

Citi Wealth

# Sustainable Investing

A Primer



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



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



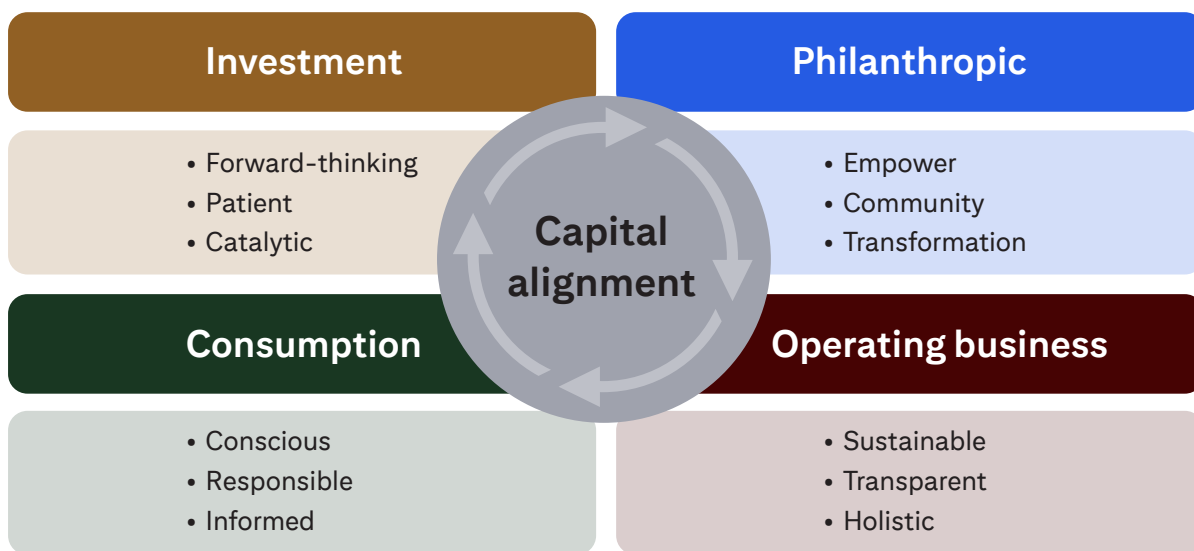
# Pragmatic optimism

Sustainability, defined as the capacity to meet present needs without compromising the ability of future generations to meet their own needs,<sup>1</sup> has become a pivotal consideration in daily decision-making. For many pragmatic optimists, sustainability is inherently linked with confronting the diverse impacts of climate change. Across all regions, communities are experiencing the effects of prolonged droughts, escalating temperatures, and more severe wildfires. While the magnitude of the climate challenge can seem formidable, a host of innovations and policies are emerging that emphasize natural capital, circular business models, and the development of a more efficient, cleaner energy system.

However, this environmental focus represents only one aspect of sustainability. The equally important dimension is social progress, which involves harnessing the power of capital to remedy market failures. This means ensuring adequate, affordable, and accessible solutions in critical areas such as healthcare, education, clean water, sanitation, and food. Ultimately, it is about investing in a world that effectively serves over eight billion people while safeguarding the planet's health. Planetary health and human health are deeply interconnected; enhancing one inevitably leads to improvements in the other. From initiatives in affordable housing to efforts for clean oceans and healthy soil, opportunities for engagement exist for everyone. By proactively pursuing investments that address both environmental and social issues, investors can direct capital towards supporting – and potentially benefiting from – innovative solutions to some of the world's most urgent problems.

## 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.

<sup>1</sup> 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 investors' 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

Source: Citi Wealth Investments as of December 2025.

# The evolution of sustainable investing

Historically, the practice of aligning investments with values is not new. During the 18th century, religious groups deliberately abstained from investments in activities that conflicted with their principles. In more recent history, significant global events such as the 1973 oil crisis, anti-war movements, and the anti-apartheid movement in South Africa spurred the adoption of exclusionary investment strategies. These movements underscored the compelling appeal of pursuing a more expansive investment objective than purely financial returns.

