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ICI Board Endorses Fund Industry ESG Roadmap

Institute and its members seek to promote greater public understanding of ESG investing and encourage the use of consistent terminology

Washington, DC; July 23, 2020—The Board of Governors of the Investment Company Institute (ICI) unanimously endorsed *Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction*, a white paper written by ICI's Environmental, Social, and Governance (ESG) Working Group. The working group, which consists of senior executives from ICI member firms with more than $13.7 trillion in combined mutual fund assets under management, created this introduction to ESG investing strategies to encourage the use of consistent terminology when describing ESG integration and sustainable investing strategies.

By providing a simple, consistent terminology, the working group hopes the document will also help improve the public's understanding of ESG investing and help inform those who are interested in ESG investing about the many choices that funds provide. ICI's Board strongly endorsed the recommendations of the working group and urged all ICI members to take appropriate actions to implement the terminology recommended as soon as reasonably practicable.

"As demand for ESG investing continues to grow, it's important that the fund industry and its shareholders have a common understanding of the various terms and techniques involved," said George C. W. Gatch, chairman of the Investment Company Institute and CEO of J.P. Morgan Asset Management. "This publication provides a very solid roadmap to help promote a greater understanding of the dynamic ESG investing landscape. ICI's Board strongly believes that member firms should incorporate the agreed-upon common terminology into their own public communications describing ESG integration and sustainable investing strategies. I greatly appreciate the effort the working group put into creating a comprehensive introduction to an issue of growing importance to fund managers and shareholders."

"ESG investing is a rapidly evolving area that is attracting the attention of shareholders, policymakers, and regulators, and ICI's ESG primer demonstrates the fund industry's dedication to serving investors' evolving preferences," said ICI President and CEO Paul Schott Stevens. "We understand the critical value that clear, consistent communication provides, and it is our hope that this publication will serve as a vital tool for investors and other industry constituents moving forward."

Describing the Continuum of ESG Investing

ICI's primer helps distinguish between the different ways fund managers consider ESG factors across a broad investing spectrum. The publication notes that, for decades, some funds have integrated, or incorporated, ESG factors into their investment processes to the extent that they are financially material. They seek to enhance fund performance, manage investment risks, and identify emerging investment risks and opportunities, much as they would consider macroeconomic risks, business risks, or other considerations. Not every fund integrates ESG factors in the same manner; rather, there are a range of qualitative and quantitative approaches for embedding ESG across investing strategies, spanning asset classes and active to passive strategies.

The relationship of these investment strategies may be described as existing along a continuum.

ESG Investing Exists Along a Continuum

Note: Each of these investing strategies may also incorporate aspects of exclusionary investing.

ICI's ESG primer also explains how ESG integration and sustainable investing are both investment processes that coexist along a spectrum. One way to distinguish them is to recognize that funds integrate ESG factors into their traditional investment process as a way to seek financial returns. Funds that have a sustainable investment strategies use ESG analysis as a significant part of the fund's investment thesis to meet investors' objectives while seeking financial returns. A single fund may integrate analysis of ESG considerations and may pursue one or more sustainable investing strategies. Some funds integrate analysis of ESG factors, others use one or more sustainable investing strategies, and some integrate ESG factors and employ one or more sustainable investing strategies.

Relationship Between Integration and Sustainable Investing Strategies

The publication describes in detail how funds commonly pursue sustainable investing strategies using three nonexclusive approaches:

1. **ESG exclusionary investing:** Funds using an ESG exclusionary investing approach may exclude companies or sectors that do not meet certain sustainability criteria or do not align with investors' objectives. For example, a fund may not invest in companies that have significant business related to weapons manufacturing or distribution, gambling, tobacco, alcohol, or nuclear energy.
2. **ESG inclusionary investing:** Funds using an ESG inclusionary investing approach generally seek positive sustainability-related outcomes by pursuing and focusing on portfolios that fundamentally or systematically tilt a portfolio based on ESG factors alongside financial return. For example, a fund may invest in equity securities of companies that contribute to and benefit from clean energy generation, sustainable infrastructure, waste management, and other environmentally friendly approaches.
3. **Impact investing:** Funds using an impact investing approach seek to generate positive, measurable, and reportable social and environmental impact alongside a financial return. Measurement, management, and reporting of impact is a defining feature of impact investing. For example, a fund may invest the majority of its assets in securities whose use of proceeds, in the fund manager's opinion, provide measurable positive social or environmental benefits.

Some funds may also pursue investment approaches that combine one or more elements of ESG investing. Find more examples of each type of ESG investment approach here.

For additional resources on ESG issues, please visit ICI's ESG Investing Resource Center.