



UNMASKING GREENWASHING:

**A call to clean up
passive funds**

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TABLE OF CONTENTS

Executive summary	4
Methodology	8
1. 'Sustainable' funds contribute to the direct financing of fossil fuel expansion	10
2. The elephant in the room: passive investing	26
3. A call to action	32

EXECUTIVE SUMMARY

1 **Passive investing is a growing trend in the asset management industry**, with the volume of assets managed by passive funds now eclipsing those managed by active fund managers.¹ This investment strategy, where funds replicate the composition and returns of a representative index, such as the CAC 40, the S&P 500 or Japan's Nikkei 225, implies that securities (for example, a share of a company) are sold or bought only when there is a change in the index. As research shows,² **more passively managed assets means more and more direct financing is being spearheaded by big asset managers to the fossil fuel sector.** In fact, the five big asset managers we selected for this report based on the size of their passive portfolios³ – BlackRock, Amundi, UBS AM, DWS and Legal & General Investment Management (LGIM) – still held at least US\$227 billion in fossil fuel developers⁴ in 2023, with more than half of this amount⁵ coming from passive portfolios.

2 This growing issue is **one of the most urgent problems to tackle in relation to investors' climate impact.** On the one hand, the urgent need to reduce absolute greenhouse gas emissions at a pace consistent with the global 1.5°C trajectory⁶ requires ending any new fossil fuel projects and swiftly ending all financial support for fossil fuel expansion.⁷ On the other hand, **the growing contribution of passive funds to the funding of fossil fuel expansion remains an elephant in the room.** No one seems to be addressing the issue, and **passive funds are becoming a blindspot in asset managers' climate policies.**⁸ Indeed, in the vast majority of cases when investment restrictions are implemented for some fossil fuel companies, passive funds are left out of scope.

3 Given this blindspot and the urgency to stop fossil fuel expansion to keep global warming under 1.5°C, the problem with passive funds is critical. This report is an attempt to measure and illustrate the problem, taking the example of passive funds with 'sustainability' claims. Our research reveals that even these 'sustainable'⁹ passive funds, which we could expect to be somewhat clean, hold shares and bonds in the worst fossil fuel developers.

- **In fact, 70% of the 430 'sustainable' passive funds we analyzed were exposed to fossil fuel expansion.**
- **Focusing our analysis on the most significant of these – 25 high-profile 'sustainable' passive funds¹⁰ – we found the majority were investing in some of the world's biggest fossil fuel developers, such as ExxonMobil and Shell.**¹¹ The analysis also shows that especially when these funds are invested in bonds, they provide direct financing for fossil fuel developers.¹²

4 **Such misleading sustainability claims should be a wake-up call for institutional investors who are in danger of being implicated in organized greenwashing. It should also alarm regulators and push them to play their part in protecting investors from misleading information (including individual and pension savers), as well as to investigate these funds' methodologies.** Likewise, it should push asset managers like BlackRock, Amundi, UBS AM, DWS and LGIM to question how they are managing their assets, if even their 'sustainable' products fund fossil fuel expansion. In particular, **it should bring into question their reliance on index providers and on the methodologies behind indices.** Analyzing the indices used by the 25 high-profile 'sustainable' funds, this report concludes that **methodologies for indices making 'sustainability' claims are not standardized and can be flawed.**



5

This report shows the urgency of both the fight against greenwashing and the need to prevent funds from making misleading ‘sustainability’ claims.

We call on:

- **Asset managers**, especially members of the Net Zero Asset Manager Initiative (NZAM), to ensure they clean up their ‘sustainable’ funds. This means prioritizing efforts to ensure these funds do not contribute to new investments in companies involved in fossil fuel expansion,¹³ including their passive funds.
- **Asset owners**, especially members of the Net Zero Asset Owner Alliance (NZAOA), to engage their asset managers to ensure their assets are not supporting fossil fuel expansion, especially via any fund labeled as ‘sustainable’.
- **Regulators**, to take a series of actions to strengthen rules against greenwashing and forbid the sale of funds that support fossil fuel expansion, especially those labeled as ‘sustainable’.

6

Taking it further:

Finally, going beyond the issue of ‘sustainable’ funds, **this report explores the ways the investment industry is responding to the problem of passive funds and the limitations of its current approach.** As asset owners start to realize the need to decarbonize their passive funds,¹⁴ they are progressively shaking things up and using cleaner indices.¹⁵ And while asset managers have noticed this trend and launched more passive funds that track ‘sustainable’ indices,¹⁶ the funds that concentrate the vast majority of assets remain unchanged and continue to use mainstream fossil fuel-heavy indices.¹⁷ Asset managers argue that they do not have the ability to exclude heavy polluters from those funds¹⁸ **but they are far from having their hands tied.** Their plea of powerlessness simply does not stack up; on the contrary, **passive investing is a series of active management choices.**¹⁹ In this report, we detail some of the most efficient ways that investors can avoid blocking the shift to net zero with their passive funds. Europe’s largest asset manager, Amundi,²⁰ and its counterpart DWS²¹ are showing signs of action and are making some progress with passive funds, but there is still a long road ahead.²² We call for more direct and widespread action, both from the investment industry and from regulators.

METHODOLOGY

FOR THE RESEARCH ON 'SUSTAINABLE' PASSIVE FUNDS

Scope:

- European asset managers responsible for passive funds of more than €200 billion as of December 2022. The list includes Amundi (subsidiary of Crédit Agricole), UBS AM (subsidiary of UBS), DWS (subsidiary of Deutsche Bank) and LGIM (subsidiary of Legal & General).
- BlackRock, as the asset manager headquartered outside Europe with the biggest passive portfolio (approximately €5 trillion as of December 2022).

The report features aggregated data on the holdings of the biggest 'sustainable' passive funds of the five asset managers above.

Universe of funds:

We defined 'sustainable' funds using the Sustainable Finance Disclosure Regulation (SFDR) classification and by searching for sustainability-related keywords²³ in the name of these funds. We created a list of all the 'sustainable' passive funds managed by the five asset managers and then extracted the holdings of these funds via the Morningstar Data Services platform on November 23rd, 2023.

Identification of fossil fuel developers:

We identified fossil fuel developers among the holdings of these funds. The list of fossil fuel developers was extracted from the Global Coal Exit List (GCEL) and Global Oil and Gas Exit List (GOGEL) and comprises 1,752 parent companies that are developing either new coal projects (mines, plants, infrastructure) or new oil and gas upstream and midstream projects.

Source for the holdings data:

The holdings for the funds analyzed were extracted from the Morningstar Data Services platform on November 23rd, 2023. We analyzed a total of US\$2,648 billion in assets under management from the five asset managers. Please refer to the box 'Why couldn't we analyze a larger share of the asset managers' funds?' for more details.

“ Right now, the planet cannot afford delays, excuses, or more greenwashing. ”

UN's High Level Expert Group, 2022

1. 'SUSTAINABLE' FUNDS CONTRIBUTE TO THE DIRECT FINANCING OF FOSSIL FUEL EXPANSION

European asset managers increasingly use sustainability claims to sell their investment products. As of September 2023, US\$2.7 trillion could be found in sustainable funds worldwide, 84% of which was in Europe²⁴ – up from US\$1.5 trillion three years before.²⁵ During the third quarter of 2023, sustainable fund inflows contributed more than two-thirds of overall European fund flows.²⁶ Since mid-2022, European sustainable fund flows have been driven by passive funds, with active funds even registering their first outflows during the third quarter of 2023.²⁷

This reveals two trends:

- In Europe, sustainable funds are now becoming the main drivers of funds flows.²⁸
- Sustainable fund flows are now driven by passive funds, following the general trend towards passive investing (see section 2 for more on the passive investing trend).

