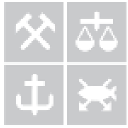
Norwegian School of Economics
Bergen, Spring 2021



Sustainable Investment: Factors Influencing the Adoption of a Sustainable Investment Strategy

Examining how different factors influence the adoption of sustainable investment strategies.

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Master Thesis, Economics and Business Administration, Strategy and Management

NORWEGIAN SCHOOL OF ECONOMICS

This thesis was written as a part of the Master of Science in Economics and Business Administration at NHH. Please note that neither the institution nor the examiners are responsible − through the approval of this thesis − for the theories and methods used, or results and conclusions drawn in this work.

Abstract

With the growth of ESG investing across the finance industry, this paper seeks to explore how different factors influence the adoption of a sustainable investment strategy, with a predominant focus on large asset managers. This study aims to fill the theoretical gap between practitioners and academics on what motivates asset managers to engage in sustainable investment in addition to exploring the barriers they face, factors integral to their success, the strategies they use to invest and opinions on the future of sustainable finance. Using a content analysis of survey responses and interviews with senior individuals who work at large funds in Canada, the United States, the United Kingdom and Hong Kong, the results show that the primary motivations for engaging in sustainable investment are that it 1) adds comprehensiveness to the investment decision process, 2) mitigates investment risk and creates opportunity for long-term risk-adjusted returns, and 3) satisfies stakeholder/client demand and fulfills perception of fiduciary duties. Based on the results, this paper indicates that investment managers may want to pay further attention to developing their sustainable investment strategy in order to achieve a competitive advantage in the market.

Keywords: Investment; Strategy; ESG; Motivations; Risk; Return; Barriers Stakeholders; Asset Management; Sustainability; Finance

Acknowledgements

Our master thesis is the last piece of work in our Dual-Master Degree from the Norwegian School of Economics and the Ivey Business School. We have enjoyed taking courses in both the Strategy and Management faculty and the Energy, Natural Resources, and the Environment faculty. Our combined interest in sustainable finance and the implications this field has on the environment largely inspired the topic. After surveying and speaking with several senior individuals who manage billions of dollars, we know have a much better understanding of why asset managers are increasingly pursuing sustainability-minded investments at their funds. Our research hopes to contribute to the scarce literature on exploring the motivations that lead to the adoption of a sustainable investment strategy, while also understanding the barriers in doing so, what makes a strategy successful and which strategies are being used to achieve these goals. With this in mind, we hope that our research can contribute to the growing literature on sustainable finance, and inform readers on the importance of this topic.

As this is the last piece of work in our studies, we must thank several people for helping us get to this point. Most importantly, we would like to thank our thesis supervisor, Gunnar Eskeland. Though we have not had the opportunity to work with him in person in Bergen due to the current circumstances, he has inspired and provided us with the guidance necessary to complete this process. Hopefully one day we will have the chance to thank him in person.

We must also thank everyone who contributed to our research including those who took the time to complete our surveys and those who were generous enough to speak with us for our interviews. Had it not been for them, we would not have been able to complete our thesis. Lastly, we would also like to thank our friends and families for their constant support over the past 18 months.

Mayuran Sivakumaran

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1. Introduction

1.1 Rationale and actualization

As the effects of climate change become increasingly prominent and countries around the world try to revamp their economies after the disruptions of the COVID-19 pandemic, both public and private sectors look to the future to find solutions for the planet, their citizens, and their customers. In the public sector, financing has always been a topic of discussion. Politicians debate where the money should come from, what the right amount is, and what problems it should be used to address. Yet in the private sector, money never seems to be in short supply.

Public opinion on the role of a corporation has shifted quite significantly since 1970 when famous American economist Milton Friedman penned his seminal essay, *The Social Responsibility of Business is to Increase Profits.* Simply put, Friedman argues that only people have responsibilities and corporations, as non-living beings, do not. Since a corporate executive is an employee of the owners of a business, that employee has a direct responsibility to conduct business in accordance with the owners' desires – generally speaking, to make as much money as possible while conforming to the basic rules of society, both legal and ethical (Friedman, 1970). This argument, to conduct business in a manner that maximizes shareholder value, coincides with a long-held sentiment in the investment community which purports that to invest sustainably one must sacrifice some financial return (Eccles and Klimenko, 2019). Though this view of investing sustainably equates to sacrificing financial return may still be held in some investment circles, recent research proves this is not always the case.

Bloomberg Intelligence projects that by 2025, Environmental, Social and Governance (ESG) assets under management are on track to reach approximately $53 trillion, which would represent about a third of the global total assets under management (Diab and Martins, 2021). A report conducted by Morgan Stanley's Institute for Sustainable Investing finds that among institutional asset owners, 95% integrate or consider integrating sustainable investing in all or part of their portfolios, and 57% envision a time when they will only allocate to managers with a formal ESG approach (Morgan Stanley, 2020). Most recently, BlackRock Inc., and Vanguard Group Inc., the two largest asset managers in the world, join 43

investment firms managing more than $22.8 trillion of assets that have pledged to cut the net greenhouse-gas emissions of their portfolios to *zero* by 2050 (Marsh & Shankleman, 2021).

An analysis of investment flows and the number of large firms committing to net-zero emissions in their portfolios clearly indicates that there has been a marked shift across the finance industry. However, one of the major issues concerning the emergence and analysis of sustainable investing has been the lack of a clear taxonomy. There is not a single overarching body that regulates what it means to "invest sustainably", nor is there a single agreed upon set of standards or benchmarks that all firms disclose to or follow. Further to this, there is the issue of *greenwashing,* which is, characterized as "the selective disclosure of positive information about a company's environmental or social performance, while withholding negative information on these dimensions" in order to create a positive corporate image (Lyon & Maxwell, 2011). These issues have made it difficult to study with accuracy, what it means to invest sustainably and what has actually driven this wave of sustainable investing across the financial industry.

Given that there is no clear taxonomy to classify what sustainable investing is and how it should be done, this has left organizations to take an individualized approach to how they develop, report and implement a sustainable investment strategy. Furthermore, while there are numerous reports published by consultancies, asset managers and institutions on the practical implications of investing sustainably, we have found that across the literature, there is a lack of a theoretical grounding.

Considering this gap, this paper aims to take a holistic approach that explores the topic of sustainable investing which is grounded in theory. Given that this is an emerging trend in finance, this paper seeks to explain why firms go about implementing a sustainable investment strategy, what their underlying motivations are, and what enables successful implementation. Since there is no universal approach to this type of investing, this thesis will explore whether there are commonalities across large asset managers and institutional investors with regards to their sustainable investment strategy.

It is our hope that through our discussions with senior individuals at these organizations, and after an analysis of the survey responses, there will be more clarity on the approach taken to sustainable investing which is supported by a theoretical understanding.

1.2 Research question and objectives

The purpose of this thesis is to fill the theoretical research gap of understanding why institutional investors are compelled to invest sustainably. Given this, the research question that this thesis aims to address is:

How do different factors influence the adoption of a sustainable investment strategy?

In order to further direct and narrow our research on this topic, the following research objectives have been developed to support main research question:

RO1: Identify motives to implement a sustainable investment strategy.

RO2: Identify barriers to implementing a sustainable investment strategy.

RO3: Identify characteristics of a successful sustainable investment strategy.

RO4: Identify strategies used for sustainable investment.

RO5: Identify trends in sustainable investment across the finance industry.

1.3 Scope and delimitation

In order to clarify what this paper is about, the following section will aim to define the scope and boundaries of the topic that is to be investigated.

The purpose of this paper is to be an exploratory study of sustainable investment across the finance industry. We have found that much of the practical discourse available to the public on this topic area is limited to publications and reports originating from consultancies, asset managers and institutions about the managerial and financial implications of investing sustainably. Alternatively, academic research on the topic has largely been confined to performance measurement of sustainable investments, the impact of investment on the environment and society (for example, studies on emission reduction), and quantitative studies assessing the relationship between financial returns or stock performance and companies that operate sustainably.

When examining both practical and academic literature, there has been a noted lack of research that explores the motivations, barriers and success factors of implementing a

sustainable investment strategy. Thus, bridging the gap between the practical and theoretical literature available to the public is a primary aim of this paper.

The interviews and survey responses collected in this paper cover a wide range of institutions and firms across the financial industry. The primary data that will be presented throughout this paper includes responses from senior individuals working at the following types of financial institutions: Pension Funds, Asset Management firms, Endowment Funds, Venture Capital Funds, Investment Banks, Family Offices, Private Equity firms, and Insurance companies. Participants interviewed and surveyed currently work in the following regions: Canada, the United States, the United Kingdom, and Hong Kong,

The information collected in our survey from individuals details their personal opinions on sustainable investment, inputs taken into consideration during the investment decision process at their firm, and the investment strategy they take when investing sustainably. The purpose of the survey and specifics of the questions asked will be detailed further in Chapter 4, 5 and 6 which discuss the methodology used, our findings, and an analysis of the findings.

The aim of the interviews conducted in this paper is to further supplement survey responses and to discuss the topic of sustainable investment in more depth. Interviews conducted ranged from 20 – 35 minutes. The individuals who participated in interviews worked at the following types of institutions: Asset Management Firms, Endowment Funds, Investment Banks and Family Offices. Participants interviewed currently work in the following regions: Canada, Hong Kong, and the United Kingdom. The purpose of interview and the details of the discussions we had with our participants will also be detailed further in Chapter 4, 5 and 6 which discuss the methodology used, our findings, and an analysis of the findings.

Delimitation of Research

In order to clarify the scope of this paper, the following paragraphs will detail the delimitations of this study and provide explanations of why they were set.

This paper *does not* cover sustainable investment characteristics of those companies, organizations, or products who are the *recipients of capital.* That is to say, this study does not cover what makes an organization sustainable and does not explore the elements of an organizations business model that would classify them as sustainable. Simply put, the unit of

analysis that is explored throughout this paper are institutions on the supply side of capital and *not* the demand side of capital.

Furthermore, this paper does not cover a quantitative comparison or analysis of financial returns across the firms of interviewed or participants that were surveyed. This study is qualitative in nature and thus, will not use statistical analysis techniques to manipulate numerical data. The reason is that the data collected are responses to closed questions, or responses to questions that are answered with a Likert scale. In addition, interviews are qualitative in nature which means there is no numerical data collected. With regard to an analysis of financial returns across the participants, many of these firms are not publicly listed and thus, their financial data is not publicly available. Further to this, the information that our participants were able to disclose to us in interviews and surveys were largely influenced by non-disclosure agreements (NDA's) or confidentiality agreements and thus, the topics of discussion had to be limited.

Lastly, while sustainable investment and Environmental, Social and Governance (ESG) will be used interchangeably, the focus of this thesis places more of an emphasis on Environmental issues when compared to Social and Governance. This limitation was set in order to narrow the research, but also aligns with more with our experience and interests.

The justification for studying the supply side of capital across the financial industry was largely due to our interests. Institutional investors allocate money across a wide array of asset types and classes and thus, have exposure to many different sectors, industries and organizations which operate in different parts of the value chain. Given how they operate, we were interested in exploring what prompted their sustainable investment strategies considering that across their portfolio, there may be investments that are contradictory to each other with regards purpose or value. Furthermore, given that most of our survey respondents and interview participants manage upwards of $1 billion, the exposure they have through their investments is substantial and ultimately have a large ability to influence a sustainability agenda. These factors, in addition to our interest in the trend of sustainability across business ultimately influenced the scope of this paper.

1.4 Clarification of concepts

Factors

Factors, in the context of the research question, are those influences that impact how a company pursues a sustainable investment strategy. These factors refer to different variables that would contribute how a fund goes about implementing a strategy, and inputs taken into consideration during the investment decision process. For the purpose of this thesis, factors will refer to motivations (internal, external and social) and barriers relating to the implementation of a sustainable investment strategy.

Sustainable Investment

This thesis regards sustainable investments as those investments that consider material ESG factors, ethics, social impact or clean and renewable energy. Due to the absence of clear terminology on the topic, the literature reviewed often uses the terms 'sustainable investing' and 'ESG investing' interchangeably. Thus, the same approach will be used throughout this thesis and the two terms will both be used.

ESG

The term 'ESG' refers to Environmental, Social and Governance issues. This thesis will be adopting the classification set by the United Nations known as the Principles for Responsible Investment (PRI). According to the PRI, Environmental issues concern: Sustainable land use, plastics, water, fracking, methane, and biodiversity. Social issues concern: Human rights and labour standards, employee relations and conflict zones. Governance issues concern: Tax avoidance, executive pay, corruption, director nominations and cyber security (UNPRI, 2021).

Materiality

With regards to factors influencing sustainable investment, the word 'material' is used to determine the potential effects of ESG issues on investment value (Madison and Schiehll, 2021). For the purpose of this thesis, we will adopt the definition of 'material' used by the Sustainability Accounting Standards Board (SASB), which is the same way that the Securities and Exchange Commission (SEC) interprets it as: "*a fact is material if, in the event such fact is omitted from a particular disclosure, there is a "substantial likelihood that*

the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information available' (Madison and Schiehll, 2021).

Sustainable Investment Strategy

Throughout this thesis, investment strategy will refer to a methodological approach that guides investing decisions based on a set of criteria, themes or beliefs given the financial situation, knowledge and goals (Bowman, 2019). This definition will be applied in connection with the aforementioned definition of sustainable investment. Further to this, an important addition that needs to be added for the context of this thesis is the consideration of *non-financial* information in the investment strategy. Non-financial information can be defined as data beyond core financial reporting (e.g. balance sheet and income statement data) (Hoffmann and Fieseler, 2011).

1.5 Structure of thesis

The rest of this thesis will be structured as the following: Chapter two will present a literature review which explains the research gap and establishes the theoretical foundation for which the paper is premised on. This section will be structured according to the research question and objectives established in this chapter. Chapter three will present the conceptual model which has been developed according to the literature review and serves as a framework to put the results into context. Chapter four will explains the methodology used to conduct the primary research, and justifications will be provided for why such choices were made. It will also establish how the data will be analyzed. Chapter five will present the results from the survey and interview and lastly, chapter six will discuss these results and seek to establish the implications of our research on the topic of sustainable investment.

2. Literature Review

The following chapter will present a comprehensive review of existing literature on the topic of sustainable investing. The goal of this section is to critically outline the intellectual developments on the topic of sustainable investing, while focusing on pertinent events that have shaped its history to date, outlining major debates within the literature, and assessing the validity, pertinence and relevance of the chosen literature. Hence, the main purpose of this section is to provide the reader with a theoretical understanding of sustainable investing which will provide the context and foundation for which this thesis is written upon. The following paragraphs will provide a brief summary of the main subsections of the literature review.

Subsection *2.1 Introduction* will present a brief introduction on the concepts of sustainability and finance, introducing how the two have come to grow in tandem. Without going into too much detail, it will seek to provide the reader an understanding of the role institutional investors have.

Subsection 2.2 *Motivators* presents the motivations, theoretical and practical, that influence the adoption of a sustainable investment strategy. The section is divided into four sub-sections, each of which has been identified in the literature as a primary motivator to a sustainable investment strategy.

Subsection 2.3 *Barriers* will discuss the major barriers to sustainable investing discussed in the literature. The main themes include education, risks and rewards, blurred taxonomies, and an unsophisticated approach to underwriting sustainable investment data. All of these factors have a negative influence on a firm's ability to invest sustainably, successfully.

Subsection 2.4 *Key Success Factors* presents the success factors that help to execute a successful sustainable investment strategy. Key success factors discussed in the literature include education, beliefs, and regulatory environment.

Subsection *2.5 Strategies, Frameworks & Ratings* will present theoretical and practical literature on approaches that investors have taken to integrate environmental, social, and governance factors into the investment decision process. The focus of this section will be on how institutional investors (large asset managers, pension funds, endowments) have

traditionally gone about the practice of sustainable investing as this is the focus group of this thesis.

2.1 Introduction

The growth of sustainable investing among asset managers over the past few decades could be seen as inevitable. Financial markets and their performance largely dictate the economic health of today's society, and given that financial markets around the world are interconnected this presumes that the effects of globalization would be felt by everyone and the direct impact of money would be tangible. Sustainability can be defined in many ways, including the capacity to endure, or can also be used to describe "the potential for long-term maintenance of well-being, which has environmental, economic, and social dimensions" (Staub-Bisang, 2012). However, one of the most widely known definitions of sustainability (sustainable development) was put forth in 1987 by a former chairman of the World Commission on Environment and Development (WCED), Norwegian Prime Minister Gro Harlem Brundtland. What is commonly referred to as the *Brundtland Report,* the chairman said, "Humanity has the ability to make development sustainable to ensure that it meets the needs of the present without compromising the ability of future generations to meet their needs" (WCEF, 1987).

The global financial crisis of 2008 brought this definition of sustainable development to light, as many blame the events of that crisis on the short-term thinking (short-termism) of large financial institutions and investors alike. In an article written about institutional investor leadership, Ed Watizer, a former Chair of the Ontario Securities Commission, typifies this emphasis on short-termism by managers. In his paper he argues that there was an incessant focus on short-term performance by corporate managers leading up the financial crisis, and accordingly, there was a commensurate inattention to sustainability concerns (Waitzer, 2009).

On the contrary, even as academics and practitioners have publicized their concerns on the dangers of short-termism, problems still exist within corporations that perpetuate this. In a recent article from The Economist, the author highlights a study published by MSCI which found that three-fifths of America's largest 400 public firms showed no correlation between chief executive pay and ten-year total returns, from 2007 and 2016 (Marshall, 2017).

As the group under study is institutional investors, it would be useful to preface this section of the literature review by explaining the nature and goals of these types of investors.

Institutional investors can be thought of as stewards of capital. Thus, they should do what is in the best interest of its stakeholders. Given that they have a generally long-term time horizon with regards to investment, the purpose of investment should be analyzed. One useful description on their purpose of sustainable investing from comes out of the Journal of Business Ethics, which states that a fund should "Ensure value is sustained for current and future generations of beneficiaries by investment practices and decisions that focus on planning ahead" where the outcome is net financial returns to successive generations of beneficiaries (Woods and Urwin, 2010). Another useful definition provided by Urwin in his book, *Allocations to Sustainable Investing,* puts forth that institutional investors implement a sustainable investment strategy that aims to optimize a fund's strategy, that takes into consideration long-term in addition to short-term considerations that are in line with fiduciary duty and optimizes a fund's strategy with regards to present and future circumstances (Staub-Bisang, 2012; Urwin, 2010).

As the previous paragraphs have stated sustainability, and finance have many similar facets in that they are both forward looking. The next section will explore where the theoretical underpinnings as to why investors may be motivated to engage in sustainable investment.

