

SRI vs non SRI: An empirical analysis of European mutual funds

Antonella BASSO* and Stefania FUNARI**

Università Ca' Foscari Venezia

*Dipartimento di Economia, *basso@unive.it*

**Dipartimento di Management, *funari@unive.it*

Extended abstract

Green, social and ethical mutual funds, on the whole often referred to as socially responsible investment (SRI) funds, have seen an increasing interest among investors.

This phenomenon is relevant both in the United States and in Europe; for example, in 2007 there were 173 socially and environmentally screened mutual funds in the U.S., for a total net asset of 171.7 billion dollars, and 437 green social and ethical funds domiciled in Europe, for a total asset under management of 48.7 billion euros.

It is also very dynamic; for example, in 2009 the number of European SRI funds has grown to 683, for a total asset under management of 53.276 billion euros. The fast growth of socially responsible mutual funds is certainly linked to the higher and higher interest in socially responsible investing observed in the last years and SRI mutual funds are probably the most prominent financial instrument in the field of ethical finance.

The investors' behaviour that leads to socially responsible investment decisions in general and to investments in SRI mutual funds in particular has been investigated in the economic and financial literature from different points of view over the years; see for example [1], [2], [3], [4], [5], [6], which study the determinants of these investment choices.

Given the ethical considerations which drive green, social and ethical investments in general, ethical investors may be willing to accept even lower financial returns, if they are counterbalanced by appropriate ethical achievements. Actually, the literature on ethical investing has long investigated the issue of the eventual penalisation incurred by investments in SRI mutual funds, in search for an answer to the question whether it is possible "to do well while doing good"; see for example [7] and [5] for a brief review. As it will be discussed in next section, the answer which comes out from many empirical investigations are somewhat surprising, since most of the

investigations presented in the literature suggest that it is not necessary to sacrifice returns in order to pursue ethical objectives.

Anyhow, if one wishes to evaluate the overall performance of SRI mutual funds it is necessary to use a technique which enables to take into account both primary objectives pursued by ethical investors: the ethical objective and the desire to get an optimal reward-to-risk result. A methodology that can be used to this aim is data envelopment analysis (DEA), an operational research technique widely used to assess the performance of a set of decision making units in many different fields (public organisations, schools, hospitals, banks, and so forth) and can be applied to evaluate the performance of mutual funds (see [8]); for a comprehensive introduction to DEA see [9]).

The main aims of this contribution are to measure the overall performance of the European SRI mutual funds with an appropriate DEA model and to investigate whether, and how much, investors have to be prepared to give up something in terms of financial returns when investing in a socially responsible manner in Europe.

In order to do so, we build an ethical measure based on the main socially responsible features usually taken into account by green, social and ethical screened mutual funds; this measure evaluates the most widely used ethical strategies, namely negative and positive screening issues and the presence of an ethical or environmental committee.

The time period considered in the analysis, the triennium June 2006–June 2009, has recorded a heavy economic recession and this has posed a challenge for the analysis of the performance of mutual funds. Indeed, in the triennium considered, the mean returns of most mutual funds turned out to be negative, preventing the usual DEA models for ethical and non ethical mutual funds from being applied. On the other hand, the presence of negative mean return gives a lot of trouble also to other widely used performance criteria; see for example [10] and [11] for the problems that arise with the Sharpe ratio. In order to overcome this difficulty, we propose some adjustments of the DEA models proposed in [8] and [12], envisaged in order that they can be used regardless of the phase of business cycle.

In the empirical analysis carried out these modified models are used to evaluate the performance of SRI equity mutual funds in the different European countries in which some socially responsible mutual funds are domiciled. Moreover, an ad hoc investigation compares the performance indicators for SRI and non SRI mutual funds, with the aim of determining if the socially responsible mutual funds entail a sacrifice in terms of financial performance. To this aim, we have carried out a series of statistical tests for different definitions of the two SRI/non SRI categories of mutual funds. The results of this series of tests are interesting and suggest that only the funds with a really high socially responsible profile require a sacrifice in terms of financial performance.

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