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GUIDANCE

# Definitions for Responsible Investment Approaches

## FOREWORD

The growth of responsible investment brings with it increased expectations. Part of that expectation centers on communication. Investors need language that enables them to communicate their responsible investment practices accurately, succinctly, and consistently.

The PRI sees great value in partnering with CFA Institute, Global Sustainable Investment Alliance, and others in the responsible investment industry to standardize terminology. By unifying around common definitions, we support our signatories and members to communicate with confidence.

—David Atkin, CEO, PRI

During the past decade, many investors have shown an increased interest in environmental, social, and corporate governance issues. Although this interest has spurred new ideas and practices, it has also introduced new terminology into our lexicon that may not be initially clear or widely understood.

As practice has evolved and matured, CFA Institute recognized the opportunity to work alongside fellow global standard setters, PRI and Global Sustainable Investment Alliance, to bring greater clarity and harmony to our definitions of these investment approaches. This effort is critical to ensure that professionals can communicate efficiently and effectively with each other, as well as investors and industry professionals across the market.

We believe this work will serve as a valuable resource for CFA charterholders, members, and candidates, as well as participants and regulators of capital markets on a global scale.

—Margaret Franklin, CFA, President and CEO, CFA Institute

We release these definitions as a public good for the global financial services industry, to create a consistent foundation for the continued professionalization of responsible investment.

This effort draws on a long history of work to standardize core industry terminology. It follows an extensive process to refine these, undertaken collaboratively by the largest collective industry bodies globally.

We now encourage the global industry and regulators to adopt these definitions, particularly for developing labeling and disclosure standards that reduce confusion and provide our beneficiaries with greater clarity, consistency, and certainty.

—Simon O'Connor, Chair, Global Sustainable Investment Alliance;  
CEO, Responsible Investment Association Australasia

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## INTRODUCTION

Growing global interest in responsible investment demands greater standardization of terminology to enable institutional investors, regulators, and other industry participants to communicate with precision.

In November 2021, the International Organization of Securities Commissions (IOSCO) highlighted the need for the global investment industry "to develop common sustainable finance-related terms and definitions, including relating to responsible investment approaches, to ensure consistency throughout the global asset management industry."<sup>1</sup>

In response, CFA Institute, the Global Sustainable Investment Alliance (GSIA), and the Principles for Responsible Investment (PRI) came together to harmonize definitions for the following responsible investment terms:

- Screening
- ESG integration
- Thematic investing
- Stewardship
- Impact investing

This resource is intended for investors, regulators, policymakers, and other market participants. It describes the concepts that define each responsible investment approach, rather than criteria for product labeling or categorization. The responsible investment approaches defined in this paper are not mutually exclusive and, in practice, are often used in combination. This resource aims to harmonize existing terms and definitions—not create new terms or meanings.

### Structure

Each of the five terms listed in the introduction has its own section. Each section includes a definition of the term, a list and explanation of the definition's essential elements, guidance for using the term in practice, and the definitions that served as the primary inputs and reference points for this work.

The essential elements consist of the core concepts that are necessary and sufficient for defining a term. They are useful for comparing different definitions for the same term. If two definitions contain the same core concepts, they can be considered equivalent even if the wording differs. In addition, essential elements are helpful for translating definitions into other languages with improved consistency.

Comments related to this work may be directed to [ESGstandards@cfainstitute.org](mailto:ESGstandards@cfainstitute.org) and [reporting@unpri.org](mailto:reporting@unpri.org).

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<sup>1</sup>International Organization of Securities Commissions, "Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management" (November 2021). [www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf](http://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf).

# DEFINITIONS

## Screening

Screening is a process for determining which investments are or are not permitted in a portfolio. It is used for a variety of purposes, such as attaining an investment focus, complying with laws and regulations, satisfying investor preferences, and limiting risk.

Screening criteria can be based on various investment characteristics, including market capitalization, credit ratings, trading volumes, geographical location, and/or environmental, social, and governance (ESG) characteristics. Screening based on ESG characteristics is described below.

### Definition

**Screening:** Applying rules based on defined criteria that determine whether an investment is permissible.

### Essential Elements

- Applying rules
- Based on defined criteria
- That determine whether an investment is permissible

### Explanation

#### Applying rules...

Screening rules can be set by clients, chief investment officers, regulators, and others. Because screening rules prescribe whether an investment is permitted in a portfolio, screening is often subject to compliance oversight.

Screening rules may incorporate implementation requirements. For example, they may stipulate the timing or conditions for selling any investments that cease to meet the screening criteria.

#### ... based on defined criteria...

Screening rules are based on clearly defined criteria, which can be qualitative or quantitative. Examples include the following:

- Whether the issuer is a constituent of a specific ESG-related index
- Whether a sovereign issuer achieves a given human rights performance score (e.g., 40 out of 100) from a specific ratings provider
- Whether  $\geq 10\%$  of an issuer's revenue is from the production and/or sale of tobacco products
- Whether an asset is located on a flood plain, as defined by a specific agency

Thresholds are an essential element of any quantitative screening criteria. Thresholds can be absolute, relative, or relative to peers. For example, a Scope 1 carbon dioxide emissions screen threshold may be

- carbon neutrality (absolute threshold),
- 200 tons per USD1 million revenue (relative threshold), or
- the industry average carbon intensity (relative to peers threshold).

### ... that determine whether an investment is permissible

Screening rules categorically determine whether individual investments are permitted in a portfolio. They do not apply to the aggregate portfolio. For example, a screen using governance scores would stipulate the necessary governance score of each investment, not the average governance of the investments in a portfolio.

The same screening rule can be expressed in terms of what is either permitted in or excluded from the portfolio. Clarity, brevity, or marketing objectives often determine how screening rules are communicated.

## Types of Screening

A range of terms distinguish among types of screening, including exclusionary, negative, positive, best-in-class, and norms-based screening. These terms have distinct but overlapping elements, shown in **Table 1**.



