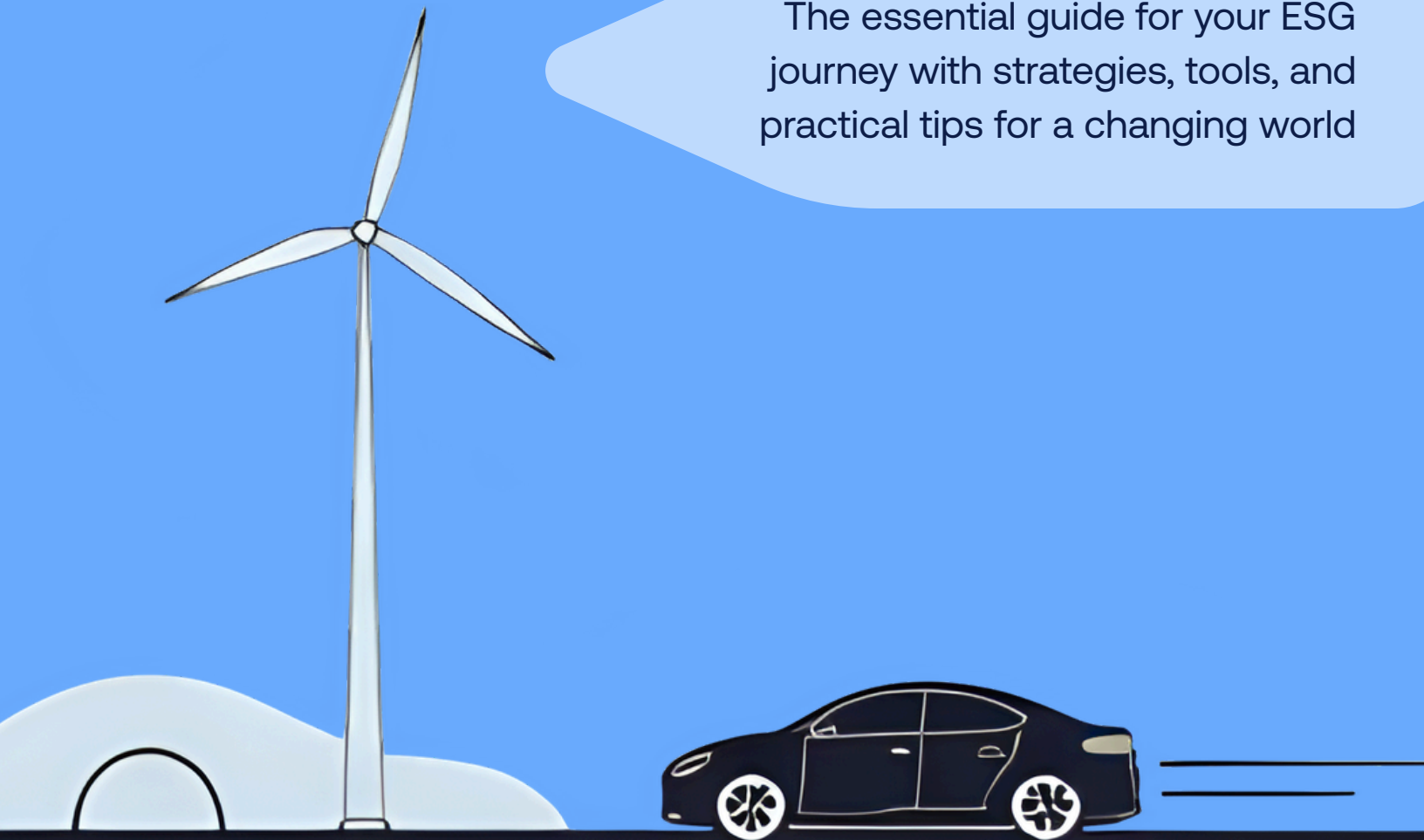


# The Sustainable Investing Roadmap

for Financial Advisors and Wealth Managers

The essential guide for your ESG journey with strategies, tools, and practical tips for a changing world





## About the Publisher

The US SIF Foundation, a 501(C)(3) organization, undertakes educational and research activities to advance the mission of the US Sustainable Investment Forum, the leading voice advancing sustainable, responsible and impact investing across all asset classes. That mission is to rapidly shift investment practices towards sustainability, focusing on long-term investment and the generation of positive social and environmental impacts. Both US SIF and the US SIF Foundation seek to ensure that environmental, social, and governance impacts are meaningfully assessed in all investment decisions to result in a more sustainable and equitable society.

Among the hundreds of US SIF members are investment management and advisory firms, asset owners, mutual fund companies, research firms, financial planners and advisors, broker-dealers, community investing institutions and non-profit organizations.

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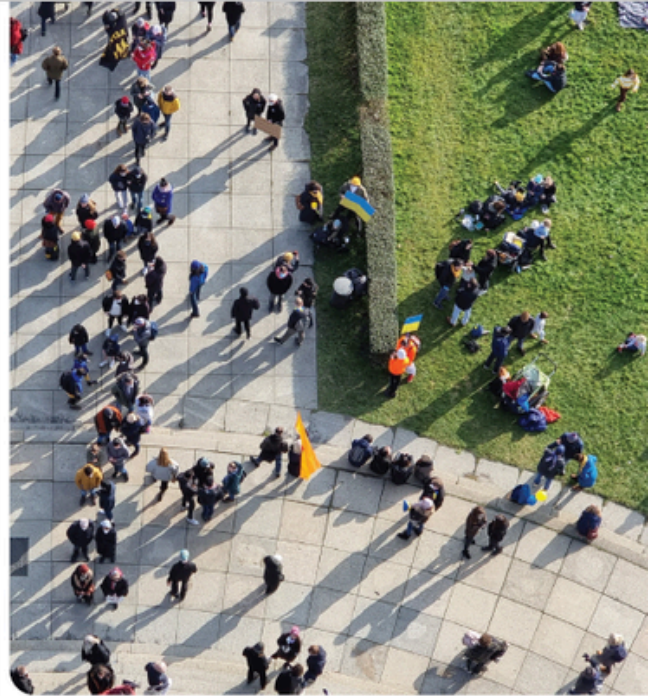
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On behalf of the US SIF team, we would like to extend our most sincere appreciation to our sponsors for their invaluable support of the Sustainable Investing Roadmap Series for Financial Advisors. Their partnership reflects a shared commitment to advancing education, fostering innovation, and equipping financial professionals with the tools needed to integrate sustainable investing into their practices.



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# WELCOME

## to Part II of US SIF's roadmap series for financial advisors and wealth managers

In Part I, we explored the foundations of sustainable investing — from understanding client motivations and values, to integrating ESG principles into the advisory process, and identifying the wide range of strategies available to financial professionals and their clients. That first installment equipped advisors with the language, context, and confidence to begin meaningful sustainability conversations with clients. Part II builds on that foundation by taking a deeper dive into one of the most complex and often misunderstood aspects of the sustainable investing landscape: ESG data, ratings, and the challenges of greenwashing.

Many financial advisors and institutional investors view ESG data with a mix of optimism and skepticism. On the one hand, a large majority recognize its potential: 88% of institutional investors in auditing, tax and management consulting firm, EY's, 2024 survey said their institutions have increased their use of ESG data.<sup>1</sup> But that enthusiasm is tempered by serious concerns. About 85% of those same investors believe that greenwashing has become a more significant problem than five years ago.<sup>2,1</sup> Moreover, 80% or more point to the materiality and comparability of corporate sustainability reporting as needing substantial improvement, and 62 % raise concerns about its accuracy<sup>3,1</sup>.

What this tells us is that many in the advisory and investing community see real value in ESG data — but they also see that the system is far from ideal. The inconsistencies, methodological divergence, data gaps, and risk of misleading claims create a trust gap: advisors often find themselves needing to explain why a high ESG score doesn't always mean everything is perfect, and why comparability across providers is not straightforward. Bridging this knowledge gap is critical — not just for stronger client relationships, but for making sure ESG data is used responsibly, not as a marketing veneer.

As sustainable investing continues to grow and evolve, advisors are increasingly asked to interpret ESG scores, evaluate claims of corporate responsibility, and discern authentic impact from marketing spin. Yet, the lack of standardization in ESG data has created confusion and skepticism across the industry. This is where US SIF — The Sustainable Investment Forum — plays a critical role. This Roadmap empowers financial professionals to use ESG data effectively, identify potential greenwashing, and build stronger, more transparent client relationships grounded in both integrity and informed analysis.

We look forward to continuing this journey together!



# / US SIF's 3-Part Roadmap Series

Whether you're introducing clients to sustainable investing for the first time or have been navigating this space for years, we're confident you'll find valuable insights in this guide. This is the first of three roadmaps developed by US SIF to support financial advisors, wealth managers, RIAs, financial planners, and other professionals helping clients align their investments with their values. That said, you don't need to be an advisor to benefit from this resource — clients are encouraged to explore it too. If clients are seeking a new advisor, they can even share this information to ensure the new financial advisor's investment approach reflects their goals and priorities.

The three parts of the roadmap are described below:



## LEARN

In Part I, you will **learn** useful background information on sustainable investing, ESG, the industry, etc., as well as the three categories of sustainable investing clients and the types of strategies that would be most appropriate for their unique needs.



## APPLY

in Part II, you will now learn how to **apply** your newfound knowledge in a practical setting. Here you will discover the ins and outs of ESG data and ratings, how they can be used to build a balanced portfolio for clients, how this information can be used to avoid 'greenwashed' investments, and ensure your clients understand greenwashing as well.



## CONNECT

in Part III, you will discover how to **connect** your ESG knowledge and application skills to client conversation starters, how to address the most common concerns around sustainable investing, and learn how to connect with our growing network of professionals.

# Sustainability in Asset Allocation

Sustainable investing is no longer confined to a niche of equity funds. Today, investors can pursue ESG and impact strategies across all major asset classes, allowing for well-diversified portfolios that integrate financial and sustainability goals. Each asset class offers unique pathways to impact. In this section, we will touch upon where investors can find sustainable and impact investments in the major asset classes.

