



The true cost of Ethical Funds



There is a growing supply of ethically focussed funds, so here we assess whether their performance merits your attention. Should you indulge in ethical investing? Here we show the cost to you.

Ethical funds are becoming increasingly popular as younger generations place greater emphasis on a more responsible approach to investing. The argument for ethical funds is well-known: investors can use their capital to influence companies to be more socially and environmentally responsible.

Socially Responsible Investing (SRI) takes into consideration social, ethical and environmental factors. Funds are often classified from “light green” (fewer ethical criteria) to “dark green” (more stringent ethical criteria).

But remember, increasing the number of ethical factors can increase the risk and volatility as the investment universe gets smaller.

Do ethical funds pass the performance test?

Across all sectors:

- There is no single ethical fund sector.
- In total, there are 138 ethical funds spread across 22 fund sectors (Table 1)...
- ...but 21 of those are unclassified or moneymarket funds. We exclude these.

To filter further we exclude funds:

- Less than £50m in size and
- Without a 10-year track record.

This gives a total of 70 funds. 44% of these ethical funds sit in just two sectors:

- UK All Companies (14 funds, Table 3)
- Global (17 funds, Table 4)

We will focus on these two sectors, as these are two popular sectors and this is where the bulk of ethical funds reside.

The popular **UK All Companies** sector has 14 ethical funds:

- This is 18% of the ethical funds available to investors.
- There are 34 funds in the top 20% of performers in the last 10 years – **only 6** are ethical.
- **Best ethical:** Royal London Sustainable Leaders Trust (**up 218%**).
- **Best unconstrained:** Slater Growth (**up 445%**).
- That's **227% extra**.

In the **Global** sector there are 17 ethical funds:

- This is 22% of the ethical funds available to investors.
- There are 30 funds in the top 20% of Global performers in the last 10 years – **none** are ethical - not one.
- **Best ethical:** BMO Responsible Global Equity (**up 235%**).
- **Best unconstrained:** Baillie Gifford Global Discovery (**up 450%**).
- That's **215% extra**.

We created the ***Feel-Good Cost*** to illustrate the cost to investors of buying ethical funds over their unconstrained alternatives (Table 2).

Assuming £100,000 invested 10 years ago, the ***Feel-Good Cost*** is the **amount of money you lost** by being in the best ethical fund compared to being in the best unconstrained fund:

UK All Companies funds:	£227,150	“feel good cost”
Global Growth funds:	£215,320	“feel good cost”

Hindsight analysis?

Remember that you could only have selected these top funds with the benefit of hindsight. What about a real example? If you'd followed a process like **Dynamic Fund Ratings*** how would your investments have performed over the last 10 years?

UK All Companies

- In the UK All Companies sector the Dynamic Portfolio* returned 261%...
- ...134% better than the sector average over 10 years.
- The best ethical fund performed 43% worse than the Dynamic Portfolio...

Global

- In the Global sector the Dynamic Portfolio substantially outperformed, returning 322%....
- ...that's 156% better than the sector average.
- The best ethical fund returned 235%...
- ...87% less than the Dynamic Portfolio.

If you had followed a process backed by decades of research then you could have pretty well matched the best ethical fund in the UK sector or substantially outperformed in the Global sector.

And remember, comparing with the best fund over the period is **only** possible with the benefit of hindsight. Whereas a process like Dynamic Fund Ratings is a real outcome you could have achieved without hindsight.

**this process means that we select the best 3 funds of the prior 6 months, and repeat this straightforward "momentum" strategy each 6 months thereafter.*

The Ethical cost

In summary on ethical investing, anyone pursuing this route is actively excluding the vast majority of successful investment funds - ticking an ethical box comes at considerable cost.

There are some very serious themes surrounding individual funds.

But let's not pretend that investors or the fund managers can make a significant difference beyond feeling better about themselves.

These are matters of national and global importance that must be dealt with through effective government action and global co-operation, and, where appropriate, through pressure groups and direct action.

How about maximising your investment returns, by considering all fund options, and then gift profits to effective action groups and good causes close to your heart?

