

# PARUS FINANCE

## PARUS FINANCE – ASSESSMENT ON GREENWASHING

### ESMA Progress Report on Greenwashing

In May 2023 ESMA published a 'Progress Report on Greenwashing', outlining the roles, the topics on which claims may be made, the qualities through which claims may be misleading and the channels through which such claims are communicated. This framework was then used to highlight some of the most prominent risks in of Greenwashing. The report is a good guideline to check our own internal policies and give comfort on our own practices to ensure we do not have any Greenwashing risk.

For the context of this, Greenwashing is defined as 'a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants.'

### Summary

Parus has always been extremely careful in its ESG claims. We have written critically of some market practices related to ESG in the past, around the dogmatic and thematic nature, and our ESG policy and strategy were very much developed with this in mind. We do not claim to be an 'ESG Fund' or make sustainable investments and instead throughout our policies and communications highlight our ESG process within our overall investment process. We are very transparent of our processes, of what is included and what it does and does not achieve. We focus on quantifiable, third party data to demonstrate the outcome of our process, namely the portfolio characteristics rather than overstating a specific ESG impact. We incorporate many elements within our ESG analysis, for example models, exclusions, engagement, but clearly define our meaning of these and what they do and do not include, to avoid misinterpretation. ESG labels and credentials, such as being a signatory to a voluntary reporting framework, can be an important tool to show support for ESG initiatives. We are cautious to only associate ourselves with well respected labels, which are well understood by the market. We state such credentials for factual purposes without exaggerating the significance, for example ensuring it is clear we have signed up to such initiatives rather than having been awarded them. Perhaps the most important way to reduce risk of Greenwashing is through transparency. Data is reported to investors on a regular basis and all such communication aligns with our strategy, regardless of if for marketing or regulatory purposes. In addition, we do allow investors access to portfolio snapshots, in our mind the most transparent a Fund can be, meaning investors can run their own ESG analysis on our portfolio and come to their own conclusions.

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## Assessment

FIGURE 2. DIMENSIONS USED TO ANALYSE GREENWASHING RISKS

Dimensions	Detailed parameters used to analyse greenwashing risks under each dimension		
Roles	Trigger	Spreader	Receiver
Sustainability topics (and sub-topics) about which a claim is communicated	<b>Governance and resources</b> <ul style="list-style-type: none"> <li>Board and senior management role (governance-related elements of entity-level ESG policies)</li> <li>ESG resources and expertise (incl. ESG dedicated staff)</li> </ul>	<b>ESG strategy</b> <ul style="list-style-type: none"> <li>ESG strategy, objectives, characteristics (integration of sustainability in strategy, ESG characteristics, sustainable objectives, taking into account clients' sustainability preferences)</li> <li>Sustainability management policies</li> <li>ESG credentials (qualifications, labels, certificates) adherence to (voluntary) reporting frameworks (e.g. UNPRI, TCFD), labels, ratings, awards, certifications</li> <li>Engagement with stakeholders (proxy voting and active engagement)</li> </ul>	<b>Sustainability metrics and targets</b> <ul style="list-style-type: none"> <li>ESG performance to date: ESG results, metrics for real-world impact</li> <li>Pledges about future ESG performance: ESG targets (incl. net zero targets), transition plans</li> </ul>
Qualities through which the claim is misleading investors or consumers	<div style="display: flex; justify-content: space-between;"> <div style="border: 1px dashed black; padding: 5px;"> <b>Misleading through provision of information</b> <ul style="list-style-type: none"> <li>Empty claims (exaggeration and/or failure to deliver on claims)</li> <li>Inconsistency</li> <li>Irrelevance</li> <li>Outright lie (false)</li> <li>Suggestive non-textual imagery and sounds</li> <li>Suggestive use of ESG-related terminology</li> </ul> </div> <div style="border: 1px dashed black; padding: 5px;"> <b>Misleading through omission of information</b> <ul style="list-style-type: none"> <li>Selective disclosure / cherry-picking</li> <li>Omission or lack of disclosure</li> <li>Vagueness or ambiguity or lack of clarity</li> <li>Lack of fair and meaningful comparisons, thresholds and/or underlying assumptions</li> <li>No proof (unsubstantiated)</li> <li>Outdated information</li> </ul> </div> </div>		
Channels through which the claims are communicated	Regulatory information (e.g. Prospectuses, Financial statements, Mandatory sustainability disclosures, Issuers' press releases etc.)		Marketing materials (including website, social media, presentations to investors)
	Ratings (inc. ESG ratings) and Benchmarks & Labels	Intermediary/advice information	Product information (including internal classifications)
			Voluntary reporting, falling outside previous categories