2.2 Motivators

There are a variety of different motivators for sustainable investment that are discussed in the literature. Through the interviews conducted in this research, as well as the questionnaire, we have uncovered a variety of motivators, which often coincide with the motivators uncovered in the research. The gap our research fills, however, is that along with the practical questions asked of investing professionals, we provide the theoretical grounding behind their answers. This portion of the paper will provide that grounding for the motivations. It will answer why investors make the decisions they do, and perhaps, why it has taken so long to integrate ESG factors into investment strategies. For the purpose of this research, the motivations are classified as *internal, external, or social motivations.* Internal motivations include the tangibles such as returns and rewards, as well as risk. External motivations include aligning values with stakeholders and a supportive regulatory

environment. And lastly, social motivations include ethics and values, as well as industry trends.

2.2.1 Internal Motivations

There is an overwhelming amount of literature dedicated to the study of whether funds that include ESG factors perform better, worse, or the same as conventional funds. There are four main streams of literature with regards to risks and rewards of sustainable investing. First, there are those who argue sustainable investments perform worse than conventional investments. Second, some researchers argue that sustainable investments perform better than conventional ones. Third, and most common, other researchers argue that there is no significant difference in the performance of sustainable and conventional investments. Lastly, there are researchers who attempt to prove that sustainable funds can provide benefits to the firm other than just financial ones.

Views that sustainability and profitability cannot coexist are largely outdated. The vast majority of recent research proves the opposite, that financial returns and sustainability can exist in unison. Markowitz (1952), argued that ethical investing underperforms long-term because ethical portfolios lack sufficient diversification. This is evidently untrue, and while it may have been true in the past, several studies have found the opposite to be true more recently (Balcilar et al, 2017; Brzeszczynski and McIntosh, 2014). Later studies argue that the potentially expensive process of ethical screening affects the ability for sustainable funds to be financially viable options to conventional funds (Elton et al, 1993; Carhart, 1997).

One important part of the profit versus sustainability issue is that consumers actually do not seem to mind overly whether their sustainable investments outperform their conventional ones. So even in the case that they were slightly less profitable, which they are not, consumers are somewhat flexible with regard to returns. This is evidenced in a study conducted by the Cambridge Institute for Sustainability Leadership which demonstrates that the median investor is willing to sacrifice up to 2.5 percent of their returns to invest in more sustainable funds (Cambridge Institute for Sustainability Leadership, 2019). Though it is just one motivator for sustainable investment, the study demonstrates a strong preference for sustainable investment among the 2000 people sampled (Cambridge Institute for Sustainability Leadership, 2019).

There are many studies that find there is no significant difference between the financial performance of conventional and sustainable investments. One study researches whether sustainable investments produce lower financial returns compared with conventional ones, and found that there is no significant difference in the performance (Jain, Sharma, and Srivastava, 2019). Similar studies were conducted by Charlo et al.(2017), Santis et al.(2016), and De La Torre et al. (2016), Fowler and Hope (2007) who all found that there is no significant difference between the performance of sustainable funds and conventional ones. Further, country-specific approaches were taken by Diltz (1995), Guerard (1997), Sauer (1997), Bauer et al. (2005), and Bauer (2006) find no significant difference in financial returns between ethical and conventional funds.

Some studies even attempt to prove that sustainable investments are more profitable than conventional ones. De and Clayman (2015) find that higher ESG ratings in companies can lead to higher stock returns for investors. Similarly, studies have found that there are diversification benefits from investing sustainably in traditionally conventional stock portfolios, worldwide (Balcilar et al., 2017; Brzeszczynski and McIntosh, 2014). In terms of CSR more generally, Alshehhi et al. (2018) examined the literature and found that there is a positive relationship between CSR and financial performance 78% of the time.

Evidently, most of the current research shows that financial performance is not an issue with sustainable funds. This allows regular investors to push for more sustainable portfolios, and thus can be seen as a major motivator in the shift to more sustainable investing.

2.2.2 External Motivations

Milton Friedman sympathizers still exist and believe that the paradox between profit and sustainability is too large. These Friedman sympathizers are few and far between now. There are two main ideas for who a corporation is responsible to, as discussed in the introduction. Friedman's view is that the corporation (and its employees) are only responsible to its shareholders. Therefore, all actions undertaken in the firm should be to enhance the shareholder's profits, with regard to societal norms and law (Friedman, 1970). This view is heavily refuted in recent literature, by those who believe in stakeholder theory. Stakeholder theory is widely regarded to be the theory that most businesses engage in at present (Gifford, 2010). Stakeholder theory posits that corporations are responsible to not only their shareholders, but to any one or thing who they effect. This can include the firm's employees,

the environment, anyone who engages with the firm's product, or society more generally. Those who believe in the shareholder theory argue that this ultimately compromises what should be the corporations sole goal of creating the most profits, and that engaging all stakeholders is akin to socialism (Friedman, 1970).

Firms are increasingly more interested in sustainable investing because their clients, employees, and shareholders are more interested in it. There is a variety of research dedicated to the importance of stakeholder motivation for companies to engage in Corporate Social Responsibility (CSR) (Feige, 2011; Bai and Chang, 2015). It has been well documented that stakeholder salience increases CSR interest in firms. What is lacking theoretical backing, however, is stakeholder interest as a motivator for sustainable investment. Only one study has attempted to find a link, in it the authors attempt to uncover why so many firms (over 3000) have signed onto the United Nations Principles of Responsible Investment (PRI) since its inception in 2006 (Majoch, Hoepner, and Hebb 2014).

2.2.3 Social Motivations

There are also ethical and value motivators behind sustainable investing. This is potentially less prevalent at the institutional investor level, as ultimately, most institutional investors are acting on behalf of their clients goals, financially and otherwise. That being said, the ethics and values of both the investor who is entrusting the institution with their money, as well as the ethics and values of the institutional investor are relevant in the motivations to invest sustainably. The impact of investor ethics and values at the institutional level is not explored in the existing literature. Some effort has been made to uncover the ethical considerations of individual investors in sustainable investing. But importantly, existing literature does little to explain the underlying theory that would impact these decisions. Rational decision theory, as well as portfolio theory, argue that investors are selfish and rational, and therefore that only financial considerations should affect investment decisions (Carswell, 2002; Michelson, Wailes, van der Laan and Frost, 2004; Markowtiz, 1952). But this is obviously not the case, as many investors choose to take into consideration non-financial factors.

2.3 Barriers

Barriers are discussed regularly in current news and reports regarding sustainable investing. There is still a lack of discussion on barriers to sustainable investment in the theory and related literature, however. More research is needed on the causal effects of barriers on sustainable investing. Like many forms of corporate social responsibility, sustainable investment is often perceived as a burden to companies, with little actual positive outcomes and with additional work and costs associated with it. That being said, there are four main themes in the research on barriers to sustainable investment. They revolve around awareness of the benefits of sustainable investing, negative perceptions of the potential risk and rewards, lack of education and overall confusion about taxonomies, and a lack of sophistication in underwriting sustainable investments and their data.

2.3.1 Negative perceptions of risk and rewards

Negative perceptions of risks and rewards are mostly found in dated news and reports on sustainable investing. These perceptions have started to change, which is clear from the literature and news. Institutional investors have traditionally believed that sustainable investing strategies involve sacrificing financial returns (Eccles, 2017). That is, financial metrics need to be sacrificed for nonfinancial ones (Eccles, 2017). This creates a barrier to sustainable investment because investors may then believe that they risk their fiduciary duty to make money for their clients by switching to a sustainable investment strategy. They may also fear that this strategy will be less lucrative for themselves.

2.3.2 Lack of awareness and education

A lack of awareness and education is infrequently discussed in sustainable investment literature but is frequently discussed in reports on sustainable investment. In the G20 Sustainable Finance Study Group (2018), this element of sustainable investing was discussed. According to the Group, many investors do not yet understand the benefits possible with a sustainable investment strategy (2018). With this lack of awareness according to the G20 Sustainable Finance Study Group, they are less likely to adopt a sustainable investment strategy.

2.3.3 Blurred and competing taxonomies and classifications

Taxonomies are a complicated aspect of sustainable investing. Instead of indicating one clear investment strategy, sustainable investment, and similar terms, have come to define a broad group of ideas having to do with more morally, ethically sound investing principles. Most scholars spend a great deal of time in their research defining the different sustainable investment terms, while charging forward with their own new amalgamation of definitions and terms. Though this works for their research process, it is not useful for sustainable investment as a whole. One study that helps to advance this aspect of research was conducted by the Institute of International Finance (IIF). IIF, in this report, used the findings of a 2019 survey to advance the idea that simplifying sustainable investment terminology could help to scale up sustainable finance. Through their survey results, it is clear that the lack of clarity around these terms is problematic and leads to confusion among firms. There are several ways that this lack of clarity can create issues. The IIF explains that first, it can make it hard to compare investment products, and for clients to understand the differences in offerings (IIF, 2019). And second, it can even facilitate greenwashing- intentionally misleading investors about how well the investments could be aligned with their sustainability goals (IIF, 2019).

2.3.4 Unsophisticated approach and underwriting strategy

According to the G20 Sustainable Finance Study Group, an unsophisticated approach to a sustainable investment strategy can hinder its successful execution (2018). Often, institutional investors do not have the capacity or understanding to “identify and evaluate eligible projects and risks to adequately structure, sell, and manage these sustainable finance products (G20 Sustainable Finance Group, 2018). This leads to an issue where even if the firm intends to execute a strategy, they are unable to do so successfully due to a lack of ability to properly underwrite the investments.

2.4 Key Success Factors

Little research has been done on what the success factors of a sustainable investment strategy are. This is odd given the uptick in the 21st century of sustainable investing. Partially, this could be due to a lack of understanding of what a sustainable investment strategy is. And further, there could even be confusion regarding what constitutes success for a sustainable

investment. Instead, a plethora of research exists on successful investing- which shares several principles for success with regular successful investments (Staub-Bisang, 2012). Our research hopes to help bridge the gap and define what makes a sustainable investment strategy successful. For the purpose of this literature review, we will examine several things in order to bring together existing literature similar to the topic. The discussion will centre around what constitutes a successful investment, how corporate social responsibility can be effectively integrated, and finally, the limited literature on how a successful sustainable investment strategy is enacted.

There are several aspects of the implementation of sustainable investments into an institutional investment context that she argues are important for their success. The first point is that the help of experts should be consulted (Staub-Bisang, 2012; Eccles, 2017). According to Staub-Bisang, one or several experts on sustainability should be a part of the investment committee, or alternatively the organization could be given an advisory board specifically for sustainability issues (2012).

The next factor to consider is the beliefs around sustainable investment by those on the fiduciary board. It is important for members of the fiduciary board to agree on their beliefs, specifically with regards to risk and return expectations (Staub-Bisang, 2012; Urwin, 2010; Zagst et al, 2011). This is needed for a successful sustainable investment strategy, they argue, because only when these investment beliefs are shared and clearly stated can an a comprehensive investment strategy and asset allocation be derived from it (Staub-Bisang, 2012).

A supportive regulatory environment is also an important success factor for sustainable investments. Duuren et al. (2015) stresses the importance of signing onto the United Nations Principles of Responsible Investment (UN PRI) as a success factor for ESG integration. The UN PRI, as discussed earlier, works to understand the implications of ESG factors in investments and attempts to support its signatories in incorporating those factors into their investment and ownership decisions (About the PRI, 2017). The PRI provides signatories with clear guidelines and reporting standards for sustainable investment. Another element of the regulatory environment is geographic location. Supportive regulatory environments can enhance an organizations interest in and success with sustainable investing. The regulatory environment in Europe, for example, is more favourable to sustainable investments than the regulatory environment in North America (Eccles, 2017).

2.5 Strategies, Frameworks and Ratings

Broadly speaking, given the lack of clarity on the topic of sustainable investing it should also be expected that there is some confusion when it comes to ESG investment strategy. While terms such as inclusionary and exclusionary are commonly used, these only represent a fraction of a single approach to the topic of sustainable investing. Thus, the following paragraphs will seek to outline what asset managers mean when an ESG strategy is considered in portfolio construction.

2.5.1 Strategies

Given the nature of investing and the various philosophies that underpin these approaches, there is no universally agreed upon method to 'correctly' invest – the same goes for ESG investing. When speaking about ESG strategy and what this means for portfolio construction, one useful distinction is to evaluation whether the strategy adopts an *integrated* approach or if the strategy incorporates a *screen and/or tilt* on the basis of one or more ESG factors (Alford, 2019). Throughout the literature, both ESG integration, and forms of screens have been seen as the most prominent sustainable investing strategies (Eurosif, 2018) and thus, these will be the ones primarily discussed. For an overview of other sustainable investment strategies, see Appendix 1.

ESG Integration

On the topic of sustainable investment, an integrated approach is growing in strategy prominence amongst asset managers with regards to how they consider ESG factors in the investment process. This investment strategy can be defined as, "the explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources" (Eurosif, 2014). This definition of what is considered to be an integrated approach is further broken down into three categories, two of which are deemed consistent with the definition. These are:

- Category 2: Systematic consideration/inclusion of ESG research/analyses in financial ratings/valuations by analysts and fund managers;
- Category 3: Mandatory investment constraints based on financial ratings/valuations derived from ESG research/analyses (Eurosif, 2014).

Thus, when using an integrated approach, a company's ESG profile is considered along other traditional financial characteristics of a security, but is *not* the only determinant with regards to its inclusion in a portfolio.

Screens and Tilts

A screen is a more traditional sort of investment strategy and is commonly used amongst asset managers. The basic definition is, "a criterion applied to a universe of potential investments that helps winnow the candidates" (Kinder and Domini, 1997). For example, a price-earnings ratio within in particular range is a very common financial screen used for equities. In context of sustainable investing, a social screen is, "a non-financial criterion applied in the investment decision-making process which is the expression of an investor's social, ethical, or religious concern" (Kinder and Domini, 1997) that can help limit the universe of potential investments. It is important to note that often times there are more than one screen applied when constructing portfolios as asset managers could use a combination of strategies. For example, certain securities could be excluded based on their profile (for example, sin stocks such as companies to do with gambling, tobacco, alcohol, firearms etc.) which would be called an exclusionary strategy.

Furthermore, a tilt is when "ESG factors, together with a corresponding set of rules … help determine the set of overweight's and underweights for a portfolio relative to a parent index" (Alford, 2019). For example, a portfolio manager could underweight stocks of companies that generate high levels of greenhouse gas emissions (Alford, 2019).

As an integrated approach, and screens/tilts are two types of strategy choices, this implies that there are trade-offs between ESG factors and non-ESG factors when choosing one over the other. For example, with an integrated approach it is possible that a company with a weak ESG profile and sufficient fundamentals (non-ESG factors) could be included in a portfolio if a manger deemed the stock to undervalued (Alford, 2019). The PM could choose to hold this stock and potentially overweight it in the portfolio. Similarly, that same undervalued stock with sufficient fundamentals and a poor ESG profile could be excluded from the portfolio if a screen was used, despite representing a compelling investment opportunity (Alford, 2019). An analogy used to liken this dilemma could be that there is a security that is a "good company and a good stock" (overpriced), and a struggling business

may trade below its fundamental value which would be a "good company but bad stock" (Alford, 2019).

These trade-offs can be typified in the following figure:

Trade-offs between ESG Metrics and Financial Fundamentals

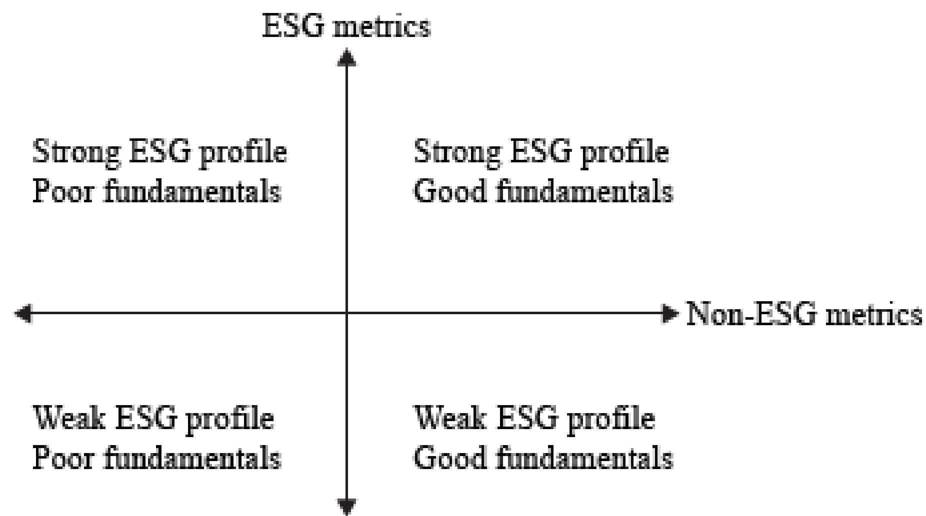

Figure 1: *Interactions between ESG Factors and Non-ESG Fundamental Factors.* Source: *Goldman Sachs Asset Management*

Theoretical Debate

As sustainable investing is an emerging trend, the academic consensus on the usefulness of using the aforementioned strategies to improve financial performance is limited. According to the theory of optimization, a constraint (for example, screen/tilt) can never improve the solution of an optimization (the value of the objective function) (Alford, 2019; Adler and Kritzman, 2008). Therefore according to this theory, ESG screens/tilts restrict the set of allowable solutions (the opportunity set of a portfolio position), and thus cannot improve the performance of a strategy (Alford, 2019; Adler and Kritzman, 2008).

Empirically, the literature on these strategy's usefulness is divided. For example, on a study done on the financial performance of SRI funds in France, the authors found that higher screening intensity reduces financial performance, however the negative relationship between screening intensity and financial performance seems to decrease as the number of

screens increases (Capelle-Blancard and Monjon, 2014). Another study done which analyzes screening out companies with high levels of ESG controversy finds that when this screen is employed on securities in Europe and the U.S., performance is increased and risk is decreased, yet the same conclusions are not reached for securities in the Asia-Pacific Region (Franco, 2020). In a study sponsored by the CFA institute that surveyed CEO's, Chief Investment Officers, fund managers, PM's or investment analysts, screening was perceived to be the lease beneficial to investment return (Amel-Zadeh and Serafeim, 2018). Furthermore, it was found that investment performance decreases when a manager is "wholeheartedly" adopts ESG integration into their investment process which was measured by ESG momentum, "a factor that tracks firms that have improved their ESG performance over recent periods", and "ESG intensity" which aims to track a firms intentionality with regards to implementing ESG into the investment process (Cappucci, 2018). This can be illustrated as the following:

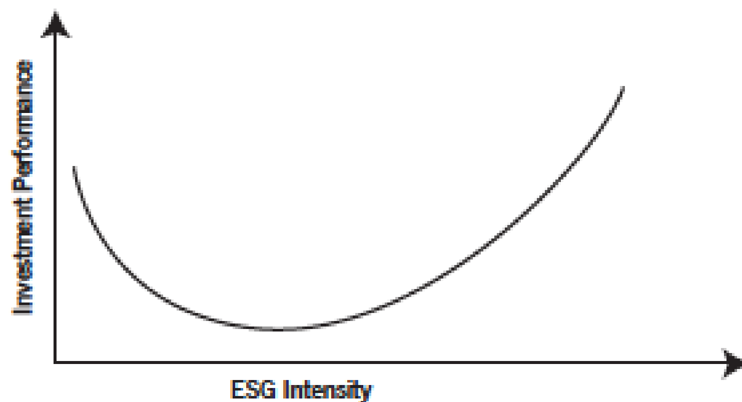

Figure 2: *Relation between ESG Integration and Investment Performance, Cappucci 2018*

Lastly, in a study done the impact of ESG screening on return and risk the authors report "an unequivocally positive" contribution to risk-adjusted returns when using a 10% best-in class ESG screening approach (one that removes companies with the lowest 10% of ESG rankings) (Verhyden et al., 2016).

