

Introduction to Sustainable Investing: *The Basics*



Sustainable Investing in Focus

Sustainable investing is a broad term to describe a range of strategies that seek to align investment portfolios with personal values and organizational missions, while pursuing competitive, risk-adjusted returns and measurable impact.

Developments and Key Drivers

Sustainable investing focuses on identifying companies with a sustainable business advantage rooted in addressing an environmental or societal challenge.

The Evolution of Sustainable Investing

Sustainable 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 Investing Taxonomy illustrates.

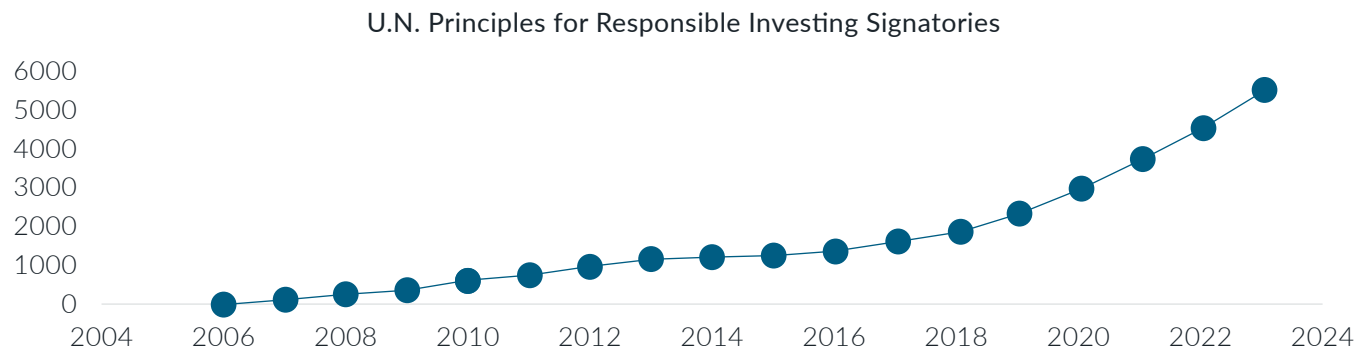
Glenmede's Sustainable & Impact Investing Taxonomy



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

Growth of Sustainable and Impact Investing

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 have driven the growth in sustainable investing, including:

- Shifting demographics and societal dynamics, including growing interest in sustainable investing across generations, especially among millennials.² According to a recent Morgan Stanley report, 88% of investors globally are interested in sustainable investing.³
- Increased research and data linking financial materiality of sustainability factors, serving to encourage more asset managers to use such data to help them pursue market rate or superior risk-adjusted returns.⁴

Top Sustainable Investing Areas of Interest

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

- **Climate Change:** 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.
- **Health and Wellness:** Investors show increased interest in addressing sub-themes including improving quality of life for an aging population, mental health access, and investments that focus on women's health.
- **Economic Empowerment:** Investors, particularly non-profits, show increased interest in utilizing catalytic capital to address gaps in funding for individuals below the poverty line, utilizing a mix of blended finance tools and market-rate opportunities.

The Future of Sustainable Investing

The sustainable investing industry is evolving quickly, spurred by a growth of cross-generational interest and emerging opportunities in themes such as climate, health and wellness, or economic empowerment.⁵ Investors with a range of motivations and thematic areas can use sustainable investing strategies to construct portfolios aligned with their values or organizational mission, while also seeking to meet financial goals.

For more information, please contact us at
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¹ "Socially Responsible Investment." Corporate Finance Institute. <https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/socially-responsible-investment-sri/>

² "The Rise of Sustainable Investing: Why It Is Winning Over Young Investors (and Big Money)" <https://carboncredits.com/younger-investors-drive-surge-in-sustainable-investing/>

³ "Morgan Stanley Sustainable Signals: Individual Investors Continue to Show High Levels of Interest in Sustainable Investing in New Survey." Morgan Stanley. <https://www.morganstanley.com/press-releases/morgan-stanley-sustainable-signals-report/>

⁴ "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).

⁵ See www.cfainstitute.org/-/media/documents/survey/cfa-esg-survey-web.pdf for additional research on ESG and corporate financial performance.

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