

WE'RE ALL ABOUT THAT G, 'BOUT THAT G – PART I

Blind Spots

A very good friend (and investor) likes to say “we all have blind spots.” While the context varies, it usually pops up the deeper we are discussing climate change or sustainable finance. There are many things we don’t know and sometimes, frankly, don’t want to know. And while the phrase is typically used toward the end of a particular thread, it’s about as good a starting point as any, particularly when we talk about Governance and any reporting framework.

As investors, the good news is that there is far more data reporting and requirements across multiple issues around sustainability. Further, more companies are working toward better and more accurate ways to collect and report data. A particularly good example is the impact investing space. There is a great effort to track whether what is intended is indeed what is achieved, and also the principles underpinning these objectives.[\[1\]](#)

However, it is always more complex: there are usually also unintended consequences of actions that need to be understood and managed. For example, we have learnt that planting a forest without proper engagement with a community or on-the-ground scientists can result in negative outcomes, such as lost income or reduced biodiversity.[\[2\]](#) We would argue that you need expert scientists in any project involving biodiversity given the dynamism in any ecosystem and what can go wrong. Any impact assessment therefore needs to take into consideration the possibility that the project has flaws.[\[3\]](#) There is a case for us to consider regular reassessments of the project for potential unintended consequences (which we need to add may be positive or negative) and not simply report only what impact we are targeting.

For good Governance, management therefore has to have the desire, skillsets and framework to assess consequences and pivot if necessary. For early-stage companies, this is pretty much always the case in any industry as entrepreneurs try to grow their businesses, adapt as needed and smaller is arguably easier to manage. Venture capital also sometimes favours entrepreneurs and their teams more than other factors in their decision making.[\[4\]](#) From an impact perspective, there is a history of venture investing with a community emphasis (such as in life sciences, medtech) and if we were to formalize and calculate this “impact”, there is a good chance that there is both financial and societal return. Anecdotally, we see more venture investors targeting measurable and verifiable impact.

For larger listed companies, understanding whether the objectives, skillsets and oversight are in place is much harder. Among the many questions would be what are the objectives and trade-offs? How is information gathered, assessed for bias and outcomes on more

complex projects where there may be greater risk of unintended consequences? How are incentives set? We shall return to these themes in subsequent blogs but these factors are seldom captured in reporting requirements. And this means that, as investors, the results you want to achieve are not always achieved. For example, even when there are incentives, such as those proposed for sustainability-linked bonds and loans, new studies now show these instruments can lack credibility and have had little material impact.^[5] Following a review of the sustainability-linked loans market, the UK Financial Conduct Authority has raised concerns over “greenwashing” and “conflicts of interest” and written to banks.^[6]

In sum, despite structured reporting requirements with guidelines, the problems with sustainability-linked instruments provide important learning points. Regulations and requirements for data and strategy disclosure are a key part of the answer, but not the answer themselves. There can always be opportunities to “game the system.”

For investors, the risk is creating blind spots where the data is reported but masks what is, and is not, happening. We are beginning to wonder if we are spending too much time getting comfortable with reporting the data, than understanding what we have really learnt about how companies are acting.

[1] UN PRI and others.

[2] <https://www.imperial.ac.uk/news/199473/qa-is-planting-trees-answer-climate/>

[3] There is increasing recognition of this and frameworks being put together. See for example, <https://www.sei.org/wp-content/uploads/2023/02/luci-tool-sei2023.011.pdf>

[4] <https://www.gsb.stanford.edu/insights/do-funders-care-more-about-your-team-your-idea-or-your-passion>

[5] <https://www.econstor.eu/bitstream/10419/268891/1/1837832250.pdf> uses sustainability-linked loans data to show that the majority of loans fail to be credible instruments;

and, <https://documents1.worldbank.org/curated/en/099237410062223046/pdf/IDU0e099a50307f86045a80b33201d0b7057cedf.pdf> demonstrate structural loopholes in sustainability-linked bonds.

