

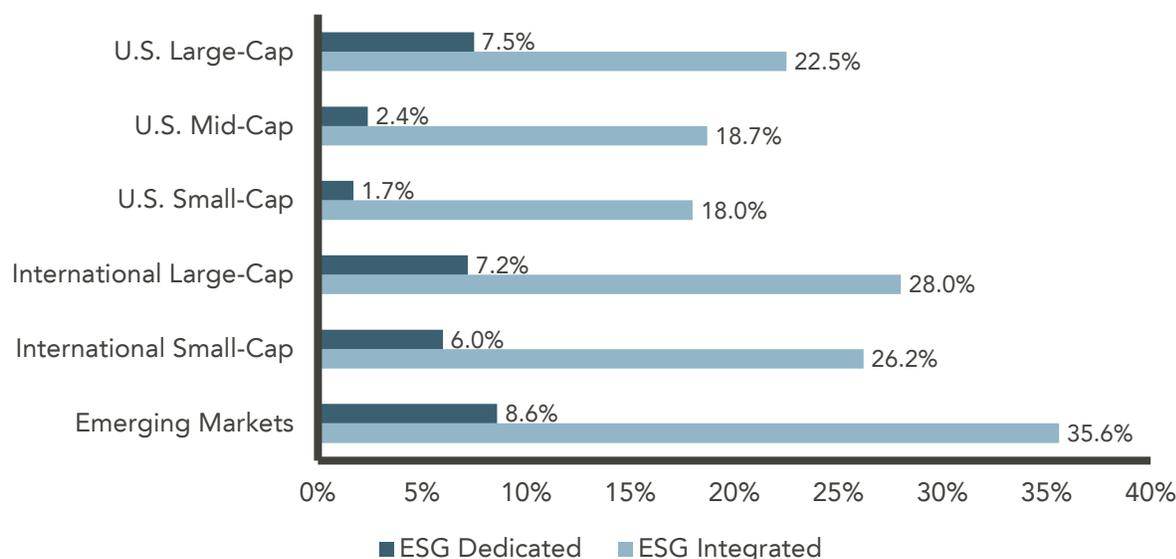
Chart of the Week

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Sustainable Investing Among Equity Asset Classes

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▾ Dedicated vs. integrated sustainable investing strategies among equity asset classes



Source: eVestment. Please see disclosure for universe data.

Sustainable investing continues to grow in both size and relevance among institutional investors and asset managers. As a matter of background, sustainable investing is a term that encompasses three broad approaches: ESG Integration, Socially Responsible Investing, and Impact Investing. As elaborated on in Marquette's Sustainable Investing video series, the definitions of each of these terms are:

- ▾ **ESG Integration:** Returns-focused investing that incorporates long-term sustainability factors (Environmental, Social, Governance) into the investment process.
- ▾ **Socially Responsible Investing (SRI):** Investments driven first by ethical values.
- ▾ **Impact Investing:** Investments with the specific intent to create and measure social and/or environmental impacts alongside financial returns.

While SRI and Impact Investing are more targeted strategies driven by underlying initiatives and/or beliefs, ESG integration has allowed portfolio management teams of more traditional approaches to consider social and environmental issues in a more tangible way than in the past. As ESG factors are more ingrained in investment processes, there will be more investment options that contribute, directly or indirectly, to some of ideals sought

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after in SRI and Impact portfolios. As shown in the above chart, investors have options across the global equity universe for both ESG integrated funds as well as dedicated SRI/Impact Investing funds. The proportions of each are likely to expand, as sustainability investing trends accelerate globally.

Along with this growth comes an increased emphasis on measurable impact and standardized reporting, both of which have been a challenge in the sustainable investing space. We have started to see investment managers adopt the United Nations Sustainable Development Goals (UN SDGs) as a framework for expressing the sustainable intent or reach of their portfolio. For instance, there is a growing contingent of investment managers that have mapped their portfolio holdings to one or more SDGs based on whether the firm's product or service aided or harmed the stated end goal. We have also seen many investment managers become signatories of the UN Principles for Responsible Investment (PRI) over the last three years. The UN PRI are comprised of six foundational principles that work to support and encourage ESG investing. Another sustainable investing reporting metric that has become more readily available is carbon intensity measures. While there have been many positive developments in recent years, investors should be cognizant of potential greenwashing — disingenuous or misleading attempts to present strategies as more ESG-focused than they actually are.

Overall, sustainable investing is moving in the right direction as more allocators and investment managers realize that returns need not be sacrificed in pursuit of positive change. In fact, a fundamental concept of sustainable investing is that firms with better ESG practices tend to fare better over the long run due to a reduced likelihood of litigation, increased diversity, and capitalization on emerging sustainable technologies, among others. Marquette continues to monitor these developments and stands ready to assist clients in pursuing their sustainable investing goals. ■

eVestment Universes

U.S. Large-Cap: "US Large Cap Equity" 1,129 Products

U.S. Mid-Cap: "US Mid Cap Equity" 289 Products

U.S. Small-Cap: "US Small Cap Equity" 640 Products

International Large-Cap: "EAFE Large Cap Equity" 219 Products & "ACWI ex-US Large Cap Equity" 142 Products

International Small Cap: "EAFE Small Cap Equity" 101 Products & "ACWI ex-US Small Cap Equity" 67 Products

Emerging Markets: "All Emerging Markets Equity" 654 Products

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