We conducted a step by step assessment of our ESG practices in the context of the framework provided by ESMA, the 'Dimensions used to analyse Greenwashing risks', to ensure we are not prone to any of the activities or risks highlighted.

## Qualities

There is a distinction made on misleading communications based on both the omission of relevant information to investors, or misleading communications based on false or deceptive information provided to investors.

### 1. Misleading through provision of information

**Empty claims:** Parus' ESG policy gives a very detailed account of our ESG principles, philosophy, process and reporting and does not provide any loose claims. Importantly, within the ESG analysis process and reporting we use independent, third party data including raw data produced by companies and ESG specialist providers. Any claim on which we make has a data set to support it. We believe in reporting the underlying data such that Investors can undertake their own analysis.

**Inconsistency:** Parus' ESG process is carried out on a routine basis, with many monthly elements, some quarterly and some annually – as well as any ad hoc analysis required. The outcome of such analysis is reported to investors in the same periods eg the carbon intensity on a monthly basis. The data on which we perform such analysis is also updated on a regular basis.

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**Irrelevance:** Parus' ESG philosophy is based on a pragmatic approach to ESG and one that is very relevant to our Investment Process and Investors' interests. We are very specific on the data we track and report to give a comprehensive view of our ESG analysis and how it corresponds to our ESG policy. For regulatory reporting we adhere to all necessary fields.

**Outright lies:** Parus' does not make claims without having data to demonstrate. We believe in reporting the data and allowing for interpretation of such data.

**Suggestive non textual imagery:** Parus reports underlying ESG data on a regular basis, including in marketing documents. In such documents there are no suggestive comments, instead data is displayed in easy-to-understand graphs with labelling of metrics, sources and any definitions that are required.

**Suggestive use of ESG related terminology:** Parus is clear in our messaging that we do not believe in thematic approaches and instead our ESG process has been built with the purpose of enhancing our Investment Process and delivering value to Investors. We avoid using buzzwords or attaching our strategy to any ESG thematic. We report data in quite a raw way and allow investors to interpret as they see fit.

## 2. Misleading through omission of information

**Selective disclosure or cherry picking:** Parus highlight a number of metrics within our ESG policy and we offer reporting on all described metrics. The outcome of such analysis does not determine if the data is reported or not. The proprietary model part of our ESG analysis includes a wide range of ESG fields and third party ratings, to ensure there is a broad element incorporated into our process. Analysis is also done at a stock and portfolio level, to avoid cherry picking within the portfolio.

**Omission or lack of disclosure:** Parus reports on elements of the ESG process on a periodic basis via marketing material and of course to fulfil any regulatory obligations. In addition to this we are very open with investors during due diligence processes, of which a number now focus specifically on ESG.

**Vagueness or ambiguity:** Parus does not make loose claims, the objectives that form part of our ESG policy come with associated, measurable criteria and data, for example the ESG exclusions come with a specific revenue threshold and environmental objectives are measured on the Carbon Intensity of the portfolio. We share such information via our marketing material.

**Lack of fair and meaningful comparisons:** Parus' portfolio is both judged independently and in the context of a wider universe of data. Meaningful comparisons are able to be made as data has been measured over multiple years now, allowing time series and trend analysis. The combination of absolute data, relative data to universe of data and time series gives a very comprehensive view of data comparison.

**No proof:** Parus aims to attach data sets to every element of its ESG process, providing 'proof' on each of these. In addition, all historical data is maintained, including raw data from service providers.

