

Finance

A Quant Investor Uses A.I. to Track Down Corporate Greenwashing

By analyzing how executives talk about their sustainability efforts, Acadian's Andy Moniz hopes to figure out who's full of hot air.

By [Liam Vaughan](#)

December 21, 2021



Illustration: Kati Szilágyi for Bloomberg Businessweek

As sustainable investing becomes more mainstream on Wall Street, companies are doing everything they can to present themselves as eco-friendly and ethically run. But the environmental, social, and governance (ESG) ratings that money managers rely on don't always do a good job of cutting out the greenwashers—businesses that talk a good game but don't match it with action.

Andy Moniz, a London-based data scientist at Acadian Asset Management, says he's not only figured out a better approach, he can make money trading on it. He's using such sophisticated tools as natural language processing and machine learning to figure out what companies are really up to. "I became frustrated with what the ESG data providers were doing," says Moniz. "A lot of the time they're just relying on yes or no answers to questions like 'Does this company have a human rights policy?' That data is extremely stale and backward-looking." He felt he could do a better job collecting the data on his own.

A *Bloomberg Businessweek* investigation published in December showed that rather than reflecting companies' sustainability efforts, ESG ratings tend to focus

narrowly on risks to shareholders. So a company could have high carbon emissions but still get a decent ESG score if stricter regulation of its business appears unlikely. Moniz, too, is looking out primarily for investors' interests in his analysis. But even based on that kind of metric, ESG ratings fall short, Moniz says. (Bloomberg LP, which owns *Bloomberg Businessweek*, sells sustainability ratings and data to the investment industry.)

At Acadian, a quantitatively-driven fund with more than \$100 billion under management, Moniz analyzes reams of data about companies to identify hidden ESG risks. Some of it is unconventional: For instance, his software searches through transcripts of executives speaking

at shareholder meetings, conferences, and on analyst calls for signs of evasiveness, vagueness, or a refusal to answer questions. It's an approach grounded in psychology literature.

He gives the example of Albert Chao, president and chief executive officer of Houston-based Westlake Chemical Corp., who earlier this year was asked by an analyst to explain his firm's decarbonization strategy. "This issue is very important for the company, its employees, and the whole world," Chao replied. "We want to do our part as much as we can. ... And I know to get to zero net emissions, that's a tall order. And a lot of work is being done on that. But I think with still a lot of progress to come out, and we are very con-



Moniz. Photographer: Lucy Ridgard for Bloomberg Businessweek

scious of it.” That meandering response was flagged by Acadian’s algorithm as a “non-answer.”

Then there’s Russian miner Evraz Plc, whose then-CEO, Alexander Frolov, was asked in August how he planned to reduce the company’s carbon footprint. “We have lots of opportunities, let’s say, to capture it and utilize, which we are not doing at the moment,” he replied. “And I guess this would lead to significant reduction of greenhouse ... there are different strategies, but there is potential on both sides to reduce greenhouse emissions in the future.” This, says Moniz, is a classic example of vagueness—something he says is depressingly common among companies.

Companies today put most of their ESG information into carefully worded sustainability reports, but nuggets are to be found in these, too, says Moniz. He points to the Polish coal-fired electricity company Ze Pak SA, which claimed in a recent presentation that by 2029 it would achieve “climate neutrality”—an even more ambitious target than net-zero—without providing any clues as to how it planned to do so. “We are ahead of the goal of European Union climate neutrality (2050) by 20 years,” the company declared. Ze Pak, Westlake Chemical, and Evraz did not respond to requests for comment.

Recognizing red flags when they’re right in front of you isn’t too difficult. The challenge lies in building a system that can trawl through millions of documents from disparate data sources relating to thousands of companies, as well as teach itself what to look for. Even harder is translating that system’s findings into investment returns. In the lead-up to the financial crisis, a handful of investors figured out that mortgage-backed securities were riskier than they seemed to be and made money betting against them. There is no such

straightforward trade for greenwashing because, even when companies are found to be inflating their sustainability credentials, there’s no guarantee their shares will go down. In fact, history suggests hedge funds have benefited by investing in sin stocks ESG investors won’t touch.

Moniz and his team focus only on those environmental, social, and governance issues that their analysis suggests will feed into the bottom line. “Our investment process is purely designed to enhance risk-adjusted returns, and in that way we don’t treat ESG as any different to any other dataset,” he says. It’s a mindset Moniz developed on Wall Street at the likes of Citigroup Inc. and Deutsche Bank AG, where his role was to hunt for profitable trading signals in places others might not look. One project involved building a portfolio that mirrored the trading of executives in their own company’s stock. Another saw him comparing how large the CEO photos were on annual reports—and how frequently they were updated—as a test for egotism and therefore, management quality. (The results were inconclusive).

Moniz turned his attention to the “G” in ESG for a Ph.D. in 2015, when he developed a program that graded companies by the language used on the job review website Glassdoor.com. (In corporate jargon, governance refers to how well a company is run internally.) The resulting paper, which was published by the New York Federal Reserve, found that companies whose staff members are both content and find their work challenging will outperform their peers.

