Sustainable & Impact Investing 101: *The Basics*

Sustainable & Impact Investing 101

Sustainable and impact (S&I) investing is an umbrella term to describe a spectrum of approaches that utilize environmental, social and governance (ESG) criteria for a variety of outcomes, from risk mitigation to measurable impact.

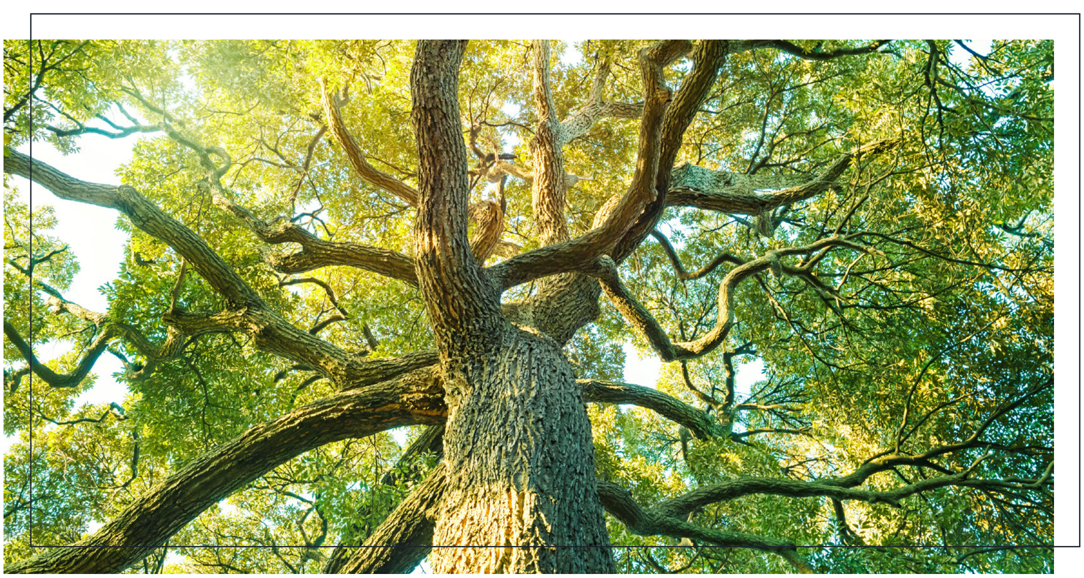
Developments and Key Drivers

- **Sustainable investing:** the concept of using ESG information in an investment process to identify more sustainable long-term companies and to mitigate risk, avoid harm or position toward opportunities. The foundation of sustainable investing is ESG integration, which is the consideration of material ESG factors as part of the traditional investment decision-making process.
- **Impact investing:** the concept of aligning values with investments for measurable financial and social return; a measurable, targeted impact outcome is a primary goal, alongside financial returns.

Between these approaches are strategies that use ESG information to make more informed investment decisions while also generating impact as a by-product.

The Evolution of Sustainable and Impact Investing

Sustainable and impact investing traces its roots to the 17th century when Quakers refused to participate in profiting from the slave trade.[1] Since then, the industry has expanded far beyond divestment techniques, as Glenmede's Sustainable & Impact Investing Taxonomy illustrates.