ACTION FOR INVESTORS

- To achieve outstanding growth, more consistently, ethical investors should consider making use of a wider range of better funds and use the proceeds for direct impact.
- Large profits enable greater personal contributions to good causes.
- Investors who wish to buy ethical funds should look beyond the “ethical” label, as there might not just be hidden investment risks, but huge hidden costs.

FURTHER READING

- [Value investing: Once upon a time...](#)
- [Oil opportunity](#)
- [The World Moves On](#)

Table 1: Ethical funds in different sectors (A-Z)

Sector (A-Z)	Total funds
Asia Pacific Excluding Japan	1
Europe Excluding UK	5
Europe Including UK	5
European Smaller Companies	1
Flexible Investment	2
Global	36
Global Bonds	2
Global Emerging Markets	8
Global Equity Income	1
Mixed Investment 0-35% Shares	1
Mixed Investment 20-60% Shares	5
Mixed Investment 40-85% Shares	5
North America	2
Short Term Money Market	1
Specialist	13
Sterling Corporate Bond	9
Sterling Strategic Bond	2
Targeted Absolute Return	2
UK All Companies	14
UK Direct Property	1
UK Equity Income	2
Unclassified	20
Total	138

Table 2: Feel-good cost

UK All Companies sector		10 yr perf. %	10 yr return £
Top ethical fund	Royal London Sustainable Leaders Trust	218.6	£318,600
Top unfettered fund	Slater Growth	445.8	£545,750
<i>Feel Good Cost</i>			<i>-£227,150</i>
Global sector		10 yr perf. %	10 yr return £
Top ethical fund	BMO Responsible Global Equity	235.1	£335,050
Top unfettered fund	Baillie Gifford Global Discovery	450.4	£550,370
<i>Feel Good Cost</i>			<i>-£215,320</i>

Table 3: Ethical funds for UK All (sorted on 10 years)

Name	Fund Size(m)	10 yr perf. %
Royal London Sustainable Leaders Trust	783.6	218.6
Montanaro UK Income	410.0	216.5
Liontrust UK Ethical	493.4	197.4
Liontrust Sustainable Future UK Growth	463.4	193.8
ASI UK Ethical Equity	312.3	186.0
BMO Responsible UK Equity	434.9	175.6
Premier Ethical	157.2	174.6
EdenTree Amity UK	127.8	153.9
Kames Ethical Equity	543.0	148.3
L&G Ethical Trust	279.7	143.4
Schroder Responsible Value UK Equity	56.4	123.2
Jupiter Responsible Income	51.3	113.3
Royal London UK FTSE4Good Tracker Trust	142.5	99.2
Family Charities Ethical	221.9	85.2

Table 4: Ethical funds for Global (sorted on 10 years)

Name	Fund Size(m)	10 yr perf. %
BMO Responsible Global Equity	594.8	235.1
Janus Henderson Global Sustainable Equity	952.5	230.2
Liontrust Sustainable Future Global Growth	435.6	207.8
AB SICAV I Sustainable Global Thematic Portfolio	633.9	187.6
M&G Global Select	609.7	183.7
Schroder ISF Global Equity Yield	357.5	177.6
BMO Sustainable Opportunities Global Equity	56.8	167.5
Schroder ISF Global Equity Alpha	990.2	166.8
Candriam SRI Equity World	366.0	161.0
Quilter Investors Ethical Equity	129.0	150.2
Halifax Ethical	178.7	150.2
Jupiter Ecology	522.5	140.0
JPM Global Equity	229.5	131.2
EdenTree Amity International	216.2	127.0
ASI Global Ethical Equity	142.1	117.6
FP WHEB Sustainability	355.8	113.0
Pictet Clean Energy	463.2	73.6

Data source

Universe: Investment Association, >£50m fund size. Note that some funds are not available to all investors on all platforms

Feel-good cost: Assumes £100,000 invested 10 years ago.

Data run to Last Month End (31/08/2019)

Important Information

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Any funds mentioned in this guide are risk investments. Risk investments are not suitable for everyone and you should obtain personalised financial advice if you have any doubt about whether they are suitable for your particular circumstances. If you withdraw from these investments you may not get back the full amount invested. The value of risk investments can go down as well as up.

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