# Sustainable Investment Options Across Asset Classes

Today, investors can integrate ESG and impact strategies across virtually all major asset classes — from equities and fixed income to private equity, real assets, and even cash management vehicles. This breadth of opportunity allows for the construction of well-diversified portfolios that are not only designed to achieve financial performance but also to reflect an investor’s sustainability values and long-term objectives. Importantly, each asset class provides its own unique pathway to impact: equities may offer opportunities for shareholder engagement, fixed income can direct capital toward green or social projects, private markets can target innovation and early-stage solutions, real assets can deliver tangible, systemic solutions such as renewable infrastructure or sustainable agriculture, and money market funds can prioritize liquidity while supporting issuers with strong sustainability practices or short-term green financing needs. Together, these choices provide investors with the flexibility to align their portfolios with both financial and sustainability goals in a more holistic manner.

## Equities (Public Markets)

Investors can choose from stocks, exchange-traded funds (ETFs), and mutual funds that have been screened for ESG criteria. Strategies may include exclusionary screens (e.g., avoiding tobacco or fossil fuels), positive tilts toward ESG leaders (best-in-class), or thematic funds focused on areas like clean energy or gender equity. Advisor can emphasize active ownership through proxy voting or demonstrate impact by choosing investments that lead shareholder advocacy.



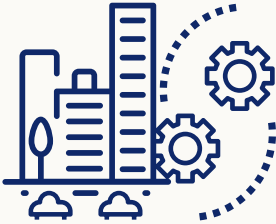
## Fixed Income (Bonds)

Fixed income instruments provide impact while offering predictable returns and diversification. Bond markets have become a powerful channel for sustainability. Green bonds provide funding for climate-friendly projects like renewable energy, social bonds address issues such as affordable housing, and sustainability-linked bonds tie coupon rates to a company’s ESG performance targets.

**Advisor Tip:** Be careful to **review the structure of sustainability-linked bonds and similar instruments.** Without clear accountability mechanisms—like performance-linked step-ups or transparent reporting—these products may fall short of their intended outcomes.

## Private Equity & Venture Capital

Allocating funds into private equity and venture capital projects allows investors to back companies and projects not yet available in public markets, often with high potential for measurable impact. Examples include venture funds targeting sustainable agriculture or private equity firms investing in renewable infrastructure. While these opportunities often come with higher risk and lower liquidity, they can provide deep alignment with client values.

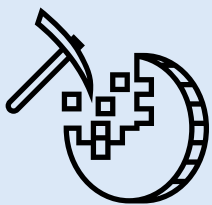


## Real Assets & Infrastructure

Direct investment in physical assets such as renewable energy plants, sustainable real estate, or water infrastructure provides exposure to essential sectors driving the transition to a low-carbon economy. These investments may deliver steady, long-term cash flows while supporting systemic change.

## Cash & Short-Term Investments

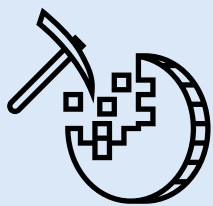
Even short-term cash holdings can reflect values. Options include community development banks (CDBs), credit unions, and Community Development Financial Institutions (CDFIs) that direct capital to underserved communities, affordable housing, or small-business lending. These vehicles allow clients to align their liquidity management with impact goals.



## Sustainable Crypto Assets: An Emerging Frontier

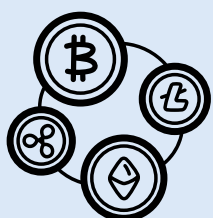
Cryptocurrencies have historically raised sustainability concerns because of the high energy consumption associated with proof-of-work (PoW) mining, most notably Bitcoin. The environmental footprint has made many investors cautious about crypto's role in ESG-aligned portfolios.

# Sustainable Crypto Assets: An Emerging Frontier Continued



## Progress Toward Sustainability:

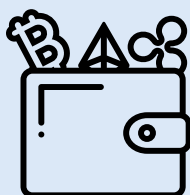
- Proof-of-Stake (PoS) Blockchains: Unlike PoW, PoS systems (such as Ethereum after “The Merge,” Cardano, Solana, and Tezos) use far less energy, drastically reducing environmental impact.
- Green or Carbon-Neutral Cryptos: Some projects explicitly offset their carbon footprint or build renewable energy into their infrastructure (e.g., Algorand’s carbon-negative blockchain).
- Tokenized Sustainability Assets: Crypto can also enable impact directly through tokenized carbon credits, renewable energy certificates, or blockchain-based systems for tracking supply chain transparency.
- ESG-Linked Funds or ETFs: A few asset managers have begun experimenting with crypto funds that screen for sustainability criteria, though the space is still very new.



## Investor Considerations:

- Sustainability varies widely across projects — not all crypto is “green.”
- Advisors should examine the consensus mechanism, energy sources, governance structure, and transparency of any crypto project before considering it for ESG integration.
- Regulatory frameworks for sustainable crypto are still developing, so due diligence and caution are key.

Sustainable crypto assets are emerging but remain experimental. Advisors who explore this space should treat it as a niche allocation, focusing on projects with demonstrable energy efficiency, carbon accountability, and real-world utility. In addition, many sustainable investors tend to steer clear of crypto assets because they consume a great deal of energy in their creation and offer little measurable public good.



Every asset class offers distinct opportunities for sustainable investing. The advisor’s role is to match the right approach to the client’s financial objectives, values, time horizon, and risk tolerance — ensuring that sustainability is embedded across the portfolio, not just in a single fund.

# Integrating ESG into the Equity Selection Process

While it may appear that ESG analysis applies only when choosing individual securities, in reality it can — and should — be integrated at multiple levels of the investment process. From shaping the investment universe to selecting specific holdings, ESG data provides valuable insight into both risk and opportunity.



## ADVISOR INSIGHTS: ESG ≠ Impact

ESG ratings and data focus on **risk management**, not **impact measurement**. They help investors understand how well a company is managing the environmental, social, and governance factors that could affect its financial stability—not how much positive or negative change it creates in the world. This distinction is key to setting client expectations and avoiding confusion between ESG integration and impact investing.

## 1. Defining the Investment Universe

Every portfolio begins with an **investment universe**—the pool of securities considered eligible for inclusion based on both **financial** and **sustainability** criteria.

A useful starting point for constructing this universe is often an **SRI or ESG index**, which applies environmental, social, and governance filters to a broader market benchmark (such as the S&P 500 or MSCI ACWI). These indexes are built using defined methodologies that outline:

- The **research process** and data sources used to evaluate companies
- The **inclusion and exclusion criteria**, such as fossil fuel exposure, human rights performance, or board diversity
- The **frequency of review and rebalancing** to ensure ongoing alignment with the stated criteria

While these pre-existing indexes can provide a strong foundation, advisors and asset managers can further customize the investment universe to reflect a client's unique values, impact goals, or risk considerations. For example, an investor may wish to exclude companies with high carbon intensity yet retain firms demonstrating measurable progress toward decarbonization targets.

This tailored approach ensures that portfolio construction remains both financially sound and values-aligned, creating a more authentic foundation for sustainable investment strategies.

## 2. Sector Allocation

ESG analysis also plays a vital role in **sector allocation**, helping determine which industries and subsectors best align with a client's values and long-term priorities.

Consider the technology sector: A client may have previously viewed tech companies as highly attractive for their innovation and growth potential but could later re-evaluate that exposure as concerns over data privacy, cybersecurity, and responsible AI development intensify. Rather than avoiding the entire sector, ESG analysis enables advisors to identify which firms are **proactively managing these emerging risks**—for example, those with transparent AI ethics policies or strong data protection standards.

By using ESG data to **evaluate and rank companies within sectors**, asset managers can preserve diversification while emphasizing firms demonstrating leadership on material sustainability issues. This nuanced approach replaces blanket exclusions with **evidence-based selection**, allowing portfolios to adapt as ESG risks and opportunities evolve.

## 3. Selecting Individual Securities

Once the investment universe and sector parameters are established, **ESG analysis becomes most hands-on during the security selection phase**—where individual companies are evaluated not only for financial performance but also for how they manage sustainability-related risks and opportunities.

Alongside traditional financial metrics such as earnings growth, leverage, and valuation, ESG-informed analysis evaluates a company's resilience to material, sustainability-related risks and opportunities that can influence long-term financial performance and reputation.

Key due diligence questions may include:

- What are the **long-term implications** of the company's products, operations, or projects for the environment, workforce, communities, and consumers?
- Does the **leadership team and board** reflect meaningful diversity, equity, and inclusion?
- How transparent is the company in reporting **safety incidents, cybersecurity breaches, or major policy changes**?
- What are the company's **positions and practices** on key social and ethical issues such as human rights, data privacy, or environmental conservation?
- Does the company have a **credible plan to reduce emissions** or transition away from fossil fuels over time?
- How responsive is management to **shareholder engagement and stewardship initiatives**?
- Are there hidden risks within the supply chain, such as forced labor, deforestation, or unsafe working conditions? (Resources like [KnowTheChain.org](https://www.knowthechain.org) can offer valuable insight here.)

This deeper layer of ESG due diligence reveals both **potential red flags and leadership opportunities**—insights that traditional financial analysis alone may overlook. Integrating these questions into security selection strengthens the portfolio's overall alignment with sustainability objectives and enhances long-term risk management.

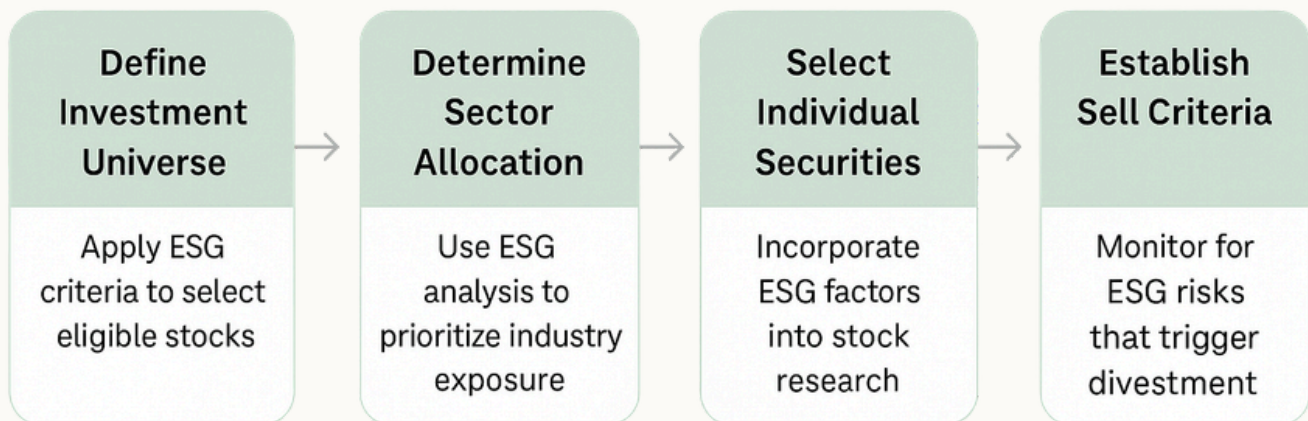
## 4. Establishing Sell Criteria

ESG considerations are just as important when deciding **what to sell** as they are when determining what to buy. A company that once aligned with a client’s values may later fall short of key sustainability, ethical, or governance expectations.

