

## Changing Dynamics of Sustainable Investing: Emerging Trends

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### Abstract

Sustainable investment has become increasingly important due to the recognition of the link between environmental, social, and governance factors and financial performance. This study examines the historical development of sustainable investment, exploring the factors that have shaped it and the methodologies commonly used. It also investigates the evolving perspectives on sustainable investing, its impact on financial markets, and the challenges faced in implementation. The study highlights global trends in sustainable investment, such as the use of sustainability bonds. It aims to understand the influence of various stakeholders, including investors, corporations, regulators, and civil society, on the advancement of sustainable investment. The objective is to provide insights into the evolution of sustainable investment and its integration into the investment landscape, enhancing our understanding of its potential impact on financial goals and sustainable development.

**Keywords:** ESG, Sustainable investment, Investment strategies, sustainability, UNPRI, COVID-19

### 1. Introduction

The concept of "sustainable investment" has experienced a noteworthy transformation throughout its existence, mirroring the shifting perspectives surrounding environmental and social accountability within the financial domain. Historically, investment decisions have predominantly been driven by considerations of financial returns. The growing recognition of the ecological and societal consequences associated with economic endeavors has instigated a fundamental transformation in investment practices, wherein a greater emphasis is placed on responsible and mindful allocation of resources (Busch et al., 2021). As per the findings of the Global Sustainable Investment Alliance (GSIA), Socially Responsible Investment (SRI) is an investment methodology that incorporates the evaluation of ESG factors into the process of selecting and managing investment portfolios. (GSIA) adopts a comprehensive perspective when defining Socially Responsible Investing (SRI), encompassing various related terms such as ethical investment, responsible investing, and social investment. This approach avoids making unnecessary distinctions between these interconnected concepts. The term "sustainable investing" or "SRI" is commonly used to encompass this group of investment strategies (Martini, 2021).

The practice of sustainable investing can be traced back to historical religious and ethical investment practices that have been in existence for centuries. The emergence of modern sustainable investing can be traced back to the 1960s and 1970s, a period marked by a significant increase in societal

consciousness regarding social and environmental issues. This heightened awareness served as a catalyst for the development of sustainable investment practices (Stein, 2019). In the realm of sustainable investing, a range of instruments has conventionally been employed to effectively execute this approach. The initial phases of asset management are primarily motivated by the desire to accumulate wealth, whereas the subsequent stages prioritize the responsible allocation of these assets to generate additional advantages. Sustainable instruments, which can be employed either individually or in conjunction, are utilized to achieve the desired effect throughout the continuum. The field of sustainable investing and impact investing is evolving beyond traditional approaches such as exclusions, ESG integration, and active ownership. There is a growing emphasis on incorporating progressive sustainability characteristics, such as reducing carbon footprint or choosing investments from a pre-screened universe that considers ESG or SDG factors. This shift reflects a broader recognition of the need to align investment strategies with long-term sustainability objectives (Sinha & Datta, 2020). The following discourse delves into the seven fundamental approaches to sustainable investment; “ESG integration, corporate engagement & shareholder action, Norms-based screening, Negative/exclusionary screening, Best-in-class/positive screening, Sustainability themed/thematic investing, Impact investing and community investing”. In numerous geographical areas, such as Europe and Australasia, there is a growing trend where investment products or strategies incorporate multiple sustainable investment strategies. These strategies commonly include negative/exclusionary screening, ESG integration, and corporate engagement (GSIA, 2020).

The year 2020 witnessed a profound transformation in our daily routines as a consequence of the widespread transmission of the novel coronavirus, also known as COVID-19. This global pandemic brought about a multitude of consequences, encompassing both detrimental outcomes such as the implementation of travel restrictions and the subsequent economic downturn, leading to widespread job losses, as well as some favourable outcomes such as a notable reduction in carbon emissions. The observed stability and elevated returns exhibited by sustainable funds and stocks during the COVID-19 pandemic indicate a noticeable inclination among investors to lean towards environmentally-friendly assets and products (Pastor & Vorsatz, 2020). Two experiments were conducted by (Mahmoud & Meyer, 2020) one prior to the onset of the COVID-19 pandemic and the other during the crisis. The findings of the experiment indicate that investors exhibited a heightened focus on sustainability amidst the market volatility induced by the COVID-19 pandemic. During the COVID-19 crash, it was observed that investors, including those who were risk- and ambiguity-averse, exhibited a notable inclination towards allocating a greater proportion of their holdings to sustainable risky investments compared to conventional risky investments. “Prior to the onset of the COVID-19 pandemic, it was observed that investors displayed minimal disparities in their investment intentions when comparing sustainable investments to conventional risky investments. The ongoing COVID-19 pandemic has witnessed a notable trend wherein consumer preferences have increasingly gravitated towards green assets and green products. The study conducted by Xu et al. (2022) examines the interplay between the COVID-19 pandemic and the specific category of socially responsible investment (SRI) funds, and its impact on investors' inclination towards investing in SRI funds”. Their research reveals that, in the face of the pandemic threat, there is a notable inclination among investors to allocate their funds towards socially responsible investment (SRI) options. Furthermore, the findings indicate a substantial surge in investments specifically focused on economic factors. The objective of this study is to analyse the progression of the concept of "sustainable investment" through an exploration of its historical origins, the factors that have contributed to its emergence, the various strategies it encompasses, and the associated challenges and opportunities.

