Cultivating a Sustainable Mindset in Finance

Mobilising the Capital Needed to Combat Climate Change

By
Danyelle Guyatt

Cultivating a Sustainable Mindset in Finance: Mobilising the Capital Needed to Combat Climate Change
By Danyelle Guyatt

This book first published 2023
Ethics International Press Ltd, UK
British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

Print Book ISBN: 978-1-80441-066-0
eBook ISBN: 978-1-80441-067-7

Contents

Foreword

I grew up in what Norwegian eco-philosopher Sigmund Kwaloy calls the Industrial Growth Society. This era sees the Earth as an endless source, and as an undamageable system capable of self-recovery. The mindset of the Industrial Growth Society values growth and expansion. The period started over two hundred years ago, when we realized that we could figure out how to be more productive by streamlining processes and automating them. Productivity meant lower costs and more profits. Capital was able to generate more capital, and progress equaled growth. Having more, and having it sooner were good goals.

Alas, there were other characteristics of this mindset. The ever-expanding need for resources came with expansions of global corporations, military interventions, and occupations. The mantra of the 1980s – "greed is good", nurtured individualistic, hedonistic behaviors benefiting the elites. Globalization helped to foster consumerism, in a spiral of increasing use of natural resources, extraction and depletion, with negative social, health and wellbeing impacts. Caught in a sum-zero logic, the choice was between planet or profit, and from the perspective of the short-term, profit won.

Of course, there were challenges and obstacles, but it was possible to look away, complaining about politicians, corporations, 'lazy people' or 'the system'[1]. All in all, it was easy to live in self-contained bubbles, enjoying this micro-stable worldview, where we thought we had figured things out: we had science, technology, and infinite human ingenuity to create progress, growth, better standards of living, comfort, and access to goods, longer lives and globalization to have it all.

The illusion didn't last, and we can think of the holes in the ozone layer as a physical representation of the holes in our paradigm: the beneficiaries of progress were a rather small percentage of the population, while the costs of the extended party were carried mostly by those who didn't participate in, nor benefitted from much of that progress. Certainly, voices had started to rise already in the second half of the past century, pointing at early signals of the consequences of the unsustainable paradigm we had collectively adopted. Some studied the extinction of species, CO2 levels in the atmosphere, land and water ecosystems, pollution, degradation of soils, the use of chemicals, nuclear proliferation, and waste. With access to the Internet, social injustice and inequity also became exposed, even within well structured global supply chains. Many questionable or unethical behaviors had lasted because they had been hidden and unquestioned. The Internet shrank and connected the world, making it transparent for all to see. Good people doing bad things were confronted and exposed to the gap between their values and their behaviors.
That the micro-stable worldview was based on un-sustainable foundations may have not been obvious to its main players, until disruptive weather events impacted the life of individuals independently of their geographical location.

---

[1] Growing up in Argentina, the conservative and right-wing people used to see social divide and poverty as self-inflicted ills, because the poor "were lazy". The progressives and leftists blamed corporations and "the system".

Some called this “the Great Unraveling”. I call it the bursting of the micro-stable paradigm bubble, and it brought an increasing sense of urgency to do something, to address the challenges, find solutions, and innovate our way out of the problems we are facing.

But, as Einstein famously observed, we cannot solve a problem from within the thinking that created it. In other words, as Danyelle Guyatt intelligently notes, it may be time to revise the mindset that brought us here, and to develop a more functional, resilient, and effective mindset for sustainability. Certainly, developing a mindset sounds like a complex, if not impossible task. However, Danyelle shows in this book that it may be easier than we imagine.

As the developer of the Sustainability Mindset Principles framework, I have been asked which of the twelve principles is the most important. My answer is: start with the principle of Purpose. I recall a conversation with a pioneering business leader, who had built a solid and well branded organic coffee roasting company. Towards the end of our interview, I asked him what advice he had for educators who were interested in developing a generation of leaders more conscious of the planet and people. After reflecting in silence for a few moments, he replied: I wish someone had asked me, when I was in college, what my purpose was, why I was doing what I was doing. I probably wouldn’t have had an answer at that time, but I would have started my journey of seeking the answer many decades ago, not when I was in my 50s.

