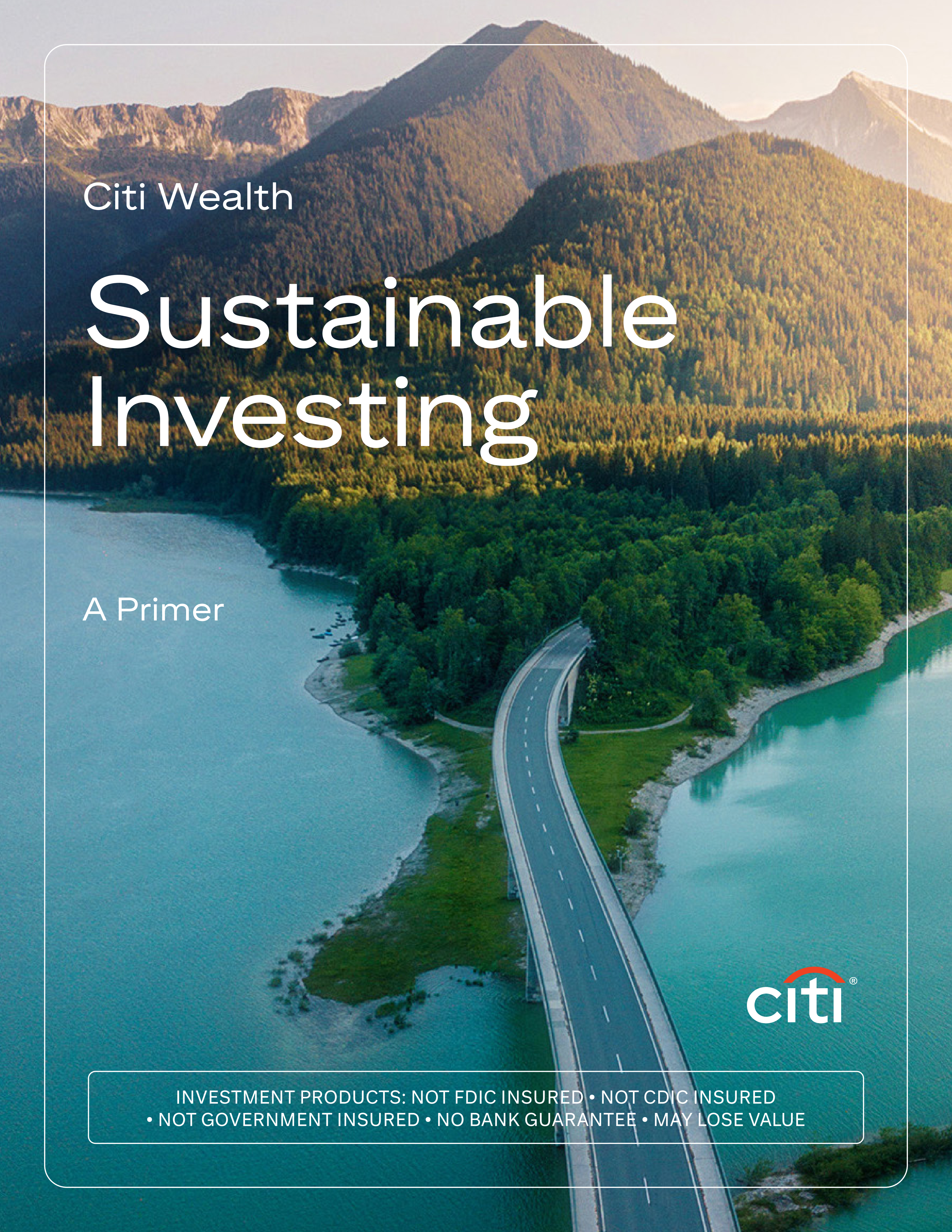

Citi Wealth

Sustainable Investing

A Primer

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INVESTMENT PRODUCTS: NOT FDIC INSURED • NOT CDIC INSURED • NOT GOVERNMENT INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

“Private investors are uniquely positioned to address sustainability challenges: they are willing to be patient and are driven by passion.”

Harlin Singh

Head of Sustainable Investing
at Citi Wealth

Table of contents

Planetary health and human health are intimately interconnected – by improving one we improve the other.

