



PATHSTONE  
IMPACT

---

SUSTAINABLE INVESTING HIGHLIGHTS

---

SEPTEMBER 2021

## The Theranos Scandal: A Lesson on Corporate Governance

Bad actors can lead a company into a scandal, with major adverse consequences to reputation, brand value, revenue, and investment valuations. As evidenced by the Wells Fargo account-opening fraud revealed in 2016 and the Volkswagen “diesel-gate” deception in 2015, a corrupt corporate culture comprised of bad actors can lead to such scandals.

The wire-fraud trial of Elizabeth Holmes, the founder and former executive director of now-defunct Theranos, is a case in point, one that highlights the importance of building a culture focused on stakeholders and embedding strong governance into corporate “DNA” from a company’s inception. Holmes is on trial as of this writing, accused of misleading patients, doctors and investors regarding the effectiveness of Theranos’s technology. The story of her rise and fall is being held up as emblematic of Silicon Valley start-up culture, where the line between aspiration and deception can become blurred in the quest for investment capital.

Holmes’s stated goal in founding Theranos was to change the health system by making blood tests more convenient, more affordable, and more accessible. Theranos received widespread media attention and hundreds of millions of dollars in investments from investors such as Rupert Murdoch, former Minister of Education Betsy DeVos and the Walton family, to name a few. However, in 2015 the Wall Street Journal published an investigation, exposing how Theranos failed to use their own innovative proprietary technology, “Edison,” for testing personal blood samples. WSJ reporter John Carreyrou discovered that Theranos was using ordinary test equipment and did not notify its customers or investors of that fact. Further, Theranos presented patients with inaccurate test results for diseases such as HIV and cancer.

After Carreyrou’s article, the Securities and Exchange Commission launched an investigation, ultimately charging Holmes and former Theranos president Ramesh Balwanian with orchestrating an “elaborate, years-long fraud” that raised more than \$700 million from investors, who were led to believe the Theranos portable blood analyzer could conduct comprehensive blood tests from a drop of blood.

If convicted, Holmes faces up to 20 years in prison.

## Many climate funds fall short of Paris Agreement targets, according to new research

A recent study surmised that approximately 70% of funds with a broad ESG mandate (environmental, social and governance) are inconsistent with the goals of the Paris Agreement. The Paris Agreement is a goal promoted by the United Nations to encourage governments and businesses to cooperate on a global scale to reduce carbon dioxide emissions and help stem global climate change. According to a report by InfluenceMap, “593 equity funds falling into the broad ESG category, some 421 of them – or 71% – scored negatively on Paris Alignment suggesting their portfolios were contrary to global climate targets.”

Looking beyond funds with a broad ESG mandate, most of the 130 funds in the “climate issues” category appeared to be better aligned in support of Paris Agreement targets, though the majority still lagged, with 55% of the funds “misaligned” based on their rating scheme. One perspective suggested that many institutional managers focus on tracking error relative to a benchmark as a risk, and as a result may be better positioned than the benchmark in relative terms. It is worth noting that the performance of the ratings within the “climate issues” category varies greatly, ranging from an Impax Asset Management strategy receiving a positive 91% score to two strategies from China that received scores of negative 42%. Three products that were specifically labeled “Paris Aligned” had weak scores that ranged from -19% to -40%.

InfluenceMap researchers estimated the overall alignment of each fund’s holdings with the Paris Agreement. This score is based on the Paris PACTA program, which collects production information from more than 3,000 companies in the real estate, fossil fuel, energy, and automotive industries.

The results of InfluenceMap have magnified concerns about “greenwashing”. The US Securities and Exchange Commission (“SEC”) and the German financial market regulator BaFin have increased their scrutiny of asset management firms in recent months.

## Remnants of Ida on Household, Energy, Supply Chain, Seafood and Insurance Companies

For many living at the bottom of the economic ladder in New York City, the remains of Hurricane Ida delivered a scene straight out of the movie “Parasite”. Many residents in basement apartments and neighborhoods prone to flooding found their toilets turning into waterspouts. For too many of these unfortunate souls, their apartments turned into a deadly trap.

Hurricane Ida delivered a devastating blow on the 16th anniversary of Hurricane Katrina. Before leaving, massive rainfall from Ida caused some of the worst urban floods in the history of the Northeastern United States. The storm and its aftermath killed more than 40 people, most of whom were killed in floods in New Jersey, New York, Pennsylvania, and Connecticut. Due to abnormally heavy rainfall, some residents drowned, many of whom lived in basement apartments with limited avenues for exiting. The death toll caused by Hurricane Ida will likely rise, and the lives of millions of people have been adversely impacted.

