# Sustainable Investing and Investment Management

# Sustainable investing is important to the sustainability of investing. New skills, mindsets, and strategies will enable you to effectively meet client needs and deliver value.

What Is Sustainable Investing?

Traditional investing delivers value by translating investor capital into investment opportunities that carry risks commensurate with expected returns. Sustainable investing balances traditional investing with environmental, social, and governance-related (ESG) insights to improve long-term outcomes.

In many ways, sustainable investing can be seen as part of the evolution of investing. There is a growing recognition among industry participants that some ESG factors are economic factors, especially in the long term, and it is, therefore, important to incorporate material ESG factors.

There are three critical elements of sustainable investing:

Sustainable investing is additive to asset management theory and does not mean a rejection of foundational concepts.

Sustainable investing develops deeper insights about how value will be created going forward using ESG considerations.

Sustainable investing considers diverse stakeholders, consistent with how companies are developing.

Why Is Sustainable Investing Important?

Interest in sustainable investing continues to grow, and the pressure is on for investment organizations to move toward the sustainable investing model. In an era when the investment industry is challenged by rising end-client and regulatory expectations and challenging economics, the alternative of maintaining the status quo leaves the industry vulnerable to decline.

The next stage of development will depend heavily on industry leadership and innovation in investment thinking and practice, as well as data management. If these are present, the future is exceptionally bright.

# The Future of Sustainability in Investment Management

## From Ideas to Reality

The Future of Sustainability in Investment Management: From Ideas to Reality

[Download the full report (PDF)](https://testauthor-cfainstitute.org/-/media/documents/support/advocacy/report-final.ashx)

The future of [sustainable investing](https://www.cfainstitute.org/en/research/esg-investing/sustainable-investing) is in the balance. It involves balancing financial and extra-financial considerations, balancing the short term and long term to ensure that short-term goals do not compromise long-term goals, and balancing stakeholder interests and seeking fair outcomes for all.

None of this is easy. But sustainable investing is critical to the sustainability of investing.

Although the future of sustainable investing includes many unknowns, we advance three important tenets where sustainable investing goes further than its forerunners:

* It is additive to investment theory and does not mean a rejection of foundational concepts.
* It develops deeper insights about how value will be created going forward using environmental, social, and governance (ESG) considerations.
* It considers many stakeholders.

In many ways, we are moving from sustainable investing as a good idea to a reality that has implications for all investment portfolios. There is a growing recognition that some ESG factors are economically material, especially in the long term, and it is, therefore, important to integrate material ESG factors in investment decisions.

As we consider a 5- to 10-year time horizon, our report’s structure follows the acronym “IDEA”:

* **Influences**: The accelerating demand for sustainable investing and scenarios for the future
* **Drivers**: How investment organizations are adapting and expanding their business models and investment models to meet investor expectations for sustainable investing
* **Enablers**: How the operating models and people models of investment organizations will facilitate growth in sustainable investing
* **Actions**: A rubric for investment organizations, investment professionals, and the industry to support the pathway of sustainable investing

We suggest that the next stage of development will depend very heavily on industry leadership and innovation in investment thinking and practice, as well as data management. Investors and the investment industry have a considerable role to play in shaping the future.

## Influences on Sustainable Investing

Industry Adoption

**100**

100 TRILLION USD

In the first half of 2020, the Principles for Responsible Investment (PRI) signatories increased by 28%, to more than 3,000 entities, and assets under management grew 20%, to more than USD100 trillion

Investment Professionals

**85**%

85% USE ESG FACTORS

Most CFA Institute members surveyed take E, S, and/or G factors into consideration in their investing, up from 73% in 2017

Sustainable investing is accelerating in demand, and several key trends are emerging. After many years of foundational efforts to standardize and enable [ESG investing](https://www.cfainstitute.org/en/research/esg-investing), we are now entering a true mainstreaming phase of ESG investing. Furthermore, the COVID-19 pandemic has focused investors on the vulnerability and resilience of the financial system and intensified the discussions around sustainability. It has revealed the need for systemic thinking and shown the personal consequences of our interconnectedness. The financial importance and materiality of social factors have become evident, where previously many social factors had been seen as externalities outside of consideration of the [investment portfolio](https://www.cfainstitute.org/en/membership/professional-development/refresher-readings/2020/portfolio-management-overview).

## Sustainable Investing Trends

CFA Institute introduced four main scenarios for the future in Future State of the Investment Profession (link), and all carry implications for sustainable investing. Now, we focus especially on an updated version of Purposeful Capitalism and new scenario applications: Climate Energy and Social Status.

**Fintech Disruption**

Fintech can create particular value for sustainable investing, especially through the retrieval and evaluation of alternative and soft data. Greater data availability allows investors to have more customized sustainability objectives, uncover new investment opportunities, and better measure impact.

**Parallel Worlds**

The growing inclination of consumers to express their preferences in all their purchases naturally extends into personalization related to sustainable investing. We may also see more populist movements attempt to mobilize change in environmental and social areas by exercising influence on finance and business.

