

Are we all guilty of greenwashing?



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What is greenwashing?

Capitalising on the ESG tidal wave

- > The misperception that products are more sustainable than they really are
- > In investment markets, greenwashing refers to overstating the ESG profile of financial securities/products
- > Intentional vs unintentional greenwashing



Source: IYNF

Greenwashing is everywhere

VW installed 'defeat devices' to subvert emissions tests, high court finds

Judge makes major ruling in mass 'dieselgate' litigation against VW in England and Wales

Eni fined €5m for deceiving consumers over its 'green' diesel, Italian watchdog rules

Modern slavery: Kiwis spend \$34 a week on goods linked to child and forced labour

Shell rapped by ASA for 'greenwash' advert

Oil company's claim that its work in Alberta's tar sands was 'sustainable' is branded 'misleading' by Advertising Standards Authority

Eco-Friendly "Paper Bottle" Turns Out To Be A Paper Sleeve With A Plastic Bottle Inside



Crypto Climate Accord: Bitcoin greenwashing or game-changer?

Some cryptocurrency players are trying to shrink crypto's carbon footprint with a self-regulating accord, but critics say it distracts from more effective government regulation.

Banks face investor backlash over 'greenwashing' claims

Climate change will be a key issue at annual meetings for banks accused of funding energy from fossil fuel sources

Regulators in the U.S. and Europe put ESG fund managers on notice for "greenwashing"

Is NZ really 'clean and green'?

Example: water concerns in NZ



ISSUE 1

Our native freshwater species and ecosystems are under threat



76%

of our native freshwater fish were classified as threatened with or at risk of extinction in 2017.



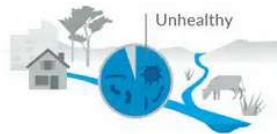
90%

of freshwater wetlands, particularly swamps, have been drained since pre-human settlement.



ISSUE 2

Water is polluted in urban, farming, and forestry areas



95–99%

of river length in urban, pastoral, and exotic forest areas exceeds water quality guidelines (according to computer models).



67–72%

of lakes in urban, pastoral, and forestry areas are in poor ecological health (according to computer models).



ISSUE 3

Changing water flows affect our freshwater



58%

of water allocated for consumption (excluding hydroelectricity) was for irrigation — our highest allocated use.



About 100

large dams are used to generate electricity. Others are used for irrigation, flood control, water supply, or a combination.



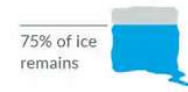
ISSUE 4

Climate change is affecting freshwater in Aotearoa New Zealand



¼

of monitoring sites around New Zealand have soils that are drier since 1972/73.

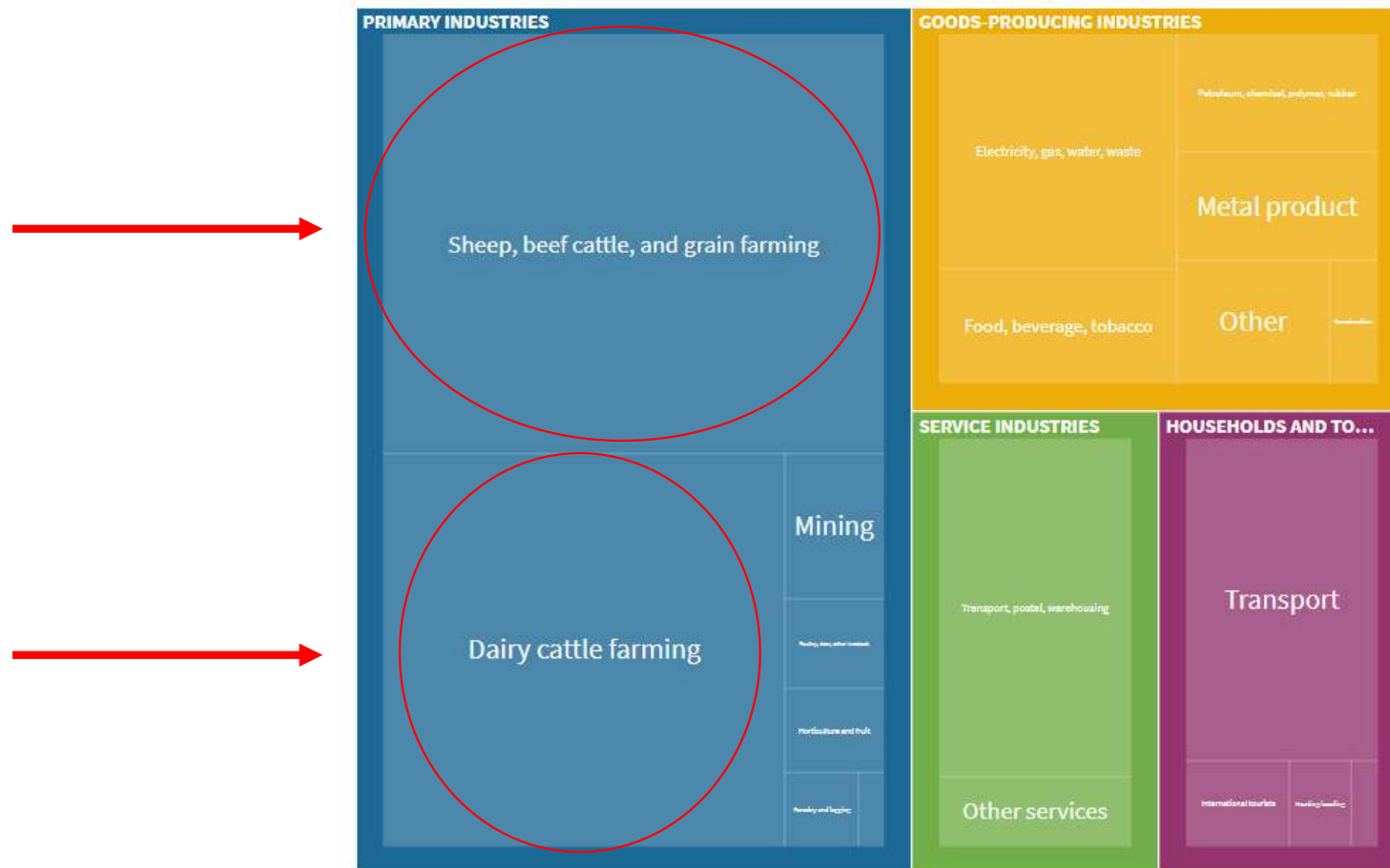


25%

of the ice in our glaciers is estimated to have been lost from 1977 to 2016.