Individuals are not the only ones affected by Hurricane Ida. Companies, especially those in the energy, seafood, construction, and insurance sector, have been hit hard. For example, Ida has compounded problems that already plagued the global supply chain, which has been stretched thin by COVID19, as evidenced by the cost of construction materials, which had increased by about 30% since the outbreak. Hurricane Ida affected the plastic sector, manufacturers who are responsible for the production of approximately 13% of containers and 20% of plastic polyethylene. Due to increasing demand as the economy emerges from the COVID19 lockdown, any continued disruption of industrial operations in the region could push up costs substantially, in an already tight market. In the short term, Hurricane Ida may well exacerbate this supply bottleneck.

The energy sector was also impacted, Hurricane Ida caused a major interruption to the production and distribution of electricity and natural gas to households hit by the storm. Approximately one million consumers in Louisiana and Mississippi have lost power. Not only was the power supply affected, the Gulf Offshore Oil Company, which accounts for approximately 17% of US oil production and 5% of natural gas production, had to leave its facilities due to flooding. The fisheries sector may also be severely affected by Hurricane Ida, if history is a guide. If the damage of Ida is similar to that of Hurricane Katrina, the seafood industry may suffer huge economic and financial losses, as fish, shrimp, crabs and other aquatic organisms are adversely impacted.

## Remnants of Ida on Household, Energy, Supply Chain, Seafood and Insurance Companies (*Continue*)

The insurance industry will also suffer heavy losses from Hurricane Ida is the insurance industry. According to CoreLogic data, damaged houses in the three states of Mississippi, Louisiana and Alabama are expected to cause insured and uninsured losses of between 27 billion and 40 billion US dollars. The aftermath of Hurricane Ida has shown how people striving to make ends meet are most vulnerable to the physical impact of the changing environment.

## **Amnesty International Report Shows Most Venture Capital Firms Don't Care about Human Rights.**

According to an international human rights survey conducted by Amnesty International, most venture capital investment companies do not seek to ensure that their investments will not violate human rights. Amnesty International reported that only one of the world's largest venture capital companies has incorporated the UN Guidelines for Business and Human Rights and the OECD Guidelines for Multinational Enterprises within their due diligence process.

The Amnesty International report cites, "Overall, we were not able to find any evidence of human rights due diligence policies for 83% (44 of a total of 53) of the VC firms and accelerators surveyed. Only one firm (Atomico) potentially had human rights due diligence processes in place that met the standards set forth by the UN Guiding Principles on Business and Human Rights. An additional eight VC firms and accelerators (15% of all firms surveyed) state that they conduct human rights and / or environmental, social and governance (ESG) due diligence, though they did not provide sufficient information to allow us to determine whether their policies and processes actually met the minimum standards set forth in the UN Guiding Principles."

The lack of human rights due diligence emphasized the harsh reality that the products of companies funded by venture capital firms are often sold to authorities that cause or contribute to human rights crimes. For example, in the nightmarish surveillance infrastructure of the Uyghur population in Xinjiang, venture capital technology companies are providing spyware hardware and software to the Chinese government.



## About the SDGs, Targets, and Indicators

### **The SDGs**

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals ("SDGs"), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go together with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.<sup>1</sup>

### **Targets**

The SDGs targets are set to be achieved by 2030. There are approximately 169 targets covering a broad range of sustainable development issues.<sup>2</sup>

### **Indicators**

The SDGs indicators are used to measure progress made by the United Nations member states towards the achievement of SDGs targets. There are approximately 232 indicators set by the United Nations to measure SDGs progress.<sup>3</sup>



## Citations

<sup>1</sup> United Nations Statistics Division. "SDG Indicators: Global indicator framework for the Sustainable Development Goals and targets of the 2030 Agenda for Sustainable Development." N.d. Accessed September 8, 2021 <https://unstats.un.org/sdgs/indicators/indicators-list>

<sup>2</sup> Id.

<sup>3</sup> U.S. National Statistics for the U.N. Sustainable Development Goals. "SDG Targets and Indicators." U.S. National Statistics for the U.N. Sustainable Development Goals. N.d. Accessed September 8, 2021. <https://sdg.data.gov/>

<https://www.reuters.com/business/finance/ex-wells-fargo-executives-set-face-civil-trial-scandal-over-phony-accounts-2021-09-13/>

<https://www.reuters.com/business/healthcare-pharmaceuticals/theranos-founders-defense-may-turn-state-mind-experts-say-2021-09-07/>

<https://fortune.com/2021/08/30/theranos-elizabeth-holmes-trial-date-watch-online-fraud-ramesh-sunny-balwani/>