As you go through the thought-provoking pages of this book, I invite you, the reader, to occasionally pause and ask yourself:

What is my purpose? Why am I doing the work I'm doing? What is the difference I want to make in the world? What ancestor am I being for the generations to come? You may not have the answer at this time, but it may start you on a journey of pursuit of meaning that you will never regret.

Isabel Rimanoczy, Ed.D,. Co-Founder and Director of SMindicator LLC
Fort Lauderdale, July 2023

Introduction

The world is waking up to the realisation that there is an imbalance in the global ecosystem that requires urgent attention and action from governments, corporations, investors, and civil society. Many of us are all too aware that humans have been placing extreme pressure on the planetary boundaries since the industrial revolution, resulting in increasingly unstable and extreme weather, loss of natural habitat and biodiversity and the growing risk of mass species extinction, including of the humankind.

While scientists, civil society activists, sustainability advocates and international organisations and policy makers have been echoing these concerns and making efforts to raise global action, it is only in recent years that the mainstream corporate and finance communities have begun to take the situation more seriously. A plethora of corporate statements, commitments and in some cases, real action, have surfaced as the powerful players in the global economy have increasingly realised that sustainability is not just about 'good' business, cost savings or competitive advantage; it is about the security, harmony, integrity, and viability of the entire global ecosystem that we have all co-created and depend on for our existence.

The question remains as to whether this 'waking up' is sufficiently strong and backed up by real action to avoid catastrophic outcomes in the short window of time that we have left. Many commentators have their doubts, including myself. Yet hope remains, and I remain on the side of hope, with the caveat that the window of time to act is quickly closing.

This is why mindsets matter, as mindsets shape our inner world and ultimately how we behave. As humans we have the evidence, data, tools, technologies, and capabilities to take swift action to avert dangerous climate change outcomes, biodiversity and habitat loss and ecological crises. What we don't have at the individual and societal level is the mindset that prevails over any perceived barriers to act with the urgency that is required. When we have a shared purpose to move to a more sustainable world, clarity in our beliefs and a determination to leverage our sphere of influence (both individually and in collaboration with others), then we can swiftly shift the global ecosystem onto a sustainable trajectory. Sustainability then becomes integral to our daily activities of community and family life, our work, research, teaching or business interests. In other words, cultivating a sustainability mindset means that we undergo an internal shift, such that our behaviour will naturally become more aligned with sustainability actions and outcomes.

I write this book from the perspective of an insider in the financial sector, which is why I am focusing on the cultivation of a sustainable mindset in finance. Having been academically trained and employed as an economist, financial strategist and investment consultant in the earlier stages of my working life, I understand the framework that many who work inside the financial sector may feel constrained to act within. The industry norms subconsciously lead to a certain way of thinking and behaving, as financial outcomes, personal advancement, bonuses, and the desire to simply 'fit in' to the culture is digested by recruits, new and old. A narrative unfolds and envelopes, as do industry conventions that serve to reinforce beliefs around the purpose of the financial sector, and the role that we each individually and collectively play.

The good news is that these norms and perceived binds are being challenged, unpicked, re-examined and – when beneficial – discarded and replaced with an approach that is more in tune with addressing the sustainability challenges of our time.

I had this realisation about a decade into my working life, when I was working for an investment bank in London and saw first-hand that the framework that the finance industry was working within had quite significant limitations in its real-life applicability. I was only in my late 20s and had already seen more than half a dozen large scale financial crises in different parts of the world, and as a strategist it was my job to try to make sense of these events and explain them to clients whose money we were managing. I saw that the constructs of rationality, portfolio diversification and market efficiency were just that, constructs rather than reality.