[6] <https://www.fca.org.uk/news/news-stories/fca-outlines-concerns-about-sustainability-linked-loans-market>

DISCLAIMER

Disclaimers and Important Notes

This information ("Information") is for private use, for information and discussion purposes only. The Information is not and does not constitute, and under no circumstances should it be considered as or intended to form part of any offer, recommendation, invitation or solicitation to subscribe to or to enter into any transaction, nor is it calculated to invite or permit the making of offers to the public to subscribe to or enter into any transaction and should not be viewed as such. The Information does not intend to express any opinion on the merits of buying, selling or holding a particular investment product or a class of investment products.

This is not investment research and it is for information only. It should not be relied upon as financial advice. It has not been prepared in accordance with legal requirements designed to promote the independence of research, it is not intended to constitute independent, impartial or objective research analysis or recommendations and should not be treated or relied on as such. The provision of this Information is not regulated by any regulatory authority, including the Monetary Authority of Singapore, or under any regulation, including the Financial Advisors Act of Singapore and the Securities and Futures of Singapore. Notwithstanding this, the Information is not presented with the intention of inducing a person to buy, sell or hold a particular investment product or a class of investment products. Any terms, conditions and opinions contained herein may have been obtained from various sources and neither "Vulpes" nor any of its related companies or affiliates nor any of their respective directors or employees make any warranty, expressed or implied, as to its accuracy or completeness and thus assume no responsibility for it. The Information may be subject to further revision, verification and updating and Vulpes undertakes no responsibility thereof. All figures and amounts stated are for illustration purposes only and shall not bind Vulpes. Vulpes does not act as an adviser and is not in the business of providing financial advice. Vulpes assumes no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from any arrangement or entrance into any transaction in reliance on the information contained herein. This Information is generic and is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this Information. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed in the Information. The Information may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements. Vulpes expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

All information, estimates, forecasts and opinions included in this document may be subject to change without notice. Changes in market conditions or in any assumptions may have a material impact on any estimates or opinion stated. In any event, past performance is no guarantee of future results, and future results may not meet expectations due to a variety of economic, market and other factors. Any information relating to past performance, or any future forecast based on past performance or other assumptions, is not necessarily a reliable indicator of future results. If the Information has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of the Information, which may arise as a result of electronic transmission. The Information is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. Without prejudice to the foregoing, the reader is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

Country Specific Notices

United Kingdom: This document does not constitute an offer or invitation to purchase or subscribe for any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with or act as an inducement to enter into any contract or commitment whatsoever.

This document is only addressed to and directed at persons resident in the United Kingdom and who are "Qualified Investors" within the meaning of article 2(e) of The Prospectus Regulation (EU) 2017/1129 (as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018) ("Qualified Investors"). In addition, in the United Kingdom, this document has not been approved by an authorised person pursuant to section 21 of the Financial Services and Markets Act 2000 ("FSMA") and, as such, this document is being distributed only to, and is directed only at, qualified investors (i) who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) order 2005 (the "Order") or are Qualified Investors falling within article 49 of the Order, and (ii) to whom the information may otherwise lawfully be communicated (all such persons together being referred to as "Relevant Persons"). The information in this document must not be acted on or relied on in the United Kingdom, by persons who are not relevant persons. This document must not be acted on or relied on in the United Kingdom, by persons who are not both Relevant Persons and Qualified Investors.

United States of America: This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not intended to create legal relations on the basis of information provided herein.

Singapore: If this document is distributed in Singapore, it is made available through general information circulation only it is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not intended to create legal relations on the basis of information provided herein. The contents of the Materials have not been reviewed by in the Monetary Authority of Singapore.

South Africa: This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. The views in this publication are those of the author(s) and are subject to change and "Vulpes" has no obligation to update its opinions or the information in this publication. If this publication contains recommendations, those recommendations reflect solely and exclusively those of the author(s) and such opinions were prepared independently of any other interests. This publication does not constitute personal investment advice.