

Industry rejects greenwashing

Michael Hobbs and Ruth Liew

The phenomenal growth of investment entities signing up to the UN protocols for responsible investing (PRI) and the associated increase in ESG investing has sparked concern that investors are vulnerable to "greenwashing".

Greenwashing is when companies mislead consumers about their positive environmental practices so they can boost their profits.

Peter Hall, Hunter Hall chief investment officer, said there is no doubt Australia's financial services industry is flooded with greenwashing.

"I think a lot of the big financial corporations getting into ethical investment management and green funds is a bit of an example of greenwashing," he said.

"You can't be partly ethical or have an ethical bit, that's just people taking advantage of a market for financial gain not because they believe in what they're doing.

"Biofuels is a good example of greenwashing. Put the word 'bio' into something and it's like sprinkling holy water over it."

Hall's comments echo criticisms from responsible investment fund managers and industry bodies that are alarmed many socially responsible investment

(SRI) funds are no more than marketing ploys trying to exploit investor interest in sustainable investing.

The number of UN PRI signatories doubled over the last 12 months, equating roughly \$14.8 trillion in assets under management, with Australian signatories representing more than \$400 billion in investment funds.

Hugh Grossman, head of research at the responsible investment research group Reputex said the problem is there are already plenty of green logos that go onto funds which potentially promotes greenwashing.

But Grossman said investors should understand that financial

institutions developing socially responsible investment funds are doing more to use ESG strategies to minimise risk rather than simplistically being just green funds.

"While there might be an element of greenwashing in terms of the opportunistic nature of it, the fact they're still offering a green portfolio is still minimising their risk and maximising their value enhancement," he said.

The growing popularity of financial services groups offering funds loosely tagged as 'sustainable' means investors must analyse each sustainability or SRI claim to ensure they're legitimate, said Anne

O'Donnell, chief executive of SRI industry pioneer Australian Ethical Investment.

"The issue is you can claim a fund is 'sustainable' or implements 'ESG factors' but you really need to look behind what's going there," she said.

"I don't think greenwashing occurs to the same extent that exists in the retail area, but I think there can be some confusion around terms. Whether that's deliberate, I don't know if that's the case but people need to be looking behind what's supporting the claims."

O'Donnell said the problem was that no mandatory standards or guidelines were available to evaluate the practices and performance of different funds.

"You need to have a standard set of guidelines and the Global Reporting Initiative [the scheme used by Australian Ethical Investment] is a really good set of guidelines. If people were reporting or adhering to those guidelines then it would be easier for them to compare lots of different companies," she said.

The Responsible Investment Association of Australia (RIAA) in 2005 developed a responsible investment certification program for financial institutions, super funds and financial advisers focusing on licensee disclosure and education. ■