For one thing, there are many unrealistic assumptions about human behaviour that simply do not hold up to scrutiny when you observe how investors make decisions on a day-to-day basis. We are so much more complex than neoclassical theory would like us to believe. Yes, financial return is at the centre of what we do, but we are also human beings with emotions, biases, cognitive limitations, psychological processes, and social conformity pressures that impact on our daily decisions, and hence impact on how the financial system functions and serves the needs of society more broadly.

With a sustainable mindset, people who lead and work inside financial organisations have the potential to step back from the dominant narrative and look inward to reflect on what really matters to them in their personal and professional capacity, and indeed what matters to the organisation. The purpose and culture of organisations and the entire financial sector has the capacity to adapt and internalise sustainability into how it functions; it simply requires an individual and collective mindset shift, and the genuine sustainability actions that reflect that mindset shift will follow.

Obviously not all individuals or organisations will necessarily see the need or benefit of shifting towards a sustainable mindset, as it will require a certain level of introspection, investigation, and commitment that not everyone will be willing to undertake. The purpose of this book is not to replace one mantra with another, to present another 'rulebook' that is externally imposed by an outside entity, it is rather to invite readers to consider how their mindset interacts with their broader sustainability goals, and how these can be brought together in greater unison.

This book begins by exploring the role of the financial sector in helping to avert the social and ecological challenges of our time. We explore why mindsets matter, and why it is important for the financial sector to cultivate a sustainable mindset. The book builds on the emerging literature on sustainable mindsets and presents a framework to cultivate a sustainable mindset in the financial sector, with the emphasis on 'framing' the potential pathway rather than prescribing a one-size-fits-all solution.

This framework looks at the role of emotions (how we feel), cognition (how we think) and behaviour (what we do) in shaping the decisions that investors make on a day-to-day basis. Some of the qualities of a sustainable mindset that are particularly relevant for the financial sector includes embracing a broader sense of purpose in serving the needs of others, and a realisation and alignment of beliefs with that purpose in mind. Developing systems thinking and recognising the limits to growth and what the need for regeneration means for capital allocation decisions now and into the future is a core part of the mindset shift that is needed. When each investor can envision the future world and their role in creating that outcome, then there will be greater synergy between what they do on a day-to-day basis and achieving that long term vision.

We then look at the important role that the financial sector could play in closing the climate financing gap, as well as the informational and behavioural barriers to act, drawing from relevant literature and research evidence. The sustainable mindset framework is applied to the specific challenge of increasing capital allocation into activities that will help to close the climate financing gap. While this is not the only issue where the financial sector could play a pivotal role, it is evident that there is a persistent gap between the financing needs to mitigate and adapt to climate change that needs to be closed with greater urgency than we are currently witnessing. We show that a modest shift in our mindset could help to accelerate the financial flows into climate financing, with some practical suggestions provided to help achieve that shift.

1. The role of the finance sector in achieving sustainable development

"Saving our planet, lifting people out of poverty, advancing economic growth… these are one and the same fight. We must connect the dots between climate change, water scarcity, energy shortages, global health, food security, and women's empowerment. Solutions to one problem must be solutions for all."
Ban Ki-moon, former Secretary-general of the United Nations

"The financial sector lies at the front of the industrial value chain and should set and apply responsible finance guidelines that help mitigate adverse environmental practices. It should use its financial influence to expedite the value chain's transition to sustainability."
World Economic Forum (2023)

"Achieving the objective of the Paris Agreement to limit global temperature increases to 1.5°C from pre-industrial levels requires a whole economy transition. Every company, bank, insurer, and investor will need to adjust their business models, develop credible plans for the transition to a low-carbon, climate-resilient future, and then implement those plans."
Glasgow Financial Alliance for Net Zero (2021)

Defining the finance sector

The finance sector is predominantly comprised of retail banks, investment banks, development banks, non-bank financial institutions, insurance companies, pension funds, superannuation funds, mutual funds, investment managers, sovereign wealth funds, charities and endowments. In aggregate, the value of the assets that these groups collectively oversee as measured by the combined value of equity-market capitalization, corporate loans, bonds and global private markets was estimated to be worth in excess of US$480 trillion in 2021 (Statista, 2023). The financial sector presides over a large pool of capital, bringing with it significant power and influence over how the financial system functions and ultimately, the sustainability of the global ecosystem which we are all part.