Source: Ministry for the Environment/Stats NZ: <https://theconversation.com/polluted-drained-and-drying-out-new-warnings-on-new-zealands-rivers-and-lakes-136486#:~:text=Almost%20all%20New%20Zealand%20rivers,are%20threatened%20or%20at%20risk.>

Where do NZ emissions come from?

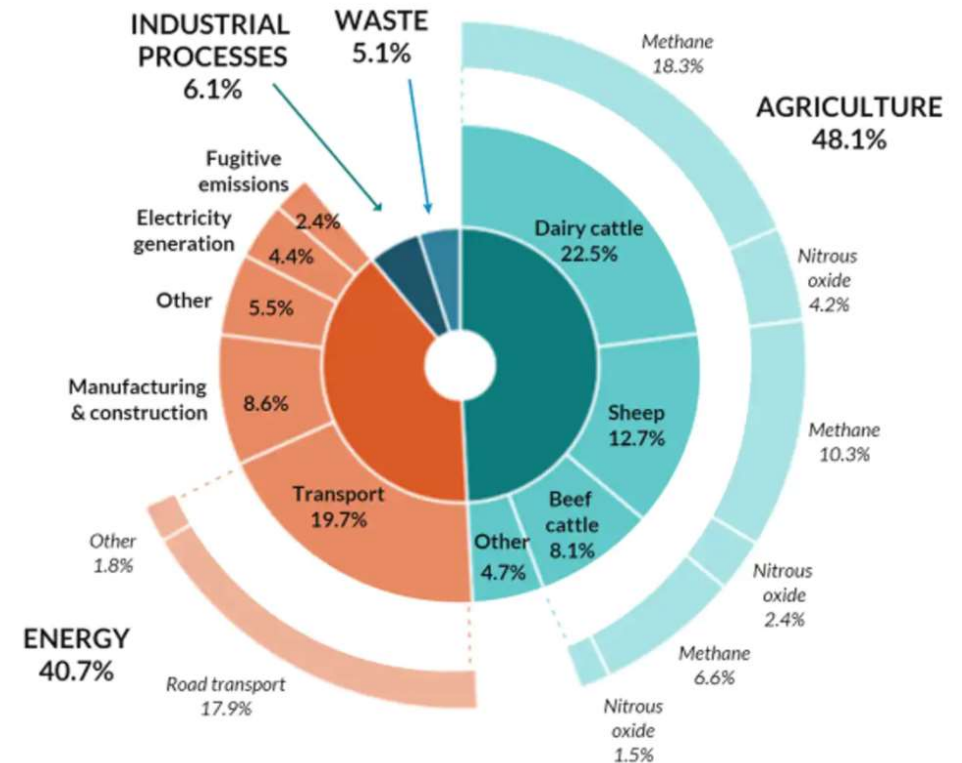


Source: Stuff.co.nz: <https://www.stuff.co.nz/business/114431409/nzs-biggest-greenhouse-gas-emitters-and-their-struggle-to-pollute-less>

NZ net zero targets

Methane emissions have been carved out into a softer target...

- > Reduce all GHG's (except biogenic methane) to net zero by 2050
- > Create a separate target to reduce biogenic methane emissions by 10% by 2030, and 24%-47% by 2050 (relative to 2017)



Source: Ministry for the Environment, <https://theconversation.com/nz-introduces-groundbreaking-zero-carbon-bill-including-targets-for-agricultural-methane-116724>

