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## SUSTAINABILITY AND THE INVESTMENT INDUSTRY

Sustainability is a complex topic. To make an informed decision about sustainable or responsible investment allocations, a holistic understanding of the historic context in which these solutions developed, as well as intent behind such investment can be helpful.

Responsible investment is defined by us as an investment that considers sustainability in its investment and stewardship process. Meanwhile, we define sustainable investment as an investment with a clear aim for positive social or environmental outcomes, as well as a robust integration of sustainability in its investment and stewardship process.<sup>1</sup> For ease of reading, both will be referred to as sustainable investing in this document.

The purpose of this document is to outline the history of sustainable and responsible financial and investment services, present their aims and causes, as well the different types of contemporary investment options in this field. This, to facilitate well informed investment decision making.

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<sup>1</sup> The term “sustainable financial performance” which is used by our Global Best Ideas Equity Fund does solely refer to long-term financial performance potential and does not refer to environmental or social sustainability.

## CONTACT US

If you think we may be able to help you and your family, please contact us for a discussion.

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### An Industry with a long History of Engaging with Social and Environmental Causes

Despite what popular sentiment might suggest, the financial services industry has a long, varied and successful history of engaging with social and environmental challenges and causes through the development of new products and services.

In particular, since the dawn of modernity, an assortment of services tailored to addressing increasingly pressing societal issues, such as a lacking access of the poor and vulnerable to financial resources, developed. Some of these can be classified as purely charitable, such as the philanthropic activities of many of the world's largest financial institutions, though most would nowadays be viewed as socially responsible financial services – services with a clear profit motive that aim to advance social causes.

A drive to service the poor and disadvantaged informed the development of new financial solutions since the dawn of modernity

The latter type, for example, includes the Italian Monte Di Pietà, a type of pawnbroker that since the 15<sup>th</sup> century aims to provide local poor with access to reasonable interest loans.<sup>2</sup> It also includes the UK originating building societies, that since the 18<sup>th</sup> century support local communities in saving to buy homes. The European Credit Union movement, originating in 19<sup>th</sup> century Germany, is a further example, establishing financial cooperatives aimed at serving the un- and underserved.<sup>3</sup>

In more recent times, microfinance has gained global attention as a tool for providing access to financial resources to the most vulnerable, especially in developing countries. While Muhammad Yunus is often heralded as the pioneer of modern microcredit, this construct similarly has a long and varied history. Though Yunus' 1983 founding of Grameen Bank in Bangladesh, a community development bank focussing on providing micro loans to otherwise underserved local people, put the tool firmly on the global agenda, examples of microfinance can be found as early as the 18<sup>th</sup> century. In 1729, dean Jonathan Swift set up a charitable loan fund in Dublin, Ireland that provided small loans to local trades- and craftsmen, on the basis that the provided money was directly invested into their businesses, with generated profits used to repay the loan.<sup>4</sup> Very similar to how Grameen Bank operates today.

Beyond organisations and services specifically tailored to addressing social or environmental issues, many of the industry's staple services have in recent years seen the introduction of sustainable versions. Prominent examples for

Many financial products have been adapted to offer sustainable tilted versions over the past 25 years

this would be the issuing of the first social bond in 2006 by the International Finance Facilitation for Immunisation, and that of the first green bond in 2007 by the European Investment Bank. Such bonds are defined by the concept of "use of proceeds", where transparency over the use of its proceeds introduces a clear linkage to generating positive outcomes.<sup>5</sup> By September 2024 the global market for labelled green, social and other sustainability themed bonds reached over \$1 trillion.<sup>6</sup>

<sup>2</sup> Schenk, 2020. "Uses of the past in banking and financial history", *Social Aims of Finance* (2020): 21.

<sup>3</sup> Goglio, Silvio, and Leonardi, 2010. "The roots of cooperative credit from a theoretical and historical perspective", *Euricse Working Papers* (2010): 10.