The purpose of the financial sector

At its most fundamental level, the financial sector's functions are to provide safekeeping of financial assets, to allow individuals and organisations to transact with one another, to insure risk and to "intermediate" between lender and borrower (London Business School, n.d.). The financial sector impacts on the real economy through the savings and investments of the national income accounts of every nation, as well as through the allocation of capital for the purposes of production or investment (North and Buckley, 2010). The sector collectively influences the price and value of assets, market liquidity, the cost of capital and where capital is allocated, as well as the stability, fairness, and equity of the financial system. The financial sector therefore plays a central role in enabling and financing the shift towards a more sustainable and inclusive global economy (World Economic Forum, 2023).

As this chapter highlights, there are positive indications that the financial sector is aware of the challenges posed by climate change and the benefits of sustainable development, reversing biodiversity loss and restoring balance in our ecosystem. We will see that many financial institutions are collaborating on a raft of sustainability issues; they are making pledges to achieve net zero by 2050 and support the Sustainable Development Goals (SDGs), including climate justice and poverty alleviation. Yet at the same time we are seeing a proliferation in litigation cases, rising accusations of greenwashing, continued financing of expansion in fossil fuel extraction activities and an alarming persistence in the climate financing gap.

We are at a critical junction in redressing the sustainability issues of our time, and the financial sector plays a crucial role in that process. We need to revisit the core purpose of the finance sector, and how that relates to addressing some of the market failings that are giving rise to the global sustainability challenges that we face. The core functions / purpose of the financial sector and how these relate to sustainable development are summarised below.

a) **Broader sense of purpose and serving others.** The existence of the financial sector is fundamentally based on allocating capital to where it will best serve society, be it helping families buy a home or saving for retirement; helping businesses raise capital to support growth and employment; and helping people manage risks and prepare for a rainy day (IMF, 2019). Reconnecting back to the fundamental purpose of financial service to serve others opens pathways to see how the financial sector can be a 'force for good' (Force for Good, n.d.) as part of carrying out its activities, where individual responsibility is grounded in values and ethics, and a sense of personal responsibility to do the right thing.

This fundamental purpose – to serve others – is integral to the process of generating financial returns and profits and not separate to it, where money and morals co-exist (Sandel, 2013), building the strong foundation for exercising duty of care and building societal trust in a sector that is integral to the quality of everyone's lives and the environment in which we all live (Waitzer and Sarro, 2014).

b) **Efficient allocation of resources.** The ultimate function of the financial sector is not to speculate over future movements in asset prices to maximise short-term financial returns, but rather to allocate capital to the most beneficial activities for society over the long-term (Stracca, 2004). Allocative efficiency is therefore about how well the financial sector allocates capital to where it is most needed, taking into account consumer's preferences and needs. Evidently with the growing realization and acknowledgement that planetary health and human health and well-being are interdependent, the financial system can facilitate the efficient allocation of resources in a way that will be most beneficial for the economy, society and the environment in the long run. In this way, the capital requirements to close the financing gaps to achieve the Paris Agreement and the SDGs are central to the workings of the financial sector in terms of allocating capital to where it is most needed.
c) **Stability.** Central Banks and financial regulators recognise the risk that sustainability poses for the stability of the financial system, and have introduced a series of checks and balances, scenario analysis tools and reporting requirements based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations to ensure that the financial sector

is adequately assessing, managing, and disclosing these risks (World Bank Group, 2017). The link between pension funds, insurers and banks in underpinning financial stability and safeguarding the wellbeing and safety of households and firms in the face of climate change and ecological imbalance is widely recognised (European Central Bank, 2019).