Today, a growing number of investors are proactively integrating sustainability factors into their decision-making processes, moving beyond mere negative screening. This shift is driven by a deeper understanding of the intrinsic link between sustainability and financial performance. Sustainable investing is increasingly recognized as acknowledging the interdependence of economic prosperity, environmental health, and social well-being. What was once considered a specialized or niche approach is now central to the strategies of many investors. It offers a

forward-looking and inclusive framework that can be applied across nearly all sectors, making it highly pertinent in the current global landscape.

## What is sustainable investing?

Sustainable investing empowers investors to:

- **Align Investments with Values:** Integrate personal values and worldview directly into their investment decisions.
- **Mitigate ESG Risks:** Reduce investment risks linked to environmental, social, and governance (ESG) factors.
- **Target Competitive Returns:** Potentially achieve strong financial performance from companies demonstrating sustainable operations over the long term.
- **Access Innovation:** Gain exposure to forward-thinking innovations that drive global progress.
- **Generate Positive Impact:** Contribute to measurable positive change in the world beyond financial returns.

A growing number of investors are now seeking to achieve all these objectives concurrently.

The term “sustainable investing” serves as an umbrella term encompassing a variety of distinct approaches. Each approach possesses its own financial and sustainability objectives and can be applied across both traditional and alternative asset classes.

At Citi Wealth, we categorize these into four primary approaches: Socially Responsible Investing (SRI), ESG Integration, Thematic Investing, and Impact Investing. It is important to note that these approaches are not mutually exclusive; a single investment strategy can combine some or all of them, thereby customizing exposure based on an investor’s specific priorities.

### 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<sup>2</sup>
- Investors and investment managers actively engage with companies to drive sustainability objectives

<sup>2</sup> World Economic Forum, UN PRI, World Bank, Brookings Institution, Aspen Institute and others. Source: Citi Wealth Investments as of December 2025.

**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 regarding sustainable investing is that it necessitates sacrificing financial returns when compared to traditional investments. However, integrating ESG metrics into investment decision-making can potentially enhance the risk-reward profile of portfolios. Furthermore, investing in long-term trends, such as the global energy transition or affordable healthcare, offers investors opportunities to engage with sectors that address fundamental human needs and societal demands.

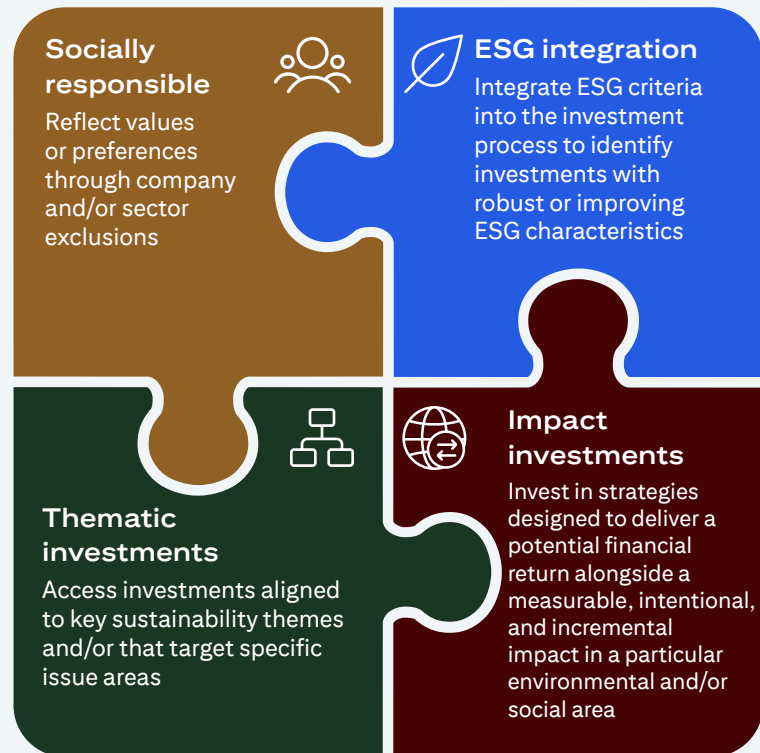
Sustainability acts as both a competitive advantage and a crucial tool for risk mitigation. By integrating ESG considerations, investors can conduct a more comprehensive analysis of the challenges and opportunities confronting a company or project. This deeper insight can potentially uncover stronger risk-adjusted return opportunities, thereby generating greater value for both society and the investor. Increasingly, leading investment managers, regardless of their industry specialization, are incorporating reported and extrapolated ESG data from third-party providers, alongside fundamental analysis, into their investment selection processes.