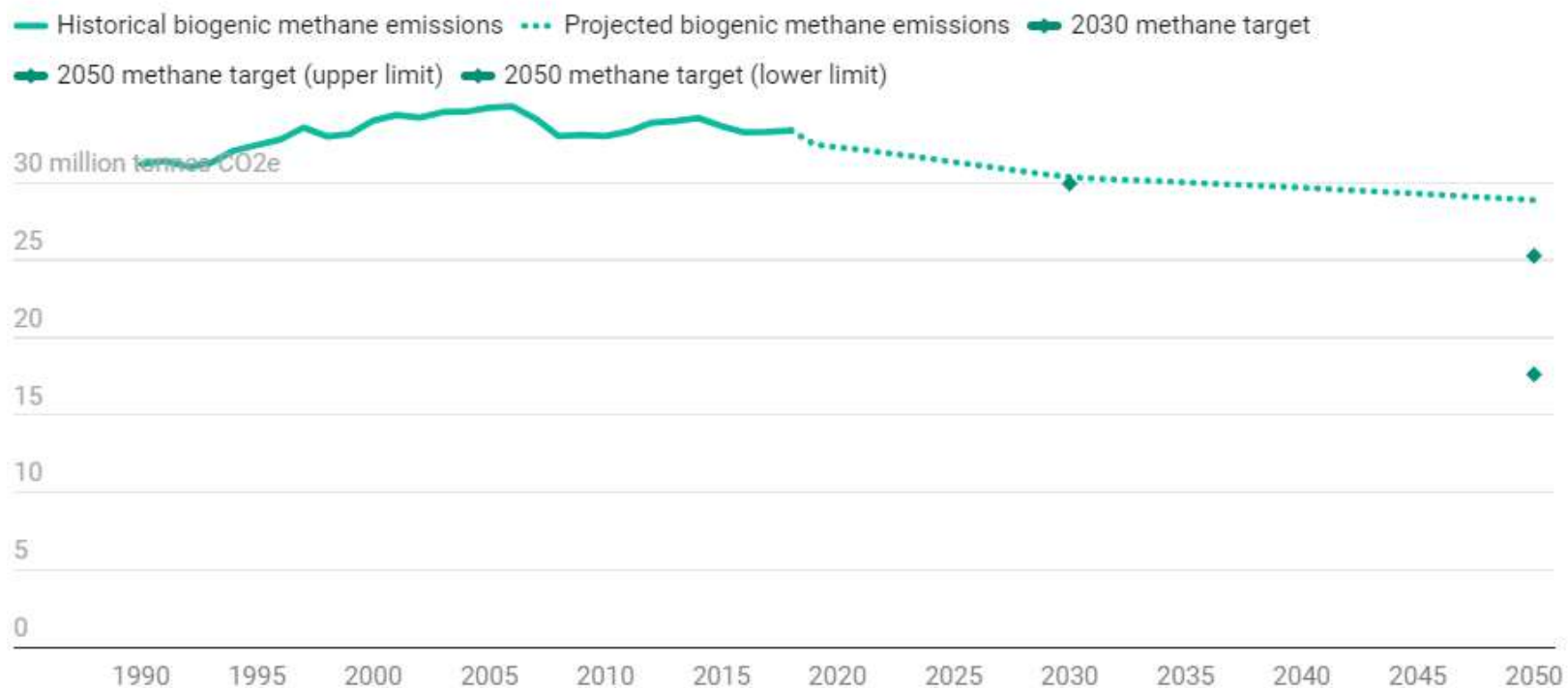


NZ Net zero targets

...which we are on track to miss

Historical and projected methane emissions and targets

Ministry for the Environment projections indicate we will miss both our 2030 and 2050 methane targets.



Source: Ministry for the Environment: <https://www.newsroom.co.nz/climate-commission-nz-set-to-miss-methane-targets>

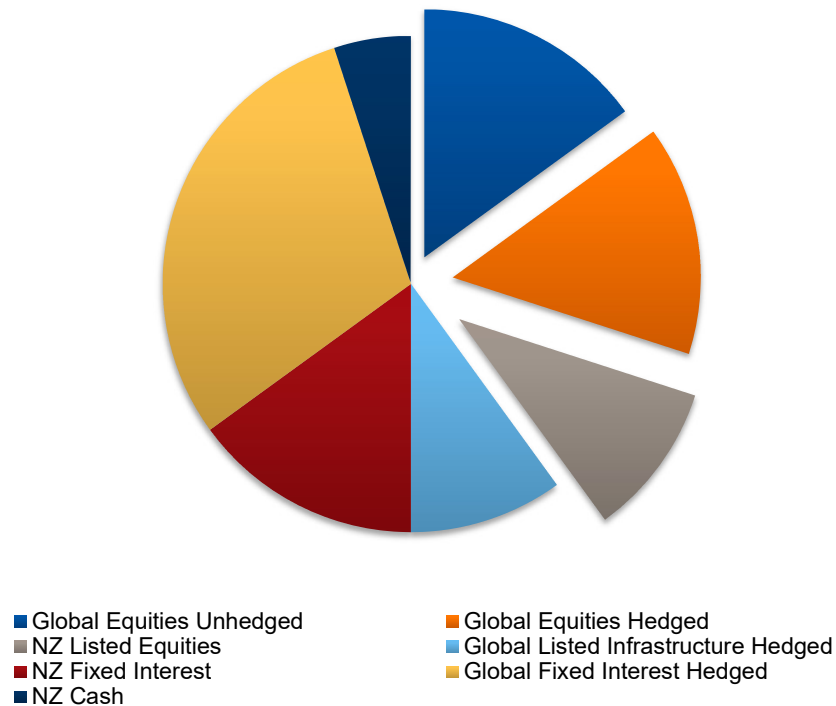
/ Are we forgetting who we invest for?

- > Which interests do we represent?
 - > Industry's role is to manage wealth in such a way that satisfies the wishes of the end investor
 - > Not everyone has the same motivations, blanket solutions are not appropriate
- > Socially responsible investing can have many different motivations
 - > Performance motivations
 - > Avoiding unscrupulous activities
 - > Make the world a better place

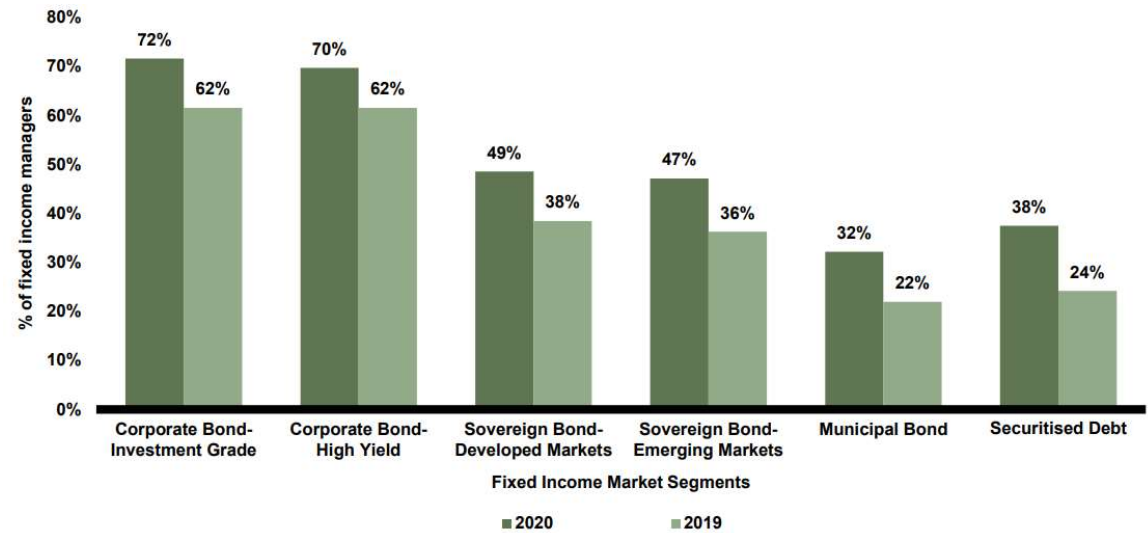
ESG within asset classes

Are only equity investors responsible?

