

A beginner's guide to green investing

Making investments that promise positive environmental impact and financial returns sometimes feels like detective work.

Maddyness spoke to Josh Gregory, founder and CEO of Sugi, about how to tell if a company is greenwashing or greening up for good.

Temps de lecture : minute

26 January 2021

Public interest in impact investing is growing at a rate of knots – and for good reason. In far too many countries, there's a shortfall between cash pledged by government towards averting the climate crisis – and the kind of sums really needed. Harnessing private capital can certainly go some way in making up for this.

Sugi is the UK's first app to check your carbon impact, compare investments and help you build a greener portfolio. We asked the organisation's founder, Josh, about using data to your (and the planet's) advantage.

[Maddyness] Tell us about your background and what led you to founding Sugi. Give us a brief overview of what it does.

[Josh] I'm fairly headstrong and never follow instructions, so becoming a corporate lawyer out of uni was probably a bad idea. But during my brief days in the City, I encountered one of the very first environmental investment funds. I was hooked by the idea that private money could be harnessed for such a positive mission. I left law, took a master's degree in

environmental technology and started working in conservation finance. It turned out that there was a whole industry dedicated to driving private finance towards sustainable development.

All the focus, however, has been on the big players – development banks and institutional investors. This will never be enough.

We need individual investors, and the vast pool of private capital they control, to shift to green. That's why I started Sugi.

Sugi is a completely new way for everyday investors to engage with green investing. We're the first platform to give users a carbon profile of their investments, comparing them with industry benchmarks and similar investments in the market. For the first time, people can see how green their investments are and take action to improve their impact.

Why is green investing so difficult at the moment? Is there more risk attached to green investments?

There are a huge number of everyday investors in the UK. In 2020, the market was worth £210B. And survey after survey shows most people want their investments to have a positive environmental impact. But very few actually engage with green investing, mainly because it's overly complicated and confusing and the information people want isn't available.

For example, there are hundreds of impact, ESG, socially responsible and sustainable investment products and no set criteria for using these labels.

The result is a mass of greenwashing. And even when investment products are perhaps legitimately labelled, the reasons behind the labelling are not clear.

Some 'green' investment products include fossil fuel stocks because they are 'best in class'; others boast low carbon emissions because they are heavily weighted in favour of technology and financial services stocks, which means they're low carbon by coincidence rather than design; others still may score well for social responsibility but have poor green credentials. Most people don't have the time or patience to work through all of this.

Green investments aren't necessarily more risky than 'normal' investments. When you're choosing a green investment, there are more aspects to consider - and these aspects may or may not translate to an associated financial risk. Arguably, non-green investments may be more risky.

When a company hasn't considered green issues in its decision-making, it may be more exposed to the risks of climate change, whether that's because its facilities might be flooded, its competitors get the jump on new low-carbon product lines, or it could even be sued by its own shareholders for lack of long-term planning. We've seen some of that in the news recently.

How has demand changed in the past few years?

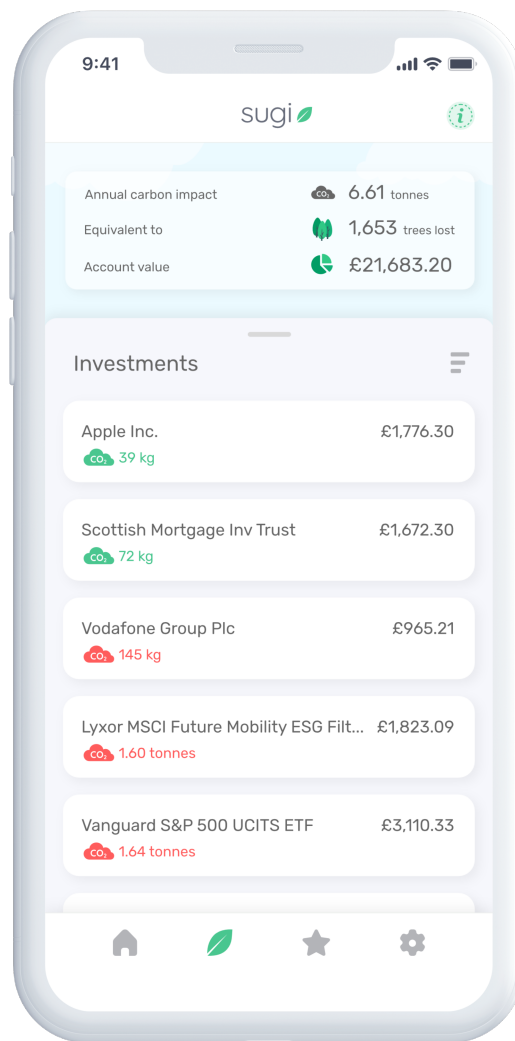
Demand for green investments has soared, particularly over the last 18 months, due to two main factors.

