

Funds with less carbon and more green make more profit for investors

TORONTO, January 20, 2016 – Corporate Knights today released its inaugural Eco-Funds Ratings for 424 Canadian equity mutual funds across four fund categories.

Funds were assessed according to three factors against their fund category peers: the per cent of the fund invested in green companies, weighted carbon intensity of the fund's holdings and the compound three-year return net of fees. The top one-fifth of funds in a fund category were awarded a Five-Tree Rating as a mark of excellence for combining environmental and financial performance.

Analysis of the 424 funds found the average carbon intensity across fund categories was 292 tonnes of carbon (CO₂e) per million dollars of sales, while the average exposure to green companies was 5.5 per cent of total weight.

Using data from the Eco-Fund Ratings, Professor Olaf Weber at Waterloo University found that increased exposure to green companies increased financial returns. Increasing the percentage of green companies in the fund by one per cent increased the three-year compound return by 0.2 per cent. In addition, Prof Weber found that funds' three-year compound return was significantly influenced by the carbon intensity of the fund. A reduction of 100 tCO₂e/\$m sales increased the three-year compound return by 10 per cent. The same was valid for an increase in tCO₂e/\$m sales. An increase of 100 tCO₂e/\$m sales decreased the three-year compound return by 10 per cent. The regression function is statistically significant and is able to explain about 13 per cent of the funds' volatility.

The regression analyses for the combination of both carbon intensity and exposure to green companies explained 15 per cent of the funds' volatility. The result of the combined analysis suggests that a reduction of the carbon intensity by one tCO₂e/\$m and an increase of the exposure to green companies by one per cent increased the three-year compound return by 0.2 per cent.

The starting universe of mutual funds, fund categories and all market data such as market weights and three-year compound returns were obtained from Fundata, who combine analytics expertise and industry intelligence with the most comprehensive investment fund database in the market. All carbon emissions data were sourced from South Pole Group, a trusted global provider of carbon emissions data.