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RESEARCH

BACK TO BASICS WITH ESG REPORTING

Who Are The Providers
That Can Help?





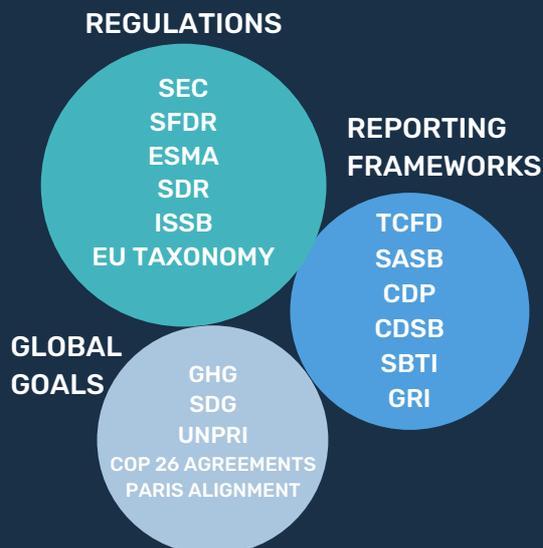
CRITICS OF ESG INVESTING

had a lot of ammunition against the industry in the wake of several controversies that came to light last month. The credibility of sustainability finance is now being put into question after well-known zero-emission cars manufacturer Tesla failed to get included in the S&P 500 ESG index, prompting its CEO to claim “ESG as a scam”.

SEC fines investment bank’s asset management division for misstatements and omissions about its ESG considerations



Subsequent to the negative media frenzy, regulators have put several companies under investigation for greenwashing allegations. . The SEC has started probes on large investment banks over their ESG criteria, even penalising registered investment advisers and funds for misstatements and omissions on “ESG-focused assets”. In Europe, regulators have also started to crackdown on asset managers who are accused of exploiting regulatory loopholes and those that are claiming to invest using ESG factors.



Now that regulators are taking action, how can asset managers give themselves half a chance in the fight against greenwashing? The first step is to get back to the basics - do some proper reporting and disclose as much information as possible. Naturally, the best disclosures will come from the best quality data which means that businesses will need to publish credible, detailed and up-to-date information.



Contact the team to have the list of providers we are highlighting this month.

HOW CAN SUBSTANTIVE RESEARCH HELP?



When Substantive Research initially launched our ESG dashboard a year ago, the focus was to map out the market for ESG data providers. However, as we continued to have conversations with clients and ESG stakeholders, we realised that there is a big market for providers that offer ESG reporting softwares and data management solutions to help clients in their ESG disclosures.

In our research, several startups have emerged to fill the gap in this space. In the last two years alone, more than thirty businesses were launched to automate data collection processes, streamline data management systems, and aggregate different data sources through several platforms.

In addition to this, ESG data providers have evolved from only supplying data for risk management purposes to now making raw data and methodologies available for corporate disclosures.

THE SEARCH FOR CLEAR DEFINITIONS

From our recently concluded Unbundling Uncovered conference, our ESG panel has mentioned that the industry is lacking clear definitions and standards. This regularly causes confusion amongst investors who seek concrete metrics and criteria for sustainable investing. Some questions that often come up are:

- What is the difference between ESG investing and impact investing?
- Should ESG funds include oil and gas in if they claim to be “green”?
- Should portfolio managers consider investing in national defense?
- How can ratings providers standardise their methodologies to make these numbers comparable?

DIFFERENTIATED PROVIDERS

Is it time to look to differentiated providers for assistance?

As mentioned, several startups have developed a number of different reporting solutions that offer niche system approaches. There are those who collect data from publicly available sources to aggregate information for corporate disclosures, some collect data through questionnaires and surveys for internal reporting purposes, and some are offering theme-specific reports for carbon emissions, transition risks, and even impact reporting. Substantive Research has built a directory of these providers to help clients save time in searching for these solutions. Contact our ESG Specialists to schedule a demo of our dashboard and find out more!

PLEASE CONTACT OUR TEAM FOR A DEMO

We are currently relying on regulators to give guidance on how to properly label ESG funds. We mention some of the important ones below.

SECURITY AND EXCHANGE COMMISSION

Fund naming rule in categorising ESG funds

- **Integration Funds** - funds that use ESG factors alongside other non-ESG factors. However, such ESG factors may not be determinative in deciding to include or exclude any particular investment in the portfolio.
- **ESG Focused Funds** - funds that significantly focus on ESG factors
- **Impact Funds** - a subset of ESG-focused funds that pursue a specific impact

In addition to this, the SEC is considering the 80% rule where 4 out of 5 investments in a product must align with the strategy implied by the product's name

"ESG", "green", "sustainable", "social", "ethical", "impact" or any other ESG-related terms should be used only when supported by evidence of sustainability characteristics, themes or objectives that are reflected fairly and consistently in the fund's investment objectives and policy and its strategy as described in the relevant fund documentation.

"impact" or "impact investing" or any other impact-related term should be used only by funds whose investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

EUROPEAN SECURITIES AND MARKETS AUTHORITY

EU's SFDR vs UK's SDR

Sustainable Finance Disclosure Regulation (SFDR)

- Article 6 - Funds without a sustainability scope
- Article 8 - Funds that promote environmental or social characteristics (light green)
- Article 9 - Funds that have sustainable investment as their objective (dark green)

EU's SFDR	UK's SDR
Article 6	Not promoted as sustainable
Article 8	Responsible
Article 8	Sustainable transitioning
Article 9	Sustainable aligned
Article 9	Sustainable impact

WHO ARE WE?

Substantive Research was launched in 2015 and has grown rapidly to become a trusted partner to asset managers globally where we are best known for offering an independent and impartial discovery and comparison service across the entire external investment research and market data universe.

In the past year, we have expanded our coverage into the ESG space as a response to our clients' desire for us to map the ESG data / research marketplace, carry out due diligence and help in market discovery of this rapidly evolving space. We have developed an industry-first ESG Provider dashboard that provides a searchable database of 150+ ESG research and data providers with thematic and coverage filters to match client preferences. We have also incorporated ESG research into our research discovery product to help asset managers navigate through the oversaturated market.



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