**Table 1. Distinguishing Elements for Common Types of Screening**

Exclusionary Screening/ Exclusions	Negative Screening	Positive Screening	Best-in-Class Screening	Norms-Based Screening
Applying rules based on...	Applying rules based on...	Applying rules based on...	Applying rules based on...	Applying rules based on...
ESG criteria...	"Undesirable" ESG criteria...	"Desirable" ESG criteria...	ESG criteria that are "desirable" relative to peers...	Compliance with widely recognized ESG standards or norms <sup>a</sup> ...
That determine whether an investment...	That determine whether an investment...	That determine whether an investment...	That determine whether an investment...	That determine whether an investment...
<i>Is not permitted</i>	<i>Is not permitted</i>	<i>Is permitted</i>	<i>Is permitted</i>	Is or is not permitted

<sup>a</sup>For example, international conventions are a common source of ESG-related norms.

*Note:* This table illustrates common and distinct features among types of screening. It is not a comprehensive list.

## Guidance

- Precise, plain-language description of the process and criteria (including thresholds) used to screen a portfolio can reduce potential misinterpretation by audiences that are unfamiliar with the nuances of screening described in Table 1.
- Investment products characterized as implementing screens should have all the essential elements reflected in both the design of the screen and its implementation.
- If rules are not based on defined criteria and applied consistently, the activity should not be characterized as screening.
- If specifying a particular type of screening, investors should include a definition that contains the distinguishing elements described in Table 1. Without a definition, screening terms can lead to misunderstandings for the following reasons:
  - A screening term may be interpreted in more than one way. For example, a fund manager may use the term "positive screening" to communicate that the purpose of the screening is to achieve a particular investment focus, but a client may interpret "positive screening" as describing investments that are associated with social or environmental benefits.
  - Screens can be characterized using multiple terms. For example, a screen that generates an investment universe of issuers with above-average environmental scores could be described as exclusionary (it excludes issuers with below-average scores), positive (it includes better environmental performers), and best-in-class (the comparison is relative).
- A screen should not be characterized as best-in-class unless its threshold for inclusion requires *at least* better-than-median rank or better-than-average performance in the industry, sector, or other appropriate peer group.
- Screens that are critical to the investment strategy or key investment product characteristics should be disclosed in accordance with Provision 2.A.9 of the "Global ESG Disclosure Standards for Investment Products,"<sup>2</sup> which states the following:

If an investment product has ESG criteria that systematically exclude certain investments or has ESG criteria that need to be met in order for an investment to be considered for inclusion in the portfolio, the investment manager should disclose for each ESG criterion:

- the characteristic of the investment that is evaluated;
- the threshold or condition against which the characteristic is compared;
- whether the investment is excluded from, or is eligible for inclusion in, the portfolio when the threshold or condition is met; and
- a reference, where applicable, to any law, regulation, or third-party standard, guideline, or framework used in the establishment or evaluation of the criterion.

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<sup>2</sup>CFA Institute, "Global ESG Disclosure Standards for Investment Products" (2021). [www.cfainstitute.org/-/media/documents/ESG-standards/Global-ESG-Disclosure-Standards-for-Investment-Products.pdf](https://www.cfainstitute.org/-/media/documents/ESG-standards/Global-ESG-Disclosure-Standards-for-Investment-Products.pdf).

## Listing of Definitions

Organization	Type of Screening	Definition
<b>Negative/Exclusionary Screening</b>		
CFA Institute	Negative screening	Negative screening imposes a set of exclusions based on ethical preferences or around a normative worldview to shape the investable universe of a portfolio. Negative screening seeks to avoid or minimize exposure to sectors that are more prone to risks, such as regulatory risks within the tobacco sector, or economic risks like fossil fuel–related stranded assets.  <i>Source: Certificate in ESG Investing Curriculum: ESG Investing Official Training Manual, 3rd ed. (Charlottesville, VA: CFA Institute, 2021)</i>
GSIA	Negative/exclusionary screening	The exclusion from a fund or portfolio of certain sectors, companies, countries, or other issuers based on activities considered not investable. Exclusion criteria (based on norms and values) can refer, for example, to product categories (e.g., weapons, tobacco), company practices (e.g., animal testing, violation of human rights, corruption) or controversies.  <i>Source: "Global Sustainable Investment Review 2020" (2021)</i>
PRI	Negative screening/exclusions	Applying filters to a universe of securities, issuers, investments, sectors or other financial instruments to rule them out, based on poor performance on ESG factors relative to industry peers or specific environmental, social or governance criteria. This may include ruling out particular products, services, regions, countries or business practices.  <i>Source: Reporting Framework Glossary (updated 26 January 2023)</i>
Asset Management Association Switzerland (AMAS) and Swiss Sustainable Finance (SSF)	Exclusions (negative screening)	The exclusion approach (or negative screening) refers to the deliberate exclusion of issuers from an investment portfolio due to activities or business practices that violate given norms or values—based on client's preferences—or due to anticipated risks.  <i>Source: "Sustainable Asset Management: Key Messages and Recommendations of SFAMA and SSF" (16 June 2020)</i>
US SIF	Negative/exclusionary screening	The exclusion from a fund or plan of certain sectors or companies involved in activities deemed unsustainable or controversial.  <i>Source: "Report on Sustainable and Impact Investing Trends 2020" (2020)</i>
<b>Norms-Based Screening</b>		
CFA Institute	Norms-based screening	Applies existing normative frameworks in order to screen issuers against internationally recognized minimum standards of business practice. Screening generally applies globally recognized frameworks like treaties, protocols, declarations and conventions including: the UN Global Compact, the UN Human Rights Declaration, the ILO's Declaration on Fundamental Principles and Rights at Work, the Kyoto Protocol, and the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.  <i>Source: Certificate in ESG Investing Curriculum: ESG Investing Official Training Manual, 3rd ed. (Charlottesville, VA: CFA Institute, 2021)</i>

