

SUSTAINABLE INVESTING AS A CATALYST FOR ENVIRONMENTAL AND SOCIAL STABILITY

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Abstract

The study aims at assessing the importance of purpose-driven firms that make social and environmental impacts that go beyond selling goods or services. Furthermore, large-scale global issues, such as climate change, are often solved with sustainable business strategies. It is an attempt to know the effect of sustainable investing on the overall development of the society as a whole. The study also portrays the importance, benefits and limitations of the sustainable investing.

Keywords- ESG, sustainable investing

INTRODUCTION

Sustainable investing is investing in companies that prioritise environmental stewardship, social responsibility, and good governance. Used interchangeably with ESG investing, one approach to sustainable investing looks at a company's ESG rating for overall sustainability impact and balances ESG risks with potential returns. Other sustainable investors use a discretionary approach to filter for companies that don't meet certain ESG criteria. Investors commonly filter to avoid companies that produce fossil fuels, weapons, nuclear power, tobacco, adult entertainment, or other controversial products. Impact investing, also used interchangeably with sustainable investing, often centres on one cause or objective, such as the climate, rather than broad ESG criteria. ESG impact investors may prioritize companies taking targeted action to reduce carbon impact or combat social injustice.

REASONS FOR SUSTAINABLE INVESTING

Sustainability is more than idealistic. It offers an investment process that can build stable, long-term returns while making an environmental and social impact. The four major reasons why every investor should consider investing at least some portion of their portfolio in companies with sustainable priorities:

Increased returns

For more than 20 years, companies with high ESG values have shown consistent resilience and growth. Even through the economic stress of the COVID-19 pandemic, ESG stocks had above-market returns. A few highlights:

- According to Morgan Stanley's 2021 Institute of Sustainable Investing report, the relative performance of sustainable and traditional U.S. equity funds showed no financial trade-off in performance from 2004 to 2020. In fact, sustainable funds outperformed traditional funds.
- Along the same lines, the S&P 500 ESG Index has outperformed the broader S&P 500 at reporting periods for the past 10 years.
- In 2021, Morningstar's broad 373-stock U.S. Sustainability Index had returns that were 3% better than the overall stock market, with a 29.1% return.
- Also in 2021, the 50 U.S. companies with the best ESG scores as rated by Sustainlytics beat the broader U.S. market by more than 8%, with a return of 33.3% for the year.

Decreased volatility

ESG funds have shown historical resilience during market downturns such as the 2008 and late-2018 stock market collapses, as well as 2020's market contraction. Companies with strong ESG priorities have also shown greater ability to bounce back.

Sustainable investors are looking to ESG investments as a buffer against the current market downturn and possible recession. Predictors such as good governance, clear supply chains, and lower environmental impact or vulnerability protect companies from ESG-related risks that can increase long-term volatility.

Long-term trends

According to Morgan Stanley's 2021 report, 99% of millennial showed interest in ESG investing. That generation is set to inherit an estimated \$27.4 trillion, mostly from baby boomers. With the generational transfer of wealth and shifting sustainable priorities, investors can expect to see more companies prioritizing ESG, as well as more rigorous and reliable sustainability metrics.

Companies with sustainable priorities 25 years ago have shown sustained growth. With shifting demographics and both consumer and investor interest, it's reasonable to believe buying and

holding ESG exchange-traded funds (ETFs), mutual funds, stocks, and bonds could show even greater growth in the next 25 years.

Making an impact

The bottom line is the paragon of sustainable investing. Investors earn excellent returns while creating positive changes in important issues such as climate change and social justice. Investors can help to change the world, and it is an important time to drive societal change through investment dollars.

According to Morgan Stanley's 2021 report, 93% of individual investors who believe the economy are strong expressed interest in climate-themed investments. According to the same report, 60% of all investors are interested in a solution to climate change.

While recent turbulence may mean more investors have concerns about the strength of the economy, interest in ESG and the urgent need to curb climate change are still driving investors to make a difference. The war in Ukraine has highlighted the desire to find where private capital can make an impact in the world.

SUSTAINABLE INVESTING- VARIANTS

There are several types of sustainable investing.



Figure 1: Sustainable investing- variants

Socially Responsible Investing (SRI)

Socially responsible investing (SRI) is a strategy that also helps investors align their choices with their personal values. SRI presents a framework for investing in companies that agree with your social and

environmental values. SRI is more tightly focused on whether an investment is more precisely in line with an individual investor's values.

Impact Investing

Impact investing is less focused on returns and more focused on intent. With impact investing, investors make investments in market segments dedicated to solving pressing problems around the globe. These sectors could include those making advancements in green and renewable energy, housing equity, healthcare access and affordability and more.

Green Bonds

A green bond is a type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects. These bonds are typically asset-linked and backed by the issuing entity's balance sheet, so they usually carry the same credit rating as their issuers' other debt obligations.

Environmental, social, and governance (ESG) investing

Environmental, social, and governance (ESG) investing refers to a set of standards for a company's behaviour used by socially conscious investors to screen potential investments.