With these trends in mind, we decided to take a look at the biggest 'sustainable' passive funds of the five asset managers in this report, as the market for such funds is expected to grow.

We analyzed the content and, in particular, the exposure to fossil fuel developers²⁹ of the 'sustainable' passive funds of BlackRock, Amundi, UBS AM, DWS and LGIM. Overall, we were able to access holdings information for a total of 2,877 funds and US\$2,648 billion in assets under management.³⁰ There were several reasons for which we were not able to analyze a greater proportion of the assets under management and these are described in the box 'Why couldn't we analyze a larger share of the asset managers' funds?'

Among these funds, we identified 430 that are managed passively and that are presented as taking sustainability criteria into account.³¹

Out of these 430 funds, 304 (70%) were exposed to fossil fuel expansion – we found a total of 416 fossil fuel developers in at least one of these funds. One of the 'sustainable' funds analyzed even had a record 87% exposure (in terms of market value) to fossil fuel developers.³²

- For funds for which information was available, Amundi had the highest share of 'sustainable' passive funds exposed to fossil fuel expansion (78%), followed closely by LGIM (73%), UBS AM (73%) and BlackRock (72%). DWS had a slightly lower share of exposed funds (57%).³³
- In total, **416 companies listed by the Global Coal Exit List (GCEL) or Global Oil and Gas Exit List (GOGEL) as involved in fossil fuel expansion plans were found in at least one of the 430 'sustainable' passive funds.** Among the companies we identified, there were both big oil and gas developers (e.g. ExxonMobil, TotalEnergies, Shell) but also big coal developers (e.g. Adani, Mitsubishi, Glencore). Yet, all these companies are now banned from funds labeled as sustainable or responsible by at least three European sustainable investment labels: the Belgian Towards Sustainability label, and the French Greenfin and SRI labels,³⁴ which together represent around €1,386 billion worth of funds.³⁵

For each of the asset managers in this report, we dug deeper in our analysis for the 5 biggest 'sustainable' funds (in terms of total market value)³⁶ associated with them.³⁷

Among these combined 25 high-profile 'sustainable' funds, selected for their size, 20 were exposed to fossil fuel developers (80%) and eight had at least US\$100 million in exposure to fossil fuel developers.

These results, synthesized in the tables below, reveal the widespread presence of some of the companies with the biggest plans to expand fossil fuels, calling into question the 'sustainable' nature of the 25 high-profile funds. Given the urgency of the climate crisis, which calls for the mobilization of all available levers for action, it brings confusion to investors and to the market when funds promoting 'sustainability' characteristics can continue to invest in companies that are raising their fossil fuel production growth objectives, developing new oil and gas exploration and production projects, and maintaining the majority of their investments in fossil fuel development.

Such misleading sustainability claims should be a wake-up call for institutional investors who are in danger of being implicated in organized greenwashing, and for regulators who must play their part in protecting investors from misleading information, including individual and pension savers.

Why couldn't we analyze a larger share of the asset managers' funds?

We were not able to access holding information on all the funds managed by the five asset managers in this report because the Morningstar Data Services platform only gives access to information for open funds and exchange-traded funds (ETFs). Holdings information is collected by Morningstar based on holdings communicated by asset managers. Furthermore, even for open funds and ETFs, holdings information is sometimes incomplete or does not provide a direct way to identify the underlying companies linked to the holding. We therefore excluded from our scope the market value related to index derivatives and fund of fund holdings, as we could not properly assess their exposure to certain companies (funds of funds were excluded also to avoid any possible double counting of the holdings.) This led to the exclusion of US\$346 billion from our scope.

The difficulty in accessing fund level data highlights both a transparency issue and the complexity of certain financial products, both of which limit our ability to correctly estimate the exposure of asset managers to fossil fuel companies.

Asset manager	Total market value for which we had sufficient information	Assets we excluded from our scope because of lack of sufficient information ³⁸
BlackRock	US\$1,380 billion	US\$56.3 billion
Amundi	US\$460 billion	US\$132.9 billion
UBS AM	US\$320 billion	US\$78.3 billion
DWS	US\$330 billion	US\$59.5 billion
LGIM	US\$152 billion	US\$19 billion

In a report on French investors, the French supervisor AMF noted³⁹ that fossil fuel policies failed to describe how the asset managers dealt with derivatives like total return swaps (TRS), and outlined that this type of fund could continue to indirectly finance issuers that would have been excluded under the fossil fuel criteria. The significant number of funds we found in our research that use derivatives shows the importance of addressing these cases in climate policies.



BlackRock's biggest 'sustainable'⁴⁰ passive funds and their exposure to fossil fuel expansion

72% of the 121 'sustainable' passive funds we analyzed for BlackRock were exposed to fossil fuel expansion.

Funds	Underlying index of the fund	Fund assets analyzed (million USD) ⁴¹	Exposure to fossil fuel developers (million USD) ⁴²	Fossil fuel developers found in the fund (biggest exposures) ⁴³	Stated 'sustainability'-related goal or approach of the fund (excerpt) ⁴⁴
iShares MSCI USA ESG Enhanced ETF	MSCI USA ESG Enhanced Focus CTB Index	12,202	220	Schlumberger; NextEra Energy; The Williams Companies; Kinder Morgan; Air Products and Chemicals	The Fund adopts a binding and significant ESG optimisation approach to sustainable investing.
BlackRock ACS World ESG Equity Trkr Fd	MSCI World ESG Focus Low Carbon Screened Index	9,302	499	ExxonMobil; Chevron; Shell; Hess; ConocoPhillips	n/a ⁴⁵
iShares MSCI USA SRI ETF	MSCI USA SRI Select Reduced Fossil Fuel Index	8,636	88	Cheniere Energy; Kinder Morgan	The Fund will take into account such ESG criteria only when selecting the securities to be held directly by the Fund. ⁴⁶
iShares MSCI World SRI ETF	MSCI World SRI Select Reduced Fossil Fuel Index	7,936	67	Cheniere Energy; Kinder Morgan; Pembina Pipeline; Snam; Enagas	The Fund will adopt a best-in-class approach to sustainable investing, this means that it is expected that the Fund will invest in the best issuers from an ESG / socially responsible investment ("SRI") perspective [...] within each relevant sector of activities covered by the Index.
iShares MSCI USA ESG Screened ETF	MSCI USA ESG Screened Index	5,331	140	ExxonMobil; NextEra Energy; Schlumberger; Air Products and Chemicals; Sempra Energy	The Fund will adopt a binding and significant approach to sustainable investing.

Amundi's biggest 'sustainable'⁴⁷ passive funds and their exposure to fossil fuel expansion

78% of the 104 'sustainable' passive funds we analyzed for Amundi were exposed to fossil fuel expansion.

