SUSTAINABLE INVESTING – GENESIS AND CONTEMPORARY DIMENSIONS

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Abstract: Sustainable investing, also called socially responsible, is at the heart of the concept of sustainable finance. Some researchers trace its roots back to ancient times with the Bible and Qur'an's guidelines and rules for investing money and doing business. More recently, socially responsible investing is associated with the investment companies' practice that emerged in the late XVIII[th] and early XIX[th] century in applying religious and ethical principles in their investment policy to avoid investing in the so-called sin industries, such as the production of tobacco products, alcohol, gambling advertising, etc.
The rapid growth of socially responsible investing began in the 60s – 70s of the last century and is associated with social unrests against the Vietnam War, Apartheid in South Africa, gender inequality, etc. Initially, the investment community applied negative investment strategies, excluding from portfolio not only specific regions of the world, but also certain industries, such as arms production, nuclear energy, as well as companies that show discrimination based on genders and between ethnic groups, etc., but subsequently targeted industries and enterprises producing positive social and environmental effects. Legislative and regulatory initiatives, as well as the creation of international professional networks and associations, have a role to play in accelerating investor interest in this area.
The article aims to reveal the specific characteristics, role and current scales of socially responsible investing compared to traditional investing, which pursues primarily financial returns based on the risk taken.
In order to achieve the set goal, the author examines the reasons for the emergence and evolution of sustainable investing. Further, from contemporary positions, the individual strategies and specific techniques of sustainable or socially responsible investing are analysed. As there is often a mix between socially responsible investing, ESG investing and impact investing, the specifics between the different portfolio management approaches are clarified. Last but not least, the article analyses the interest of individual and institutional investors in the implementation of socially responsible strategies in the changing world.
Keywords: socially responsible investing (SRI), ESG factors, impact investing, sustainable finance.

1. INTRODUCTION

Sustainable finance is a relatively new institutionalized concept and scientific field. Researchers associate its genesis with innovative, non-standard investment decisions and behavior. In his study, Schäfer (2012, p. 4, p. 14) focuses on socially responsible investments, "as the cornerstone of sustainable finance" and recognized that, for the first time, the term "sustainable" in the context of finance and capital markets is used in the White Paper of the World Economic Forum from 2011. In particular, there is given the following definition of "sustainable investment" - "an investment approach that integrates for long-term period ESG-criteria into investment and management decisions in order to generate higher risk-adjusted financial returns (World Economic Forum, 2011, p. 36). Of course, as Schäfer (2012, p. 14) emphasizes, "there is a consensus that investors practice socially responsible investing in different ways."
The purpose of the article is to reveal the features and importance of sustainable, also called socially responsible investment, as a fundamental element of the broader and gaining popularity concept of sustainable finance.
In order to achieve the purpose in the course of the article are set the following tasks:
• Highlighting the features of socially responsible investing from its inception to the present day;
• Clarifying the socially responsible investing by analyzing the applied strategies (approaches) and distinguishing them from the traditional investing;
• Examining the contemporary state of the sustainable investing and its place in investor portfolios.
To realize the set purpose and tasks have been studied and used scientific publications by researchers in the field of sustainable investment, strategic documents and statistical information from global and regional organizations related to the socially responsible investing and sustainable finance.

2. EVOLUTION IN THE MANIFESTATION OF SOCIALLY RESPONSIBLE INVESTING

Specialized sources indicate that the roots of responsible investing go far back - in biblical times - to the Pentateuch and Jewish law Tzedek, as well as several centuries later - in the Qur'an and Sharia. In these books there are some ethical rules for management and prohibitions to carry out certain economic activities. (Lumberg, 2020)

Religion has long played a leading role in the formation of norms for doing business. For example, in the seventeenth century, members of the Religious Society of Friends, better known as the Quakers, refused to engage in the trades of slaves and military arms. Around 1750, John Wesley, one of the early leaders of the Methodist Church, wrote the famous sermon "The Use of Money," declaring that it was a sin to make money at the expense of neighbour's wealth, and encouraging his congregants not to get involved in gambling, usury and industries using toxic chemicals such as arsenic and lead. (Livingston, 2015, p. 1-2) Precursors of responsible investing are investment companies in the United States with strategies based on Protestantism and excluding the so-called sin industries. The first publicly traded fund was founded by a church group from Boston - the Pioneer Fund. Today, the sin stock sector includes alcohol, tobacco, gambling, the sex industry, and weapons manufacturers. (k, 2020)

