

Sustainable funds perform similarly to conventional funds under new methodology

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Sustainable funds that meet environmental, social and governance (ESG) criteria show similar financial performance to conventional funds with no sustainability claims, as revealed by a joint research project by Frankfurt AfU Investor Research GmbH and Swiss firm RepRisk AG.

The project developed a new methodology to assess ESG criteria and fund performance across 166 European funds, of which 13 explicitly incorporated ESG and sustainability criteria.

The results showed there is no significant difference in the financial performance of both types of funds and the average performance of conventional and specialised sustainability funds was similar.

The methodology used a simple approach in which every company in a particular fund was assigned a sustainability value using RepRisk's Reputational Risk Index (RRI), calculated based on controversial reports in the media and other sources relating to the company's ESG performance. This score was aggregated at the overall fund level using the company's weight in the portfolio using data from AfU.

This objective, transparent approach to assess the sustainability of a company or entire fund is an independent and reproducible evaluation of the fund's ESG performance and means investors can easily check funds against ESG criteria.

Socially responsible investments (SRI) is a growing market for asset managers, defined as any investment process which combines investors' financial objectives with ESG concerns, but the implementation and strategies are not clearly defined. Different approaches have been developed by fund managers, from ethical exclusions and positive screening, to integration of ESG issues into decision-making.

This report provides an evaluation of a fund based on the ESG performance of the assets it holds, rather than depending on the SRI label given by fund management companies which have attracted skepticism, and the similarity in results may cause investors to re-think conclusions about sustainability and ESG factors within their investment decisions.

However sustainability factors may continue a fund's performance with a longer term view than conventional financial cycles which account for similarity in performance right now.