Funds	Underlying index of the fund	Fund assets analyzed (million USD) ⁴⁸	Exposure to fossil fuel developers (million USD) ⁴⁹	Fossil fuel developers found in the fund (biggest exposures) ⁵⁰	Stated 'sustainability'- related goal or approach of the fund (excerpt) ⁵¹
Amundi IS Amundi MSCI USA SRI PAB	100% MSCI USA SRI FILTERED PAB	5,979	-	n/a	The sub-fund is a financial product that promotes among other characteristics ESG characteristics pursuant to Article 8 of the Disclosure Regulation.
Amundi IS MSCI World SRI PAB	100% MSCI WORLD SRI FILTERED PAB	4,675	-	n/a	The sub-fund is a financial product that promotes among other characteristics ESG characteristics pursuant to Article 8 of the Disclosure Regulation.
Amundi IS Euro Corporate SRI	100% BLOOMBERG MSCI EURO CORPORATE ESG SUSTAINABILITY SRI	4,199	110	Siemens; National Grid; Snam; SSE; Vier Gas Transport	The sub-fund is a financial product that promotes among other characteristics ESG characteristics pursuant to Article 8 of the Disclosure Regulation.
Amundi IS Amundi MSCI Europe SRI PAB	100% MSCI EUROPE SRI FILTERED PAB	3,240	-	n/a	The sub-fund is a financial product that promotes among other characteristics ESG characteristics pursuant to Article 8 of the Disclosure Regulation.
Amundi S&P 500 ESG ETF	100% S&P 500 ESG+ INDEX	2,633	109	Exxon Mobil; NextEra Energy; General Electric; Schlumberger; Air Products and Chemicals	The sub-fund is a financial product that promotes among other characteristics ESG characteristics pursuant to Article 8 of the Disclosure Regulation.

UBS AM's biggest 'sustainable'⁵² passive funds and their exposure to fossil fuel expansion

73% of the 73 'sustainable' passive funds we analyzed for UBS AM were exposed to fossil fuel expansion.

Funds	Underlying index of the fund	Fund assets analyzed (million USD) ⁵³	Exposure to fossil fuel developers (million USD) ⁵⁴	Fossil fuel developers found in the fund (biggest exposures) ⁵⁰	Stated 'sustainability'-related goal or approach of the fund (excerpt) ⁵⁵
UBS (Lux) FS MSCI World SRI	MSCI World SRI Low Carbon Select 5% Issuer Capped Total Return Net Index	4,336	17	ONEOK; Snam; Enagas	The product described herein aligns to Article 8 of Regulation (EU) 2019/2088.
UBS ETF S&P 500 ESG	S&P 500 ESG Index (Net Return)	3,435	169	Chevron; ConocoPhillips; General Electric; NextEra Energy; Schlumberger	This sub-fund promotes environmental and/or social characteristics but does not have a sustainable investment objective.
UBS MSCI ACWI ESG U LCS ETF	MSCI ACWI ESG Universal Low Carbon Select 5% Issuer Capped Index (Net Return)	2,724	115	Shell; NextEra Energy; TotalEnergies; Siemens; General Electric	This sub-fund promotes environmental and/or social characteristics but does not have a sustainable investment objective.
UBS ETF MSCI ACWI Socially Responsible	MSCI ACWI SRI Low Carbon Select 5% Issuer Capped with Developed Markets 100% hedged to EUR Index (Net Return)	2,262	9	ONEOK; Snam; SK Innovation Co; Enagas; Ultrapar Participações	This sub-fund promotes environmental and/or social characteristics but does not have a sustainable investment objective.
Bonds CHF Inland ESG Passive II	SBI® ESG Domestic AAA-BBB (TR)	2,103	0.7	Partners Group Holding;	n/a ⁵⁶

DWS's biggest 'sustainable'⁵⁷ passive funds and their exposure to fossil fuel expansion

57% of the 84 'sustainable' passive funds we analyzed for DWS were exposed to fossil fuel expansion.

Funds	Underlying index of the fund	Fund assets analyzed (million USD) ⁵⁸	Exposure to fossil fuel developers (million USD) ⁵⁹	Fossil fuel developers found in the fund (biggest exposures) ⁵⁰	Stated 'sustainability'- related goal or approach of the fund (excerpt) ⁶⁰
Xtrackers ESG MSCI USA UCITS ETF	MSCI USA Low Carbon SRI Leaders	6,200	15	Cheniere Energy	The fund promotes environmental and social characteristics [...] in accordance with article 8(1) of Regulation (EU) 2019/2088.
Xtrackers ESG MSCI World UCITS ETF	MSCI World Low Carbon SRI Leaders	3,294	6	Cheniere Energy	The fund promotes environmental and social characteristics [...] in accordance with article 8(1) of Regulation (EU) 2019/2088.
Xtrackers II EUR Corp Bond SRI PAB ETF	Bloomberg MSCI Euro Corporate SRI PAB	2,422	31	Siemens AG; General Electric Company; Air Products and Chemicals	The fund promotes environmental and social characteristics [...] in accordance with article 8(1) of Regulation (EU) 2019/2088.
Xtrackers MSCI AC World ESG Screened ETF	MSCI ACWI Select ESG Screened Index	2,184	114	ExxonMobil; Shell; TotalEnergies; NextEra Energy	The fund promotes environmental and social characteristics [...] in accordance with article 8(1) of Regulation (EU) 2019/2088.
Xtrackers ESG MSCI Japan UCITS ETF	MSCI Japan Low Carbon SRI Leaders	1,478	-	n/a	The fund promotes environmental and social characteristics [...] in accordance with article 8(1) of Regulation (EU) 2019/2088.

LGIM's biggest 'sustainable'⁶¹ passive funds and their exposure to fossil fuel expansion

73% of the 48 'sustainable' passive funds we analyzed for LGIM were exposed to fossil fuel expansion.

Funds	Underlying index of the fund	Fund assets analyzed (million USD) ⁶²	Exposure to fossil fuel developers (million USD) ⁶³	Fossil fuel developers found in the fund (biggest exposures) ⁵⁰	Stated 'sustainability'- related goal or approach of the fund (excerpt) ⁶⁴
L&G Cyber Security ETF	ISE Cyber Security® UCITS Index Net Total Return	2,334	-	n/a	The Fund promotes a range of environmental and social characteristics which are met by tracking the Index.
L&G Future World ESG Developed Index Fd	Solactive L&G Enhanced ESG Developed Markets Index NTR	2,017	68	Shell; BP; ConocoPhillips; Siemens AG; Chevron	[...] This means the Fund will invest more in companies that score well against the Manager's proprietary ESG criteria, and less in companies that do not.
L&G ESG Paris Aligned World Eq Idx Fd	Solactive L&G Developed Market Paris Aligned ESG SDG Index	1,873	8	Siemens AG; Blackstone; Dow	The objective of the Fund is to provide low carbon emission exposure in view of achieving the long- term global warming objectives of the Paris Climate Agreement.
L&G US ESG Exclsn Paris Aligned ETF	Foxberry Sustainability Consensus US Total Return Index	1,841	18	NextEra Energy; Air Products and Chemicals; Blackstone	The Fund has a sustainable investment objective as it invests in companies which (i) contribute to environmental objectives, (ii) do not significantly harm any environmental or social objectives, and (iii) follow good governance practices.
L&G ESG Emerg Mkts Govt Bd (USD) Idx Fd	JPMorgan ESG Emerging Markets Bond Index (EMBI) Global Diversified	1,665	19	PT Pertamina (Persero); Empresa Nacional del Petroleo (ENAP); State Oil Company of the Azerbaijan Republic	The Fund promotes a range of environmental and social characteristics which are met by tracking the Index.

As 'sustainable' passive funds are growing in number, **the presence of so many fossil fuel developers in the biggest of these funds should alarm investors and regulators and push them to investigate these funds' methodologies.**

Are asset managers relying on flawed methodologies?