## **2. Historical Development**

The evolution of sustainable investing has been characterised by several distinct phases. Each of these aforementioned contributors have made significant contributions in terms of tools and methodologies that continue to be utilised by investors with a focus on sustainability in the present day. A significant observation has been made regarding a transition in the evaluation of business activities. Specifically, there has been a notable shift from a focus on ethical or moral considerations to the incorporation of financially relevant ESG risks and opportunities (Anderson & Singhal, 2020).

The observed shift has effectively addressed concerns regarding a potential trade-off in financial performance, as investors who prioritise ESG factors are not solely fixated on the negative societal or environmental consequences associated with their investments. The individuals in question are also directing their attention towards the intricate interplay of feedback loops between society and industry. This dynamic interaction is leading to the incorporation of these impacts into market pricing mechanisms, consequently exerting an influence on the performance of their investment portfolio (Anderson & Singhal, 2020).

The phenomenon of social screening in investment opportunities has been observed within the religious communities of pre-revolutionary America. The phenomenon under investigation was first documented within Methodist communities, subsequently spreading to the Quakers, who demonstrated a proactive approach in assessing and excluding investment opportunities linked to the categorization of "sin stocks." The stocks in question generally consisted of companies operating within the tobacco, gambling, and alcohol sectors, alongside those with alleged involvement in historical slavery practices. During the period spanning from the seventeenth century to the mid-twentieth century, Socially Responsible Investing (SRI) was predominantly characterised by its religious orientation and limited scope. Its primary objective revolved around the implementation of negative screening strategies aimed at preventing investments in industries deemed morally objectionable, commonly referred to as "sin industries" (Martini, 2021). The anti-Vietnam War demonstrations spearheaded by students and young individuals during the 1960s instigated a subsequent movement to boycott corporations involved in the production of weaponry utilised in the conflict. Moreover, these protests effectively raised awareness among institutional investors, prompting them to divest from Dow Chemical, a prominent manufacturer of napalm (Biller, 2007). Joan Bavaria, in the year 1982, established Trillium Asset Management, a company that identifies itself as the "oldest independent investment advisor dedicated solely to sustainable and responsible investing" (Martini, 2021).

The Domini 400 Social Index, nowadays known as the MSCI KLD 400 Social Index, was introduced in May 1990 as one of the pioneering socially responsible investment (SRI) indexes. This index follows a capitalization weighted approach and comprises 400 securities from the United States market. Its primary objective is to offer investors exposure to companies that possess exceptional ESG ratings. Additionally, the index excludes companies whose products or activities have adverse social or environmental effects (LIU, 2020).

"Numerous endeavours have been undertaken by international organisations to address the aforementioned concerns through the mechanism of global governance. These initiatives have notably propelled the socially responsible investment (SRI) industry. For instance, the United Nations (UN) introduced the 6 Principles of Responsible Investment (UN PRI) in 2006, serving as a significant

catalyst for advancing responsible investment practises. The UNPRI advocated for the incorporation of ESG factors into investment decisions and encouraged signatories to align their investment practices with broader sustainability goals. Furthermore, in 2015, the UN established the 17 Sustainable Development Goals (SDGs), which delineate environmental, social, and governance (ESG) objectives for member states of the UN. During the Paris Climate Conference held in 2015, a significant milestone was achieved as 195 countries collectively embraced a comprehensive and binding global climate agreement. This agreement outlined a shared strategy aimed at mitigating the risks associated with climate change, with the primary objective of constraining global temperature rise to a level well below 2 °C. Furthermore, it emphasised the pursuit of endeavours to limit this temperature increase to an even more ambitious target of 1.5 °C”.

In various legal jurisdictions, there exists a requirement for pension funds, insurance companies, and asset managers to disclose information pertaining to their consideration and incorporation of ESG factors within their investment endeavours (Martini, 2021).

## **2.1 Regional Distribution of Global Sustainable Investing Assets**

During the period spanning from 2018 to 2020, it is noteworthy that the United States and Europe maintained their dominant positions in the realm of sustainable investing, collectively accounting for over 80% of the total global assets allocated towards this form of investment. The distribution of sustainable investing assets on a global scale in Canada, Japan, and Australasia has exhibited a stable pattern with minimal fluctuations over the course of the last two years. Specifically, Canada accounts for 7% of the total sustainable investing assets, Japan represents 8%, and Australasia encompasses 3% of the global share. These proportions have remained relatively constant, indicating a consistent allocation of sustainable investment resources in these regions (GSIA, 2020).