The practice of the so-called socially responsible investment (SRI) intensified sharply in the 1960s and 1970s through the reaction of major institutional investors in the United States and Western Europe to withdraw their investments from certain industries and regions provoked by the Vietnam and Apartheid wars in South Africa. Subsequently, other external factors force the use of the so-called negative investment screening approach based on the exclusion of certain sectors from the investment portfolios - the Chernobyl accident, pollution caused by the coal industry, the severity of social and corporate governance issues (racial and ethnic discrimination, gender inequality , the remuneration of the management staff, etc.). These and other phenomena in turn lead to institutional and legislative changes in some countries.

Therefore, socially responsible investing initially focuses on excluding investments that conflict with social, moral and ethical values, such as weapons, alcohol, tobacco, gambling. However, the practice has evolved into proactive investment strategies in benefit-generating companies - for example, demonstrating good environmental management practices, maintaining responsible relationships with customers, employees, suppliers and communities, and showing leadership in management rewards, internal control and rights of shareholders. (Lumberg, 2020)

In the 80s of the last century, socially responsible investing began to attract more and more attention of mainstream investors, and in 1982 the first specialized consulting company in this direction was founded - Trillium Asset Management. (Livingston, 2015, p. 2)

The link between the concept of sustainable development and financial markets at the institutional level was laid by UN Secretary-General Kofi Annan in the spring of 2006, when he proclaimed the Principles for Responsible Investment (PRI), following the already developed concept of the United Nations Environment Programme Financial Initiative (UNEP FI) (Schäfer, 2012, pp. 9-10). Since then, the Principles have been supported by about 4,000 investors managing assets worth more than $ 120 trillion. (UNEP FI, 2021, p. 5)

3. CLARIFICATION AND SCOPE OF SUSTAINABLE INVESTING TODAY

Definitions of concepts related to sustainable finance vary regionally and nationally, as well as within organizations and agreements. This is the subject of consideration and analysis in a number of strategic documents, such as the Roadmap for a Sustainable Financial System (World Bank Group, 2017, p. 66) and the United Nations Environment Program Study on Definitions and Concepts (UNEP, 2016). , pp. 12-16). The broadest sustainable investment organization, the Global Sustainable Investment Alliance, defines the concept of "sustainable investing" as "an investment approach that takes into account environmental, social and governance factors (ESGs) in portfolio selection and management". Its studies emphasize that the term can be used interchangeably with the terms "responsible investing" and "socially responsible investing", as well as with other terms, and recognize that regional variations in their meanings and uses should be taken into account. (GSIR, 2020, p. 7)

The spectrum of investment strategies combined in socially responsible investing is presented stylized by Patrick Drum - investment manager at Saturn Capital through the so-called. The Sustainability Smile (Figure 1.). (Napach, 2016)

Figure. 1. Presentation of investment strategies related to sustainability (The Sustainability Smile)

Source: ThinkAdvisor.com

On one side of the spectrum is the traditional strategy based solely on the financial result, without taking into account the social dimensions of the investment, and on the other side - the philanthropic donations, which are not aimed at making money. Between these extremes is a series of investments with increasingly visible social elements moving from left to right (Table 1).

Table. 1. Investment strategies according to "The Sustainability Smile"

Integrated investing (ESG investing)	Priority of the financial motive, but to some extent environmental, social and governance considerations (ESG) are taken into account, i.e. how they will contribute to or hinder performance.
Ethical / supportive investing	Attempt to balance the financial motive either by excluding certain investments, such as tobacco or firearms production, or by supporting certain shareholder positions.
Impact / thematic investing	Financial performance takes a back seat to social theme (e.g. clean energy) or social impact. The priority is on the measurable impact that investments have on society, whether social, environmental or otherwise.