For the 25 funds listed in the tables above, we took a close look at the methodologies they used to take into account 'sustainability' characteristics. As all these funds are managed passively (see section 2 for more details on passive investing), the investment strategy they use is to track indices and invest accordingly. Therefore, in most cases, the asset managers refer to the methodology of the indices that are tracked to explain how the fund is taking 'sustainability' characteristics into account. In a few cases, they also indicate adding additional criteria to the indices' methodologies.⁶⁵

Our analysis of the indices followed by the 25 funds revealed that **methodologies for indices making 'sustainability' claims are not standardized and can be flawed.** The methodologies are not based on science-based criteria defining red lines for companies, even for the fossil fuel sector. **None of them deal specifically with the presence in the index of companies involved in fossil fuel expansion (such as, at least, identifying them**

clearly) nor exclude companies on the basis of their fossil fuel expansion plans. The most used approach among the analyzed indices is a best-in-class approach relying on ESG ratings (companies with the worst ratings are excluded) combined with poorly-designed fossil fuel exclusions.

This approach has significant flaws:

- The best-in-class approach is not designed to assess the actual impact of a company on environmental, social or governance issues.⁶⁶ It does not provide any guarantee that the companies that are failing to meet science-based minimum redlines⁶⁷ are not (or even less) present in the fund.
- Furthermore, while all the index methodologies analyzed had minimal criteria for the inclusion of fossil fuel companies, most of the different criteria used are not relevant to ensure that the companies are reducing their greenhouse gas emissions at a pace consistent with the global 1.5°C trajectory.⁶⁸ For example, criteria to exclude all companies deriving less than 10% of their revenues from unconventional oil and gas means that companies such as ExxonMobil are still included, despite being the sixth top global oil and gas upstream developer. None of the criteria analyzed allowed the exclusion of all of the companies developing the biggest new oil and gas exploration and

production projects, and/or raising fossil fuel production growth objectives, and/or maintaining the majority of their investments in fossil fuel development.

In order for portfolios to align with net-zero claims, investors will have to ensure index methodologies are standardized and strengthened, and that indices with 'sustainability' claims do not contain companies which continue activities that are incompatible with limiting global warming to 1.5°C.

But the issue highlighted by our research goes beyond the quality of 'sustainable' funds. It raises the question of the responsibility of asset owners and asset managers more generally in the context of the climate emergency. **If more and more money is flowing to passive funds, but investors don't know how to decarbonize such funds, isn't it irresponsible that investors' climate policies seem to be ignoring their passive products?**

The lack of regulation for funds with 'sustainability' claims

Over the past years, a series of revelations around the content of 'sustainable' funds has resulted in investor confusion and frustration⁶⁹ following the discovery of the presence of some of the world's most polluting companies.

In Europe, the failure of the SFDR to provide robust categorization revealed the need for minimal criteria on sustainability, pushing national regulators such as the French AMF to call for strong fossil fuel exclusions.⁷⁰

While voluntary sustainable fund labels are starting to tackle the issue of fossil fuel expansion (the French SRI label or the Belgian Towards Sustainability label now exclude fossil fuel developers, for example), not all voluntary labels include such criteria and, even still, they are no substitute for rules applying to all funds.⁷¹ Indeed, voluntary labels don't prevent the sale of funds with sustainability claims in their names or documentation but which still invest in companies that breach the stated objectives.

As a result, **'sustainable' funds in general need minimum standardized mandatory criteria.** It is the responsibility of regulators to adopt binding measures that include an explicit statement on minimum requirements for all funds making environmental or ESG claims. **European regulators should ensure new measures bring all products claiming to be 'sustainable' into line with European climate objectives, notably by excluding any contribution to the development of fossil fuels.** For those measures to be effective, they will have to apply to all types of fund – in particular funds that are passively managed.⁷² National authorities and regulators should also act at their own level to sanction greenwashing.



2. THE ELEPHANT IN THE ROOM: PASSIVE INVESTING

The funds displayed in the tables above are all passively managed. This means that they replicate the composition⁷³ and returns of an index, such as the S&P 500, FTSE 100, or CAC 40, and that they buy or sell securities (e.g. shares or bonds) only when there is a change in the index tracked.

As we showed in the first section of this report, it is urgent that 'sustainable' passive

funds become cleaner and, in particular, strongly limit investments in companies which continue activities that are incompatible with limiting global warming to 1.5°C.

But achieving this implies that asset managers will have to take a different approach to their passive portfolios – instead of leaving passive funds out, they must fully integrate them in their climate policies.

KEY FIGURES

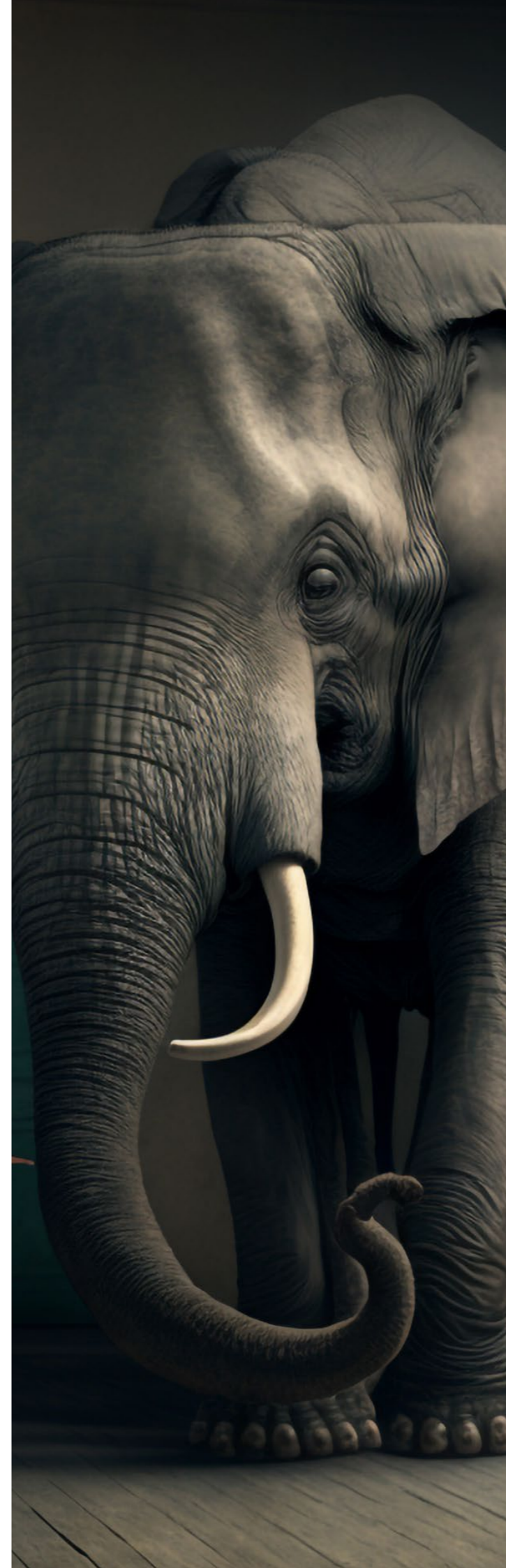
Passive investing is growing rapidly

- From 2006 to 2018 almost US\$3,200 billion have flowed out of actively managed equity funds globally, while over US\$3,100 billion have flowed into index equity funds.⁷⁴
- In 1995, just 3% of the total US mutual fund and ETF assets were managed passively.⁷⁵ This share had increased to 41% as of March 2020.
- In Europe, 22 out of the 30 largest asset managers experienced stronger growth in passive funds than in active funds between 2014 and 2023.⁷⁶
- By some measures, the volume of assets managed by passive funds now eclipses those managed by active fund managers.⁷⁷