<sup>4</sup> O'Connor, 2022. "Institutionalising changing conceptualisations of charity in Ireland: charitable loan fund societies in Ireland, 1729–1823", *Studia Hibernica* 48, 37-61(2022).

<sup>5</sup> Environmental Finance, 2023. "On the origin of green bonds", <https://www.environmental-finance.com/content/analysis/on-the-origin-of-green-bonds.html>

<sup>6</sup> World Bank, 2025. "Labelled Sustainable Bonds. Market Update – February 2025", <https://thedocs.worldbank.org/en/doc/cd82b4033281dab2cb1a1c71eeb691e4-0340012025/original/Labeled-Bond-Quarterly-Newsletter-Issue-No-10.pdf>



Likewise, regulators in various regions of the world have enshrined access to financial services in laws, further pushing the industry to engage with its social responsibilities. One prominent example to name would be every European Union citizen's right to a basic payment account, aimed at ensuring access to essential financial services for everybody.<sup>7</sup>

While such responsibly themed undertakings often have a different risk and return profile than traditional financial services, they nonetheless have proven their purpose through long running positive contributions to addressing pressing social and environmental issues. They have also proven their returns potential through an increasingly material global uptake.

### Investment Products – Providing New Solutions to Old Problems

Similar to the broader financial services industry, the investment industry has a long history with social and environmental causes. One that is likewise closely linked to the emergence and recognition of social and environmental ailments.

Historically, religious and other ethically based prohibitions of investments into certain activities, such as alcohol, tobacco or adult entertainment, informed industry action. While Jewish law already provides specific guidance on ethical investing in ancient times, in modern days it was the likes of Quakers and Methodists that, through a refusal to invest in slavery or war efforts, can be seen as early cases of values-based investing. Methodist reverend John Wesley already in the 18<sup>th</sup> century publishing a set of basic tenets for social investing that outlines guidelines for avoiding industries that harmed the health of workers, as well as such companies with unethical business practices.<sup>8</sup>

Church and other ethics-based investments form the earliest examples of responsible investing

The first ethical, exclusions based mutual fund, the Pioneer Fund, was launched in 1928 in the US, excluding investments in alcohol and tobacco, only four years after the first mutual fund was launched.<sup>9 10</sup> For many decades, this remained a niche undertaking though, which saw increased interest only once the political landscape in the west shifted to one of increasing inclusion and process.

The first modern sustainable investment fund was launched in 1971, in opposition to the Vietnam War

From the 1960s and 1970s social movements started to inform the emergence of a broader range of sustainable investment tools. Driven by labour unions and civil rights activists, investments were increasingly used as a force for social change on topics such as gender equality, the environment, nuclear power or the Vietnam War,

leading to the creation of what we would define today as the first sustainable fund in 1971 by Pax World. The fund, that for the first time considered social and environmental criteria in company research and portfolio construction, was launched on demand by two Methodist ministers from Boston and Maryland, who specifically wanted their investment

<sup>7</sup> EC, 2023. "Access to bank accounts", [https://finance.ec.europa.eu/consumer-finance-and-payments/retail-financial-services/access-bank-accounts\\_en](https://finance.ec.europa.eu/consumer-finance-and-payments/retail-financial-services/access-bank-accounts_en)

<sup>8</sup> Saylor Academy, 2012. "The Sustainable Business Case Book. 12.1 Introduction to Socially Responsible Investing (SRI)", [https://saylordotorg.github.io/text\\_the-sustainable-business-case-book/s00-license.html](https://saylordotorg.github.io/text_the-sustainable-business-case-book/s00-license.html)

<sup>9</sup> Environmental Finance, 2023. "On the origin of green bonds", <https://www.environmental-finance.com/content/analysis/on-the-origin-of-green-bonds.html>

