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Goodbye to Greenwashers

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The last two years have seen a huge increase in demand for sustainable funds, or those explicitly integrating environmental, social and governance (ESG) factors into their processes and portfolios. Naturally, fund companies cottoned on and there has been a proliferation of strategies available for investors to buy. Greenwashing, when marketing material and disclosures overstate the true level of ESG integration within a strategy, was an inevitable consequence of this trend.

Anyone who has interviewed a fund manager of late will doubtless have seen an ESG slide or two in their presentation. Most will say they have always considered these factors and so for fund selectors the key questions are: who is genuine and how do they stack up versus a burgeoning list of peers?

These questions cannot be answered by looking at a fund name, studying a presentation or solely using third party scores. Rather, the only way to answer them comprehensively is by meeting the manager, investigating their approach, and challenging them appropriately. So how do we go about this? Below I list some key considerations and then name one manager we think stacks up well (spoiler: it doesn't have responsible or sustainable in the name).

It is very important for a fund manager to be able to articulate how sustainability factors are considered. Bland, vague responses don't impress; rather we seek evidence of exactly how they are considered in their process. Managers nearly always have a few stock examples listed in their presentation, ready to give you a polished spiel on why that company bleeds green. Naturally, they will be well-rehearsed narratives and so we would rather challenge names hidden away elsewhere in the portfolio. This is where quantitative third-party tools can come in. Whilst these shouldn't be treated as gospel, by looking at a full portfolio breakdown we can see which constituents score less well, be it from an environmental, social or governance perspective. It is these names which we like to question managers on. Can they clearly explain why that third party tool is potentially misguided and why the company is worthy of a spot in the portfolio? Furthermore, can they evidence a deeper knowledge of the business operations and strategy that extends beyond a high-level description.

A key component of investing responsibly is engagement and pushing for change when necessary. This takes time and resources to be done effectively and so it is crucial to assess whether the investment team is sufficiently resourced to carry this out. Furthermore, it is important to see a track record of engagement and the impact of these activities. Some investment teams take care of engagement themselves; others have separate teams dedicated to this activity. If it's the latter approach, then it is key to understand the communication processes between the two. Exploring the approach in more detail can often reveal an indication of the fund management firm's stance as a whole and whether it has invested in its team sufficiently. Linked to this is assessing whether the fund management firm is also practicing what they preach. Does it benefit from strong corporate governance, or are they making commitments as a firm to improve employee diversity, for example?

Now, back to my spoiler comment. Surely the end game from this heightened awareness of all that encompasses sustainability is that ESG considerations are embedded in all funds without the need for sustainable or 'green' labels. Whilst we aren't there yet, even now a fund can score well against the above criteria and not necessarily be labelled responsible or sustainable. One such fund we rate highly is Evenlode Income.

Evenlode focus their time seeking high quality companies with asset light business models. This typically steers them away from more controversial sectors such as energy, mining and utilities. . However, what impresses is the depth of consideration evidenced in their process. One way the team appraises sustainability is by considering various risk factors that feed directly into a company's maximum position size in the portfolio. Of nine risk factors scored, four are ESG-linked. Evenlode's analyst team has grown in recent years to enable the evolution of their process and research capabilities. The investment team is 15 strong with three focused on sustainability and stewardship. There is a transparent approach to voting and engagement and the team have also spent time building out carbon emissions analysis, considering scope 1, 2 and 3 emissions for their portfolio, which separates them from many peers. Many other managers make some or all of these claims, but far fewer live up to proper scrutiny so well.

At Momentum, we manage three distinct product sets with sustainable mandates. We have a range of model portfolios for UK clients and a global multi-asset fund in our Luxembourg UCITS range. In these solutions we have selected third-party managers who we consider to be leaders at incorporating sustainable considerations into their strategies. Lastly, we manage a Global Sustainable Equity fund where we have partnered with systematic manager Robeco to deliver a portfolio that provides exposure to rewarded investment style premia whilst also targeting a significant reduction in carbon emissions, waste generation and water usage. We would be delighted to discuss these portfolios and our approach in more detail with you.

For more information, please contact your adviser or alternatively contact:

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