Passive investing could mean that individual savers and pension contributors have increasingly less voice on what and how they invest

- Passive investing has strong implications for corporate governance, corporate power, and market competition. It has in large part propelled a shift that saw "the rise of a cohort of asset management titans and a corresponding concentration of corporate ownership and control".⁷⁸

- It is also putting index providers into a "new position of private authority in global capital markets",⁷⁹ as index funds delegate their investment decisions to index providers and since index providers have significant discretion in devising their methodologies.⁸⁰ Especially three firms – MSCI, S&P Dow Jones, and FTSE Russell – dominate the index business⁸¹ and exert de facto regulatory power.⁸²



- If passive investing has been described as heralding 'asset manager capitalism',⁸³ it also means that power is shifting ever more towards financial intermediaries and farther from individual savers and pension contributors.⁸⁴

Passive investing means automatic direct financing for fossil fuel companies

Passive funds hold a unique position in the allocation of both capital and decision-making power within our economies. But this is even more true when it comes to the most pivotal sectors in terms of climate. In the UK, for example, the fossil fuel sector appears to be the only major sector for which passive funds constitute more than 40% of fund ownership.⁸⁵

And as evidenced by recent research on the role of passive funds in carbon-intensive capital markets,⁸⁶ **passive funds not only hold fossil fuel assets, but directly finance them** by buying large quantities of new bonds as they are issued by fossil fuel companies on the primary market. The research shows that there is a direct link between the portfolio holdings of passive funds and their investments in newly issued bonds – including in their primary market investments – meaning there is also a clear link with direct financing of companies. And for carbon-intensive sectors, the study suggests that new bonds will increasingly be bought by passive funds as active investors avoid riskier carbon-intensive assets. As primary markets are critical for generating investment impact with respect to environmental goals, **asset owners concerned about systemic climate risks should consider the links between their portfolio holdings (what they hold) and portfolio flows (where money is actually flowing to a company).**⁸⁷

The blindspot: asset managers' climate policies ignore passive funds

As passive funds become more and more popular, it is increasingly important that they are not left out of climate policies or go

ignored. But our policy analysis shows that **asset managers tend to restrict the scope of application of their fossil fuel sector policies.** This is particularly true in the case of passive funds; the elephant in the room when it comes to an asset manager's climate impacts. For example, as of 2023, out of 20 big asset managers that had a coal sector policy, only one applied it to more than 50% of its passive funds.⁸⁸ As a result, large swaths of assets escape any investment restrictions.

This being said, while existing climate

policies tend to ignore passive funds, it is also important to point out that **investments in fossil fuel expansion via passive funds are also the consequence of the wider problem of the absence for some asset managers of any fossil fuel policy at all** – regardless of the active or passive investment style. This is especially true for the oil and gas sector, where very few asset managers have made a clear commitment to stop investing in new bonds from oil and gas developers⁸⁹ and to systematically take voting action against the management of these companies.



The absence of robust fossil fuel policies encourages the widespread presence of fossil fuel developers in passive funds

Summary analysis of the commitments made by each of the five asset managers in this report:⁹⁰

Asset manager	Has committed to stop investing in new bonds from coal developers?		Has committed to stop investing in new bonds from oil and gas developers?		Has committed to vote against director re-elections of fossil fuel developers?
	Active funds	Passive funds	Active funds	Passive funds	All funds
BlackRock	✗	✗	✗	✗	✗
Amundi	✓	~	✗	✗	~ ⁹¹
UBS AM	✗	✗	✗	✗	✗
DWS	✓	~	✗	✗	✗
LGIM	✗	✗	✗	✗	~

Some asset managers have started to take steps on the issue of passive funds. For example, as reflected in the table above, Amundi and DWS are applying their coal exclusions to a portion of their passive funds⁹² as well as slowly starting to change the indices they use for some of these funds.⁹³

But as the data in this report shows, **there is still a long way to go in order for these asset managers to stop supporting fossil fuel expansion.** Even for coal, with some asset managers having made commitments to fully exit the sector, the problem is far from being solved. For example, both Amundi and DWS

have made a commitment to exit coal⁹⁴ but are still investing in companies like Adani,⁹⁵ regardless of its continued coal expansion plans and revelations of fraud, insider trading, money laundering and human rights violations.⁹⁶

In short, passive funds should not go ignored by investors, as they concentrate a significant share of investments flowing to fossil fuel expansion. **For flagship index funds,⁹⁷ which concentrate most assets, it is crucial that asset managers gradually change their products, starting with the ones that make 'sustainability' claims.** If they fail to do so, they will remain the biggest buyers of new fossil fuel assets, particularly via their passive funds.

Asset managers are far from being powerless

Confronted with the impact of their passive funds, asset managers will often answer that

they are not allowed to exclude companies because of the way passive management works. They will also argue that they are engaging companies and therefore do not need the threat of exclusion to push companies to improve.

- **Claim:** Asset managers are not allowed to exclude companies from their passive funds because of the way passive management works.

» **Debunked:** Passive funds might be tied to an index, but passive investing is a series of active management choices.

Asset managers with passive portfolios ultimately decide which products they want to offer to investors. The claim that they cannot be selective about the companies that are in their 'passive' funds is not entirely true. **Asset managers could be more selective and more active in solving this problem.** In fact, asset managers such as Amundi and DWS are increasingly recognizing that they

can and should engage index providers on index changes, if they want to comply with their net-zero commitments. **It is part of the role of asset managers to participate in actively setting the standards for what should and should not be in an index.** And as their biggest funds seem to be using a limited number of index providers,⁹⁸ they could focus their efforts on a limited number of firms and achieve significant impact. For example, 18 out of the 25 indices we analyzed are provided by MSCI⁹⁹ – while not all MSCI indices use the same criteria, it nonetheless highlights the importance of the methodological choices made by index providers.

- **Claim:** Asset managers are engaging companies and therefore do not need the threat of exclusion to push companies to improve.

» **Debunked:** Today's engagement strategies lack credibility

In the case of the 'sustainable' funds analyzed in this report in which companies with massive fossil fuel expansion plans are present, the engagement claim is hard to hold. Two recent Reclaim Finance reports showed that the engagement approaches

of the vast majority of asset managers are not credible because of the absence of public and systematic escalation strategies. These types of strategies are necessary in order to avoid getting stuck in endless and ineffective dialogue with these companies.¹⁰² Regarding voting practices, we showed that most asset managers continued to support companies' fossil fuel expansion plans because of flawed voting policies and a failure to translate words into action via their votes at annual general meetings (AGMs).¹⁰³ Furthermore, even if voting practices were more aligned with the will to push companies to drop the development of new fossil fuel projects,¹⁰⁴ asset managers would still need to tackle the fact that their passive funds continue to automatically invest in these same companies. Investments like these are particularly problematic when it comes to bond investments, where other levers for action are available and therefore should be used. Indeed, as one of the most powerful tools for investors to change corporate behavior is the threat of exclusion from an index,¹⁰⁵ ignoring the option decreases their chances of having an impact on real-economy emissions.

While DWS still invests in coal expansion via some of its passive funds, the asset manager is also calling for an exclusion of coal developers from indices

DWS Group (Robin Braun, Senior Business Manager for Responsible Investment):¹⁰⁰

Engaging with index providers is "an option we still have". DWS "plans to work with index providers in coming years to see whether they can alter the composition of their indices to be, for example, more in line with a Net Zero pathway." Adding that "such discussions will be an important part of DWS' shift to Net Zero."