(continued)

## Listing of Definitions (*continued*)

Organization	Type of Screening	Definition
GSIA	Norms-based screening	Screening of investments against minimum standards of business or issuer practice based on international norms such as those issued by the UN, ILO [International Labour Organization], OECD and NGOs [non-governmental organizations] (e.g., Transparency International).  <i>Source:</i> "Global Sustainable Investment Review 2020" (2021)
PRI	Norms-based screening	Applying filters to a universe of securities, issuers, investments, sectors or other financial instruments based on minimum standards of practice aligned with international norms. Widely recognised frameworks for minimum standards of practice include the OECD Guidelines for Multinational Enterprises, the International Bill of Human Rights, UN Security Council Sanctions, and the UN Global Compact.  <i>Source:</i> Reporting Framework Glossary (updated 26 January 2023)
<b>Best-in-Class/Positive Screening</b>		
CFA Institute	Best-in-class screening	Best-in-class investment involves selecting only the companies that overcome a defined ranking hurdle, established using ESG criteria within each sector or industry.  <i>Source:</i> <i>Certificate in ESG Investing Curriculum: ESG Investing Official Training Manual</i> , 4th ed. (Charlottesville, VA: CFA Institute, 2022)
GSIA	Best-in-class/positive screening	Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers, and that achieve a rating above a defined threshold.  <i>Source:</i> "Global Sustainable Investment Review 2020" (2021)
PRI	Positive/best-in-class screening	Applying filters to a universe of securities, issuers, investments, sectors or other financial instruments to rule them in, based on their positive performance on ESG factors relative to industry peers or specific environmental, social, or governance criteria.  <i>Source:</i> Reporting Framework Glossary (updated 26 January 2023)
AMAS and SSF	Best-in-class screening	Approach in which a company's or issuer's environmental, social and governance (ESG) performance is compared with that of its peers (e.g., in the same sector or category) based on a sustainability rating. All companies or issuers with a rating above a defined threshold are considered investable. The threshold can be set at different levels (e.g., 30% best performing companies or all companies that reach a minimum ESG score).  <i>Source:</i> "Sustainable Asset Management: Key Messages and Recommendations of SFAMA and SSF" (16 June 2020)
US SIF	Positive/best-in-class screening	Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers. This strategy also includes avoiding companies that do not meet certain ESG performance thresholds.  <i>Source:</i> "Report on Sustainable and Impact Investing Trends 2020" (2020)



## ESG Integration

ESG integration is the incorporation of ESG factors into an investment process, based on the beliefs that ESG factors can affect the risk and return of investments and that ESG factors are not fully reflected in asset prices. ESG integration involves seeking out ESG information, assessing the materiality of that information, and integrating information judged to be material into investment analysis and decisions. The details of implementation can vary.

### Definition

**ESG integration:** Ongoing consideration of ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.

### Essential Elements

- Ongoing consideration of ESG factors
- Within an investment analysis and decision-making process
- With the aim to improve risk-adjusted returns

### Explanation

#### Ongoing consideration<sup>3</sup> of ESG factors...

An ESG factor is any qualitative or quantitative information<sup>4</sup> pertaining to environmental, social, or governance topics. Because ESG integration is based on the belief that not all such factors are reflected in asset prices, it involves exploring information sources that provide insight into these factors. Such factors do not necessarily fall into mutually exclusive categories. For example, a regional conflict could be described both as a geopolitical factor and a social factor.

ESG integration requires identifying and assessing the ESG risks and opportunities that are relevant to investments, weighting that information, and making decisions about those investments. ESG integration is an ongoing part of the investment process, not a one-time activity.

Consideration of ESG factors means that these are part of the mosaic of information used to inform investment analysis and decisions and that they are given thought and weight proportionate to their relevance. ESG integration does not presume which, if any, ESG factors are material to an investment decision, although guidelines, standards, or recommendations may be used as an input.

Consideration of ESG factors does not imply

- that there are restrictions on the investment universe,
- that ESG factors are given more or less consideration than other types of factors,
- that all ESG factors are given equal consideration, or
- that the resulting portfolio will have any particular characteristics.<sup>5</sup>

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<sup>3</sup>Some definitions of ESG integration use "inclusion" instead of "consideration." "Consideration" is the better choice because (1) it more precisely reflects the nature of ESG integration, (2) it helps distinguish ESG integration from other ESG investment approaches, and (3) it helps prevent other ESG investment approaches from being characterized as ESG integration.

<sup>4</sup>Information includes but is not limited to raw data, statistics, estimates, assessments, analyses, rankings, and scores.

<sup>5</sup>This includes such ESG characteristics as low carbon, sustainability, or gender diversity, as well as such financial characteristics as low risk or high concentration.



### ... within an investment analysis and decision-making process ...

ESG factors can be considered in nearly every type of investment strategy. The following examples illustrate the breadth of what can be appropriately characterized as the consideration of ESG factors:

- A fundamental strategy that considers ESG factors when assessing the investment merits and risks of assets
- A quantitative strategy that considers ESG factors as part of its ongoing model updates
- A strategy that relies on third-party buy/sell/hold opinions that consider ESG factors
- A strategy that considers ESG factors when deciding how to allocate funds among various asset classes, regions, and/or investment strategies (including zero-tracking-error index strategies)
- A low-tracking-error strategy that considers ESG factors in decisions about which index constituents to hold and how to weight them<sup>6</sup>

Furthermore, practitioners can use many techniques to consider ESG factors, including the following:

- In asset allocation and portfolio construction, techniques include scenario analysis, sensitivity analysis, and benchmark-relative weighting.
- In equity security analysis, techniques include adjustments to forecasted financials and financial ratios, adjustments to valuation model assumptions, and the development of valuation multiples.
- In fixed-income security analysis, techniques include adjustments to forecasted financial statements, financial ratios, credit quality assessments, and credit spreads.
- In real asset analysis, techniques include making adjustments to expected capital expenditures, cost of operations, and probability of obsolescence.

