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Some SRI Funds Dress in Pale Shades of Green

Investors can now turn to an independent analyst for comparisons of the quality of sustainable fund portfolios.

SRI Funds Advice has begun to offer an interactive **database** on the Web serving up revealing comparative charts about the financial performance of socially responsible equity funds. The investment research firm also ranks and maps the funds according to just how sustainable their portfolios are.

The joint venture is between two Swiss companies: **Care Group** and **GOE**. Founded in 1997 Care Group is a financial services firm for SRI institutional investors. GOE, founded in 1991, is a limited liability partnership that develops sustainability rating systems and provides consulting services.

The sustainability rating used by SRI Funds Advice tries to consider several characteristics of each fund, and then boils the result down to a numerical grade — 1 being the lowest score and 5 the highest.

"In this group you have a very broad spectrum," says Thomas Koellner, who splits his time between GOE and the Department of Environmental Science at the Swiss Federal Institute of Technology. "Some are very sustainable and some are, perhaps, less sustainable."

The leading fund out of 683 in the database for total returns over three years today is the Brazilian ABN Amro FI Acoes Ethical II, which has only a 2.54 sustainability rating but total returns of 71.76%. The fund with a perfect 5.0 sustainability rating is Professionally Managed Portfolios: Portfolio 21. Its three-year total return is 18.47%. The pioneer of the SRI industry, Pax World, has a Growth Fund rated on the SRI Funds Advice charts at just 2.15 for sustainability. It has three- and five-year total returns on the low end of the scale. The first mutual fund to adopt SRI for its investors, Pax World Balanced Fund, is not one of a subset of 140 funds that have a detailed profile in the database. So the fund has not gotten a sustainability rating. But its total returns land it also in the middle of the SRI pack.

The fund with the lowest sustainability rating, 1.07, is Orkla Finans Nordic, which had three-year total returns of 33.12%. Calvert New Vision Small Cap Fund has the lowest return over the same three-year period — 1.17% — and a sustainability rating of 3.03. Web visitors can pick and choose from menus to compare funds only in countries where they are sold, in areas of the world where the assets are located, by asset classes, and according to SRI category (for example, ethical or new energy).

The charts can be retrieved for one, three, and five year returns, fund volume, and median market cap.

Sustainability Rating

SRI Funds Advice gives a high rating on the sustainability scale to funds that do comprehensive social and environmental research, have what is defined to be excellent stakeholder relationships, and provide a high level of transparency for investors. A fund's research quality is judged by how it applies sustainable selection criteria, the

research effort, and how the results are validated.

A portfolio's social and environmental performance depends on company ratings from Sustainable Investment Research International (the SiRi Co.). The SiRi ratings cover six categories: business ethics; community; suppliers; corporate governance; employees; and environment.

SRI Funds Advice also looks at controversial business activities in areas such as human rights and pollution, and the fund's footprint in its industry sector allocation.

Koellner notes that the rating leaves out the consumption phase, which for manufacturers can play a large role in their total impacts. He says SRI Funds Advice is working on a new project to consider life cycle assessments and consumption data.

Color-Blindness of Portfolios

Koellner is the corresponding author of a **scholarly paper** published in the most recent edition of the Journal of Industrial Ecology. The study compares 13 funds that are managed according to sustainability goals with 13 conventionally managed funds.

The statistical analysis shows that the SRI funds on average emit fewer greenhouse gases and use less energy, and are more sustainable in terms of human health, ecosystem quality, and resources. But the conventional funds had better risk-adjusted economic performance over the period 2000 to 2004. For 2004 only, the SRI funds had better financial performance.

The study's central conclusion, however, is that the difference in mean environmental ratings of the aggregated portfolios of the SRI funds and the conventionally managed funds are much smaller than one would expect. The less than clear-cut advantage arises because the portfolios of both types of funds overlap. The similarities are strong when portfolio managers choose an investment universe from conventional benchmark indices, like the MSCI World, and try to match the SRI funds' sector allocation, too, to arrive at a comparable risk structure.

The authors say, "From the perspective of sustainable development, it is preferable to actively manage the sector allocation and not to passively adopt it from the benchmark."

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The relationship between the partners was clarified in this article on 11 September 2007.

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