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# How can an ethical fund hold BP?

Environmentally-friendly funds may not always be as green as you think. **Emma Wall** reports

Shareholders are the latest victims in the oil spill disaster – with no solution in sight, BP's share price is plummeting as fast as the black gold is pumping into the Gulf of Mexico.

On Tuesday alone its shares dropped by 13pc, finishing the week 12pc down at 433p. This is bad news for private investors and fund managers. BP is traditionally a defensive stock, meaning UK equity funds and cautious managed funds, as well as FTSE trackers, could have exposure to the mega cap and be feeling the effects of the fallout.

And, it may surprise you, so could an ethical fund. Seven funds in the ethical sector hold BP in their portfolio, including Aberdeen Responsible UK Equity, M&S Ethical and SWIP Pan-European SRI Equity. BP represents a considerable percentage of the CIS UK FTSE4Good Tracker at 8.26pc, while 8.04pc of the Family Charities Ethical fund is BP.

However, BP was removed from the Dow Jones Sustainability Indices last week. The firm that oversees the indices said the leak's impact on the environment, local community and BP's reputation meant it no longer qualified for inclusion.

So how can an ethical fund hold an oil company – especially one embroiled in the worst spill in US history? This is, after all, not the first blemish on BP's record. In 2007 it was fined \$62m for incidents at its Texas City refinery and a spill in Alaska.

Ethical investing hit £9.5bn

by the end of last year – with

750,000 investors in ethical funds. This is nearly four times the amount invested a decade ago, and the number of funds has surged from just a dozen to 100, with new funds being launched every month.

Not all ethical funds are the same. Traditionally, ethical funds used to take a hardline approach to what they invested in, but the sector has evolved in line with its catchphrase "socially responsible investment" (SRI).

Rather than screen out stocks, funds that follow the SRI route take a more positive approach, investing in companies that adopt good environmental and social practices regardless of sector. This gives managers a wider choice of stocks, which can help boost returns and reduce volatility. It is also why stocks such as BP make the grade for some ethical funds,

Audrey Ryan, manager of Aegon's Ethical Equity fund, said ethical funds ranged from "dark green" to "light green". Dark green funds have the most restrictions on them, with Ms Ryan's Aegon Ethical fund widely considered among the darkest green.

Other dark green funds would include the oldest and biggest ethical fund, F&C Stewardship, which has always had a strict ethical investment policy – it screens out stocks that are viewed as unethical, such as tobacco, oil and armament firms. It originally shunned many financial companies, such as some banks, because their practices included little consideration of environmental and social

impacts, although this has now changed.

Catherine Stanley, who

manages the F&C Stewardship fund, said: "We want to offer a very mainstream recognisable portfolio." Her concern, she said, is not only the ethical credentials of the companies but also their financial strength. Companies Ms Stanley invests in include Vodafone, Standard Chartered, Associated British Foods and HSBC.

On the other hand, light



It takes a higher calibre of manager to run a truly ethical fund

green funds are SRI funds that invest in companies that behave more ethically than their peers. These would include the Aberdeen and M&S funds that hold the likes of BP. Whether a company "behaves ethically" is judged on criteria such as the level of damage it inflicts on the environment, respect for human rights and financial clarity.

Aberdeen said: "We have been engaging with BP over a number of years and are saddened by events in the Gulf of Mexico. Since the disaster we have been



in regular contact with the company to seek an explanation and to ascertain the improvements they will make to their operations.”

Whether the BP disaster has hit a nerve with investors is a moot point, but Fidelity International said its funds supermarket had seen a renewed interest in ethical funds in the past few weeks.

Mark Robertson, from specialist investment researcher Eiris (Experts in Responsible Investment Solutions), said it was not just the disenchanted consumers who were turning to ethical investment. “Institutional investors are waking up to this. Pension funds are looking at ethical funds not as a moral choice but as a way of mitigating risk,” he said.

Lee Coates, from specialist financial advisers Ethical Investors, believes that only “dark green” funds should be able to call themselves “ethical” and said many funds that claim to be

ethical were anything but.

“It takes a higher calibre of manager to manage a truly ethical fund. Most managers are trackers but to be an effective ethical manager and turn out good returns, you have to be a truly active manager,” he said.

Mr Coates rated Aegon

Ethical Equity because Ms Ryan “embarrasses most other equity managers by outperforming them – even with a vegan fund”. As well as recommending the Guinness Alternative Energy fund and Impax Environmental Markets fund, Mr Coates suggested a fund of funds for investors new to the sector.

He said: “I recommend Way Investment’s Green Portfolio

fund; 20pc of my Sipp is invested in it. There’s a new ethical fund launched every month, I can’t keep up – but

these guys can.”

There is a belief about ethical funds that they place moral returns over financial ones. Sceptics argue that performance would be compromised by imposing restrictions – yet analysis has quashed such doubts. There have been times when ethical funds have outperformed. And, as in any sector, there are some good funds and some not so good.

Craig Evans of Tqinvest.co.uk said investing ethically did not have to come at the expense of investment performance. He pointed out that the Jupiter Ecology fund had provided above-average performance over the medium to long term, even though it has strict criteria.

Mr Coates added: “Every single investor should hold an ethical fund. Not just to offset your portfolio, but to expose yourself to making money. You don’t need an evangelical conversion to become a greeny – it is just sensible capitalism.”

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**THE SEVEN BIGGEST ETHICAL FUNDS**

Based on initial investment of £1,000

	Fund size	Performance		
		Over 5 years	Over 3 years	Over 1 year
F&C Stewardship Growth	£522m	£996	£656	£1,154
Jupiter Ecology	£334m	£1,445	£841	£1,143
Aviva Investors SF Managed	£305m	£1,213	£851	£1,128
CIS Sustainable Leaders	£268m	£1,277	£771	£1,135
Aberdeen Ethical World	£245m	£1,430	£972	£1,210
Aegon Ethical Equity	£221m	£1,308	£760	£1,126
Henderson Global Care Growth	£194m	£1,379	£985	£1,244

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**Stain: an aerial view of the slick from the Deepwater Horizon wellhead, as a bird lies dead and a worker cleans up**

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