More than half of ethically investment funds have outperformed the wider global stock index in the market downturn by avoiding exposure to oil and energy sectors that have dragged down passive funds.

The MSCI World stock index fell by 14.5 per cent in March, but 62 per cent of global environmental, social and governance-focused large-cap equity funds outperformed the global tracker, according to data from Morningstar.

“It would be a stretch to say that ethical funds have been resilient to the sharp downturns in global markets, but they have fared better,” said Teodor Dilov, fund analyst at Interactive Investor, the UK investment platform.

Sectors favoured by ESG fund managers including tech have been less impacted by lockdowns and social distancing measures to combat the spread of the coronavirus.

“Telecommuting, distance learning, telemedicine, these trends are accelerating,” said Erika Karp, chief executive at Cornerstone Capital, an impact investment firm. “Sustainable investors think about the future, investments they can make that will produce a positive social change. It’s natural that ESG would outperform.”

Many managers create ESG versions of their funds to appeal to investors. Analysis by Interactive Investor found that two-thirds of these ESG funds had outperformed their traditional counterparts since the beginning of the year. Measured over three years, that number increased to 80 per cent.
“ESG funds tend to be biased towards higher quality companies with a stronger balance sheet, companies that are run better and operate more efficiently,” said Hortense Bioy, director of passive strategies and sustainability research at Morningstar.

ESG investments have experienced inflows for each of the last 10 weeks, Bank of America said in a report last week, and have attracted more than $70bn in assets in the past year.