In publications by UNEP and World Bank teams (e.g. WBG, p. 84), investment approaches are compared using the pyramid approach (Figure 2). At the base of the pyramid is impact investing, which is defined as an investing that achieves certain social, environmental and other effects, together with or even at the expense of financial results. This is followed by ESG investing, where the goal is to maximize the risk-adjusted financial result by using ESG criteria. At the top of the pyramid is the traditional investment approach, aimed at maximizing the financial result, in accordance with the risk taken.

Figure 2. Basic investment strategies

Source: UNEP/ WBG

The World Bank and UNEP Roadmap for a Sustainable Financial System, in presenting the evolution of sustainable finance and related concepts, consider ESG investing and responsible investing to be synonymous. The latter is also defined as a "new socially responsible investment", as opposed to the original one, based on the exclusion of certain investments. (WBG, p. 83)
The International Capital Markets Association (ICMA) (2020, p. 4) defines socially responsible investing as well as ESG investing, which is also called responsible investing (RI). Socially responsible investing, according to ICMA, refers to investing aimed at achieving financial results as long as specific ethical, environmental and / or social criteria are met. Responsible or ESG investing refers to strategies and practices that include significant environmental, social and governance factors in investment decisions, as well as shareholder actions with a view to minimizing risk and maximizing returns. The definition of responsible investing corresponds to the Principles for Responsible Investing (PRI). The publications of UNEP FI and United Nations Global Compact present responsible investing approaches related to ESG incorporation and active ownership or stewardship. (UNEP FI, 2020, p. 2)
Some experts see ESG integration as a holistic analysis, compared to traditional investing, as a means of improving investment performance. They also point out that the ESG is used in public markets strategies and may exclude certain investments (screening out). On the other hand, impact investing is currently applied primarily to private

markets strategies that deliberately seek investments with a measurable effect on global challenges, such as the Sustainable Development Goals. (Gregory, Hornberger, 2020)
The biennial report of the Global Sustainable Investment Alliance (GSIA) defines 7 key approaches, presented in Table 2. (GSIA, 2021, p. 7).

Table. 2. Sustainable investment strategies according to GSIA

ESG integration	Systematic and explicit inclusion of ESG factors by investment managers in financial analysis.
Corporate engagement and shareholder action	Using shareholder power to influence corporate behaviour, including through direct corporate engagement (e.g. communication with senior management and / or the Board of Directors / Management / Supervisory Board), filling shareholders proposals, or proxy voting that is guided by comprehensive ESG guidelines.
Norm-based screening	Analysis and evaluation of investments in terms of compliance with minimum standards of business or other international norms, such as those issued by the UN, ILO, OECD or NGOs, e.g. Transparency International.
Negative / exclusionary screening	Exclusion from the fund or portfolio of certain sectors, companies, countries or other issuers on the basis of activities considered as not investable (for example: product categories such as weapons, tobacco; company practices such as animal testing, human rights violations, corruption; controversial topics).
Best-in-class / positive screening	Investing in sectors, companies or projects selected due to a positive ESG performance relative to industry peers, and that achieve a rating above a defined level.
Sustainability themed / thematic investing	Investing in sustainable themes or assets (social and environmental), such as sustainable agriculture, green buildings, gender equity, etc.
Impact investing and community investing	Investing in order to realize positive social and environmental impacts - requires measuring and reporting the contribution. / Investing aimed at disadvantaged individuals and communities, as well as businesses with a clear social and environmental purpose. In some cases, community investing is an impact investing, but community investing is broader and includes other forms of investing and targeted lending activities.