ESG integration requires that ESG factors be considered in both the analytical *and* decision-making components of the investment process. Analytical components of an investment process include but are not limited to financial analysis,<sup>7</sup> security analysis, issuer analysis, industry analysis, scenario analysis, and regression analysis. Decision-making components of an investment process can include asset allocation, security selection, and portfolio construction decisions.

Consideration of ESG factors outside the investment analysis and decision-making components of the investment process is not ESG integration—for example, when establishing ESG-related investment objectives or constraints, using an ESG index as an investment universe or performance benchmark, and undertaking proxy voting and engagement.

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<sup>6</sup>It is assumed that the index tracking strategy is not pure replication of the index but, rather, accepts a degree of tracking error and thus permits some degree of discretion in choosing and weighting holdings.

<sup>7</sup>Financial analysis specifically refers to the analysis of financial statements. Some definitions state that ESG integration is the consideration of ESG factors in financial analysis, but financial analysis is too narrow a scope for a definition of ESG integration.

### ... with the aim to improve risk-adjusted returns<sup>8</sup>

ESG integration is based on the belief that risk-adjusted investment returns can be improved through integration of ESG factors that are not fully reflected in asset prices. The ESG factors a manager selects for further analysis therefore reflect their hypotheses about what factors are both (1) potentially material<sup>9</sup> to investment risk and return and (2) not fully reflected in valuations.

The aim to improve risk-adjusted returns necessitates that only ESG factors that are *material to risk and return* be reflected in decision making. Materiality is contextual; that is, the materiality of ESG factors depends on the investor's objectives and time horizon and the specifics of the investment. Materiality is also dynamic: The materiality of a specific ESG factor may change over time.

In ESG integration, investments' impacts on environmental and social conditions are not reflected in investment decisions unless those impacts are judged to be financially material to the investments.

ESG integration does not prescribe or preclude any investment opportunity and is therefore wholly consistent with optimizing investors' risk-adjusted returns. If a fund or strategy has constraints on the investment universe, ESG integration can be part of a strategy to optimize risk-adjusted returns within such constraints.

## Guidance

- When communicating to general rather than professional audiences, investors should avoid the term "ESG integration" and instead use plain language to accurately describe how ESG factors are considered in the investment process.
- If it is not feasible to avoid the term "ESG integration" when communicating with general audiences, then investors should define the term the first time they use it in a conversation or communication.
- Investors should use the term "ESG integration" to convey the full set of essential concepts described above. The term should not be used as an umbrella term for multiple approaches. PRI has defined ESG incorporation as "the assessment, review, and consideration of ESG factors in existing investment practices through a combination of three approaches: integration, screening, and thematic investing." Although "integration" and "incorporation" are often used interchangeably in ordinary language, ESG integration and ESG incorporation have different meanings.
- If the purpose of ESG integration is stated in terms other than risk-adjusted return, it should not be implied that ESG integration is used for purposes beyond the reduction of risk or enhancement of returns.
- By industry convention, only the most important characteristics of a fund or strategy are included in its name. If ESG integration is not one of the most important characteristics of a fund or strategy, the fund or strategy name should not use the term "ESG integration."
- Practitioners should take care to avoid implying that the consideration of ESG factors will always deliver a higher risk-adjusted return.

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<sup>8</sup>The aim of ESG integration can be expressed in a variety of ways. In most cases, managers will say that they use ESG integration to either reduce risk or to drive returns. This resource states the purpose of ESG integration in terms of improving risk-adjusted return because it unites both of these aims in a single concept. Risk-adjusted return is improved when there is (1) a reduction in risk without a commensurate reduction in return and/or (2) an increase in returns without a commensurate increase in risk.

<sup>9</sup>The Merriam-Webster dictionary defines "material" as "having real importance or great consequences." Materiality is not always a clear binary distinction.

## Listing of Definitions

Organization	Term	Definition
CFA Institute	ESG integration	An ESG investment approach that focuses on systematic consideration of material ESG factors in asset allocation, security selection, and portfolio construction decisions for the purpose of achieving the product's stated investment objectives.  <i>Source: CFA® Program Curriculum, Level I, 2022</i>
CFA Institute	ESG integration	The inclusion of ESG considerations within financial analysis and investment decisions. This may be done in various ways, tailored to the investment style and approach of the fund manager.  <i>Source: Certificate in ESG Investing Curriculum: ESG Investing Official Training Manual, 3rd ed. (Charlottesville, VA: CFA Institute, 2021)</i>
GSIA	ESG integration	The systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis.  <i>Source: "Global Sustainable Investment Review 2020" (2021)</i>
Initiative Climat International (ICI)	ESG integration	Fund managers may incorporate, or integrate, ESG considerations into their investment process along with other material factors and analysis. Funds typically explain how they do so on their websites. This long-standing element of investing seeks to enhance a fund's financial performance by analyzing material ESG considerations along with other material risks such as credit risk and counterparty risk.  <i>Source: "Funds' Use of ESG Integration and Sustainable Investing Strategies: An Introduction" (July 2020)</i>
PRI	ESG integration	Including ESG factors in investment analysis and decisions to better manage risks and improve returns. It is often used in combination with screening and thematic investing.  <i>Source: Reporting Framework Glossary (updated 26 January 2023)</i>
PRI	ESG integration	The systematic and explicit inclusion of material ESG criteria into investment analysis and investment decisions.  <i>Source: "PRI Reporting Framework: Main Definitions" (November 2018)</i>
AMAS and SSF	ESG integration	ESG integration refers to the inclusion of ESG risks and opportunities in the traditional financial analysis and investment decision based on a systematic process and on appropriate research sources. The idea is to get a holistic view of a specific issuer of securities. There are different forms of how ESG factors can be integrated into the financial analysis or the investment decision. Sustainability information can be used to adapt estimates of future cash-flows, or it can lead to adjusted discount rates, to name just two examples. Usually, ESG factors are only integrated into the investment decision if they are expected to be financially material. Hence, a company with a low sustainability performance in some areas might still be considered an interesting investment, as long as the expected financial risk/return of an investment remains attractive.  <i>Source: "Sustainable Asset Management: Key Messages and Recommendations of SFAMA and SSF" (16 June 2020)</i>

## Thematic Investing

Thematic investing involves constructing a portfolio of assets, chosen via a top-down process, that are expected to benefit from specific medium- to long-term trends. Thematic investing based on ESG trends is addressed below.