**Lower for Longer**

Low investment returns could make it challenging for underfunded pension plans to increase their commitment to ESG investing if there is an expectation or even a perception that there is a return trade-off. Private assets in renewable energy, energy efficiency, and resource scarcity, however, may benefit from the search for alpha.

**Purposeful Capitalism**

This scenario calls on investment organizations to become more proactive in helping solve the world’s problems, while remaining grounded in materiality. There is a growing emphasis on total system-wide returns on capital, regulators increase their focus on sustainability and impact, and asset owner collaboration and influence grow.

**Climate Energy**

Carbon pricing regimes emerge, supported by national regulatory frameworks to deliver transparency, liquidity, and ease of access. Investment organizations account for carbon prices, and the quality of climate risk management becomes a differentiator. [Climate views](https://authoring.cfainstitute.org/pages/allworkflows.aspxhttp%3A/www.cfainstitute.org/en/research/industry-research/climate-change-analysis) are increasingly incorporated into wealth management, retail, and defined contribution contexts, following the lead of institutional investors. Investment professionals deepen their understanding of climate risk resilience and mitigation.

**Social Status**

Innovations occur in transparency and reporting as social factors become better defined and measured. There is a greater ability to compare organizations on previously hidden areas of operation. Social media is increasingly influential in highlighting good and bad examples of company behaviors. Alternative data sources add further information to enable assessments to be made on the softer aspects of corporate conduct.

## Sustainable Investing Drivers

Organizations are adapting and expanding their business models and investment models to meet investor expectations for sustainable investing.

#### Business Model

The core attributes on value and competitive differentiation of investment organizations

* + - Commitment: The business model for investment organizations pursuing sustainable investing must make commitments on the full range of resources, processes, and incentives that are necessary to drive an innovation of this magnitude.
		- Investor interest: Although only 19% of institutional investors and 10% of retail investors currently invest in products that incorporate ESG factors, 76% of institutional investors and 69% of retail investors have interest in ESG investing.

#### Investment Model

The component parts of the organization's investment philosophy, beliefs, and capabilities.

* + - Implementation: The most used features are best-in-class/positive screening (used by 56% of survey respondents) and ESG integration (53%), followed by ESG-related exclusions (48%). Voting, engagement, and stewardship are used by 40%, and thematic is used by 35%.
		- Expected growth areas: Industry professionals expect to see more ESG index tracking and quant funds, ESG thematic products, ESG multi-asset products, climate transition strategies, and long-term engagement, as well as better benchmarks.

## Enablers of Sustainable Investing

Both the operating model and people model of investment organizations will facilitate growth in sustainable investing. Sustainable investing practice relies on fundamental resources in operations and people, with technology as a key support mechanism. To properly configure sustainable investing, there are key areas of improvement needed in organizational and human processes in the investment management industry.

### **Operating Model**

The operating model for sustainability investing includes data, technology, systems, and tools.

* **ESG ratings:** Company ratings are widely used, with 63% of investment professional respondents using them as a part of their data analysis. In addition, 73% expect the influence of ESG ratings on firms’ cost of capital to be greater in the next five years.
* **Climate risk:** 40% of investment professionals surveyed incorporate climate risk into their analysis, and the most common types of risk considered are physical and transition risks.
* **Greenwashing:** 78% of practitioners surveyed believe there is a need for improved standards around ESG products to mitigate “greenwashing.” The ESG disclosure standard under development by CFA Institute aims to increase the transparency and comparability of investment products with ESG-related features.
* **Alternative data:** A majority (71%) of industry roundtable participants agreed that alternative data have the potential to improve the robustness of sustainability analysis, and 43% expect sustainability to benefit from the application of artificial intelligence.

### **People Model**

Learn about career opportunities and attract-and-retain methods used in ESG investing.

* **Research commitment:** 90% of investment professionals expect their firm’s commitment to ESG research to increase, up from 72% just two years ago.
* **Current structure and roles:** About one-third of investment organizations have dedicated ESG specialists, and a third have portfolio managers conduct ESG analysis.
* **Demand for ESG expertise:** A review of 10,000+ LinkedIn investment professional job posts found that approximately 6% mentioned sustainability-related skills. Demand for sustainability talent is rated as “very high.”
* **Supply of ESG expertise:** An analysis of 1 million investment professionals on LinkedIn found that <1% had disclosed sustainability-related skills in their profile, despite 26% growth in sustainability expertise in the last year. Women represent 42% of ESG analysts, which is much higher than the 26% of women overall in the sample.
* **Training:** Training in ESG investing has increased, but still fewer than half of respondents say their firm provides ESG training. Only 11% of respondents consider themselves proficient in the area, but an equal number are currently being trained, and more than 70% have interest in training — half of these within the next year.

## Actions Needed to Increase Adoption and Impact of Sustainable Investing

Investment organizations, investment professionals, and the industry can support the pathway of sustainable investing with some key actions. We suggest that the industry must make a transition toward increased adoption, effectiveness, and impact of sustainable investing. The following components provide a framework to improve performance. The guide we suggest for improving performance includes the following elements for the industry, organizations, and investment professionals.