Common ESG-driven sell triggers include:

- Expanding operations into regions with **political instability or human rights concerns**
- **Resource depletion** or new evidence of significant environmental harm
- **Supply chain controversies**, such as child labor, unsafe conditions, or deforestation
- Persistent **failures in human capital management**, including repeated safety violations or discrimination claims
- **Regulatory or legislative changes** that materially increase ESG-related risk
- **Declining ESG scores** or recurring controversies indicating weak oversight or governance

In all cases, divestment decisions should be guided by both **data and dialogue**—verifying facts, consulting the client, and determining whether the issue reflects a **temporary setback or a deeper, systemic concern**.



### Advisor Takeaway:



Integrating ESG into the equity selection process is not about limiting options — it’s about enhancing decision quality. By embedding sustainability analysis into every step — from universe construction to sell discipline — advisors and asset managers can create portfolios that are not only values-aligned, but also resilient, forward-looking, and transparent.

# Investment Policy Statement (IPS)

This section explores the critical role of an Investment Policy Statement (IPS) in sustainable investing. It explains why it serves as the foundation for a disciplined investment process, and how it can be customized to include ESG considerations. Advisors will learn how to structure an IPS that clearly articulates client objectives, risk tolerance, asset allocation, and sustainability preferences — ensuring that investment decisions remain consistent, transparent, and aligned with long-term goals.

# What is an Investment Policy Statement?

An Investment Policy Statement (IPS) is a written document that sets the rules of engagement for portfolio management. It ensures alignment between the investor's objectives and the advisor's strategies, while creating accountability and consistency over time. For sustainability-focused investors, the IPS is especially critical because it explicitly integrates ESG considerations into portfolio design and monitoring.

## Core Elements of an Investment Policy Statement (IPS)

A well-crafted Investment Policy Statement (IPS) serves as the foundation for disciplined, transparent, and goal-aligned portfolio management. For sustainability-focused investors, it ensures that environmental, social, and governance (ESG) factors are not afterthoughts, but intentional and measurable components of the investment process. The following elements form the core of an effective, sustainability-integrated IPS:

### Client Objectives

The IPS begins by clearly articulating the client's financial and sustainability objectives. Financial goals might include long-term capital growth, income generation, or capital preservation, while sustainability goals often reflect values or impact themes such as net-zero alignment, diversity and inclusion, water quality, education, or community development.

Advisors should help clients define what "success" looks like for both dimensions — for example, achieving a target rate of return while maintaining a portfolio carbon footprint 30% below the benchmark. Documenting these goals creates a shared understanding of priorities and trade-offs from the outset.

### Risk Tolerance & Time Horizon

This section establishes the client's risk appetite, capacity for loss, and investment time frame — essential inputs for any portfolio design. For sustainable investors, it's also where ESG goals intersect with risk management. For instance, a client committed to decarbonization may accept sector concentration risk by underweighting fossil fuels or heavy industries, while another might prioritize diversification and opt for "transition strategies" that include companies moving toward cleaner operations. The IPS should outline these trade-offs transparently, ensuring clients understand how ESG preferences can influence volatility, liquidity, and return expectations over time.

### Asset Allocation & Diversification

This component defines the target allocation across major asset classes (e.g., equities, fixed income, alternatives, and cash) and explains how ESG integration will occur within each. A sustainability-integrated IPS might, for example, allocate 20% to green or sustainability-linked bonds, 10% to private impact investments, and the remainder to ESG-screened public equities.

It's also useful to describe how thematic and place-based investments fit into the broader portfolio — such as investments in renewable infrastructure, affordable housing, or community loan funds. This section ties the client's values to a diversified strategy that balances risk, return, and measurable impact.

## ESG & Impact Criteria

Here, the IPS outlines the specific approaches and frameworks that will guide sustainable investment decisions. These may include:

- Exclusionary screening (avoiding sectors like tobacco, weapons, or fossil fuels)
- Positive or “best-in-class” selection (favoring ESG leaders within each sector)
- Thematic investing (targeting issues such as clean energy, gender equity, or water security)
- Active ownership or stewardship (using shareholder engagement and proxy voting to influence company behavior)

This section should also name the frameworks or standards that will guide evaluation — for example, the Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD), Principles for Responsible Investment (PRI), or Global Reporting Initiative (GRI). These anchors provide clarity and consistency across the investment process.

## Evaluation & Monitoring

Finally, the IPS should describe how both financial and ESG performance will be tracked and communicated. This includes defining:

- Benchmarks (e.g., comparing against an ESG index or traditional market index)
- Reporting frequency (quarterly, semi-annual, or annual reviews)
- Key metrics (e.g., portfolio carbon intensity, board diversity, engagement outcomes, or alignment with the UN Sustainable Development Goals)

The IPS should also note how qualitative feedback — such as progress on engagement goals or stewardship outcomes — will be incorporated. Regular reviews not only ensure accountability but also allow portfolios to evolve as ESG data, regulations, and client priorities change.

## Why It Matters in Sustainable Investing

For investors seeking to integrate sustainability, an IPS does more than document a strategy — it becomes the blueprint for translating values into disciplined action.

- **Clarity:** Ensures that both financial and sustainability goals are explicitly defined and understood by all parties.
- **Consistency:** Embeds ESG considerations into decision-making in a systematic, repeatable way rather than on an ad hoc basis.
- **Accountability:** Creates measurable checkpoints for evaluating performance against financial and impact objectives.
- **Credibility:** Overall documentation of how sustainable strategies are being used demonstrates to other stakeholders that sustainability is not a marketing statement but an operational principle within the portfolio. It can serve as a model of success for others.

In essence, a sustainability-integrated IPS builds a bridge between intent and implementation, providing advisors and clients with a shared roadmap for achieving long-term, values-aligned success.



### Advisor Takeaway:

Sustainable investment opportunities span every asset class, offering a broad toolkit for impact. An IPS that incorporates ESG ensures these opportunities are pursued with clarity, discipline, and accountability — turning sustainability from an abstract goal into a concrete investment strategy.

# How to Write a Sustainable Investment Policy Statement

The following example illustrates how an advisor might help a client structure a sustainability-integrated Investment Policy Statement (IPS). While each IPS should be tailored to the investor’s unique circumstances, this framework provides a model for ensuring consistency, accountability, and clarity throughout the sustainable investment process.

## 1. Introduction & Purpose

This section sets the tone for the entire document. It explains why the IPS exists — to establish a disciplined framework for managing investments, aligning portfolio decisions with the client’s long-term goals and values. The introduction should also outline the dual objectives of the portfolio: achieving financial performance and integrating sustainability or impact considerations.

It’s also helpful to briefly define key concepts here — such as ESG integration, impact investing, or sustainability alignment — to ensure mutual understanding between the client and advisor.

### Example language:

“This Investment Policy Statement (IPS) establishes the framework for managing [Client Name]’s investment portfolio in alignment with their financial objectives and sustainability values. It is intended to promote a disciplined, transparent, and consistent approach to investment decision-making, ensuring that both return expectations and sustainability goals are clearly articulated and regularly reviewed.”

## 2. Client Objectives

This section captures what the client ultimately wants to achieve — both financially and in terms of sustainability impact.

- **Financial Objectives:** Define measurable financial outcomes such as growth, income generation, capital preservation, or a combination of these.
- **Sustainability Objectives:** Identify desired environmental or social outcomes — such as reducing portfolio carbon intensity, increasing exposure to renewable energy, or supporting gender diversity and community development.

When possible, these goals should be specific and time-bound, so that progress can be tracked and reported over time.

### Example language:

“The client seeks long-term capital appreciation while ensuring that the portfolio contributes to the global transition to a low-carbon economy. Investments will prioritize companies and funds demonstrating measurable progress on emissions reduction, renewable energy adoption, and equitable business practices.”

### 3. Risk Tolerance & Time Horizon

Every IPS should define how much risk the client is willing and able to take, and over what period the investments are expected to perform. In a sustainability context, this section should also note how ESG preferences may influence portfolio risk or diversification.

For example, avoiding certain sectors (like fossil fuels or defense) can reduce exposure to high-risk industries but might also narrow diversification. Similarly, private impact investments may offer high impact potential but come with illiquidity or valuation risks.

#### Example language:

“The client has a moderate risk tolerance and a long-term investment horizon of 15 years. ESG considerations will be integrated throughout the portfolio to mitigate material sustainability risks without materially compromising diversification or risk-adjusted return expectations.”

### 4. Asset Allocation & Diversification

This section details the target allocation across asset classes and clarifies how ESG integration will occur within each. The IPS should link allocation decisions directly to both financial and sustainability objectives.

For instance, a portfolio might include:

- Equities: ESG-screened global equity funds and thematic investments in climate innovation.
- Fixed Income: Green, social, or sustainability-linked bonds.
- Alternatives: Private equity or venture funds targeting renewable energy or community development.
- Cash & Short-Term Instruments: Deposits with community banks or CDFIs supporting underserved regions.

#### Example language:

“The portfolio shall be diversified across equities, fixed income, and alternative investments. Within each asset class, preference will be given to strategies that incorporate ESG analysis and/or direct impact, such as green bonds, ESG-screened equity funds, and private market impact investments.”

### 5. ESG & Impact Criteria

This section defines how sustainability is applied. The IPS should describe the frameworks, screening methods, and guiding principles used to select and monitor investments.

Common approaches include:

- Exclusionary screening (avoiding sectors like tobacco, coal, or weapons manufacturing)
- Positive or best-in-class selection (favoring companies with superior ESG practices)
- Thematic investing (targeting clean energy, affordable housing, or gender equity)
- Active ownership or stewardship (voting proxies, engaging with management, and supporting shareholder initiatives)

The IPS should also reference recognized standards or frameworks — such as SASB, TCFD, PRI, or SFDR — to guide consistency and transparency.