<sup>10</sup> Bajaj Finserv, 2024. "First Mutual Fund", <https://www.bajajfinserv.in/investments/what-was-the-first-mutual-fund#:~:text=The%20Massachusetts%20Investors%20Trust%20was%20not%20only%20the%20first%20mutual,revolutionised%20the%20way%20we%20invest.>



fund to not support the US's war efforts in South East Asia.<sup>11 12 13</sup> Around the same time journalist Milton Moskowitz constructed the first list of "socially responsible stocks," published in *Business & Society*, an early precursor of what has nowadays become the sustainability ratings industry.<sup>14</sup>

In 1984 meanwhile, the Friends Provident Stewardship Fund was launched, being the first UK fund to incorporate negative and positive ethical screening criteria in its investment process.<sup>15</sup>

From the 1980s, divestment meanwhile became an increasingly used tool to influence corporate decisions, prominently driven by the anti-apartheid movement. In 1986 what is broadly viewed as the first shareholder resolution tied to a social issue was sponsored by Calvert Investments, a motion with the Angelica Corporation on the potential financial impact of labour management issue.<sup>16</sup> Similar to earlier decades, social issues such as the use of sweatshops within the clothing industry, or environmental disasters such as the Exxon Valdez oil spill or Chernobyl increased the broader public's interest in sustainability aspects of their investment portfolios, and how the financial services industry was engaging with these issues.<sup>17</sup>

Importantly, all these developments in sustainable investing practices were accompanied by international political and social movements. The Civil Rights movement in the US culminated in amongst other things the Civil Rights Act of 1964, which outlawed race, sex, religious and other types of discrimination. In many countries in Europe and elsewhere similar steps towards reducing inequalities were taken. Meanwhile, in 1972 the first UN conference covering environmental issues took place in Stockholm, the *United Nations Conference on the Human Environment*. Countless other conferences followed since, in particular during the 1990s with topics such as children's health, nutrition and women's rights firmly stepping on the global agenda. Many of these global discussions led to the introduction of international governance initiatives, such as the establishing of the *Intergovernmental Panel on Climate Change in 1988*, or the 1997 *Kyoto Protocol*, which for a first time committed global leaders to combating climate change.

A global push for inclusive growth and resource distribution facilitated the development of sustainable investment propositions since the 1970

Finally, in 2000 the *Millennium Development Goals* for the first time formulated a clear and widely embraced global agenda to combat a set of social and environmental issues, and thereby put them on peoples, politicians but also

<sup>11</sup> Saylor Academy, 2012. "The Sustainable Business Case Book. 12.2 Introduction to Socially Responsible Investing (SRI)", [https://saylordotorg.github.io/text\\_the-sustainable-business-case-book/s00-license.html](https://saylordotorg.github.io/text_the-sustainable-business-case-book/s00-license.html)

<sup>12</sup> Impax Asset Management, 2022. "Impax Asset Management renames Pax World Funds to Impact Funds", <https://impaxam.com/insights-and-news/press-releases/impax-asset-management-renames-pax-world-funds-to-impax-funds/>

<sup>13</sup> Morningstar, 2021. "ESG Investing Comes of Age", <https://www.morningstar.com/features/esg-investing-history?cid=2310&elqcampaignid=6282&prd=Sustainability>

<sup>14</sup> Morningstar, 2021. "ESG Investing Comes of Age", <https://www.morningstar.com/features/esg-investing-history?cid=2310&elqcampaignid=6282&prd=Sustainability>

<sup>15</sup> Environmental Finance, 2023. "On the origin of green bonds", <https://www.environmental-finance.com/content/analysis/on-the-origin-of-green-bonds.html>

<sup>16</sup> JP Morgan, 2025. "A Brief History of Sustainable Investing", <https://www.chase.com/personal/investments/learning-and-insights/article/a-brief-history-of-sustainable-investing>

<sup>17</sup> Saylor Academy, 2012. "The Sustainable Business Case Book. 12.1 Introduction to Socially Responsible Investing (SRI)", [https://saylordotorg.github.io/text\\_the-sustainable-business-case-book/s00-license.html](https://saylordotorg.github.io/text_the-sustainable-business-case-book/s00-license.html)



corporate agendas. In consequence, initiatives such as the Global Compact, launched in 2000 by UN Secretary General Kofi Annan, or the 2006 launched UN Principles for Responsible Investment were founded, with the aim of generating buy-in amongst corporate leaders and facilitating a change in practices. Similarly, a broad range of frameworks and standards popped into existence, aimed at facilitating robust reporting. These included, among others, the 1997 launched Global Reporting Initiative, and the 2000 founded Climate Disclosure Project.

