ISC
Investment Solutions Consultants

Unintentional Greenwashing – Investing Challenges for Asset Managers

Unintentional greenwashing is something that every asset manager needs to avoid. The implications of getting it wrong are many, but perhaps the most worrying is the reputational damage that can be inflicted on an entire organisation that has failed to prevent it. Re-building trust with advisors and investors where institutional behaviours have failed to ensure that ESG principles are upheld will be a long and costly process. Better to ensure that unintentional greenwashing is avoided in the first place. But how can asset managers ensure that they get it right? Here we offer some suggestions for those investing in companies to support ESG strategies:-

- **Education:** The key here is a **deep** institutional understanding throughout the organisation of sustainable finance, environmental, social and governance factors, and the wider industry and consumer expectations around sustainability standards. The knowledge gained by your collective resources will help your firm make informed decisions and avoid misrepresentations.
- **Clear Objectives:** Establish clear and measurable sustainability objectives and align them with recognised frameworks such as the United Nations Sustainable Development Goals (SDGs) or the Task Force on Climate-related Financial Disclosures (TCFD), alongside the ESG regulations in the industry such as the UK's SDR, and the EU's SFDR regulations. Clearly defined objectives should be fully integrated into the investment process.
- **Robust Due Diligence:** With respect to the assets/companies in which you invest, thoroughly evaluate for their ESG practices, policies, and performance. Do extensive research through engagement with investee companies and ensure that they meet the demands of your own internal standards and keep detailed documentation. Ensure that your own internal policies for approving investment in ESG companies is robust and consistently applied.
- **Open & Accurate information:** Provide transparent and comprehensive reporting on the ESG performance of your investment portfolios. This includes disclosing the methodologies used, the data sources, and any limitations or assumptions. Avoid generalised or vague claims and focus on specific, quantifiable achievements.
- **Verify and validate claims:** Consider independent third-party verification or certifications to validate sustainability claims. These certifications can enhance credibility and assure stakeholders that your claims are accurate.
- **Stakeholder Management:** Maintain an open and continuous dialogue with clients, investors, regulators, and other stakeholders. Address their concerns, provide clear information about sustainable investment strategies, and be receptive to feedback.
- **Review & Update:** Implementing standards is just the start, but as ESG develops, you need to keep pace with evolving sustainability standards, regulations, and industry best practices. Conduct regular reviews of investment policies, processes, and disclosures to ensure they remain aligned with current expectations.

- **Industry Awareness:** Participate in industry initiatives, forums, and working groups to learn from peers, share experiences, and contribute to the development of best practices. Collaboration can help in refining methodologies, data collection, and reporting standards.

Of course, there are aspects to ESG which Asset Managers must be aware of, such as the classification of their ESG products across fund ranges and in multiple jurisdictions, the labelling of those products, and the financial promotions that go along with them. We will attempt to address further ESG concerns for Asset Managers under separate articles.

Please get in touch with us should you wish to discuss how ISC Ltd can help you.

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