“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 the Americas at Citi Wealth

## A range of approaches to consider across your investment portfolio



Numerous studies, including a notable report by the NYU Stern Center for Sustainable Business, have analyzed the relationship between sustainable investment practices and financial performance. These studies consistently indicate that sustainability initiatives – such as low-carbon future planning, enhanced innovation, and effective ESG-related risk management – contribute positively to corporate financial performance. Furthermore, the NYU Stern report concluded that sustainable investments offer potential risk mitigation, particularly during periods of social or economic crisis.<sup>3</sup> It is important to recognize that, much like traditional investments, each sustainable investment strategy is unique, with its financial outcomes and risk profiles varying based on the specific asset class and investment objectives.

However, it is crucial to understand that an investment strategy's use of screens and other exclusionary tools to meet its sustainability objectives may impact its performance relative to its benchmark or the broader

market. This is due to the inherent limitations these criteria introduce. The performance of managers employing sustainable strategies may differ from that of managers using similar approaches without explicitly integrating sustainability criteria, or from the general stock market. For instance, strategies that incorporate ESG criteria might face limitations in the type and number of available investment opportunities. Additionally, ESG criteria could lead a portfolio manager to bypass a security or sector that is otherwise performing well.

Investing based on ESG criteria is generally qualitative and inherently subjective. Therefore, there is no guarantee that an adviser's determinations or investments will align with the values of a particular investor, nor that they will necessarily result in superior performance. Given their often narrower focus, investments in sustainability-related themes and sub-themes can also exhibit higher volatility and potentially underperform more diversified strategies and the general stock market.

<sup>3</sup> New Meta-Analysis from NYU Stern Center for Sustainable Business and Rockefeller Asset Management Finds ESG Drivers Better Financial Performance, 2021.

# Investing in the energy transition

The energy landscape is rapidly evolving with new technological advancements. In 2024, renewable energy sources achieved their 23rd consecutive year of record deployment, according to the International Energy Agency<sup>4</sup>. BloombergNEF's annual Energy Transition Investment Trends found that global energy transition investment reached a record \$2.3 trillion in 2025, up 8% from 2024. This surge was dominated by massive investments in electrified transport, renewable energy, and grid investment<sup>5</sup>.

The growing energy transition investment trend is in force despite challenges such as difficult supply chain logistics, macroeconomic instability, monetary policy, and energy market volatility.<sup>5</sup> The demands of the energy transition, energy security and economic growth and development, must be tackled simultaneously.

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.

<sup>4</sup> International Energy Agency, World Energy Outlook 2025.

<sup>5</sup> BloombergNEF, Energy Transition Investment Trends, 2026.



# Socially responsible investing: Exclusionary screening

Sustainable investing is rooted in ethically and socially responsible investing (SRI), an approach which imposes a set of values or preferences to exclude exposure to certain companies or sectors. Historically, religious organizations and individuals often avoided “sin stocks” – securities associated with tobacco, pornography, gambling, or weaponry. More recently, driven by environmental concerns and the global transition towards renewable energy, socially responsible investing has expanded its exclusions to include carbon-intensive sectors, as well as companies involved in the production and refining of coal, oil, and natural gas.

