Leslie Samuelrich is president of Green Century Capital Management. It is owned by environmental nonprofit groups.

If you want to invest in companies that are not just making a profit but are also doing good in the world (or, at least, doing no harm), you may find yourself overwhelmed by confusing choices.

It’s like searching for new headphones or a restaurant in a strange city — too many options, too much information — but more stressful because the stakes are so much higher.

The vocabulary of this kind of investing is arcane. It is known as environmental, social and governance (or E.S.G.) investing, or sometimes simply as “socially responsible investing.” These labels encompass a wide array of options and criteria, which have
been used for years among mutual funds and exchange-traded funds, or E.T.F.s, focused on companies in the United States.

Lately, this kind of investing has surged in the international sector, too. EPFR Global, an investment information provider in Cambridge, Mass., says traditional mutual funds and E.T.F.s involved in international E.S.G. investing have been pulling in new money for much of the last three years, with an uptick in the last few months.

The variety of offerings in this niche stems from the many definitions of the international E.S.G. mandate. Some funds, like the Matthews Asia ESG Fund, try to hold the best performers in a swath of industries and countries and don’t rule anyone out. The Matthews fund’s manager, Vivek Tanneeru, said, for example, he doesn’t bar fossil-fuel companies from the portfolio, as some managers might. “I’m happy to invest in natural-gas distribution in Asia,” because that helps people shift away from dirtier-burning coal, he said.

Other offerings, like the Parnassus Asia Fund, exclude a few industries (tobacco companies are a common no-no) but otherwise hew to the best-performers approach.

And then there are the passively invested indexed products, which julienne foreign markets in many ways. Fidelity Investments,* for example, last year introduced its International Sustainability Index Fund, constructed around the MSCI ACWI ex US ESG Index. That knot of abbreviations means the fund invests in large- and mid-cap companies outside the United States in both developed and emerging markets. In contrast, the BlackRock* MSCI EAFE ESG Optimized ETF invests only in the developed world, minus the United States and Canada.

Some index funds winnow the world even more finely. The Green Century MSCI International Index Fund buys shares of companies outside the United States whose businesses aren’t built around fossil fuels. Leslie Samuelrich, president of Green Century Capital Management in Boston, said the fund invests in “no exploration, extraction, processing, refining or transmitting of coal, oil or natural gas and no utilities that burn fossil fuels or any other companies that have carbon reserves.” Factory farms are out, too. Green Century is owned by a group of environmental nonprofit groups, which accounts for its strict guidelines, Ms. Samuelrich said.

George Serafeim, a Harvard Business School professor, said the recent profusion of international options springs partly from today’s deluge of data. These days, information is more accessible on foreign companies and on the performance of strategies oriented to environmental, social and governance investing, he said. That has helped fund managers prove that their approach can compete with common ones like buying domestic value or small-cap stocks.

Recent research, for example, has shown that “E.S.G. data gives you information about risk or opportunities that you’re not getting from financial data,” Professor Serafeim
said. He and two colleagues found evidence that companies that demonstrate good performance on E.S.G. metrics that matter for their industry (say, efficient water use by a beverage maker) subsequently outperform peers.

MSCI, the index provider, has likewise documented that investment strategies that overweight E.S.G. performers can outdo broader market benchmarks.

Knowing an E.S.G. strategy can thrive and identifying funds that will aren’t the same thing; they’re as different as having a friend who finished a marathon and doing one yourself. To pick a particular E.S.G. offering, you must do some sleuthing, and even then, nothing is guaranteed.

Todd L. Rosenbluth, senior director of E.T.F. and mutual fund research at CFRA, an investment research firm, said he likes to see at least three years of performance when assessing an actively managed fund. That can give a sense of its ability to weather the market’s ups and downs. His rule of thumb would eliminate some of the offerings in this niche; they’re too new. But a few E.S.G. pioneers have offered international funds for years.

The Domini Impact International Equity Fund, for example, began in 2006, and the Calvert International Equity Fund in 1992, though the latter fund’s management changed last year when Eaton Vance in Boston purchased Calvert’s assets. Eaton Vance portfolio managers now select the fund’s holdings from a pool of stocks screened, via E.S.G. criteria, by Calvert analysts.

When evaluating index funds, Mr. Rosenbluth doesn’t worry as much about an offering’s age. With such funds, an investor can check the performance of the underlying index — MSCI, for example, provides data on its many indexes on its website.

