offices, Foundations, and Endowments, are more likely to include ESG funds than Defined Contribution or Defined Benefit Pension Plans. However, this is different in Europe, where ESG investing is more common across all institutional investors. Additionally, a few institutional investors have even taken the approach of evaluating investment managers through an ESG lens when conducting a search process for a non-ESG specific fund.

Why do you think that Defined Contribution and Defined Benefit Plans are lagging in the US? You stated in your previous answer that some plan sponsors are starting to receive requests from participants for ESG fund options. Could it be a lack of education on the topic or perhaps no perceived value added by the plan sponsors?

I think that DC and DB plans are lagging in the US for a couple reasons.

1. DC plans typically move extremely slow when it comes to making changes to their plan. This is because they need to undergo a process of researching, documenting, making a recommendation to their investment committee, and notifying participants of the upcoming change. Additionally, since many DC and DB plans are intermediated by investment consultants, the process can be made even more lengthy by starting with the consultant, then the consultant will have a series of meetings and conduct research to vet the funds before potentially adding the funds to their short or long recommended list. After this is done, then they will need to have buy in from the plan sponsor (unless the plan is fully delegated with all decisions being made by the consultant).

2. The concern from the DC plan sponsor's perspective is that they are a fiduciary for their plan and need to make decisions that will benefit the broadest set of participants. As such, they are hesitant to add any fund to their investment lineup at the request of a few participants, but need to make sure that each fund on their lineup makes sense to offer to the majority of participants.

Appendix 5 – E-mail Interview with Scott Mila, Wealth Management Advisor at Northwestern Mutual

April 29, 2017

-Are sustainable investment/ESG considerations a factor for you/your firm when selecting investments for clients?

Not in most cases. There are some clients we serve that for religious / ethical reasons we must choose these however an ESG isn't a driving force when we select investments

-How do you see ESG investment considerations currently trending in the industry?

I think in general people are looking for more transparency with investments and the planning they receive. Transparency in fees and expenses as well as transparency in how their funds are being managed. Culturally I see the younger generation "Millennials" having a desire for more socially responsible *everything* and having that being a driving force for much of their spending / purchasing habits.

-What benefits to client portfolios do you see if any?

At this point I haven't seen any quantitative benefits to these funds.

-Are there particular client categories for whom you think ESG funds are most attractive?

Muslim clients that are open to interest bearing accounts and other clients who are for lack of a better term, very liberal in their political stance

-If so, what are the key metrics you look for within an investment offering that utilizes ESG considerations?

The key metrics I look for is a fund that doesn't invest in any tobacco, alcohol or firearms. Further, many clients do not like companies that have a history of HR issues or trade with China. Others are concerned about companies that have a heavy carbon footprint ie Exxon…so it's really hard to pinpoint what clients are looking for

-How are you currently equipping yourself with ESG knowledge/resources to best serve your clientele's needs?

My firm (NM) has a list of socially responsible funds that have passed our research process. This equips me with a list of 20-30 funds that I can confidently discuss with clients

-Do you feel that your firm is providing you with adequate resources to seek out ESG fund options and to educate yourself in this area?

I do feel confident that my firm is providing me with the ammo (pun intended) to help my clients make an informed decision if an ESG investment is important to them.

Appendix 6 – Notes from Phone Interview with Anthony Mlachnik, Financial Advisor at Ameriprise Financial

May 3, 2017

-Are sustainable investment/ESG considerations a factor for you/your firm when selecting investments for clients?

Yes, use of separately managed accounts (SMA) and negative screening.

-How do you see ESG investment considerations currently trending in the industry?

Not a lot of client demand for it. I'd say only 1-2% I would say openly ask for it.

-What benefits to client portfolios do you see if any?

I see it can limit options for the portfolio and therefore limits overall diversification. A smaller portfolio universe via ESG screening can limit risk diversification which can be a drawback.

-Are there particular client categories for whom you think ESG funds are most attractive?

Women, LGBT groups, 50% of my clients in Colorado may bring it up as opposed to nearly no demand or interest from clients in Illinois. Liberal political base more inclined to use or consider ESG options.

-If so, what are the key metrics you look for within an investment offering that utilizes ESG considerations?

N/A

-How are you currently equipping yourself with ESG knowledge/resources to best serve your clients' needs?

I don't think we are doing all we can but I think we can. We are rolling out an interactive platform for "robo advising" or hybrid advising to get clients more engaged. The platform will also be educational for next generation of clients' children.

-Do you feel that your firm is providing you with adequate resources to seek out ESG fund options and to educate yourself in this area?

Not a huge push from my firm. The info is out their but you may have to dig for it.