Glenmede’s Sustainable & Impact Investing Taxonomy

Moving from risk mitigation to growth opportunities to measurable impact

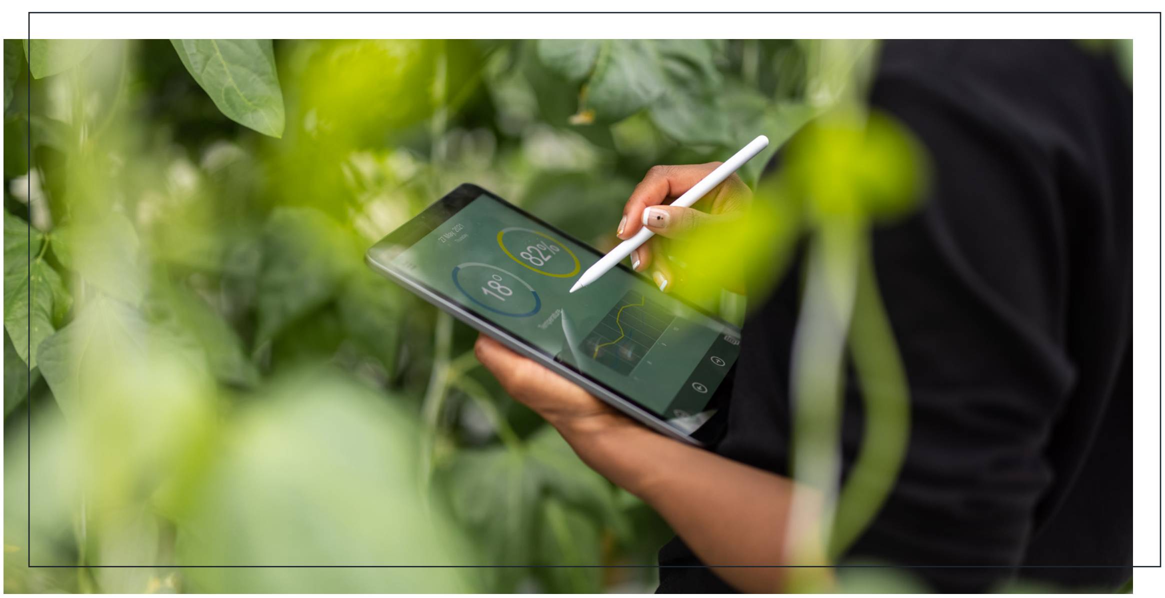
Integrated
Explicit consideration of material ESG factors in the traditional investment decision-making process

Mandated
Using ESG screens to avoid companies with poor ESG criteria and/or tilt toward companies with strong ESG characteristics

Thematic
Dual goal to achieve measurable environmental or social impact and market-rate returns

Concessionary High Impact
Primary goal to achieve measurable environmental or social impact while willing to sacrifice returns to do so

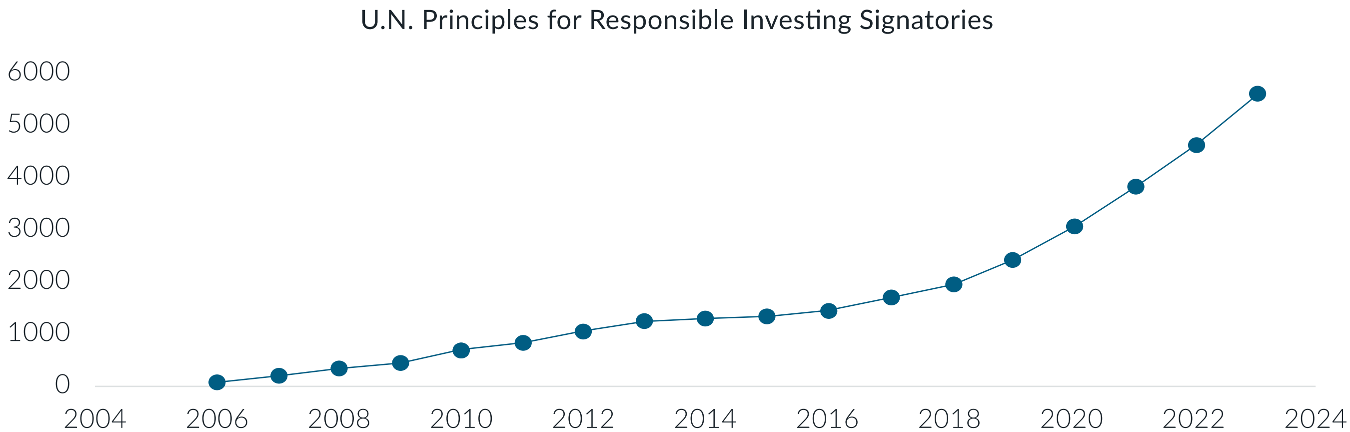
Today, investors can construct portfolios leveraging a sophisticated range of tools, such as positively tilting toward companies demonstrating high ESG profiles and investing in companies exhibiting significant improvement in ESG issues, like an oil and gas company leading the transition to a low-carbon economy.



