Unearthing The Fossil Fuels In Mutual Funds

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If you're into green investing, do you really know what's in your portfolio? Andrew Behar, the CEO of As You Sow, an Oakland, Calif.-based nonprofit that works with shareholders to promote corporate responsibility, discovered he didn't when he began digging around in the mutual funds of his employer-sponsored 401(k).

"I realized, and it took me hours to find out, that I owned all of the companies we're engaged with: Exxon, Chevron, Halliburton," Behar says. "In four of the seven funds that I owned, I was up to my neck in fossil fuels."

That was a problem for an organization that rallies investors to hold companies accountable on environmental, social and governance (ESG) issues, with climate change being one of the biggies. So in the name of practicing what they preach, As You Sow switched to a green retirement plan and developed a tool that allows investors to unearth the fossil-fuel company stocks (coal companies, oil/gas producers and fossil-fired utilities) in their own mutual funds, without spending hours doing so. The organization then partnered with investment research firm Morningstar—which provides the equity and mutual fund data—to launch Fossil Free Funds in September.

Free and easily searchable, the Fossil Free Funds database currently holds information on 1,500 mutual funds, chosen largely based on net assets and the number of retirement plans using them. Some smaller socially responsible funds were also included to provide options for investors who want to switch.

Typing in a fund's name or ticker lets you see the percentage of its assets, if any, that are invested in companies linked to fossil fuels. For now, the data represents only open-end funds or exchange-traded funds with at least 50% in equities, though As You Sow plans to add fixed-income products.

Behar says he hopes the transparency created by Fossil Free Funds will put pressure on companies to offer more fossil-free options in the retirement plans of their employees.

Putting Fossil Free Funds to the test, I typed in the ticker symbols of the two Fidelity mutual funds my husband and I own. The first, which invests in information technology, came up clean. The second, a global stock fund, turned out to be slightly dirty with 3.45% invested in companies such as Cabot Oil & Gas, Royal Dutch Shell and Chevron.

However, I ran into a roadblock when I tried to look into my 401(k), a plan sponsored by a former employer and run by Charles Schwab, which I've lazily held on to as a freelancer. Nearly 70% of my 401(k) assets are invested in a collective trust fund, a fund type exclusive to institutional investors and therefore exempt from disclosure requirements. In other words, to the extent that a retirement plan doesn't use retail products, it becomes less penetrable.

Of course, that doesn't mean an employee can't simply request socially responsible options, even if the particulars of their plan remain murky. This is something retirement plan administrators and financial advisors will likely see more of. Driven by a growing consensus that investing responsibly doesn't mean sacrificing returns, demand for ESG products has risen considerably among both institutions and individuals and shows no signs of slowing. Between 2012 and 2014, ESG assets under management in the U.S. grew 76%, to $6.57 trillion from $3.74 trillion, according to a report from the Forum for Sustainable and Responsible Investment.

Morningstar has taken note and is developing ESG scores for global mutual funds and ETFs it aims to roll out by year's end.