Dynamic Portfolios
Sustainable
A solution from **Foster Denovo**

Greenwashing guide

Helping you to identify greenwashing

Many investors are now considering sustainable options when choosing where to invest their money. However, with the demand rapidly increasing, many funds which are claiming to be sustainable are enhancing their green credentials, and this is causing an issue within the industry.

In this guide, we look at the issues surrounding greenwashing and how you can be better prepared when investing.

What is greenwashing?

Greenwashing is when a company enhances their claims of "green" credentials without a reasonable foundation.

The European Commission's definition of greenwashing is "Companies giving a false impression of their environmental impact or benefits. Greenwashing misleads market actors and does not give due advantage to those companies that are making the effort to green their products and activities. It ultimately leads to a less green economy."

Simply put, 'greenwashing' is when a fund manager claims to be 'green' without backing up those claims with solid evidence of how they invest, and what positive impact this is having.

Misleading claims may encourage investors with good intentions to put their money into funds that do not actually benefit our planet. It's important you don't fall into this trap.

‘Green’ talk

Sustainable investing can seem like a minefield. There are so many ‘green’ labels used to describe investments that consider ESG factors. Terms like “responsible”, “sustainable”, “impact” investing are often used interchangeably. The definitions below aim to provide clarity on these terms and what they stand for.

SRI

Socially responsible investing (SRI) is an approach to managing investments that takes account of ESG risks and opportunities to generate long-term competitive financial returns and positive societal impact. It complements traditional financial analysis and portfolio construction techniques. SRI encompasses several investment approaches.

ESG factors

ESG considers environmental, social and governance factors, alongside traditional criteria, to look at potential investments. This doesn’t mean you ignore the traditional factors when investing in this way, such as your risk profile or long-term financial performance. Rather, ESG factors are additional measures aimed at complementing traditional investing processes, not replacing them.

Impact

Impact investing refers to an investment strategy that focuses on generating a positive and measurable social and environmental impact alongside a financial return.

Sustainable

Sustainable investment solutions are those that incorporate ESG factors into investment decisions to better manage risk and to take advantage of ESG opportunities to enhance long-term returns. Investments are chosen based on their economic activities (what they produce or what service they deliver) and on their business conduct (how they deliver their products and services).

Sustainable investing is about investing in progress and recognising that companies solving the world's biggest challenges can be best positioned to grow. More broadly, sustainability means meeting the needs of the present without compromising the needs of future generations.

Ethical

Ethical investing is about selecting investments based on ethical or moral principles. This usually means avoiding investing in certain types of companies and sectors such as tobacco producers, weapon manufacturers or companies involved in animal testing.

At Foster Denovo, we have chosen the word 'Sustainable' to represent our portfolios as they provide investment solutions that incorporate ESG factors into investment decisions to better manage risk and potentially enhance long-term returns.

What you should look out for

The increasing demand for sustainable investments now means it's more important to help identify greenwashing in practice, and there are a few things to look out for. Firstly, it's vital that fund management companies have the expertise and track record to back their 'sustainable' credentials. It's also important that fund managers are providing clear and concise information about the types of companies they invest in.

Understanding your needs

Listening and getting to know what is important to you, is key for your Foster Denovo Partner to decide which type of investment is suitable for you. Knowing what is crucial to you and understanding what criteria you want to prioritise is key. Once your Foster Denovo Partner understands what your values are for sustainable investments, it can be easier to filter out the funds and businesses that don't meet them.

> "What do you not want to invest in?
> What does not align with your values?"

What we do at Foster Denovo

At Foster Denovo, we have our Sustainable Dynamic Portfolios (SDPs). The SDPs are investment portfolios that have been carefully designed to balance investment risk with returns to help you achieve your financial goals, taking into account your attitude to risk, time frame, capacity for loss and crucially environmental, social and governance (ESG) criteria. These portfolios can be further tailored with risk levels ranging from a low risk tolerance to a high risk tolerance. This allows us to select and put in place investment solutions that align with your personal needs and financial objectives in an ever-changing market whilst taking into consideration ESG criteria.