Pragmatic optimism

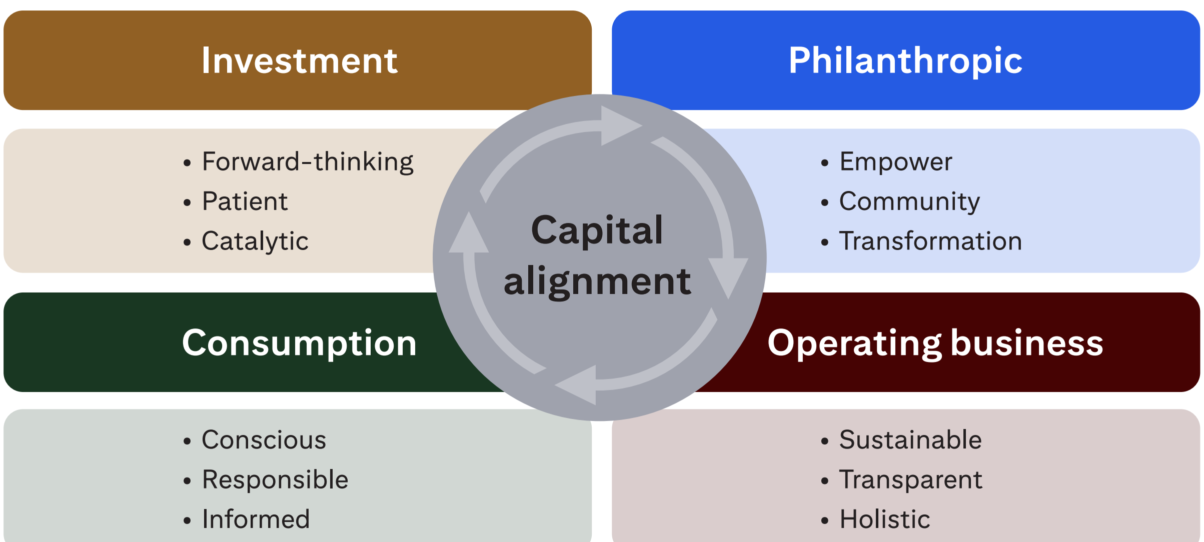
Sustainability – the capacity to meet present needs without compromising the ability of future generations to meet their own needs[1] – has emerged as a key element in certain decisions every day. For many pragmatic optimists, sustainability is synonymous with addressing the many impacts of climate change. Prolonged droughts, surging temperatures, and more intense wildfires affect people across all regions. While the scope of climate challenge might seem daunting, numerous innovations and policies that prioritize natural capital, circular business models, and a more efficient, cleaner energy system are emerging.

But that is only one side of the coin. The flipside is social progress and recognizing the power of capital to address market failures in providing adequate, affordable, and accessible solutions in healthcare, education, clean water, sanitation, and food. It is investing in a world that works for over eight billion people and preserves the health of the planet. Planetary health and human health are intimately interconnected – by improving one we improve the other. From affordable housing to clean oceans to soil health, there is something for everyone.

By actively seeking opportunities that prioritize environmental and social issues, investors can channel capital into supporting and potentially profiting from ingenious solutions to some of the world's most pressing challenges.

Aligning capital with purpose

Numerous individuals aim to align their various pools of capital with their worldview and sustainability objectives.



By simultaneously harnessing their purchasing power, philanthropic giving, investments, and operating business(es), they are making a difference on priority issues while avoiding potential conflicts. Each pool of capital serves a critical function in creating positive change, improving economies, and financing self-sustaining business to achieve economies of scale.

[1] Definition of Sustainability by the United Nations Brundtland Commission

Investor thinking on sustainable investing and returns has changed over time

Ethical and socially responsible investing

- **1700s onward:** Sustainable investments reflect clients' religious views
- **1970s and 1980s:** Growth of ethical investment and divestment, frequently referred to as socially responsible investing (SRI)

Rise of sustainable investing for returns

- **1990s and 2000s:** Academic and professional research challenges view that sustainability negatively impacts returns
- A growing awareness of how corporate social responsibility and practices related to social and environmental capital affect performance

[2] World Economic Forum, UN PRI, World Bank, Brookings Institution, Aspen Institute and others.

Source: Citi Global Wealth Investments as of December 2024.

The evolution of sustainable investing

During the 1700s, religious groups actively avoided investments in activities that contradicted their values. In more recent times, the oil crisis of 1973, anti-war movements, and apartheid in South Africa influenced the adoption of an exclusionary approach to investing. These efforts highlighted the potential draw of focusing on a broader investment objective.

Today, many investors proactively integrate sustainability factors beyond negative screening into their decision making processes. A deeper understanding of the link between sustainability and financial performance drives this approach. Sustainable investing is increasingly seen as recognizing the interconnectedness of economic prosperity, environmental health, and social well-being. What was once regarded as niche is now front and center for many investors. It is a lens that can be applied to almost any sector, it is forward-looking, and inclusive, making it highly relevant in today's world.

