

Study results spell bad news for SRI funds

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A recent study by Frankfurt-based AfU Investor Research and Swiss firm RepRisk may well spell bad news for providers of sustainable equity funds.

The results have revealed funds incorporating environmental, social and governance (ESG) criteria into their investment processes do not perform any better than conventional funds. The study looked at a total of 166 European funds, 13 of which explicitly incorporated sustainability factors.

At the same time, sustainable funds often charge higher fees for the ESG factor and specialist expertise involved in the management process.

Specialised consultants argue the mark-up on fees is not nearly as high as it used to be in the past.

Zurich-based independent consultant onValues says there used to be a tendency in the past of penalising sustainable investors with higher fees, but no longer.

Ivo Knoepfel, founder and managing director, quotes a difference of 5 basis points between a traditional and an SRI mandate.

But even this mark-up may be too high if there is no objective upside for an investor.

In the light of continuing market volatility, the implied higher cost and increased volatility of investing in equities focused purely on sustainability factors have been driving investors away from such products.

Managers and advisors have tried to rekindle investor interest by pointing to the better returns available from such funds.

One such manager is Sustainable Asset Management (SAM), a leading provider of SRI fund solutions on the Swiss market.

Rainer Baumann, the firm's head of portfolio management, is convinced the performance of SRI funds is superior to conventional equities.

"Of a basket of leading companies, those that adopted sustainable values earlier have generally outperformed," he says.

Yet market data this year paints a different picture.

The S&P Dow Jones Sustainability Index, the most widely used index in the SRI universe, may

be up nearly 10% in Euro terms year to date, but it is trailing well behind the S&P500, up more than 16%.

With the results of the survey supporting sceptics, sustainable equity funds have a lot to prove if they are to attract investor money, as allocators in the current market conditions count their pennies more than ever.