



The Chief Investment Office believes investors should maintain a diversified portfolio to capture top-down and bottom-up opportunities in sustainable investing. (Shutterstock)

Drivers for sustainable investing

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Sustainable investing should be supported by several key drivers this year. We recommend investors continue to consider sustainable investments and believe well-diversified sustainable portfolios can deliver comparable financial performance to traditional portfolios in the long term.

We recommend investors consider sustainable investments in portfolios since we believe there are three key cyclical and policy supports for sustainable investing this year.

First, a more accommodative monetary policy environment, and more near-term visibility, should increase business investment confidence in areas tied to sustainability. Given our base case of a soft landing with below-trend growth and projected rate cuts, we see investment opportunities in select quality stocks and smaller cap companies.

- **Quality tilt** - ESG leaders focus on managing sustainability-related risks and capturing opportunities.
- **Small- and mid cap focus** - Management teams within smaller companies are typically more amenable to engaging in and offering improvements to sustainability issues that can affect corporate financial performance.

Second, additional corporate disclosures on sustainability are expected. Corporates and investors alike are awaiting finalized disclosure requirements from global regulators. The likelihood is an imminent alignment with the International Sustainability Standards Board, which would prompt companies to review and begin enhanced disclosures over this year, ahead of full implementation in 2025-26. We are optimistic that the regulatory-driven disclosure will result in more reliable and comparable data, increasing the market confidence in sustainable investing.

Third, we anticipate increased focus on the economic and financial benefits of sustainability. We believe this could bring additional support for global sustainable development, as the impact of sustainability shortfalls continues to be felt across the world with insured losses from extreme weather events as just one example. In the US, however, concerns over government spending rise, the Inflation Reduction Act is likely to be a political talking point.

We believe investors should maintain a diversified portfolio to capture top-down and bottom-up opportunities in sustainable investing. Portfolios may include thematic and integrated investment strategies across fixed income, equity and hedge funds. We also recommend ESG engagement strategies to express the small and mid-cap exposure, and integrate targeted changes to sustainability practices in line with performance.

To read more, please refer to our report: [Sustainability a driver of opportunities in 2024](#).

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