#### Example language:

“The portfolio will avoid investments in companies deriving more than 10% of revenues from coal production. Positive allocation will be directed toward companies with verified science-based emissions targets or products and services that directly support the United Nations Sustainable Development Goals.”

## 7. Roles & Responsibilities

Clarify who is responsible for what. The advisor typically oversees implementation, monitoring, and recommendations for changes, while the client provides approval and participates in periodic reviews.

The IPS should also note whether third-party managers or ESG data providers play a role in reporting or analysis. This ensures clarity and shared accountability among all stakeholders.

### Example language:

“The advisor is responsible for implementing the portfolio strategy in accordance with this IPS, including manager selection, performance monitoring, and ESG integration oversight. The client will review progress during scheduled portfolio reviews and approve any material updates to this policy.”

## 8. Review & Amendments

The IPS should always be viewed as a living document. As client goals evolve, regulations change, and ESG standards advance, the IPS must be revisited regularly to ensure continued alignment.

Advisors might recommend an annual review or ad-hoc updates following significant life events, market shifts, or regulatory changes. Documenting this review process reinforces discipline and accountability.

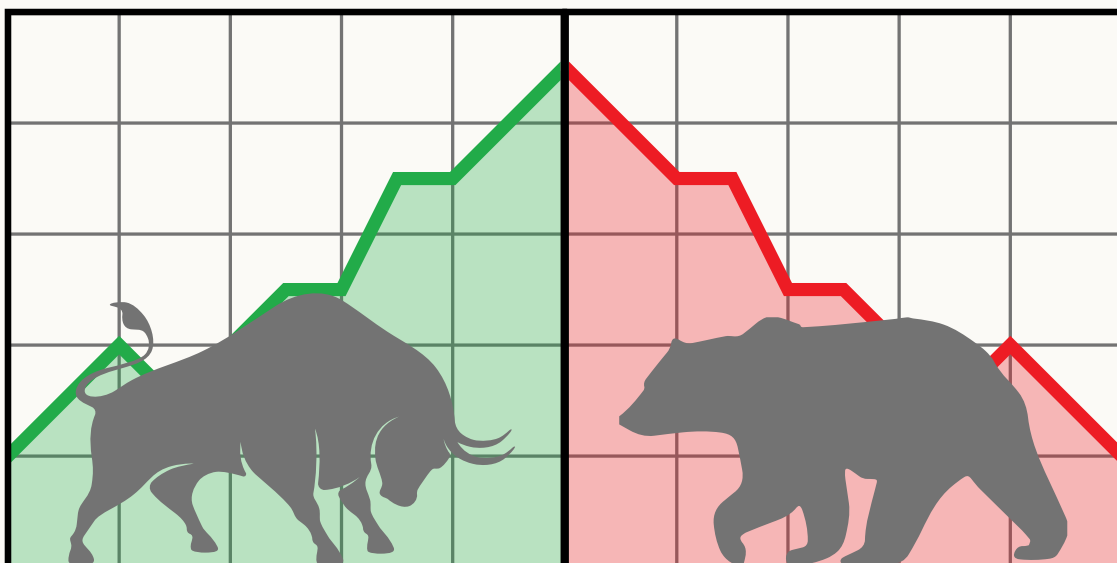
### Example language:

“This IPS shall be reviewed at least annually and revised if necessary to reflect changes in market conditions, regulations, or the client’s financial and sustainability objectives. Any amendments will be mutually agreed upon and documented in writing.”

### **Advisor Takeaway:**



A sustainability-integrated IPS turns abstract values into tangible investment guidelines. By addressing each of these eight components with clarity and transparency, advisors create a roadmap that promotes accountability, strengthens client relationships, and ensures that sustainability commitments are backed by structure, discipline, and measurable outcomes.



# ESG Data and Ratings

We will now look at the rapidly evolving world of ESG data, scores, and ratings — the tools investors use to evaluate how companies manage environmental, social, and governance risks and opportunities. It explains how these ratings are created, why methodologies differ among providers, and what their strengths and limitations are when applied in investment analysis. Advisors will gain a deeper understanding of how to interpret ESG scores, compare data across sources, and use these insights responsibly to support long-term, values-aligned decision-making.

While most advisors today rely on portfolios constructed by others—such as separately managed accounts (SMAs) or exchange-traded funds (ETFs)—it remains essential to understand how those portfolios are built. By knowing the screening and selection process used by portfolio managers, advisors can more confidently explain the sustainability rigor and rationale behind specific investments to their clients.

# What is an ESG Score or Rating

An **ESG score** or **rating** is a tool used to measure how effectively a company manages its exposure to environmental, social, and governance (ESG) risks and opportunities. In essence, it's like a report card that evaluates a company's behavior, policies, and performance beyond traditional financial metrics — offering a view of how responsibly and sustainably it operates. These scores help investors understand how a company makes money, not just how much money it makes.

## What ESG Ratings Measure

ESG ratings analyze a broad range of factors that influence a company's long-term resilience and ethical footprint:

- **Environmental (E):** Examines how a company interacts with and impacts the natural environment. Key metrics include greenhouse gas emissions, energy efficiency, water and resource use, pollution and waste management, biodiversity impact, and the robustness of its climate transition strategy.
- **Social (S):** Focuses on how a company manages relationships with employees, suppliers, customers, and communities. Common themes include labor practices, employee health and safety, human rights, community engagement, product responsibility, and diversity, equity, and inclusion (DEI).
- **Governance (G):** Assesses the quality of a company's internal oversight and accountability. This includes board composition, executive compensation, shareholder rights, transparency, anti-corruption policies, and business ethics.

Each of these dimensions is analyzed through data — both quantitative (e.g., emissions intensity, injury rates, gender pay gap) and qualitative (e.g., policies, controversies, corporate culture). The goal is to determine how well the company anticipates and manages risks that could affect its financial stability or social license to operate.

## How ESG Ratings Are Used

The value of ESG ratings depends largely on who is using them and why:

- **Investors** use ESG scores to help identify potential risks and opportunities that may not appear in financial statements. For example, high environmental risks could signal future regulatory costs, while strong governance may indicate operational stability. Ratings also help investors align portfolios with client values and screen companies for inclusion or exclusion based on sustainability criteria.
- **Companies** use ESG ratings as benchmarking tools to evaluate their own performance relative to peers. They can identify areas for improvement — such as supply chain oversight or board diversity — and use that feedback to strengthen sustainability reporting, disclosure, and stakeholder engagement.
- **Advisors and Wealth Managers** help turn complex analysis into clear conversations. By leveraging data synthesized through research and scoring frameworks, advisors can translate sustainability performance into practical insights—enhancing client understanding, due diligence, and long-term investment alignment.

## How ESG Ratings Are Created

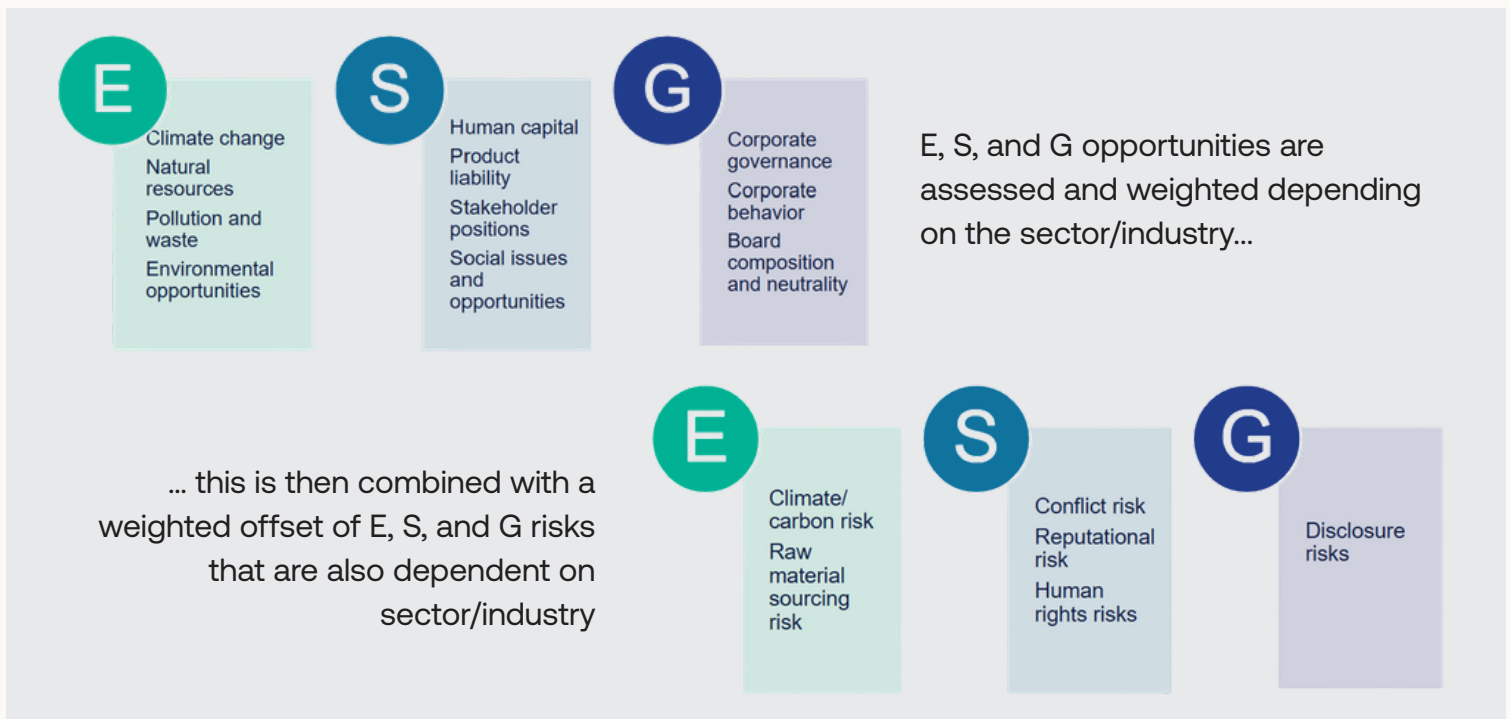
ESG ratings are developed by specialized research and data firms such as MSCI, Sustainalytics, ISS ESG, Refinitiv, or S&P Global. These firms gather data from company disclosures, regulatory filings, news sources, and sometimes direct engagement with companies. Each provider uses its own proprietary methodology — weighting ESG factors differently depending on what it considers most material within each industry.