Although the presented empirical findings do not represent all existing literature on the topic, it is evident that there is a discrepancy that exists regarding the usefulness of various sustainable investment strategies on performance. These findings underpin the fact that there

is no “correct” way to invest, and that strategies are often unique to individual firms/asset managers.

2.5.2 Frameworks and Standards

Within the ESG ecosystem, another integral part that needs to be understood are disclosure frameworks and standards, as these have implications for sustainable investment. In sum, these are organizations that have created frameworks for which companies and institutions can report ESG data against. ESG reporting seeks to address the internal practices of a corporation and provide a framework for companies to report all material non-financial performance factors to the public (Sherwood and Pollard, 2019).

Given that there are hundreds of bodies that seek to establish some sort of guideline, it proves useful to provide a distinction between a framework and a standard. A framework provides “principles-based guidance on how information is structured, how it is prepared, and what broad topics are covered”, whereas a standard provides “specific, detailed, and replicable requirements for what should be reported for each topic, including metrics (McCarthy, 2021). At the moment, the leading ESG standard/framework bodies include: Sustainability Accounting Standards Board (SASB), CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), Task Force on Climate-related Financial Disclosures (TCFD), and the International Integrated Reporting Council (IIRC) (McCarthy, 2021).

In accordance with the growth in number of reporting bodies, there has also been a parallel in increased pressure from investors and other stakeholders to disclose their ESG risks, practices and impacts (Clarkin et al., 2020). The fact that ESG disclosure by companies in the U.S. is voluntary at this time, and that there are numerous options to disclose by has left investors seeking one standardized disclosure regime as the lack of has made it difficult to evaluate and compare companies’ ESG practices and risks (Clarkin et al., 2020).

Theoretical Discussion

The use of these standards and frameworks to report ESG data can vary depending on firm characteristics, and geographical location which makes it increasingly hard for investors to compare and make meaningful conclusions. In Europe, it is now mandatory for listed companies to disclose non-financial information on how they operate and manage

environmental and social risks (European Commission, 2014). Thus, a study was done to see whether this directive would have an effect on the amount of information that was disclosed, and the value-relevancy of what was disclosed. The authors found that in Italy, there was no relevant increase of such disclosures after the Legislative Decree, and that firms required to disclose ESG information disclosed the minimum requirement (Cordazzo et al., 2020). This finding was also confirmed for those companies that were voluntarily reporting. Another study analyzed the relation between CEO tenure and ESG disclosure and found that the longer a manager had been with their respective firm, the less the CEO discloses – primarily due to inertia (McBrayer, 2017).

Further to this, one study found variation across environmental, social, and governance categories. The study which looks at companies in the S&P 500 finds that firms are most transparent regarding Governance disclosures, but there are large deficiencies in disclosing information on their Environmental and Social practices (Tamimi and Sebastianelli, 2017). In addition to this, Tamimi and Sebastianelli found sectoral differences in reporting such that firms operating in polluting or 'sinful' sectors such as chemicals, alcohol, tobacco, gas, electric, and metals and mining had higher disclosures on Social and Environmental dimensions (2017). Lastly, this study found that reporting was related to market capitalization, where firms with market caps in excess of $10 Billion USD had significantly higher disclosure rates than mid-cap companies in addition to firms that had more diverse (gender) boards disclosed more as well (Tamimi and Sebastianelli, 2017).

One final note on ESG disclosure. It was found that companies that adopt broader ESG disclosure policies have the possibility to access debt in the financial markets at a better cost (Raimo et al., 2021). Further to this, it was found that ESG disclosure was related to a decreased likelihood in future stock price crashes, but this differed by region (Murata and Hamori, 2021).

Throughout an analysis of the literature on ESG disclosure, we see that there is a variety of considerations that an investor would have to consider when looking at data that a firm publishes. Given that there are several reasons and variations between why and how firms disclose data, this could influence how institutional market participants go about investing and what types of investments the ultimately end up making.

2.5.3 Rating Agencies

The last relevant part of the ESG ecosystem that will be discussed is the topic of ESG ratings. Similar to how companies receive credit scores by third-party raters, ESG rating agencies seek to evaluate and rate public and private companies based on the environmental, social and governance performance (Huber and Comstock, 2017). While many institutional investors use them issues regarding their usefulness remain as there are hundreds of ESG rating agencies that exist (SICM, 2016), in addition to the methodology, scope and coverage also differing across agencies (Huber and Comstock, 2017). Although there are many agencies, the six largest include MSCI ESG Research, Bloomberg ESG Data Service, Sustainalytics, RepRisk and Thompson Reuters ESG Research Data (SICM, 2016). Since these ratings seek to evaluate company's ESG performance, these agencies are largely used in the investment decision process as a method to determine whether a company should be included in a portfolio or not, although the weight placed on these ratings would ultimately differ across asset managers.

Theoretical Discussion

After reviewing the academic literature on the topic of ESG ratings, and the role they play as an information tool for investors to inform their investment decisions, it is clear that there are a number of findings to consider.

To begin, a study that analyzed ESG ratings across three agencies found that there was a lack of convergence of ESG measurements as the methodologies used differed (definitions, qualitative and quantitative approaches to scoring) (Dorfleitner et al, 2015). This finding in the context of how investors use rating agencies is rather important as it indicates that firms that only rely on one agency may be using information that is not consistent with what other agencies are reporting. Furthermore, if rating agencies are using different methodologies this indicates that there is a lack of consensus regarding what the appropriate approach to measurement is. In another study which looks at the influence of firms size on ESG scores, it was found that there was a significant positive correlation between firm size and ESG scores meaning that larger firms who had more financial resources to devote received higher scores (Drempetic et al., 2019) – these findings were also supported by Dorfleitner et al., 2015. An implication of this for investors may be that potentially “more sustainable” investments may

get overlooked because these companies do not have the resources to put towards thorough sustainability disclosure.

3. Conceptual Model

Through our review of the existing literature we have developed a model to represent the factors influencing the development of a sustainable investment strategy. The model visualizes the research question and research objectives, and relates both to the theory discussed in the literature review. The model helped to inform our primary research, and will also help to present the findings an analysis of the interviews and survey research.

The conceptual model has three (chronological) sections and six separate categories. The sections include determinants, capabilities, adoption, and outcomes. Within the determinants section is motivators. Within the capabilities section is key success factors and barriers. The adoption section includes successful adoption and its alternative, unsuccessful adoption. In each of these categories are different variables that contribute to the next stage of adoption of a sustainable investment strategy. They also influence the outcome as a whole. To answer the research question "How different factors influence the adoption of a sustainable investment strategy" the variables present in the model are considered. Importantly, there are both positive and negative factors for the adoption of a sustainable investment strategy included. Positively influencing variables are included in motivators and success factors. Negatively influencing variables are included in variables.

It is assumed from the model that the more key success factors and fewer barriers, the more likely successful adoption will be and the higher sustainability impact the strategy can have. Conversely, the more barriers to implementation that exist, and the fewer success factors and motivators, the less likely successful adoption will be, and less impact will be possible.

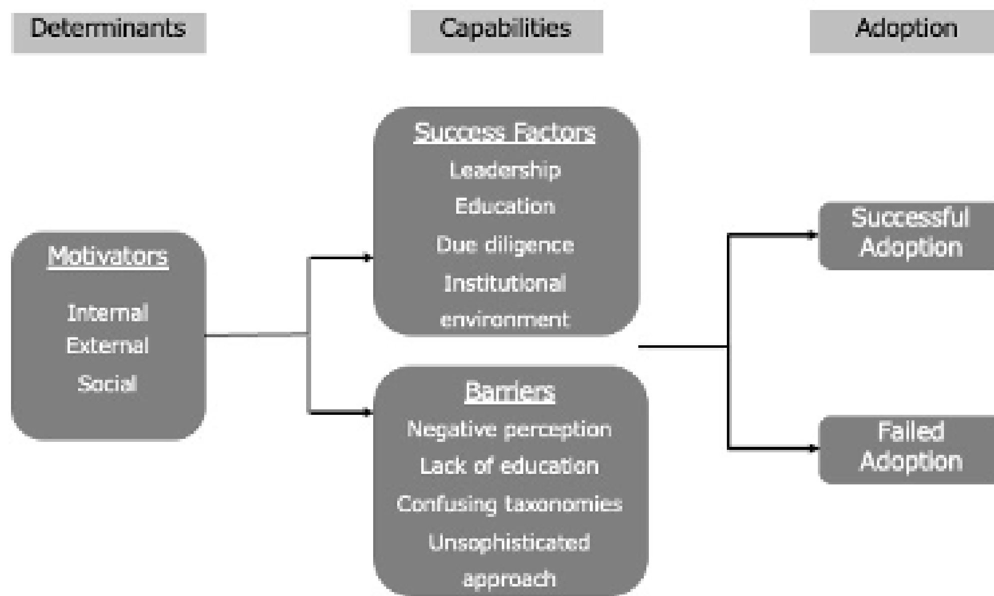

Figure 3: *Conceptual Model*

3.1 Motivations to Start a Sustainable Investment Strategy

Through both the literature review and our primary research we have developed three classifications for the motivators to begin a sustainable investment strategy. The three classifications are internal, external, and social motivations. The internal motives refer to those motivations associated with the internal workings of the institutional investment firm. These include motivations that have to do with the mandate of the firm, as well as reaching firm targets and satisfying firm leaders. The external motivations have to do with external pressure on the firm. This could be from stakeholders or general community members pressuring the company to invest a certain way.

Internal Motives	External Motives	Social Motives
Better or the same returns and rewards	Aligning Values with Stakeholders	Ethics and Values
Lessen Risk	Regulatory Environment	Industry Trends

Table 1: *Motivation Categorization*

3.2 Barriers to a Sustainable Investment Strategy

Both perceived barriers and actual barriers influence institutional sustainable investment. These barriers may make it more difficult to develop a sustainable investment strategy, and in some cases may impede the strategy from being developed all together. The categories of barriers influencing the adoption of a sustainable investment strategy include:

1. Negative perceptions of risk and rewards
2. Lack of awareness and education
3. Blurred and competing taxonomies and classifications
4. Unsophisticated approach and underwriting strategy (data)

(1) Negative perceptions of risks and rewards can impede a successful sustainable investment strategy. Institutional investors have been found to perceive sustainable investments as investments where returns are sacrificed for nonfinancial metrics, which, to some investors, is seen as a violation of their fiduciary duty (Eccles, 2017). (2) Lack of awareness and education ties into the first barrier, but also refers to a misunderstanding or lack of knowledge of potential benefits (G20 Sustainable Finance Study Group, 2018). (3) Blurred and competing taxonomies are a complex and challenging aspect of sustainable investing. Clear taxonomies are useful in understanding the different kinds of sustainable investments, and their currently confusing classifications hinder the ability of institutional investors to understand sustainable investing strategies (Eccles, 2017) (G20 Sustainable Finance Study Group, 2018). (4) An unsophisticated approach to underwriting sustainable investments is a challenge to their successful execution (G20 Sustainable Finance Study Group, 2018). Often, institutional investors do not have the capacity to "identify and evaluate eligible projects and risks to adequately structure, sell, and manage these sustainable financial products (G20 Sustainable Finance Study Group, 2018).

3.3 Success Factors for a Sustainable Investment Strategy

Again, we have developed classifications of the different kinds of success factors contributing to a sustainable investment strategy. These success factors are the variables that positively influence outcomes of a sustainable investment strategy. Often, these success factors, if not already in existence in the company, can help to enhance an already existing

sustainable investment strategy. The success factors for sustainable investments fall into these defined categories:

1. Leadership Experience and Beliefs
2. Education and Training
3. Comprehensiveness of Approach (due diligence, similar beliefs)
4. Institutional Context/ Environment

All four of these factors are important to the success of a sustainable investment strategy. They do not all need to be present for a sustainable investment strategy to occur and be successful. (1) Leadership experience and beliefs can contribute to the execution of a sustainable investment strategy both in the capacity for and willingness to engage in this kind of strategy by the leaders of a firm. Both the number of sustainability experts (Staub-Bisang, 2012; Eccles, 2017) and the experience of these experts is relevant to the success of a sustainable investing strategy. Further, the willingness of the firm leaders to engage in this type of strategy, and their experience and understanding of sustainable investing may influence their ability to help its success. (2) Education and training refers to the understanding and training level of the investors within institutional investment settings. The direct training and education of investors in sustainable investing has found to be important for successful sustainable investing (Zagst et al., 2011; G20 Sustainable Finance Study Group, 2018).

(3) The capacity for due diligence and also the cohesiveness of the strategy are also important as success factors. The mandate of the sustainable investment strategy needs to be clearly set out to help the success of the strategy, and members of the fiduciary board have to agree on their beliefs about the strategy so the approach can be cohesive and comprehensive (Urwin, 2010; Zagst et al., 2011; Staub-Bisang, 2012). The ability of investors to successful evaluate sustainable investments on the basis of risk, reward, and nonfinancial considerations is challenging due to the complexity of data from nonfinancial sources. Investors need to know which sources to turn to and how to complete a comprehensive due diligence with nonfinancial considerations. (4) The institutional context and environment can have a significant effect on the success of a sustainable investment strategy. More favourable institutional environments, like that of the European Union, can help to provide incentives and assistance to firms executing a sustainable investment strategy (Eccles, 2017).

3.4 Successful or Unsuccessful Adoption of a Sustainable Investment Strategy

This element of the model represents when a sustainable investment strategy may succeed or fail. In the event that motivators spurred the start of a sustainable investment strategy, and enough success factors contributed to it moving forward, the strategy may be enacted. Barriers may get in the way of the sustainable investment strategy's success. In this case, the sustainable investment strategy would be unsuccessful. When more success factors are present, it may be successful then.

4. Methodology

The following section will provide a detailed description of how this thesis was conducted, and the rationale behind why certain approaches were taken over others. Topics such as the aims of the thesis, which methods were used and why, how data was collected and analyzed, and finally an evaluation of the methods chosen will be presented.

4.1 Aims

The following section will recap what the objective of this thesis is, mainly with regard to the research question and the objectives. It will detail the research approach taken to conducting the study, the research design, and a justification for why certain choices were made over others.

This thesis was written with the aim of obtaining a better understanding of the factors underlying why asset managers went about implementing a sustainable investment strategy at their respective places of work. The motives for researching this topic were a combination of personal interests, and an emerging trend that is currently being seen in the finance industry which is the increased adoption and consideration of sustainability and ESG factors into the investment decision process (Quinson, 2021). Given this prominent trend, the aim was to conduct a study whereby a more intimate understanding could be obtained from senior individuals who work within the finance industry.

Given the number of items that could be explored within the topic, there was a need to critically engage with the research question and further refine the objectives of the study. With further clarification of the aims of the research question, this enabled us to determine the right approach, design and subsequently what research methods should be used, what type of data was to be collected, and how to analyze this data. Through discussion and review of the literature, the following research objectives were identified. A justification is also provided for each individual research objective.

RO1: Identify motives to implement a sustainable investment strategy.

The justification for identifying motives to implement a sustainable investment strategy was to identify what the triggers were in implementing new considerations into the investment

decision process. Given that this trend of sustainable or ESG investing is relatively novel on average across the industry, different companies would be at different stages of consideration and implementation, and thus would have different motives for engaging in sustainable investment.

RO2: Identify the key success factors in implementing a sustainable investment strategy.

The justification for identifying key success factors in implementing a sustainable investment strategy was to obtain an understanding of the varying environments that our participants worked within. Based on the benchmark data that was collected, the key success factors would vary depending on the participant. Investment is a multi-faceted field and which means there is no universal or correct way to invest, aside from industry best practices that firms may oblige by. On the recognition that different strategies or human capital may influence how a company performs, success factors would be unique to the firm.

RO3: Identify barriers to implementing a sustainable investment strategy.

The justification for identifying barriers to implementing a sustainable investment strategy was to obtain an understanding of the difficulties firms are facing when approaching the topic of sustainable investment. As mentioned before, based on the benchmark data that was collected, firms will have varying difficulties in implementing a sustainable investment strategy based on what their situation is. Gaining an understanding of what barriers firms are facing will allow us to identify trends within the industry and to see what the most common difficulties are, if any.

RO4: Identify strategies used for sustainable investment.

The justification for identifying the strategies used for sustainable investment was to establish what types of sustainable strategies asset managers actually employ. Firms execute strategies in a variety of ways, using different factors as a part of this process. As we are trying to go about determining these factors, our research hopes to find not only which factors exist but how the different companies employ them.

RO5: Identify industry trends in sustainable investment.

The justification for identifying trends in the investment industry, as they relate to sustainable investment was to determine how sustainable investing is changing moving into the future. By collecting data from the participants on where the industry is now and where it seems to be headed, an accurate picture may be drawn to establish the outlook for sustainable investment.

4.1.1 Research Approach

For the purpose of this thesis, an inductive research approach was taken. There were several reasons why an inductive approach was chosen over a deductive one. When considering what the research question and objectives were, it was understood that the answers we sought would not be closed (Yes or No) and thus, required an approach where we could develop a deep understanding yet maintain flexibility. One of the criticisms of using a deductive approach is that these types of studies often construct a rigid methodology and does not permit alternative explanations of what is going on, which is to say that there is finality about the choice of theory and definition of the hypothesis (Saunders et al., 2015). Since we knew that the answers would be relatively unique to each participant, a rigid approach did not suit our study.

Furthermore, as we knew that answers would differ between participants, it was in our interest to have an approach to the research where we could be agile. An inductive approach allows us to move back and forth between the literature and the data analysis (Neeley and Dumas, 2016) to develop meaning and capture “the most empirically grounded and theoretically interesting factors” (Schussler et al., 2014; Azungah, 2018). With an inductive approach we can try and derive themes and commonalities across our data (Thomas, 2006), which was one of our main aims of conducting research on this topic.

