‘Truly abysmal’ performance of ‘green’ and ‘ethical’ City funds

Most City funds that pledge to invest only in green or “ethical” shares are massively underwater this year, the latest blow to a sector that is battling for credibility.

Analysis of the funds for the Evening Standard finds that on average they have lost 13.5% so far this year, compared to a stock market that is more or less flat.

In fund terms that is a spectacular under performance. Alan Miller of SCM Direct who did the analysis called the results “truly abysmal”.

SCM looked at 28 funds which manage £9.2 billion on behalf of savers looking to invest in the stock market while protecting the planet. So far this year, 96% have failed to keep pace with the market.

Some “ethical” funds managed by L&G, Aegon, Liontrust and abrdn are down more than 20% this year.

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Liontrust admits its investment strategy has been "particularly affected" by "dramatic changes in the market" but says it believes in the long-term prospects of its portfolios.

The two worst funds this year are run by Legal & General, a pioneer in ethical investing. The £180 million L&G Future World Sustainable fund is down 29% this year.

L&G says its funds "have been challenged…by the current market volatility". This is "disappointing" it admits.

The analysis comes amid growing concern from investors and fund chiefs about what constitutes a "green" fund in the first place, with no standard rules in place for Environmental, Social and Governance (ESG) criteria.

Some green funds hold shares in Shell, the oil giant.

The Invesco FTSE All Share ESG Climate fund holds 10.6% in energy stocks with its largest holding being Shell (7.7% of the fund). The fund says it "seeks to increase exposure to those companies that demonstrate a robust ESG profile, generate an increased percentage of their revenue from green projects, and exhibit lower levels of carbon emissions and fossil fuel".

Fund managers say that it is harsh to judge performance over a year.

Miller says: "But even if you measure returns over five years, you find that 87% of the ethical funds analysed, underperformed the market and the average gain was just 8.9% compared to 20.1% for the UK stock market."

Whilst underperformance in green funds has been common across the world, the scale of the underperformance is far worse for ethical UK equity funds. For example, in the US, Sustainable U.S. equity funds were down an average 19.8% to the end of

October, just 1% behind the S&P 500.

Miller said: “This style of investing is particularly attractive to female and younger investors. To protect them, maybe the funds should follow in the footstep of cigarette packets, and have a warning on every factsheet that says ‘investing in UK ethical equity funds can be harmful to your wealth’.”