

# Goodbye and good riddance to fifty shades of green

By Jacco Minnaar, Chair of the Management Board at Triodos Investment Management

For quite some time now the term 'fifty shades of green' has been used to describe the investor challenge of wading through a sea of sustainable investment options, from dark green, to light green to just plain greenwashing. The sustainable investment sector has grown exponentially in recent years, and while I very much welcome the growth, too many products are aligned to a marketing hype rather than an authentic impact investment strategy. Sustainability and ESG screened indices have sky-rocketed in popularity, which is a positive step for investors wanting to make the world a better place, however our research shows that of the top 10 companies included in several well-known sustainability indices, only one company meets Triodos IM's strict minimum standards. It's mind boggling. The problem is that the term 'sustainable' is not protected, and there are no globally nor nationally recognised definitions. It makes the sector highly vulnerable, and it's one of the reasons I welcome the new EU Taxonomy, a classification system for sustainable activities. Finally we will be able to bid goodbye and good riddance to vague and misleading product propaganda.

As a tool, the EU Taxonomy provides a systemic and forward-looking approach that has significant implications for the transformation of the sustainable investment industry. It supports the transition to an economy consistent with the highly ambitious EU's emission reduction targets, and outlines a classification system and screening criteria that define the economic activities that can make a substantial contribution to climate change mitigation or adaptation. In other words, it defines what 'green' actually means. Asset managers will need to disclose how their products meet the criteria and how they do no harm. It will level the playing field, facilitate comparison, and support investor confidence. Ultimately it will change the market by reducing greenwashed product offerings, and I expect it will reshape the sector through innovation and product development.

There are of course those that disagree with the concept and those that are lobbying for a delayed start. Some are not necessarily convinced of the added value it brings, while others find it too complex and too onerous. But we have no time to waste. Despite the fact that the implementation guidelines are yet to be delivered, the Taxonomy will be put into practice by the end of 2021. Prior to that however, company reporting will need to be refined, data providers will need to package information appropriately, and local financial market authorities will need to ascertain how they will oversee it all. As a sector, we need to take an agile approach, maintain momentum and push ahead.

Despite being a 100% impact investor, we already know now that we will not have a 100% alignment with the EU taxonomy for all of our funds. Our strategy considers a vision and a theory of change – we think about the global problems we want to address, and this ultimately leads us to the solutions we invest in. But it also means that many of our funds focus on social outcomes that are not yet covered by the Taxonomy. It is a concern that drives me to advocate for the inclusion of additional screening criteria that align with the social challenges outlined in the 2030 Agenda and all 17 SDGs. We need smart, active investment that not only achieves environmental improvements, but that also take a position on broader societal issues like food security, education and healthcare.

Until the EU Taxonomy's official uptake, and before we can farewell greenwashing for good, I call on all investors, owners, asset managers, and decision makers to do their homework. Ask yourself: 'Am I convinced that my money is meeting my impact, risk and return objectives?'; 'What happens when I invest in this fund?'; 'What is my asset manager's vision?'; and 'What companies are in my funds' portfolios?'. And if you're not happy with your answers, take a look at alternative options where there is no greenwashing, but rather an authentic commitment to pure sustainable impact.