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# Why Responsible Investment Is Here to Stay

## April 2017

*We're now over two months into Donald Trump's administration, and investors are wondering how the shifting political backdrop might affect the growth in the responsible investment (RI) landscape. In our view, politics are significant, but aren't the driving force behind this important investment discipline. What follows is a look at the main growth drivers behind RI, and some key themes that we expect to emerge over the coming year.*


**Amy Muska O'Brien**
*Head of Responsible Investment*
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### POLITICS MATTER, BUT DON'T DOMINATE RESPONSIBLE INVESTMENT

Given all the changes in Washington, it's natural to wonder how the landscape for environmental, social and governance (ESG) issues (and RI more broadly) will be affected.

First and foremost: While it's true that President Trump has staked out a far-reaching agenda—marking a clear shift from President Obama's initiatives—we believe federal policy and regulatory priorities are not a driving force of growth in RI. Relating to ESG, these changes include rolling back a range of climate change objectives while reviving previously stalled efforts to expand fossil-fuel energy production. At the same time, as part of his economic agenda, President Trump intends to lighten regulation in crucial areas of business, including banking, pharmaceuticals, technology and other sectors.

It's still too early to know to what extent his agenda will be implemented and what the subsequent investment effects might be. Experience tells us that federal policy has, at most, an indirect or even marginal impact on investors' desire to incorporate ESG factors into their financial decision making. Instead, growth in RI has always been led by investor demand.

As one of the fastest-growing areas in asset management, RI has proven its viability through increasing investor interest, competitive performance and—with one of every five investment dollars associated with an RI strategy—its undeniable scale.[1] The shift in tone from Washington is unlikely to change this.

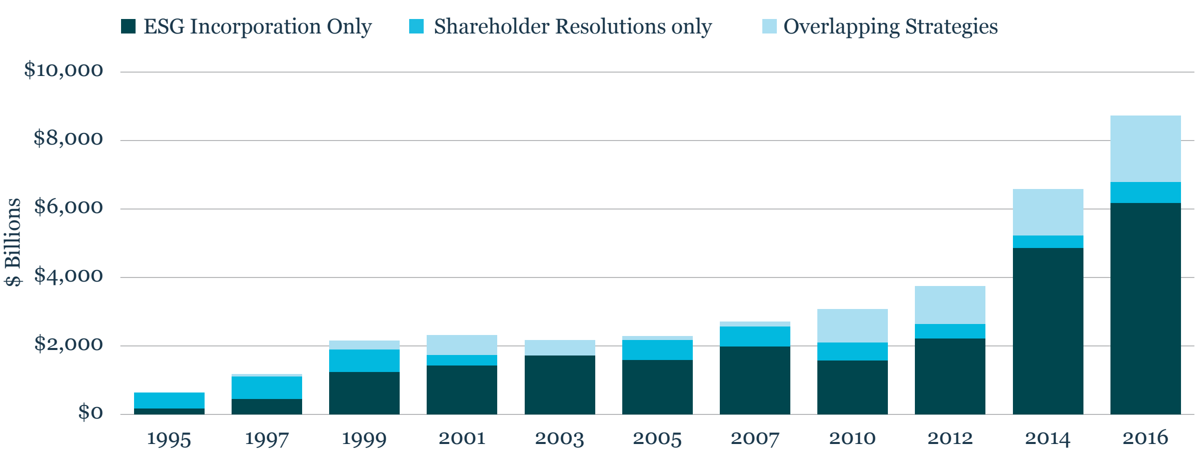
1 The Forum for Sustainable and Responsible Investment, 2016 Report

## KEY GROWTH DRIVERS OF RESPONSIBLE INVESTMENT

In our view, RI growth will continue to come from the private sector, state and local governments and public-private partnerships. In particular, we would point to the following factors that are likely to drive asset growth in this area.

- **Global Demand:** Outside of the United States, responsible investment has widespread appeal, especially in Western Europe. Even if the U.S. were to opt out of international climate change delegations, asset managers would be unable to ignore the sheer volume of business they would forgo by not meeting the growing global demand for low-carbon solutions.
- **State and Local Efforts:** We expect state and local governments will continue to forge ahead with clean energy plans not only because of increasing stakeholder concerns relating to the environment, but also because of rapidly improved economics. Between 2008 and 2015, for example, costs for wind, distributed solar and utility-scale solar power fell 41%, 54% and 64%, respectively.[2] In places as politically divergent as California and Texas, RI projects have gained bipartisan support.
- **Ongoing Interest in Green Bonds:** In 2016, $93 billion in green bonds were brought to market, more than double the $42 billion issuance in 2015.[3] The rise in this asset class has been driven by investors, issuers and multinational banks interested in structuring competitive deals that specifically address climate change and environmental issues. We believe interest in these deals will persist.
- **Shifting Real Estate Practices:** Environmentally responsible practices such as LEED building certification (which can result in 25% more fuel efficiency)[4] offer competitive advantages, making properties attractive to both tenants and investors alike.
- **Corporate Values:** Shareholder and corporate management teams around the world have recognized the strong business rationale for reporting on RI activities, including how ESG factors are integrated into their overall business strategy—a strictly voluntary process that allows them to express their corporate values while attracting investors, customers and employees.

### Exhibit 1: RI Growth Shows No Signs of Slowing




Source: USSIF: The Forum for Sustainable and Responsible Investment, "Report on US Sustainable, Responsible and Impact Investing Trends Report, 2016", p. 12

2 U.S. Department of Energy

3 Environmental Finance

4 U.S. General Services Administration

# 2017 TRENDS WORTH WATCHING

*In short, we believe that no matter what happens in Washington, responsible investment is necessary, popular and here to stay. Given its likely sustained momentum, here are some of the most important RI developments we think investors should monitor this year.*

## DEMAND FOR RI REMAINS HIGH

Despite anecdotal evidence of recent selling in clean-energy exchange-traded funds (ETFs), demand remains strong and should continue to be the prevailing driver of growth in RI. Investors need not jump to conclusions regarding short-term flows—particularly in ETFs, which are more frequently traded than other investment vehicles.