Appendix 7 – E-mail Interview with Henry Otten, Senior Vice President at Stifel Financial Corp.

April 18, 2017

-Are sustainable investment/ESG considerations a factor for you/your firm when selecting investments for clients?

I started in the investment business in 1984.

At that time there was very little information available regarding ESG factors and their roll in portfolio construction.

My earliest recollection of anyone using ESG factors for stock selection was in the late 1980's. Calvert Funds had a mutual fund that focused on socially responsible investing.

As technology (internet) evolved more investors have learned about that style of investing.

At Stifel, it is up to each advisor to select what they feel is best in achieving their client's objectives.

When I construct client portfolios I do not consider whether the company/fund/etf uses ESG principals.

My concern is providing the client with the asset(s) that provides the best risk/reward using value based metrics.

If the company/fund/etf employs ESG principals I view that as an extra benefit.

-How do you see ESG investment considerations currently trending in the industry?

As investors continue to become more knowledgeable many will gravitate towards the ESG style.

-What benefits to client portfolios do you see if any?

I understand the concept of ESG investing.

I like to use investments that have a long term track record, preferably 10 years.

Most of the ESG style funds/etf's do not qualify with that parameter.

I am a value investor. Ultimately, I am judged on performance. If the ESG investment has a better risk/reward I will use it.

-Are there particular client categories for whom you think ESG funds are most attractive?

Everyone is concerned with the environment. We all breathe the same air and use the same water sources. Some people may be more persuaded by the "facts" regarding our care for the environment.

It has been my limited experience that people that have a more "liberal" political view have been more inclined to use the ESG style.

-If so, what are the key metrics you look for within an investment offering that utilizes ESG considerations?

I am a value investor. If there is a value ESG fund/etf that met my parameters I would consider using it. That said, the performance must be superior to my other choices. To date, I am not aware of superior performance using ESG.

-How are you currently equipping yourself with ESG knowledge/resources to best serve your clientele's needs?

Our firm, Stifel, provides a "buffet table" of investments for the advisor. The ESG style is included on the "buffet table". We also have performance/risk measurements for all funds/etf's. If the ESG approach has the historical performance I will use it. At this time I am not aware of many fund/etf's using this approach that warrant purchase.

-Do you feel that your firm is providing you with adequate resources to seek out ESG fund options and to educate yourself in this area?

Yes. Stifel offers investments that are on the cutting edge for new portfolio strategies. However, I prefer investments that have a long track record before investing my clients' money. I have found that most of the "new "strategies generally do not have a high success rate.

Appendix 8 - E-mail Interview with Matt Drvaric, Vice President of Research and Client Relations at Riverwater Partners LLC

April 14, 2017

-Are sustainable investment/ESG considerations a factor for you/your firm when selecting investments for clients?

Yes.

-How do you see ESG investment considerations currently trending in the industry?

Interest is accelerating. Today $1/$6 is managed on an ESG basis and has grown 135% since '12. In 2011 ~20% of S&P 500 companies produced a sustainability report and today it is 80%.

-What benefits to client portfolios do you see if any?

A Morgan Stanley study that looked at the performance of 10,228 mutual funds over seven years. It found that 64 percent of the time, sustainable strategies matched or outperformed traditional funds in terms of returns, she says. What's more, the sustainable strategies had equal or lower volatility most of the time. We use the methodology to enhance our risk assessment framework.

-Are there particular client categories for whom you think ESG funds are most attractive?

Millennials will account for 1/3 US adults by '20 and are the driving force of future growth as they are 2x more inclined to invest sustainably than by traditional means. 71% of women consider it an important factor when investing and they control ~40% of wealth today but will have two-thirds by 2030.

-If so, what are the key metrics you look for within an investment offering that utilizes ESG considerations?

We ultimately consider how the underlying components of the three factors could influence free cash flow. Two examples are below tickers: TILE & JLL.

-How are you currently equipping yourself with ESG knowledge/resources to best serve your clientele's needs?

Public filings, sources of ESG: USSIF, UN PRI, SASB and other industry leader content. Members of US SIF.

-Do you feel that your firm is providing you with adequate resources to seek out ESG fund options and to educate yourself in this area?

Yes, standards for reporting will be a welcome change. Governance is well documented but environmental and social impact spans a broad range by sector.

Appendix 9 - Email Interview with Janet Kiefer, Wealth Management Associate at Jefferies Bank

April 19, 2017

-Are sustainable investment/ESG considerations a factor for you/your firm when selecting investments for clients?

No they are not. Whether we're selecting individual securities or a separate manager, we don't consider sustainable investments. When choosing separate managers for our clients, we factor in things like performance history, how they perform in down markets, fees, various types of risk (credit, liquidity, etc), top 10 holdings, client suitability, etc. If one (or more) of their holdings happens to be a sustainable investment, great. But that has no impact on our decision to hire them for our client.