## **3. Drivers of sustainable investment**

Investments that are supervised by capable asset managers are typically classified into two primary categories: institutional and retail. Retail assets are defined as individual investments in fund that are managed by professionals. These funds are generally available via investment platforms or institutions, and their minimum investment requirements are relatively low. Conversely, institutional assets are managed on behalf of their proprietors, which consist of insurers, pension funds, universities and foundations. Typically, these assets are administered via investment products requiring greater minimum investment amounts (GISA,2020). Various factors drive sustainable investment, including the behaviour of consumers and stakeholders, the impact of climate change, and the influence of legislation and regulations on both public and private investors of institutional investors (Chițimiea et al., 2021).

### **3.1 Various global level instruments and norms for promotion of sustainable investing**

Numerous global-level initiatives have exerted significant influence on the sustainable investing sector and the financial services industry as a whole.

The Paris Agreement, which came into effect in 2016, is an internationally recognized and legally binding treaty that addresses the issue of climate change. “The Paris Agreement, a pivotal international climate accord, was officially adopted during the United Nations Climate Change Conference (COP21) (Martini, 2021). The Paris Agreement has served as a significant catalyst for numerous state-level legislative efforts aimed at curbing greenhouse gas emissions and establishing ambitious net zero

emission objectives. The Paris Agreement, despite being a state-based agreement, has garnered attention from investors, asset owners, and asset managers who are progressively seeking to align their portfolios with the objectives of the agreement". These stakeholders are actively monitoring and restraining greenhouse gas emissions, either voluntarily or due to obligations imposed by state-based legislation (GSIA, 2020).

The SDGs encompass a comprehensive framework consisting of 17 universally agreed upon objectives. These goals aim to foster a more prosperous and sustainable future for all individuals worldwide, with the target year set at 2030. The United Nations Member States collectively embraced and ratified these goals in the year 2015. The comprehensive framework for sustainable development, known as the SDGs, encompasses a vast array of indicators and targets. Specifically, there are 231 indicators and 169 targets that collectively acknowledge the imperative of addressing poverty and various deprivations in conjunction with efforts to enhance health and education, mitigate inequality, foster economic growth, combat climate change, and safeguard our invaluable ecosystems such as oceans and forests. This holistic approach underscores the interconnectedness of these multifaceted challenges and emphasizes the need for integrated strategies to achieve sustainable development. While the SDGs primarily serve as a state-based framework, there has been a growing emphasis on encouraging businesses and investors to embrace and integrate the SDG framework into their operations. The United Nations Global Compact, along with its regional associations, has been at the forefront of promoting the advancement of business-oriented guidance for the implementation of the SDGs. The guidance on the SDGs Investment Case has been provided to investors by the Principles for Responsible Investment (PRI) (GSIA, 2020).

The Financial Stability Board (FSB) is responsible for the formation of the Taskforce on Climate-related Financial Disclosures (TCFD). The introduction of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in 2017 had a considerable influence on worldwide policy and legislation (David Uzsoi, 2020). Moreover, it has brought about substantial shifts in the expectations placed upon investors, asset managers, and asset owners (GSIA, 2020).

### **3.2 Policy and Regulatory Developments across Specific Regions:**

#### **3.2.1 EUROPE**

Regulatory and Policy Drivers Influencing the Sustainable and Responsible Investment Market in Europe:

- The European Union's Sustainable Finance Action Plan, which was released in 2018, has introduced a series of measures that are expected to have substantial implications for the ESG/responsible investments market.
- The proposed Corporate Sustainability Reporting Directive aims to amend the existing Non-financial Reporting Directive by mandating large companies to regularly disclose comprehensive reports concerning the social and environmental consequences of their operations (GSIA, 2020).
- The proposed Markets in Financial Instruments Directive 2 (MiFID II) suitability rules, as put forth by the European Union, aim to incorporate investors' ESG preferences into the process of investment advice and portfolio management (ESG Investing: Practices, Progress and Challenges, 2020).

#### **3.2.2 UNITED STATES**

Since the election of President Biden, there have been several noteworthy regulatory and policy drivers that have emerged according to (GSIA, 2020):

- In March 2021, the Department of Labor issued a statement regarding the non-enforcement of two regulatory rules implemented by the previous administration. These rules pertain to the incorporation of ESG factors in retirement options, as well as the exercise of proxy voting rights in relation to ESG issues.
- In May 2021, a bill was presented in the Senate, proposing the inclusion of ESG criteria as permissible factors to be taken into account in retirement plans governed by the Employee Retirement Income Security Act (ERISA). A corresponding legislative proposal was introduced in the lower chamber of the United States Congress, known as the House of Representatives.
- In March of the year 2021, the Securities and Exchange Commission (SEC) released a formal request for information pertaining to the subject of climate risk and ESG disclosures. The anticipated outcome of this initiative is the development of a regulatory proposition that would necessitate issuers to disclose information pertaining to climate change. Furthermore, it may also encompass a wider range of ESG concerns.
- “In May 2021, the White House issued an Executive Order pertaining to Climate-Related Financial Risk. This order outlined various actions aimed at promoting the disclosure of ESG information, as well as expediting the incorporation of ESG criteria into retirement plans governed by the Employee Retirement Income Security Act (ERISA) and the Federal Thrift Retirement Plan. Notably, the Federal Thrift Retirement Plan is the largest retirement plan in the United States.”