There is a distinction between thematic investing, which is an approach for selecting assets to access specified trends, and a "thematic fund," which is a term often used to characterize a portfolio that is focused on a particular interest or area. Thematic investing often—but not always—results in a focused portfolio, but not all focused portfolios are the result of thematic investing.

### Definition

**Thematic investing:** Selecting assets to access specified trends.

### Essential Elements

- Selecting assets
- To access
- Specified trends

### Explanation

#### Selecting assets...

Thematic investing is underpinned by the belief that economic, technological, demographic, cultural, political, environmental, social, and regulatory dynamics are key drivers of investment risk and return. Thematic investing is an approach to selecting assets that are strongly connected to these dynamics.

#### ... to access...

Thematic investing enables investors to increase their investment exposure to a trend. Some investors use thematic investing to access specific trends that they believe will shape the medium- to long-term trajectory of the economy and result in higher investment returns.

Other investors access specified trends to diversify their portfolio or hedge against specified economic risks. A portfolio of assets selected for their connection to a trend will often have a risk-return profile that is different from a broad market index.

Finally, some investors access specified trends for the purpose of increasing their association and involvement with those trends. For example, investors may fund a sustainable agriculture project with the aim of supporting the trend toward greater use of these practices in addition to benefiting from future demand for sustainably produced farm products.

#### ... specified trends

Thematic investing focuses on forecasted trends and assets relevant to the trends. Examples of ESG trends include climate change and the shift to a more circular economy. Trends tend to be medium to long term in duration, regional or global in scope, and cross-cutting with respect to traditional industry or sector boundaries.

Thematic investing can be focused on a single trend or several related trends. For example, a thematic investor might simultaneously seek to gain exposure to assets that will benefit from an aging population, increasing urbanization, and population growth trends.

Thematic investing differs from constructing a portfolio with a particular focus. For example, investors may wish to invest in a portfolio of veteran-owned businesses because they want to support veterans while earning a financial return. However, this would not constitute thematic investing unless a case is made for how veteran-owned businesses enable access to a specified trend or trends.

## Guidance

- Investors should not characterize their approach to asset selection as thematic investing unless they can credibly demonstrate
  - the trends that are considered when selecting assets,
  - how a significant portion of the assets in a portfolio are connected to those trends, and
  - how those trends relate to economic, technological, demographic, cultural, political, environmental, social, and/or regulatory dynamics.
- If using the term "thematic investing" with general audiences, investors should define the term the first time it is used in a conversation or communication.

## Listing of Definitions

Organization	Term	Definition
CFA Institute	Thematic investment	Refers to selecting companies that fall under a sustainability-related theme, such as clean technology, sustainable agriculture, health care, or climate change mitigation. <i>Source: Certificate in ESG Investing Curriculum: ESG Investing Official Training Manual, 4th ed. (Charlottesville, VA: CFA Institute, 2022)</i>
CFA Institute	Thematic investing	An ESG implementation approach that focuses on investing in companies within a specific sector or industry theme. <i>Source: CFA Program Curriculum, Level 1, 2019 (not current)</i>
GSIA	Sustainability themed/ thematic investing	Investing in themes or assets specifically contributing to sustainable solutions—environmental and social (e.g., sustainable agriculture, green buildings, lower carbon tilted portfolio, gender equity, diversity). <i>Source: "Global Sustainable Investment Review 2020" (2021)</i>
PRI	Thematic investing	An approach which focuses on ESG trends rather than specific companies or sectors, enabling investors to access structural shifts that can change an entire industry. <i>Source: Reporting Framework Glossary (updated 26 January 2023)</i>
PRI	Thematic investing	The identification and allocation of capital to themes or assets related to certain environmental or social outcomes, such as clean energy, energy efficiency, or sustainable agriculture. <i>Source: Reporting Framework Glossary (2021, not current)</i>
AMAS and SSF	Sustainable thematic investments	This approach refers to investment in businesses contributing to sustainable solutions both in the environmental and/or social dimension. In the environmental segment, this could include investments in renewable energy, energy efficiency, clean technology, low-carbon transportation infrastructure, water treatment, and/or resource efficiency. In the social segment, this includes investments in education, health systems, poverty reduction and/or solutions for an ageing society. <i>Source: "Sustainable Asset Management: Key Messages and Recommendations of SFAMA and SSF" (16 June 2020)</i>

## Stewardship

Investing institutions accrue significant rights and influence as a result of being entrusted with the management of clients' and beneficiaries' assets. In this context, stewardship refers to deliberate deployment of rights and influence (beyond capital allocation) to protect and advance the interests of those clients and beneficiaries.

### Definition

**Stewardship:** The use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend.

### Essential Elements

- The use of investor rights and influence
- To protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend

### Explanation

#### The use of investor rights and influence ...

As shareholders, lenders, and owners of real assets, investors have legal rights and other means of influencing the behavior of investees and other parties, such as policymakers. Stewardship involves ensuring this capacity for influence is used to protect and enhance overall value for clients and beneficiaries.