-How do you see ESG investment considerations currently trending in the industry?

I don't see ESG investment considerations trending at all in my industry niche. I would imagine smaller clients, who have more of a social conscience but not enough money to make a cash donation directly to sustainable investment/ESG related orgnaization, would be more inclined to invest in sustainable investments/ESG. The clients I work with have portfolios of >$10mm (up to $150mm), and look at their portfolios solely as a means to build and protect wealth. Many end up donating directly to socially or environmentally conscious organizations or name them as beneficiaries to fulfill their desire to make a positive impact on the world.

-What benefits to client portfolios do you see if any?

Diversification

-Are there particular client categories for whom you think ESG funds are most attractive?

Mentioned above. I also think they'd be great in 401k plans. Millennials would be very attracted to this option. I would imagine smaller clients, who have more of a social conscience but not enough money to make a cash donation directly to sustainable investment/ESG related organization, would be more inclined to invest in sustainable investments/ESG. The clients I work with have portfolios of >$10mm (up to $150mm), and look at their portfolios solely as a means to build and protect wealth. Many end up donating directly to socially or environmentally conscious organizations or name them as beneficiaries to fulfill their desire to make a positive impact on the world.

-If so, what are the key metrics you look for within an investment offering that utilizes ESG considerations?

Not sure I understand the question. We don't have any set of metrics, because we don't consider ESG when selecting investments for clients.

-How are you currently equipping yourself with ESG knowledge/resources to best serve your clients' needs?

If a client asks for ESG information, we'll obtain it. We're happy to set up calls with any of our analysts if that would be beneficial to the client as well. But nothing is being done proactively.

-Do you feel that your firm is providing you with adequate resources to seek out ESG fund options and to educate yourself in this area?

No, I had to google what ESG even meant after asking 2 other associates who didn't know either. We also have this platform that has a list of over 10,000 products (broken down into ETFs, Mutual Funds, and Separately Managed Accts (SMA)). There are many ways to filter to find what you're looking for: Strategy Style, Product Specifics, Risk Adjusted Performance, Total Return, Risk, Q-Assessment, Market Capture, Equity Properties (avg P/E and avg P/B), Fixed Income Properties (avg coupon, effective duration, effective maturity, avg credit quality, income yield), Fees… ESG is not an option, even in any of the sub-categories. I would need to contact our back office for guidance on where to obtain resources for ESG fund options.

Appendix 10 –Notes From Phone Interview with Steven Smit, Morningstar Heading of Sustainability/CEO of Benelux

July 13, 2017

-How do you see ESG investment considerations currently trending in the industry?

So the trend is currently certainly up. I would put it in parts publications from Eurosif and GSIA. In those publications, you get a lot of numbers and details on AUM in ESG. Europe is always ahead. Still is in leading in sustainable assets. More advanced in Europe, but the US is catching up very quickly. Firms like, JP Morgan, BlackRock, Statestreet, etc. are launching more sustainable products both active and passive. Inflows in ESG are far higher than in conventional products since 2014. Retail assets have increased massively in recent years. Sustainability is a trend across the economy. The data from software monitoring 35,000+ fund shows the inflows to sustainable funds are increasing faster than to conventional comparable funds.

-What do you see as the biggest hurdles currently facing the integration of ESG considerations into investments offerings?

Morningstar is an independent research company, not an asset management company. Hurdles could be still a number of asset managers don't really believe sustainable investing offers any added value. The notion that it costs performance is a misconception. Another hurdle is that people are wary of something when it is "green", which can be perceived as greenwashing. We have heard from sources that people feel uncomfortable as if a company is trying to get more money or make a product more expensive. This is in regard to the retail investor side. Incompleteness in the data causes incomparability issues. The European commission sets standards and they can be improved from where they are now. Morningstar publishes a variety of research and articles on ESG in relation to performance. It's been widely studied that ESG doesn't cost performance.

-How are you/your firm equipping yourselves for these hurdles?

Hurdles are currently being taken away by the performance. As the performance is being observed in the market more people with partake in ESG. Morningstar doesn't state strong statements about their intentions or policies as a neutral independent data provider. Trying to change the investment industry by bringing out sustainability ratings at Morningstar, the 5 globes, launched last year. Sustainability ratings are available for free trying to get into the hands of the end users, the investors. The goal is to make sustainable investing more known and bring it to the mainstream. Use of articles and trying to educate people on ESG and what it is. The rating is a formula from a the methodology that is published on the Morningstar website to provide full transparency how scores are determined. Morningstar received an award from the CFA society of Sweden for using the reach that a large data provided like Morningstar, with a strong brand name to get ESG information to investors. Given the information is coming from a neutral party as opposed to an asset manager selling investment products, the information is more inclined to be accepted and trusted. Awareness for the public is key. The push for this in some countries has changed the landscape of SRI on the map there because of the large usage of

Morningstar data in the financial industry. Morningstar put sustainable investing on the map for many investment professionals. We know this because they have told us. Prior to sustainability ratings there was very little or no standardization but ratings offer a methodology and a standardization for the first time. ESG needed transparency.