When employing an exclusionary approach, it is crucial to understand the potential impact these exclusions can have on a portfolio. For instance, they may lead to a higher “tracking error,” which refers to the divergence between the portfolio’s performance and that of its benchmark or broader market index. Furthermore, exclusions can result in “unintended factor exposure,” meaning the portfolio might become inadvertently more sensitive to specific market dynamics, such as interest rate fluctuations or price movements within a particular industry.

A natural consequence of an exclusionary strategy is the limitation on the type and/or number of available investments within a portfolio. This restriction can potentially affect performance when compared to unrestricted investment approaches. Moreover, by excluding or divesting from certain companies, investors forfeit the opportunity to actively engage with those companies and influence their sustainability practices in a positive direction.



# ESG integration: How companies operate matters

Every company, irrespective of its industry or sector, possesses financially material ESG characteristics stemming from its daily operations. More than ever before, companies are acutely aware of societal challenges and their role in addressing them. An ESG integration approach aims to identify companies whose positive or improving ESG attributes position them to potentially deliver competitive risk-adjusted returns over time.

Reported and extrapolated ESG data, sourced from company disclosures and third-party ESG ratings providers, is increasingly utilized in investment selection. This reflects investors' growing desire to understand a company's overall sustainability footprint. To facilitate this, reporting standards from bodies such as the Sustainability Accounting Standards Board (SASB) and The International Sustainability Standards Board (ISSB) aim to provide information that supports informed investment decision-making and enhances international comparability.

## Sample of ESG operational considerations



<b>E: ENVIRONMENTAL</b>	<b>S: SOCIAL</b>	<b>G: GOVERNANCE</b>
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 ranches cattle – is both a dependency and has an impact on nature that presents business risks.	Transparent and traceable supply chains help uncover issues, including unethical buying practices, modern slavery, and unfair wage practices.	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. <sup>6</sup>

<sup>6</sup> McKinsey Report Diversity matters even more: The case for holistic impact, December 2023.

“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,<sup>7</sup> each with its own methodology. Because they are largely subjective, the correlation between ESG data providers’ ratings is quite low, at around 60%.<sup>7</sup> 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 over reliance 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.

<sup>7</sup> Source: ESG Ratings: A Call for Greater Transparency and Precision, 2022.

# 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.

The pressing need to sustain a growing global population without depleting the planet's resources is catalyzing investable innovations within food systems, spanning technology, infrastructure, and scientific advancements. Some of these innovations, such as livestock feed that reduces emissions, cultivated meat produced from animal cells, and genetically modified crops with enhanced antioxidant levels, hold revolutionary potential. Many innovations also aim to reduce environmental impact within existing agricultural structures by employing precision farming. This approach enables data-driven decisions, monitors crop health, and allows for more effective targeting of inputs like fertilizers, pesticides, and

water. Technologies such as Global Positioning System (GPS), AI-driven software, and advanced testing contribute to maximizing crop yield while simultaneously minimizing waste and harmful environmental effects.

Understanding these sustainability trends can significantly assist in the pursuit of returns and risk mitigation. Such trends may create compelling opportunities in companies that demonstrate a strong commitment to environmental stewardship, ethical sourcing, animal welfare, and social responsibility. These firms may be better positioned to outperform or exhibit greater resilience compared to their peers. Investing in companies actively addressing global challenges, such as food production, can potentially uncover significant value and create a powerful ripple effect. It can contribute to progress in various interconnected areas; for instance, reducing the use of environmentally harmful fertilizers and pesticides helps safeguard freshwater sources. Similarly, regenerative agriculture practices can revitalize soil health, leading to healthier ecosystems 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.<sup>8</sup>

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 equity-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 equity-related problems.

<sup>8</sup>United Nations World Population Prospects, 2024.

## 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
<b>Investing in climate solutions</b> 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
<b>Preserving natural capital</b> 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
<b>Improving quality of life</b> 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
<b>Fostering fair and inclusive growth</b> 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 sustainable themes serve as a strategic roadmap for investors aiming to drive positive change, helping them pinpoint where their capital can achieve meaningful impact. This includes addressing inequalities, fostering meaningful job creation, ensuring access to quality education, and many other critical areas. These themes are often interrelated, providing guidance for developing a diversified portfolio allocation that offers varied sources of return and potential impact. Furthermore, they can feature complementary characteristics; for example, investments in the energy transition can directly enhance opportunities in biodiversity, clean water and sanitation, and food security.