Typical Balanced portfolio allocations



ESG data coverage for fixed income segments

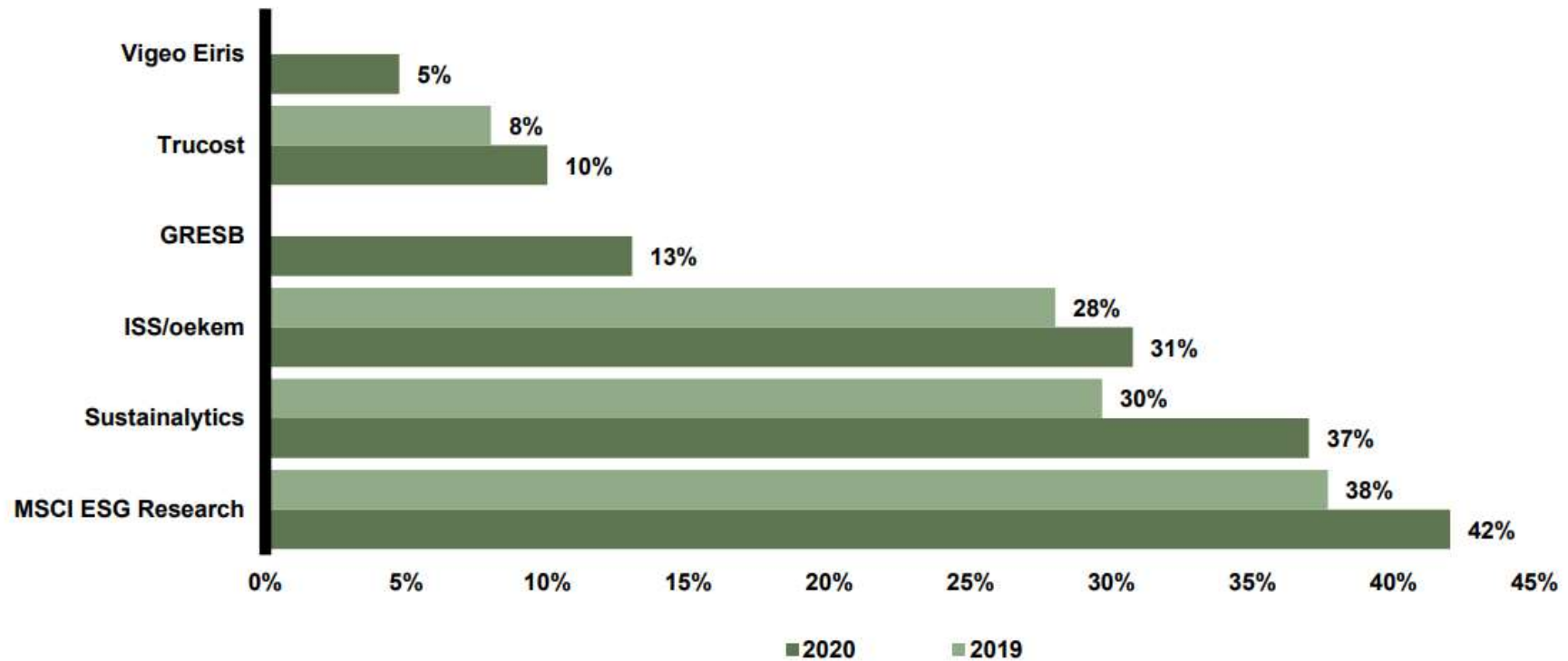


Source: Russell Investments



ESG data

External ESG vendor subscriptions



Source: Russell Investments

Difficulties with ESG data

Research shows that metrics can be very inconsistent

- > Correlations between ESG data providers can be as poor as 0.38 (Berg, Koelbel, & Rigobon, 2020)
 - > A 'responsible' portfolio might not be so responsible using another vendor
 - > Ratings divergence may hamper the ambition of corporates trying to improve their ESG performance
- > A long-short ESG portfolio can have significant differences in returns, with correlations as low as 0.03 (Li & Polychronopoulos, 2020)

Difficulties with climate data

- > Climate data is still developing, but there are a laundry list of issues we need to be vigilant about:
 - > Most measures are backwards looking, while forward looking climate risk methodologies are still developing
 - > Potential to game carbon metrics
 - > Good for emissions might still mean bad for other ESG characteristics
 - > For example, lithium, which is used in batteries, harms soil quality, can cause air contamination, water contamination and water intensive practices, associated with child labour
 - > Scope 3 emissions still a work in progress

Seeing the forest for the trees – scope 3 emissions

Case study: Z Energy

Scope	Base Year (FY17)	FY18	FY19	FY20
Scope 1 – Z Offices & Retail	3,907	3,853	3,837	4,127
Scope 2 – Z Offices & Retail	4,045	4,223	4,195	3,371
Scope 3 – Z Offices & Retail	3,339	3,875	4,495	3,506
Scope 3 – NZ Supply Chain	34,247	31,041	28,530	29,785
Total operational emissions*	45,250	42,992	29,303	39,742
% change from FY17	–	-6%	-10%	-12%
Scope 3 – Share of refinery	634,848	618,483	555,892	520,708
Scope 3 – Rest of supply	807,542	983,939	902,215	1,031,309
Scope 3 – Z product emissions from our customers	9,488,277.00	10,330,585.00	10,459,103.70	10,531,782
Total emissions**	10,976,205	11,975,999	11,958,268	12,124,589

Source: Z Energy annual report 2020.