By 2030, Bloomberg expects 30% of global AUM to be sustainability integrated.

In this context, the investment industry steps up its game as well and expanded its sustainable service offering. While still niche in the 1990s and 2000s – exact figures are disputed but between 26 - 55 sustainable funds managing between USD 1.9 billion - USD 12 billion were available in 1995 – by 2025 sustainable investment is firmly embedded into mainstream industry practices.<sup>18 19</sup>

In mid-2024 thousands of funds across the globe integrate sustainability considerations into their processes or having clear sustainable investment objectives. Funds and strategies with a clear environmental or social objective oversaw over USD 3.3 trillion globally, while investments that consider sustainability scores, exclusions and other sustainability data as part of the investment process sat at over USD 8 trillion in the US, USD 14 trillion in Europe and USD 4 trillion in Japan.<sup>20</sup> By 2030 such investments are projected to make up ca 30% of global AUM as per Bloomberg.<sup>21</sup> Over the past years, risk management has been a primary driver for expanded sustainability integration, sidelining ethical considerations, with a recognition that well governed and risk aware businesses often being better able to cope with global challenges such as climate change and social pressures.<sup>22</sup>

In this context of increased activity in the sustainable investing space, regulators globally have stepped up their game to introduce governance, data and disclosure standards. The EU in particular has led on this with its Sustainable Finance Disclosure Regulation of 2019, which introduced a sustainability categorisation regime for European funds. The UK followed suit in 2024, introducing a more demanding labelling regime through its Sustainable Disclosure Regulation. Other jurisdictions are meanwhile assessing options for similar regimes that aim to provide investors with sufficient clarity and information on the sustainability characteristics of the products they want to invest in.

<sup>18</sup>Saylor Academy, 2012. "The Sustainable Business Case Book. 12.1 Introduction to Socially Responsible Investing (SRI)" [https://saylordotorg.github.io/text\\_the-sustainable-business-case-book/s00-license.html](https://saylordotorg.github.io/text_the-sustainable-business-case-book/s00-license.html)

<sup>19</sup> Morningstar, 2021. "ESG Investing Comes of Age", <https://www.morningstar.com/features/esg-investing-history?cid=2310&elqcampaignid=6282&prd=Sustainability>

<sup>20</sup>Morgan Stanley, 2024. "Sustainable Investment Funds Performance: H2 2024", <https://www.morganstanley.com/insights/articles/sustainable-funds-performance-second-half-2024#:~:text=Sustainable%20funds%27%20AUM%20reached%20a,at%20the%20end%20of%202023.>

<sup>21</sup> Bloomberg, 2024: "ESG AUM set to top \$40 trillion by 2030, anchor capital markets", <https://www.bloomberg.com/professional/insights/sustainable-finance/esg-aum-set-to-top-40-trillion-by-2030-anchor-capital-markets/>

<sup>22</sup> CFA Institute. 2025. "Where will sustainable investing go from here?", <https://www.cfainstitute.org/insights/articles/sustainable-investing-trends>



### Credibility

These recent regulatory moves are a clear response to a rising fear of miss-labelled and -marketed sustainable investment products. Investors with an interest in such products should expect their interest to be sufficiently reflected in investment approaches.