### **3.2.3 CANADA**

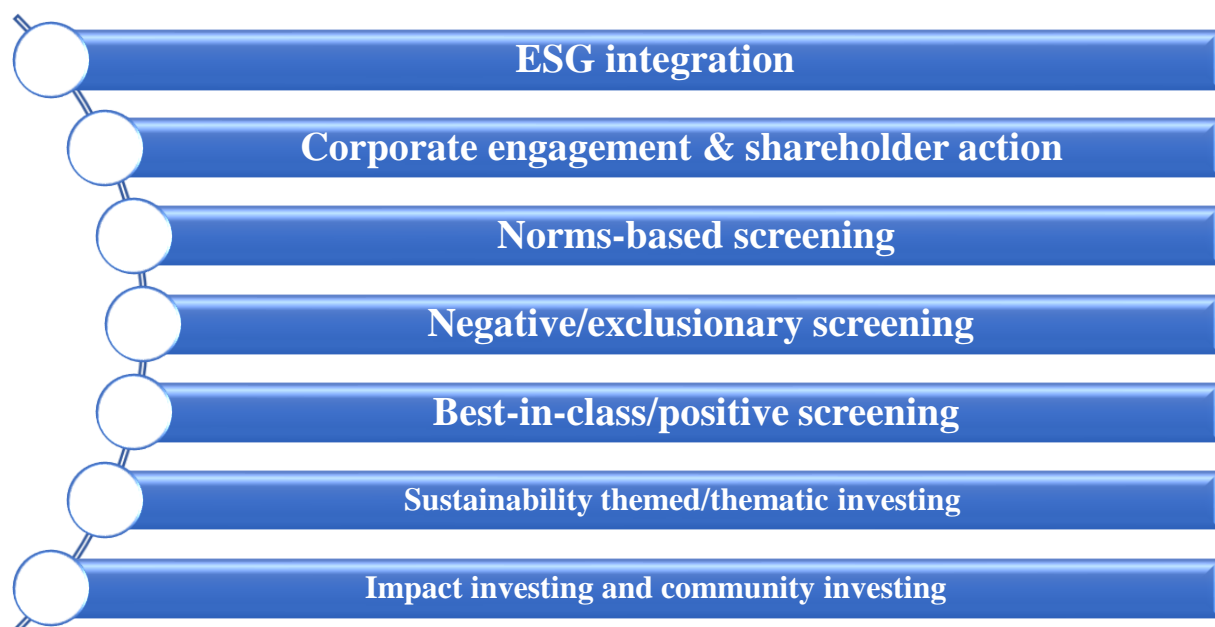
According to (GSIA, 2020) Canada has witnessed significant advancements in sustainable and responsible investment (SRI) regulatory and policy frameworks. These developments have been instrumental in promoting environmentally and socially conscious investment practices. Noteworthy among these initiatives are:

- The final report of the Expert Panel on Sustainable Finance was published in 2019, outlining a comprehensive set of 15 recommendations. These recommendations aim to facilitate the mobilization of sustainable finance within Canada, with the ultimate goal of facilitating the transition towards a climate-smart and low-carbon economy.
- In May 2021, a significant measure was taken to address the issue at hand. The establishment of the Sustainable Finance Action Council (SFAC) has been instrumental in providing guidance to the government regarding the essential market infrastructure required to foster the growth and adoption of sustainable finance in Canada. This council will play a crucial role in making recommendations that aim to attract and expand sustainable finance within the country.
- The Large Employer Emergency Financing Facility (LEEFF) was introduced by the Canadian Government in May 2020 as a component of their economic response to the COVID-19 pandemic. To gain access to the Low Carbon Economy Fund (LEEFF), loan companies are required to demonstrate their commitment by publicly releasing an annual report that discloses relevant financial information pertaining to climate-related matters.

## **4. Sustainable Investment Strategies**

The concept of sustainable investment encompasses a wide range of strategies, each with its own distinct characteristics. These strategies include *negative screening*, which involves the exclusion of certain industries from investment portfolios. *Positive screening*, on the other hand, involves the selection of companies that demonstrate strong ESG performance. *Thematic investing* is another approach, which involves focusing on specific sustainability themes when making investment decisions. Lastly, *impact investing* is a strategy that aims to achieve measurable positive social and environmental outcomes through targeted investments. In recent times, the practise of sustainable investing has expanded its scope to encompass various concepts, including the utilisation of green bonds as a means to direct financial resources towards projects that promote environmental well-being. Additionally, sustainable investing has also incorporated the notion of shareholder engagement, whereby investors are encouraged to actively participate in shaping corporate conduct and practises (Zhou & Cui, 2019).