Measuring the performance of ESG

- > What does the literature say about the relationship between ESG and alpha?
 - > Von Wallis & Klen (2015) show that there is not yet a clear answer to the question of 'does ESG create alpha' from a fund manager perspective.
- > 2020 COVID market
 - > Energy, tech, growth
- > How should the performance implications of ESG be attributed?
 - > Ceteris Paribus
 - > Strip away everything else that is supposed to impact returns (beta, size, value, momentum industry)

Real world impacts of responsible investing

- > Are exclusions good for societal outcomes?
- > Many investors play in the secondary market. Exclusions might have some flow-on effects, but only under strong assumptions of rationality and efficient markets
- > In the tobacco industry, Blitz & Swinkels (2020) find:
 - > investors have not really provided any 'fresh' capital to the industry
 - > divestment is allowing tobacco corporates to repurchase shares in the open market
 - > Shareholders may have more real impact with active voting and engagement



Fmr. BlackRock executive: ESG investing doesn't have any social impact

Inconsistent messaging

KiwiSaver example

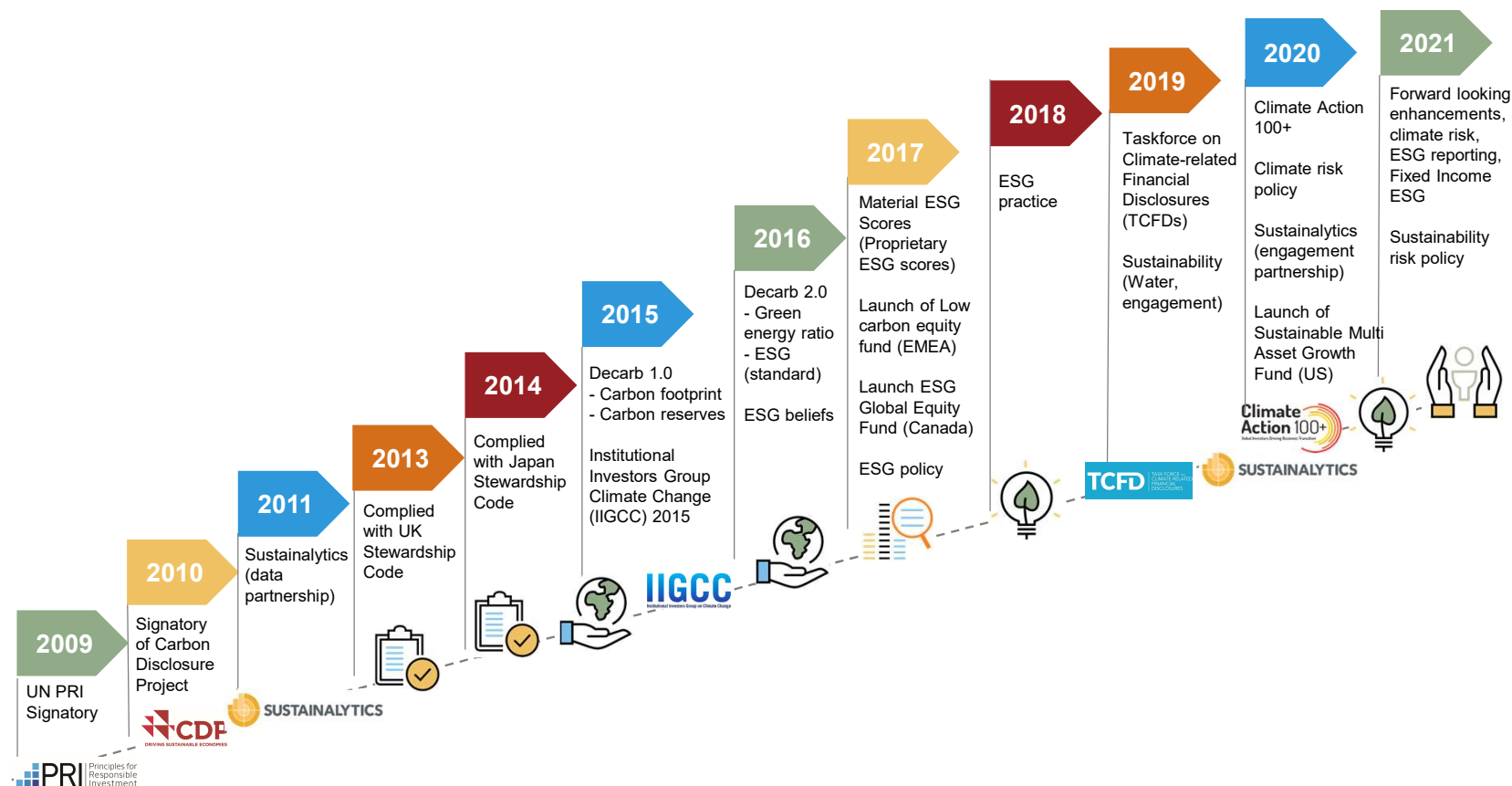
- > *“Aramco shares are stained with blood – KiwiSaver managers should keep away”*
 - > Concurrent exposure in Saudi sovereign bonds
- > *“We don’t invest in companies with significant exposure to fossil fuel extraction,... It’s the right thing to do, and it’s good for investment returns too”*
 - > Holdings in Z energy
 - > No empirical evidence for performance impact

Consequences of greenwashing

- > Investors lose faith in the industry
- > Companies are given less incentive to truly improve their practices
- > Asset managers who are doing a good job in earnest lose incentive
- > Misinformation leads to inefficient allocation of capital

Responsible investing at Russell Investments

Continuous global development embedded in our approach to ESG



Source: Russell Investments, as at 31 March 2021.

Note: This slide represents our global developments, funds shown may not be available in certain jurisdictions

ESG in asset management

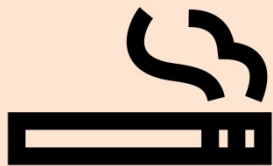
Understanding product design and how it fits with your values will help avoid greenwashing

- > Does a product have specific ESG objectives?
- > Are ESG objectives primarily exclusionary based or does a product also have positive tilts/objectives?
- > ESG is integrated into the investment decision making process – what does this mean?
 - > The most likely area that can result in Greenwashing
 - > Focus of today's presentation
- > Is there appropriate 'labelling' of the above characteristics to aid investors?

Russell Investments Australia ESG ETF (RARI)*

Broad set of exclusions....A darker shade of green, dark enough??