<https://www.eastbaytimes.com/2021/08/26/theranos-founder-holmes-mental-health-records-to-be-released/>

<https://www.forbes.com/sites/robertzafft/2021/09/01/theranos-elizabeth-holmes-witting-and-unwitting-accomplices/?sh=65a03e1a69c3>

<https://www.cnbc.com/2021/09/02/theranos-founder-elizabeth-holmes-faces-jury-of-seven-men-five-women.html>

<https://www.bbc.com/news/business-58336998>

<https://www.npr.org/2021/08/30/1031314018/elizabeth-holmes-theranos-fraud-trial>

<https://www.sec.gov/news/press-release/2018-41>

<https://www.seattletimes.com/business/elizabeth-holmes-trial-to-dissect-downfall-of-a-tech-star/>

<https://www.bloomberg.com/news/articles/2021-08-26/ubs-state-street-among-firms-whose-green-funds-miss-paris-goals>

<https://www.etfstream.com/features/esg-and-climate-funds-fall-short-of-paris-agreement-goals-report-warns/>

<https://www.etfstream.com/features/esg-and-climate-funds-fall-short-of-paris-agreement-goals-report-warns/>





# Sustainable Investing Highlights

<https://citywireselector.com/news/majority-of-esg-and-climate-funds-are-misaligned-with-paris-goals-report-claims/a1547203>

<https://www.etftrends.com/esg-channel/increasing-pressure-on-esg-managers-to-prove-funds-reflect-sustainability-values/>

<https://www.pionline.com/esg/many-climate-funds-fall-short-paris-agreement-goals-report>

<https://yaleclimateconnections.org/2021/09/northeast-pummeled-with-colossal-flooding-destructive-tornadoes/>

<https://www.voanews.com/usa/six-major-contrasts-between-hurricanes-ida-katrina>

<https://www.theguardian.com/us-news/2021/sep/03/first-thing-remnants-of-hurricane-ida-hits-north-eastern-us-killing-over-40>

<https://weather.com/news/news/2021-09-07-hurricane-ida-louisiana-nursing-homes-power-outages>

<https://www.forbes.com/sites/arielcohen/2021/09/01/hurricane-ida-puts-americas-energy-security-to-the-test/?sh=59c620864c99>

<https://www.nbcnews.com/business/business-news/rebuilding-after-hurricane-ida-will-be-costly-experts-blame-pandemic-n1278621>

<https://www.bloomberg.com/news/articles/2021-08-27/record-plastic-prices-may-go-stratospheric-on-gulf-coast-storm>

<https://www.nytimes.com/2021/08/31/business/hurricane-ida-supply-chain-shortages.html>

<https://www.aier.org/article/hurricane-ida-threatens-global-plastic-markets/>

<https://www.wsj.com/articles/hurricane-idas-fallout-continues-to-cripple-u-s-oil-production-11631104257>

<https://www.washingtonpost.com/weather/2021/08/29/hurricane-ida-live-updates/>

<https://www.wsj.com/articles/oil-industry-surveys-damage-after-hurricane-ida-slams-louisiana-11630333238>

<https://www.npr.org/2021/09/05/1034458509/divers-are-investigating-the-source-of-oil-spill-off-the-coast-of-louisiana>

<https://www.cnbc.com/2021/09/08/hurricane-idas-damage-tally-could-top-95-billion-making-it-7th-costliest-hurricane-since-2000-.html>

<https://apnews.com/article/lifestyle-d0294780c92b14ac1be2da3cdc13abe0>

<https://techcrunch.com/2021/08/04/venture-capital-undermines-human-rights/>



# Sustainable Investing Highlights

<https://www.vice.com/en/article/g5gk9b/venture-capitalists-dont-care-about-human-rights-abuses-amnesty-report-shows>

<https://www.amnesty.org/en/documents/doc10/4449/2021/en/>

<https://unstats.un.org/sdgs/indicators/indicators-list>

<https://sdg.data.gov/>



## Disclosures

The information provided in this commentary is intended to be educational in nature and not advice relative to any investment or portfolio offered through Pathstone. The views expressed in this commentary reflect the opinion of the author based on data available as of the date this commentary was written and is subject to change without notice. This commentary is not a complete analysis of any sector, industry or security. Individual investors should consult with their financial advisor before implementing changes in their portfolio based on opinions expressed. The information provided in this commentary is not a solicitation for the investment management services of Pathstone. The graphs and tables included herein have been provided by commercial databases and, while we believe the information to be reliable, we assume no responsibility for any error or omission. The recipients of this communication assume all risks in relying on the information set forth herein. Past performance of any investment, industry, asset class or investment strategy is no guarantee of future performance.