Another reason why an inductive approach was taken because it informed our research design and methods. During the ideation stage prior to writing, we knew that our study would involve interviewing experts within the industry on the topic of interest. Given that the data would be collected is qualitative in nature, this would relate to an inductive approach. Moving from the particular to general (Locke, 2007) and forming theories as to why asset managers are adopting sustainable investment strategies is a defining characteristic of induction (Woiceshyn & Daellenbach, 2017). Lastly, given that the topic of

study could be influenced by ones' values, an inductive approach to studying this suited us best considering an emphasis of induction is to gain an understanding of the meaning's humans attach to events (Saunders et al., 2015).

4.1.2 Research Design

The following section will detail how the study was designed, which includes explaining what type of study this is, the research strategies chosen, the research choices that were made, and the time horizon that this study was conducted over.

This thesis is an exploratory study, which means that the main objective is to find out what is happening, to ask questions, seek new insights and assess phenomena (Robson, 2002). Even as sustainable investing is becoming more prominent, academic literature on the topic is still a bit scarce. Many academic studies are quantitative in nature whereby researchers aim to explain whether sustainable investing or consideration of ESG factors yields a higher financial return (Khan 2019; Cunha et al., 2019). On the contrary, there are many reports from practitioners within the industry on what they deem to be the key drivers in the growth of sustainable investing. Conducting an exploratory study allows us to fill this gap between academic and practical literature by doing a review of existing literature, and interviewing experts in the field (Saunders et al., 2015).

Research Strategies

Given that we had chosen an inductive, exploratory approach, there are certain research strategies that align best with a qualitative study. The first strategy that was used when conducting this study were surveys, where results were obtained through sending a questionnaire out. One of the advantages of using a survey strategy was that a larger amount of data was able to be collected (Saunders et al., 2015), in a shorter amount of time. Furthermore, a survey strategy seemed useful so that data on perceptions of sustainable investment, metrics that are used within the investment decision process, and details of investment decision process could be collected, and then compared across a wider population.

Furthermore, given that an aim of the study was to obtain a deeper understanding of the topic, a case study strategy was also selected. More specifically, interviews were conducted with experts in the field so that we could "gain a rich understanding of the context of the

research and the processes enacted" throughout the investment decision process (Morris and Wood, 1991). On the contrary, an experiment, where the purpose is to study causal links and to see if a change in one independent variable would produce a change in the dependent variable (Hakim, 2000) could not be pursued. As the aim is to study a phenomenon (sustainable investing), we would not be able to manipulate anything at the firms of our participants and thus, would not work in the context of this study. The study concerns itself with exploring questions of "why", "what", and "how", which are consistent with a case study strategy.

Research Choices

Given that the study is inductive and exploratory in nature, one of the main research choices that was made was to pursue a multi-method qualitative study. As mentioned before, both a survey strategy and a case study strategy were used in tandem to conduct this study which makes it a multi-method study. One of the main reasons for this was to see if data collected in different ways would lead to similar conclusions but also approaching the same issue from multiple angles would help develop a holistic understanding of the phenomena (Crowe et al., 2011). Thus, the justification for using multiple qualitative methods to conduct the study was ultimately to try and obtain a better understanding of the research question, and to provide different types of data which could better support any potential themes or conclusions that are drawn from the dataset.

Time Horizon

This thesis is a cross-sectional study, meaning that the topic of sustainable investment is being studied in the current moment. The reason for this is primarily the time-constraint faced while writing this paper and hence, we can only study this phenomenon at this particular moment.

4.2 Data Collection

The following section will detail what types of data were collected for this study, how the sample was selected and also how the interviews were designed.

4.2.1 Literature Review Collection

The types of data that were collected to explore the research question included primary and secondary data. The second chapter of this thesis contains a literature review of secondary data on the topic of sustainable investing. This chapter details a historical recap of the topic, current practices (strategies, ratings, and benchmarks), and then reviewed existing literature on motivations, barriers, and success factors within investing. The reviewed academic literature is comprised of scholarly articles from peer-reviewed journals which were obtained using online sources such as Western University's Omni database, the Norwegian School of Economics library databases, and Google Scholar. In addition. reports and publications from practitioners within industry such as consultancies, asset managers, and large reputed international organizations such as the International Institute for Sustainable Development were also used. Lastly, articles many prominent business news agencies such as Bloomberg, the Financial Times, and the Economist were used to obtain current and relevant statistics relating to the research topic.

4.2.2 Survey Design

As mentioned in the section 4.1, surveys were emailed to participants within the industry in the form of an anonymous questionnaire. The purpose for the questionnaire to be anonymous was to protect the respondent's identity, as many individuals would not be able to disclose certain information as a result of a Non-Disclosure Agreement (NDA) or a Confidentiality clause in their contract.

An introductory email was sent to participants to gauge their interest in filling out the survey. In this email, who we are, where we obtained their contact information, and a description of the objective of the research was presented (See Appendix 2 for sample email). These surveys were designed on Google Forms where respondents answered eleven closed questions, and their responses were automatically recorded. Eight questions were presented in list form where respondents could choose from the closed amount options listed on the questionnaire. Three questions were presented in rating form which used a Likert-style rating

scale in which respondents had to select how they felt (See Appendix 3 for Questions). At the end of the questionnaire, an open question was included so that participants who were interested in being contacted for an interview could submit their name and contact information. The effect of question order bias has been noted in literature (Moore, 2002; Bradburn & Mason, 1964) and to mitigate this, questions that were deemed to be sensitive in nature were placed towards the end.

4.2.3 Survey Sample Selection

This thesis used a survey sample of 37 firms of various sizes that worked in the financial services sector. As will be discussed later in the results and discussion sections, the intention of the survey was to gauge the prevalence of sustainable investing practices and/or tools that are considered in the investment process across the financial industry. Surveys were sent to individuals that held a "senior" position, that work in the following industries (Table 2).

Financial Industry	Number of Participants
Asset Management	18
Venture Capital	2
Pension Fund	5
Investment Banking	2
Insurance	3
Hedge Fund	1
Private Equity	1
Family Office	4
Endowment Fund	1

Table 2: *Sample selection of Industries*

Previous academic research on sustainable and ESG investing that used surveys to collect data have drawn their samples from contact lists and databases maintained by the sponsor of the paper (Amel-Zadeh & George 2018; Duuren et al. 2015). This allowed researchers to easily access potential participants by sending an email automatically distributed to over 200 individuals. Given that this thesis was not sponsored, participants were identified through

several sources which include the Ivey Business Schools' Alumni database, LinkedIn, and referrals.

4.2.4 Interview Design

The design of interviews was informed by the research aims, approach and strategy. Given that a goal throughout the study was maintain flexibility throughout the research process, semi-structured interviews were chosen to best achieve this. Semi-structured interviews are common in exploratory studies, give that an aim was to figure out what was happening, and to seek new insights (Saunders et al., 2015). Furthermore, an advantage of semi-structured interviews is that it allows for a focused structure on the topic but allows the interviewer to be flexible and improvise follow-up questions based on participant's responses (Kallio et al., 2016). Since interview participants worked in different contexts, have unique work experiences and different perspectives on the topic of sustainable investment, this allowed us to capture similar information types of information from each participant (Holloway & Wheeler, 2010).

A guide was established prior to conducting the interviews (Appendix 4). The guide contained six discussion points which related to the conceptual model and were informed by the research question. An introductory email was sent (Appendix 5) to gauge the interest of potential participants. Once a participant was confirmed, the interview guide was sent in advance of the scheduled date and time in order for them to review and see if all the items listed could be discussed. The reason for this was to ensure that there would be no conflicts of interest on part of the participant, given that they would be speaking about investment strategies used at their place of work. Furthermore, the purpose of this email was to seek consent for the interviews to be recorded which could be used in the analysis.

The length of interviews ranged from 25 – 40 minutes which, according to literature is an adequate amount of time to collect rich data on the topic under investigation (DiCicco-Bloom & Crabtree, 2006). Interviews were recorded and followed up by sending the participants the survey questionnaire which they then filled out. Both researchers were present during interviews and rotated being the interviewer, while the other individual observed to avoid speaking over one another. The individual who was not the primary interviewer took note of any interesting items of relevance that the participant may of

mentioned and had the opportunity if the time permitted to ask questions at the end of the interview.

4.2.5 Interview Sample

This thesis used an interview sample of seven organizations of various size that worked in the asset management industry. The following criteria (Table 3) was used to select these participants and funds for interviews:

Criteria	**Rationale**
Engages in Sustainable Investment	This thesis focuses specifically on the topic of sustainable investment, and thus requires funds that adopt a similar investment philosophy
Fund has at least $10 million AUM	The successful implementation of a sustainable investment strategy would become of increasing importance, given the potential loss would be higher if the more money is at stake. Given the research question, we wanted to see how funds are approaching a novel strategy that has not been widely considered or implemented within the industry.
Individual holds a senior role and is actively involved in the investment decision process	Successful exploration of a phenomenon in a semi-structured interview setting hinges on participants being an expert (Krauss et al. 2009; Rabionet, 2011).

Table 3: *Interview Criteria for Participant and Fund Selection*

As mentioned in section 4.2.3 on survey design, our ability to reach a large amount of interview respondents was because of the resources and connections to vastly distribute inquiries. Participants were found largely personal referrals, the Ivey Business School alumni database, and LinkedIn. A brief profile of the firms can be seen below in Table 4 with a more detailed overview of each firm as Appendix 6).

Firm	**Role**	**Type of Institution**	**Location**
A	Senior Associate	Family Office	Canada
B	Senior Analyst	Institutional Investor	Canada

C	Senior Manager	Investment Bank	Canada
D	Senior Associate	Endowment Fund	United Kingdom
E	Assistant Vice President	Institutional Investor	Canada
F	Chief Executive Officer	Family Office	Hong Kong
G	Director	Endowment Fund	Canada

Table 4: *Brief Profile of Interview Participants*

4.3 Data Analysis

The following section will detail how the process of how the data was gathered, and the methods used to analyze the data once it was all collected.

4.3.1 Transcribing

As the data collected through the interviews were qualitative, it needed to be prepared and cleaned before analysis. This was done by using a transcription software *Temi* in which the audio file was uploaded and then transcript was produced. However, one of the drawbacks of using a transcription software is that the transcript is not always 100% accurate. To deal with this, the audio recording of each interview was listened to again, and the transcript was followed word by word so mistakes in the transcript could be fixed. In addition to this, filler words such as "uhm" or "Uhh", were taken out of the transcripts so that the data was more concise to work with.

4.3.2 Content Analysis

After the data was transcribed, a coding scheme was developed in order to categorize statements from the data. Consistent with academic literature on developing an appropriate scheme, codes were derived theoretically, taking into account the research question of the study and were mutually exclusive meaning every statement is coded with no more than one code (Burla et al., 2008). The codes that were developed were based on the conceptual model and were finalized as: motivations to engage in sustainable investment, barriers to engaging in sustainable investment, strategies used to invest sustainably, success factors of a sustainable investment strategy, and trends on sustainable investment. After codes were agreed upon, transcripts were assigned to and coded by the individual who was the primary

interviewer for each firm. The coding process was done using Microsoft Word, and qualitative analysis software *NVivo 7.*

Since an inductive approach is characterized by the search for patterns (Granheim et al., 2017), the data was then organized by firm and code for which patterns and similar themes were searched for. For a sample of the content analysis, see Appendix 7.

4.4 Evaluation of Methods

The following section will seek to critically evaluate the research methods used to conduct this thesis.

As qualitative data differs from quantitative data in many respects, how they are evaluated also differs given that they are of a different format (textual information vs. numerical data). What is considered central to the quality of qualitative research concerns whether the participants perspectives have accurately and authentically represented in the research process, and interpretations are made from the information gathered (Fossey et al., 2002). Furthermore, it is central to the quality of qualitative research that the findings are coherent in the sense they 'fit' the data and social context from which they are arrived (Fossey et al., 2002).

Since this is qualitative data, the research process used to conduct this thesis will be assessed against the trustworthiness of qualitative research via credibility, transferability, dependability and confirmability, which parallel the quantitative equivalents of internal and external validity, reliability, and objectivity (Lincoln and Guba, 1985; Fossey et al., 2002; Jackson et al., 2007).

4.4.1 Credibility and its Limitations

Credibility is an integral part of any research. In short, credibility can be described as a research process that yields results on which readers feel trustworthy enough to act on and make decisions in line with (Tracy, 2010). Credibility of qualitative research is primarily established through thick description, triangulation or crystallization, and multivocality (Tracy, 2010).

Thick Description

One way to describe thick description is to contrast it against thin description. A thin description in an interview simply reports facts, independent of intentions or circumstances that surround an action (Denzin, 1989), whereas a thick description, gives (1) the context of an act; (2) states the intentions and meanings that organize the action; and (3) traces the evolution and development of the act (Denzin, 1989; Ponterotto 2006).

Given that it was a semi-structured interview, there was ample room to achieve the aforementioned criteria of a thick description with regards to the questions asked. Participants were experts in the field and were involved directly in the investment decision process. If participants mentioned something that was not clear to the interviewer, follow-up questions were asked which ensures that thick descriptions were given.

Triangulation

Triangulation or crystallization refers to when multiple data gathering techniques are used within qualitative studies and when the data converges on the same conclusion, then the conclusion is more credible (Fossey et al., 2002; Tracy, 2010; Denzin 1978). This thesis collected data using semi-structured interviews and survey questionnaires.

However, one of the criticisms of triangulation is that simply because the data converges on the same conclusion, it does not mean that the specified reality is correct (Tracy, 2010). Given that this thesis is exploratory in nature, the data collected complemented each other rather that fully supporting the same conclusions since the interviews and surveys were designed with different intentions. Furthermore, since the practice of sustainable investing is unique to each firm there is no conclusive way to invest and thus, the data does not support one specified reality. These two points present potential limitations on the data.

Multivocality

Multivocality refers to qualitative research that includes multiple and varied voices presented in the report and analysis, while also ensuring that the researchers do not put words in members' mouths (Tracy, 2010). Further to this, multivocality refers to when the researchers are attentive to cultural differences between themselves and the participants (Tracy, 2010).

This aspect of credibility was ensured as the interviews were semi-structured and we did not expect nor tell the participants to say anything specific, rather it was solely up to them to provide information. Furthermore, we intentionally sought out funds from different parts of the world to give their views on sustainable investment, and thus culture is accounted for in the discussion and analysis.

One limitation on this however is that only 7 firms were interviewed which means that there could have been more voices and opinions represented. This was impacted as our outreach efforts were impacted by COVID-19 and many people either did not have the time to take our interview, nor responded to emails sent to them. In addition, this thesis focused solely on funds that have already begun implementing a sustainable investment strategy and thus, does not include individuals who do not employ one. This could place a limitation on the credibility of the findings as there are no alternative viewpoints presented (i.e. individuals who believe there is no value to engaging in sustainable investment).

4.4.2 Transferability and its Limitations

Transferability in qualitative research mirrors generalizability, which refers to 'the extent to which the findings can be transferred to other settings or groups (Polit and Hunger, 1999; Graneheim and Lundman, 2004). In this thesis, transferability may be impacted given that the sample size of the interviews and surveys were relatively small, as this was impacted by a lack of resources and COVID-19 implications. Furthermore, given that the practice of sustainable investing is emerging, and funds are in the learning process, it would not be trustworthy to say that the results presented in this thesis are transferable to other funds. Investment strategies and the decision process are relatively unique to a fund and thus to say that other parts of the population would invest their assets in the same way would be inaccurate.

Furthermore, the interview sample size is predominantly firms that manage have over $10 million AUM. Funds that manage more or less than this threshold may have different priorities depending on who their clientele are, their investment philosophy, the firm's corporate mandate, and human capital at the fund. Although this is a noted limitation to the findings of this thesis, there may be elements that come are present across the sample size, and when supported by the literature could be transferrable across a larger population.

4.4.3 Dependability and its Limitations

In qualitative research, dependability mirrors reliability and refers to "whether the research process is consistent and carried out with careful consideration to the rules and conventions of qualitative methodology" (Tolley et al., 2005; Guest et al., 2014). When looking at dependability, authors note that reliability in qualitative inquiry is not as pressing of an issue as validity because replication is rarely the goal of qualitative research (Guest et al., 2014). To that extent, the data collection method was consistent throughout the research process given that, the same introductory survey emails were sent out to all participants and they answered the exact same questions on the form. A limitation on dependability stems into the semi-structured interviews because although the same discussion points were prompted by the interviewer, the conversation that followed cannot be classified as consistent since the participants were different. Yet this is mitigated as replication is not a goal of qualitative inquiry.

4.4.4 Confirmability and its Limitations

Confirmability in qualitative research is the equivalent of validity in quantitative research. In qualitative inquiries, confirmability refers to the extent in which findings of the research study can be confirmed by other researchers (Korstjens and Moser, 2018). It is also concerned with ensuring that the data and interpretations of the findings of the research are not imagined by the researchers but rather, clearly derived from the data (Korstjens and Moser, 2018). The primary way to ensure confirmability is through a strategy named an audit trail (Korstjens and Moser, 2018). An audit trail typically involves keeping track of and documenting the entire data analysis process (Cutcliffe and McKenna, 2004; Guest et al., 2014).

Confirmability in this thesis was partly achieved as internally, notes were made on most parts of the data collection process, in addition to the rationale for why decisions were made. However, a limitation to this was conversations between both authors were not recorded and in the event where a decision was made, agreement was typically verbal and then implemented as opposed to documented and then implemented.

5. Results

5.1 Interview Introduction

The interview design was informed through the research aims, approach, and strategy. The interviews hoped to provide more flexibility than survey data, and more colour in responses. A guide was established prior to the interviews, which contained six discussion points. It was informed by the model, and each component of the model had a question corresponding to it. Interviews took place mainly through connections found in the Ivey Business School Alumni Directory, as well as through LinkedIn and through existing connections. The interviews ranged from 25-40 minutes, and were recorded for transcription purposes. Seven individuals were interviewed, who all hold senior-level positions at their institutions.

Firm A is an institutional investor that is structured as a family office that focuses on private wealth management. Firm A manages the money of a single, high net-worth Canadian family which has AUM in the range of $5 – 10 Billion. Their holdings are significantly diversified across eight to ten different asset classes, with a heavier slant towards private assets such as growth equity and venture capital.

Firm B is an institutional investor that manages the money for all the pension plans and endowment funds for the province of Alberta. This is around 33 clients. The fund is a recent signatory to the UN PRI.

Firm C is the commercial banking arm of a larger credit union. As the bank, they have a national mandate to exclusively dedicate themselves to financing opportunities that deliver positive social or environmental change. They work with organizations where the bank can play an enabling role as a financial partner, primarily as a lending institution.

Firm D is privately held and invests donations made to the University, as well as other long-term capital. The purpose of the fund is to provide financial assistance to the University's research, teaching, and other activities through the maximization of this income. The Fund provides financial support to the university and is not intended to be profit-making (website).