For example:

- **MSCI** places significant emphasis on financially material risks that could affect enterprise value.
- **Sustainalytics** focuses more on exposure and management of ESG risks through a “risk rating” model.
- **ISS ESG** integrates detailed governance analysis with sustainability themes and stakeholder relations.

Because methodologies differ, the **same company can receive very different ESG scores** depending on the provider. One rating agency may view a tech firm favorably for its low emissions profile, while another may penalize it for data privacy controversies or weak board diversity. This variation doesn’t mean ESG data is unreliable — but it does **highlight the importance of understanding what each score actually measures.**

## How an ESG Score is Made:



This weighted summation results in a score or rating, which varies across providers – there is no standardized system.

**Note:** the end result is NOT a buy/sell recommendation; it is an analytical assessment

**Raw Data → Methodology → Rating → Use with Caution**

### Advisor Takeaway:



For advisors, ESG ratings are a bridge between values and valuation — helping clients see how sustainability factors intersect with long-term financial health. But they must be interpreted carefully: understanding the data sources, methodologies, and limitations behind each score is essential to using them responsibly and avoiding misinformed conclusions.

# ESG Ratings vs. Credit Ratings



While both ESG ratings and credit ratings can help assess risk, they examine risk through very different lenses. A very simple way to differentiate between the two is to consider what kind of question they are aiming to ask.

**Credit ratings** measure the financial “health” of an entity **today**. The question we are trying to answer is, “Are they capable of paying their bills?”

**ESG ratings** ESG ratings measure an entity’s current non-financial resilience based on past and present performance — providing insight into how well it is positioned for **tomorrow**. The question we are trying to answer is, “Are they prepared for environmental, social, and governance challenges that could affect future performance?”

There is an argument for incorporating both into financial analysis, as there are some key similarities the two, however, there are some notable differences that must also be addressed:

## Similarities

- **Purpose:** Both are designed to provide a standardized way of evaluating companies on factors that may affect their long-term performance and risk profile.
- **Third-Party Assessment:** Just as credit ratings are issued by agencies like S&P or Moody’s, ESG ratings come from independent research providers (MSCI, Sustainalytics, ISS, etc.).
- **Comparability:** Investors use them to compare companies against peers, sectors, or benchmarks.
- **Influence:** Both can impact investor behavior — a poor credit rating may increase borrowing costs, while a low ESG score can reduce a company’s attractiveness to sustainability-minded investors or asset managers.

## Key Differences

- **Focus:** Credit ratings measure a company’s likelihood of meeting its debt obligations. ESG ratings assess how well a company manages environmental, social, and governance risks and opportunities.
- **Standardization:** Credit ratings are relatively standardized across agencies. ESG ratings are not standardized — methodologies differ widely, so the same company can score high with one provider and low with another.
- **Materiality:** Credit ratings focus directly on financial solvency. ESG ratings incorporate broader non-financial factors that may or may not translate immediately into financial outcomes.

# / How to Analyze ESG Scores

Interpreting ESG ratings requires more than just glancing at a single number. Each provider’s methodology, scale, and weighting system can yield very different conclusions — and without context, even the most well-intentioned investor could misread what the data is actually saying. The goal for advisors is to move beyond the surface and use these scores as tools for deeper understanding.

## 1. Understand the Scoring Scale

- Not all ESG ratings are created equal. Some providers use letter grades (e.g., AAA–CCC), others rely on numerical scales (0–100), and some even use percentile rankings against a peer group. A “high” score in one system might not mean the same in another — an 80 from one provider might represent “average” in another framework.
- Advisors should always begin by asking: What does this score actually measure, and how is it scaled? Understanding whether the score reflects absolute performance (a company’s total ESG strength) or relative performance (how it compares to peers) helps set appropriate expectations and prevents misinterpretation when comparing across systems.

## 2. Look at the Pillar Scores (E, S, G)

- Most ESG ratings are composed of three pillars — Environmental, Social, and Governance — each with its own set of underlying metrics. A company’s overall ESG score is often a weighted average of these components.
- However, the headline score can hide meaningful differences. For instance, a company might excel in governance (strong board oversight, transparent executive pay) but perform poorly on environmental factors such as carbon intensity. Conversely, another company might be an environmental leader but face repeated workplace safety controversies.
- Advisors should always “open up the hood” and examine the pillar-level scores to understand where a company is performing well — and where risks or controversies are concentrated.

## 3. Compare Within the Right Peer Group

- ESG risks and opportunities are highly industry-specific. Comparing a renewable energy developer to a consumer tech company on the same ESG scale offers little insight. For example:
  - A technology company might be evaluated on data privacy, energy use, and labor conditions in its supply chain.
  - A utility company will be judged more heavily on carbon emissions, pollution management, and transition readiness.
  - The most meaningful comparisons happen within peer groups or sectors. Advisors should confirm whether a rating provider uses industry-adjusted scoring and avoid cross-sector comparisons that can distort the picture.

## 4. Pay Attention to Trends Over Time

- A single ESG rating represents a snapshot of how a company is managing material sustainability issues today — a point-in-time view used to anticipate its future resilience. Tracking a company’s rating trajectory over multiple years provides far more insight than any single score.
- Is the company improving its disclosure, reducing emissions, or strengthening its governance practices? Or has its score declined due to new controversies, data gaps, or weakened management oversight?
- A steadily improving score suggests proactive management of ESG risks, while a flat or declining score can be an early warning sign of stagnation or emerging challenges. Advisors can use these trends to assess directional momentum and to spark meaningful discussions with clients about progress versus promises.

## 5. Read the Rationale Behind the Score

- The number itself is only the tip of the iceberg. Most rating providers publish narratives, rationale summaries, or controversy reports that explain the “why” behind the score.
- For instance, a company might have a low “S” score not because of poor internal policies, but due to labor violations in its global supply chain or unresolved community conflicts. Conversely, a high “E” score might stem from effective emissions management programs or industry-leading disclosure.
- Advisors who read beyond the number — and can explain this context to clients — demonstrate real value, turning complex ratings into meaningful insights rather than opaque data points.

## 6. Watch for Significant Divergences Across Providers

- It’s common for the same company to receive very different ESG scores from different rating agencies. This isn’t necessarily a flaw — it reflects methodological diversity.
- One provider might emphasize climate risk exposure, while another focuses more on corporate governance quality or supply chain ethics. Divergence highlights what each system values most.
- Advisors can use these differences strategically: by comparing multiple ratings, they can identify where consensus exists and where judgment calls vary. Discussing these contrasts with clients can also reveal which values or ESG dimensions matter most to them personally, allowing for a more customized investment approach.

## 7. Integrate ESG Scores — Don’t Rely on Them Alone

- ESG ratings are starting points, not verdicts. They work best when combined with other forms of analysis, such as:
  - Fundamental financial data (cash flow, debt ratios, revenue growth)
  - Qualitative insights (management integrity, innovation capacity, stakeholder engagement)
  - Client priorities and impact goals (values-based alignment)
  - Overreliance on ratings can oversimplify complex realities. The most effective advisors treat ESG data as one layer of intelligence within a broader investment framework — a tool for sharpening understanding, not dictating conclusions.

### Advisor Takeaway:



ESG ratings are best viewed as signals, not verdicts. They provide benchmarks for comparison, context for analysis, and a foundation for deeper client conversations — but their meaning depends on how they’re interpreted. Advisors who can explain the scale, pillars, peer context, trends, and rationale behind a score help clients cut through the noise and make informed, values-aligned investment decisions.

# / 10 Things ESG Scores Can Do

ESG data, and the ratings and scores derived from it, have become one of the most innovative tools in modern finance. They have unlocked new ways to assess and measure risk across industries, providing insights that were previously unavailable to investors and asset managers. Despite ongoing debate and criticism, there is much to be optimistic about when it comes to the role of ESG data today and its potential in the future. Below are ten ways ESG data can add value for investors and asset managers:

## 1. Investment Analysis and Decisions

ESG scores aid in both portfolio management and risk management. On one hand, they allow investors to build portfolios that align with client values and long-term sustainability goals, potentially strengthening resilience and enhancing returns. On the other hand, they help flag companies with elevated ESG-related risks — from environmental liabilities to governance failures — so investors can anticipate and mitigate potential pitfalls before they affect performance. Together, these functions make ESG scores a practical lens for more informed, forward-looking investment decisions.

## 2. Benchmarking and Comparison

ESG scores and data can serve as a valuable benchmarking tool by enabling investors and stakeholders to compare companies within the same industry — identifying leaders and laggards — while also tracking how an individual company's performance evolves. This dual perspective highlights both relative positioning and progress (or setbacks), giving a clearer picture of where a company stands today and how it is trending for the future.

## 3. Corporate Strategy and Improvement

Companies themselves can use ESG scores as a management tool — both to assess current performance and identify areas for improvement, and to guide long-term strategic planning around sustainability and governance. By translating ESG assessments into actionable insights, businesses can set clearer goals, strengthen practices, and position themselves more competitively in a rapidly changing market.

## 4. Regulatory Compliance and Reporting

ESG scores also support corporate transparency and disclosure. They help companies meet evolving regulatory requirements while offering a standardized way to communicate performance to investors, regulators, and other stakeholders. In doing so, they demonstrate a company's commitment to sustainability and strengthen accountability across the market.

## 5. Stakeholder Communication and Engagement

Beyond compliance, ESG scores are powerful communication tools. Strong scores can attract and reassure socially conscious investors, while also enhancing corporate reputation. Highlighting performance in this way demonstrates responsibility and builds goodwill with both shareholders and the broader public.

## 6. Predict Future ESG Performance

ESG scores highlight potential vulnerabilities, giving management early signals of environmental, social, or governance issues that could damage performance or reputation. This allows companies to proactively manage risks before they escalate, embedding sustainability considerations directly into enterprise risk management frameworks.

## 7. Assess Impact on Broader Systemic Issues

High ESG performance can enhance brand reputation and customer loyalty. Companies that lead on sustainability differentiate themselves in crowded markets, appealing to both values-driven investors and consumers. By signaling long-term responsibility and ethical practices, strong ESG performance builds trust and fosters stronger relationships.