DWS Coal Policy, 2023:¹⁰¹

"Regarding passive products, DWS is committed to, and already engaging with index providers on excluding coal developers and phasing out coal companies from climate, ESG and, wherever possible, mainstream benchmarks, improving disclosure and expanding Net Zero index solutions. The existence of suitable indices and agreement of a majority of investors to transition their exposure is a pre-requisite to converting existing and offering new passive funds in line with this Policy [...]."



3. A CALL TO ACTION

Asset managers with 'passive' portfolios should ensure that companies involved in fossil fuel expansion do not benefit unconditionally from their passive investments. They should clearly outline how they will stop supporting fossil fuel expansion, including via passive funds. As an urgent and minimal first step, asset managers should commit not to launch any new 'sustainable' funds without investment restrictions for fossil fuel developers, and ensure existing 'sustainable' funds implement these restrictions, including their passive funds. This implies a series of measures they can take, which starts by identifying all fossil fuel developers¹⁰⁶ in these funds.

Priority measures include:

- Voting against the re-election of Board members at companies involved in fossil fuel development as soon as this year;
- Engaging with other asset managers to ask index providers to identify and exclude fossil fuel laggards from all 'sustainable' indices (and also mainstream ones);
- Offering incentives for asset owners to switch to cleaner funds;
- Repositioning their funds, which means progressively switching the indices they use for cleaner ones (a measure that should also be applied to mainstream funds).

Other financial stakeholders must be ready to step in to tackle and prevent greenwashing.

- **Asset owners**, especially members of the Net Zero Asset Owner Alliance (NZAOA), must push asset managers to adopt rules for their passive funds to ensure their assets are not being put into funds that support fossil fuel expansion, especially in the case of any fund labeled as 'sustainable'.
- **Regulators** should:
 1. Forbid the sale of funds with sustainability claims that invest in companies developing new fossil fuel projects or companies involved in activities that are harmful in climate, environmental and/or social terms, in line with the «Do no significant harm» (DNSH) principle.
 2. Improve the readability of European savings funds by introducing simple indicators that are easily identifiable at every stage of the investment decision and readily understood by the general public,¹⁰⁷ which would attest to their financial non-participation in controversial activities in climate, environmental and/or social terms, in line with the «Do no significant harm» (DNSH) principle.
 3. Establish a clear definition of greenwashing and set up systematic controls and sanctions based on it. Cases of greenwashing at entity level must include the adoption of fossil fuel sectoral policies that do not apply to passively managed portfolios.



References

1. The total assets under management in exchange-traded funds (ETFs) and notes along with passively managed mutual funds reached a combined US\$13.29 trillion at the end of December 2023, nudging above the US\$13.23 trillion held in active assets, according to Morningstar. In Europe, while the absolute amount of passively managed assets is still smaller than the amount in active funds, Morningstar reported significant inflows for index funds and net outflows for actively managed funds in 2023.
2. [Investigating the role of passive funds in carbon-intensive capital markets: Evidence from U.S. bonds](#). Christian Wilson, Ben Caldecott, 2023. The findings indicate that “the continued growth in passive funds could support carbon-intensive capital flows”. Reclaim Finance’s 2023 report [Who’s managing your future? An assessment of asset managers’ climate action](#) finds that when asset managers do have policies that exclude some fossil fuel companies, these policies are not applied to passive funds.
3. These asset managers were also selected for their presence in Europe.
4. As of January 2023. Source: [Who’s managing your future? An assessment of asset managers’ climate action](#). Reclaim Finance, 2023. “Fossil fuel developers” refers to companies still developing new fossil fuel projects.
5. As it is impossible to access information on the holdings of all asset manager funds, we can only estimate the share of the fossil fuel exposure coming from passive funds. Of the assets of the five asset managers included in this report for which we were able to access holdings data via Morningstar, the total exposure to fossil fuel developers amounted to US\$101 billion, with 62% of this amount coming from passively managed funds.
6. To maintain a 50% chance of limiting global warming to under 1.5°C, emissions must stay below 500 gigatonnes of carbon dioxide (GtCO₂) after January 1st, 2020. This volume will likely be exceeded before 2030 if current emissions trends continue. Estimates for the remaining carbon budget are provided by the IPCC in its AR6 WGIII Report. The carbon budget for a 67% chance of meeting the 1.5°C target is only 400 GtCO₂. About 410 GtCO₂ were emitted between 2010 and 2019 alone. According to the IPCC, to keep global warming under 1.5°C, emissions must peak by 2025, fall by 43% by 2030 and by 84% by 2050.
7. The current plans of oil and gas companies – and notably the programmed increase of production via the development of new fields and infrastructures – are at odds with the goal of limiting global warming to 1.5°C. As the [IEA recently pointed out](#), oil and gas companies face “a moment of truth” and must urgently shift their business models or progressively disappear.
8. See the key findings in the [Scorecard on asset managers, fossil fuels and climate change](#). Reclaim Finance, 2022. The report found that while more than €17 trillion of assets were managed ‘passively’ by the 30 asset managers, none of them applied their exclusion rules to all these assets. Only one asset manager (BNP Paribas AM) with a very small ‘passive’ portfolio applied its fossil fuel policies to more than 50% of its ‘passive’ assets.
9. See Methodology section for more details on how we defined and selected funds with ‘sustainability’ claims.
10. The 25 biggest of these ‘sustainable’ passive funds account for US\$122 billion of assets in total from a range of individual and institutional investors.
11. ExxonMobil is the 6th top global oil and gas upstream developer, Shell is ranked the 12th. For more details see the [Assessment of oil and gas companies’ climate strategy](#). Reclaim Finance, 2023
12. [Evidence-based climate impact: A financial product framework](#). Ellen Quigley, 2023. See also [Investigating the role of passive funds in carbon-intensive capital markets: Evidence from U.S. bonds](#). Christian Wilson, Ben Caldecott, 2023.
13. Especially for fixed income funds, which contribute to the direct financing of companies.
14. With more and more assets being managed passively, big chunks of investments end up tracking indices that are heavy on fossil fuels. Asset owners are realizing this will be a problem if they want to be part of the global drive to reach net-zero emissions.
15. See [Asset owners shake up passive funds on the way to going green](#). Reuters, 2022. Or [Cambridge 1.5°C-aligned corporate bond index](#). Partners for a New Economy, 2023.
16. [Morningstar: passive funds rapidly entering the ESG investment space](#). Net Zero Investor, 2023.
17. [Evidence-based climate impact: A financial product framework](#). Ellen Quigley, 2023.
18. [Passive investors’ hands aren’t tied on fossil fuels](#). Responsible Investor, 2021.
19. Firstly, there are no legal requirements for index funds to exactly match the underlying index’s composition; it is a business choice to launch such funds. Second, indices can change, and this has already started happening. Even if many of the funds being launched are based on better benchmarks, asset managers need to tackle existing “broad market” funds that regroup the vast majority of assets. Read more in Reclaim Finance’s 2021 opinion piece in ESG clarity, An inconvenient truth: How passive investing is blocking climate progress.
20. Shortly after Amundi announced its plans to increase its passive portfolio and faced criticism regarding the deal’s impact on the climate, the asset manager explained to the Financial Times: “we believe it’s possible to integrate ESG objectives within passive investing. ... We already do this with our ETFs, where we’ve committed to ensuring 40 per cent of our passive funds are ESG funds. It just depends on the index you use.”
21. The coal policy of DWS, a subsidiary of Deutsche Bank, indicates: “Regarding passive products, DWS is committed to, and already engaging with index providers on excluding coal developers and phasing out coal companies from climate, ESG and, wherever possible, mainstream benchmarks, improving disclosure and expanding Net Zero index solutions. The existence of suitable indices and agreement of a majority of investors to transition their exposure is a pre-requisite to converting existing and offering new passive funds in line with this Policy [...]” Here DWS is acknowledging that its coal policy is not applied to its passive funds, a common practice among asset managers.
22. For example, both asset managers remain exposed to Adani and Glencore, despite the coal expansion plans of these companies.
23. ESG ; Sustainability ; Sustainable ; SRI ; Global Impact ; Climate ; Environment ; Environmental ; Carbon transition ; Energy transition ; Climate transition ; Environmental transition ; Environment transition ; Sustainable transition ; Paris aligned ; Low carbon ; Carbon neutral ; Carbon aware ; Carbon constrained ; Carbon efficient ; Fossil fuel free ; Fossil fuel reserves free ; Fossil free ; Fossil fuel screened ; Clean power ; Clean energy ; Green power ; Green energy ; ISR ; Sust ; Global Impact ; Green ; Clean ; Green ; PAB ; CTB ; ESR ; Durable.
24. [Global Sustainable Fund Flows: Q4 2023 in Review](#). Morningstar, 2023.
25. While 2021 showed a vast increase in sustainable fund assets (US\$3.9 trillion in Q3 2021), this is largely due to the effect of the SFDR.
26. [Global Sustainable Fund Flows: Q4 2023 in Review](#). Morningstar, 2023.
27. Ibid.
28. Morningstar defines sustainable funds as funds claiming by prospectus or other regulatory filings to focus on sustainability, impact, or on environmental, social and governance factors.
29. Companies with fossil fuel expansion plans. The list of fossil fuel developers was extracted from the GCEL and GOGEL and comprises 1,752 companies that are either coal developers or upstream and/or midstream oil and gas project developers.
30. As of November 24th, 2023. We were not able to access information on more funds because holdings information is available only for open funds and ETFs, and because our data provider, the Morningstar Data Services platform, collects information based on holdings communicated by asset managers.
31. See Methodology section for details on how we identified such funds.
32. A fund managed by Amundi has an exposure of more than US\$300 million in companies with fossil fuel expansion plans (as of November 24th, 2023, and according to the Morningstar Data Services platform).