Asset flows both in and out of ESG-focused investment vehicles have been relatively modest so far this year, but the medium-term trends remain positive. Nearly half of the approximately 50 ESG-focused ETFs now being traded were launched in 2016. These new products raised $725 million in assets in an ETF universe that today totals approximately $3.5 billion.[5] We see no signs that suggest demand is likely to fade.

## RI IS BECOMING INCREASINGLY MAINSTREAM

RI has taken its rightful place as a prominent and recognized investment discipline. Over the past four years, U.S. assets under management (AUM) categorized with some sort of RI label have grown by 133%, from $3.7 trillion in 2012 to more than $8.7 trillion in 2016.[6] RI is no longer a niche area of investing.

## CLIMATE CHANGE IS KING

Environmental and climate-related initiatives have expanded quickly over the past few years, highlighted by the 2016 launch of the United Nations' Sustainable Development Goals, a global framework for investors to track the impact of their investments. While environmental considerations are the most widely incorporated of ESG factors, "climate change is the most significant," according to the Forum for Sustainable and Responsible Investing (US SIF). Since 2014, institutional investments in environmental or climate change/carbon emission-focused assets have grown to $2.15 trillion, while asset managers have expanded their asset base to $1.42 trillion in AUM, representing four- and five-fold increases, respectively.[7] Moreover, this commitment to climate change-related investing remains a dominant focus among investors, corporations and other key influencers, regardless of potential headwinds in the policy sphere.

## RI PRODUCT OPTIONS SHOULD EXPAND

We are seeing material growth in ESG-focused products including ETFs as well as smart-beta and fixed-income strategies motivated by clear investors' needs.

ETFs still represent a small slice of overall AUM within ESG-incorporated investment vehicles, but it's a promising market—one that by some estimates is expected to triple over the next four years.[8]

ESG overlays are increasingly being applied to smart-beta strategies. For example, some managers favor securities with strong ESG scores and weight their allocations accordingly. In April 2016, Standard and Poor's and Dow Jones introduced joint indexes that incorporate smart-beta strategies with ESG criteria—the first of their kind.

Fixed income has also become a major growth area in RI around the world, with multiple firms entering the market. New green-bond issues expanded by a notable 40% in 2016 in the U.S. and Europe, but the lion's share of growth came from China, which accounted for over one-third of volume last year. In addition, both Moody's and Standard & Poor's launched green bond frameworks in 2016.[9]

5 ETF.com
6 The Forum for Sustainable and Responsible Investment
7 The Forum for Sustainable and Responsible Investment
8 PwC
9 Environmental Finance

## RESPONSIBLE INVESTMENT SHOULD EXPERIENCE ONGOING GROWTH

Jon Hale, Head of Sustainability Research at Morningstar, recently said there is mounting evidence that companies that handle ESG issues well tend to be "high-quality" and are "good long-term investments."[10] We share this view, and believe a wider embrace of this perspective will continue to add to the momentum driving RI.

10 Jon Hale, "Sustainability-Focused Funds Garner Positive Flows in 2016," Morningstar Manager Research report, January 19, 2017

With such rapid growth, many investors no longer view RI as a "nice-to-have" addition to their portfolio and instead are making it a cornerstone of their long-term investment objectives. At the same time, many traditional large-scale financial services firms have recognized the need and are developing an expertise in RI, whether through internal expansion, or through mergers and acquisitions. We expect growth in RI will expand over the coming year—and beyond.

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Amy Muska O'Brien is managing director and Head of Responsible Investment at TIAA Investments - Nuveen. She oversees the organization's approach to Responsible Investment through ESG integration, active ownership and engagement, market development, and transparency and disclosure. Amy drives the implementation of best practices in ESG integration through partnership with Nuveen's affiliate investment teams and ensures that all ESG-focused and impact investment capabilities and products align with Nuveen's market-leading standards.

Ms. O'Brien has worked on a wide range of ESG and impact investing initiatives across TIAA, Nuveen's parent company, since 2005. She has 21 years of professional experience in the responsible investment field. Prior to joining TIAA in 2005, Ms. O'Brien served as Director of Corporate Social Responsibility at the Pension Boards — United Church of Christ, where she developed and implemented socially responsible investment strategies including social screening policies, proxy voting guidelines and shareholder activism for the denomination's pension fund and foundation. Previously, she was Research Manager at the Council on Economic Priorities, the non-profit research firm that pioneered the field of corporate social and environmental responsibility ratings for investors and consumers. Ms. O'Brien served as CEP's representative to the inaugural Steering Committee of the Global Reporting Initiative, an international initiative charged with developing a standardized reporting format for corporate sustainability indicators.

Ms. O'Brien earned a B.S. in Biology from Boston College and an M.S. in Environmental Management and Policy from Rensselaer Polytechnic Institute. From 2006-2011 she served on the Board of Directors of the USSIF: The Forum for Sustainable and Responsible Investment. In 2008, Ms. O'Brien joined the board of directors of The Investor Responsibility Research Center Institute for Corporate Responsibility. In 2011 she was appointed to the Steering Committee of the Global Initiative for Sustainability Ratings. Ms. O'Brien became a member of the Financial Women's Association of New York in 2012 and in 2014 she was named to the Principles for Responsible Investment (PRI) Initiative's Reporting and Assessment Steering Committee.

**For more information, please consult with your financial advisor and visit nuveen.com.**

**RISKS AND OTHER IMPORTANT CONSIDERATIONS**



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