The formulation of sustainable investment strategies by the Global Sustainable Investment Alliance (GSIA) was first documented in the 2012 edition of the Global Sustainable Investment Review. Since then, these strategies have gained widespread recognition and acceptance as a global benchmark for classification in the field of sustainable investment. The definitions underwent revision in October 2020 to align with the latest practises and perspectives within the worldwide sustainable investment sector. The field of sustainable investment encompasses a range of approaches that aim to align financial decision-making with ESG considerations. Within this domain, there exist seven core approaches that have gained prominence among investors and practitioners. These approaches serve as guiding frameworks for integrating sustainability factors into investment strategies (GSIA, 2020).



Source: Global Sustainable Investment Review 2020

#### 4.1 Proportion and Popularity of different sustainable investment options/strategies

The prevailing sustainable investment strategy on a global scale is the integration of ESG factors. This approach, which involves incorporating ESG considerations into investment decisions, has garnered

significant traction, with a substantial USD25.2 trillion in assets under management. Moreover, it is worth noting that ESG integration stands out as the most frequently reported strategy across various regions. “The subsequent sustainable investment strategies that are frequently implemented include negative/exclusionary screening, which accounts for a total of USD15.9 trillion, followed by corporate engagement/shareholder action, which represents USD10.5 trillion in investments in 2020 across Europe, United States, Canada, Australia/NZ and Japan”. The observed trend towards the integration of ESG factors in investment decisions has been notably prominent in Japan. ESG integration has emerged as the prevailing sustainable investment strategy, surpassing the previously dominant approaches of corporate engagement and shareholder action. It has been reported that numerous investment organisations are adopting a diversified approach by employing a combination of strategies instead of relying solely on a single strategy in the major regions (GSIA, 2020).

sustainable investing strategies	2016	2018	2020	Growth 2016-2020
Impact/community investing	\$248	\$444	\$352	42%
Positive/best-in-class screening	\$818	\$1,842	\$1,384	69%
Sustainability-themed investing	\$276	\$1,018	\$1,384	605%
Norms-based screening	\$6195	\$4,679	\$4,140	-33%
Corporate engagement and shareholder action	\$8385	\$9,835	\$10,504	25%
Negative/exclusionary screening	\$15064	\$19,771	\$15,030	0%
ESG integration	\$10353	\$17,544	\$25,195	143%

Source: Global Sustainable Investment Review 2020

This table presents a visual representation showcasing the worldwide expansion of sustainable investing strategies within the time frame of 2016 to 2020. The domains of sustainability-themed investing, ESG integration, and corporate engagement have demonstrated a steady and continuous expansion throughout the specified time frame. Norms-based screening, a widely used method in various fields of research, is the focus of this discussion. The trajectories of both positive screening and negative screening have exhibited increased variability since the year 2016.