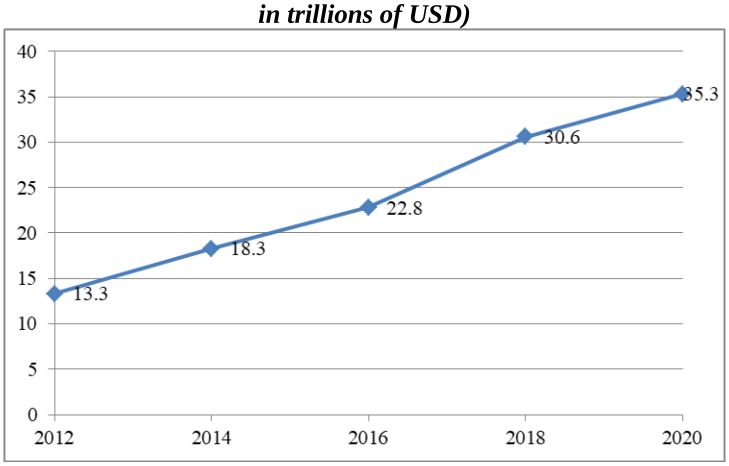
Despite the shift to stricter standards and definitions of sustainable investing in the European Union, Eurosif (2021) presents sustainable investment strategies in the same way as the Global Alliance, summarizing that sustainable investing includes:
• Significance of environmental, social and governance factors (ESG).
• Long-term sustainable returns.
• Stable, well-functioning and well-managed social, ecological and economic systems.
The review of definitions and investment strategies highlights the various nuances in the manifestation of sustainability and diversity of views. It is therefore appropriate to use the synthetic terms "sustainable investing" and "socially responsible investing" as synonyms. At the same time, investment advice, decisions and analyzes should explicitly emphasize the specifics of the respective strategies, the pursued goals and the measures for the final results.

4. ANALYSIS OF THE DYNAMICS AND STRUCTURE OF SUSTAINABLE INVESTING

Despite the differences in the methodologies used within the different regions and organizations, as well as the assumptions in the presentation of information, the rising interest in sustainable investing in the financial markets is indicative. Figures 3, 4 and 5 are based on data from the biennial reviews of the Global Alliance for Sustainable Investment and express some aspects of investor attitudes towards socially responsible strategies. The following key conclusions can be drawn from the graphs:

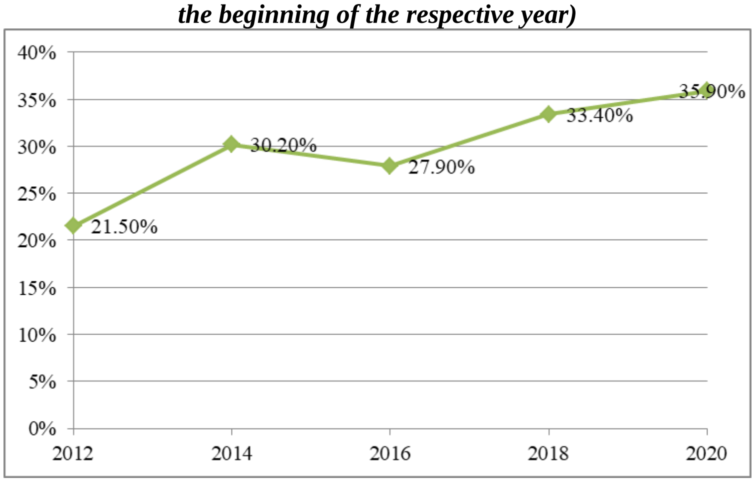
1. Global sustainable investments have tripled in absolute terms for the period 2012-2020. By the beginning of 2020, they have reached USD 35.3 trillion.
2. The managed sustainable assets at the beginning of 2020 are over 1/3 of the total managed assets (AUM), while at the beginning of the period their share is a little over 1/5.
3. For most of the period, the most preferred investment strategy is negative screening, and in 2020 it is replaced by ESG integration. Another preferred strategy throughout the period is corporate engagement and shareholder action. There is also an increasing presence of sustainable theme investing. The change in the structure of the implemented strategies reflects the transition to more active participation of the investment community in solving global problems. It is necessary to emphasize that the sum of the assets invested through the 7 strategies is more than the real value of the assets, due to the affiliation of most investment decisions to more than one type of strategy.