## 8. Provide Granular Insights

ESG assessments often point to opportunities for operational improvements. By identifying inefficiencies in energy use, waste management, or supply chain practices, companies can achieve sustainability goals while realizing measurable cost savings. ESG scores therefore contribute not just to impact, but to efficiency and profitability.

## 9. Ensure Ethical Behavior

A strong ESG profile can also enhance workplace appeal. Companies with credible sustainability commitments tend to engage employees more effectively, reduce turnover, and attract top talent who want to work for organizations that align with their own values.

## 10. Directly Influence Consumer Behavior

Finally, ESG scores can drive innovation by encouraging the development of sustainable products and services. Companies responding to investor and consumer demand for environmentally and socially responsible options often gain a competitive edge, creating solutions that support both business growth and societal progress.

### **Advisor Takeaway:**



ESG scores are versatile tools that support portfolio construction, benchmarking, strategic planning, risk management, disclosure, branding, talent attraction, and even innovation. While methodologies differ across providers, the consistent value lies in the perspective they provide on a company's resilience, opportunities, and long-term alignment with sustainability goals. For advisors, the key is to treat ESG scores as a starting point for deeper analysis and client conversations, not as a standalone measure.

# / 10 Things ESG Scores Cannot Do

ESG scores can be useful tools for evaluating a company's environmental, social, and governance practices, but they are far from flawless. Without a universal global standard, their application comes with important limitations that investors and advisors must keep in mind. To ensure balanced and informed decision-making, it is essential to recognize what ESG data cannot capture. Below are ten key factors to remember that ESG scores cannot be used for:

## 1. Predict Short-Term Financial Performance

ESG scores are designed to highlight how well a company manages long-term environmental, social, and governance risks. They are **not indicators of immediate profitability or quarterly earnings performance**. A company with a strong ESG rating might still miss revenue targets or experience short-term volatility, while a low-scoring company might outperform financially in the near term. Advisors should reinforce that ESG is about resilience over time, not short-term trading signals.

## 2. Provide Complete Risk Assessment

While ESG scores shed light on certain material risks, they cannot capture every potential threat to a business. **Unpredictable events** like sudden geopolitical conflicts, natural disasters, or disruptive technologies can reshape a company's outlook overnight — factors not fully incorporated into ESG models. Moreover, scores often miss **context-specific nuances**, such as localized regulatory risks or cultural challenges, which require qualitative analysis to uncover.

## 3. Ensure Accuracy and Consistency

ESG ratings depend heavily on the **quality, availability, and reliability of data**. Incomplete disclosures, inconsistent reporting practices, and varying regional requirements create data gaps. Because there is **no single global standard** for ESG reporting, methodologies differ widely between providers, making it difficult to compare ratings across agencies. This inconsistency can lead to divergent scores for the same company — a challenge advisors must explain clearly to clients.

## 4. Capture All Aspects of Corporate Performance

ESG scores provide a sustainability lens, but they are **not comprehensive measures of overall corporate performance**. They typically exclude critical factors such as customer satisfaction, brand strength, operational efficiency, and innovation capacity. Likewise, ESG ratings are not a substitute for financial analysis — they don't reflect balance sheet strength, cash flow, or profitability. Advisors must integrate ESG insights with broader financial and strategic assessments.

## 5. Account for Subjective Judgments

Every ESG rating methodology involves some level of **subjective judgment**. Weighting certain issues more heavily than others (e.g., governance vs. climate risk) inevitably introduces bias. In addition, many qualitative elements — like company culture, leadership ethics, or informal governance practices — are difficult to quantify and may not be fully captured in a score. This is why scores can vary so widely between providers, even when looking at the same company.

## 6. Predict Future ESG Performance

ESG scores **draw on backward- and present-looking data** to assess how effectively a company is managing risks and opportunities that could shape its future performance. They rely on existing disclosures, reported data, and past performance. They cannot predict whether a company will improve its sustainability practices, adopt stronger policies, or backslide on its commitments. Moreover, scores often lag behind **rapid changes**, such as a major new investment in renewable energy or the emergence of a governance scandal. In short, ESG ratings are not forecasts: they are present-day assessments informed by historical data, designed to help investors understand a company's capacity to remain resilient in the future.

## 7. Assess Impact on Broader Systemic Issues

ESG ratings are company-specific tools — they do not measure a company's **overall contribution to systemic challenges** like climate change, biodiversity loss, or inequality. A portfolio of high-ESG-scoring companies does not necessarily equate to meaningful progress on these global issues. Additionally, scores may overlook the **interconnectedness of supply chains**, where a company with strong ESG practices still relies on suppliers with poor labor or environmental records.

## 8. Provide Granular Insights

ESG scores deliver a **high-level summary**, which can be helpful for screening, but they rarely provide the level of detail required for deep analysis. For example, an environmental score may flag carbon intensity but overlook water usage, biodiversity impacts, or site-specific risks. Similarly, **sector-specific nuances** — such as data privacy in technology or chemical safety in manufacturing — may not be fully captured. Advisors should use ESG scores as entry points for deeper research.

## 9. Ensure Ethical Behavior

A high ESG score does not guarantee a company's **ethical integrity**. It only reflects the practices and disclosures a company chooses to share. Firms can still engage in questionable behavior, from aggressive tax avoidance to misleading stakeholders, while maintaining respectable ESG ratings. The risk of **greenwashing** is also ever-present: companies may present polished sustainability reports that mask weaker practices, meaning advisors must look beyond the score to confirm credibility.

## 10. Directly Influence Consumer Behavior

Although strong ESG scores may attract investors or reassure stakeholders, they do not directly dictate **how consumers behave**. Customer purchasing decisions are influenced by price, convenience, brand perception, and other factors that ESG ratings do not measure. A company with excellent ESG scores may not automatically see increased sales, just as a company with weaker scores may continue to thrive if consumers prioritize affordability or availability over sustainability.

### Advisor Takeaway:



ESG scores are useful for highlighting how companies manage sustainability risks and opportunities — but they are not crystal balls, moral guarantees, or one-size-fits-all measures. Advisors should position them as tools for context and comparison, not definitive judgments, and always supplement them with financial analysis, qualitative insights, and client-specific values.

# Questions for ESG Data Providers

This list of due diligence questions helps advisors and asset managers evaluate ESG data providers for both rigor and practical usability. Some responses may raise red flags, but they don't always indicate a lack of credibility — often they simply call for follow-up questions or deeper clarification.

## 1. Methodology & Coverage

- How do you define ESG? Which issues are included in your framework?
- What is your process for determining materiality across industries?
- How many companies, geographies, and asset classes are covered in your dataset?
- How often are scores/ratings updated?

“We don't disclose our methodology.” → Lack of transparency makes it impossible to evaluate credibility.

“We apply the same criteria to all industries” → Ignores sector-specific materiality (e.g., climate risk for energy vs. data privacy for tech).

“We only cover large-cap companies in developed markets.” → Limited coverage misses important exposure to small/mid-cap or emerging market firms.

## 2. Data Sources & Verification

- What are your primary data sources (company disclosures, government data, news reports, NGO sources, etc.)?
- How do you address gaps in disclosure when companies don't report?
- Do you use third-party verification or controversy monitoring to validate company claims?

“We rely only on company self-reported data” → High risk of greenwashing, since disclosures may be selective or incomplete.

“We don't monitor controversies or negative news” → Blind spot for reputational and event-driven risks.

## 3. Transparency & Consistency

- Is your scoring methodology publicly available and transparent to end users?
- How do you ensure consistency across sectors and geographies?
- How do your ratings compare to other providers — and what makes them distinct?

“Our ratings are proprietary and not explainable.” → Advisors can't defend or contextualize scores to clients.

“Our scores aren't comparable across regions or industries” → Limits usefulness for benchmarking.

## 4. Alignment with Standards

- Are your methodologies aligned with recognized frameworks (e.g., SASB, GRI, TCFD, SFDR, ISSB)?
- Can your data support client reporting needs (e.g., EU SFDR, SEC disclosure requirements)?

“We don't align with any major frameworks.” → Indicates data may be out of step with global reporting or regulatory expectations.



## 5. Customization & Integration

- Can advisors or asset managers adjust weightings to reflect client-specific priorities (e.g., climate vs. governance)?
- How easily can your data be integrated into existing portfolio management systems, CRMs, or reporting tools?

“Our system is one-size-fits-all” → Advisors can’t tailor scores to reflect client priorities.

“We don’t integrate with portfolio or CRM platforms” → Creates friction and inefficiency in workflows.

## 6. Costs & Licensing

- What is the pricing model? Is it per license, per seat, or enterprise-wide?
- Are there limitations on data sharing or client-facing materials?

“We restrict all external sharing” → Limits ability to use the data in client conversations.

“We charge per score or per download” → Can quickly become cost-prohibitive for scalable use.

## 7. Red Flags & Risk Management

- How do you handle controversies, scandals, or sudden ESG events?
- Do you issue alerts when a company’s ESG profile deteriorates significantly?

“We don’t issue updates when new risks emerge” → Advisors may miss critical, time-sensitive ESG events.

## 8. Practical Advisor Support

- Do you provide training or educational resources for advisors?
- Are client-ready materials (e.g., one-pagers, score summaries) available?
- How do you recommend advisors explain ESG ratings to clients who may be skeptical?

“We don’t provide training or client materials” → Puts the burden on the advisor to explain complex data without guidance.

“We don’t recommend using scores with clients” → Suggests the provider doubts its own data’s clarity or reliability.

### Advisor Takeaway:

By asking the right questions, advisors can better understand the strengths, limitations, and biases of ESG ratings — and ensure they’re using tools that genuinely support both fiduciary duty and client alignment.



If a provider is opaque, overly reliant on self-reported data, lacks sector nuance, or can’t support advisor workflows, that’s a major warning sign. Advisors should favor partners who are transparent, aligned with global standards, and practical for day-to-day client communication.

# Greenwashing, Greenhushing, and Beyond

This section unpacks the growing vocabulary of greenwashing and related terms — including greenhushing, greenwashing, and other forms of misleading sustainability communication. It explains how these practices distort the intent of ESG and impact investing, why they erode investor trust, and how advisors can recognize and address them in client conversations. By understanding these terms and the behaviors they describe, financial professionals can better identify authenticity, promote transparency, and guide clients toward credible, values-driven investment choices.

