

Sustainable funds must work harder to vet their investments

In the aftermath of reports on conditions in Boohoo's supply chain, asset managers with sustainable funds should stop clinging to pseudo-scientific ESG scoring systems in the face of common sense.

Temps de lecture : minute

10 August 2020

In an opinion piece in the Financial Times, Sarah O'Connor makes a compelling case that using ESG metrics – what it describes as “pseudo-scientific” scoring systems – is no substitute for thorough, time-consuming research.

It gives the example of MSCI, which deploys alternative data and artificial intelligence to score companies on ESG factors, noting it gave Boohoo a high ESG score as recently as last year. It also points out, as we have several times recently, that ESG rating agencies can differ vastly in the way they score companies. It is not unheard of for a firm to be ranked highly by one organisation, while sitting in the lower percentiles of another.

This isn't the first time such an argument has been made. In June, the US-based Investment Adviser Association's Active Managers Council released a white paper (available here) stating sustainable investing is an inherently active process. Actively researching and choosing portfolio companies also allows funds to take a longer-term view when selecting sustainable securities, the paper argued.

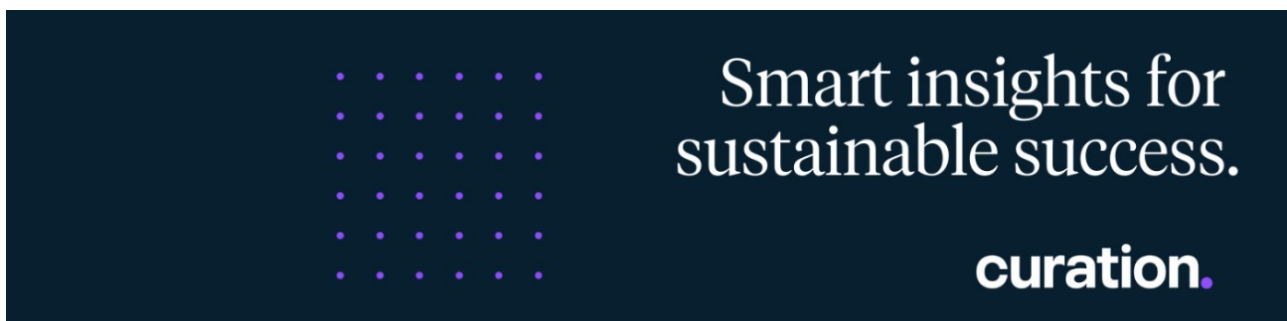
Large institutional investors looking for ESG strategies have,

however, turned to passive investments on occasion. Reinsurer Swiss Re, for example, made headlines in 2017 when it announced its intention to switch \$130B worth of assets to track MSCI ethical indices. This week, Scottish Widows has said it will invest £2B in a fund run by BlackRock described as being “semi-passive”. The offering tracks an altered version of the MSCI World index which elevates companies likely to thrive in a low-carbon economy.

Without universally accepted standards for ESG ratings, however, index providers do appear ill-equipped to assess the ESG credentials of portfolio companies. Perhaps one solution, in lieu of widely-accepted standards, is for investors' expectations to be managed, with caveats offered that portfolios may still contain organisations involved in "brown" activities or with problematic supply chains despite ESG metrics being applied to indices.

Against this backdrop, there is seemingly an opportunity for active managers who are willing to do the laborious work needed to address the ESG credentials of portfolio companies, manage funds with precise objectives and provide transparency to investors.

Nick Finegold is the Founder & CEO, Curation an emerging and peripheral risks monitoring service.



[Sign up for Sustt](#)



Read also

[Apple pledges carbon neutrality across entire business by 2030](#)

Article by Nick Finegold