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FLAT WHITE

Superannuation funds and green energy

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A new One Nation cartoon speculates that when it comes to superannuation funds which are union-controlled, ALP donors support renewable energy and oppose coal, gas, and nuclear because they have huge holdings of the firms receiving the subsidies to renewable energy. But it is not only ALP-aligned super funds adopting this stance.

The subsidies to renewables are not sufficient to prevent costs being incurred by investors in 'Environment Social Governance' (ESG) funds – actually now a virtual pseudonym for those investing in businesses pursuing 'CO2 Net Zero'.

While most share market managers are as Woke as the average professional indoctrinated in our educational institutions, they are in a competitive business. And most of their clients are keener in maximising their wealth than saving the planet from supposed CO2-induced global warming.

At the same time, many superannuation clients do express a preference for avoiding fossil fuel investments. They are reassured in this by a cacophony of messages from the government and advocacy groups proclaiming such investments as losers – especially over the longer term.

Some Woke-managed funds have performed well. However, prognostications notwithstanding, in Australia the S&P Global Clean Energy Select Index showed a 27 per cent *loss* of value over 2023-24 compared with an 8 per cent *gain* for the diversified MVIS Australia Equal Weight Index. Similarly, the IShares Global Green fund, having provided good returns over the past five years, fell 28 per cent last year.

The average gain of those super funds listed by Canstar that have readily identifiable results was 8.7 per cent for 2023-24 and 6.4 per cent per year during the past five years. The funds returning over 10 per cent in 2023-24, alongside their claimed and actual position according to data assembled by green advocates Market Forces, were as follows:

Top Superfunds 2023/24				
Provider	year 23/4	5 yrs to 23/24	Claimed Climate exclusions	Actual Fossil Fuel share
Catholic Super Employer – Growth Plus	11.8	8.1	avoid	10
GuildSuper | Building	11.8	7.4	none	10
Mine	11.6	8.1	none	10
Virgin Money | LifeStage Tracker	11.5	7.9	none	11
AMP | SignatureSuper 1990s Plus	11.1	6.3	none	11
Future Super | Balanced Index	11	5.5	exclude	0
Mercer| SmartSuper SmartPath	10.5	7.2	none	10
Active Super | Lifestage – Accelerator	10.4	8.2	exclude	9
Child Care Super | Growing	10.3	7.3	none	10
Aware super High Growth	10.1	7.9	exclude	7
Verve	10	4.7	exclude	0

This shows, of the five providers (out of eleven) claiming to exclude or avoid fossil fuel investments only two, Future Super and Verve, actually do so. Although providing good returns in 2023-24, neither of these two firms performed well over the five years to 2023-24.

Indeed, most providers claiming to exclude fossil fuels actually have fossil fuel holdings similar to those with no such claims.

Super Firms that Exclude Fossil Fuel Investments			
Provider	year 23/4	5 yrs to 23/24	Fossil Fuel Share
Active Super | Lifestage – Accelerator	10.4	8.2	9
Australian Ethical Balanced	6.1	5.7	0
Aware super High Growth	10.1	7.9	7
Cbus Growth (Cbus MySuper)	7.3	6.3	7
Future Super | Balanced Index	11	5.5	0
Prime Super MySuper	7.7	5.6	5
Spirit Super	7.6	5.7	9
Unisuper	7.5	6.5	11
Vision Super | Personal – Balanced	8.4	7	7
Verve	10	4.7	0

Some funds formerly badging themselves as green are now quietly increasing investment in reliable, commercial energy. This is a recognition that the value presented by demonised fossil fuel-oriented businesses is greater than that popularised by activists. Sentiment, in downgrading share prices accentuates underlying values and this provides a corrective force.

But investment managers claiming to act in a different way than that which they advertise has not gone unnoticed by the regulatory authorities.

Earlier this year, Vanguard Investments Australia admitted in the federal court to have made misleading ESG claims about its investments in Vanguard's Ethically Conscious Global Aggregate Bond Index Fund. Vanguard's One Path fund last year performed above average, perhaps because of their fossil fuel investments. Vanguard will be issued a financial penalty next month – a penalty which, ironically, may mean its investors pay the government for having been misled!

Many other mega funds, having invested in businesses involved in fossil fuels, seek to pressure those firms' management to exit or modify that part of their activities. This is different from previous practices. Rather than seeking to change businesses' strategies, in the past, such holdings were 'passive'. The funds held, accumulated or decumulated particular shares on the basis of actual and perceived performance of the managers.

Markets tend to correct illogical decisions. But with individuals' savings controlled by fund managers, many of whom are infused by strong ideological preferences, we have a further force canalising entrepreneurial decisions in directions that many of us think are harmful.

Writing for the American Institute for Economic Research, Kimberlee Josephson concludes:
‘Thanks to a complex web of Corporate Social Responsibility initiatives, aid and development programs, progressive intergovernmental agencies, and the do-good posturing of political elites, businesses will further be ensnarled to ESG.
‘We must all come to terms with the fact that ESG has been around long before the political agendas of today and it will continue to evolve until that tie can be broken by a truly free market system.’