Unfortunately due to a technology issue, the majority of this meeting was not recorded. Twelve minutes, in the first half of the interview, were recorded. The remainder are notes taken during the interview, rather than a word-for-word transcription. Supplemental

information has been included from the endowment's website. The sections that have been filled from the website, rather than the interview, have been noted through citations.

Firm E is an institutional investor that is structured as a private bank and asset manager that is focused on wealth management. Their clientele predominantly includes high-net worth individuals, their families and institutions with a mandate to grow their wealth. Firm E has AUM of between $5 – 10 Billion CAD with the majority being invested in equities, but also manage some fixed income and hedge fund investments. Firm E is a signatory of the UN PRI.

Firm F is a small family office that originates from a second-generation Chinese family which focused on large scale construction and real estate projects. The fund was founded in 2017, and targets clientele of high-net worth individuals and other family offices. Firm F has AUM of between $10 – 15 million with predominant holdings in private equities and focuses on impact investment. The fund is a signatory of the United Nations supported Principles of Responsible Investment (UNPRI), the International Finance Corporation supported Operating Principles for Impact Management (OPIM), a member of the Global Impact Investing Network (GIIN) and is a Certified B Corporation (B-Corp).

Firm G is an institutional investor that is a university endowment fund which contains both operating and endowed assets. The fund has two separate purposes. The endowed portfolio is managed with the intention of providing a stable source of funding for the activities (awards, research, professorships) of all academic stakeholders (current and future students, faculty and researchers). The operating portfolio is managed with the intention to ensuring that the university's obligations and daily cash needs are met. Firm G has AUM of between $1 – 5 billion with holdings in equities, fixed income, and real assets (real estate and infrastructure).

5.2 Survey Introduction

The intention of this survey was to gauge the prevalence of sustainable investing practices and/or tools that are considered in the investment process across the financial industry. It is meant as a supplement to the interviews conducted and to provide some level of analysis for how the financial industry as a whole is grappling with sustainable investment. The survey study provided more data to work with than interviews could, due to time constraints. The survey also provided data on perceptions of sustainable investment.

The survey sample was gathered primarily through the utilization of the Ivey Business School Alumni Directory. This database includes all Ivey Alumni who choose to keep in contact with institution. Through the directory, we were able to filter based on industry, as we were only interested in hearing from institutional investors. After filtering by industry, we analyzed each person's firm and more specific industry information to find if they were a fit for our survey responses. The industries filtered through to send our survey to were: Finance- Asset/Fund and Portfolio Management; Finance- Insurance and Pension; Finance- Investment Banking; Finance- Venture Capital and Private Equity (Appendix 8). These responses were kept alongside non-Ivey responses through other connections who work for institutional investors and agreed to take part in the survey. Surveys were sent to individuals in "senior" or management positions.

The survey had 37 overall respondents. No questions in the survey were mandatory, so some questions had fewer responses than 37. Some questions were also "select all that apply," which means there could be greater than 37 responses. The first question asks which kind of institution the investor is a part of. It is clear that the majority of respondents classify their industry as the broad term "asset management." The second most respondents were pension funds and third were family offices. Also represented in the survey, in order of response percentage, are insurance companies, venture capital firms, insurance brokerages, retail investment brokers, hedge funds, and private credit firms. This shows a fairly broad base of respondents from across institutional investors, which provides a wide array of responses to the survey. The second question asks how many Assets Under Management (AUM) the firm has. From the responses it is clear that the majority of respondents work for relatively large asset managers in the range of greater than one billion (Appendix 9). However, there is still a variety of responses which provides a broad breadth of data, representing smaller and larger institutions, for the survey.

5.3 Motivations Results

What factors have driven your firm to adopt a sustainable investment strategy? Have there been any external considerations that have led your firm to engage in sustainable investment?

There are four primary categories that the statements from the interview participants can be grouped into for this question. The categories are *risk and rewards, regulatory environment, stakeholder pressure, and values-based.*

5.3.1 Risk and Rewards

In the survey questions asked about risk and rewards on sustainable investments, results show that sustainable investments produce on average similar returns to non-sustainable ones. The second most popular answer to that question was that they actually produce better returns than non-sustainable ones. The other survey question asked was regarding the riskiness of sustainable investments. With regard to return on investments (ROI), the most survey respondents answered that they deemed the sustainable investments to be moderately risky, similar to regular investments. For survey results on these questions, see Appendix 10 and 11.

A primary theme that Firm A described as a motivator repeatedly throughout the interview was the idea that,

> "For the first time ever the economics of investing in this kind of ESG trend and the societal benefits of investing in ESG are on the same path and they're on the same playing field. Whereas before, it (ESG Investment) was societal benefits only but it was a suboptimal investment and difficult to justify from an capital allocation perspective".

This perspective was carried forth in several other interviews. Firm D, for example, stated that part of the motivation to invest sustainably is also that they believe they are able to meet their strict financial goals while engaging in sustainable investing. Similarly, Firm F posited that financial return as a motivation was on equivalent footing of making a positive environmental impact. Further, Firm G argued that engaging in a sustainable investment strategy presents new opportunities for the university to generate strong risk-adjusted returns.

In terms of risk, Firm E realized that an analysis of a company's material environmental, social, and governance factors adds comprehensiveness to their analysis, and it allows them to gain much more insight into how the target company has been managing its risks and opportunities. Alternatively, if they did not do their ESG analysis and did not consider non-

financial factors in their investment process, their team may have missed the opportunity to identify an important risk that could hurt their investment. Similarly, Firm G argued that it was necessary to consider ESG factors to properly assess the risk of a company when addressing sustainability issues.

5.3.2 Regulatory Environment

In terms of the regulatory environment, several firms had opinions on how regulatory bodies can influence their sustainable investments. Firm A mentioned top-down pressure from the government, which is influencing how institutional investors think about allocating capital. The individual used examples of Europe's Green New Deal, and U.S. President Joe Biden's Infrastructure Plan as both bills are influencing how capital is being redirected into companies that have a lower ESG risk profile than others.

Similarly, Firm B discussed the importance to their strategy of becoming a signatory to the UN PRI. Part of this commitment is integrating ESG into investment decision-making. Signing onto the PRI also means you must report, in extreme detail, your responsible investing activities. This forces Firm B to consider what issues it is considering with respect to each asset class. The UN PRI also provides a report which benchmarks each firm against its global peers. This helps Firm B to develop its strategy further.

Firm E mentioned that on the pension side of their business there have been regulatory requirements brought in that requires investment managers in certain jurisdictions to have an ESG approach to managing money. Although this was not a large driver, this individual said that regulatory considerations may be a growing motivation for asset managers to adopt a sustainable approach to investing and cited the example of Europe, where they are introducing initiatives where a certain percentage of assets must be invested in "green".

Firm F indicated that there was no pressure from the government and that all pressure comes from their stakeholders. Furthermore, they do not see it as the government's role to put pressure on private institutions to invest sustainably, but rather they may provide a framework. This seems to be the case for most firms, as in the survey most firms reported not disclosing any data to established sustainability reporting frameworks or standards.

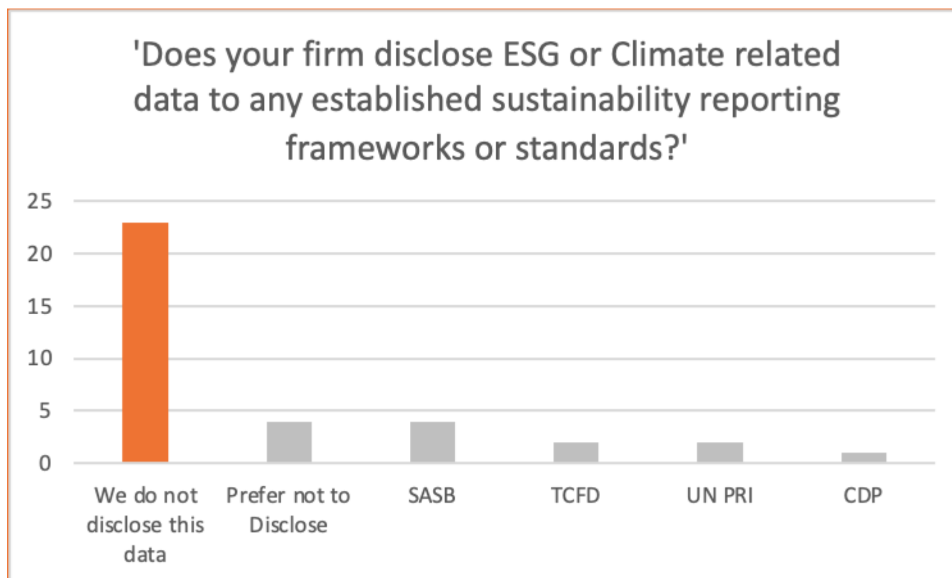

Figure 4: *Prevalence of ESG data disclosure practices*

5.3.3 Stakeholder Pressure

Firm A mentioned that there is client demand and as a fund, if the aim is to capture future growth, then ESG products and services must be offered otherwise you will see demand subside. More generally, the individual also mentioned that demand for ESG investing will increase as younger generations are more focused on climate initiatives.

Firm B mentioned that there is an increase in client interest in sustainable investing. Ultimately, Firm B is trying to manage money with respect to the customers' whose money is in the fund. There has been a clear increase in interest from Firm B's clients regarding ESG issues. They are receiving a lot of questions like "what is <Firm B> doing about climate change?" and "how is <Firm B> going about ESG integration?"

One of Firm C's motivations for sustainable investing was their acquiring of a sustainability finance platform in 2019. It plunged them into a new market with clean energy and energy efficiency financing with a different structure than they had used in the past. It has created a new line of business for them and has been exciting as a different domain.

Firm D similarly stated that there has been pressure at the university level to engage in a more sustainable strategy.

A major motivation for Firm E came from their being large client demand for these types of investments. Many private clients, primarily rich individuals have been asking the fund what they are doing with regards to sustainable investment, how they are integrating these types of

considerations into the process, and if their money is being invested appropriately. More importantly, the individual made sure to highlight that although client demand was a large driver, if they had not been investing sustainably it could diminish their ability to attract new clients or result in existing clients leaving.

Firm G mentioned that sustainability issues such as climate change have become increasingly important to university stakeholders, who are essentially their clients. Further to this Firm G mentioned that in the past, you were not meeting your fiduciary duty if you considered *anything but* financial considerations. However now, it is the opposite and if they do not consider ESG factors they would not be meeting their fiduciary duty.

According to the survey results, stakeholder pressure (both internal and external) seems to play a moderate influence on why institutional investors engage in sustainable investment (see Appendix 12 and 13). If both survey and interview results are looked at together it seems that clients as a stakeholder, play the largest role in driving adoption for sustainable investment

5.3.4 Value-Based

Firm A's thoughts on sustainable investing largely have arisen from internal macro and micro research on the topic, rather than an explicit goal to include ESG into investment analysis. Another motivation was that there is an underlying desire amongst the team to invest in strong-form assets that have a "generational impact".

For Firm C, the credit union was founded, as many are, as a result of some unequal access to capital. It is a classic story of community economic development that moved from a kitchen table to a boardroom table. That deep-rooted democratic ownership informs the sustainable investing mandate of Firm C. Firm C sticks to what its owners care about and what they value, as the institution is ultimately owned by them. Firm C's owners are saying, and have said, that they care about social justice, environmental sustainability, economic democracy, and reconciliation with indigenous peoples. Firm C turns these motivations into strategy through lending, which they believe to be the most effective way to create change. Firm C also noticed a gap in Canada of intentional and focussed impact investing and lending. With that in mind, Firm C was motivated to build the bank with the idea that they could fill certain gaps in market access to capital through having a financial partner who cared about similar things.

Firm D set a goal of being a Net-Zero institutional investor by the year 2038. Several motivators lead to the decision to set this goal. The largest one is the appointment of a new Chief Investment Officer who is passionate about the climate and has a strong outlook on sustainability. The new CIO chose their team based on this with a very strong mandate for sustainable investment.

Firm F stated that its foundation, and investment philosophy on sustainable impact explicitly originates from the founders' past experiences, beliefs, and values. The individual stated that the founder grew up in a family that operated large-scale construction projects in the ASEAN region and saw first-hand the effect these projects could have on a rural area. The individual articulated that many large-scale projects enter areas, buy the land and then sell it without real consideration of the local community or the long-term impact that these projects could have on the livelihood of residents. Thus, the founder realized that there should be a better way to invest money that can positively impact both individuals and the environment – this was a primary motivator. The individual also contrasted Firm F's motivations regarding sustainable investment relative to the adoption across the broader financial industry. Firm F commented that other asset managers are likely to invest in trends due to market demand and used the example of the Dot Com trend, FinTech, and until recently, ESG. There may also now be regulatory mandates for institutional investors such as pension funds to allocate a specific percentage to ESG holdings. Firm F's motivations to engage in impact investment is not related regulatory pressure or the fact that it is an emerging trend but is value-driven with a focus on educating the public about sustainable impact investment.

5.4 Barriers Results

What does your firm consider barriers to investing sustainably?

There are three main barriers that were clear from the results of both the survey and interview. These include data and classification, institutional environment, and lack of education. Two survey questions supplement the barriers section of the interviews.

5.4.1 Data/Classification

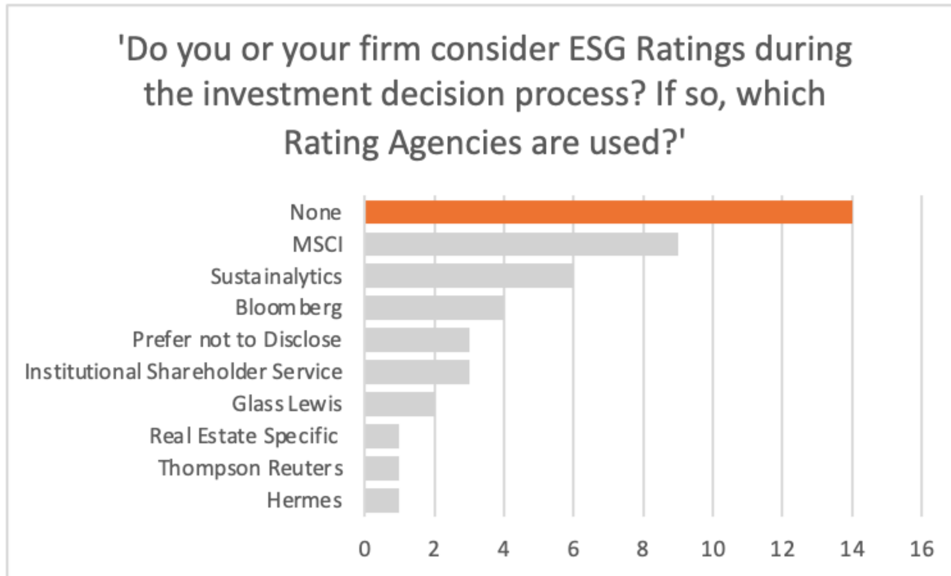

Figure 5: *Prevalence of ESG rating use during Investment Decision Process*

In the survey, the question 'Do you or your firm consider ESG Ratings during the investment decision process…?" was meant to identify which ESG rating systems investors are using in their ESG due diligence process. The results were interesting: it seems from the responses that the majority of firms use none. The investors that do use them, almost always use multiple. This is clear because the question was "select all that apply," and most often, the firms who selected one rating agency, selected multiple. This shows a larger trend of mistrust of ESG rating systems. The firms that do not use them may not know about them, or may not trust them. The firms that are using them, are cross-referencing them with other systems. This shows that they are not willing to trust just one site, and that the data is more solid if they look across platforms. These issues are prevalent in the interview responses as well, interviewees have often developed their own rating systems, and none rely specifically on one agency for rating their investment opportunities.

Firm A indicated that one of the difficulties to invest sustainably was that now the global economy is so interconnected which means that there a lot of factors to consider when trying to discern when an investment is "sustainable". The individual indicated that across a company's value chain there may be several aspects that "pollute" from the design and manufacturing stage all the way to post-sale consumer engagement. Thus, engaging and networking with all the ecosystem partners is particularly difficult given that there are so many stakeholders to consider.

Firm B stated that many non-financial elements of sustainable investment are challenging to quantify. For instance, there are a plethora of ways to quantify climate change impacts for an investment portfolio. Sustainable institutional investors, including Firm B, are still very much in the process of figuring out what kind of data allows them to quantify nonfinancial aspects of investments in a way that action can be taken on them. The Firm specified the tried and true trove of “you cannot manage what you do not know how to measure.” Further to this idea is the issue of ESG ratings and the fact that there is still not standardized way of quantifying ESG across the board. This brings up Firm B’s second identified barrier of issue materiality. Not every ESG issue is important or significant across all sectors. There is further complexity in dynamic materiality, wherein the EGS issues that matter for a company may evolve over time.

Firm D identified several critical barriers in the implementation of a successful sustainable investment strategy. The Net Zero targets that were set have been challenging to implement into the investment strategy. Data has been a large issue, as it has been challenging to keep track of what the actual impact of the specific investments are

When asked about other barriers aside from the learning curve associated with doing a sustainable investment analysis, the individual at Firm E mentioned that there are also several external barriers to engaging in this practice. The first point that was mentioned was that ESG information is reported intermittently, and when it is reported the information is inconsistent. The individual contrasted ESG data with financial data which is audited to highlight this inconsistency. It was mentioned that comparing ESG data across companies has also been quite difficult as there is no widely accepted standard or framework used by all companies. Furthermore, data has been large barrier to engaging in sustainable investment. The individual mentioned the idea of greenwashing and that companies often have ESG targets, but Firm E needs to make sure that the companies are actually making meaningful contributions and commitments to reducing their impact on the environment. A last point was mentioned on the topic of ESG targets. The individual said that Firm E makes it a point to ensure that company ESG targets are integrated into management compensation, which is not always so easy as they believe that targets are more likely to be achieved if it materially impacts management.

Firm F highlighted measurement and reporting of impact. The individual mentioned that impact measurement and reporting is much different from measurement and reporting of

financial metrics which is standardized. The correct impact metrics need to be chosen and measured for an investment to make true impact. The individual used the example of investing in companies with high ESG ratings/scores. Despite having a high rating, an investor may not know what measurable impact the target company is creating. An extension of this barrier that Firm F highlighted was greenwashing. The second barrier that Firm F mentioned was the availability and reporting of impact data. The individual used the example of a small green technology recycling company and how perhaps a metric that would want to be measured is the tonnes of carbon dioxide that they could help reduce per year. To measure this requires technology, and thus availability, accuracy and the ability of this data to be reported is a barrier to investing sustainably.