d) **Security and safety.** As part of fulfilling their role to provide a secure retirement future for end beneficiaries and members, a growing body of international public and private sector pension funds, mutual funds and superannuation funds have publicly supported the Net Zero by 2050 goal and the attainment of the SDGs by 2030. Insurance and reinsurance companies also play an important role in mitigating and adapting to the effects of climate change in both developed and emerging economies through how they invest their surplus capital, as well as the provision of insurance products and services to help communities manage and mitigate climate-related risks. There is potential for the financial sector to escalate its influence over the companies and entities in which it invests, to engage with governments to promote accelerated policy measures, and to increase the allocation of capital to activities that enable and accelerate climate mitigation, resilience and sustainable development (OECD, 2021).

Highlight: Defining Sustainable Finance

While there is no universally agreed definition of sustainable finance, a widely cited definition is provided by the European Commission as part of its Sustainable Finance activities:

"Sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects."
Source: European Commission (2022)

To understand what this means in practice, we need to understand and define sustainable development, and what that entails for the financial sector. We also need to understand what ESG means and how that can be actioned in practice across the financial sector, as the terminology is still loosely defined. In addition, an understanding of how the finance sector functions, its role and the different participants in the financial sector are important to interpret what integrating ESG might involve for them.

A number of frameworks, standards, guidelines, and sustainability taxonomies have been developed in an attempt to consolidate what sustainability means and how it relates to the activities of the financial sector. It is widely noted that a clearer definition of sustainable finance will improve measurement and disclosure standards, which will help to reduce the risk of misleading statement or incomplete information in the market.

However, as this book argues, the internal conditions – that is the mindsets of the people inside the financial institutions, the culture of the industry and the 'rules of the game' at the market wide level have received far less attention than the external conditions have received (be it information gaps, regulations, or industry guidelines). To embed sustainability into how the financial sector functions in a holistic way, both the internal and external conditions need to be considered.

The pursuit of sustainable development

The Brundtland Commission (1987) defined sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their own needs" (UN Brundtland Commission, 1987).

- Sustainable development calls for concerted efforts towards building an inclusive, sustainable and resilient future for people and planet.

- For sustainable development to be achieved, it is crucial to harmonize three core elements: economic growth, social inclusion and environmental protection. These elements are interconnected, and all are crucial for the well-being of individuals and societies.

- Eradicating poverty in all its forms and dimensions is an indispensable requirement for sustainable development. To this end, there must be promotion of sustainable, inclusive, and equitable economic growth, creating greater opportunities for all, reducing inequalities, raising basic standards of living, fostering equitable social development and inclusion, and promoting integrated and sustainable management of natural resources and ecosystems.

The advancement of sustainable development extended the global work under the auspice of the Millennium Development goals (UNDP, n.d.) to launch a sustainable development agenda in 2016, "Transforming Our World: The 2030 Agenda for sustainable development". The SDGs (UNDP, 2018) contain 17 goals and 169 targets. The SDGs form the framework for improving the lives of populations around the world and mitigating the hazardous man-made effects of climate change. SDG 13: Climate Action, calls for integrating measures to prevent climate change within development frameworks. SDG 14: Life Below Water, and SDG 15: Life on Land, also call for more sustainable practices in using the earth's natural resources.

The SDGs call for action by all stakeholders: governments, civil society, charities and endowments, academic institutions, as well as the corporate and financial sector, to promote prosperity while protecting the planet., and others. The goals recognize that ending poverty must go together with strategies that build economic growth and address a range of social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection.

As we will see in the ensuing discussion, many financial institutions have embraced the importance of the SDGs and have made efforts to incorporate these into their investment strategies, although we will also see that this action is failing to redirect capital to where it is most needed to achieve the goals of the SDGs.