### Components of Sustainable Investing Performance

* [**ESG Education**](https://testauthor-cfainstitute.org/?sc_mode=preview&sc_itemid=%7b8437813D-8365-4DFF-9F28-C3C6D407662C%7d&sc_lang=en&sc_site=cfai&sc_debug=0&sc_trace=0&sc_prof=0&sc_ri=0&sc_rb=0#0d0106c0fb3c41d4bf62123cb94c5622)
* [System-Level Thinking](https://testauthor-cfainstitute.org/?sc_mode=preview&sc_itemid=%7b8437813D-8365-4DFF-9F28-C3C6D407662C%7d&sc_lang=en&sc_site=cfai&sc_debug=0&sc_trace=0&sc_prof=0&sc_ri=0&sc_rb=0#3de450dc68c241209aa1ba67626241a2)
* [Collaboration Synergy](https://testauthor-cfainstitute.org/?sc_mode=preview&sc_itemid=%7b8437813D-8365-4DFF-9F28-C3C6D407662C%7d&sc_lang=en&sc_site=cfai&sc_debug=0&sc_trace=0&sc_prof=0&sc_ri=0&sc_rb=0#436b5b7879404934a16eb6f7411e2166)
* [ESG Data](https://testauthor-cfainstitute.org/?sc_mode=preview&sc_itemid=%7b8437813D-8365-4DFF-9F28-C3C6D407662C%7d&sc_lang=en&sc_site=cfai&sc_debug=0&sc_trace=0&sc_prof=0&sc_ri=0&sc_rb=0#7f45e07500e243ae9f35121a9c868c36)
* [Sustainability Innovation](https://testauthor-cfainstitute.org/?sc_mode=preview&sc_itemid=%7b8437813D-8365-4DFF-9F28-C3C6D407662C%7d&sc_lang=en&sc_site=cfai&sc_debug=0&sc_trace=0&sc_prof=0&sc_ri=0&sc_rb=0#b50779802658467aa06d88bb605325d9)
* [Purposeful Culture](https://testauthor-cfainstitute.org/?sc_mode=preview&sc_itemid=%7b8437813D-8365-4DFF-9F28-C3C6D407662C%7d&sc_lang=en&sc_site=cfai&sc_debug=0&sc_trace=0&sc_prof=0&sc_ri=0&sc_rb=0#17085389774c41318d31a1a12052b699)

### ESG Education

* + **Industry:** ESG knowledge and skills are developed to a critical threshold across the industry so that ESG thinking is embedded in all investment settings.
	+ **Organizations:**Provide training to build ESG expertise, and hire new resources as needed.
	+ **Investment professionals:**Core knowledge on ESG considerations is acquired by all industry professionals. T-shaped skills help professionals make better connections and draw on multiple disciplines.

### System-Level Thinking

* **Industry:**Theory and practice integrate system-level thinking on top of traditional investment thinking, in an additive and complementary way.
* **Organizations:**Organizations do much more to integrate ESG and sustainability into their investment models.
* **Investment professionals:**Investment professionals understand the main features of systems theory and use this thinking when considering sustainability topics.

### Collaboration Synergy

* **Industry:**Strengthened collaborations within and across organizations drive engagement and increase combinatorial power.
* **Organizations:**Stewardship commands considerably more focus, and there is much more resourcing committed to ownership duties and opportunities.
* **Investment professionals:**Strengthened collaborations within organizations and across groups and functions provide a more joined-up, holistic, and teamwork-oriented approach to sustainability.

### ESG Data

* **Industry:**ESG data practices are developed to support more substantial decision-useful application, and data go from being part of the sustainability problem to part of the solution.
* **Organizations:**Investment organizations reduce the cultural impediments and structural limitations that have prevented the efficient handling of the large and growing datasets involved.
* **Investment professionals:**They understand the issues of materiality and validity of ESG data and are adept at evaluating all forms of data: hard data, soft data, and alternative data.

### Sustainability Innovation

* **Industry:**Organizational commitment to sustainability innovation incorporates better incentives, agility, and iteration and comes from all parties.
* **Organizations:**Demonstrated commitment to sustainability innovation through organizational agility in people and processes and iterative improvements.
* **Investment professionals:**Demonstrate a willingness to explore new approaches to sustainability investment approaches, measurement, and impact.

### Purposeful Culture

* + **Industry:**Positive ethics and values are martialed into organizations that have purposeful culture and a mission-driven ethos.
	+ **Organizations:**Organizational transformations produce purpose-driven organizations with a strong fiduciary culture, recognizing the need for more balance.
	+ **Investment professionals:**Individuals with strong values make up a more committed and happier workforce, and individual accountability contributes to purposeful cultures.

Within sustainable investing lie the fundamental elements of the sustainability *of*investing. Investors and the investment industry have a considerable role to play in determining the pathway and shaping a future worth investing in.