# Greenwashing ‘Red’ Flags

**Greenwashing** is the practice of making exaggerated, misleading, or unsubstantiated claims about the environmental or social benefits of a product, service, or investment strategy. In other words, it’s when a company or fund markets itself as “sustainable” or “green” without having practices, data, or outcomes to support its claims. For advisors and investors, greenwashing is a serious concern: it undermines trust, misleads clients, and can expose portfolios to hidden risks. When evaluating a company, product, service, or potential investment, it is crucial to be alert and know when greenwashing is taking place. Here are six ‘red flags’ that may signal greenwashing:

## **Vague or Ambiguous Claims**

- Watch out for sweeping statements that sound good but lack detail. Words like “eco-friendly,” “green,” “clean,” “impact,” or “sustainable” are often used without explaining how those claims are achieved. For example, a fund might say it invests “responsibly” without disclosing whether that means excluding certain industries, targeting impact themes, or simply reviewing ESG scores. If the language feels like marketing buzzwords rather than specific practices, it’s worth digging deeper.

## **Lack of Transparency**

- Authentic sustainability strategies are typically supported by data, disclosures, and clear reporting frameworks. Red flags include missing or inconsistent disclosures, no explanation of methodology, or a reluctance to share details about holdings and screening criteria. Companies or funds that cannot show evidence — such as third-party audits, verified emissions reporting, or supply chain data — may be overstating their sustainability profile. Some funds will even lack a sustainability mandate in the prospectus altogether.

## **Overemphasis on Small Wins**

- Sometimes companies highlight minor initiatives to distract from much larger sustainability risks. For example, a firm may promote its office recycling program or biodegradable packaging while remaining heavily invested in fossil fuel projects or maintaining high carbon emissions. Advisors should evaluate the materiality of sustainability claims — is the focus on issues that meaningfully affect the business model, or just on symbolic gestures?

## **Inconsistent Practices**

- A major warning sign is when a company’s sustainability messaging does not align with its broader actions. Examples include marketing products as “climate-friendly” while simultaneously lobbying against climate policy, or publishing glossy ESG reports while failing to address human rights concerns in the supply chain. Authenticity requires consistency across communications, operations, and policy engagement.

## **No Measurable Goals or Outcomes**

- Without specific targets and timelines, sustainability commitments can't be held accountable. Look for whether the company has science-based targets, sector benchmarks, or recognized frameworks (such as GHG Protocol, SASB, or TCFD). A claim like “We aim to reduce emissions” is vague, whereas “We commit to reducing Scope 1 and 2 emissions 50% by 2030, validated by the Science Based Targets initiative” is measurable and credible.

## **Exaggerated Certification or Labeling**

- Not all certifications carry equal weight. Some firms rely on self-created labels or highlight memberships in voluntary programs as if they were rigorous independent audits. Others may overstate the significance of small recognitions or awards. Advisors should verify whether certifications are widely recognized, independently verified, and aligned with global standards — not just used as window dressing.



## Authentic Evaluation vs. Marketing Spin

While greenwashing doesn't have to be about deception, much of the time it is framed as a means of marketing rather than genuinely evaluating the sustainable progress a company has made. Here is a helpful table comparing and contrasting these methods:

	Authentic Evaluation	Marketing Spin (i.e. Greenwashing)
<b>Language</b>	Specific, measurable, and clear (e.g., “Company reduced Scope 1 & 2 emissions by 25% from 2019–2024, verified by CDP”)	Vague or buzzword-heavy (“We are committed to being green”)
<b>Evidence</b>	Backed by third-party data, reports, or recognized frameworks (e.g., SASB, GRI, TCFD)	No supporting data or reliance on self-published claims
<b>Scope</b>	Balanced view that highlights both progress and remaining challenges	Focuses only on positive anecdotes, ignoring material risks or controversies
<b>Accountability</b>	Clear, time-bound targets with annual progress updates	Promises with no timeline or measurable follow-up
<b>Consistency</b>	Messaging aligns with business practices, philanthropic activity, and supply chain behavior	Marketing says one thing, but operations or policy stances tell another story
<b>Certifications</b>	Recognized, independently verified certifications (e.g., B Corp, SBTi validation)	Overstating minor labels or using self-created badges

### Advisor Takeaway:



Firms and companies know that investors care about the environment, so some exaggerate or mislead investors about their record. But spotting the red flags allows advisors to ask the right questions, push for transparency, and steer clients toward investments that truly align with their goals. Remember that authentic evaluation is data-driven, transparent, and balanced — while marketing spin tends to be vague, selective, or inconsistent.

# / Beyond ‘Greenwashing’

Anyone who has spent time in the sustainable investing space knows it well: greenwashing is a serious and persistent challenge. It refers to any act — intentional or unintentional — that misrepresents products, investments, or corporate efforts as being more environmentally responsible than they truly are. Regardless of motive, these misrepresentations erode trust and detract from the meaningful progress being made by organizations that are genuinely advancing sustainability.

But greenwashing is only the beginning. In recent years, the misuse of “green” language has expanded into a broader set of practices, each with its own distinct label. A growing lexicon has emerged to describe these variations, and for those active in sustainable investing or related fields, it is important to become familiar with this evolving vocabulary. Doing so equips investors and advisors to better recognize when sustainability claims are authentic — and when they may be little more than creative marketing. Here are some additional terms for ‘green deception’ that investors should know, along with some examples:



## Greencrowding

When businesses join sustainability initiatives or organizations, not to genuinely improve their environmental performance, but rather to hide their slow progress or harmful practices, by “hiding in the crowd” to evade detection and avoid scrutiny.

**Example:** The Alliance to End Plastic Waste (AEPW) is often cited as an example since members are allocating less than 1% of their total capital expenditures towards recycling, and many participate in lobbying groups that oppose progressive policies that would cut the use of plastics.

## Greenlighting

When companies highlight a small, positive environmental aspect about their operations or products while downplaying or ignoring other harmful, environmentally damaging practices to mislead consumers or stakeholders.

**Example:** An auto manufacturer might heavily advertise its electric vehicles while ignoring the emissions from its gasoline vehicle production or the carbon footprint of the electricity used to charge them.



## Greenshifting

When companies shift the blame for environmental issues onto the consumer rather than addressing their own unsustainable practices.

**Example:** BP's "Know your carbon footprint" campaign, which encourages individuals to calculate their emissions impact and make small changes, rather than addressing the company's own emissions.



## Greenlabeling

Also known as ‘ecolabeling,’ refers to certifications or claims on products or services that highlight their environmental benefits. Not all labels are misleading however: there are certifications that are widely respected and trusted by the industry, however there are some others that are made up and these should be approached with caution.

**Example:** "Energy Star" for appliances, "USDA Organic" for food, and "FSC Certified" for wood products. Others like "Cruelty Free" and "Certified B Corp." are also trusted green labels.

## Greenrinsing

Occurs when companies regularly change their ESG targets right before they are achieved by changing the parameters and deadlines of previously set ESG goals in order to avoid scrutiny from shareholders. This is a more sophisticated form of greenwashing, especially among companies whose targets sound way too good to be true.

**Example:** PepsiCo has consistently made adjustments to their recycling targets right before their target date and has pushed the deadline forward. Over the past five years, the company has moved this recycling target three times.



## Greenhushing

The opposite of greenwashing; sometimes companies would prefer to under-report or hide their sustainability credentials by corporate management teams instead of publicizing them, potentially fearing backlash or accusations of greenwashing from investors or the general public.

**Example:** In 2023, amid rising political backlash against ESG, Unilever quietly reduced public discussion of its sustainability goals—continuing its initiatives internally but choosing silence to avoid controversy, a clear case of corporate greenhushing.

## Greenwishing

Stems from well-intended efforts to tackle sustainability challenges; however, they may not make enough of a difference, or they might encourage mere superficial changes when more structural ones are required. As a result, consumers and companies might think they are doing their part to make a significant difference in the world, when in fact, they aren't.

**Example:** Companies or individuals making the switch to reusable water bottles, paper bags, or reusable utensils or opting to take the metro instead of driving are signs of greenwishing.



# Greenhushing: The Quiet Retreat from Transparency

As we mentioned earlier, **greenhushing** refers to the deliberate downplaying, underreporting, or withholding of sustainability information by companies or investment firms — even when they are making legitimate progress on environmental or social goals. In essence, it's the opposite of greenwashing: rather than exaggerating ESG achievements, greenhushing involves staying silent about them.

This phenomenon has become increasingly common as companies face growing scrutiny, fear of regulatory backlash, or worry about accusations of greenwashing. Many firms would rather say less than risk saying too much — but this reluctance can come at a cost.

## Why Does Greenhushing Happen?

### Fear of Greenwashing Accusations:

- The public conversation around ESG has become highly charged. Companies fear being “called out” for overstating progress or missing interim goals, so they choose silence instead of transparency. Example: A company with a credible net-zero roadmap may stop sharing interim emissions data for fear that short-term fluctuations will be misinterpreted as failure or hypocrisy.

### Regulatory Uncertainty:

- With new disclosure frameworks emerging (such as the EU's SFDR, CSRD, and SEC climate disclosure rules), some organizations are unsure what is required and choose to limit voluntary disclosure until guidance stabilizes.

### Reputational Risk Management:

- In polarized markets — particularly in the U.S. — companies may worry that publicly discussing sustainability could alienate certain stakeholders, clients, or political groups.

### Internal Alignment Challenges:

- Some firms engage in greenhushing because ESG goals aren't yet fully integrated into their overall business strategy or governance systems. Without consistent data or leadership consensus, they hesitate to disclose incomplete or evolving initiatives.

## Why Greenhushing Is Just as Damaging as Greenwashing

While greenwashing distorts reality through exaggeration, greenhushing distorts progress through omission. Both erode the credibility and transparency necessary for ESG markets to mature.

- **Erodes Trust:** Investors, clients, and regulators rely on disclosure to evaluate real sustainability performance. Silence can suggest that a company has something to hide, damaging confidence.
- **Undermines Accountability:** When firms don't report progress, it becomes impossible to track whether sustainability goals are being met — or even pursued.