Integration and fiduciary duty

- **2000s and 2010s:** Financial industry begins to integrate environmental, social and governance (ESG) issues into valuations and strives to quantify financially material ESG contributions to long-term performance
- The importance of sustainable investing starts to gain traction as a fiduciary duty

Impact, outcomes and engagement

- **Late 2010s onward:** Financial institutions seek to invest for impact and align with social and environmental outcomes, both to reflect client preferences and growing body of research from economic think tanks and academia[2]
- Investors and investment managers actively engage with companies to drive sustainability objectives

What is sustainable investing?

Sustainable investing can empower investors who seek to:

- Reflect their values and worldview in their investment process
- Mitigate investment risks associated with environmental, social and governmental (ESG) issues
- Access the competitive returns sustainably operated companies may generate over time
- Gain investment exposure to the innovations that drive progress
- Generate incremental impact in the world

Increasingly, a growing universe of investors seek all the above simultaneously.

The term "sustainable investing" is a collective descriptor for a range of approaches. Each of these has its own financial and sustainability objectives and can be applied across traditional and alternative asset classes.

At Citi Wealth, we identify four main approaches in this area – socially responsible investing (SRI), ESG integration, thematic investing, and impact investing. These approaches are not mutually exclusive. A single investment strategy can combine some or all of them, targeting exposure according to an investor's priorities.

Socially responsible investing (SRI), refers to excluding sectors or companies from portfolios based on ethical or moral considerations. Common examples are tobacco, fossil fuels, and weapons.

ESG integration seeks to identify investments with a potentially attractive risk and return profile by assessing the ESG characteristics of each opportunity. Portfolio managers may also engage with each portfolio company's leadership to help influence its policies and business practices, in relation to the management of sustainability issues.

Thematic investments are based around certain sustainability themes, such as access to affordable healthcare, the energy transition, or the circular economy. Investments are made in sets of companies or projects that target specific issues or derive revenue from solutions that address sustainability challenges.

Impact investments seek a potential financial return alongside a measurable, intentional, and incremental impact in one or more environmental or social areas.

Can a sustainable investing strategy be profitable?

A common misconception about sustainable investing is that it requires the investor to forego some financial return compared to traditional investments. However, incorporating ESG metrics in investment decision-making may potentially improve the risk-reward potential. Additionally, investing in long-term trends such as the energy transition and affordable healthcare can provide investors with opportunities to participate in sectors that are meeting demand for basic human needs.

Sustainability can serve both as a competitive advantage and a source of risk mitigation. Integrating ESG considerations can provide a more complete analysis of the challenges and opportunities facing a company or a project. This can potentially help identify stronger risk-adjusted return opportunities, creating greater value for society and the investor. Reported and extrapolated ESG data from third party vendors combined with fundamental analysis is increasingly a feature of leading investment managers' investment selection process, irrespective of their industry specialty.

> "Increasing awareness of the benefits of sustainable investment – including holistic risk management, diverse investment opportunities, and potential outperformance – is encouraging clients to combine financial and sustainability goals."
>
> **Catherine Turullols**
> Sustainable Investing Specialist
> for North America at Citi Wealth

A range of approaches to consider across your investment portfolio

Socially responsible
Reflect values or preferences through company and/or sector exclusions

ESG integration
Integrate ESG criteria into the investment process to identify investments with robust or improving ESG characteristics

Thematic investments
Access investments aligned to key sustainability themes and/or that target specific issue areas

Impact investments
Invest in strategies designed to deliver a potential financial return alongside a measurable, intentional, and incremental impact in a particular environmental and/or social area

Numerous studies analyzing the relationship between sustainable investment and financial performance, such as a report by the NYU Stern Center for Sustainable Business, have found that sustainability initiatives including low-carbon future planning, improved innovation, and ESG-related risk management help to drive corporate financial performance. Moreover, the report concluded that sustainable investments provided potential downside protection, especially during a social or economic crisis.[3] Like traditional investments, each sustainable investment strategy is distinct, with varying financial results and risk profiles based on asset class and investment objectives.

It is important to note that an investment strategy's utilization of screens and other exclusionary tools to meet its sustainability objectives may affect its performance relative to its benchmark or the market as a whole because of these limitations. The performance of managers in this space may differ relative to the performance of other managers that employ similar strategies but do not expressly incorporate sustainability criteria into their investment strategy, or the stock market generally. For example, strategies that integrate ESG criteria can be limited in the type and number of investment opportunities available, or the ESG criteria can cause a portfolio manager to avoid a well-performing security or sector. Investing on the basis of ESG criteria is generally qualitative and subjective by nature. There is no guarantee that any of the determinations or investments made by an adviser will align with the values of a particular investor or will result in better performance. Due to their narrow focus, investments in sustainability related themes and sub-themes can be more volatile than, and underperform, other more diversified strategies and the stock market generally.