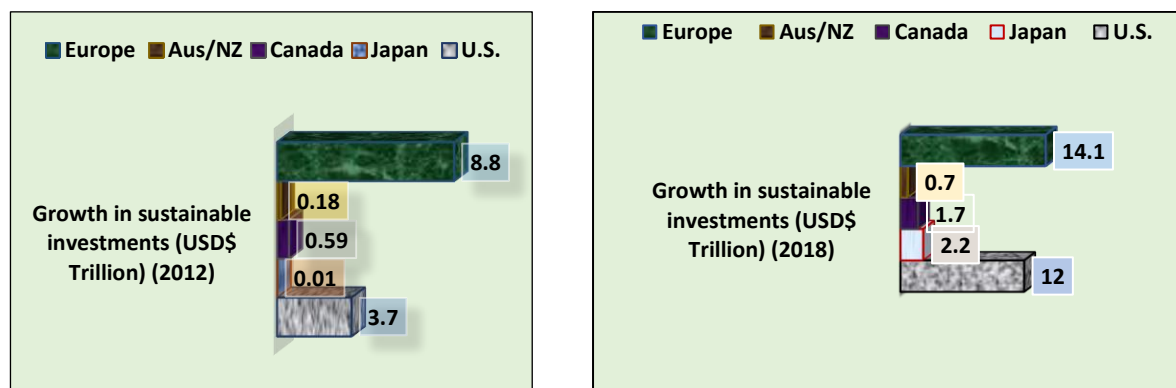
## 5. Global Investment trend

### Global growth in sustainable investment (USD\$ Trillion)

2012

2018

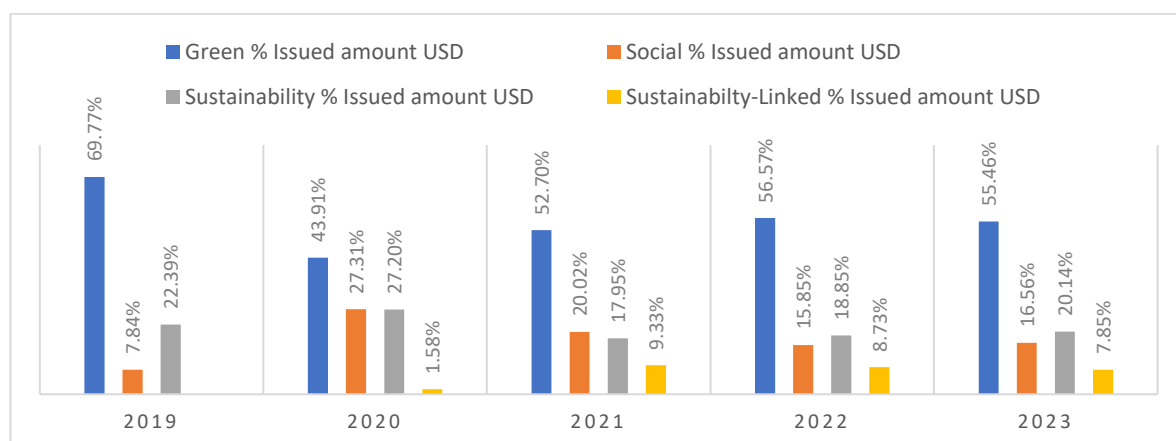




Source: Global sustainable investment Alliance, Mar 2019

The tabulated data presented herein offers a comparative analysis of the expansion observed in sustainable investments, quantified in trillions during the years 2012 and 2018 across various countries and regions. The present analysis facilitates an examination of the evolutionary trajectory of sustainable investments over the course of a six-year duration. Europe and the United States have emerged as prominent leaders in the realm of sustainable investment. Notably, Europe has witnessed a substantial surge in investment, with figures rising from 8.8 to 14.1 trillion USD, while the United States has experienced a similar trend, with investments escalating from 3.7 to 12 trillion USD. These statistics underscore the growing significance and commitment of both regions towards sustainable investment practises. The proportion of sustainable assets in Japan has experienced a remarkable increase of 200-fold.

#### Sustainable Bond Issuance per Category and per region (USD BN)

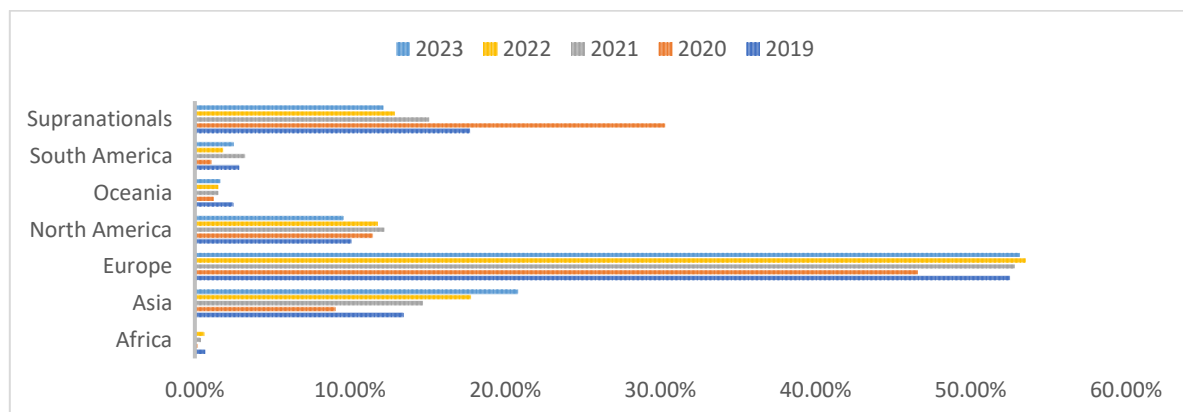


Source: Compiled data from ICMA

The provided dataset encompasses the quantitative breakdown of various bond categories, namely Green, Social, Sustainability, and Sustainability-Linked bonds, expressed as a proportion relative to the overall issued amount denominated in United States Dollars (USD) during the period spanning from 2019 to 2023. Significantly, it is worth noting that green bonds, which are specifically structured to fund

initiatives that promote environmental sustainability, have consistently represented the most significant proportion. Although their percentage has gradually declined, they continue to maintain a substantial presence throughout the years. The phenomenon of social bonds, which involve the financing of projects with direct social impacts, experienced a notable upsurge in the year 2020, followed by a subsequent modest decline. The issuance of sustainability bonds, which provide support for both environmental and social initiatives, exhibited diverse levels of activity. In contrast, sustainability-linked bonds, a novel financial instrument introduced in the year 2020, constituted a smaller yet consistent proportion within the market. The available data indicates an increasing dedication towards sustainable and socially responsible investment strategies, wherein green bonds and, to a certain extent, sustainability-linked bonds have emerged as prominent drivers of this transition.