- **Distorts the Market:** If responsible companies stay quiet while others continue making exaggerated claims, the playing field tilts in favor of those misrepresenting their actions.
- **Slows Collective Learning:** Transparent disclosure helps the industry understand what works — and what doesn't. Greenhushing stalls knowledge-sharing and impedes systemic improvement.
- **Discourages Progress:** Internally, companies that under-communicate ESG efforts may lose motivation, executive buy-in, or stakeholder support for sustainability initiatives.

In short, greenhushing may appear like a form of modesty, but it functions as a veil — concealing progress, discouraging peer learning, and allowing misinformation to fill the void.

## What Can Be Done About It

### 1. Encourage Balanced Communication

Advisors, investors, and regulators can help companies find the middle ground between self-promotion and silence. The goal is not perfection, but transparency about both progress and challenges. Companies should be encouraged to share data, even when outcomes are still evolving, as part of an authentic learning process.

### 2. Align Disclosures with Recognized Frameworks

Using established standards such as TCFD, SASB, GRI, or CSRD provides structure and credibility, reducing the risk of accusations of “green talk.” Framework alignment helps stakeholders differentiate between deliberate misrepresentation and good-faith reporting.

### 3. Reframe the Narrative Around ESG Progress

Advisors and sustainability professionals can help shift the perception of ESG disclosure from marketing to risk management and accountability. When companies understand that ESG transparency builds resilience and investor confidence, they're less likely to retreat into silence.

### 4. Support “Safe Space” Collaboration

Industry coalitions, such as US SIF and PRI, can facilitate peer learning environments where firms can discuss challenges openly without fear of public backlash. Sharing lessons learned — including setbacks — builds authenticity and strengthens collective credibility.

### 5. Educate Clients and the Public

Financial advisors play a key role in explaining that sustainability progress is rarely linear. By setting expectations that transparency includes both wins and shortcomings, advisors help normalize honesty over perfection — which, in turn, reduces the incentive for greenhushing.

### 6. Work with Sustainable Investing–Focused Fund Managers

Partnering with fund managers whose core philosophy centers on sustainability helps ensure that transparency and authenticity remain nonnegotiable. Because ESG integration is built into their investment process—not added as a marketing feature—these managers are more likely to communicate progress openly, engage constructively on challenges, and maintain consistency between stated values and actual practices.

## Advisor Takeaway:

Greenhushing may seem like a safer alternative to greenwashing, but in reality, it undermines trust, transparency, and accountability — the cornerstones of sustainable finance. Advisors who can identify when firms are under-communicating ESG efforts, and who advocate for balanced disclosure, play an important role in restoring credibility to the field.

Encourage clients and portfolio companies to “speak truthfully, not fearfully.” The more open the industry is about both progress and pain points, the stronger and more authentic the sustainable investing movement will become.



# / How to Discuss Greenwashing

For many investors, the concept of greenwashing can feel overwhelming or even discouraging. Clients may worry that sustainability claims are just marketing spin, or that it's impossible to know whether their money is truly making an impact. This creates both a challenge and an opportunity for financial advisors: to acknowledge the reality of greenwashing while also demonstrating the due diligence, tools, and expertise that help separate genuine sustainability efforts from empty promises. By framing the conversation clearly and constructively, advisors can build trust, empower clients to ask the right questions, and show that sustainable investing can still be both authentic and rewarding.

## Start with a Simple Definition

Begin by breaking the concept down into clear, everyday language. Avoid jargon and keep it approachable. For example: “Sometimes companies or funds present themselves as sustainable, but they don’t have the data or practices to back it up — that’s what we call greenwashing.” Using plain terms helps demystify the issue and shows clients that this isn’t just an insider concern, but something they can understand and watch out for, too.

## Acknowledge Client Concerns

Clients may feel skeptical or even disillusioned when they hear about greenwashing. Instead of dismissing their worries, validate them: “You’re right to be cautious — not every ‘green’ label means what it sounds like.” By acknowledging their concern, you demonstrate empathy and build trust. This also positions you as a reliable guide who can help them navigate the noise and avoid investments that don’t live up to their promises.

## Use Examples (Have a Few Ready)

Stories and contrasts help to make abstract ideas concrete. Be sure to share specific examples of both positive and negative cases so clients can conceptualize a clear difference.

- **Authentic Example:** A company that has set science-based emissions targets and has its performance independently verified.
- **Greenwashing Example:** A fund marketed as “sustainable” but that still holds large stakes in fossil fuel companies without any clear transition plan.

These examples help clients see the difference between genuine sustainability leadership and superficial claims — and reinforce the value of your expertise in separating the two.

## Highlight Due Diligence

Explain the steps you take to go beyond the marketing. This may include reviewing company disclosures, analyzing third-party ESG ratings, monitoring controversies, and comparing performance across peers. By showing your process, you reassure clients that their portfolio is being managed based on substance, not spin. For example: “*We don’t take sustainability labels at face value — we look at the underlying data to confirm whether a fund or company is truly aligned with what it claims.*”

## Encourage Questions

Make clients feel empowered to engage in the process. Invite them to ask questions such as: “What evidence is there behind this claim?” or “How does this fund define sustainable investing?” Permitting them to probe builds confidence and makes them feel like partners in shaping their portfolio, not just passive recipients of information. It also sets you apart as an advisor who values education and transparency.

## Connect Back to Their Goals

Always bring the conversation back to what matters most: the client’s objectives. Emphasize alignment between their values, their risk/return goals, and their investment strategy. For example: “Our goal is to ensure your investments reflect your values and are positioned for long-term resilience — not just marketing claims.” This keeps the focus positive and constructive, showing that greenwashing is a challenge you can manage together rather than a reason to abandon sustainable investing altogether.



### Advisor Takeaway:



- By breaking down the concept clearly, validating concerns, using real-world examples, and showing your due diligence process, you can turn the challenge of greenwashing into an opportunity to build deeper trust and credibility with clients.
- Clients want reassurance that greenwashing won’t derail their goals. By acknowledging the challenge, explaining your due diligence process, and emphasizing ongoing monitoring, you build trust and position yourself as a reliable guide.
- Encourage clients to share their values openly. Position yourself as the “translator” who cuts through jargon and marketing spin to connect them with investments that genuinely align with their goals.



# Advisor Script: Talking About Greenwashing with Clients

In order to conceptualize how conversations surrounding greenwashing and ESG data can transpire with clients, here is a sample script where advisors can demonstrate their expertise to clients and ease concerns simultaneously:

**I've been reading about greenwashing... How do I know if these sustainable funds are really what they claim to be?**

That's a smart question. Greenwashing happens when a company or fund markets itself as 'green' or 'sustainable' but doesn't have the evidence or practices to back it up. It's like putting a fresh coat of paint on a building with a shaky foundation.

**So how do we avoid that in my portfolio?**

My role is to dig deeper than the marketing. I look at independent ESG research, company disclosures, and whether there are measurable, time-bound goals. For example, a fund that says 'we're green' but still holds a lot of fossil fuel companies without a transition plan would raise a red flag for me. On the other hand, a company that has verified science-based emissions targets and reports progress every year is showing accountability.

**Are ESG scores reliable? I've heard that one company can get very different ratings from different providers.**

You're right — ESG scores aren't standardized. Each provider uses its own methodology, so ratings can vary. That's why I don't rely on a single score. Instead, I look at the underlying data across multiple sources and put it in context for you. It's similar to how credit ratings work — helpful, but you want to see the bigger picture.

**What if a company is just starting out with sustainability? Does that mean they're greenwashing?**

Not necessarily. A company that's at the beginning of its journey but is transparent about its challenges — and sets realistic, time-bound goals — is being authentic. Greenwashing tends to happen when companies make big claims with no data, or when their actions don't match their messaging.

**Okay, but what if we find out later that something in my portfolio was greenwashing? Does that ruin everything?**

Not at all. The key is to stay flexible. If evidence shows that a company or fund isn't living up to its claims, we can re-evaluate and make changes. What matters is that we have a process to monitor these issues and make sure your portfolio continues to align with your financial and sustainability goals.

**That makes me feel better. So I don't have to be an expert on this — you'll flag it for me?**

Exactly. You don't need to read every report or score. My job is to do the due diligence for you, bring transparency, and help you invest with confidence that your money is aligned with both your values and your long-term financial plan. If something doesn't add up, I'll bring it to your attention. Our goal is to make sure your investments not only fit your financial objectives but also reflect your values in an authentic way — not just marketing claims.

# Conclusion

As we close Part II of the Sustainable Investing Roadmap, you've explored some of the most important tools and challenges shaping the next generation of responsible investing. This section took a deep dive into the world of ESG data, ratings, and transparency—how to read and interpret them, what they can and cannot measure, and how to use them as a lens for identifying long-term risks and opportunities rather than a verdict on corporate virtue.

You also learned how to recognize the warning signs of greenwashing—when sustainability claims are exaggerated—and greenhushing—when genuine progress is hidden from view. Both distort the truth and undermine trust in sustainable finance. By learning to detect and address these practices, advisors can play a key role in restoring integrity and confidence across the industry.

Beyond data and disclosure, this part of the Roadmap also explored how sustainable investing fits across all major asset classes, showing that ESG integration is not limited to equities or “green funds.” From bonds and private markets to real assets and alternatives, every asset class offers a distinct path toward financial performance and positive impact.

Finally, we introduced the Investment Policy Statement (IPS)—a critical document that formalizes the alignment between a client's financial objectives, sustainability goals, risk tolerance, and evaluation criteria. When written thoughtfully, an IPS transforms client intent into an actionable plan, creating a roadmap that ensures clarity, accountability, and long-term consistency in the investment process.

Sustainable investing is not static—it's evolving. But the essence remains unchanged: to align capital with purpose through data, discipline, and transparency.

At US SIF, we're here to help you keep that momentum going. Through education, research, and a network of professionals dedicated to advancing responsible finance, we equip advisors like you to turn ESG insight into lasting impact—for your clients, your practice, and the planet.

## NEXT: Part III - CONNECT

### What you will find in the next roadmap:

- **Connecting ESG knowledge to client dialogue** — turning complex concepts into approachable, values-based discussions that resonate with different investor types.
- **Addressing common questions and misconceptions** — learning how to respond to skepticism, clarify terminology, and explain performance expectations with confidence.
- **Building community and connection** — discovering how to engage with US SIF's expanding network of sustainable investing professionals to share best practices, resources, and opportunities for collaboration.
- **Shareholder Advocacy** – the importance of using this practice in a sustainable investing strategy and how to get started
- **And more!**



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