

Vanguard trails rivals after 'dragging its feet' on ESG

By Kristen McGachey, 10 Jun 20

\$6trn asset manager has only three ESG-type strategies in its stable available to UK investors



Vanguard is “dragging its feet” when it comes to providing ESG solutions for investors, leaving commentators questioning whether it can play catch up with rivals like Blackrock and UBS.

Taking a cue from other major fund providers the low-cost passives giant has been extending its push into the ESG space.

On Tuesday it launched a pair of ESG index funds – Vanguard ESG Developed World All Cap Equity Index, which has a UK and Dublin-domiciled version, and Vanguard ESG Emerging Markets All Cap Equity, which is Dublin-domiciled only.

Both funds follow benchmarks from the FTSE Global Choice family, and screen out non-renewable energy and weapons companies, as well as vice products such as alcohol, tobacco, adult entertainment and gambling. The funds also exclude companies that fail to meet the UN Global Compact Principles on labour, human rights, the environment and anti-corruption.

‘More is expected of an asset manager of its size and influence’

While commentators welcomed the news as a step in the right direction for Vanguard, many questioned why it has taken one of the world’s biggest asset managers so long to do more in the ESG space.

The passives giant has only three responsible investment strategies available to UK investors. It launched the Vanguard SRI European Stock fund nearly a decade ago.

“Vanguard has been dragging its feet in the ESG space and is slowly waking up to the reality that more is expected of an asset manager of its size and influence,” says Morningstar director for sustainability research Hortense Bioy (pictured).

“While recognising the importance of the topic, Vanguard appears to continue to struggle to adopt a view on ESG and seems reluctant to acquire adequate resources.”

7IM senior portfolio manager Peter Sleep says having so few funds puts Vanguard way behind UBS and its biggest rival Blackrock who have been among the most active players in the passives ESG space.

Blackrock had around \$90bn of sustainable assets, which it intends to increase by tenfold to \$1trn within a decade, while UBS’ sustainable ETFs **broke through the €10bn barrier** in early March weeks into the coronavirus sell-off.

Vanguard’s progress is even sluggish compared to other latecomers to the sector like HSBC Gam, says Sleep, which last week debuted its first range of six sustainable ETFs. “When you are behind HSBC you know you are with the snails”.

Vanguard called out for questionable ESG track record

Vanguard has been called into question for its track record on ESG in the past.

The passives giant was **accused of greenwashing by SCM Direct co-founder Gina Miller** who pointed out its SRI European Stock fund holds exposure to alcohol, gaming and defence companies.

It was also grilled alongside Blackrock for **undermining shareholder efforts to hold carbon intensive businesses** like Exxon Mobil to account on climate change by voting with management more times than not.

“Vanguard’s voting record with respect to ESG shareholder resolutions is poor, and little disclosure of its engagement activities doesn’t help to paint a better picture of its stewardship programme,” says Bioy.

She adds Vanguard has yet to join the Climate Action 100+ initiative. Blackrock and JP Morgan became signatories at the start of this year, while State Street is in the process of signing up.

Vanguard told *Portfolio Adviser* it currently has around 35 people in its investment stewardship team. Blackrock, which claims to have the largest stewardship team in the industry, has 45 people across seven offices who have regional presence and local expertise in 85 voting markets, according to its website.

A spokesperson for Vanguard told *Portfolio Adviser* the firm has “long considered ESG issues to be an important element of responsible investment and portfolio management practices,” adding its approach to ESG considerations is “multi-faceted” through products, investment processes and stewardship.

Vanguard has signed up to various initiatives, including the Sustainability Accounting Standards Board, Task Force on Climate-related Financial Disclosures and UN PRI, they added.

Advisers taking note of climate change

But Planworks managing director Nathan Fryer says Vanguard's latest ESG index funds are welcome additions to what is otherwise a "sparse market in the UK".

Activists like Greta Thunberg have made advisers and their clients more aware of the risks posed by climate change and the urgency of the situation, he says, and regulators, including the Financial Conduct Authority, have been stepping up pressure on the industry to take sustainability seriously.

"The FCA launched the climate financial risk forum in March 2019 which tells me that regardless of further MIFID rules, taking account of sustainability issues when providing advice will become something that is mandated rather than a nice to have."

Red Circle Financial Planning chartered financial planner Darren Cooke is sceptical about how big the demand for ESG funds from IFA clients actually is. "That said it will be good to have passive options available and try to run the high cost low performance active managers out of town," Cooke adds.

Fryer rates Vanguard's existing SRI Global Stock and SRI European Stock funds but cautions that investors need to be aware that some stocks in the portfolios "may not be at the forefront of global change".

The Vanguard ESG Developed World All Cap Equity Index Fund, for example, excludes sinful stocks like tobacco, alcohol, and non-renewable energy companies but does not exclude companies like Microsoft, Apple, Amazon and Facebook, which are the largest constituents in the FTSE Developed All Cap benchmark it follows.

Better alternatives to Vanguard out there

Sleep names Tobam and Robeco as better alternatives to Vanguard on ESG, firms which he says "talk the talk and walk the walk".

Tobam has "done all the exclusions that Vanguard talk about today ages ago and they have implemented ESG into their own affairs, with a carbon offset scheme for their office and business travel.

"Tobam is one of the largest donors in France to Human Rights Watch and Reporters without Borders and finally they have employee representation on the board and all employees own shares."

Meanwhile Robeco has a strong track record engaging with companies, selecting a handful every year to work with and improve their ESG score. He points to Robeco's work lobbying board members at Shell which delivered notable improvements.

Fryer likes EQ Investors Positive Impact portfolios for taking a different approach by investing in companies that are trying to solve global problems, noting it has some "truly meaningful stats around the difference they and their investors have made to the world".

Portfolio Adviser's sister title *ESG Clarity* revealed in May that EQ Investors had **launched a low-cost ESG model portfolio range** that invests in highly liquid ETFs and tracker funds.