[3] New Meta-Analysis from NYU Stern Center for Sustainable Business and Rockefeller Asset Management Finds ESG Drivers Better Financial Performance

Investing in the energy transition

In 2023, clean energy, power infrastructure, and energy efficiency investments hit $1.77 trillion[4]. By contrast, the equivalent for fossil fuels sat just below pre-pandemic levels at slightly more than $1 trillion, according to the International Energy Agency[4]. The growing energy transition investment trend is in force despite challenges such as tumultuous supply chain logistics, macroeconomic instability, monetary policy, and energy market volatility. The demands of the energy transition, energy security and economic growth and development, must be tackled simultaneously.

Total 2023 energy transition investments were double the level of just three years earlier. This surge has been dominated by the two highest-growth commercial technologies: renewable energy and electric vehicles. See Sustainable Investing Spotlight: New Energy Horizon.

Various possibilities exist for investors to participate in the energy transition. One approach is seeking exposure to public companies that are enhancing their efficiency. Boosting energy efficiency is a cost-effective way to improve competitiveness. Moreover, many companies are exploring new solutions that can deliver clean, reliable, and affordable sources of energy. Another approach is to look for companies that are generating revenues by scaling a new technology along the energy value chain. Green bonds can also be a helpful component of an investor's fixed income allocation while helping to finance innovation in energy transition and efficiency.

Understanding the energy transition and other sustainability trends, in the context of your investment portfolio, can help uncover potential opportunities and help mitigate risks.

[4] IEA (2023), Global Energy Transition Stocktake 2023, IEA, Paris https://www.iea.org/topics/global-energy-transitions-stocktake, CC BY 4.0

Socially responsible investing: Exclusionary screening

Sustainable investing is rooted in ethically and socially responsible investing, an approach which imposes a set of values or preferences to exclude exposure to certain companies or sectors. Traditionally, religious organizations or individuals have sought to avoid "sin stocks," securities linked to tobacco, pornography, gambling, or weaponry. Spurred by environmental concerns and the shift toward renewable energy, socially responsible investing has evolved to exclude carbon-intensive sectors and businesses as well as the producers and refiners of coal, oil, and natural gas.

With an exclusionary approach, it is important to recognize how much exclusions may impact a portfolio. For example, they may result in a higher tracking error, i.e., the difference between the portfolio's performance and that of its benchmark or market index. They may also lead to unintended factor exposure, where the portfolio becomes more correlated to, say, interest rate movements or security price changes in a certain industry.

Limiting the type and/or number of investments in a portfolio – a natural consequence of an exclusionary approach – may affect performance compared to unrestricted approaches. Moreover, when investors exclude or divest certain types of investments, they relinquish the possibility of actively engaging with those companies and influencing their sustainability practices for the better.

ESG integration: How companies operate matters

Every company – regardless of industry or sector – has ESG characteristics arising from its day-to-day operations that are financially material. More so then ever, companies are aware of the challenges that society faces and their role in addressing them. An ESG integration approach may seek out companies whose positive or improving ESG attributes positions them to potentially deliver competitive risk-adjusted returns over time.

Reported and extrapolated ESG data from company reports and third-party ESG ratings providers are increasingly deployed in investment selection, as investors seek to understand a company's sustainability footprint. Reporting standards such as those of the Sustainability Accounting Standards Board (SASB) Standards and The International Sustainability Standards Board (ISSB) aim to provide information that supports investment decision-making and enables international comparability.

Sample of ESG operational considerations

E: ENVIRONMENTAL

Businesses have a two-way relationship with the natural world, and corporations should assess both their dependencies and impacts accordingly. For instance, the use of forest-risk commodities – including palm oil, timber and pulp, and ranched cattle – is both a dependency and has an impact on nature that presents business risks.

S: SOCIAL

Transparent and traceable supply chains help uncover issues, including unethical buying practices, modern slavery and unfair wage practices.

G: GOVERNANCE

Unethical and illegal business practices can expose companies to regulatory fines, legal actions, and a large swathe of additional risks. Having diverse boards and management teams has been associated with better corporate performance, meanwhile.

> "There is no single path to building a sustainable investing portfolio. Investors may chart their own course toward understanding, designing, and executing an approach that is appropriate to their unique goals, preferences, and resources."

Janet Shum

Sustainable Investing Specialist
for Asia Pacific at Citi Wealth

There are over 600 ESG ratings agencies and data providers globally,[5] each with its own methodology. Because they are largely subjective, the correlation between ESG data providers' ratings is quite low, at around 60%.[5] This complicates attempts to make standardized comparisons between companies based on ESG scores alone. As such, portfolio managers may combine third-party ratings, proprietary data, and fundamental analysis to mitigate the risk of overreliance on a single ESG ratings provider. Regulations and codes of conduct for ESG ratings and data providers have also emerged in various jurisdictions, aiming to enhance transparency, quality, and reliability of ESG ratings and data.