Transparency is crucial for credible sustainable propositions

And while such outcries over corporate green- or social-washing, including relating to funds that misrepresent their social or environmental credentials, might seem like very modern phenomenon, this is not the case. Historically, the often clearly stated purpose of institution or services that aimed to address a social ailment similarly came with a clear social expectation. The Italian Monte Di Pietà, for example, came under considerable criticism in the 19<sup>th</sup> century for not serving the best interest of the poor by spending significant amounts on extravagant properties.<sup>23</sup>

Credibility in what a product or service claim to do, through transparent communication on characteristics and ambitions, is therefore critical to ensure funds are directed to the causes and types of investments they are intended for.

### Performance

The performance profile of sustainable investments is as varied as the investments themselves. Looking back on the past years, sustainable investments have shown themselves capable of outperforming their conventional peers, as well as underperforming them. Importantly, research suggests that it is primarily the investment style that informs recent under- and outperformance of sustainable investments.<sup>24</sup> While the less concentrated and style tilted parts of the sustainable equity sphere, such as index trackers or quantitative funds, as well as fixed income solutions including green bonds, have shown robust performance, often outperforming their conventional peers, in particular more thematic and impact focussed equity products have suffered since 2022.<sup>25 26</sup> This being the result of sector and style tilts of such products, which weakened performance under a changing interest rate environment and the resurgence of fossil fuels as a result of the Russian invasion of Ukraine. A changing interest rate regime being a broad macro event with impacts beyond sustainable investing, other interest rate sensitive sectors such as biotech or the venture capital space equally showed weak performance over the past years though.

Where sustainable products show different performance profiles to conventional alternatives this is often due to diverging style and factor risk tilts

<sup>23</sup> Carboni, Mauro, and Massimo Fornasari, 2019. "The 'untimely' demise of a successful institution: the Italian Monti di pietà in the nineteenth century", *Financial History Review* 26.2 (2019): 147-170.

<sup>24</sup> Goldman Sachs Asset Management, 2025. "Performance in Focus: Is it Sustainability or Implementation of Sustainability?", <https://am.gs.com/en-ch/institutions/insights/article/2025/performance-in-focus-sustainability-or-implementation-of-sustainability>

<sup>25</sup> BNP Paribas, 2023. "Investing sustainably without sacrificing performance", <https://wealthmanagement.bnpparibas/en/insights/market-strategy/invest-sustainably-without-sacrificing-performance.html>

<sup>26</sup> Goldman Sachs Asset Management, 2025. "Performance in Focus: Is it Sustainability or Implementation of Sustainability?", <https://am.gs.com/en-ch/institutions/insights/article/2025/performance-in-focus-sustainability-or-implementation-of-sustainability>



In consequence, sustainable investment can over the long run deliver comparable risk adjusted returns to conventional investments. The type of sustainable investment and its risk profile are crucial in determining the volatility and performance trend compared to conventional alternatives though.

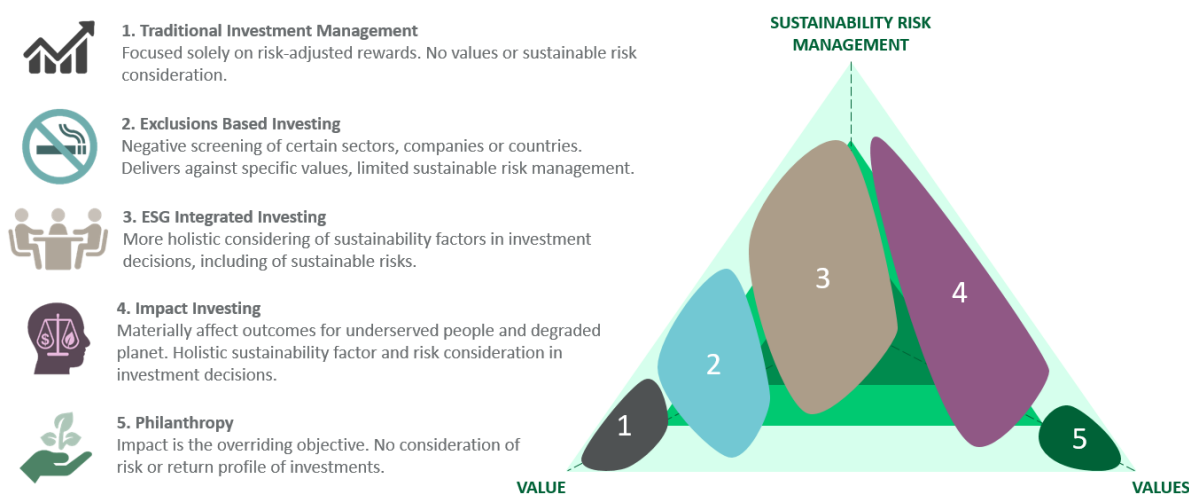
### Current Trends in Sustainable Investing