33. As we were able to access holdings information only for a limited amount of funds, these shares should only be considered as estimations.
34. The government-backed SRI label was updated in December 2023 and now excludes companies developing new coal projects or new upstream oil and gas production projects. See Reclaim Finance's full analysis [here](#).
35. As of December 2021.
36. The value of all the holdings in the fund for which Morningstar provides sufficient information. It may differ from the total market value of the fund, as we have excluded the market value related to index derivatives and fund of fund holdings, as there is no direct way to identify which underlying companies are linked to them.
37. We considered the five biggest funds per asset manager. They were selected on the basis of their market value and of the availability of holding information on the Morningstar platform for such funds.
38. Lack of sufficient information: for example in the cases of total return swaps or funds of funds.
39. [Les engagements climatiques des institutions financières françaises](#). ACPR-AMF, 2020.
40. Funds that present themselves as taking sustainability criteria into account. See Methodology section for details on how we identified such funds.
41. The source for this data is Morningstar, as of November 24th, 2023. The market value of the fund refers to the value of all the holdings in the fund for which we were able to access sufficient information. It may differ from the total market value of the fund indicated in the fund's latest documentation, as we have excluded the market value related to index derivatives and fund of fund holdings. These holdings are considered out of scope for this report, as there is no direct way to identify which underlying companies are linked to them.
42. The source for this data is Morningstar, as of November 24th, 2023. The exposure of the fund to fossil fuel developers refers to the value of the holdings linked to fossil fuel developers. The list of fossil fuel developers was extracted from the GCEL and GOGEL and comprises 1,752 parent companies that are either coal developers or upstream and/or midstream oil and gas project developers.
43. The five biggest exposures for each fund (or less, if there were less than five fossil fuel developers in the fund).
44. Information taken from the KIID or the prospectus of the fund, within the sections on the fund's objectives.
45. We were not able to identify in the objectives of the fund a clear statement related to the 'sustainability' claims found in the name of the fund.
46. This sentence refers to the ESG criteria of the index.
47. See Methodology section for details on how we identified such funds.
48. The source for this data is Morningstar, as of November 23rd, 2023. The market value of the fund refers to the value of all the holdings in the fund for which we were able to access sufficient information. It may differ from the total market value of the fund indicated in the fund's latest documentation, as we have excluded the market value related to index derivatives and fund of fund holdings. These holdings are considered out of scope for this report, as there is no direct way to identify which underlying companies are linked to them.
49. The source for this data is Morningstar, as of November 23rd, 2023. The exposure of the fund to fossil fuel developers refers to the value of the holdings linked to fossil fuel developers. The list of fossil fuel developers was extracted from the GCEL and GOGEL and comprises 1,752 parent companies that are either coal developers or upstream and/or midstream oil and gas project developers.
50. Based on the information available as of November 23rd, 2023. "n/a" means that no exposure to fossil fuel developers was found for this fund.
51. Information taken from the KIID or the prospectus of the fund, within the sections on the fund's objectives.

52. See Methodology section for details on how we identified such funds.
53. The source for this data is Morningstar, as of November 24th, 2023. The market value of the fund refers to the value of all the holdings in the fund for which we were able to access sufficient information. It may differ from the total market value of the fund indicated in the fund's latest documentation, as we have excluded the market value related to index derivatives and fund of fund holdings. These holdings are considered out of scope for this report, as there is no direct way to identify which underlying companies are linked to them.
54. The source for this data is Morningstar, as of November 24th, 2023. The exposure of the fund to fossil fuel developers refers to the value of the holdings linked to fossil fuel developers. The list of fossil fuel developers was extracted from the GCEL and GOGEL and comprises 1,752 parent companies that are either coal developers or upstream and/or midstream oil and gas project developers.
55. Information taken from the KIID or the prospectus of the fund, within the sections on the fund's objectives.
56. We were not able to identify in the objectives of the fund a clear statement related to the 'sustainability' claims found in the name of the fund.
57. See Methodology section for details on how we identified such funds.
58. The source for this data is Morningstar, as of November 24th, 2023. The market value of the fund refers to the value of all the holdings in the fund for which we were able to access sufficient information. It may differ from the total market value of the fund indicated in the fund's latest documentation, as we have excluded the market value related to index derivatives and fund of fund holdings. These holdings are considered out of scope for this report, as there is no direct way to identify which underlying companies are linked to them.
59. The source for this data is Morningstar, as of November 24th, 2023. The exposure of the fund to fossil fuel developers refers to the value of the holdings linked to fossil fuel developers. The list of fossil fuel developers was extracted from the GCEL and GOGEL and comprises 1,752 parent companies that are either coal developers or upstream and/or midstream oil and gas project developers.
60. Information taken from the KIID or the prospectus of the fund, within the sections on the fund's objectives.
61. See Methodology section for details on how we identified such funds.
62. The source for this data is Morningstar, as of November 24th, 2023. The market value of the fund refers to the value of all the holdings in the fund for which we were able to access sufficient information. It may differ from the total market value of the fund indicated in the fund's latest documentation, as we have excluded the market value related to index derivatives and fund of fund holdings. These holdings are considered out of scope for this report, as there is no direct way to identify which underlying companies are linked to them.
63. The source for this data is Morningstar, as of November 24th, 2023. The exposure of the fund to fossil fuel developers refers to the value of the holdings linked to fossil fuel developers. The list of fossil fuel developers was extracted from the GCEL and GOGEL and comprises 1,752 parent companies that are either coal developers or upstream and/or midstream oil and gas project developers.
64. Information taken from the KIID or the prospectus of the fund, within the sections on the fund's objectives.
65. For example, the prospectus of the fund AMUNDI INDEX MSCI USA SRI PAB indicates: "The Product strategy is also relying on systematic exclusions policies (normative and sectorials) as further described in Amundi Responsible Investment policy."
66. See [Reclaim Finance's analysis on ESG ratings](#). The best-in-class approach also does not give any guarantee that certain guardrails are in place to ensure that the companies with the highest negative impacts on certain ESG aspects will be excluded.
67. Redlines aimed at ensuring that the companies' absolute emissions are reduced at a pace