As a satellite fund of our SDPs, we also have our Climate Impact Sustainable Dynamic Portfolio, targeted at those seeking specialised exposure to themes such as electrification, energy efficiency, and alternative energy sources.

How the SDPs work

We have a robust fund selection process that combines internal and external expertise to build portfolios that consist of the ESG rated funds that they believe are the best available. All funds that sit inside the Sustainable Dynamic Portfolios are initially selected based on their ESG assessment.

This is followed by a comprehensive quantitative and qualitative screening process that brings together both hard and soft facts. This is an area that external ESG specialists, in addition to Foster Denovo's Investment Research team, provide value to.

Unlike mainstream investment portfolios, ESG criteria will be an essential filter of the Sustainable Dynamic Portfolios.

It's good to remember that whilst your Foster Denovo Partner undertakes their own research when selecting investment opportunities, the outsourced experts provide additional intelligence and a level of oversight that's designed to deliver more certain outcomes.

We follow a six step process for selecting ESG rated funds

1. Define the ESG filters

All funds that sit inside the Sustainable Dynamic Portfolios are initially selected based on their ESG assessment.

2. Define the asset class universe

Funds are used from the following broad asset classes: equities, bonds, property, alternatives and private equity. These classes then span across a range of sub-asset classes covering geographical, industrial and specialist sectors.

3. Define the investment fund universe

The widest scope of ESG rated investment funds available to UK retail investors is assessed.

4. Critique the characteristics of the fund

Which includes at least a 3 year performance history and the re-checking of ESG criteria.

5. Judge the funds using quantitative ratios

The remaining funds are judged using financial ratios based on the previous performance periods where available.

6. Judge the funds using qualitative research

The remaining funds will be filtered based on qualitative research and analysis of the fund managers. External experts independently conduct the qualitative research and analysis.

What makes the SDPs stand out?

Gavin Francis, Founder and Director of our research partner Worthstone, believes that the SDPs are at the forefront of the market, and here's why:

I believe that the SDPs are at the forefront of the market and clients can be confident in a robust and rigorous process.

From my experience of talking to other financial advisory firms, and what I see out in the marketplace, I believe the SDPs follow a process which is best in class. They are authentic and go beyond a tick box exercise.

The SDPs start from one of the largest defined universe of sustainable funds that are available to a UK retail investor. Starting from a comprehensive range, means you improve your likelihood of identifying the most impactful funds, as well as the opportunity to achieve the desired diversification requirements of a portfolio.

Foster Denovo inputs significant resource to delivering a solution that meets the challenge of blending the dual objectives of financial goals and doing good!

I'm confident that if you're being offered the SDPs by Foster Denovo, you can be certain of the authenticity and integrity in the construction process and robust data that backs up the selections within these portfolios.

For more information on how to identify greenwashing or the SDPs, contact your Foster Denovo Partner. Or, if you are new to Foster Denovo:

call 0330 332 7866*;

email info@FDdynamicportfolios.com; or

visit fosterdenovo.com/investment-solutions/

*Calls are charged at your standard landline rate.

Important information

Potential investors should be aware that past performance is not an indication of future performance and the value of investments and the income derived from them may fluctuate and they may not receive back the money they originally invested. The tax treatment of investments depends on each investor's individual circumstances and is subject to changes in tax legislation.

The FD Sustainable Dynamic Portfolios are investment portfolios provided by FD Dynamic Portfolios Limited (FDDPL) which is an appointed representative of Foster Denovo Limited (FRN 462728), and is authorised and regulated by the Financial Conduct Authority (FCA). FDDPL has issued this document in its capacity as investment adviser to the investment manager, AB Investment Solutions Limited (FRN 705062), which is authorised and regulated by the Financial Conduct Authority (FCA).

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