Acadian scores companies on metrics including greenwashing, corporate culture, labor relations, and whether management is focused on the long term. The data are fed into a larger computer model that makes decisions on what shares to

buy and sell. Companies that are badly run are downgraded, not because they’re unethical but because Moniz’s analysis indicates that the quartile with the best governance scores has outperformed peers by 9% annually over the past decade.

To boost its chances of success, Acadian has started engaging with companies for which it has identified ESG issues. Last year, for example, Volkswagen AG was named by a human rights group as having exposure to forced labor camps in China’s Uyghur region. After VW issued a statement denying the report, Acadian’s algorithm hunted through the company’s documents, media reports, transcripts, and alternative data sources to come up with a detailed chart of all its vendors and customers. The analysis suggested VW did have one remaining supplier from the region—something the company said it would look into. Volkswagen says in a statement that it “found no evidence” of forced labor in its supply chain in China, and that “no parts” from any company mentioned in the report are used in its vehicles. “This wasn’t about ESG for the sake of it,” says Moniz about why he flagged the potential issue. “If the company became embroiled in a scandal in the press, it would have impacted the share price.”

Regulators have started waking up to the shortfalls of ESG ratings. Authorities in the U.S. and the U.K. are introducing more standardized sustainability disclosures. Last month, the International Organization of Securities Commissions, an umbrella group for the world’s regulators, published a report decrying the industry’s “lack of transparency” and proposing greater scrutiny. Moniz is not worried that such moves might undermine Acadian’s edge. “The key question still remains: How credible are companies’ targets and commitments,” he says. “Talk is cheap.”

This article has been edited from the original version. See the original article [here](#).

Posted from *Bloomberg.com*, December 21, 2021, copyright by Bloomberg L.P. with all rights reserved.
This reprint implies no endorsement, either tacit or expressed, of any company, product, service or investment opportunity.
#C118672 Managed by The YGS Group, 800.290.5460. For more information visit www.theYGSgroup.com.



Companies mentioned are intended to be an example of the investment process and are not a recommendation to buy or sell a specific security.

Legal Disclaimer

Acadian provides this material as a general overview of the firm, our processes and our investment capabilities. It has been provided for informational purposes only. It does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe or to purchase, shares, units or other interests in investments that may be referred to herein and must not be construed as investment or financial product advice. Acadian has not considered any reader's financial situation, objective or needs in providing the relevant information.

The value of investments may fall as well as rise and you may not get back your original investment. Past performance is not necessarily a guide to future performance or returns. Acadian has taken all reasonable care to ensure that the information contained in this material is accurate at the time of its distribution, no representation or warranty, express or implied, is made as to the accuracy, reliability or completeness of such information.

This material contains privileged and confidential information and is intended only for the recipient/s. Any distribution, reproduction or other use of this presentation by recipients is strictly prohibited. If you are not the intended recipient and this presentation has been sent or passed on to you in error, please contact us immediately. Confidentiality and privilege are not lost by this presentation having been sent or passed on to you in error.

Acadian's quantitative investment process is supported by extensive proprietary computer code. Acadian's researchers, software developers, and IT teams follow a structured design, development, testing, change control, and review processes during the development of its systems and the implementation within our investment process. These controls and their effectiveness are subject to regular internal reviews, at least annual independent review by our SOC1 auditor. However, despite these extensive controls it is possible that errors may occur in coding and within the investment process, as is the case with any complex software or data-driven model, and no guarantee or warranty can be provided that any quantitative investment model is completely free of errors. Any such errors could have a negative impact on investment results. We have in place control systems and processes which are intended to identify in a timely manner any such errors which would have a material impact on the investment process.

Acadian Asset Management LLC has wholly owned affiliates located in London, Singapore, and Sydney. Pursuant to the terms of service level agreements with each affiliate, employees of Acadian Asset Management LLC may provide certain services on behalf of each affiliate and employees of each affiliate may provide certain administrative services, including marketing and client service, on behalf of Acadian Asset Management LLC.

Acadian Asset Management LLC is registered as an investment adviser with the U.S. Securities and Exchange Commission. Registration of an investment adviser does not imply any level of skill or training.

Acadian Asset Management (Singapore) Pte Ltd, (Registration Number: 199902125D) is licensed by the Monetary Authority of Singapore.

Acadian Asset Management (Australia) Limited (ABN 41 114 200 127) is the holder of Australian financial services license number 291872 ("AFSL"). Under the terms of its AFSL, Acadian Asset Management (Australia) Limited is limited to providing the financial services under its license to wholesale clients only. This marketing material is not to be provided to retail clients.

Acadian Asset Management (UK) Limited is authorized and regulated by the Financial Conduct Authority ('the FCA') and is a limited liability company incorporated in England and Wales with company number 05644066. Acadian Asset Management (UK) Limited will only make this material available to Professional Clients and Eligible Counterparties as defined by the FCA under the Markets in Financial Instruments Directive.