In public equity markets, investors also have the option of casting their proxy votes in favor of environmentally and socially aligned initiatives that aim to mitigate financial risks from rapidly shifting policies or a changing climate. Alternatively, they may have a portfolio manager that casts proxy votes on their behalf and directly engages with company leaders to influence proposals, strategy, and policy.

Suitable and qualified investors might explore private equity, private credit, direct investments, or venture capital to further accelerate a company's growth and impact. Asset managers may take board seats on portfolio companies to offer expertise and guidance on implementing climate or social policies within their business practices.

[5] Source: ESG Ratings: A Call for Greater Transparency and Precision

Food security

Global food insecurity has increased following a series of geopolitical shocks, including the COVID-19 pandemic, and Russia's invasion of Ukraine. Concerns have also been compounded by the effects of climate change and increasing evidence of damage from accelerating biodiversity loss and water scarcity. Amid concerns about immediate and long-term food security, agriculture policies are caught in the crossfire between short-term food security and sustainability - see Sustainable Investing Spotlight: Planting for tomorrow – Weaving sustainability into the path toward food security.

The challenge of sustaining a growing population without depleting our planet's resources is generating investable innovations in food systems spanning technology, infrastructure, and science. Some of the innovations, including feed that reduces emissions from livestock, cultivated meat produced from animal cells, and genetically modified crops that contain higher levels of antioxidants, could well prove revolutionary.

Many innovations target the need to reduce environmental impact within the existing structure by employing a precision farming approach to enable data-driven decisions, monitor crop health, and target inputs such as fertilizers, pesticides, and water, more effectively. Global positioning system (GPS), AI-driven software, and testing technology help maximize crop yield while reducing waste and harmful environmental effects.

Understanding sustainability trends may assist in the pursuit of returns and risk mitigation. Such trends may create potential opportunities in companies with a commitment to environmental stewardship, ethical sourcing, animal welfare, and social responsibility. Those firms may be positioned to outperform or be more resilient than their peers.

Investing in companies that are addressing today's global challenges, such as food production, can potentially uncover value and have a ripple effect. It can contribute to progress in various other interconnected areas. For example, mitigating the use of environmentally unfriendly fertilizers and pesticides can help keep fresh water sources safe. Regenerative agriculture practices such as these can reinvigorate soil health, resulting in a healthier ecosystem and increased biodiversity.

The UN SDGs highlight areas that require concerted action by stakeholders across society, such as clean energy, sustainable food production, and affordable housing.

Thematic investing: Businesses that offer solutions to sustainability challenges

Investors are increasingly directing capital toward companies that offer products and services that address sustainability challenges and create value. The need for solutions that will contribute to a healthier planet and society is generating investable innovations across technology, infrastructure, and science. The challenge is even more urgent given long-term forces such as population growth, with the number of people globally predicted to rise from around 8 billion today to nearly 10 billion in 2050.[6]

Some of the innovations and projects are targeting increased supplies of water that is drinkable or safe for agricultural use, environmental protection, cheaper and more efficient renewable energy, and provision of healthcare, nutrition, and education to those who lack it.

Sustainable investing themes

Sustainable thematic investing directs capital to companies that derive their revenue from creating solutions to address sociopolitical, environmental, and equitability-related problems. The individual themes often map to the United Nations 17 Sustainable Development Goals (UN SDGs). The UN SDGs highlight areas that require concerted action by stakeholders across society, such as clean energy, sustainable food production, and affordable housing.

Investing in sustainable thematic strategies creates the potential to align portfolio holdings with an individual's worldview, while capitalizing on innovations that drive both sustainable development and financial returns.

> Sustainable thematic investing directs capital to companies that derive their revenue from creating solutions to address sociopolitical, environmental, and equitability-related problems.

[6] Source: United Nations Population Fund Data

Citi Wealth Sustainable Investment Themes

We share below Citi Wealth's core sustainable investment themes that we believe combine growth and the potential to enhance shared prosperity for the planet and people.