Firm G mentioned that (2) the accuracy of metrics and information related to ESG needs to evolve across all asset classes. They mentioned that while information is more available on the public equity side, there is inconsistency across all asset classes in how companies measure and report these metrics. Firm G used the example of how Scope 1, 2 and 3 emissions were difficult to determine and how those are applied and measured around the world are inconsistently reported. While Firm G uses external consultants to measure and gather data, they reiterated the point that it has not been developed across all asset classes and an information gatherer like MSCI may cover public equities but not other classes. It was also mentioned that data integrity across all asset classes that they receive are likely at the early stages of scrubbing and that companies can find creative ways to mask their emissions. A last point that Firm G mentioned was that they are still broadening their understanding of their footprint.

5.4.2 Institutional Environment

Firm C doesn’t believe that the values that underpin their work are particularly well embedded in the kind of economy we have today. They do not think it is particularly just or sustainable or democratic. In that regard, it is challenging to incorporate their kind of lending and social finance into the broader landscape of institutional investment. Its challenging because the bank is still trying to incorporate the same things that normal banks are, like cashflow and collateral and other financial factors. But at the same time, they are trying to incorporate the financing of these more innovative organizations that do not necessarily check the boxes of the financial metrics. A significant barrier is that there is a significant amount of time spent understanding particular risks of an opportunity and getting to know

their business in order to justify lending. There is a significant operating cost to this kind of model, because that time could be spent somewhere else. Additionally, there are challenging realities for Firm C that are associated with being a heavily regulated institution. Firm C, even though its focus is primarily on lending for social purposes, is regulated by the same institutions who regulate "normal" banks such as the Royal Bank of Canada. It is challenging to keep up with the expectations of these kind of regulators because they normally regulate institutions with different sets of all-financial priorities. There are practical challenges from these constraints because it disallows creativity in ways that they can lend and finance for social good. Firm C also discusses the challenges associated with ESG rating systems, and mentions the issues associated with this unregulated and uncoordinated system. It is noted that often there will be different ESG firms who rate the same organization and come up with entirely different ratings. They point out the issue associate with this, that it is not a normative basis for investing and the ratings loses their value through this.

Firm D stated that there are issues with government policy. It is important if the government is willing to provide support through policy for these changes, and the government can be slow and fickle.

Firm F also mentioned the influence that geopolitical tensions could have and that it is a dynamic situation. If there is a war, no one will care about environmental protection and thus, it is important for countries to understand their own agenda and the role they can play together.

5.4.3 Lack of Education

With regards to internal barriers, the individual at Firm E said that, "the biggest risk or the biggest impediment historically has been the lack of understanding amongst team members". This individual mentioned that the practice of ESG investing and analysis is still relatively new, despite their firm having been engaged in sustainable investment for a while. Given this, there has been a large push internally to educate other members of the firm on the implications of doing an ESG analysis, despite it being seen as "added work". Firm A also mentioned that the industry is still "in the first inning" of this sustainable investment wave for which there will be a lot of learning to happen.

Firm G identified that a large barrier was the speed at which the trend of ESG investing is developing which is made more difficult due to the size of their team (three dedicated team

members). Firm G also mentioned that it has been a challenge to communicate with all stakeholders and balancing everyone's needs, while also ensuring the best outcomes for the university over the long-term.

According to Firm F, education and greenwashing are a large barrier to sustainable investment. The individual mentioned that lot of "green" products such as ETF's and mutual funds exist but to the extent that these products create impact is unknown. Firm F mentioned that when an investor invests in a green mutual fund, they may not understand what they are investing in, and thus to raise awareness and the education on impact investing has been a barrier.

5.5 Success Factors Results

What constitutes a successful sustainable investment strategy for your firm?

Four main categories were identified through the interviews for what constitutes a successful sustainable investment strategy. These include risk and rewards, due diligence, institutional environment, and client readiness and communication. Risk and rewards and due diligence are far more prevalent in the interview responses, and therefore judged to be more important success factors. One survey question supplements these interview responses.

5.5.1 Risks and Rewards

There were no specific criteria that Firm A outlined in what constitutes a successful strategy. However, a broad explanation was given. The individual said that investments need to be capital efficient, so when money is invested it can create new net verticals, can keep generating capital, and turn itself into a standalone business. Further to this, Firm A targets investments with a long-term time horizon which is the reason why their holdings are technology heavy.

Firm G set out two clear criteria for what constitutes a successful sustainable investment strategy. They mentioned first that the strategy must improve the portfolio's sustainability metrics by either reducing its carbon footprint or its exposure to fossil fuels. The second criteria is that the strategy must generate strong risk-adjusted returns over the long-term as they would not consider a sustainable investment strategy successful if it would reduce the return of their investment. On the topic of desired asset mix, Firm G has left the door open

so that they can be flexible in terms of selecting the best investments that improves their portfolios. Thus, it can contain public equities, private equity infrastructure, real estate, fixed income or commodities.

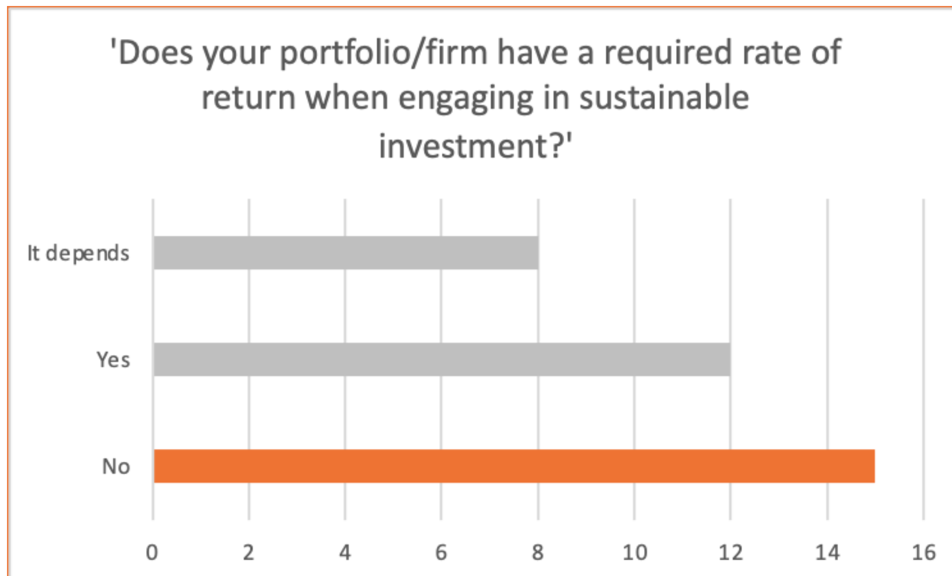

Figure 6: *Required Rate of Return on Sustainable Investment*

The firms surveyed most often do not have a required rate of return when engaging in sustainable investment. However, these results are not the same across all companies, as it is clear that companies generally follow their own strategy, not an industry or sector standard, with their investment strategies.

5.5.2 Due Diligence

Success factors that have been identified by Firm B mostly relate to excellent underwriting and due diligence. Their research process involves being attuned to recent data and executing a deep-dive on investments. Good data is also outlined by Firm B as being highly important, because due diligence cannot be as successful with a lack of high quality data. A third success factor identified by Firm B is benchmarking exercises, as they allow them to compare themselves to global peers, which helps them to decide on next steps.

Firm C has developed a highly sophisticated system to choose investments, which contributes to their overall success both financially and impact-wise. A less-strict regulatory environment would also help to contribute to their impact-success, but this is unlikely to ever happen given that they are a bank. Sophisticated, streamlined and comprehensive data can also contribute to the success of Firm C’s investments.

Firm D similarly stated that correct and complete data is vitally important to a successful underwriting strategy.

Firm E mentioned that the ESG analysis is an important success factor. It was mentioned that the analysis could result in an increased required rate of return or potentially an adjustment to a specific financial figure such as cashflow to account for an ESG issue that was identified in the analysis. The second item was that Firm E has a proprietary system used internally that does a monthly check on whether all current holdings that the firm is invested in has a 1) completed ESG analysis, and 2) that the company has been talked to about their ESG issues as Firm E has found that has been an effective way to learn. The third item to deem it a successful investment strategy was that after monthly checks are done, these metrics are reported to the firms' investment committee, and then the board of directors to ensure they are on task. The individual mentioned that oversight is a very important to a successful investment strategy. Lastly, the fourth item which would constitute a successful investment strategy was that there is a target that their holdings see a 75% reduction in carbon emissions, which is calculated by:

$$\frac{\text{Tons of } CO_2 \text{ Equivalents Emitted}}{\text{Market Cap of Company}}$$

This is then looked at on a weighted basis for the portfolio, and the compared to the overall benchmark.

Firm F mentioned that a successful sustainable investment strategy contains both a quantitative and qualitative element. The individual mentioned that despite wanting to make impact they must look at the financial return. Since it is an investment management fund, investment implies financial return, if it were not for this they would be engaged in philanthropy. Firm F mentioned that quantifying the financial return is important in impact investing because facts do not lie. The individual reiterated here that the ability to measure the impact an investment is creating was integral to success for Firm F.

5.5.3 Institutional Environment

Firm D cited a supportive government and governmental policies as an important success factor for their fund.

5.5.4 Client Readiness/ Communication

In addition to quantitative metrics, Firm F also mentioned that a successful sustainable investment strategy requires communicating a compelling story. As their targeted investor are high-net worth individuals and family offices, a successful strategy is one where Firm F can change an individual's idea of charity and philanthropy into impact investment.

5.6 Interview Strategy Results

Firm A does not directly invest in any sin stocks due to two reasons which are that 1) there is a team preference to not invest in these stocks, as it would be hard to justify based on their values, and 2) they are stewards of capital, so they must think if an investment would be in the interest of their LP. The individual classified these as "step-up technologies" which have a material impact on reducing emissions, improving the emission process, and have a business case that can be readily adopted. With the emergence of ESG, the individual mentions that the global economy is still in the early innings of the low-carbon transition and stated that it will likely take 25 to 30 years to get there, which will require a ton of capital and innovative technology. Thus, they have been focused on investing in the later stage of a company's life cycle where the focus is on improving a process (i.e. emission reduction).

Firm B's mandate is about incorporating ESG issues into the investment process. Firm B states that it helps to translate ESG risks into financial risks, and do the due diligence on them. Part of Firm B's strategy is to look at risks from an overall perspective, across asset classes and investment teams. The main process for their sustainable investment team is the ESG due diligence. This takes many factors into account, but some of them are: *What is the governance of the asset? What is the percentage of independent directors? Do the firm have current environmental assessments? Do they have communications programs to speak with their communities?* After this due diligence is complete, the responsible investment team gives the investment either a "green" or "red" flag. There is also a "monitoring" side of the sustainable investment strategy at Firm B. This side involves monitoring controversies. For instance, *are there any holdings in the portfolio that are involved in human rights violations, and how should this be managed?*

Firm C takes two different stances when evaluating investment opportunities, external and internal. Externally, they ask questions such as "what are we measuring?" and "why are we

measuring it?" The internal view concerns what kind of portfolio they want to construct over time, in terms of lending and wider within their wider portfolio. Their investments are guided by something they call their "Ethical Principles for Business Relationships." Firm C created these through "industry alignment guides." These "industry alignment guides" are exclusionary screening tools, used as a starting point, to "green flag" or "red flag" certain industries for investment. The next screening is through what Firm C calls its "Community Impact Transactions and Guidelines," which further assesses an organizations fit for investment against Firm C's own values and goals. The next stage for Firm C is a proprietary impact rating tool system which they developed. Each kind of investment has its own tool, so there is one for real estate, clean energy, and broader business lending. Once the simple screening has finished, they do a simple analysis and write up on the company. This is a further assessment of values including environmental stewardship, broad-based ownership, and economic democracy. This allows Firm C to rank options from high-impact to low-impact, which ultimately makes the decision.

Firm D has stringent financial performance indicators that they must hit alongside their new more sustainable indicators. Now, part of the assessment for investments also incorporates climate related goals. An important component of the investment strategy is that most investing is done through third-party managers, so there are a lot of smaller considerations that they must go through and keep watch of. They have different goals for capital that depend on asset type.

Firm E mentioned that all funds under management will incorporate ESG integration into the investment process, but only two out of seven of funds take it a step further and use negative screening to build the portfolio. For example, the individual mentioned that these funds would be Firm E's low-carbon exclusionary screened versions of the core portfolio, in an effort to appeal to clients with an interest in that. With regards to companies screened out of the portfolio, they are largely sin stocks such as oil, gas, firearms, tobacco and gambling. Firm E also employs some strategies where they allow their clients to customize value-based restrictions so that it can match with their specific investment values. Firm E does not specifically exclude fossil fuels from our core strategies but is rather underweight. Yet this is not due to a specific restriction, rather it derives from bottom-up, fundamental analysis of the company. The reason is largely that Firm E does not think that these companies offer an attractive long-term investment potential. They do not specifically employ any impact

strategies but have historically allocated capital to others (third party hedge funds, private equity funds, and venture capital), that manage impact investment funds.

Firm F invests in funds that are designed to create measurable impacts along the 17 themes put forth by the United Nations Sustainable Development Goals (SDG's). Firm F takes a three-part approach to its strategy which involves a stringent due-diligence process. Part one includes clearly understanding the intention of the fund manager and why the team has a particular interest in engaging in impact investment. The second part includes assessing the track record by understanding the kind of impact they are going to produce and how they can measure this. The final part of the strategy seeks to understand how the targeted fund goes about choosing their investment projects. The individual also noted that due to the age of Firm F, the quickest way to create impact was to invest with a Fund of Funds. However, Firm F stated that by the end of 2021 they will be launching their own direct investment fund in which the strategy would change.

Firm G stated that the expect all their investment managers to consider ESG factors in their investment process. Firm G's sustainable investment strategy is guided by the United Nations 17 Sustainable Development Goals (SDG's). The funds strategy ensures that they account for issues that their stakeholders have identified as critical such as access to clean water, reduction of their carbon footprint and pollution abatement. Further to this, 10% of the operating endowment fund is allocated to investing in companies that have solutions for clean and renewable energy, water treatment, and waste management. Firm G stated that at this moment, they do not specifically exclude securities from the fund at this time. In reference to fossil fuels, they mentioned that the university believed that engagement is a superior approach to divestment in effecting changes of ESG related issues as it gives the investor increased power to make changes that they would not otherwise get had they divest.

The following questions asked in the survey provide support for the strategy interview question. The questions specifically asked about inclusionary and exclusionary strategies, in order to determine what kind of approach each firm took. The results show that most firms actually utilize both *inclusionary* and *exclusionary* in their investment strategies. This is a shift from historical data, where most companies only considered exclusionary factors. More firms answered "sometimes" with regard to an inclusionary approach, than they did with exclusionary approach, which is consistent with expectations for these kind of approaches.

Figure 7: *Use of exclusionary strategies*

Figure 8: *Use of inclusionary strategies*

5.7 Trends Results

What are your thoughts on the outlook of sustainable investment across the industry of finance? Do you think that people are starting to realize that there is no need to sacrifice financial return in order invest according to their values?

5.7.1 Positive Outlook: Better Terminology/ Classifications

Firm B is focussed on taxonomies and the classification of ESG issues in sustainable finance. As data becomes more available, countries will likely develop systems to flag

companies who are contributing to sustainable development. Canada is already developing one. It is still messy right now in the sense that there is no comprehensive taxonomy at a national or international level. There will likely be an emergence of national taxonomies, or classifications for ESG issues, and then after that there will likely be international bodies who come up with their own frameworks. Firm B thinks in the next five years, sustainable investment will be taken more seriously and committed to by more firms. The results and likely benefits of this will be seen in the next 20 to 30 years.

5.7.2 Positive Outlook: Disintermediation Effect

Firm C believes sustainable investing has a positive outlook moving into the future, and that the industry is currently undergoing a shift from traditional to sustainable and impact investing. They believe this shift is largely being driven by people trying to get more intentional about what their money is doing and where it is going. One major driver of this is a demographic one, women and young people tend to care more about where their money is going. Older men are leaving their money to their spouses and then these individuals are beginning to ask questions about where the money is going, and what it is doing. It is similar for young people who are inheriting money and becoming more economically influential through their jobs. They are starting to ask questions. This is further compounded, according to Firm C, by something called the disintermediation effect. An example of this is that people are buying more of their investments directly. When people have more direct decision-making over the use of the funds they are often more aware of exactly where the money is going. Through online options, robo-advisors, individual investors now often have this simple option, where they can essentially flick a switch and go from a conventional portfolio to a sustainable and responsible portfolio. These investments do not require a compromise on profits, so many more people are engaging in them. Whereas if the decision is left to an institutional investor, there is a higher likelihood the institutional investor would take a more conservative route because they are absolutely certain the traditional option works well.

The individual indicated that it was also their belief that the younger generation will put more time into green investment and environmental protection. However, the long-lasting success of sustainable investing depends on what asset owners are thinking. There needs to be buy-in from institutional investors, pension funds, endowments and all other stakeholders

on the expectation of green investment which is why Firm F aims to put a focus on the educating investors.

5.7.3 Positive Outlook: Increasing Value-Based/ Concern-based Investing

Firm E argued that that it will be a big growth area due to it being a very important topic, but also that the world is only at the starting stages of a low-carbon transition. Investors will start to care more particularly as the effects of climate change and environmental pollution become more evident. In addition to this, there will be a lot of job growth potential in this area as well. Some of Firm E's clients who have the most aggressive environmental tilts for their portfolios have been very wealthy individuals who have multi-generational wealth, and they want to ensure that their money is being employed in a way that is good for the environment.

5.7.4 Positive Outlook: Risk

Firm G mentioned points relating to their specific fund but also more broadly on the industry. Relating to Firm G, they mentioned that they have identified what they believe to be opportunities for them to be successful investors and earn that long-term rate of return. Firm G considers this opportunity to be very tangible as they have the ability to go into several different asset classes and hold their positions for the long-term. They also mentioned that at the institutional level, there will be winners and losers.

More broadly, Firm G mentioned that they believe that outlook for sustainable investment is quite favourable. Due to the availability of information, transparency relating to sustainability has improved a lot over the past few years which makes it hard for companies to hide what they are doing. Further to this, they believed that more companies will be able to find creative ways to bring forth good sustainable investment opportunities that yield a financial return.

A final point that Firm G mentioned was on information. The trend of sustainable investing is part of a growing importance on non-financial information that must be taken into account for proper risk assessment.

6. Discussion

This thesis sought out to explore how different factors influence the adoption of a sustainable investment strategy, with a primary focus at the institutional level. A leading statement that sought to be explored was whether market participants engage in sustainable investment with their hearts or mind – simply put, are the investment practices a reflection of the firms values, or a realization that it could be a profitable opportunity. To narrow the focus of this research five research objectives were established which looked to identify the main motivators, barriers, strategies, success factors and trends with regards to sustainable investment.

The results of this study indicate that there were many similarities across firms with regards to their motivations to engage in sustainable investment, the barriers that they currently face in doing so, and what these firms deem as a successful strategy. However, this study finds that there were significant differences across firms with respect to their investment strategy. Lastly, our interview participants largely had similar sentiments regarding the future outlook on the industry of sustainable investment.