Firstly, climate change is now firmly on the global

agenda. With all eyes watching the Biden administration's transition to power (and the subsequent climate change policy that will follow), 'greening up' has never been more of a priority for businesses and individuals.

Secondly, since the start of the COVID-19 pandemic, reports have continually claimed that ESG funds are outperforming 'traditional' investments. Going green is no longer cited as a 'nice to have'; rather, these reports demonstrate the value and resilience of ESG funds to the investor community, increasing demand.

It's now arguably more notable to find an asset manager who hasn't committed to sustainable, ethical, responsible, impact and/or ESG (environmental, social and governance) investing than one who has.



What kind of data do you make use of, and how does it help you achieve better results for your users?

The environmental data which feeds into our algorithms is objective and reliable - it's sourced from S&P Trucost, which is one of the world's leading environmental data providers. Unlike with many other environmental analytics companies, we include all the different 'scopes'

of carbon emissions, so that we can truly capture a company's entire carbon footprint.

We also use 'Open Finance' technology to power the platform. Open Finance is a development of the well-established Open Banking ecosystem, which lets people link their bank accounts to apps on their phones. We go further, allowing them to access their investment portfolios, so they can receive personalised impact data for each of their investments.

What are some of the green companies we should have on our radar for the future? Who are the ones to watch?

Make My Money Matter is an excellent organisation campaigning for the pensions industry to commit to net zero. We also support Ethex/Energise Africa, a crowdfunding platform for green and community projects in the UK and abroad. Finally, (and I may be biased) Sugi of course!

How can prospective investors spot greenwashing? What are some good questions to ask?

Researching an investment can involve a bit of detective work. While ESG ratings are important, they aren't targeted at everyday investors. The best source of information for what a company is currently doing to reduce its footprint is through an impact report (often published on the company's website). Of course, such reports are produced internally and should be read with a critical eye.

|

A good place to start is checking whether the company is reporting on issues that are important for its sector, for example, an energy company switching to renewables, or a mining company focusing on sustainable extraction.

In these materials, it's important to differentiate between intention and action. Ultimately, it's what a company does in real terms - not what it promises - that matters. Scrutinise the numbers too; how much of the company's capex is being dedicated to improving its environmental performance?

Increasingly, whether a company's activities align with the 1.5°C target is a measure of that company's green credentials. While this can be hard to ascertain, if a company can demonstrate that its activities are aligned with the target, it's an encouraging sign.

Finally, look at how the company measures its carbon impact. Some companies don't release data on their emissions, which could be a red flag. However, even when the data is provided, certain emissions may be hidden. Quite often, a company omits its scope 3 emissions - that is, indirect emissions that occur in a company's value chain (from suppliers to end users), which distorts the picture. At Sugi, our data covers end-to-end carbon emissions data - including scope 3 emissions - to give the full picture.

What's the potential impact of a shift to green investment for the climate?

