



BARCHESTER GREEN INVESTMENT

Independent Financial Advisers
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Sustainable investment funds 2008- how did it go?

There was great excitement this time last year within the sustainable investment industry as the Investment Management Association (IMA) figures for 2008 announced record levels of new investment into socially responsible investment funds with the total in assets under management increasing to £8.9 billion. We also saw a number of new funds entering the market place and increased media interest in ethical and socially responsible investment.

It won't have escaped many peoples' attention that 2008 has been something of a difficult year for the fund management business as a whole and for investment markets.

So what has been the impact of all this very negative economic news on socially responsible funds, and on performance returns for investors seeking a socially responsible investment? And how have fund with a clear environmental or sustainability lead strategy fared in what has become a "bear" market?

Open ended investment companies and unit trusts

Because performance has been broadly negative across most of the main asset groups (equities, bonds and property) the question over twelve months has been which fund has fallen in value by the lowest percentage?

The funds which have preserved investor value most effectively have had some exposure to corporate and Government bonds within their portfolio of assets; for example AEGON's Corporate Bond and Cautious Managed funds with negative performance over one year of -12.1% and -19.6%-, these two funds sit at the top of the 12 mths performance league table for socially responsible investment funds. Both funds are relatively conventional screened funds avoiding morally sensitive business activities; tobacco production, defense and industries which lead directly to environmental degradation.

There is also plenty of evidence of market beating performance across funds employing a screened approach to investing with managed equity funds from Morley, Henderson and Aberdeen achieving outperformance against their sectors.



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More “risk” but a better return over the short term

Interestingly, funds which have taken greater “risk” with exposure to the shares of smaller companies in the environmental technology sector have not fallen in value as sharply as one might expect during a “bear” market. For example Henderson Industries of the Future although down by -26.4% has performed better than many lower risk funds another example would be Jupiter’s Ecology fund which is negative -28.7% over one year. Both of these funds have significant US equity exposure and therefore dollar denominated assets which will have supported performance over the last few months; due to the dollar’s appreciation against sterling.

What has been the cost of pursuing a sustainable investment strategy?

Looking back further, over a five year period, let’s take a look at how the major retail funds investing in the environmental sector have fared I have also provided figures for the Investment Management Association (IMA) Global Growth Sector a relevant peer group for these funds, as a benchmark measure.

Fund name	1yr performance	5yr performance
Jupiter Ecology	-28.7%	+47
Impax Environmental Markets	-34.2%	+45.2%
Henderson Industries of the Future	-26.0%	+15
IMA Global Growth Sector	-29.3%	+14.2%

Collective investment schemes which have pursued a sustainable investment strategy have performed well against their wider sector which suggests that fund managers tasked with buying into companies promoting sustainable business practice have not been at a disadvantage during this time period.



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A good example of a more targeted, yet still relatively mainstream, fund investing into the renewable energy sector would be the Blackrock New Energy fund which over one year has lost 44.5% (the FTSE World is negative 40.1%), but is up by 69.8% over five years compared with the FTSE World Index's dismal five year return of 5.9%.

Turning our attention to early stage investment into sustainable and environmental projects investors have seen much tougher times. Low Carbon Accelerator the Alternative Investment Market (AIM) listed investment company which focuses on four sectors; energy generation, energy efficiency, clean fuels and building materials has seen its share price tumble from 99.5p in early January to around 23.5p in December 08.

Conclusion

At least within the mainstream mutual fund market there is little evidence that investors into environmental business have suffered weaker returns than investors into conventional funds. In fact as the 5 year performance returns show environmental investments have held up rather well and still show a positive return over that time period.

As many of the world's leading economies look to fiscal stimulus packages as a measure intended to boost economic performance we remain optimistic that companies active in alternative energy, environmental protection, recycling, waste management and "green" transport will benefit.

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Notes:

Performance figures quotes are correct as at 11/12/2008 unit/share prices are not guaranteed and may fall as well as rise.

This information should not be relied upon as the basis for investment decisions.