Throughout the data collected on motivators, themes that were largely consistent across participants was the idea that the adoption of an ESG strategy in a portfolio was necessary to 1) add comprehensiveness to the investment decision process, 2) mitigate investment risk and creates opportunity for long-term risk adjusted returns, and 3) satisfy stakeholder/client demand and fulfills perception of fiduciary duty.

Our findings are largely consistent with similar studies who have surveyed asset managers around the world on their reasons to engage in sustainable investment. For example, Eccles et al. (2017) find that engaging in sustainable investment helps cultivate better investment practices, satisfies demand from beneficiaries, and is line with a growing notion of fiduciary duty. In addition to this, another survey of asset managers worldwide finds that there is a large belief that implementing ESG factors into the investment decision process can create the opportunity to create long-term risk adjusted returns (van Duuren et al. 2016). Patel (2018) in his survey also finds that 63% of asset managers engage in ESG investing is because they believe it is material to investment performance. On the contrary however, Cornell (2021) finds that asset managers investing in highly rated ESG companies do not expect higher returns. The difference between these however may be attributed to the fact

that the studies done by Eccles et al.(2017) and van Duuren et al. et al.(2016) were conducted through surveys whereas Cornell (2021) used a quantitative approach.

Further to this, we found that regulatory pressure was not a large motivator to investing sustainably – with the exception of the interviewed Canadian and UK firms who managed some money on behalf of pensions. This finding can be confirmed by the International Actuary Association's report on Pension Fund ESG Risk disclosure, which states that pension managers in Australia, part of Canada (Ontario), Germany, Ireland, Italy, Spain and the UK require some ESG disclosure (IAA, 2020). Values as the primary motivator to engaging in sustainable investment was not largely found across the results, as this could perhaps be explained the differing mandates of the firm, structure of firm, or investment beliefs of senior executives. Though this was not solely what led firms to invest sustainably, it was generally agreed upon that finance has an important role to play in solving the planet's environmental problems.

With regards to barriers our study finds significant support that the largest impediment to investing sustainably is the clarity, transparency, consistency and measurement of data that is being disclosed by companies. This finding is consistent with many academic studies done (Eccles et al., 2017; van Duuren et al., 2017; Dorfleitner et al., 2015; Tamimi and Sebastianelli, 2017; Clarkin et al., 2020). In our interviews conducted many hit on the fact that ensuring an investment was "sustainable" was quite hard to discern as measuring impact is very difficult. Furthermore, information that investors use which originate from rating agencies and frameworks/standards organizations create an issue as there is no standardized approach – this is supported by our survey results which find that many respondents do not use them, and of the ones that do use them, multiple are considered. In addition to this, many of the firms stated the point that general education on the topic of sustainable investment was deficient and that this needed to increase.

On the topic of strategies, our results find that the detailed approach to investing sustainably differs across firms. This is likely due to the fact that there is no "correct way" to invest, and that different firms will have different investing philosophies that underpin their process. Furthermore, depending on the strategy the firm would have to make certain trade-offs on the basis of ESG factors and non-ESG fundamental factors, which was noted by Alford 2019. However, a common thread between both interview participants and survey respondents was that some sort of screen or integrated approach were used when considering

ESG factors. These findings are largely consistent with the literature as authors state that these are the most used sustainable investment strategies (Eurosif, 2018; Eccles et al., 2017). Thus, what we can conclude from the findings on sustainable investment strategies is that the approach taken is largely dependent on the firm.

Furthermore, on the topic of strategies what we have noticed is that while all firms have sought to consider ESG factors into the investment decision process, the level of consideration differs. This could be due to a number of different reasons and relate to the barriers that were brought up during interviews such as firm size, lack of education, and the ability to do so accurately based on available data. However, relating back to the literature, we could consider the depth of sustainable investment strategy as a reflection of *intentionality,* which is demonstrated "by a firm's tone at the top, employee training, and resources spent on ESG research and data, among other actions" (Cappucci, 2018). For example, Firm E outlined that there was a big push internally to educate other members of the investment group on how to do an ESG analysis, and what the benefits of doing so are. In addition to this, Firm E has internal systems set up to ensure that all holdings have a completed ESG analysis completed.

Thus, when the results taken as a whole are looked at, an overarching trend appears in that institutional investors are aware that there is an incessant need to balance both the efficiency and effectiveness of their portfolios. As mentioned before, an emphasis on efficiency as a by-product of short-term thinking from managers was a large reason for the global financial crisis in 2008. This crisis was a prime example that unrestrained investment decisions can negatively disrupt or damage environmental, societal and financial systems (Lydenberg, Burckart and Ziegler, 2017).

Our results show that institutional investors now are striving for more of a balance between efficiency and effectiveness (which can be thought of as long-term efficiency) (Lydenberg, Burckart and Ziegler, 2017), which is one of the largest reasons why ESG factors have been adopted into the investment decision process. Furthermore, the balance between effectiveness and efficiency could also explain why many of our interview participants are signatories of the UNPRI or why some of their investment goals/strategies are tied to the United Nations Sustainable Development Goals. This balance can be typified by Figure 9:

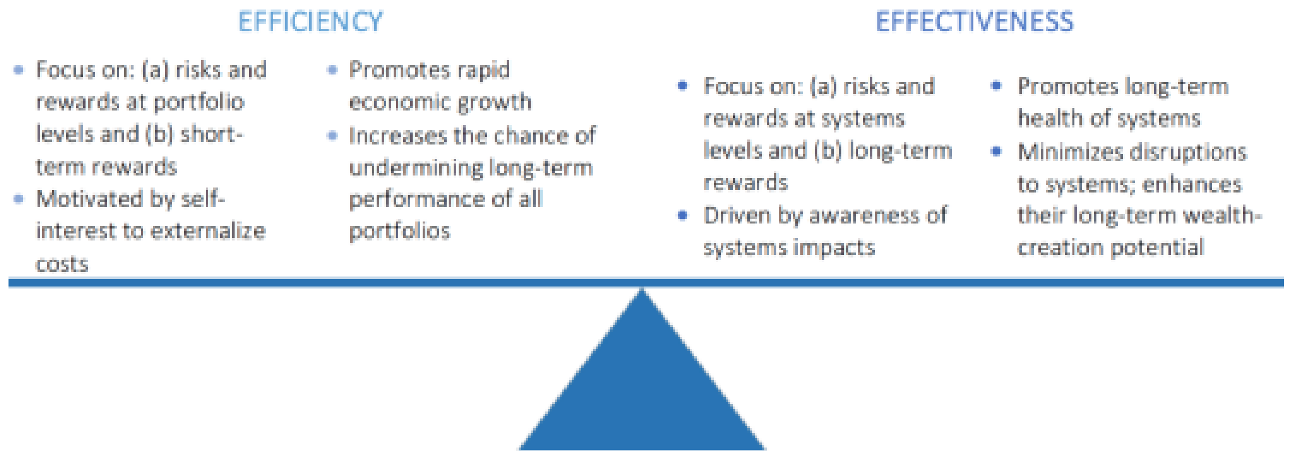

Figure 10: *Balancing Efficiency and Effectiveness*, Lydenberg, Burckart and Ziegler, 2017

Although the results from this study are significant and are clearly in line with previous academic findings, there are some limitations to the study. Only seven firms were interviewed for this study which limits the transferability of the findings. Further to this, five out of seven firms were based in Canada and thus, our findings are more reflective of this region and may not necessarily represent the thoughts and opinions of asset managers located in other parts of the world. Lastly, interview and survey participants worked across the financial industry (although the majority worked in asset management) which could impact the transferability of the findings.

While this study seeks to provide a holistic exploration of how different factors influence the adoption of a sustainable investment strategy, further academic studies could benefit from developing a deeper understanding on which specific factors influence sustainable investment the most, as opposed to exploring them all. In addition to this, as sustainable finance becomes more regulated and clearer taxonomies are developed globally, further studies may seek to explore the influence regulation has on where capital is going and whether clearer guidelines make it easier to adopt a sustainable investment strategy.

7. Conclusion

As an increasing number of asset managers begin to consider ESG factors into the investment process and adopt a sustainable investment strategy, what has largely been driven by stakeholder demand will become the norm for large investors. Though the field of sustainable finance can be considered to still be in the early stages, the development of a firms sustainable investment strategy moving forward will be critical to their success. All of our interview participants shared the sentiment that sustainable investing is here to stay and that there is immense opportunity to generate strong risk-adjusted returns if the strategy is implemented correctly. Though it may not be explicit knowledge at the moment we believe based on our findings and the literature, that the successful implementation of a sustainable investment strategy has the ability to give firms a competitive advantage in the market.

Thus, given the development of sustainable finance it may be time for investment managers to become more intentional about their actions and think critically as to how ESG factors can be implemented into their investment strategy.

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Appendices

APPENDIX 1: Summary of ESG Strategies

EXCLUSIONARY SCREENING	**POSITIVE SCREENING**	**ESG INTEGRATION**	**IMPACT INVESTING**	**ACTIVE OWNERSHIP**
DEFINITION Excludes, from the investment universe, companies, sectors or countries involved in activities that do not align with the moral values of investors or with global standards around human rights, labor practise, the environment and anti-corruption	Tilts portfolio toward one of the following: **Best in Class:** companies outperforming peers in ESG measures **ESG Momentum:** companies improving ESG measures (more quickly than peers) **Thematic Investing:** companies solving specific ESG challenges (climate change, gender diversity etc.)	Incorporates ESG data, alongside traditional financial analysis, into the securities selection process	Targets a measurable positive social and/or environmental impact. Investments are generally project specific	Entails engaging with companies and voting company shares on a variety of ESG issues to initiate changes in behavior or in company policies and practices.
COMMON OBJECTIVES **Align** portfolios with investors' moral and ethical values **Mitigate** ESG risks **Influence** a company to change its business model or stop an objectional practice	**Mitigate** ESG Risks **Achieve** higher returns **Support** a business model that aims to solve an environmental or social problem **Improve** or maximize a portfolio's ESG score	**Mitigate** ESG risks **Achieve** higher returns	**Generate** and measure specific social and/or environmental benefits that align with purpose	**Influence** company strategy for long-term value creation **Help** company management capture value by mitigating risk or seeking opportunities **Advance** ESG disclosure and practices
INVESTMENT CONSIDERATIONS Introduce tracking error and potentially impacts performance	Securities selection is based predominantly on ESG scores and ratings. Sourcing quality ESG data remains a challenge	Sourcing quality ESG data remains a challenge. Securities selection is based on quantitative and qualitative assessment of ESG factors, requiring analyst expertise. A long-term mindset is necessary as it is difficult to time the occurrence of a negative event resulting from an ESG issue	Investments may be illiquid and investment returns could aim to be at or above the market rate	A significant ownership stake is needed to exert influence. Substantial resources are also needed to engage with companies. Active ownership is crucial for index strategies.
IMPACT CONSIDERATIONS	Rewards companies that have higher	No deliberate impact strategy as the	Impact is highly targeted on specific	Broad impact due to continued

Generally can't impact companies in which you don't own shares, but well-coordinated divestment campaigns can be effective	ESG scores with capital. Impact is generally targeted around specific sectors or themes (e.g. climate change, gender diversity, etc.)	primary objective is to achieve higher returns and/or mitigate ESG risks	outcomes	engagement with company management on ESG issues
EXAMPLES Equity fund that excludes companies that generate more than 5% of their revenue from the sale of tobacco products	Equity fund that invests in oil & gas companies deemed to be least carbon intensive	Actively managed fixed income fund that considers ESG issues during the securities selection process	Community investment fund that provides micro financing to low-income or disadvantaged communities	Could apply to any fund (including those not tagged as ESG funds) where the asset manager or asset owner is committed to active ownership

Source: Adapted from, *Understanding & Comparing ESG Terminology, Rakhi Kumar, Natasha Dayaramani, & James D. Rocha – State Street Global Advisors*

APPENDIX 2: Survey Inquiry Template

Dear [redacted]

I hope you are keeping well, and I would like to briefly introduce myself. My name is Mayuran, and I am currently a Dual-Degree MSc Candidate at the Ivey Business School and Norwegian School of Economics. I found your contact information in the Ivey Alumni Database and based on your profile I thought your insights would be valuable.

At the moment, I'm writing a Thesis *which explores the factors influencing the adoption of a sustainable investment strategy*. For context, sustainable investment in the thesis is defined as an investment strategy that may consider the following areas: material Environmental, Social and Governance (ESG) factors, ethics, social impact or clean and renewable energy.

If you are willing to participate, I would love to send you a questionnaire which would take about 5 minutes of your time. It is fully anonymous and if there are any questions you are uncomfortable answering, there is an option to not disclose.

Please let me know if you are interested and I can send you the survey.

I look forward to hearing from you!

Kind Regards,
Mayuran Sivakumaran

APPENDIX 3: Google Forms Survey Questions

This survey will take about 5 minutes of your time. If there are any questions that you are not comfortable answering or unable to answer please select "Prefer not to Disclose". If the question asks you to rate your feelings from 1 to 5 and you are uncomfortable or unable to answer, please skip the question. Thank you! - Jessica Hirst & Mayuran Sivakumaran

For clarification below are the listed acronyms/definitions for the purpose of this survey

- ESG = Environmental, Social and Governance
- Sustainable Investment = investment that may consider the following areas: material ESG factors, ethics, social impact or clean and renewable energy. * Required

1. What type of institution do you work for? *

Mark only one

- Pension fund
- Asset Management
- Venture Capital
- Endowment Fund
- Investment Bank
- Family
- Office Prefer
- not to

Disclose

Other:

2. What is the value (CAD) of assets that your firm has under management? *

Mark only

- 1 Million - 49 Million
- 50 Million - 99 Million
- 100 Million - 499 Million
- 500 Million - 999 Million
- Greater than 1
- Billion Prefer not
- to Disclose Other:

3. Do you or your firm consider ESG Ratings during the investment decision process? If so, which Rating Agencies are used? *

Check all that apply.

- [ ] MSCI
- [ ] Sustainalytics
- [ ] Bloomberg
- [ ] Institutional Shareholder Service (ISS)
- [ ] Thompson Reuters
- [ ] RepRisk
- [ ] My firm/myself do not consider ESG Ratings in the Investment Decision Process
- [ ] Prefer not to Disclose

Other: [ ] ____________________

4. Does your firm disclose ESG or Climate related Data to any established sustainability reporting frameworks or standards? *

Check all that apply.

- [ ] Sustainability Accounting Standards Board (SASB)
- [ ] Global Reporting Initiative (GRI)
- [ ] Task Force for Climate-Related Financial Disclosures (TCFD)
- [ ] CDP
- [ ] International Integrated Reporting Council (IIRC)
- [ ] My firm does not disclose this type of

Data Prefer not to Disclose Other:

[ ] ____________________

5. In your opinion, how risky do you consider sustainable investments to be with regards to ROI?

Mark only one

	1	2	3	4	5	
Extremely Risky	○	○	○	○	○	Extremely safe

6. In your experience, on average, have sustainable investments produced higher returns than non-sustainable investments (i.e. Oil & Gas)?

Mark only one

- Better
- About the Same
- Worse
- My firm nor I have any experience investing sustainably
- Prefer not to disclose
- Other:

7. How would you rate the pressure from internal stakeholders at your firm to engage in sustainable investment?

Mark only one

	1	2	3	4	5	
No pressure at all						Intense pressure

8. How would you rate the pressure from stakeholders external to you firm to engage in sustainable investment?

Mark only one

	1	2	3	4	5	
No pressure at all						Intense pressure

9. Do you or your firm take an exclusionary approach when considering sustainable investment? (i.e. excluding investments considered to be unethical or immoral) *Mark only one oval.*

- Yes
- No
- Sometimes
- Prefer not to Disclose

Other:

10. Do you or your firm take an inclusionary approach when considering sustainable investment? (i.e. including investments considered to be ethical or socially responsible)

Mark only one

- Yes
- No
- Sometimes
- Prefer not to
- Disclose Other:

11. Does your portfolio/ firm have a required rate of return when engaging in sustainable investment?

Mark only one

- Yes
- No
- It depends
- Prefer not to
- Disclose Other:

12. We are also conducting 30 minute interviews for the purpose of our Thesis. If you would like to participate, please include your full name and email below and we will reach out shortly with the relevant details. Thank you!

APPENDIX 4: Sample Interview Guide

Working Agenda for Interview w/ [redacted]
Thesis on Sustainable Investment

Definition of Sustainable Investment - Investment that may consider the following areas: material ESG factors, ethics, social impact or clean and renewable energy.

1. Brief Introduction of [redacted]
    a. What does the fund do?
    b. How many employees does the fund have?
    c. How much does the fund manage?
    d. On behalf of whom does the firm manage money for? (No specific names are needed, just categories for example individual donors, companies etc).
2. Discussion of the main motivators that have led the Fund towards their sustainable investment approach
3. Discussion of the main barriers facing the implementation of the Fund's sustainable investment approach
4. Discussion of the characteristics that the Fund's consider to constitute a successful sustainable investment strategy
5. Discussion of the Fund's Strategy to Sustainable Investing (is a certain approach taken, for example inclusionary or exclusionary).
6. Thoughts on the outlook of Sustainable Investment within the Finance industry

APPENDIX 5: Sample Interview Inquiry Email

Dear [redacted]

I hope you are keeping well, and I would like to briefly introduce myself. My name is Mayuran, and I am currently a Dual-Degree Master's Student at the Ivey Business School and Norwegian School of Economics. I found your contact information in the Ivey Alumni Database and based on your profile I thought your insights would be valuable.

As part of my studies, I am currently in the process of writing a Thesis which aims to *explore the various factors influencing the adoption of a sustainable investment strategy*. For context, the definition that is being used for sustainable in the thesis is an investment strategy that may consider the following areas: material ESG factors, ethics, social impact or clean and renewable energy. The focus of this study is on Institutional Funds and Large Asset Managers.

My thesis partner and I's goal is to conduct interviews with senior individuals who are involved in the investment decision process and can speak on how they go about managing a fund that implements this sort of sustainable investment strategy. Interviews would take around 30 minutes and would need to be recorded for the purpose of analysis to include in our Thesis. We would also like to send a brief questionnaire that would take around 5 minutes and will remain anonymous.

Upon completion of our Thesis, all data and information will be deleted immediately. To mitigate any issues regarding confidentiality, we can send you the question guide prior to the interview and can omit any questions that may be a conflict of interest. Further to this, all items on the questionnaire include a "Prefer not to Disclose" option.

We would be looking to conduct these interviews in the first three weeks of April. Thus, if you would be interested in speaking with us and have the availability, we would greatly appreciate the opportunity.