The ability to exercise influence spans asset classes, although the means to do so vary depending on the context. Examples of ways in which investors can exercise their rights and influence include the following:

- Serving on or nominating directors to a company's board
- Filing shareholder resolutions or statements
- Voting on proposals at shareholder meetings
- Engaging with investees and potential investees
- Litigating
- Providing input into industry research, market standards, public discourse, or policy and lawmaking
- Actively participating in third-party or collective initiatives that undertake any of the above

Stewardship is distinct from the investment analysis and decision-making components of the investment process, but each may inform the other. For example, if investors request that a firm address environmental concerns, the firm's response may improve or reduce the investor's confidence and thus their level of investment in the company.

#### ... to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend

The concept of overall value for clients and beneficiaries is multifaceted. It includes the market value of the entire portfolio (as opposed to individual holdings or individual mandates); the long-term value-creation capabilities of firms and economies; and the common environmental, natural, intellectual, social, and institutional assets that underpin all economies.

Examples of environmental assets include

- a stable climate,
- an aquifer's freshwater resource,
- a region's pollinating insects, and
- the genetic diversity of plants cultivated for food.

Examples of social assets include

- a population's health, skills, and economic participation and
- institutions that undertake research and development for the public good.

Investor influence does not constitute stewardship unless it is used to protect and enhance overall long-term value for clients and beneficiaries. Using influence to promote short-term performance or the performance of individual companies, industries, or markets, without regard to overall value, does not constitute stewardship.

When defining overall value for a specific client or beneficiary, applicable legal and contractual obligations must also be taken into account.

## Guidance

- Investors should use the term "stewardship" to convey the full set of essential concepts described above. The term should not be used to refer to such activities as proxy voting and engagement unless these actions are undertaken to protect and enhance overall value for clients and beneficiaries.
- Interactions about routine operational matters that do not relate to overall long-term value should not be described as stewardship activities.

## Listing of Definitions

Organization	Term	Definition
<b><i>Stewardship and stewardship responsibilities</i></b>		
Aotearoa New Zealand Stewardship Code Working Group	Stewardship	Stewardship is the responsible allocation and management of capital by investors—including asset owners and fund managers—to create and preserve long-term value for current and future generations. Stewardship also promotes sound investor and issuer governance, and business practices that lead to sustainable outcomes for our environment, society, and economy. Stewardship encapsulates the values of accountability, transparency, fairness, and responsibility. Stewardship encourages investor accountability to those whose money they invest—their clients and beneficiaries—and improved long-term risk-adjusted returns. Stewardship through the relationship between asset owners and asset (fund) managers is also important.  <i>Source: "Stewardship Code Aotearoa New Zealand" (2022, p. 4)</i>
Associação de Investidores no Mercado de Capitais	Stewardship	Stewardship embodies the careful management and monitoring of securities owned by the end beneficiaries, that is, the clients.  <i>Source: AMEC Stewardship Code (2021)</i>

(continued)



## Listing of Definitions (*continued*)

Organization	Term	Definition
Australian Council of Superannuation Investors	Stewardship	<p>Stewardship refers to the responsibility asset owners have to exercise their ownership rights to protect and enhance long-term investment value for their beneficiaries by promoting sustainable value creation in the companies in which they invest. Effective stewardship benefits companies, asset owners, beneficiaries, and the economy as a whole.</p> <p><i>Source: Australian Asset Owner Stewardship Code (2018)</i></p>
Canadian Coalition for Good Governance (CCGG)	Stewardship	<p>Stewardship for institutional investors means fulfilling their responsibilities as fiduciaries in meeting their obligations to their beneficiaries or clients. Stewardship is intended to enhance the long-term sustainable creation of value, so companies and their investors can prosper and, in the process, benefit the market and society as a whole.</p> <p><i>Source: CCGG Stewardship Principles (2020)</i></p>
Capital Markets Authority of Kenya (government body)	Stewardship	<p>Stewardship means the responsible management and oversight of assets for the benefit of the institutional investors' ultimate beneficiaries or clients.</p> <p><i>Source: Draft Stewardship Code for Institutional Investors (2017)</i></p>
CFA Institute	Stewardship	<p>The broad term for an investor operating as a good long-term owner of assets, standing in the shoes of their underlying clients to ensure that value is added or preserved over time.</p> <p><i>Source: Certificate in ESG Investing Curriculum: ESG Investing Official Training Manual, 3rd ed. (Charlottesville, VA: CFA Institute, 2021)</i></p>
CFA Institute	Stewardship	<p>An overarching term encompassing the approach that investors take as active and involved owners of the companies and other entities in which they invest through voting and engagement. It is the process of intervention to make sure that the value of the assets is enhanced over time, or at least does not deteriorate through neglect or mismanagement.</p> <p><i>Source: Certificate in ESG Investing Curriculum: ESG Investing Official Training Manual, 4th ed. (Charlottesville, VA: CFA Institute, 2022)</i></p>
CRISA Committee (South Africa)	Stewardship	<p>For purposes of CRISA, diligent and effective stewardship means managing investment arrangements and activities towards the creation of long-term value for the economy, the environment and society as part of the delivery of superior risk-adjusted returns to clients and beneficiaries.</p> <p><i>Source: "Second Code for Responsible Investing in South Africa, 2022 ('CRISA 2')" (2022)</i></p>
Financial Reporting Council	Stewardship	<p>Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.</p> <p><i>Source: "The UK Stewardship Code 2020" (2020, p. 4)</i></p>

(continued)