Mr. Rosenbluth added that, before investing in any international E.S.G. index fund, you should compare its performance to that of a broader, well-established index like MSCI’s EAFE, which includes stocks from 21 developed countries excluding the United States. A fund need not beat a broader index, but its performance should be reasonably close, he said. “At the end of the day, you are hoping your money will appreciate,” Mr. Rosenbluth said.

People eyeing international E.S.G. funds may also want to add another layer of evaluation that’s not needed with ordinary investments: assessing whether it meets your own definitions of social responsibility. You could call that its “E.S.G.-ness.”

The old-fashioned way of doing that is to check the fund’s holdings, typically available on its website. If you worry about climate change and find a clutch of oil drillers, even ones with good E.S.G. reputations, you might think twice about buying in.
Last year, Morningstar* introduced sustainability ratings of funds to facilitate this kind of assessment. It ranks funds with one to five globes, with five being the best. The ratings apply to all funds, not just those that label themselves as E.S.G. offerings, said Jon F. Hale, Morningstar’s director of sustainability research. Thus the Artisan International Value Fund, which doesn’t have an E.S.G. mandate, has the same five-globe rating as the Pax MSCI EAFE ESG Leaders Index Fund, which does.

“The rating doesn’t tell you if the fund is an intentional E.S.G. fund,” Mr. Hale said. “It just tells you what’s in the portfolio. We did it this way because there’s a lot of interest in E.S.G. among retail investors but, relatively speaking, a lack of product. There are only about 150 E.S.G. funds in the U.S. market, and we have about 8,000 mutual funds.”

Costs can consume the returns of international E.S.G. investors, just as they can for everyone else. And funds in this niche can cost more than counterparts outside it. That’s a frustration for Daniel M. Flannery, owner of Balanced Rock Investment Advisors in Boston.

Mr. Flannery said he directs his clients to low-cost index funds because ample evidence shows investors do better when they keep costs down. But he has had trouble finding E.S.G. funds with rock-bottom expense ratios. “If you’re looking carefully and trying to get E.S.G. exposure, you get stuck at expense ratios of around 0.3 to 0.5 percent,” he said. “I don’t see options that can drive that down to the 0.1 or 0.2 percent you can get with non-E.S.G. index funds.”

He said he was encouraged by BlackRock’s introduction of its iShares MSCI EAFE ESG Optimized and MSCI EM ESG Optimized E.T.F.s. He said the expense ratios, at about 0.4 percent, are higher than he likes, but still reasonable for new funds. What’s more, BlackRock itself ranks well on E.S.G. criteria, he said. “That matters to some customers.”

Higher prices for newer international E.S.G. funds are no surprise: New funds often charge more than older ones, partly because they’re often smaller and don’t enjoy the same economies of scale.

Mr. Hale of Morningstar predicted that expense ratios would fall as international E.S.G. funds and E.T.F.s grow and even more offerings crowd into the sector. “Any fund out there that truly wants to build a significant asset base is going to have to be price-competitive,” he said.

###

*As of June 30, 2017, Blackrock, Inc. comprised 0.00%, 0.00%, and 0.57% of the Green Century MSCI International Index Fund, the Green Century Balanced Fund and the Green Century Equity Fund, respectively. Other securities mentioned were not held in the portfolios of any of the Green Century Funds as of June 30, 2017. References to specific securities, which will change due to ongoing
management of the Funds, should not be construed as a recommendation by the Funds, their administrator, or their distributor.

You should carefully consider the Funds' investment objectives, risks, charges and expenses before investing. To obtain a Prospectus that contains this and other information about the Funds, please visit www.greencentury.com for more information, email info@greencentury.com or call 1-800-93-GREEN. Please read the Prospectus carefully before investing.

Stocks will fluctuate in response to factors that may affect a single company, industry, sector, country, region or the market as a whole and may perform worse than the market. Foreign securities are subject to additional risks such as currency fluctuations, regional economic and political conditions, differences in accounting methods, and other unique risks compared to investing in securities of U.S. issuers. Bonds are subject to risks including interest rate, credit, and inflation. The Funds’ environmental criteria limit the investments available to the Funds compared to mutual funds that do not use environmental criteria.

This information has been prepared from sources believed reliable. The views expressed are as the date of publication and are those of the Advisor to the Funds.

The Green Century Funds are distributed by UMB Distribution Services, LLC. UMB Distribution Services does not distribute other investment products mentioned. 7/17