Highlight: Definition of Sustainable Development

Sustainable Development is defined by the UN as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (UNDP, 2018).

1. Sustainable development calls for concerted efforts towards building an inclusive, sustainable and resilient future for people and planet.

2. For sustainable development to be achieved, it is crucial to harmonize three core elements: economic growth, social inclusion and environmental protection. These elements are interconnected and all are crucial for the well-being of individuals and societies.

3. Eradicating poverty in all its forms and dimensions is an indispensable requirement for sustainable development. To this end, there must be promotion of sustainable, inclusive and equitable economic growth, creating greater opportunities for all, reducing inequalities, raising basic standards of living, fostering equitable social development and inclusion, and promoting integrated and sustainable management of natural resources and ecosystems.

This goal gained the support of 193 Member States of the United Nations for a new sustainable development agenda, "Transforming Our World: The 2030 Agenda for sustainable development". This agenda contains 17 goals and 169 targets.

<u>Sustainability criteria:</u> In this report reference to "sustainability criteria" includes the environmental, social and governance (ESG) factors that will support the attainment of sustainability goals (PRI, n.d.). There are currently no agreed standardized sustainability criteria at the international level, although there are differing standards and emerging practices that are being applied.

Climate change as a systemic risk

Climate change is a threat to human well-being and planetary health, and the window of opportunity to secure a liveable and sustainable future for all is rapidly closing. The goal of the Paris Agreement to "limit global warming to well below 2°C and pursue efforts to limit the temperature increase to 1.5°C compared to the pre-industrial age" requires escalated action and prioritisation by governments, businesses, investors and civil society (WMO, 2023). The financial sector invests into the global economy and is thus not immune or outside of the systemic risks posed by climate change. Indeed, as the IPCC (2023) noted in the Synthesis Report of the Sixth Assessment Report, the financial sector plays a critical role in helping to steer the global economy to a more sustainable footing through its financing decisions.

The IPCC (2023) reported that the pace and scale of climate change is manifesting more quickly and is more extreme and damaging than previous assessments indicated. IPCC explained that the choices and actions implemented in this decade will have impacts now and for thousands of years. Building climate resilience requires an escalation in action and investment in adaptation and mitigation activities, to reduce the projected losses and damages for humans and ecosystems. Such investment will also deliver many co-benefits, such as improved air quality and health. Further delays in mitigation and adaptation action will lock-in high-emissions infrastructure, increase the risks of stranded assets and significantly increase losses and damage costs.

This calls for a whole of sector, whole of economy and whole of society transition, to achieve deep and sustained emissions reductions and secure a liveable and sustainable future for all. A significant upscaling of a wide portfolio of mitigation and adaptation options is required, with feasible, effective, and low-cost options for mitigation and adaptation already available today. While government policy and technological development play a central role in supporting and escalating climate action, the IPCC (2023) also highlighted the critical role that the financial sector plays in enabling the accelerated climate action through how it allocates capital.

More specifically, the IPCC noted that if climate goals are to be achieved, both adaptation and mitigation financing would need to increase many-fold. While there is sufficient global capital to close the global investment gaps, the IPCC observed that there are barriers that are slowing down the redirection of capital towards mitigation and adaptation activities that need to be urgently addressed.

> The focus of this book is to examine the perceived barriers to unlocking the capital that is needed to finance the mitigation and adaptation activities, which the IPCC identified as being critical for building climate resilience and securing a liveable and sustainable future for all.