## Listing of Definitions (*continued*)

Organization	Term	Definition
Financial Services Agency, the Japanese Government	Stewardship responsibilities	<p>In this Code, "stewardship responsibilities" refers to the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries (including ultimate beneficiaries; the same shall apply hereafter) by improving and fostering the investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies.</p> <p><i>Source:</i> "Principles for Responsible Institutional Investors: 'Japan's Stewardship Code'" (2020, p. 5)</p>
International Corporate Governance Network (ICGN)	Stewardship	<p>Stewardship is about preserving and enhancing long-term value as part of a responsible investment approach. This includes the consideration of wider ethical, environmental, and social factors and the consideration of relevant systemic risks as core components of fiduciary duty.</p> <p><i>Source:</i> "ICGN Global Stewardship Principles" (2020, p. 4)</p>
Korea Institute of Corporate Governance and Sustainability	Stewardship responsibilities	<p>Responsibility to promote the mid- to long-term interests of their clients and ultimate beneficiaries by pursuing the mid- to long-term value enhancement and sustainable growth of investee companies.</p> <p><i>Source:</i> "Korea Stewardship Code Guide Book" (2017, p. 3)</p>
PRI	Stewardship	<p>The use of influence by institutional investors to maximise overall long-term value, including the value of common economic, social and environmental assets, on which returns and client and beneficiary interests depend.</p> <p><i>Source:</i> Reporting Framework Glossary (updated 26 January 2023)</p>
Securities Commission Malaysia and the Minority Shareholder Watchdog Group	Stewardship	<p>The responsible management and oversight of assets for the benefit of the institutional investors' ultimate beneficiaries or clients.</p> <p><i>Source:</i> "Malaysian Code for Institutional Investors" (2014, p. 3)</p>
Securities and Exchange Board of India	Stewardship responsibilities	<p>Stewardship responsibilities include monitoring and actively engaging with investee companies on various matters including performance (operational, financial, etc.), strategy, corporate governance (including board structure, remuneration, etc.), material environmental, social, and governance (ESG) opportunities or risks, capital structure, etc. Such engagement may be through detailed discussions with management, interaction with investee company boards, voting in board or shareholders meetings, etc.</p> <p><i>Source:</i> "Stewardship Code for all Mutual Funds and All Categories of AIFs, in Relation to Their Investment in Listed Equity" (2019)</p>

(*continued*)

## Listing of Definitions (*continued*)

Organization	Term	Definition
Stewardship Asia Centre	Stewardship	<p>Investment stewardship is investors exercising responsible allocation, management and oversight of capital, through active ownership and engagement, to create and preserve enterprise value within portfolio companies and improve long-term risk-adjusted returns for clients and beneficiaries.</p> <p><i>Source: "Singapore Stewardship Principles for Responsible Investors 2.0" (2022, p. 2)</i></p>
<b>Stewardship activities/tools</b>		
GSIA	Corporate engagement and shareholder action	<p>Employing shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.</p> <p><i>Source: "Global Sustainable Investment Review 2020" (2021)</i></p>
Malaysian Code for Institutional Investors	Stewardship activities	<p>The discharge of effective stewardship responsibilities would include development of a set of principles/policies, application of the principles/policies, oversight of agents, communications of expectations and reporting to their clients or beneficiaries. These activities also include monitoring and engagement with the investee companies on matters relating to strategy, performance, risk management, voting, corporate governance or sustainability issues.</p> <p><i>Source: "Malaysian Code for Institutional Investors" (June 2014, p. 3)</i></p>
PRI	Stewardship tools	<p>Methods through which investors fulfill their stewardship obligations. Tools and activities can be split into investee stewardship and broader stewardship. Tools and activities for investee stewardship differ by asset class, but can include:</p> <ul style="list-style-type: none"> <li>engagement with investees (both current and potential),</li> <li>voting at shareholder meetings,</li> <li>filing, co-filing, or submitting shareholder resolutions or proposals,</li> <li>nomination of directors to the board,</li> <li>leveraging roles on the board or on board committees,</li> <li>direct oversight of portfolio companies or assets, and</li> <li>litigation.</li> </ul> <p>Tools and activities for broader stewardship can include:</p> <ul style="list-style-type: none"> <li>policy engagement,</li> <li>engagement with standard setters,</li> <li>engagement with industry groups,</li> <li>negotiation with and monitoring of the stewardship actions of intermediaries in the investment chain, e.g., asset owners engaging external managers, limited partners engaging general partners,</li> <li>engagement with other stakeholders, e.g., NGOs, workers, communities, and other rights-holders, and</li> <li>contributions to public goods (e.g., publicly available research) or to public discourse (e.g., through the media) that supports stewardship goals.</li> </ul> <p><i>Source: Reporting Framework Glossary (updated 26 January 2023)</i></p>

# Impact Investing

Investment enables economic activities, which have positive and negative effects on the environment and society. Impact investing aims to contribute to or catalyze positive effects (e.g., improvements in people's lives and the environment) while achieving a financial return.

## Definition

**Impact Investing:** Investing with the intention to generate positive, measurable social and/or environmental impact alongside a financial return.<sup>10</sup>

## Essential Elements

- Investing with the intention
- To generate
- Positive, measurable social and/or environmental impact
- Alongside a financial return

## Explanation

### Investing with the intention...

Impact investing pursues two distinct objectives: (1) an improvement in social and/or environmental conditions and (2) a financial return on capital invested. It is possible to identify impacts resulting from any investment, but impact investing is investing *in order to generate* positive impacts.

Impact investing can be pursued across a range of asset classes, including fixed income, real assets, private equity, and listed equity investments.

An intention to generate a positive, measurable social and/or environmental impact alongside a financial return does not guarantee these outcomes.

### ... to generate ...

Impact investing aims to contribute to or catalyze real-world environmental and/or social improvements, by providing necessary financing and/or by gaining access to other mechanisms of investor influence.

Impact investing requires a "theory of change"—that is, a credible explanation of the investor's contributory and/or catalytic role, as distinct from the investee's impact. Allocating capital to investees that have a net positive impact is not impact investing unless there is a credible expectation that the investor will play a contributory or catalytic role in generating an improvement over the status quo.

### ... positive, measurable social and/or environmental impact ...

Impact investing aims to generate positive impact. It requires accounting for whether—and to what extent—intended environmental or social improvements actually occur. This measurement can be based on generally accepted metrics for impact measurement and management, such as IRIS+ (published by GIIN) or other environmental and social impact metrics, such as those of the Global Reporting Initiative (GRI) or the Future-Fit Business Benchmark.