**Sustainable Bond Issuance per region (USD BN)**



Source: Compiled data from ICMA

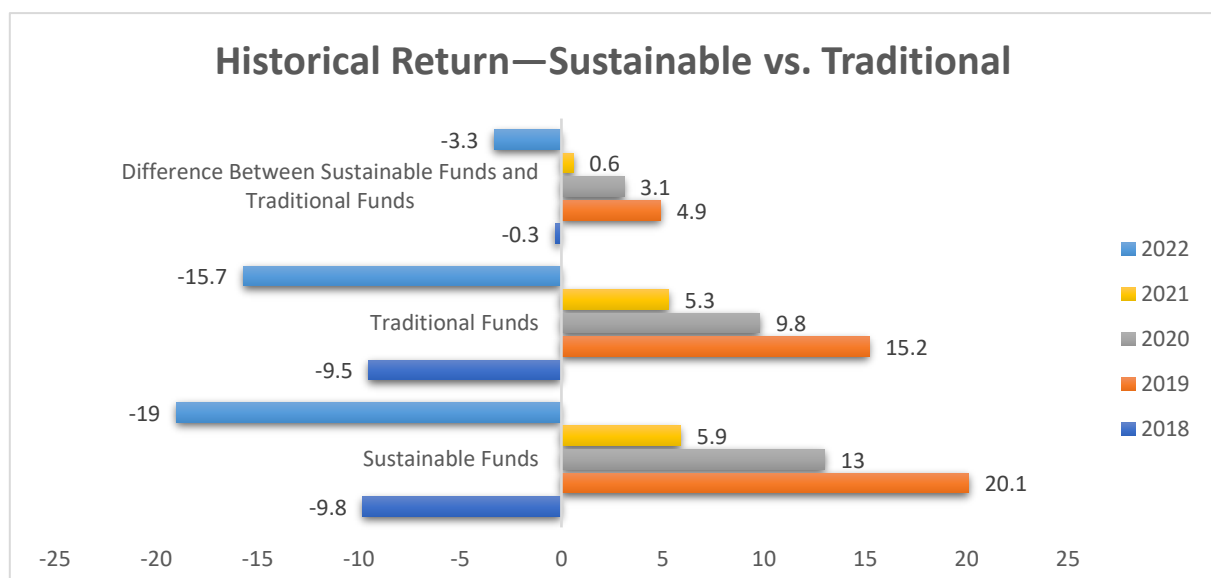
The provided table presents comprehensive data on the issuance of sustainable bonds, expressed as a percentage of the total issuance in USD billion, across different regions and supranational entities. The data spans the period from 2019 to 2023, offering a comprehensive view of the trends and patterns in sustainable bond issuance within these specified entities. Throughout the observed period, it is noteworthy that Europe consistently maintained the highest proportion of sustainable bond issuance, with figures ranging from 46.61% to 53.51%. This data underscores the region's unwavering dedication to sustainable financing, highlighting Europe's robust commitment in this domain. Asia, in addition to other regions, has consistently maintained a noteworthy proportion ranging from 9.07% to 20.84%. This observation indicates the increasing engagement of Asia in various sustainability initiatives. The region of North America consistently demonstrated a relatively smaller proportion, fluctuating between 9.59% and 12.24%, thereby emphasising its enduring commitment to sustainable bonds. The regions of Oceania, South America, and Africa exhibited relatively smaller portions of the issuance, indicating potential for growth and development in these areas. Supranational entities displayed considerable heterogeneity, as evidenced by the notable fluctuations observed over the years. In 2020, the proportion reached its peak at an impressive 30.32%, only to witness a decline in the following years. The presented

data highlights the ongoing global trend towards sustainable finance and reveals the varying levels of dedication observed among different regions and entities.

## 6. Impact on Financial Performance and Stakeholder Roles

There exists a notable disparity between academic and industry studies when it comes to evaluating the performance and associated attributes of ESG investing. According to various studies conducted in the finance industry, it has been suggested that although methodologies may vary, the financial performance of ESG factors seems to be comparable to or even surpass that of traditional indices. Despite the varying methodologies employed by ESG index providers and the potential for disparate scores within specific factors, JPMorgan's analysis reveals a notable convergence in terms of the overall influence on aggregate price returns. The analysis focused on the annual returns of the MSCI World Benchmark Index and the MSCI World ESG. The findings indicate that the net returns of both indices exhibited a high degree of alignment. The present investigations are further substantiated by a number of scholarly inquiries, albeit with varying degrees of evidence. Several academic studies have identified a positive correlation between firms that provide comprehensive ESG disclosures and the presence of robust risk management frameworks. These studies suggest that increased disclosure of ESG-related information can contribute to enhanced reputational management, which in turn holds inherent value for organisations. The initial investigations into responsible investing primarily revolved around examining the impact of heightened levels of Social Responsibility on financial performance. The absence of precise tools, such as ESG ratings, has given rise to the predicament of determining which metrics more accurately capture the Social Responsibility of the enterprises under examination (ESG Investing: Practices, Progress and Challenges, 2020).