If there is any clarification you need about our study such as the rationale, research objectives or content please let me know as I would be happy to provide anything that is necessary. Given that [redacted] approach seeks to earn long-term absolute returns without taking excessive risks, I believe that your insight on our Thesis topic would be an extremely valuable addition to our research.

Thank you for your time, and I look forward to hearing from you.

Kind Regards,
Mayuran Sivakumaran

APPENDIX 6: Summary of Interview Participants

Firm	Institution Type	Location	AUM (CAD)	Asset Classes Invested In	Role
A	Family Office	Canada	$5 – 10 Billion	Private Equities, Fixed Income, Venture Capital	Senior Associate
B	Institutional Investor	Canada	$115 – 120 Billion	Equities, Fixed Income, Real Assets	Senior Analyst
C	Investment Bank	Canada	$230 – 235 Million	Real Assets	Senior Manager
D	Endowment Fund	United Kingdom	$5 – 10 Billion	Equities, Fixed Income, Real Assets	Senior Associate
E	Asset Manager	Canada	$5 – 10 Billion	Equities, Fixed Income	Assistant Vice President
F	Family Office	Hong Kong	$10 – 15 Million	Private Equities	CEO
G	Endowment Fund	Canada	$1 – 5 Billion	Equities, Fixed Income, Real Assets	Director

APPENDIX 7: Firm G Sample – Content Analysis

Firm G	
Description of Firm	Our fund is called the operating and endowment fund. So it's a single pool of assets that has both operating and endowed assets. So the purpose of the endowed portfolio is to provide a stable source of funding for current and future students, faculty and researchers by financing, student awards boards chairs, and professorships research in Academic enrichment. And then the operating portfolio includes unrestricted funds from various sources. And the purpose of the operating portfolio is to earn additional returns over time to exceed the returns that would have been earned by investing in short-term money market instruments while ensuring that the university's obligations and daily cash needs are met. Mainly that Director of Investments, the Associate Director of Investments. We do have a new investment associates. There's a Director of Treasury Services that's involved mostly from an operational point of view and there's the Associate Vice President of Financial Services. So those are the main full-time

	staff. In addition, we do have an investment committee, so these are external people to the university. All of them are alumni but these are volunteers on an external committee. So that's the staff that is involved with the investment committee in terms of assets that as of the end of February, there was [redacted] Canadian in the fund. And on behalf of whom does the firm manage your money for? So the fund managed money on behalf of the university. So, so that's not there's no the fund does not manage money on behalf of donors, for example, it's on behalf of the university.
Discussion of Main Motivations that led to engaging in a sustainable investment strategy Q: Based on our talks with previous participants, there have been various internal & external motivators that have driven the adoption of a sustainable investment strategy. We were wondering what the main motivations for [redacted] to engage in a sustainable investment strategy? Q: Since you are managing money on behalf of a university, do you see this as a fiduciary duty to manage money in an ethical and value centric way? Q: I was on the website before and had saw that charter Canadian universities had signed on to. Is there growing regulatory pressure that has pushed this adoption? Or was it university led?	I would say that the main motivators are the recognition that sustainable investing is a fundamental concept in wisely allocating financial capital for the benefit of today and future generations. And we have three more points here, the recognition of the necessity to consider ESG factors and properly to properly assess the risk of a company addressing sustainability issues, presents new opportunities for investors and [redacted] could generate strong risk adjusted long-term returns by taking advantage of those opportunities and sustainability issues such as climate change are becoming increasingly important to the university stakeholders. I would say that's where it's moving right now. So, we do in the past, it used to be that you are not meeting your fiduciary responsibilities if you were considering anything but financial considerations. Now it's the opposite. If you are not taking ESG factors into account, you are not meeting your fiduciary responsibility. So that's where we're at. So we do believe that you have to do it too, in order to meet your responsibilities. [redacted] had led a little bit with that is that you need to take all of this information into account to do a proper risk assessment of any investment. There's no regulatory pressure yet on the endowments. So, absolutely it's the pressure comes from our stakeholders. Our students, our faculty, on the pension side, there is some regulatory pressure but it's very light in Ontario. You do have to describe in your statement of investment policies and procedure, how and if you integrate ESG factors but there's no requirement to do it, there's just a requirement to report. That's what I would say from a regulatory point of view. There's no pressure that pressure comes from our stakeholders basically.

| Discussion of the main barriers facing the implementation of a sustainable investment strategy

Q: As we are in the early innings of investing sustainably, and how people think about this, we were wondering about what the main barriers your fund is facing.

Q: Have you experienced any difficulties with regards to judging ESG ratings from agencies? Large companies may have more resources to develop better reports so is that a barrier when making a judgement on the data you receive?

Q: How has the fund went about gathering data given that companies disclose against different standards, and some may not even choose to disclose? | Some of the barriers we're facing is that the speed of way this is moving is, is quite fast. Everything's coming at us, you've heard already that our team is, is we only have five dedicated folks and out of that really three dedicated team members.

One of the things that's interesting, and we'll see more of this, I think is the accuracy of the metrics and the information that's in the market related to ESG needs to evolve particularly across all of the asset classes. We see a lot more in public equities, but need to see more in other asset classes as well.

There's a challenge in communicating with stakeholders and balancing everyone's needs particularly where we have you can have strong vocal needs, but also you need to balance for the best outcomes for the university over the long run.

And information, sometimes it's conflicting about sustainable investing and that's a challenge. And then also just in general, a lack of resources or the allocation of resources and time becomes challenging, particularly with in our example, size of team.

So, different organizations will have different rankings. So somebody could rank high with one organization and rank low, much lower with another organization. So it comes with the fact that everything is brand new, so there's no standard. And sometime like they have been in the past some company that would score very high on metrics and then be caught up in a controversy a few months later. Like Volkswagen was a score very high on the sustainability and then they get caught on that controversy.

Obviously we are not trapped by or not that we rely on them, but we look at them and our investment consulting firm that we use [redacted] does provide some ratings and we look at them. They're too preliminary at this time to make some very solid decisions. We obviously use them to understand what's the process of these companies but it's a bit early to put a lot of weight on those ratings, basically.
The field is evolving quickly. So metrics might change. And how firms that are doing these ratings, how they're looking at organizations, it needs to change along with that. And you know, then information is obviously easier with public equities, public fixed income versus other, maybe more private investments. So there's a long way to go. I

What I was going to suggest is that what we've done is through our investment consultant we've hired to go out and measure those carbon footprint, measurements to be able to get that information.

I think the real challenge is again, back to the point of asset classes that it really hasn't been developed across all the asset classes and there's inconsistency in how those companies, as you're talking about actually report those things and measure those things. You're likely familiar with the scope one, two and three emissions, and the fact that scope three emissions, there's really difficult in determining what those are, and then lack of consistency in how those sort of emissions are applied and measured across the world makes it really difficult as well.

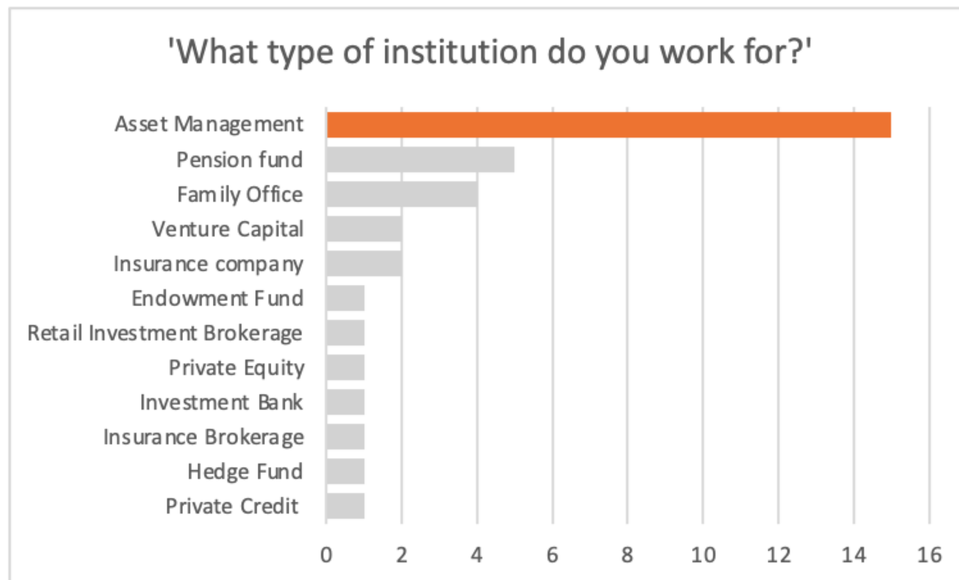
There's the quality of research we've kept it simple at this point, we're trying to expand into the product and our understanding, you know more holistically our |

	footprint, if you will I know there's creative ways that companies can get high carbon emission parts of their business hidden. Right? probably given his background in audit, maybe more able to speak to that, but just anecdotally I've heard that you know, there's creative ways for these large companies to hide some of their emissions. So even the data we do get is, is probably at early stages of the scrubbing and just even on the public equity side. Right. So it just shows you that you know, and right now we're focused on carbon emission, right. So maybe it'll be something else in the future. I think what we're waiting for as well, or would like to see is more regulation on that front. Is that, what is the global standard?
Discussion of the characteristics that constitute a successful sustainable investment strategy Q: We were wondering what constitutes a successful sustainable investment strategy? I'm sure there are quite a lot of considerations that you must take into account Q: Is there a specific asset mix that you strive for when constructing your portfolio?	There's basically two things, first of all, it needs to it needs to be to improve the portfolio's sustainability metrics either reduce the carbon footprint or the exposure to fossil fuel reserves. It also must generate strong risk adjusted returns. Obviously we would not consider a successful, sustainable investment strategy if it would reduce the return of our investment. So, and the thinking right now is that there are lots of opportunities that can provide strong risk-adjusted return. In terms of the mix itself, we've left it open, so the investment can come into equities, public equities, private equity infrastructure, real estate, fixed income or commodities. So we have basically left the door open so we can be flexible in terms of selecting the proper investments that does improve the portfolio.
Discussion of the funds strategy to sustainable investing Q: Is there a certain strategy with regards to sustainable investing that the fund takes? Whether that be exclusionary, inclusionary, or any other strategies that you guys employ.	We're expecting all of our investment managers to take ESG factors into their investment process. In addition we recently had signed on and became a signatory of United Nations, Sustainable Development Goals. So that would be a driving force as well. Also stakeholders you know, they've identified issues that are critical to them. We would take that into account such as, you know, access to clean water, carbon footprint reduction pollution abatement. does, I've mentioned this a minute ago, just committing up to 10% of its operating endowment fund and companies with solutions along the following, clean and renewable energy water treatment solutions, waste management solutions. We don't specifically exclude securities from the fund at this time. The university believes that in most situations, engagement is superior approach to divestment in effecting changes of ESG related issues. Obviously it gives the investors power to make changes that you wouldn't otherwise get if you would divest it.

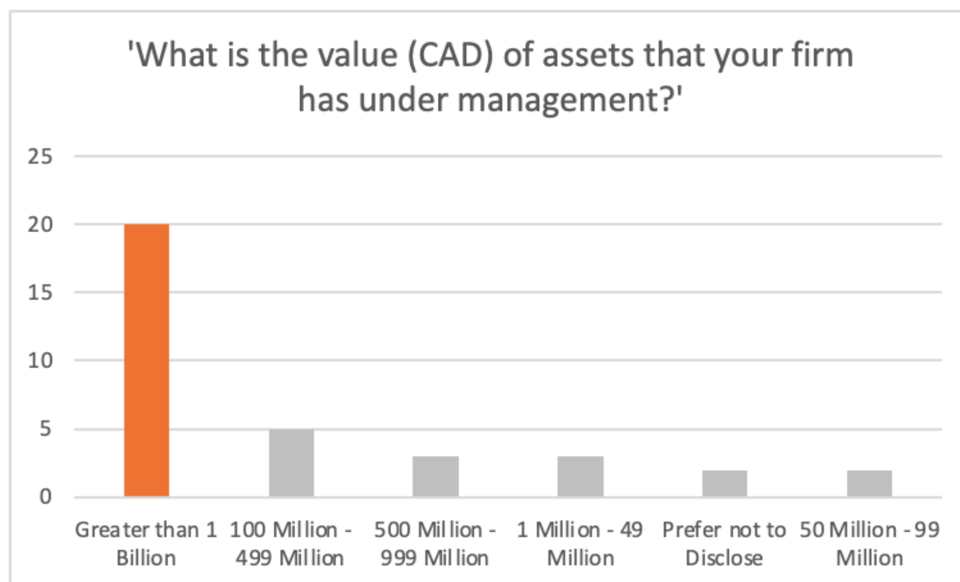
Thoughts on the outlook of Sustainable Investment within the finance industry Q: As you said things are moving very quickly at this point, and there are a lot of things to consider on a daily basis about how you actively manage the fund. So we were wondering what your thoughts on the outlook of sustainable investing at an institutional level and more broadly was?	I would say more broadly, it's here to stay. It's going to be ingrained in the decision-making. Certainly I think that what we've identified is that we think that there's opportunities for us to be successful investors here and earn that long-term rate of return that we expect particularly with our ability to go into multiple different asset classes and hold for the long-term. And one of the things that we see for institutions is that there will be winners and losers out of that. And we expect if we choose wisely, we should be on the winning side. I think that in general, the industry's it's, this is part of what is going to be a non-financial information that needs to be taken into account for risk assessment, and that is becoming increasingly more important Every person on this planet pretty much has access to more information than they did 20 years ago. So it's hard to hide things. So you've got transparency, with sustainability has improved immensely over the past several years due to how information is getting out there. So I think the outlook is favorable because of that. I think you're going to see more and more companies finding creative ways to bring forth investment opportunities that, you know, that have that sustainable feature to them, but are actually very good investments on themselves, in on themselves. Like that's, we're seeing that now. It was just, there's lots more investment opportunities than there were before. So I think the outlook looks favorable and I think it's not just here for the short term.

Talking Points Q: Do you think we'll see Canada and governments starting to play a more activist role in redirecting capital flows and pushing institutional investors to invest in certain green companies, things of that sort?	I don't see that personally. The government's role would be maybe to create green bonds or, you know at a provincial level or be involved in projects that are, I guess, green in some way. And perhaps, on the debt side you have some investments that one could participate in, but I don't see it from a regulatory view going back to what [redacted] said. Yeah, they might encourage provide a framework, but I really don't see the government mandating people to do something at this time. So I would just add on to that, that I think that the government's role is a policy role. I think what we'll do is we'll see the government stepping into facilitate how opportunities might be open up where the capital markets can provide those opportunities or need encouragement from a return perspective to go into those markets. I think we'll see the government potentially play a role there, but I do not think that it will be a regulatory requirement of endowments or the latter to be actually doing this mandated. Yeah. Like even preference preferential tax treatment on dividends, something like that for investors that are investing it was not registered money, you know where dividend taxes plays a role. I mean that could be a way that government could promote green investing.

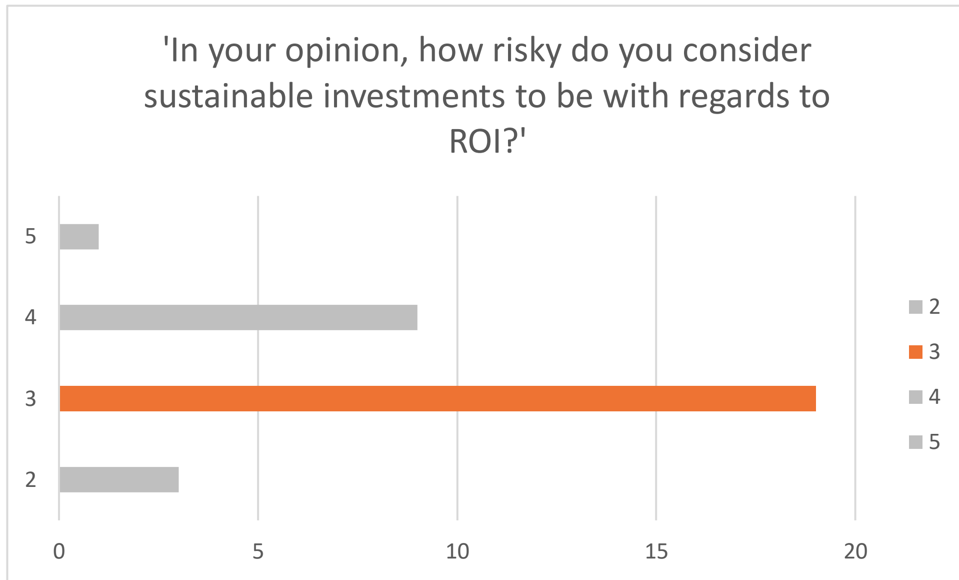
APPENDIX 8: Surveyed Firm Type



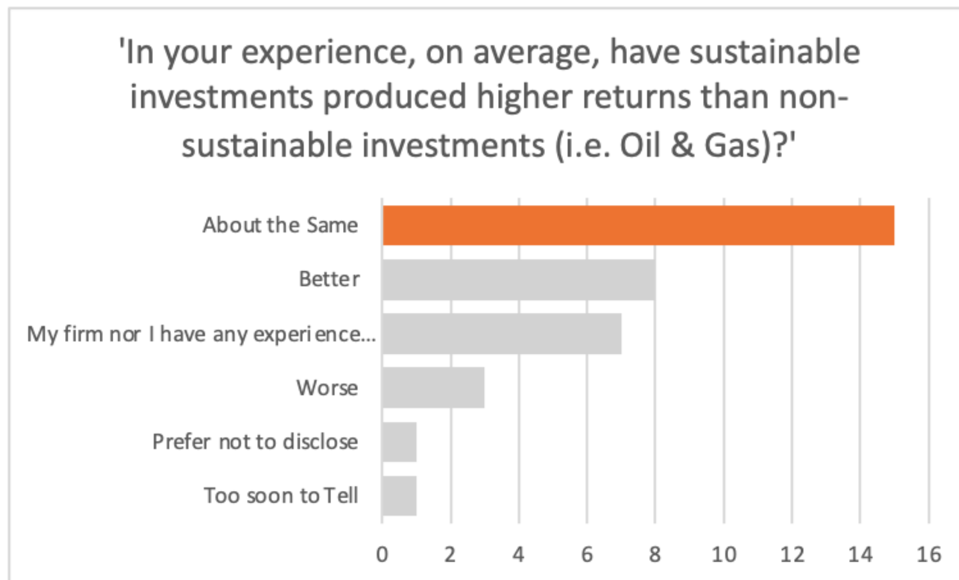
APPENDIX 9: Value of firm AUM in CAD



APPENDIX 10: Opinion on risk level of Sustainable Investments



APPENDIX 11: Risk level of Sustainable vs. 'Non-sustainable' Investments



APPENDIX 12: Level of Perceived Internal Stakeholder Pressure

APPENDIX 13: Level of Perceived External Stakeholder Pressure