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<sup>10</sup>This definition of impact investing is based on the Global Impact Investing Network (GIIN) definition of impact investments: "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

Examples of metrics used to track positive impact include the following:

- Renewable electricity capacity added (MWh)
- An increase in water treated, saved, or provided (megaliters)
- An increase in affordable housing units (number of units)

### ... alongside a financial return

Impact investing differs from philanthropy in that it pursues a financial return in addition to a positive, measurable impact. Impact investors have discretion over the rate of return they target.

## Guidance

- The term "impact investing" or its variants should not be used unless there is an intention to generate a positive, measurable social and/or environmental impact alongside a financial return.
- Investors should only use the term to describe their approach when they can credibly identify their contributory or catalytic role in bringing about improvements in environmental and social conditions.
- If impact investing is used in a fund or strategy, disclosures should be made in accordance with 2.A.19 of the "Global ESG Disclosure Standards for Investment Products Handbook,"<sup>11</sup> which states:

If investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return, then the investment manager must disclose:

- the impact objectives in measurable or observable terms;
- the stakeholders who will benefit from the attainment of the impact objectives;
- the time horizon over which the impact objectives are expected to be attained;
- how the impact objectives are related to other objectives that the investment product has and how the pursuit of the impact objectives could result in trade-offs with those other objectives;
- how the attainment of the impact objectives will contribute to third-party sustainable development goals, if there is a stated intention to do so;
- the proportion of the portfolio committed to generating social and environmental impact;
- how the impact objectives are expected to be attained;
- the risks that could significantly hinder the attainment of the impact objectives, should they occur;
- how progress toward, or attainment of, the impact objectives is measured, monitored, and evaluated;
- how progress toward the attainment of the impact objectives is reported to investors; and
- the process for assessing, addressing, monitoring, and managing potential negative social and environmental impacts that may occur in the course of attaining the impact objectives.

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<sup>11</sup>CFA Institute, "Global ESG Disclosure Standards for Investment Products Handbook" (June 2022). [www.cfainstitute.org/-/media/documents/ESG-standards/Global-ESG-Disclosure-Standards-for-Investment-Products-Handbook.pdf](http://www.cfainstitute.org/-/media/documents/ESG-standards/Global-ESG-Disclosure-Standards-for-Investment-Products-Handbook.pdf).

## Listing of Definitions

Organization	Term	Definition
CFA Institute	Impact investing	<p>Impact investing refers to investments made with the specific intent of generating positive, measurable social and environmental impact alongside a financial return (which differentiates it from philanthropy).</p> <p><i>Source: Certificate in ESG Investing Curriculum: ESG Investing Official Training Manual, 3rd ed. and 4th ed. (Charlottesville, VA: CFA Institute, 2021 and 2022)</i></p>
GIIN (Global Impact Investing Network)	Impact investments	<p>Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on investors' strategic goals.</p> <p><i>Source: "What You Need to Know about Impact Investing" (2021)</i></p>
GSIA	Impact investing	<p>Investing to achieve positive, social and environmental impacts—requires measuring and reporting against these impacts, demonstrating the intentionality of investor and underlying asset/investee, and demonstrating the investor contribution.</p> <p><i>Source: "Global Sustainable Investment Review 2020" (2021)</i></p>
Impact Investing Institute	Impact investing	<p>The practice of deploying capital so it can achieve specific positive environmental or social impacts as well as a financial return for investors.</p> <p><i>Source: Glossary</i></p>
International Finance Corporation, World Bank Group	Impact investments	<p>Impact investments are made with specific intent to make a measurable contribution to the achievement of social and environmental goals.</p> <p><i>Source: "The Promise of Impact Investing" (2019, p. 6)</i></p>
AMAS and SSF	Impact investing	<p>Impact investments intend to generate a measurable, beneficial social and/or environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below-market to above-market rates, depending upon the circumstances.</p> <p><i>Source: "Sustainable Asset Management: Key Messages and Recommendations of SFAMA and SSF" (16 June 2020)</i></p>
US SIF	Impact investing	<p>Investment in companies, organizations, and funds with the explicit intention to generate positive social and environmental impact alongside a financial return, which can range from below market to market rate.</p> <p><i>Source: "US SIF Trends Report 2020" (2020)</i></p>

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Managing Director, Research, Advocacy, and Standards

Chris Fidler  
Head, Global Industry Standards

Nicole Gehrig  
Director, Global Industry Standards

Robin Willis  
Project Manager, Global Industry Standards

### GSIA

Julie Ambachtsheer, CFA  
Senior Manager, Research & Special Projects, Responsible Investment Association Canada

Bryan McGannon  
Managing Director, US SIF

Simon O'Connor  
Chair, Global Sustainable Investment Alliance  
CEO, Responsible Investment Association Australasia

Susheela Peres da Costa  
Chair, Responsible Investment Association Australasia  
Principal, The Stewardship Centre  
Senior Consultant, Sustainable Markets, Commonwealth Superannuation Corporation

Mary Robinson, CFA  
Director of Research & Investor Networks, Responsible Investment Association Canada

Lisa Woll  
CEO, US SIF

### PRI

Michal Bartek  
Senior Lead, Listed Equity

Toby Belsom  
Director, Investor Guidance

Lauren Green  
Director, Product Management

Kelly Krauter  
Acting Head of Legal Framework for Impact

Clara Melot  
Specialist, System Stewardship

Rene Van Merrienboer  
Director, Sustainable Systems

Eilidh Wagstaff  
Senior Specialist, Investor Guidance



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## About Global Sustainable Investment Alliance (GSIA)

GSIA is a global collaboration of membership organisations, aiming to unlock the power of the worldwide financial services industry to drive leadership, achieve a substantial impact on key global challenges, and accelerate the transition to a sustainable future.

GSIA simultaneously works to enhance the synergies between members, participate in global initiatives, and provide advice and support to local and regional sustainable investment organizations as they setup and grow.



## About The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social, and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate, and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

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