BENEFITS OF SUSTAINABLE INVESTING

Several benefits can be availed through sustainable investing. The benefits from the sustainable investing can be broadly classified as environmental benefits, social benefits and financial benefits.

Environmental Benefits of Sustainable Investing

Sustainable investing has the potential to drive positive environmental change and address pressing ecological challenges.

Reducing carbon emissions and combating climate change:

Investments in renewable energy sources, energy efficiency, and low-carbon technologies contribute to the transition to a low-carbon economy. By allocating capital to companies that prioritize emissions reduction and sustainable practices, sustainable investors play a pivotal role in mitigating climate change.

Preserving natural resources and biodiversity:

Sustainable investing encourages the preservation of natural resources by supporting companies committed to sustainable resource management and conservation efforts. Through responsible investment decisions, investors contribute to the protection of biodiversity and ecosystems.

Promoting clean and renewable energy sources:

Investors can drive the growth of clean energy industries, such as solar, wind, and hydropower. Financing renewable energy projects accelerates the transition away from fossil fuels and reduces dependence on environmentally harmful energy sources.

Mitigating environmental risks for companies and investors:

Sustainable investing incorporates environmental risk assessment into investment decisions. By identifying and avoiding companies with significant environmental liabilities, investors mitigate their exposure to financial risks associated with environmental damage and regulatory non-compliance.

Social Benefits of Sustainable Investing

Sustainable investing goes beyond environmental considerations and encompasses social aspects that promote equality, inclusivity, and community development.

Advancing social equality and inclusion:

Sustainable investing supports companies that prioritize diversity and inclusivity, promoting equal opportunities for all individuals regardless of race, gender, or background. Investing in businesses with strong social impact initiatives contributes to a more equitable society.

Supporting fair labour practices and human rights:

Investors can play a pivotal role in promoting fair labour practices and human rights by engaging with companies and encouraging responsible supply chain management. By investing in companies that uphold labour rights and respect human dignity, sustainable investors help combat labour exploitation and human rights abuses.

Investing in education, healthcare, and affordable housing:

Sustainable investing directs capital toward companies and projects that address social challenges such as education, healthcare, and affordable housing. Supporting these sectors may improve societal well-being and the reduction of inequality.

Strengthening local communities and reducing inequality:

Sustainable investing emphasizes community development and economic empowerment. Through investing in local businesses and supporting community-based initiatives, investors contribute to job creation, economic growth, and poverty alleviation.

Financial Benefits of Sustainable Investing

Contrary to the perception that sustainable investing sacrifices financial returns, numerous studies demonstrate that it can yield competitive financial performance while managing risks effectively.

Long-term performance and risk management:

Research indicates that sustainable investing can generate favourable long-term returns by identifying companies with sustainable business models and strong governance practices. Companies with robust ESG performance often exhibit better risk management, resilience, and long-term value creation potential.

Attracting a new generation of investors:

Younger generations, such as millennial and Generation Z, are increasingly drawn to sustainable investing. As these demographic groups inherit wealth and become more influential in the investment landscape, sustainable investing is poised to become a dominant investment approach.

Enhancing company reputation and brand value:

Companies with strong ESG performance and sustainable practices tend to build better reputations and stronger brands. Positive brand perception can enhance customer loyalty, attract top talent, and bolster a company's competitive advantage.

Unlocking innovation and business opportunities:

Sustainable investing drives innovation by channelling capital into companies developing sustainable solutions. These investments spur technological advancements, create new markets, and unlock business opportunities that align with the evolving needs of a sustainable future.

CHALLENGES AND LIMITATIONS OF SUSTAINABLE INVESTING

While sustainable investing has experienced remarkable growth, it faces several challenges and limitations that require attention and proactive solutions.

Lack of standardized metrics and reporting:

The absence of consistent ESG metrics and reporting frameworks poses challenges for investors in assessing and comparing companies' sustainability performance. Standardized reporting guidelines and increased transparency are necessary to facilitate informed investment decisions.

Greenwashing and the need for transparency:

Greenwashing, where companies exaggerate or misrepresent their environmental credentials, poses a significant risk to sustainable investing. Investors need transparency and independent verification of sustainability claims to ensure the authenticity of their investments.

Balancing financial returns and impact goals:

Sustainable investing aims to achieve both financial returns and positive impact. However, striking the right balance between financial objectives and impact goals can be challenging. Investors must navigate this balance while remaining true to their sustainability commitments.

Addressing the complexity of global sustainability issues:

Global sustainability challenges, such as climate change, poverty, and inequality, are complex and interconnected. Addressing these issues requires collaboration, systemic change, and a multifaceted approach. Sustainable investing alone cannot solve all these challenges, but it can be a catalyst for change.

CONCLUSION

As the Indian economy continues to grow, investors have a responsibility to consider the social and environmental impact of their investments. By investing in ethical indices, ethical mutual funds and related avenues we can support companies that prioritize people and planet while also achieving strong financial returns. Sustainable investing offers a powerful pathway to address global challenges and build a sustainable future for generations to come. By integrating environmental, social, and governance considerations into investment decisions, sustainable investors can generate both financial returns and positive impacts. The transformative power of finance, when harnessed responsibly, has the potential to shape a better world.

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