WORLD RESOURCES INSTITUTE

10 G Street, NE Suite 800 Washington, DC 20002 USA (PH) +1 (202) 729-7600 (FAX) +1 (202) 729-7610 www.WRI.org

Foreword

We have reached an era where long-term investors can no longer discount the societal value of the public good. As we move through the 21st century, the dynamic challenges of climate change, population growth, resource scarcity, rising consumption, and inequality are pushing up against our standards for human well-being and threatening the earth's limits. At this moment, we have a chance to change the way the global economy treats people and the resources they rely on. Our opportunity is urgent, and we must seize it, unless we want to be remembered by future generations as the ones who let the castle walls be broken.

The long-term success of institutions – and the people who depend on them for jobs, services and products – will depend on using natural resources in a sustainable way and treating employees, customers and other people in healthy and fair ways. Unfortunately, the traditional investment theories and equations that have historically guided capital allocation – and that ignore environmental, social and governance (ESG) factors – are misaligned with the interests of asset owners. **Investment management practices, and the very manner by which we allocate capital, are in need of major renewal.**

The mainstream investment community is waking up to this need and is rising to the challenge. Sustainable investing – investment decisions that incorporate financial and non-financial ESG factors – is surpassing its old reputation as a fad for the socially responsible. As of April 2016, investors managing over $62 trillion in assets have committed to sustainable investing practices through the Principles for Responsible Investment – a 195 percent increase from 2010. Meanwhile, Wall Street investment giants are launching platforms and products to cater to this demand. And there are multiple efforts underway to develop new accounting standards and performance metrics. These new standards and metrics will allow investors to factor in risks and track corporate sustainability within existing accounting, financial and regulatory frameworks. **Asset managers should pay careful attention to this movement.**

This working paper presents findings from a detailed assessment of the changing landscape of sustainable investing in US capital markets. For those grappling with questions of *whether* or *how* to implement a sustainable investing strategy, the paper provides a nuanced examination of the very concerns they must confront. In addition to presenting a rich outline of the investment ecosystem, the paper identifies initial steps asset owners and others can take to push forward sustainable investing, in their own portfolio and beyond. **With this clarity, investors will be better prepared to navigate this complex landscape and come out ahead.**

The market is quickly adapting to these changes. For sophisticated investors, this transformation – while still in progress – brings opportunity. **But to deliver the full promise of sustainable investing, asset owners and managers, investment consultants, and others in the marketplace must come together to fully mainstream these practices. The long-term interests of all stakeholders stand to benefit.**

Andrew Steer
President
World Resources Institute

Darren Walker
President
Ford Foundation