

Three steps to avoid greenwashing

Fidelity International provides some questions to uncover the “green sheen”

Question 1: Does the asset manager subscribe to integrated sustainable investing thinking?

“Integrated sustainable investing thinking” describes the process of applying a “sustainability lens” at all stages of the investment process. The opposite of this would be an asset manager that does little more than apply a basic ESG screen, such as excluding “sin stocks”.

There remains no universally accepted method of carrying out such integration. So one good screening practice is for sustainable investors to dive into a particular fund’s fact sheet and carefully examine the section on its investment-selection process.

A red flag – particularly in actively-managed funds – is the “outsourcing” of the sustainability analysis part to third parties and blindly following external ratings. Investors want to see if the manager is dedicating actual resources to ensure that the companies it invests in are green both on the outside and within.

A good example of external measures to define impact would be the UN’s official indicators for its Sustainable Development Goals. These provide detailed and specific methods to track progress across each goal. But for these to be effective, they should be integrated into the broader investment process.

Question 2: Is the asset manager engaging with companies to drive change that will boost sustainability?

At an institutional level, part of being a sustainable investor is accepting the responsibility that comes with being a shareholder too. Investors are often among the largest shareholders of portfolio companies and have a responsibility to try and drive sustainability-related change.

It is almost impossible to greenwash if an asset manager actively engages with companies. Lines of investigation should include:

- The number of companies the manager actively engages with
- The number of shareholder meetings at which it votes, and how it votes
- The number of meetings on sustainability issues it has conducted with its portfolio companies, plus consistent follow-up and tracking on issues raised
- A breakdown of how it engages with its portfolio companies across regions, sectors, and themes (environmental, social, or governance)

Question 3: Is the asset manager “walking the talk”?

The final level is to look beyond the manager’s behaviour toward its portfolios and to study how it practises sustainable values.

This can involve scrutinising the asset manager through a sustainability lens. Its mission, work environment, employment practices, carbon footprint minimisation measures, and community initiatives are just some things to look at when doing so.

Investor education is vital, while regulations are also likely on the way. Still, as regulations take time, investors should know the right questions to ask and be willing to do some homework.