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Accélérateur de transformation durable

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High risks of greenwashing in the names of sustainable funds

Sustainable finance

Novethic publishes a semantic analysis of funds awarded with a sustainable finance label. It establishes that, while the names used by these funds attract investors and boost inflows, they do not necessarily translate into a suitable management strategy. This explains why regulators increasingly warn against high risks of naming-related greenwashing in sustainable finance.

As European financial authorities make naming strategies a priority to avoid greenwashing in sustainable funds, Novethic has analyzed a panel of over 1,000 funds. Its discussion paper "Sustainable funds: do they live up to their name?" shows how the most used terms – ESG, responsible, ethic, sustainable, climate… - encompass diverse practices, which often also lead to false promises.

Marketing strategies against the tide of the European regulation

The marketing strategies used by asset managers seem to go against SFDR regulation. SFDR aims to oversee norms of transparency for sustainable funds and to improve consistency and comparability between funds, based on their sustainable objective, and their share of taxonomy-aligned investments. However, the authors of Novethic's paper, Nicolas Redon, green finance expert, and Myriam Menif, sustainable investment and climate analyst, emphasize on the large confusion that remains between branding names that do not seem to have the same definition depending on the actor that uses them. One particular practice involves adding a term such as "Sustainable" or "Climate" to the funds' name, without adapting its management accordingly, which creates false promises for the final investor.

Naming and reporting: the Climate Action example

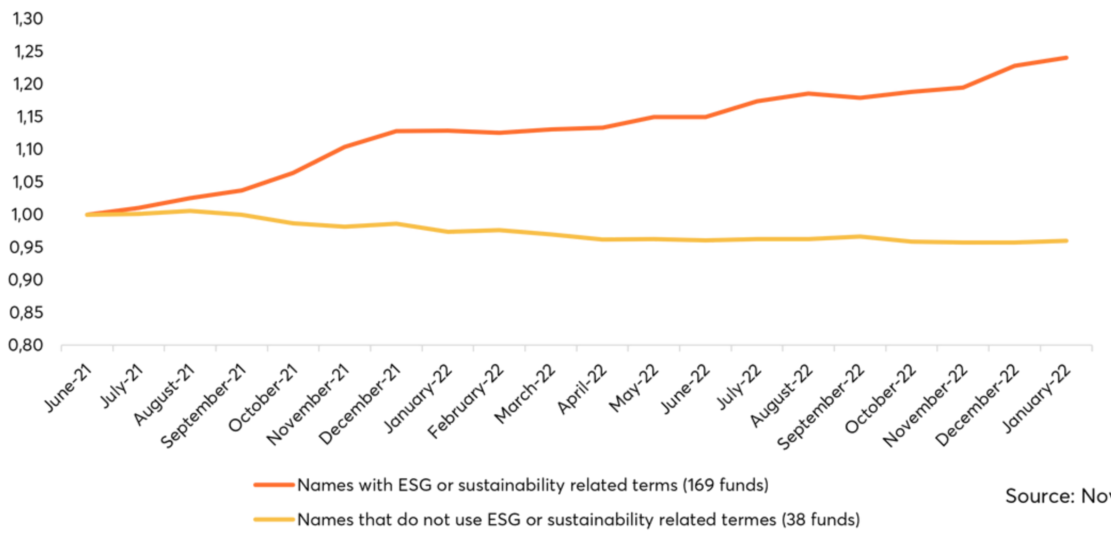
Novethic has identified four funds that have the same name: "Climate Action". Three of these funds disclose under Article 9, and one under Article 8. Despite their name calling to mind climate change mitigation, theydo not have the same ambition regarding their investment and management strategies. Moreover, these four funds have very diverse levels of minimum investment in accordance with this theme. Some even fail to mention their share of taxonomy-aligned investments. Similar specific cases can be found in the paper, including funds themed on water.

	Article 8	Article 9	Minimum investments aligned with E/S characteristics	Min sustainable investments according to Art. 2(17)			Label(s)
					environmental objective	minimum Taxonomy	
Climate Action A	✓		✓	10%	✓	✗	SRI
Climate Action B		✓		80%	✗	✗	Towards Sustainability
Climate Action C		✓		75%	✓	✓	SRI, Towards Sustainability
Climate Action D		✓		90%	✓	✓	Greenfin, LuxFLAG ESG

Source: Novethic

Novethic's study warns about the extent of the phenomenon that started in 2018 with the launch of the European Action Plan on Sustainable Finance. The misinterpretations that lead to false promises are a reputational risk for funds, specifically for those with an environmental theme. By doing so, asset managers create a threat on their credibility, and associated marketing practices. The study also demonstrates that words with a "sustainable" connotation boost inflows comparatively more than for funds without these terms in their name.

Comparative net monthly inflows to both panels of funds, according to use of fund name as a marketing tool (basic 100)



Source: Novethic

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"The entry into force of the new SFDR annexes brings more clarity on the reach of the different strategies of asset managers in sustainable finance, and sometimes also on the discrepancy between fund management and marketing strategies. However, the potential for clarification of these annexes has not yet been fully exploited, which can leave the non-specialists confused, wondering what is sustainable and what isn't."
Nicolas Redon, green finance expert, Novethic.

Indeed, if the asset management strategy is not consistent with the promise of sustainability, the final investor could be disappointed at best, or, worst case scenario, inclined to dismiss an approach whose impact cannot be easily understood.

Read Novethic's study

Novethic, the sustainable transformation accelerator of the Caisse des Dépôts Group.

Our mission is to inform, train and encourage action by financial actors, companies, and citizens. At the crossroads of sustainable finance strategies and corporate social responsibility practices, Novethic deploys its expertise - media, research, audit, and training - to enable professionals and decision-makers to meet the challenges of sustainable transformation.
Find all our news, studies, market analyses, regulatory briefs and analysis on novethic.com.

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