Figure 3. Dynamics of sustainable investments for the period 2012 - 2020 (at the beginning of the respective year, in trillions of USD)



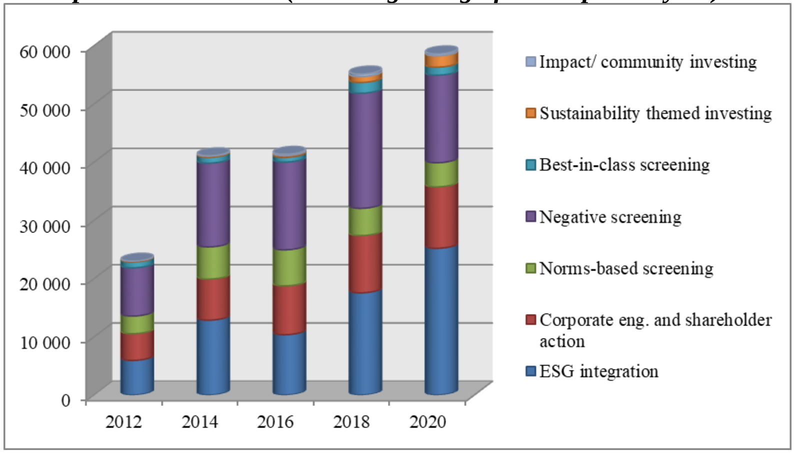
Source: According to data from GSIA

Figure 4. Dynamics of the share of sustainable investments in relation to all AUM for the period 2012 - 2020 (at the beginning of the respective year)



Source: According to data from GSIA

Figure 5. Dynamics of the structure of sustainable investments in relation to the implemented strategy for the period 2012 - 2020 (at the beginning of the respective year)



Source: According to data from GSIA

The results of a number of studies confirm that the investment landscape begins to take on a new shape. To a large extent this is due to the so-called Millennials and Generation Z. For example, JP Morgan has predicted that the integrated or ESG investing will be worth about $ 45 trillion by the end of 2020, and the impact investing - $ 2 trillion. The analyses of the Global Impact Investment Network (GIIN) show an increase in managed assets through impact investing of 17% per year for the period 2016 - 2020 and an acceleration trend for the future. Covid-19's impact on public health and the economic crisis has also accelerated integrated and impact investing. (Gregory, Hornberger, 2020)

Determinants of the growth of sustainable investing are the agreements and initiatives at the international and regional level, leading to the adoption of strict standards and norms for the functioning of state institutions, financial sector, non-financial enterprises. Globally, the following stand out here: the Paris Agreement on Climate Change; the adopted UN Sustainable Development Goals 2030; the established Working Group on Climate Financial Disclosures; The roadmap for a sustainable financial system developed by the World Bank and the Financial Initiative of the United Nations Environment Program. At the regional level, for the European continent, the so-called Green Deal - an ambitious package of measures, from a sharp reduction in greenhouse gas emissions to cutting-edge research and innovations to preserve the natural environment. They, in turn, are linked to comprehensive initiatives, including in the field of finance, such as: a sustainable financial strategy, a revision of energy taxation, a green investment plan and taxonomy of environmental areas. (European Commission, 2021)

One of the serious problems related to sustainable investing in general and in particular to theme investments is the problem of the so-called "Impact washing", which can reduce investor interest and negatively affect the final effects on nature and society. The restriction of the so-called impact washing, green washing, social washing, etc. can be realized through legislative and regulatory practices, as well as real actions, the focus of which is the disclosure of information and the implementation of a system of indicators for measuring the impact.

5. CONCLUSION

The review gives us reason to summarize that the most widely used concept, related to investing oriented not only to financial results, is the so-called socially responsible or sustainable investing. It has become innovative investment behaviour since the 1960s and has undergone significant transformations under the influence of global issues. Socially responsible investing includes a variety of strategies and techniques, which to one degree or another take into account ethical, environmental and social characteristics in the choice of investment instruments, and financial performance can be in the foreground or in the background.

The study also shows that sustainable investing is a powerful force changing the shape of the global financial markets. At the same time, the growing interest in socially responsible strategies influences the decisions of companies and other entities, as well as the transition of the industry to best standards and practices. The catalyst for these processes is the perceived need for a new global agenda for sustainability, led by international and regional agreements outlining the key role of finance.

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