momentum

Global Matters Weekly

7 March 2022

Goodbye to Greenwashers

– **Michael Clough, CFA**

The last two years have seen a huge increase in demand for sustainable funds, or those explicitly integrating environmental, social and governance (ESG) factors into their processes and portfolios. Naturally, fund companies cottoned on and there has been a proliferation of strategies available for investors to buy. Greenwashing, when marketing material and disclosures overstate the true level of ESG integration within a strategy, was an inevitable consequence of this trend.

Anyone who has interviewed a fund manager of late will doubtless have seen an ESG slide or two in their presentation. Most will say they have always considered these factors and so for fund selectors the key questions are: who is genuine and how do they stack up versus a burgeoning list of peers?

These questions cannot be answered by looking at a fund name, studying a presentation or solely using third party scores. Rather, the only way to answer them comprehensively is by meeting the manager, investigating their approach, and challenging them appropriately. So how do we go about this? Below I list some key considerations and then name one manager we think stacks up well (spoiler: it doesn't have responsible or sustainable in the name).

It is very important for a fund manager to be able to articulate how sustainability factors are considered. Bland, vague responses don't impress; rather we seek evidence of exactly how they are considered in their process. Managers nearly always have a few stock examples listed in their presentation, ready to give you a polished spiel on why that company bleeds green. Naturally, they will be well-rehearsed narratives and so we would rather challenge names hidden away elsewhere in the portfolio. This is where quantitative third-party tools can come in. Whilst these shouldn't be treated as gospel, by looking at a full portfolio breakdown we can see which constituents score less well, be it from an environmental, social or governance perspective. It is these names which we like to question managers on. Can they clearly explain why that third party tool is potentially misguided and why the company is worthy of a spot in the portfolio? Furthermore, can they evidence a deeper knowledge of the business operations and strategy that extends beyond a high-level description.

A key component of investing responsibly is engagement and pushing for change when necessary. This takes time and resources to be done effectively and so it is crucial to assess whether the investment team is sufficiently resourced to carry this out. Furthermore, it is important to see a track record of engagement and the impact of these activities. Some investment teams take care of engagement themselves; others have separate teams dedicated to this activity. If it's the latter approach, then it is key to understand the communication processes between the two. Exploring the approach in more detail can often reveal an indication of the fund management firm's stance as a whole and whether it has invested in its team sufficiently. Linked to this is assessing whether the fund management firm is also practicing what they preach. Does it benefit from strong corporate governance, or are they making commitments as a firm to improve employee diversity, for example?

> **"For fund selectors the key questions are: who is genuine and how do they stack up versus a burgeoning list of peers?"**

Now, back to my spoiler comment. Surely the end game from this heightened awareness of all that encompasses sustainability is that ESG considerations are embedded in all funds without the need for sustainable or 'green' labels. Whilst we aren't there yet, even now a fund can score well against the above criteria and not necessarily be labelled responsible or sustainable. One such fund we rate highly is Evenlode Income.

Evenlode focus their time seeking high quality companies with asset light business models. This typically steers them away from more controversial sectors such as energy, mining and utilities. . However, what impresses is the depth of consideration evidenced in their process. One way the team appraises sustainability is by considering various risk factors that feed directly into a company's maximum position size in the portfolio. Of nine risk factors scored, four are ESG-linked. Evenlode's analyst team has grown in recent years to enable the evolution of their process and research capabilities. The investment team is 15 strong with three focused on sustainability and stewardship. There is a transparent approach to voting and engagement and the team have also spent time building out carbon emissions analysis, considering scope 1, 2 and 3 emissions for their portfolio, which separates them from many peers. Many other managers make some or all of these claims, but far fewer live up to proper scrutiny so well.

At Momentum, we manage three distinct product sets with sustainable mandates. We have a range of model portfolios for UK clients and a global multi-asset fund in our Luxembourg UCITS range. In these solutions we have selected third-party managers who we consider to be leaders at incorporating sustainable considerations into their strategies. Lastly, we manage a Global Sustainable Equity fund where we have partnered with systematic manager Robeco to deliver a portfolio that provides exposure to rewarded investment style premia whilst also targeting a significant reduction in carbon emissions, waste generation and water usage. We would be delighted to discuss these portfolios and our approach in more detail with you.

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The **Marketplace**

- Global equities fell -2.8% in a turbulent week for world markets
- President Vladimir Putin announced that the war will continue until Ukraine accepts his demands and halts resistance, dimming hopes for a negotiated settlement
- Brent crude rose +20.6% to $118.1 a barrel
- Gold rose +4.3% to $1970.7 per ounce

Market **Focus**

US

- US equities fell -2.8% last week with declines led by technology, financials, consumer discretionary, and communication services sectors
- The Biden administration is considering whether to prohibit Russian oil imports into the US without the participation of European allies
- Federal Reserve Chair Jerome Powell said he was inclined to stick with a 0.25% increase in the federal funds rate in March, dispelling fears of a 0.50% increase
- Weekly initial jobless claims fell to a two-month low of 215k in the week ending February 26th (vs. 225k expected)
- The ISM services index for February unexpectedly fell to a one-year low of 56.5 (vs. 61.1 expected)
- The US economy added +678k jobs in February, sending the unemployment rate down to 3.8, both beating consensus estimates.

Asia/Rest of The World

- The benchmark Global Emerging Markets index fell -2.3% last week
- Japanese equities fell -1.7% last week
- Chinese equities fell -4.4% last week
- Sanctions imposed on Russia will determine if international investors are able to collect debt payments on sovereign bonds denominated in foreign currencies, according to the Finance Ministry in Moscow
- The ruble plunged on international currency markets despite the Russian Central Bank's move to raise the policy rate from 9.5% to 20%. The ruble continued to move lower throughout most of the week, pushing its value under USD 0.01, a record low.