As presented, modern sustainable investing is neither new nor novel. It is the natural evolution of a wide range of approaches to ethical but also risk adjusted investment practices that developed over the past centuries.

While in the early days of sustainable investing the landscape of available products and their ambitions was limited, the contemporary breath of financial products that class themselves as sustainable is vast and complex.

Broadly speaking, a few categories of sustainable products can be identified. In many cases, practices with a higher degree of sustainability integration leverage off of practices also applied by less integrated products, in addition to having further ambitions. Many of the practices used further built on presented developments from the past half century, such as activity-based exclusions, active ownership practices and the use of sustainability performance data.

The five categories briefly discussed can be seen below:



### Traditional Investment Management

For traditional investment management, the expectation is that sustainability or social considerations are not a factor that impacts investment decisions or universe construction. Likewise, sustainability risks are only considered where deemed sufficiently financially material, often on a case by case basis. Similarly, such considerations would not be expected to impact stewardship practices, such as voting or engagements. Socially and environmentally unconstrained financial returns are such products' key objective.

**Example\*:** An investment portfolio unconstrained by social or environmental considerations. Any types of holdings might be present, including such with clear negative social or environmental impacts. Only where social or environmental impacts constitute sufficiently financially material risks might a company not be allocated to, from a risk perspective.

### *Exclusion Based Investing*

An exclusion based investing approach meanwhile mirrors historic values-based investment prohibitions, though it is often used for risk management purposes as well. It concentrates on isolating a portfolio from specific exposures, such as prohibiting investments in coal, tobacco or controversial weapons amongst other things. This can be driven by ethical considerations or risk considerations. To assess if exposures to any such activities exist, the investable universe would regularly be screened through qualitative or quantitative means. For such approaches similarly, expectation would be that stewardship practices are largely driven by conventional financial factors. An exclusively exclusions based approach to sustainability would nowadays be considered barebones from a sustainability perspective, and in most cases have a clear focus on financial returns over sustainable performance.

**Example\*:** A portfolio consisting of index funds that intentionally exclude certain activities deemed unethical or high risk by its investor, such as coal extraction, tobacco products production, controversial weapons or others, otherwise tracking indexes such as the S&P 500 or ACWI.

### *ESG Integrated Investing*

ESG stands for “Environmental, Social and Governance”. The term is often used within the industry as an umbrella term to describe sustainable integrated investments. ESG integrated products apply a more holistic lens on sustainability than purely exclusions based ones. For such products, a wide range of practices exists, most commonly including different shapes of exclusions, a monitoring of a range of sustainability performance and risk metrics (e.g. emissions, diversity figures, controversies), sustainability incorporation into active ownership practices, as well as minimum sustainability performance expectations. Depending on how sustainability is integrated, the impact on investment universe construction and allocation decisions might vary. Performance, ethical and risk considerations might drive such approaches to investing in equal terms. The breadth of products included in this category is vast, and they make up a large majority of what is generally classified as sustainable investing. Such products in most cases still have a primarily financial returns focussed objective, managing sustainability considerations with an aim for minimum performance implications.

**Example\*:** A portfolio that excludes certain activities deemed unethical by its investor, such as coal extraction, tobacco products production, controversial weapons or others, and beyond this actively tracks climate performance, with the aim of investing in Paris Agreement aligned companies. Voting and engagement is used to facilitate better climate performance among investee companies.



