The Blue Summit Report

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Groundbreaking Report Just Released
Environmental risk in mutual funds

TruCost, an environmental research firm, just released a groundbreaking report that ranks mutual funds by their carbon footprint. The report assesses 75 of the largest US equity funds and 16 socially responsible / SRI funds identifying the greenhouse gas emissions associated with their combined almost 3,000 stock holdings.

As SRI investors, we have long believed that companies with poor environmental records will eventually be exposed to future costs related to their ecological impact. These could come in the form of clean-up costs, litigation costs, regulatory burdens, etc. Investment News, a national magazine, interviewed and quoted our own Judith Seid as saying, "This report is basically going to solidify what we have always believed conceptually, which is that companies that are less environmentally aware have greater risk."

Now it looks as though companies having a large carbon impact may very well be staring down some large future expenses if a cap-and-trade program begins, as proposed, in 2012. Reps. John Dingell and Rick Boucher have announced a cap-and-trade bill that amends the Clean Air Act to regulate greenhouse gases and force the U.S. to reduce greenhouse gas emissions 80% below 2005 levels by 2050. And we know that President Barack Obama plans to address climate change in order to reverse a trend of rising emissions. Under the plan, companies will have to purchase a permit for each ton of greenhouse gases they emit. The US budget predicts $79 billion in proceeds from the trading scheme in its proposed first year, rising to $646 billion by 2019.

Cap-and-trade schemes will have to change cost structures for companies and industries. As author Krosinsky predicts in the study "This will have knock-out effects on investment returns. There will be winners and losers… Carbon costs will increase operating costs for companies with carbon intensive energy sources …Attempts to pass on carbon costs are likely to drive up the price of goods and spur customers to switch to lower-carbon alternatives where possible."

In the study, fund holdings were grouped according to their investment styles. The footprint of the most carbon-intensive fund was over 38 times larger than the lowest-carbon fund, reflecting the range in potential carbon risk. And although there was a wide divergence in carbon intensity among all 91 funds studied, the combined Sustainability/SRI funds measured the smallest carbon footprint of all categories.

Al Gore, former Vice President of the US, warned at the United Nations Institutional Investors Summit on Climate Risk (Feb 14, 2008, New York) that, *"You need to really scrub your investment portfolios, because I guarantee you — as my longtime good redneck friends in Tennessee say, I guarandamntee you — that if you really take a fine-tooth comb and go through your portfolios, many of you are going to find them chock-full of subprime carbon assets."*

The importance here is that mutual funds comprised of companies that are carbon-efficient may be less exposed to escalating carbon liabilities, making them better positioned for future sustainable profits and investment returns than their carbon-laden peers.

You can find the entire study linked to our website here.

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