

For immediate release

# Admissions of emissions omissions, Momentum Global Investment Management examines the impact of the VW scandal

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**James Klempster, portfolio manager, Momentum Global Investment Management  
analyses the VW scandal:**

The recent VW scandal is a salutary reminder to all of the risks of investing, especially in the equity market. This topic has, rightly, dominated the papers in the past week as it represents a spectacular fall from grace for a poster child of Germany's economic and manufacturing might. To me, the debacle highlights a number of interesting issues with respect to how investment can take place today and highlights some potential flaws in a couple of *de rigueur* investment approaches.

Firstly, passive investors would, by definition, have an allocation to VW's shares in proportion to their weight in a given index. At the end of August, passive European equity investors in the Eurostoxx 50 index would have held 1.3% in VW and investors in Germany's main market had a 3.2% exposure to VW. Luckily, in this instance, VW's market capitalisation is not as large as it might have been, but it is still substantial. This issue serves to highlight the potential risks from concentrated indices as a single stock specific event such as this could have a substantial impact on a more 'top heavy' index. One solution to this is to use passive vehicles that have a large number of holdings such as the MSCI Europe ex UK which had over 300 holdings and so VW only accounted for 0.7% of assets. A second means to reduce this risk is to use an active manager on the basis that the manager's high quality research could unearth suspicions over issues such as these, but the danger with active managers is that they could also be overweight, thus augmenting the negative impact.

The second market fashion which has been dragged into the spotlight by the VW scandal is that of Environmental, Social (sustainable) and Governance (ESG) investors. While VW did not score well in a number of corporate governance rankings, this week's FTFM notes that the firm was "chosen as the industry group leader for the Dow Jones Sustainability index on September 10, based on strong economic, environmental and social dimensions". Investors that had relied on the analysis, compiled by the sustainable investment arm of Robeco, may feel disappointed.





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