Environmental, Social, and Governance (ESG) issues

The financial sector has become increasingly aware of the important role that it plays in shaping the way the global financial system functions, and how its activities impact on society and the environment more broadly. This has given rise to several industry-led developments, one of which was the emergence of the UN backed Principles for Responsible Investment (PRI). It was established in 2006 after the then United Nations Secretary-General Kofi Annan invited a group of the world's largest institutional investors to join a process to develop the PRI, whose mission is defined as follows:

> *"We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.*
>
> *The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation."*
> Source: PRI, www.unpri.org/about-us/about-the-pri

As part of the PRI's evolution, the terminology of Environmental, Social and Governance (ESG) emerged from a series of interactions between international sustainable investment specialists, and six Principles for Responsible Investment were created. At the time of writing in February 2023, there were over 3,800 signatories to the PRI, representing asset owners (pension funds, superannuation funds, insurance companies, charities and endowments), asset managers (investment managers), and service providers (consultants, research and data providers) with a combined US$121 trillion in assets under management.

> In this book, reference to "sustainability" includes the environmental, social and governance (ESG) issues that will support the attainment of the sustainability goals.

The somewhat perplexing aspect of the PRI is that while signatories make a commitment to the PRI and agree to abide by the six principles which centre around integrating ESG into investment processes, there is no definitive list of ESG issues, and no intention to develop any such list. Rather, the PRI produces examples of ESG issues, and leave investors to undertake the assessments needed as it relates to their investment portfolios. The list provided by the PRI is reproduced in Figure 1.

Figure 1.

ESG Issue	**Examples**
Environmental (E)	Issues relating to the quality and functioning of the natural environment and natural systems. These include biodiversity loss; greenhouse gas (GHG) emissions, climate change, renewable energy, energy efficiency, air, water or resource depletion or pollution, waste management, stratospheric ozone depletion, changes in land use, ocean acidification and changes to the nitrogen and phosphorus cycles.
Social (S)	Issues relating to the rights, well-being and interests of people and communities. These include human rights, labour standards in the supply chain, child, slave and bonded labour, workplace health and safety, freedom of association and freedom of expression, human capital management and employee relations; diversity; relations with local communities, activities in conflict zones, health and access to medicine, HIV/AIDS, consumer protection; and controversial weapons.

ESG Issue	Examples
Governance (G)	Issues relating to the governance of companies and other investee entities. In the listed equity context these include board structure, size, diversity, skills and independence, executive pay, shareholder rights, stakeholder interaction, disclosure of information, business ethics, bribery and corruption, internal controls and risk management, and, in general, issues dealing with the relationship between a company's management, its board, its shareholders and its other stakeholders. This category may also include matters of business strategy, encompassing both the implications of business strategy for environmental and social issues, and how the strategy is to be implemented. In the unlisted asset classes governance issues also include matters of fund governance, such as the powers of Advisory Committees, valuation issues, fee structures, etc.

Source: www.unnpri.org

The commitment of signatories to the PRI sets out the alignment of ESG issues with acting in the best interests of beneficiaries and fiduciary duty and the performance of investment portfolios.

> *"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)."*
>
> *…We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society."*
>
> Source: www.unpri.org

The emphasis of the PRI is thus on the benefits of integrating ESG into investment processes for portfolio performance, rather than the wider positive real-world benefits of taking a more holistic approach to investing. While the latter part of the above statement recognises that ESG issues and the broader interests of society are in alignment, it falls short of acknowledging that investors could contribute to developing a financial system that can enable sustainable outcomes through how it functions and behaves.

There have been more recent developments in regard to impact investment and blended finance amongst PRI signatories and some workstreams that have opened up new conversations and perspectives for investors to align their investment decisions with an intention to also positively impact on the real-world. For example, a review was published in 2021 with the support of the PRI, UNEP FI and the Generation Foundation that indicated the legal frameworks across 11 different jurisdictions do allow investors to align their financial decisions with sustainability outcomes, as the two are, in effect, intertwined (PRI, 2021).

Nevertheless, positive impact goals are not embedded into the core principles of the PRI and positive impact is still considered to be a niche or 'additional' activity for purpose-led investors, rather than the mainstream investment community (PRI, 2019).

Investor pledges on Sustainable Development

The 2030 Agenda for Sustainable Development was adopted by all United Nations Member States in 2015, as a shared blueprint for peace and prosperity for people and the planet, now and into the