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General Comment

My name is James Patrick Costello and I am a Certified Financial Planner. I published a book in 2013 and updated it in 2018, presenting ample evidence that funds that use socially responsible screening tools (Now called "ESG"), in addition to traditional investment analysis have shown, on average, equal or better long term performance than funds that do not. I based my conclusions on research and analysis by Morningstar.com, USSIF.org, and even the Wall Street firm "Morgan Stanley" (despite they themselves offering little in the way of ESG investment products when the study was completed). They published a research piece called "Sustainable Reality" which reviewed performance of nearly 1100 funds from 2004 to 2018 and concluded that "The returns of sustainable funds were in line with comparable traditional funds," and "Sustainable funds may offer lower market risk." But there is a larger point here - long term investors who give no consideration to the impact of their investments on the environment are blind, ignorant or both. The UN IPCC report warns us in no uncertain terms of the climate chaos that will ensue if the world is not able to drastically reduce its greenhouse gas emissions. As a result, more and more pension trustees and university endowment fund managers are working to reduce the "carbon risk" of their investment portfolios - in many cases doing so by divesting from fossil fuel related industries. This has greatly enhanced comparative performance, given the woeful performance of the S&P 500 Index's energy sector. The real irony in this proposed rule is that most retirement plans have been slow to include ESG investment options in entity retirement plans. If anything, rules should be promulgated that rectify this shortsightedness. Fortunately passive investors are enjoying a new proliferation of low-carbon and ex-fossil fuel indexes that managers of large pools of money are switching to, increasingly abandoning the old fossil fuel laden indexes such as the S&P 500. The focus on fund fees is a bit of a red herring - internal fund fees are largely correlated to the size of the fund, as many fund management costs are somewhat fixed. Naturally gargantuan passive funds such as Vanguard's VFINX have lower internal fees as a percentage, compared to smaller, newer low-carbon and/or ex-fossil fuel funds that hold nowhere near the same amount of assets. That's like criticizing a mom and pop ice cream shop for having high prices compared to the lower quality ice cream offered by Walmart two doors down. Don't worry, mom and pop's prices will come down as people gravitate to them and stop eating the lower quality, lower cost fare. By the way, Socially Responsible Investing (ESG) is a rapidly growing trend that even you regulators in your ignorance cannot ignore. Already 1 out of every four dollars invested domestically (US) are invested with managers that use some type of socially responsible or ESG analysis to augment traditional security selection methodologies. Young people - folks just now entering the workforce are absolutely concerned about the social and environmental impacts of their investments, so companies that seek to attract the best and the brightest are advised to INCREASE - NOT DECREASE the number of Socially Responsible, ESG funds available in their employee retirement plans.

Attachments

Ethical investments outperforming _ Morningstar _ The Guardian

The Guardian

Ethical investments are outperforming traditional funds

Evidence suggests that environmentally focused investing is becoming mainstream

Patrick Collinson

Fri 12 Jun 2020 19.01 EDT

Environmentalists cheered by huge improvements in air quality during the lockdown - and the collapse in coal power generation - have another reason to celebrate. Even the stock market has gone in their favour.

A detailed number-crunching of environmentally sustainable funds has revealed that they have outperformed traditional funds across the board - beating them during the pandemic as well as during the 10 years up to and including the coronavirus sell-off.

The data, from the global research agency Morningstar, comes amid growing evidence that environmentally focused investing - once pigeonholed by City traditionalists as only for a vegan/hippy minority - is becoming mainstream. This week, Vanguard, one of the world's biggest fund managers, launched two ethical index funds aimed at UK investors, while Aviva, Britain's biggest insurer, unveiled a "climate transition" fund.

Morningstar examined 745 sustainable funds and compared them against 4,150 traditional funds, and found they matched or beat returns in all categories - whether bonds or shares, UK or abroad.

“Average returns and success rates for sustainable funds suggest that there is no performance trade-off associated with sustainable funds. In fact, a majority of sustainable funds have outperformed their traditional peers over multiple time horizons,” it says.

Over 10 years, the average annual return for a sustainable fund invested in large global companies has been 6.9% a year, while a traditionally invested fund has made 6.3% a year.

The outperformance continued during the coronavirus crisis. “In all but one category considered in the study, sustainable funds outperformed, with average excess returns in Q12020 ranging between 0.09% and 1.83% across categories,” Morningstar says.

One reason may be that many US tech stocks, popular among environmental investors, have soared during the crisis, while shares in oil, gas and coal companies have plummeted. The Nasdaq index of US tech stocks has recovered completely from the coronavirus crisis, reaching new highs this week, while the oil giant ExxonMobil is trading at $53 compared with $70 before the lockdown.

The Morningstar researchers noted that sustainable funds are longer-lasting than their peers. One of the tricks of the asset management industry is that funds that do badly are quietly removed - usually by merging them with another, better-performing fund. This has the effect of flattering the overall performance figures, suggesting that investors are doing better over the longer term than they really are. Morningstar found that three-quarters of sustainable funds lasted 10 years or more, compared with less than half of traditional funds.

Shares in oil companies have plummeted. Photograph: Sean Gallagher

Campaigners welcomed the confirmation that sustainable funds are better. Michael Kind of ShareAction - a charity and company that promotes responsible investment - says: “It’s very positive, but also not surprising, to see that funds with robust environmental, social and governance (ESG) strategies are overall better performers financially. We hear from savers very often that one of the biggest barriers to action is that there is a perception that you will lose out financially if you switch to investing responsibly.

“But is this enough? No … we would expect more ambitious and authentic ESG funds to deliver better outcomes for stakeholders and the environment but not inevitably to deliver investors more money every time."

ShareAction's checklist for making your money more socially responsible

Research what funds your pension/Isa/investment provider offers you.

Look into the holdings and stewardship/investment policies of your funds, or those you are considering putting money in. These policies show how your asset manager will invest your money and try to influence companies on your behalf. You can either do this on your own or ask your investment (or pension) provider/employer/financial adviser for this information.

It is important to see how your investment provider votes at the world's largest companies' AGMs. Are they voting for climate action and supporting human rights?

ShareAction recently produced an independent global ranking of the most responsible asset managers across many topics. Use it to make an informed decision when selecting a manager.

Use resources from organisations such as Climetrics, Boring Money and Good With Money.

Topics

- Investments
- Ethical money
- Aviva
- Climate change
- features