- consistent with the global 1.5°C trajectory.
68. The absolute emissions of individual companies must be reduced at a pace consistent with the global 1.5°C trajectory, and notably must halve by 2030 and reach carbon neutrality by 2050 at the latest. Read more [here](#).
 69. [La grande tromperie des fonds d'investissement "verts"](#). Le Monde, 2022. See also the full results at [The Great Green Investment Investigation](#). Follow The Money, 2022. Article 9 funds under the SFDR were singled out by the investigation for their exposure to fossil fuel companies.
 70. [Proposal for minimum environmental standards for financial products belonging to the Art.9 and 8 categories of SFDR](#). AMF, 2023.
 71. For example, in the context of the new criteria of the French SRI label, there were heated debates about passive funds. Since it may be more demanding for passive funds to apply the new criteria, [there are some concerns](#) that asset managers like BlackRock and Amundi will no longer use the SRI label for their passive funds.
 72. In 2020, the EU introduced the EU Climate Transition Benchmarks Regulation. It introduced sustainability-related disclosures for two benchmarks, the PAB and the CTB. While these benchmarks – in particular the PAB – are based on a set of minimum criteria, they do not solve the problem of greenwashing in passive funds because (i) the criteria are inadequate and (ii) the benchmarks are voluntary and do not apply to all passive funds claiming to be sustainable. In January 2024, the UK regulator published labels within new regulations designed to tackle claims of 'greenwashing' by preventing asset managers from making misleading sustainability statements. Because of how the guidelines are built, the new rules will not apply to most passive funds sold in the UK (the regulator's labels will only apply to UK-domiciled funds and UK-listed ETFs are domiciled abroad).
 73. The exact composition of the index is not always replicated by the fund, as different types of replication exist (e.g. physical or synthetic).
 74. [Steering capital: the growing private authority of index providers in the age of passive asset management](#), Petry, Fichtner, Heemskerk, 2021. [The implications of passive investing for securities markets](#), Sushko & Turner, Citation 2018.
 75. [The Shift from Active to Passive Investing: Potential Risks to Financial Stability?](#) Anadu, Kenechukwu, Mathias Kruttli, Patrick McCabe, and Emilio Osambela, 2020.
 76. According to a Morningstar study cited in [HSBC AM takes lead in 'foundational' European shift to passive](#). Financial Times, November 9th, 2023.
 77. [End of Era: Passive Equity Funds Surpass Active in Epic Shift](#), Gittelsohn, 2019. [Active managers kept losing out to passive, even after markets crashed](#), Whyte, 2021.
 78. [The Passive Revolution](#). Common Wealth, 2022.
 79. [Steering capital: the growing private authority of index providers in the age of passive asset management](#). Johannes Petry, Jan Fichtner & Eelke Heemskerk, 2021.
 80. Robertson, Citation 2019b.
 81. [The Passive Revolution](#). Common Wealth, 2022.
 82. [Steering capital: the growing private authority of index providers in the age of passive asset management](#). Johannes Petry, Jan Fichtner & Eelke Heemskerk, 2021.
 83. Braun, Citation 2021.
 84. This shift privileges index-related events that in themselves contain no new information to market actors. For example, inclusion in an index alone generates automatic price changes for the stock in question. The move towards index investing also means that corporate governance is increasingly shaped by a small number of economic agents with no real skin in the economic game and who arguably have even less interest in engaging with management than their active counterparts (Braun, Citation 2021).
 85. [The Passive Revolution](#). Common Wealth, 2022.
 86. [Investigating the role of passive funds in carbon-intensive capital markets: Evidence from U.S. bonds](#). Christian Wilson, Ben Caldecott, 2023.
 87. Busch et al., 2021; Caldecott et al., 2022.
 88. [Who's Managing Your Future? An assessment of asset managers' climate action](#). Reclaim Finance, 2023.
 89. Best practices include Ofi Invest, Tikehau, Ecofi and Anaxis.
 90. For more details, please refer to the [Coal Policy Tracker](#) and the [Oil and Gas Policy Tracker](#).
 91. Amundi's Responsible Investment Policy notes that "Amundi applies escalation measures which consist of voting against the discharge of the Board or management, or against the re-election of the Chairman and certain directors" for thermal coal companies excluded from its active funds. Nonetheless, Amundi does not apply a similar rule for oil and gas developers.
 92. Specifically, ESG passive funds for Amundi and physically replicating passive funds for DWS.
 93. Amundi recently changed the indices for some of its passive funds to track ESG indices.
 94. See the [Coal Policy Tracker](#) for more details on their policies.
 95. As of January 2023, Amundi held at least US\$345 million in Adani and Glencore and DWS held US\$229 million in the same two companies.
 96. For example, see [this letter](#) sent to Adani's bondholders asking them to deny debt to Adani.
 97. Index funds that rely on mainstream benchmarks, such as the MSCI World.
 98. Index providers are the companies that design and calculate indices.
 99. Two of these 18 indices are provided by Bloomberg and MSCI jointly.
 100. [DWS says engaging with index providers will be important part of Net Zero shift](#). Responsible Investor, 2021.
 101. [DWS Coal Policy](#). DWS, April 2023.
 102. [Who's Managing Your Future? An assessment of asset managers' climate action](#). Reclaim Finance, 2023.
 103. Key strategic resolutions to influence a company's climate strategy are re-election of directors, approval of remuneration, and approval of financial statements. See our [report](#) for more details.
 104. New coal, oil and gas production projects, coal power projects and oil and gas midstream infrastructures.
 105. [Evidence-based climate impact: A financial product framework](#). Ellen Quigley, 2023.
 106. We recommend using the [GCEL](#) and [GOGEL](#) databases from the NGO Urgewald.
 107. For example, a tricolour code to easily assess (non)participation in controversial activities.

Credits

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UNMASKING GREENWASHING: A call to clean up passive funds

Reclaim Finance is an NGO affiliated with Friends of the Earth France. It was founded in 2020 and is 100% dedicated to issues linking finance with social and climate justice. In the context of the climate emergency and biodiversity losses, one of Reclaim Finance's priorities is to accelerate the decarbonization of financial flows. Reclaim Finance exposes the climate impacts of financial players, denounces the most harmful practices and puts its expertise at the service of public authorities and financial stakeholders who desire to bend existing practices to ecological imperatives.

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