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**Outdated information:** Data quality can be an issue as the whole ESG industry is developing. It is 'normal' for some data points to only be available annually. Parus ensures all data it is using in its analysis is up to date, updating proprietary files and receiving updates periodically from third party providers. Data is updated monthly or quarterly in most cases.

### Channels

ESMA also highlights risks that can arise from the different channels of communication through which claims are communicated.

For Parus, multiple channels are used to communicate the outcome of the ESG process. In addition to our detailed ESG policy, Parus produces marketing material (monthly newsletter, quarterly presentations and a specific monthly ESG one pager available on request), regulatory reporting and voluntary reporting (investor requests, due diligences and also EET file made available). Most importantly all the same claims are made via all such channels. Naturally different channels may require different information, but Parus ensures there is consistency of data throughout. We are keen on using and sharing underlying data rather than rely on broad claims of outcomes, and this is also the same in reference to labels or ESG ratings. ESG ratings are used as part of our ESG analysis, and a variety of such are used within our proprietary model. We have been critical of the reliance on such ratings, and so this is why we built our own process and use multiple third-party ratings within it to reduce bias to any singular rating.

### High risk claims

The ESMA report lays out what it considers to be topics which are at a high risk of greenwashing.

**Impact:** Parus does not make any specific claims about the impact of our ESG strategy, we focus on clear demonstrable outcomes of portfolio characteristics that are a result of our ESG process and that help us achieve our objectives. We choose indicators based on their relevance and quality. For example, Carbon Intensity is used as a metric showing the outcome of our portfolio against the universe, as well as the absolute value. This metric also forms part of the ESG analysis done on single names at the pre investment stage, and hence showing it is a very relevant measure. However, no claims are made about the future impact of such a metric.

**ESG strategy:** Parus' ESG strategy is clearly defined and laid out in the ESG Policy, as well as elements that form disclosures in the prospectus in the context of SFDR. The ESG Policy describes in detail the different elements of our ESG analysis, rather than just commenting on our philosophy. Vagueness is avoided, for example, by having specified limits on exclusion criteria. In addition to this, Parus is very transparent and on request supplies portfolio snapshots to investors such that they can test out the portfolio under their own criteria.

**Engagement:** The main element for engagement under the EGS policy is ESG questionnaires distributed to the names in the portfolio, acting as not only a data gathering exercise but also to enhance the discussion and promotion of good ESG practices at our investee companies. We are very transparent and honest about our lack of engagement elsewhere, in that we are able to Proxy Vote but we tend not to and have not done so in recent times – a question that is common from investors.

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**ESG credentials:** ESG credentials can include initiatives such as being a signatory to a voluntary reporting framework, as is the case with Parus being a signatory to the UN PRI. Parus does not overstate the significance of any such ESG credentials or labels. We report this factually, that it is an initiative we have signed up to and not something that has been awarded to us. UN PRI is a very well understood by the market and the fact it offers its own independent reporting framework provides additional visibility for investors.

**Corporate resources and expertise:** Parus is very open about the structure of ESG analysis, namely that an Analyst is responsible and that it is communicated with the wider investment team. Parus does not have a dedicated ESG resource and this is made clear when discussing the make up of the team. No individual is given a title based upon ESG roles.

**Future ESG performance:** Parus does not make any claims related to future ESG performance and is careful not to suggest that any past characteristics are indicative of future results.

**Present ESG performance:** Parus only presents facts about portfolio characteristics and resulting ESG data. In many cases data is available in pure raw data form, in relation to a universe of data and as a time series. This makes for a more complete assessment of the data. In addition, many data points pre date the obligations from regulation.

**Board and senior managements role:** Similar to the risk around corporate resources and expertise, Parus' wording in documents and the message delivered to investors is that most ESG work is undertaken by an analyst and this is then reported upwards to the Portfolio Managers of the Investment Team, including Senior Managers. The Board were closely involved with Parus' transition to an Article 8 fund under SFDR, which incorporated the wider ESG Policy, Strategy and Process at Parus. They continue to provide an overwatch on ESG topics and integrity of the ESG process at Parus.

**Sustainability management policies:** Parus operates within a well defined ESG policy, as discussed, as well as within regulatory guidelines, limiting risk.

**Parus Finance**  
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