Tobacco Products



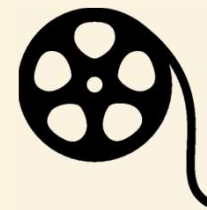
Alcohol



Gambling



Pornography



Controversial
weapons



Non -
controversial
weapons



Fossil fuels



*Russell Investments Australian Responsible Investment ETF

ESG in manager research

Product evaluation and scoring at Russell Investments



- > The manager demonstrates **strong awareness** of the potential risk and return impacts of ESG issues on individual holdings and the portfolio structure
- > The manager can **clearly demonstrate** how portfolio positioning reflects the management of relevant ESG risks
- > The manager can **clearly demonstrate** how relevant ESG exposures can add value
- > The breadth of perspectives and analytical **inputs on ESG issues are superior to peers**

- > The manager **does not demonstrate awareness** of potential risks and return impacts of ESG issues on portfolio holdings
- > **Meaningful discrepancies** between target ESG guidelines and portfolio holdings
- > Manager's perspective and analytical **inputs on ESG issues lack rigour**

Source: Russell Investments, 2018.



Enhanced oversight for global equities

Understanding the ESG risks in our portfolios

- > Review of “**high**” and “**severe**” risk securities e.g.:
 - > Sustainalytics info
 - > Risk ratings > 30
 - > MEI (material ESG Issue) drivers
 - > Management gap vs unmanageable risk
 - > Specific review of **Corporate Governance** laggards
 - > Country/region, sector/industry drivers/patterns
 - > Subadvisor identified drivers
- > Specific review of **climate transition risk** – physical, transition
 - > Focus on high impact industries (Energy, Utilities, Steel, Cement, Trans)
- > **Thematic/sector overview** – e.g. SA industry or thematic notes
- > Summary of most meaningful issues at portfolio level, plus individual names for follow-up

Metrics a starting point

But need to go beyond just data

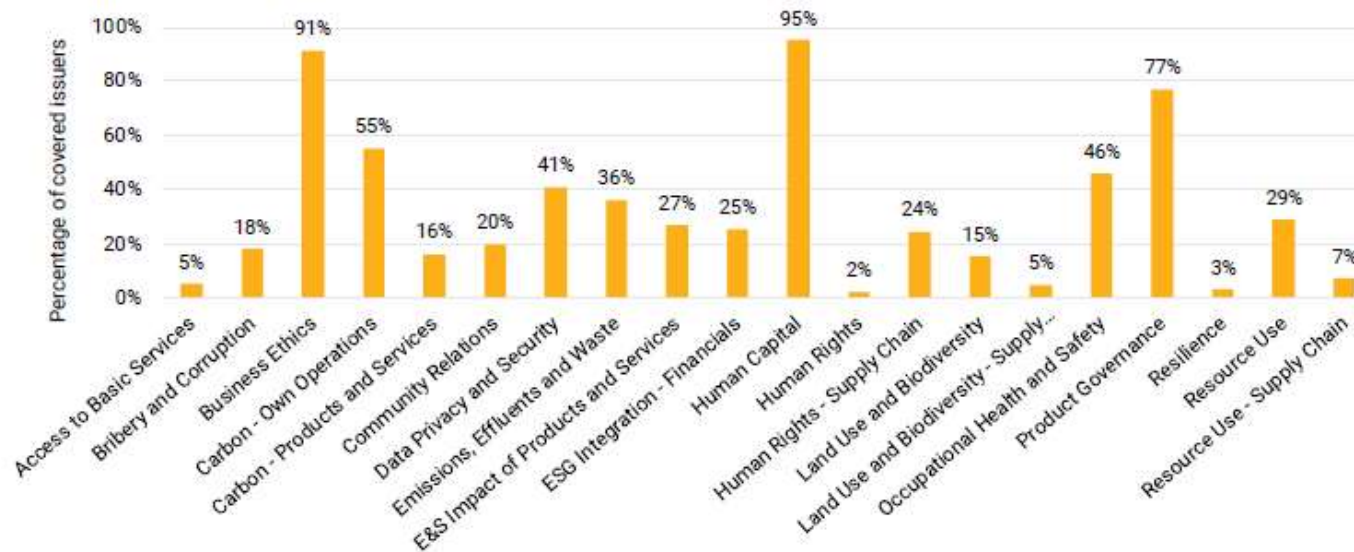
1. **Metrics** rely on underlying corporate disclosure frameworks—while improving, **remain incomplete and inconsistent**
2. **Low correlation of scores/ratings across providers**—unlike, say, credit ratings
3. Observed issues with ESG data – **cap bias, region insensitivities** (e.g. corporate governance)
4. Low carbon footprint **≠ low “climate transition risk”**
5. ESG metrics don’t tell you **what’s in the price**
6. **Context and depth** beyond standard public disclosures in metrics likely to be meaningful

Sustainalytics risk rating

Material ESG issues (MEIs)

- > Moving beyond the “E”, “S”, “G” framework
- > What are the sustainability issues that are material drivers of risk (or return) for this industry?
- > Not just Sustainalytics, but aligns with other industry development (e.g. SASB)

Figure 2.5: Percentage of companies for which the ESG issues are considered material