-How are you/your firm currently equipping yourself with ESG knowledge/resources to best serve your clients' needs?

Morningstar sells data to asset managers, banks, e-brokers, etc. Then they disseminate to financial advisors and clients etc. Morningstar has teamed up with Sustainalytics. We get information and data on ESG from Sustainalytics. As they have 100s of analysts devoted to gathering information on sustainability. Morningstar makes methodologies for fund analysis. Will be coming out with tools on ESG with Sustainalytics. Morningstar employs an ESG expert team to study it, write about it, come up with new metrics. Taking data and translating it into something with material value. To make information from data is a big enterprise. That is what Morningstar is best at. Using the infrastructure at Morningstar to come up with ESG analysis. This is increasingly important in Morningstar.

-Which types of ESG related products/services that your firm provides do you see as the most demanded by investment professionals in the industry currently?

The industry is looking at 1-5 globes of sustainability ratings we provide. Morningstar is trying to set the rating standard for the industry. It's a new lens to look at investing. The rating is by far the most visible and most sought-after metric that we provide. We have also created ESG indexes for product solutions. Various other metrics in their software that investment professionals can use. Combining ESG with conventional research is a common and important demand. Morningstar launched a product involvement tool that can shed light on company involvement with unsustainable practices. It provides transparency for investors to see which activities companies are involved in. Carbon will be increasingly important. Common knowledge that it contributes to climate change and is one of biggest challenges the world is facing. Efforts to reward companies for sustainable solutions rather than only punishing firms when they don't adhere to standards.

How do you see the best way forward with regards to education of the financial industry around this subject?

Morningstar is in a great position because of the global platforms in order to get information out there. It provides investors with the tools to learn about ESG and how they (ESG funds) are doing, how can you evaluate them, etc. The internet platform helps. Media is key for the dissemination of information on the issue. Professional investment events are another channel to spread information on ESG investing. Education in the US, in particular with advisors on the top level. Developing sustainable investment knowledge alliances with education providers. Financial advisors in the US and UK are very key to ESG in their markets as they play a more integral role in the distribution of financial advice than other markets in Europe where banks play a larger role. Morningstar has highest market penetration in the US with financial advisors. Webinars for financial professionals. Social media as role as well. Advisors are the weakest link for ESG. Advisors are needed to reach the mainstream in the US and UK. Many advisors want to learn about it and are interested around the topic. It could be a way to distinguish yourself in the industry because as of now many aren't doing it. Allows a different conversation with your clients. Adds a new angle to relationship. It can be a profitable. Given the demand from younger generations around the issue, can be used as a tool to keep assets under management when these people eventually inherit their parents' assets.

Appendix 11 - Informed Consent Form Provided to Participants

Please consider this information before deciding whether to participate in this research.

Purpose of the research: To better understand the how ESG/Sustainability initiatives are aiding in increasing assets under management in ESG investment. This study is being conducted by Paul Borges, a Masters student at Copenhagen Business School, under the supervision of Jeremy Moon, Professor of Corporate Sustainability, Department of Management, Society and Communication.

What you will do in this research: As a voluntary participant, you will be asked to answer interview questions via e-mail. With your permission, these responses will be used in addressing and analyzing my research. The interview is sent and answered electronically for your ease. There are approximately 5-7 initial questions that may be followed up on for clarity if needed.

Risks: No risks are anticipated.

Benefits: This is a chance for you to tell your story about your experiences concerning the growing sustainability trend within the investment industry.

Confidentiality: Information collected through your participation will be used to fulfill an educational requirement and may be published in an academic database and/or presented at a professional meeting. Your answers to the questions may be presented in my final project submission. Your identity may be kept anonymous at your request but otherwise your name and professional designation will be included with your answers.

Participation and withdrawal: Your participation in this study is completely voluntary, and you may refuse to participate or withdraw from the study at any time.

To Contact the Researcher: If you have questions or concerns about this research, please contact: Paul Borges, +1-312-498-1503, pabo15ac@student.cbs.dk or Jeremy Moon, jm.msc@cbs.dk

By responding to the questions asked in this e-mail you acknowledge that you have read this information and give your consent to participate in this study.