Growth of Sustainable and Impact Investing

As Sustainable & Impact investing has matured, the number of "sustainable" funds — mutual funds and exchange-traded funds (ETFs) that state in their prospectus the incorporation of ESG information — has grown, and assets in U.S. sustainable funds stood at more than $300 billion at the end of 2023.[2]

Interest in the principles of sustainability and responsible investing has also grown strongly over the years, as shown by the significant increase in signatories to the United Nations Principles for Responsible Investment.



Source: Principles for Responsible Investment (2023).

Several factors appear to be driving the growth in sustainable and impact investing, including:

- Shifting demographics and societal dynamics, including growing interest in sustainable and impact investing across generations, especially among millennials.[3] According to a recent Morgan Stanley report, nearly 75% of millennial investors made investment changes — or plan to — in response to social justice movements.[4]
- Increased research and data linking financial materiality of ESG factors, serving to encourage more asset managers to use ESG data to help them pursue market rate or superior risk-adjusted returns.[5]

Top Sustainable and Impact Investing Areas of Interest

Though sustainable and impact investors vary in their motivations and thematic areas of interest, three key topics have dominated this space in recent years:

- **Climate Change:** In recent years, severe weather had imposed rising costs on the U.S., with heat waves, floods, and droughts impacting human health, agriculture, insurance markets, and infrastructure. Investors are exploring tactics from slashing emissions through divestment, investing in climate innovation, and integrating climate considerations into corporate strategy and executive compensation.
- **Diversity, Equity and Inclusion:** Companies are facing increased scrutiny for their actions, including growing attention to strategies to address inequality in the workplace. Given a significant rise in shareholder resolution activity requesting diversity demographic details, investors are increasingly seeing enhanced frameworks for evaluating a company's ability to offer an inclusive culture. This is yet another area where recent studies have shown clear linkage to strong corporate financial performance.[6]
- **Fiduciary Considerations:** A recent CFA Institute survey found 62% of respondents noted a perception of "greenwashing" and the need for more succinct definitions around what constitutes a "sustainable" fund, while more than 50% noted the need for more clarity on how such investments fit with fiduciary duty.[7] In lockstep, the Securities and Exchange Commission is placing greater scrutiny on asset managers touting themselves as sustainable and is requesting companies disclose climate change and human capital datasets, while many states in the U.S. are grappling with a myriad of ESG related legislature that either promotes or excludes the ability to invest along these lines within state pools of capital.

GREENWASHING is conveying misleading information around an investment product's intention and/or ability to meet sustainability goals.

The Future of Sustainable and Impact Investing

The sustainable and impact investing industry is evolving quickly, spurred by a growth of cross-generational interest and a body of research supporting a linkage between ESG information and financial performance.[8] Investors with a range of motivations and thematic areas can use sustainable and impact investing strategies to construct portfolios to position them for a transforming world.

For more information, please contact us at SustainableandImpactInvesting@glenmede.com.

[1] "Socially Responsible Investment." Corporate Finance Institute. https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/socially-responsible-investment-sri/

[2] "Global Sustainable Fund Flows: Q4 2023 in Review." Morningstar (2023). https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/bltea603fae74386da2/65b7fb3793cdf11bcb7cac4c/Global_ESG_Q4_2023_Flow_Report_final_KG3.pdf

[3] "Sustainable Signals: Individual Investors and the COVID-19 Pandemic." Morgan Stanley Institute for Sustainable Investing (2021). https://www.morganstanley.com/assets/pdfs/2021-Sustainable_Signals_Individual_Investor.pdf.

[4] Ibid.

[5] Digging Deeper into the ESG-Corporate Financial Performance Relationship." University of Hamburg, DWS (2018); "Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds." Morgan Stanley (2019).

[6] Henisz, W., T. Koller, and R. Nuttall. "Five Ways that ESG Creates Value." McKinsey Quarterly, November 2019.

[7] "Survey of CFA Institute Members on Latest ESG Matters." CFA Institute, November 2021.

[8] See www.cfainstitute.org/-/media/documents/survey/cfa-esg-survey-web.pdf for additional research on ESG and corporate financial performance.