Investors working together wield a lot of power. The popularity of sustainable investing is putting pressure on fund managers, pension

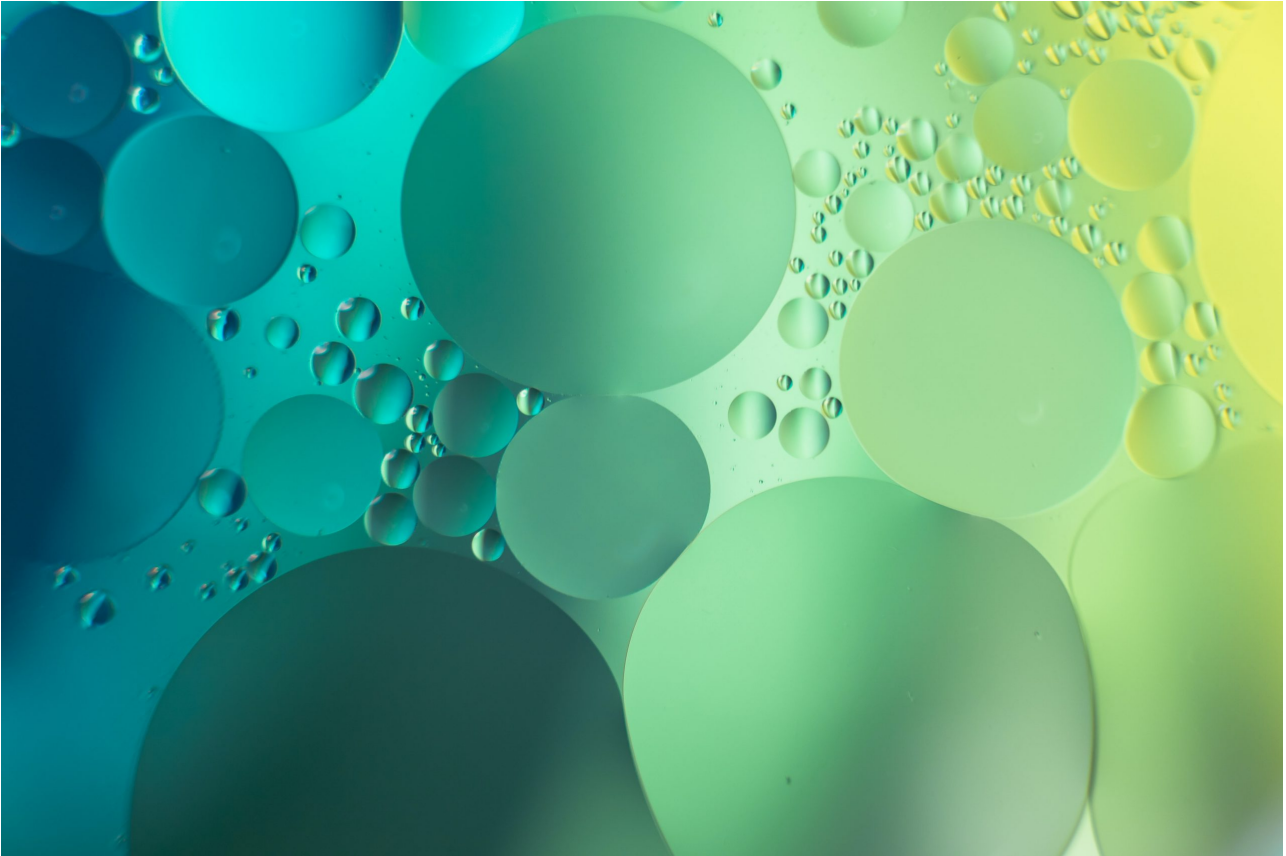
funds and listed companies to demonstrate environmental good practice. That's the first step. The next is to see real transparency in how companies and investment products are performing on environmental factors. That will enable investors to make informed decisions when selecting investments for their green credentials.

Ultimately, to shift the world onto a 1.5 degree climate pathway (which is what's needed to avoid an irreversible climate emergency), we need a commitment to net zero across the board - from governments, investors, organisations and individuals.

Sugi is one small part of that; but a part that I hope can make a real difference.

And finally, a more personal question. What's your daily routine at the moment - and what are the rules you're living by to get you through COVID-19?

I have two small children, so much of my routine involves looking after them and making sure they're affected as little as possible by what we're all going through. It means we've tried to keep a positive vibe at home, even when things seem pretty bleak outside. I guess I'm a natural optimist too, so that helps - it looks like we're on the home stretch and I'm looking forward to a return to normality in 2021. Hopefully, this crisis will help us remember that we need to look after our planet.



Read also

[The UK's green recovery plans - how do they stack up?](#)

Article by Josh Gregory