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### **Wind of change: ethical investment does not mean second-rate returns**

Economics is all about trade-offs. In mainstream investing, the choice is usually between degrees of riskiness and returns. In the case of ethical investment it is about relinquishing some returns in exchange for the satisfaction of depriving of capital certain businesses (such as tobacco or defence companies) that some investors might find objectionable.

About E1 trillion (£743bn, \$1.45 trillion), or 15% of all European assets under management, are run under **socially responsible investment (SRI)** guidelines, according to the research and advocacy group Eurosif. (Its data covers life and pension funds as well as retail funds.)

But while ethical investors need to realise they won't make the highest returns, this is not to say they should be satisfied with second-rate performances. Some ethical fund managers actually do either slightly better or almost as well as the average.

The F&C Stewardship Growth Fund, managed by Ted Scott, has performed robustly over the long haul, making total returns of 92.1% over the latest five-year period, according to Trustnet, the data provider; slightly outperforming its benchmark index, the FTSE All-Share, with returns

of 92%.

The Dow Jones Stoxx Sustainability Index rose by 6.07% last year, only just trailing the Dow Jones Euro Stoxx 50 Index which does not screen companies on ethical grounds which rose by 6.79%. While superior performance translates into a significant difference if compounded over time, 0.72 percentage points shaved off returns is a price some will be willing to pay.

Another good performer was the [Allianz](#) RCM Global Sustainability Fund: over the latest 12 months, returns adding capital growth and dividends reached 13.4%.

The reason why SRI investments underperform on average is that they exclude major sectors, taking a large bite out of the potential universe of investment opportunities people can choose from.

Take the example of the FTSE4Good indices that track global equity markets they exclude nuclear energy, a sector that has benefited from rising interest around the world in this power source as an alternative to fossil fuels.

The Standard & Poor's Global Nuclear Energy Index, which was launched last August to track 20 major energy companies around the world, has clocked up total returns, based on back-tested data, of 31.32% in the 12 months to

15 January. None of these returns will be captured by funds that exclude nuclear on ethical grounds.

Some analysts remain adamant that SRI makes good investment as well as ethical sense, partly because their shares will attract more capital, pushing up their price.

Those firms that pay attention [to socially responsible behaviour] are more in demand," argues Pars Purewal, British

investment management leader at PricewaterhouseCoopers. However, as Purewal acknowledges, it is difficult to analyse share price behaviour to see if there is a distinct SRI premium in the value of a company's stock.

A company may be highly valued because it is run honestly and efficiently which can apply to any type of business or because it qualifies for inclusion in SRI funds.

On balance, however, the evidence is pretty conclusive:

socially responsible investment does not win top prize in the money-making stakes. But that does not mean investors cannot make a decent return or that they should tolerate poor fund managers, ethical or not.