Investors have various options for participating in sustainability-related themes. One approach is to seek out companies generating revenue by scaling new products or services that contribute to sustainable development. Examples include satellite imaging for environmental monitoring, educational technology platforms, or blockchain applications that enhance supply chain transparency.

Additionally, specialized bonds such as green bonds, social bonds, blue bonds, and sustainability bonds can form an integral part of an investor's fixed-income allocation. These instruments help finance innovation in critical issue areas: green bonds address environmental challenges, social bonds tackle societal issues, blue bonds focus on protecting oceans and marine ecosystems, and sustainability bonds may combine both environmental and societal objectives.

For private market investors, alternative options like real estate, private equity, private credit, direct investments, or venture capital can further accelerate companies' growth and sustainability impact. Such investments target companies commercializing or scaling new products, technologies, or business models, such as low-carbon heating systems and lower-emission vehicles. For instance, considering investments in real estate projects that create affordable, workforce housing can unlock resources for residents, improving their access to 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.

Diversification does not ensure profit or protection against loss.



# Impact investing: Intentional, incremental and measurable outcomes

Impact investors aim to generate both a financial return and a distinct environmental and/or social return, often referred to as a “double” or “triple bottom line.” Investment mandates for such strategies clearly articulate these intentions, priorities, and goals, alongside the expected financial returns. For an investment to qualify as “impact,” the sustainable outcome sought must be incremental, meaning it would not have occurred without the specific allocation of capital to that investment. Furthermore, this impact must be measurable, either through quantitative metrics or demonstrably through qualitative evidence.

Regarding the direct addressing of sustainability challenges, private markets and fixed income present significant opportunities to bridge funding gaps through financial innovation. These areas are actively seeking to advance both climate change mitigation technologies and to fund adaptation efforts that improve infrastructure resilience, enhance food production, and address 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



**\$64.89**  
billion in 2024

grants from donor-advised  
funds to charitable  
organizations<sup>9</sup>

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 three years.<sup>9</sup>

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 mission. 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.

<sup>9</sup> Annual DAF Report 2025 — DAF Research Collaborative.

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**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.<sup>10</sup> 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.

<sup>10</sup> Financial Times: Fear of Greenwashing in ESG Investing has Grown, 2023.

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 for sustainable investing can align with a wide range of ambitions, from tackling climate change and fulfilling a personal sense of community duty to creating a lasting legacy or fostering intergenerational passion for a specific cause.

Sustainable fixed income investing fundamentally involves lending capital to corporations, municipalities, and developers for projects that actively accelerate sustainable development. For sustainable bonds, clear intention and transparent use of proceeds are paramount to ensure that raised funds achieve specific environmental and social objectives. By adhering to principles like the Green Bond Principles and Social Bond Principles, issuers can provide transparency on the use of proceeds and the impact of funded activities. This represents one of several sustainable investment pathways, enabling clients to shift their portfolio focus from solely risk-adjusted financial returns to achieve double or triple bottom-line outcomes. These outcomes encompass financial returns alongside measurable social and/or environmental impact.

Regardless of their motivation, investors can significantly contribute to progress through their willingness and ability to finance sustainability-driven ventures or projects. Notably, in some instances, investment capital can be catalytic, not only in terms of direct impact but also by influencing others and encouraging more issuers to offer sustainable finance options, thereby creating a positive 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 credit quality ratings	Rating agencies		
Credit risk	Moody’s <sup>1</sup>	Standard and Poor’s <sup>2</sup>	Fitch Rating <sup>2</sup>
<b>Investment Grade</b>			
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
<b>Not Investment Grade</b>			
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

<sup>1</sup> The ratings from Aa to Ca by Moody’s may be modified by the addition of a 1, 2, or 3, to show relative standing within the category.

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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.

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