### *Impact Driven Investing*

Impact Driven products meanwhile apply similar tools to ESG integrated products, while having a clear objective to generate positive and quantifiable outcomes. For this purpose, the toolbox of ESG integrated products is applied in its most rigorous form, with a requirement for a clear theory of change that can link an investment allocation to positive social or environmental change. Importantly, such products often have a dual objective of equally generating impact and financial returns. Financial returns might nonetheless still be comparable to non-impact products, though they will have to be managed in line with another objective.

**Example\*:** A portfolio that excludes certain activities deemed unethical by its investor, such as coal extraction, tobacco products production, controversial weapons or others, and beyond this actively tracks climate performance, with the aim of investing in Paris Agreement aligned companies. The fund further only invests in companies that have a product range that contributes to climate change mitigation, quantifying the tonnes of CO<sub>2</sub>e emissions avoided through investments in those companies.

### *Philanthropic Asset Allocation*

Finally, philanthropy focussed products have an aim to contribute to specific issues. Such products often focus asset allocations on activities that directly support social or environmental causes, such as charities, NGOs or other civil society organisations. Crucially, for such products financial returns are not relevant, impact is the key objective.

**Example\*:** A direct allocation to a climate change literacy project in Africa, aimed at helping people adopt to changing climate patterns.

An awareness of the holistic social, environmental and financial performance objective of an investment is therefore crucial in meaningfully allocating funds.

*\*Provided examples do not related to specific products or services on offer by Stonehage Fleming*



### Traditional and Responsible Investment Propositions at Stonehage Fleming

Stonehage Fleming does offer a broad range of investment services. These include a traditional and ESG integrated products, as well as a responsible proposition that sits between ESG integrated and impact, combining a robust level of sustainability performance and outcome reporting with competitive financial returns. The firm further has a philanthropic proposition.

Products	Objectives	Sustainability Integration
<p>SF Private Markets Advisory,</p> <p>SF AIM and Opportunities Funds</p> <p>SF OFIO</p>	<p>Financial performance is these products' only objective.</p> <p>Sustainability is not integrated into processes for these products.</p>	<p>These products are traditionally managed. No sustainability processes are in place for these products.</p>
<p>SF Core Multi-Asset Offering</p> <p>SF Global Best Ideas Equity Fund (GBI)</p>	<p>Financial performance is these products' only objective.</p> <p>Sustainability is integrated into processes in accordance with this objective.</p>	<p>These products are ESG integrated. For our Core Multi-Asset Offering we conduct robust sustainability due diligence on managers and funds we allocate to. For the GBI fund meanwhile sustainability is one of the 15 quality criteria all holdings are assessed against. For both, the focus is on identifying and limiting financially material sustainability risks.</p> <p>For both Multi-Asset and GBI fund we engage on financially material sustainability topics and vote in line with sustainability motions where we see potential for financially material sustainability risks.</p> <p>Sustainability considerations can, where deemed financially material, inform investment decisions. These products do not have sustainable labels or classifications.</p>
<p>SF Responsible Investment Proposition</p>	<p>Both financial performance and positive impact are these products' equal objectives.</p>	<p>This product sits between ESG integrated and impact. We conduct robust sustainability due diligence on managers and funds we allocate to and have clear expectations for minimum sustainability credentials.</p> <p>We further engage on financially, environmentally and socially material sustainability topics and vote in line with sustainability motions where we see potential for financially material sustainability risks.</p> <p>Sustainability considerations form part of the investment process, and we report on the product's impacts. The equity solution of the sustainable proposition is an SFDR Art. 8 fund.</p>
<p>SF Philanthropy</p>	<p>Positive social and environmental outcomes are this product's only objective.</p>	<p>This product is a philanthropic service. It invests into charities and other organisations that contribute to social and environmental causes in the jurisdictions we operate.</p>

Beyond the above, Stonehage Fleming can, on demand, offer purely exclusions based portfolio solutions.

