The New York Times

Funds That Can Put Your Investments on a Low-Carbon Diet

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October 13, 2017

If you care about climate change, your money can help shrink your carbon footprint. You can buy appliances that are more energy efficient or a hybrid or electric car — or, better yet, a bike. You can install thicker insulation in your home or solar panels on your roof.

But investing in mutual and exchange-traded funds in ways that prioritize climate worries has been harder. Plenty of funds make environmental impact a factor in stock assessments, but few have proclaimed loudly that greenhouse gas emissions are a primary concern, and that has been a problem for investors committed to divesting from fossil fuels.

The smog has begun to clear. A spate of stock funds and E.T.F.s has appeared over the past several years that shun major fossil-fuel producers, like oil drillers and coal miners, or those with excessive greenhouse gas emissions. Carbon dioxide, spewed out mainly by the burning of fossil fuel, accounts for most of such emissions, so these new offerings often call themselves "low carbon."

Now there is a tool, the website **Fossil Free Funds**, that helps pinpoint funds and E.T.F.s focused on companies withsmaller carbon footprints. "There were 10 funds when we started that we identified as fossil-fuel free," said **Andrew S. Behar**, chief executive officer of **As You Sow**, the Oakland, Calif., environmental group that created **Fossil Free Funds**. "Now it's up to 31."

Fossil Free Funds sprang from **Mr. Behar's** effort to determine the carbon footprints of the funds in **As You Sow's** own retirement plan. The exercise showed him how tough it was to piece together the needed information. So he and a colleague, **Andrew Montes**, created the website, which began in 2015.

The site combines Morningstar data on stock holdings with screens like the Carbon Underground 200, a global index of coal, natural gas and oil companies. If a user types, say, "Vanguard's S.&P. 500 index fund" into the site's search box, a report is generated. That report shows that 21 companies, including Exxon Mobil and Chevron, and 4.28 percent of the fund's total assets overlap with the Carbon Underground 200. That means, of $10,000 invested in the fund, $428 will end up in fossil-fuel stocks.

In contrast, the site's report on the SPDR S.&P. 500 Fossil Fuel Reserves Free E.T.F. shows no overlap. As the E.T.F.'s name suggests, that lack of fossil fuel overlap is intentional.

"What this fund is doing is giving investors the S.&P. 500 minus companies that own reserves of crude oil, natural gas and thermal coal that are economically and technically recoverable," said Christopher C. McKnett, who leads environmental, social and governance strategy for State Street Global Advisors, the E.T.F.'s sponsor. The fund does not exclude reserves of metallurgical coal, which is used in the making of steel, but it does exclude utilities if they own their own reserves, he said. State Street created the E.T.F. for investors committed to divesting from fossil-fuel stocks, Mr. McKnett said.

Another State Street offering, the SPDR MSCI ACWI Low Carbon Target E.T.F., takes a different approach. Rather than barring companies, it favors energy and utility companies with smaller fossil-fuel reserves and lower carbon emissions. The fund is designed to replicate the world market as closely as possible — it invests globally, in developed and developing countries — while still being low carbon, Mr. McKnett said.

Blackrock's iShares MSCI ACWI Low Carbon Target E.T.F. is constructed similarly. Sarah Lee Kjellberg, head of iShares Sustainable E.T.F.s, said Blackrock created the fund partly at the request of institutional investors and financial advisers seeking a low-carbon offering that could serve as someone's core investment. "They're telling us, 'We're trying to strike a balance between providing market exposure and addressing the risk of climate change in our portfolios,'" she said.

A newer low-carbon E.T.F., the Etho Climate Leadership E.T.F., ranks companies according to their carbon efficiency, based on emissions per dollar invested. "We start by analyzing 6,000 companies globally of all capitalization sizes and distill them down to leaders in each industry," said Ian E. Monroe, president and chief sustainability officer of Etho Capital, the fund's sponsor. Mr. Monroe said the goal was not just to ditch big carbon-belchers and fossil-fuel behemoths but also to identify better-run companies. The fund, which began in late 2015, beat the S.&P. 500 last year and so far has done so this year.

Dimensional Fund Advisors offers two funds that make emissions and fossil-fuel reserves central considerations: the US Sustainability Core 1 Portfolio and International Sustainability Core 1 Portfolio. "Sustainability means different things to different people," said Joseph H. Chi, the company's co-head of portfolio management. "But what we've found is a focus on carbon is one thing people agree on."

When assembling the portfolios, Dimensional applies its usual financial metrics to companies, but it also assesses their emissions, Mr. Chi said. "Our approach is to rank companies both on an absolute basis and against their peers," he said. The portfolio managers then eliminate the those with the worst emissions, de-emphasize the lesser performers and overweight the better ones. Dimensional's one absolute climate-related exclusion is coal companies.

The list of climate sinners is longer at Parnassus Investments and Green Century Capital Management, two specialists in so-called socially responsible funds.

Both the Parnassus Fund and Parnassus Endeavor avoid companies involved in exploration, extraction, production, manufacturing or refining of fossil fuels. That effectively means the portfolio managers avoid the energy and utility sectors, said Ian E. Sexsmith, co-manager of the Parnassus Fund. They do this because some clients haveasked for fossil-free offerings and because of the managers' skepticism about the longer-term prospects of these industries, Mr. Sexsmith said. "As our world becomes more energy efficient and we get better at using alternatives," he said, "we think the energy sector is going to underperform."

Green Century likewise tries to eliminate fossil-fuel companies from its Green Century Equity Fund and Green Century International Index Fund, said Leslie Samuelrich, Green Century's president. The funds, passively managed indexed offerings, impose hard exclusions on coal, gas and oil, companies and on any utility that burns coal.

A group of environmental nonprofits started Green Century in 1991 and it has long avoided the fossil-fuel industry, but its marketing did not highlight that until recently.

"We didn't use the words 'fossil fuel free' till five years ago," Ms. Samuelrich said. "But the demand started to pick up, and we realized we should tell people. So we started promoting that, and since then, our assets have more than doubled," lately reaching $491 million for the company's three funds. Green Century also has a balanced fund that contains bonds as well as stocks.

The variety of low-carbon stock funds makes it easier for people to invest this way. Whether they should invest this way, from a financial standpoint, remains a subject of debate. Investment orthodoxy says that limiting your pool of investments stunts your potential return.

Jon F. Hale, director of sustainability research at Morningstar, said he doubted that people with well-diversified portfolios would see much of an impact on performance if they replaced, say, a conventional domestic, large-capitalization fund with a low-carbon one. A diverse portfolio, he said, would include funds spanning domestic and international markets, large- and small-capitalization stocks and developed and developing countries.

Mr. Hale said the returns of the low-carbon fund would not track the broader market: If the energy sector were to surge, the fund would probably underperform. But, he added, "There's a possibility of a positive return, too." That could happen if the world's economy continues to move toward greater energy efficiency and a greater reliance on renewable sources like wind and solar power.

Personal values have a place in investment decisions, Mr. Hale said, adding that some people viewed divestment from coal, gas and oil as a matter of morals, not money.

"I may be fine with the possibility of my portfolio performing a little less without fossil fuels because I want to add my voice to this movement or feel good about myself," he said. "I may be willing trade off some of the other investment benefits for that."

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