UK

- UK equities fell -6.2% last week
- Russian oligarchs in line to be sanctioned by the UK government could have their assets frozen, even before the measures are formally introduced, under a plan tabled by British lawmakers
- The London Stock Exchange suspended trading in 28 Russian companies and excluded all Russian businesses from stock market indexes.

Europe

- European equities fell -7.6% last week
- Euro-Area unemployment fell to 6.8% in January (vs. 6.9% expected), a record low
- Inflation for February in the eurozone accelerated to a record 5.8%, up from 5.1% in January, as costs of energy and food surged
- Short-term interest rate markets are pricing 24.1bps of ECB tightening through this year, down from 34.3bps of tightening at the end of the prior week
- Italy's Prime Minister Mario Draghi is set to meet European Commission President Ursula von der Leyen to discuss how to mitigate the continent's dependence on Russian gas supplies
- Germany is partnering with Nederlandse Gasunie and RWE to build a liquefied natural gas terminal in the country in an attempt to pivot away from Russian energy imports.

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Asset Class/Region	Currency	Currency returns			
		Week ending 4 March 2022	Month to date	YTD 2022	12 months
Developed Market Equities					
United States	USD	-1.2%	-1.2%	-9.0%	16.0%
United Kingdom	GBP	-6.2%	-6.2%	-3.4%	11.3%
Continental Europe	EUR	-7.6%	-7.6%	-15.6%	2.5%
Japan	JPY	-1.7%	-1.7%	-7.4%	0.0%
Asia Pacific (ex Japan)	USD	-1.7%	-1.7%	-7.1%	-14.5%
Australia	AUD	1.9%	1.9%	-3.4%	9.3%
Global	USD	-2.8%	-2.8%	-10.2%	8.5%
Emerging markets equities					
Emerging Europe	USD	-27.6%	-27.6%	-49.6%	-43.3%
Emerging Asia	USD	-2.4%	-2.4%	-8.4%	-17.6%
Emerging Latin America	USD	2.5%	2.5%	14.6%	13.5%
BRICs	USD	-4.8%	-4.8%	-11.6%	-24.5%
China	USD	-4.4%	-4.4%	-11.0%	-33.7%
MENA countries	USD	4.2%	4.2%	11.6%	36.8%
South Africa	USD	0.8%	0.8%	11.4%	4.9%
India	USD	-4.1%	-4.1%	-8.5%	3.9%
Global emerging markets	USD	-2.3%	-2.3%	-7.0%	-13.2%
Bonds					
US Treasuries	USD	1.1%	1.1%	-2.1%	-0.7%
US Treasuries (inflation protected)	USD	2.6%	2.6%	-0.7%	7.6%
US Corporate (investment grade)	USD	0.8%	0.8%	-5.4%	-2.3%
US High Yield	USD	-0.2%	-0.2%	-4.1%	0.3%
UK Gilts	GBP	2.4%	2.4%	-3.4%	-2.4%
UK Corporate (investment grade)	GBP	1.5%	1.5%	-4.5%	-4.0%
Euro Government Bonds	EUR	2.2%	2.2%	-1.2%	-2.5%
Euro Corporate (investment grade)	EUR	1.3%	1.3%	-2.7%	-3.1%
Euro High Yield	EUR	-0.4%	-0.4%	-4.5%	-2.5%
Japanese Government	JPY	0.6%	0.6%	-1.1%	-0.4%
Australian Government	AUD	0.5%	0.5%	-2.6%	-1.6%
Global Government Bonds	USD	0.7%	0.7%	-2.8%	-5.3%
Global Bonds	USD	0.3%	0.3%	-3.9%	-6.0%
Global Convertible Bonds	USD	-1.2%	-1.2%	-7.6%	-11.8%
Emerging Market Bonds	USD	-7.4%	-7.4%	-17.1%	-16.1%

Source: Bloomberg. Past performance is not indicative of future returns

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Asset Class/Region	Currency	Currency returns			
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Property					
US Property Securities	USD	1.2%	1.2%	-7.4%	27.9%
Australian Property Securities	AUD	-1.8%	-1.8%	-11.3%	12.2%
Asia Property Securities	USD	-0.9%	-0.9%	-1.3%	-10.0%
Global Property Securities	USD	-0.5%	-0.5%	-7.1%	11.5%
Currencies					
Euro	USD	-2.8%	-2.8%	-4.0%	-8.9%
UK Pound Sterling	USD	-1.2%	-1.2%	-2.3%	-5.0%
Japanese Yen	USD	0.9%	0.9%	0.2%	-6.1%
Australian Dollar	USD	2.3%	2.3%	1.3%	-4.8%
South African Rand	USD	-0.6%	-0.6%	4.3%	-0.1%
Swiss Franc	USD	1.0%	1.0%	-0.8%	1.1%
Chinese Yuan	USD	0.0%	0.0%	0.6%	2.4%
Commodities & Alternatives					
Commodities	USD	15.0%	15.0%	31.6%	62.7%
Agricultural Commodities	USD	9.5%	9.5%	17.9%	46.0%
Oil	USD	20.6%	20.6%	51.9%	77.0%
Gold	USD	4.3%	4.3%	7.7%	15.9%
Hedge funds	USD	-0.4%	-0.4%	-1.9%	0.7%

Source: Bloomberg. Past performance is not indicative of future returns

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