*As of July 2018

Source: Sustainalytics

Sustainalytics risk rating

Material ESG issues (MEIs) - example



Sustainalytics ESG Risk Rating Summary Report

Pfizer Inc

Pharmaceuticals United States NYS:PFE

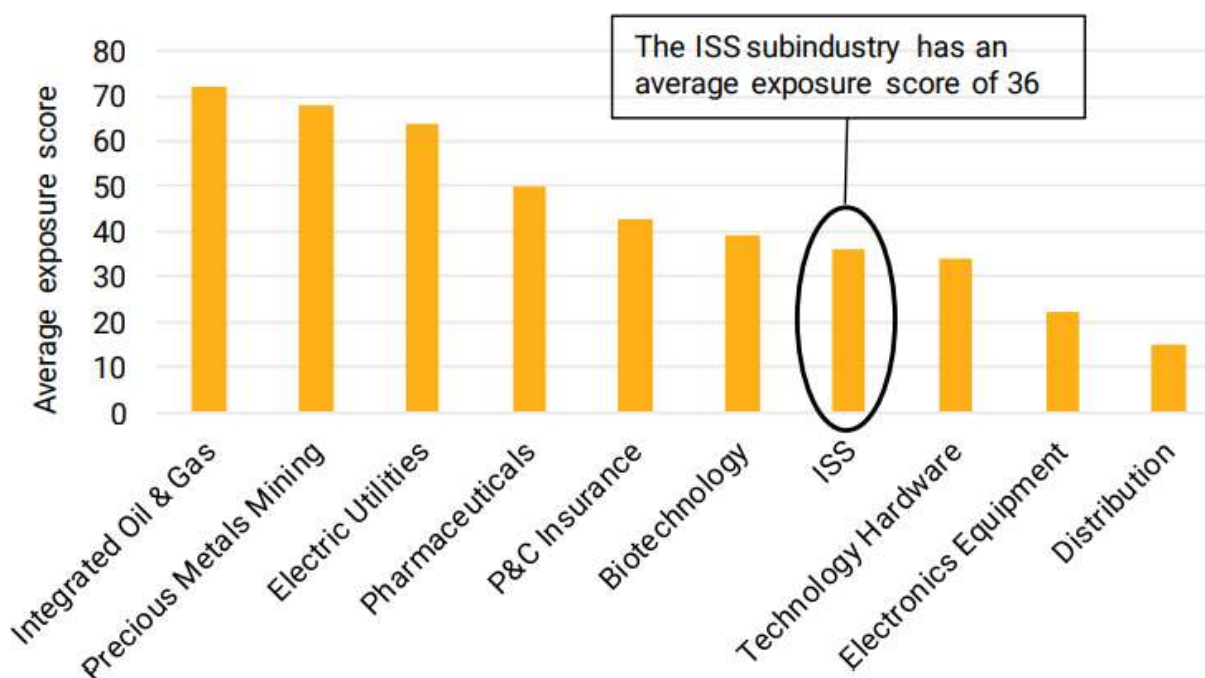
Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Rating.

Issue Name	ESG Risk Exposure	ESG Risk Management	ESG Risk Rating	Contribution to ESG Risk Rating
	Score Category	Score Category	Score Category	
Product Governance	10.0 High	49.9 Average	6.0 High	23.8%
Business Ethics Significant Events 	6.0 Medium	34.1 Average	4.1 Medium	16.1%
Corporate Governance	9.0 High	57.0 Strong	3.9 Low	15.3%
Bribery and Corruption Significant Events 	5.7 Medium	47.8 Average	3.1 Low	12.3%
Access to Basic Services	5.7 Medium	48.4 Average	2.9 Low	11.7%
Human Capital	5.7 Medium	53.0 Strong	2.8 Low	11.2%
Emissions, Effluents and Waste	2.9 Low	55.8 Strong	1.4 Negligible	5.6%
Occupational Health and Safety	1.9 Low	48.7 Average	1.0 Negligible	4.0%
Overall	46.9 Medium	49.5 Average	25.3 Medium	100.0%

Exposure to MEI's – sector 'biases'

Figure 4: Average exposure scores of selected subindustries*



* As of October 2018

Source: Sustainalytics

Portfolio Data

Reviewing ESG data in a Global Equity portfolio

Environmental, Social and Governance (ESG) Report

Russell Investments World Equity Fund

Benchmark: MSCI World Index (USD) - Net Return

Language: English

Effective Date: 2021-01-29

Download underlying data from Explorer

	PORTFOLIO EXPOSURE	BENCHMARK EXPOSURE	PORTFOLIO COVERAGE
ESG RISK SCORE	23.0	22.2	94.8%
CARBON FOOTPRINT	158.8	139.6	97.0%
TOBACCO EXPOSURE	0.0%	0.7%	

The ESG Risk Score is the weighted average of the Sustainalytics' Risk Score for companies in the portfolio. The Sustainalytics Risk Score focuses on ESG issues that are financially material to the company and incorporates both risk exposure and issue management. Higher scores imply higher ESG risk. The level of risk, broken down by underlying holding in the fund, with a risk score less than 10 is classified as Negligible, 10-20 as Low, 20-30 as Moderate, 30-40 as High, and >40 as Very High. The portfolio carbon footprint is the weighted average carbon intensity of the companies in the portfolio (where direct emissions are used, also referred to as Scope 1 and 2 emissions), measured in tonnes CO2e/\$1M revenue (USD). Tobacco exposure is defined as the weight of securities in the portfolio in the GICS