### Sustainable funds slightly lag behind traditional funds in 2022



Source: Morgan Stanley Institute for Sustainable Investing analysis of Morningstar data

The provided table presents a comparative analysis of the performance of sustainable funds and traditional funds during the period spanning from 2018 to 2022. The data is represented in the form of percentage changes in returns. In the year 2018, an analysis of fund performance reveals that sustainable funds exhibited a slightly negative differential of -0.3% when compared to traditional funds. This indicates that sustainable funds did not perform as well as their traditional counterparts during this period. In the period spanning from 2019 to 2020, a striking pattern emerged in the realm of financial investments, specifically pertaining to sustainable funds. These funds exhibited a remarkable and unwavering positive performance, surpassing their traditional counterparts by a notable margin of 4.9% and 3.1% correspondingly. This finding underscores the potential viability and attractiveness of sustainable funds as a lucrative avenue for investors seeking favourable returns. In the year 2021, it was observed that both conventional funds and sustainable funds exhibited favourable returns. However, it is noteworthy that sustainable funds consistently outperformed conventional funds, maintaining a lead with a marginal advantage of 0.6%. In the year 2022, it was observed that sustainable funds exhibited a performance that was lower than that of traditional funds by a margin of -3.3%. Consequently, this led to the emergence of a negative differential between the two categories of funds. The presented table provides an overview of the dynamic performance comparison between sustainable and traditional funds. It highlights that sustainable funds have exhibited notable returns during the observed period. However, it is important to note that the performance of sustainable funds is subject to variability, which can be attributed to various factors such as market conditions and investment strategies.

The study conducted by Alexander and Buchholz in 1978 examines the stock market returns of socially responsible stocks by employing a Capital Asset Pricing Model (CAPM). The analysis conducted reveals a lack of statistically significant correlation between the two variables under investigation. Various studies conducted by researchers (Cochran and Wood 1984; Aupperle, Carroll, and Hatfield, 1985; Blackburn, Doran, and Shrader, 1994) have employed diverse methodologies to investigate the topic at hand. These studies have consistently yielded comparable results, thereby supporting the findings. The observed variations in methodology employed in the study did not appear to have a significant impact on the ultimate conclusion, which indicated a lack of correlation between corporate social responsibility (CSR) and organisational performance.

The sustainable investment landscape is significantly influenced by a diverse range of stakeholders who play crucial roles in its development and evolution. Investors possess the ability to exert considerable influence by means of their capital allocation decisions and active engagement with companies. The findings of the report (Clark et al., 2014) have clearly illustrated the significant economic implications associated with sustainability parameters in the context of corporate management and investor decision-making. The primary findings of the report encompass:

- According to a significant body of research on the cost of capital, approximately 90% of the studies conducted have consistently demonstrated that the implementation of robust ESG standards has a notable impact in reducing the cost of capital.
- According to a comprehensive analysis, a significant majority of studies, precisely 88%, have indicated a positive correlation between the implementation of robust ESG practises and enhanced operational performance.
- According to a significant majority of studies, approximately 80%, it has been observed that there exists a positive correlation between the implementation of effective sustainability practises and the subsequent performance of stock prices.

## 7. Challenges and Future Outlook

The influence of capital markets on sustainable investment is significant, as they play a crucial role in determining the extent and trajectory of such investments. Additionally, capital markets can also serve as a means to bridge the financing gap for the SDGs. In recent years, there has been a noticeable trend among financial institutions, including stock exchanges and derivatives exchanges, to incorporate sustainability values and performance criteria into their operations. In recent years, there has been a notable increase in the availability and variety of financial products that are centred around sustainability. These products encompass a range of options, such as sustainability-themed funds, bonds, and derivative products. In the realm of financial markets, institutional asset owners, including pension funds and sovereign wealth funds, wield considerable influence by virtue of their asset allocation strategies and proactive ownership approaches. These entities are known to exert a discernible impact on companies and markets alike. Global endeavours to combat the ongoing pandemic have concurrently facilitated the expeditious advancement of a paradigm shift towards sustainable investment.

In order to maximise its potential in financing sustainable development, the sustainable investment market must confront a triple challenge to sustain its growth and generate tangible impacts over an extended period. The phenomenon of niche market risk is a subject of considerable interest and investigation within the realm of business and economics. This particular risk refers to the potential hazards and uncertainties associated with operating within a specialised market segment that caters to the issue at hand pertains to the geographical imbalance and the potential practise of ESG/SDG-washing (World Investment Report, 2021).

## 8. Conclusion

The semantic evolution of the term "sustainable investment" is indicative of a more encompassing paradigm shift in acknowledging the intricate relationship between financial prosperity and sustainable development. The concept of sustainable investment has undergone a significant transformation, evolving from its initial roots in ethical investing to its current state of incorporating ESG factors. This evolution has propelled sustainable investment from a niche concept to a widely recognised and mainstream consideration in the investment landscape. In light of the escalating global challenges, the significance of sustainable investment in directing financial resources towards socially and environmentally conscientious initiatives is anticipated to assume heightened importance.

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