MEMO# 32635

July 24, 2020

ICI Board of Governors Urges ICI Members to Implement Common Terminology for ESG Investing

[32635]

July 24, 2020 TO: ICI Members
ESG Task Force (Global)
ESG Working Group (US)
SEC Rules Committee SUBJECTS: Advertising
Disclosure
ESG
Fund Governance
Investment Advisers
Unit Investment Trusts (UITs)
Variable Insurance Products RE: ICI Board of Governors Urges ICI Members to Implement Common Terminology for ESG Investing

We are pleased to announce a newly released ICI publication titled, *Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction*.[1] This publication is the result of months of effort brought to bear by ICI's Environmental, Social, and Governance (ESG) Working Group and ICI staff. ICI's Board of Governors 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.

The working group, which consisted 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 ICI member firms to use consistent terminology when describing their funds' use of ESG integration and common sustainable investing strategies. The working group did so to improve the public's understanding of ESG investing and inform those who are interested in ESG investing about the many choices that funds provide. The publication, including the recommended terminology, is summarized below.

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.

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 use sustainable investing 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.

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.

ICI will host a webinar for members and their counsel in August. In the meantime, you may contact Dorothy Donohue, Deputy General Counsel – Securities Regulation, at ddonohue@ici.org or (202) 218-3563 to assist with any primer-related questions and find additional ESG-related resources on ICI's ESG Investing Resource Center

Paul Schott Stevens
President & CEO

endnotes

[1] The publication is available on the Institute's website at https://www.ici.org/esgprimer?utm_medium=media&utm_source=email&utm_campaign=es

gprimer&utm_term=esgprimer&utm_content=landingpage