

Ask the experts

We answer your financial queries



Q: WHAT ENVIRONMENTALLY-FRIENDLY INVESTMENTS WILL GIVE ME A BETTER RATE OF RETURN?

WHAT 'PASSION PURCHASES' WOULD YOU RECOMMEND AS GOOD INVESTMENTS?

A: Selecting an environmentally-friendly investment does not guarantee you a better return. In a sample of nine ethical global equity funds with a long enough track record, only three out-performed the MSCI World index over the 10 years to 31 May 2012. This is a similar success rate that mainstream actively managed funds enjoy, i.e. you have a two thirds chance of under-performing the index. The track record over the three years to 31 May 2012 is worse still with none of those nine funds out-performing the index.

In terms of a 'passion purchase', my advice would normally be to remove the emotion from your investment decisions. Academic research and the investible universe for many ethical funds share some common ground.

The research suggests that smaller companies have a higher expected return than their larger counterparts. Some ethical funds contain more mid and small cap stocks as a result of their screening or positive engagement process. For example, three of the 10 largest companies in the FTSE 100 produce alcohol or tobacco, so these would be excluded from most if not all ethical funds.

Although over £11 billion is now invested in ethical funds, this is less than 2% of the £600 billion total funds covered by the Investment Management Association. However, with nearly 100 ethical investment funds available today, anyone looking to ensure their investment returns do not compromise their social conscience has sufficient choice to build a well diversified portfolio.

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