Theme	Sub-theme
Investing in climate solutions Invest in companies that are creating transformative solutions that will enable clean energy transition, decarbonization and climate resilience.	Climate change mitigation and adaptation Energy transition Resource efficiency Sustainable infrastructure Carbon credits
Preserving natural capital Invest in nature-positive solutions spanning multiple areas that address pollution and help conservation.	Conservation and restoration of ecosystems, e.g., ocean health Fostering biodiversity Circular economy Pollution prevention and reduction Regenerative agriculture Sustainable land and water use
Improving quality of life Invest in companies that prioritize policies, services and technologies seeking to enhance the overall wellbeing of internal and external stakeholders.	Affordable healthcare Affordable housing Clean water and sanitation Energy security Food security
Fostering fair and inclusive growth Invest in solutions for creating a society where opportunities and benefits are distributed equitably among diverse populations and contribute to more sustainable long-term growth.	Just transition Financial inclusion Cybersecurity Affordable education Inclusive artificial intelligence Smart cities Workforce development

These themes serve as a roadmap for investors seeking to drive change, helping them to identify where their capital may make the most meaningful impact, be it addressing inequalities, creating meaningful jobs, ensuring access to quality education, and much more. The themes are interrelated and can help guide development of a portfolio allocation that has diversified sources of return and potential impact. At the same time, there may be complementary features. Investments in energy transition, for example, can directly increase opportunities across biodiversity, clean water and sanitation, and food security.

Various options are available for investors to participate in sustainability-related themes. One approach is to look for companies that are generating revenues by scaling a new product or service that contributes to sustainable development. Examples might include satellite imaging that monitors environmental changes, educational platforms, or blockchain that increases supply chain transparency.

In addition, green bonds, social bonds, blue bonds, and sustainability bonds can be an integral component of an investor's fixed income allocation and help finance innovation in issue areas. Green and social bonds are issued to address environmental and societal challenges, respectively. Blue bonds aim to protect oceans and marine ecosystems. While sustainability bonds may address a combination of environmental and societal challenges.

Private market investors might explore alternative options such as private equity, private credit, direct investments, or venture capital to further accelerate companies' growth and sustainability impact. Such companies may be seeking to commercialize or scale a new product, technology, business model, such as low carbon heating systems and lower-emission vehicles. For example, you may want to consider investing in real estate projects that create affordable, workforce housing unlocking resources for food, education, and mental well-being.

One approach is to look for companies that are generating revenues by scaling a new product or service that contributes to sustainable development.

Impact investing: Intentional, incremental and measurable outcomes

Impact investors' aim is to generate a financial return simultaneously with an environmental and/or social return, the so-called "double" or even "triple bottom line." Investment mandates state such intent, priorities and goals as well as the target financial return. To be considered an impact investment, the sustainable outcome sought must be incremental, meaning it would not have occurred had capital not been allocated to the investment. The impact also needs to be measurable by quantitative metrics or demonstrated by qualitative evidence.

As to directly addressing sustainability challenges, private markets and fixed income offer significant opportunities to address funding gaps through financial innovation. They seek to make progress in both climate change mitigation technologies as well as funding adaptation to improve infrastructure resilience, food production, and societal polarization.

> As to directly addressing sustainability challenges, private markets and fixed income offer significant opportunities to address funding gaps through financial innovation.

A dynamic duo: Donor-advised funds and sustainable investments

$54.77

billion in 2023

grants from donor-advised funds to charitable organizations[8]

Looking at the global landscape, Donor-advised funds (DAFs) are a popular giving vehicle in the U.S. and are gaining traction in the U.K. and South Asia. In the U.S., grants from DAFs to charitable organizations totaled more than $50 billion in each of the past two years[7].

DAFs are one of the fastest growing charitable giving vehicles in many regions globally. DAFs offer a simplified approach to charitable giving and help to establish a philanthropic strategy with lasting impact for generations to come.

A donor makes an irrevocable charitable donation to a public charity that sponsors and administers DAF accounts on behalf of donors. The donor receives the immediate tax benefit based on the prevailing tax rules for the assets donated and retains the privilege to recommend how capital will be further deployed to qualified public charities.

Donors can also recommend how the charitable assets are invested before being deployed, where they can grow tax-free. Charitably inclined investors may choose to pursue a sustainable investment strategy aligned with their interests. A sustainable investing strategy may combine multiple sustainable investing approaches to help target exposure and generate outcomes specific to what resonates with you.

For donors wanting to invest in opportunities aligned with their societal interests, DAFs are an effective vehicle to champion a more holistic approach to philanthropic giving.

[7] Source: National Philanthropic Trust. (2024) The 2024 DAF Report.

There can be no guarantee or assurance that the investment objectives will be achieved. Sustainable investment products are subject to availability. Certain sustainable investment opportunities may not be available in all regions, client segments, or not available at all. Not all products, analytics, and services are available to all clients in all regions.

Building a sustainable investing strategy

Set objectives

Each investor's journey is unique, so there is no universal formula for creating a sustainable investing strategy. Establishing clear goals at the outset helps to demarcate appropriate investments as well as setting criteria for measuring their progress over time.