Distribution of ESG Risk Scores by Level of Risk



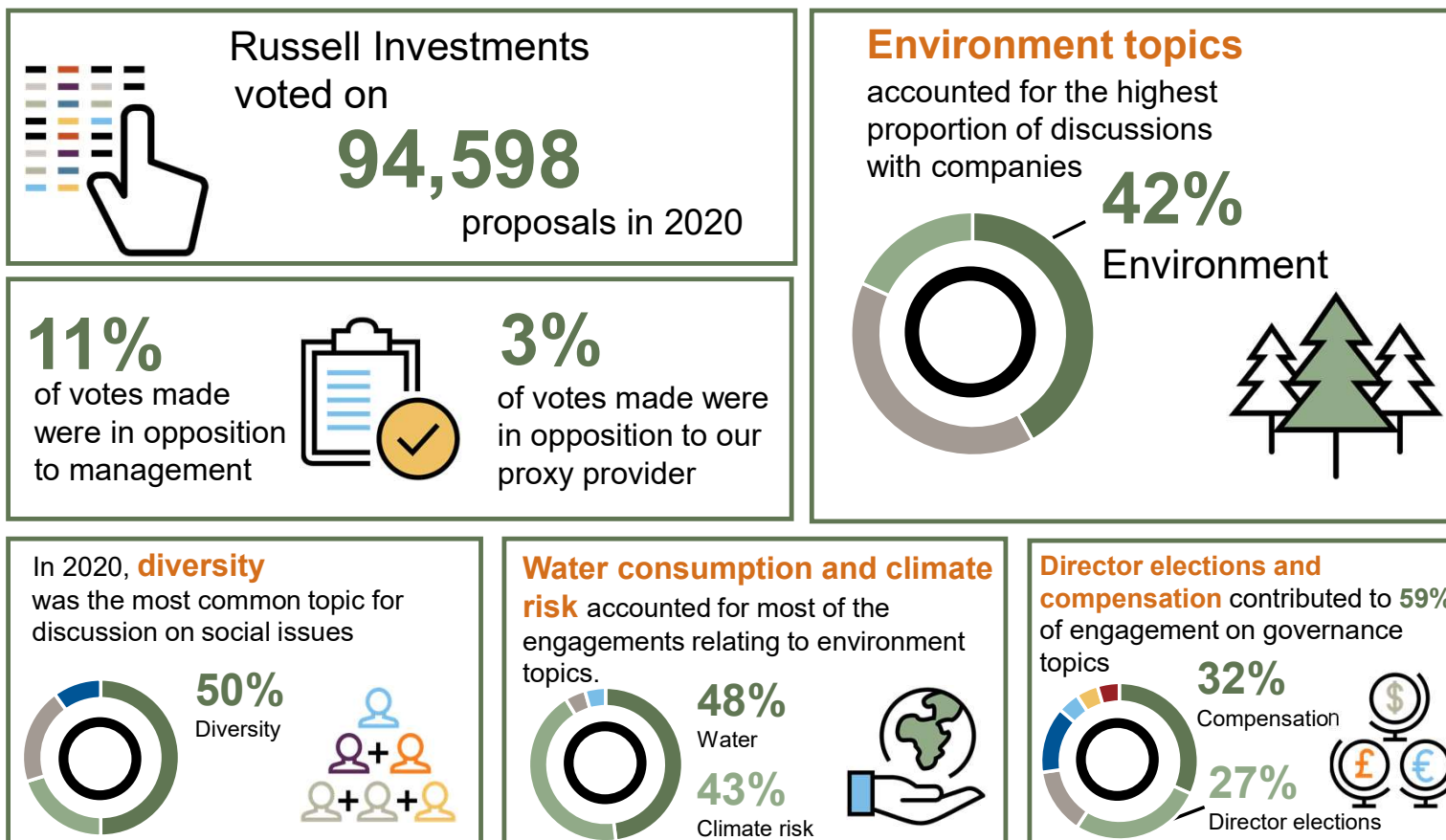
Worst 10 Names within the portfolio (irrespective of weight)

RANK	Carbon	Overall ESG	Resource Use	Product Governance	Business Ethics	Land Use and Biodiversity	Carbon - Own Operations	E&S Impact of Products and Services	Land Use and Biodiversity - Supply Chain	Human Capital
1	CK INFRASTRUCTURE HOLDINGS LTD.	JARDINE MATHESON HOLDINGS LTD.	WILMAR INTERNATIONAL LIMITED	JOHNSON & JOHNSON	WELLS FARGO & COMPANY	ARCHER-DANIELS-MIDLAND CO.	OGE ENERGY CORP.	ELEMENTIS PLC	ARCHER-DANIELS-MIDLAND CO.	TAKE-TWO INTERACTIVE SOFTWARE, INC.
2	VISTRA CORP.	TOHOKU ELECTRIC POWER CO., INC.	QORVO, INC.	UNIVERSAL HEALTH SERVICES, INC.	CREDIT SUISSE GROUP AG	UGI CORP.	POWER ASSETS HOLDINGS LTD.	THE COCA-COLA CO.	WILMAR INTERNATIONAL LIMITED	SQUARE, INC.
3	ALLIANT ENERGY CORP.	MARUICHI STEEL TUBE LTD.	MICRON TECHNOLOGY INC	MCKESSON CORP	CITIGROUP, INC.	OGE ENERGY CORP.	TOHOKU ELECTRIC POWER CO., INC.	THE SHERWIN-WILLIAMS CO.	BUNGE LTD.	MATCH GROUP, INC.
4	OGE ENERGY CORP.	CHUBU ELECTRIC POWER CO., INC.	SKYWORKS SOLUTIONS INC	TOYOTA MOTOR CORP.	SAMSUNG ELECTRONICS CO., LTD.	BUNGE LTD.	VISTRA CORP.	DAICEL CORP.	PIGEON CORP.	COSTAR GROUP, INC.
5	THE KANSAI ELECTRIC INVESTMENTS LTD.	THE KANSAI ELECTRIC POWER CO., INC.	NEWCREST MINING LTD.	BECTON, DICKINSON & CO.	SIEMENS AG	AMEREN CORP.	AGL ENERGY LTD.	NIPPON SHOKUBAI CO., LTD.	NESTLÉ S.A.	DROPBOX, INC.
6	AMERICAN ELECTRIC POWER CORP.	POWER ASSETS HOLDINGS LTD.	SOUTH32 LTD	SANOFI	PANASONIC CORP.	PUBLIC SERVICE ENTERPRISE	CHUBU ELECTRIC POWER CO.	JGC HOLDINGS CORP.	YAKULT HONSHA CO. LTD.	MS INC.

Multiple sorts:

- > highest management gaps
- > highest unmanageable risks
- > names in multiple MEI tails

Engagement and proxy voting



Source: 2020 Russell Investments' Proxy voting & Engagement report (See russellinvestments.com)

Responsible Investment Association Australasia (RIAA)

Independent certification of ESG credentials



RI strategies are formal, disclosed, consistent, auditable and fit for purpose



Labels are clear, honest and not misleading



Product avoids significant harm



Product accounts for environmental, social and governance factors



Discloses full holdings, performance, sustainability outcomes and engagement and voting practices



Managed by active stewards, and managers can detail the stewardship practices and outcomes




Organisation has formal commitment to responsible investment



Organisation provides educational information to members and customers about RI strategies and investment outcomes



CERTIFIED BY RIAA

 **Thank you.**
Any questions?

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