The first step is to decide on the overall financial objective of the investment portfolio by establishing return expectations, risk tolerance, as well as liquidity, currency, and geographical preferences. The next step is to reflect on a sustainability objective.

For many investors there is one issue, trend, or impact area that matters most. Thematic areas ranging from climate solutions to social equity to food security can serve as an anchor when evaluating opportunities. Here are some questions to use as a guide:

- What is the one thing that you want to positively influence in society and why?
- Are there any sectors or companies that you would like to avoid?
- What outcomes are important to you? Are these outcomes regional or global?
- Is there an issue, trend, or impact area that matters most to you?
- Are there specific themes that you would like to explore within your portfolio, such as gender, clean water, or renewable energy?

At this stage, decide how much of the portfolio will be dedicated to sustainable investments. Will they comprise just a portion of the portfolio or will the full array of investments be placed under a sustainability lens?

Evaluating sustainable investments with multiple lenses

When seeking sustainable investment opportunities, it is key to be able to separate the wheat from the chaff. As sustainable investing has gained in popularity, so has the number of companies and organizations eager to play up the sustainable attributes of their business or investment opportunities.

This tactic, known as "greenwashing" or variations such as "social-washing", "rainbow-washing" or "ESG competence-washing," can take many forms. Examples of "washing" include omission of material information, provision of misleading information, and exaggeration of the sustainability credentials of a business or investment strategy.

Considering this risk, investors may be skeptical of investing in sustainable investment strategies. The Association of Investment Companies' ESG Attitudes Tracker found that 63% of private investors surveyed were concerned about greenwashing in 2023, up from 48% in 2021.[8] Holistic evaluation with a balance of both breadth and depth is critical to mitigating greenwashing risks.

When analyzing investments that appear to be a good fit for a portfolio, emphasize the importance of transparency with a financial advisor and ensure thorough due diligence to avoid green- or equivalent "washing". Evaluate the proposed holdings' alignment with your financial and sustainability objectives and be aware of any potential risks and exposure to sectors you may want to avoid.

As you peruse investment materials and attend related meetings and discussions, be wary of poorly defined or otherwise vague ESG terms, policies and promises. If the financial and ESG-related potential sound too good to be true they probably are. Insist on verifiable and empirical answers to questions.

[8] Financial Times: Fear of Greenwashing in ESG Investing has Grown

During the assessment of current and prospective companies that describe themselves as "sustainable," check that they are transparent about:

What a company does

Businesses in heavily sustainability-linked sectors such as healthcare may feel compelled to label themselves as "sustainable." However, this may not always withstand scrutiny of their product or service offering. For example, while companies offering access to affordable quality healthcare services to underserved communities are typically classified as sustainable investments, those focusing purely on cosmetic benefits are not.

How a company does it

Businesses that are committed to strong sustainability practices identify material ESG factors that impact their operations and stakeholders, as well as develop a risk mitigation plan and set ambitious targets for growth and improvement. Often, these companies assess their operations' day-to-day impact on the environment and community and take steps to prevent negative effects.

Here are a couple examples of how this may work:

1. An investor may be pursuing an environmentally-related goal such as financing renewable energy projects. This can be done through private investments that may require a long-term commitment or greater risk appetite. While this may be appropriate for some investors, others may seek out investments with shorter time horizons. These investors may choose to allocate the fixed income portion of their portfolio to green bonds whose proceeds go toward financing the energy transition.

2. An investor seeking to reduce the emissions associated with their portfolio may choose to avoid the fossil fuel sector. This could cause greater deviations from traditional benchmark performance due to the difference in sector composition. While this may be appropriate for a client who is not benchmark focused, an investor who is seeking performance in line with a traditional benchmark may instead choose a manager who owns fossil fuel companies with the lowest carbon emissions and actively engages with them to improve their environmental impact.

Applying a sustainability lens can uncover opportunities in companies that demonstrate a commitment to environmental stewardship, social responsibility, and robust governance with material financial impact. Over time, these practices may strengthen resiliency, positioning companies to outperform their peers. Opportunities in alternatives investments, hedge funds, private equity and real estate can round out an asset allocation.

In addition, many of the larger financial services firms are at the forefront of new and exciting initiatives to help finance disruptive innovation that seeks to transform our world for the better. Innovative structures, such as outcome bonds, offer investors the opportunity to mobilize private capital in support of projects with positive climate and development impacts.

Timely and systematic review of results

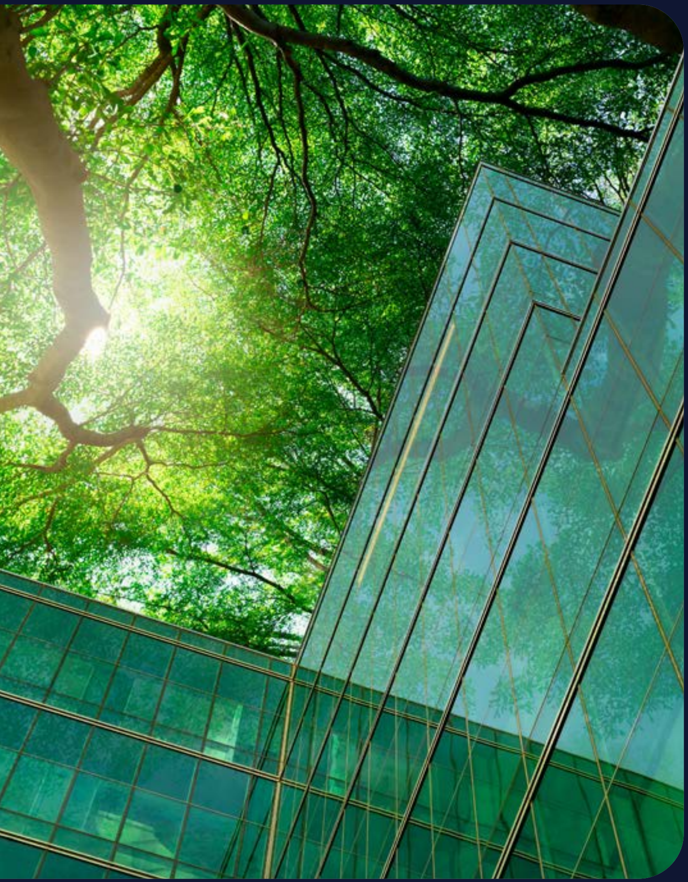
Even after selecting appropriate investments that incorporate the factors aligned to your preferences, it is vital to monitor their ongoing performance relative to your financial and sustainability goals. Conduct periodic and systematic assessments, including a review of impact or progress reports from the investment managers. This is to ensure that your portfolio remains aligned with your objectives.

Philanthropic alignment

You may also apportion some of your capital to investments that place a higher value on social or environmental impact than on financial returns. This often takes the form of a philanthropic donation, revocable grants, donor-advised funds, and program-related investments.

Bonds

The essence of sustainable fixed income investing is lending money to corporations, municipalities, and developers overseeing projects that accelerate progress in sustainable development.



Financial motivations can be aligned with ambitions ranging from tackling climate change to a personal sense of duty to the community to creating a legacy to aligning intergenerational passion for a particular cause.

The essence of sustainable fixed income investing is lending money to corporations, municipalities, and developers overseeing projects that accelerate progress in sustainable development. When it comes to investing in sustainable bonds, the intention and clear use of proceeds are crucial for ensuring that the funds raised are used to achieve specific environmental and social objectives. By adhering to various principles, such as Green Bond Principles and Social Bond Principles, issuers should provide transparency on the use of proceeds and impact of the funded activities. It represents one of several sustainable investment pathways that allow clients to shift portfolio focus from purely risk-adjusted returns to double or triple bottom-line outcomes. These outcomes include financial returns alongside measurable social and/or environmental impact.

Whatever the motivation may be, investors can contribute to progress given their ability and willingness to lend to sustainability driven ventures or projects. It is worth noting that in certain instances, investment capital can be catalytic, both in terms of impact as well as motivating others through its influence and encouraging more issuers to offer sustainable finance options, creating a ripple effect.

Looking ahead

As we look ahead, sustainable investing will continue to evolve, driven by investor awareness, regulatory changes, and innovation. ESG factors are becoming integral to investment management, particularly as the risks of climate change, cybersecurity, and labor practices are set to have increasing impact on financial performance. Emerging sustainability and climate reporting standards promote transparency and accountability globally. As stakes rise, the risk of ignoring sustainability grows. Simultaneously, long-term trends offer compelling wealth-building opportunities.

At Citi Wealth, we offer compelling opportunities to achieve your financial and sustainability objectives — and can help you contribute to issues that are important to you and your legacy. Please contact your financial representative to learn more.

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Bond rating equivalence

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Bond credit quality ratings	Rating agencies		
Credit risk	**Moody's [1]**	**Standard and Poor's [2]**	**Fitch Rating [2]**
Investment Grade			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

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- lack of liquidity in that there may be no secondary market for the fund and none is expected to develop;
- volatility of returns;
- restrictions on transferring interests in the Fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized;
- absence of information regarding valuations and pricing;
- complex tax structures and delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- manager risk.

Individual funds will have specific risks related to their investment programs that will vary from fund to fund.

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Diversification does not guarantee a profit or protect against loss. Different asset classes present different risks.

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