



I ENCUENTROS EMPRESA-GRUPOS DE INVESTIGACIÓN CLÚSTER DE ENERGÍA, MEDIO AMBIENTE Y CAMBIO CLIMÁTICO

GRUPO: Inversión Socialmente Responsable y Desarrollo Sostenible

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OBJECTIVES

1. Measurement of Social Responsibility of Mutual Funds, enabling the multicriteria assignment of each mutual fund to a category which may range from non-socially responsible to socially responsible with different spreads.

2. Portfolio optimization on mutual funds taking into account both, financial and SRI criteria considering also individual targets of SRI conscious investor. Financial criteria include both, return and risk targets and are based on VaR related risk measures.

MOTIVATION

- ✓ Near 11% of **assets** under professional management in the U.S. are involved with **SRI**.
- ✓ SRI assets rose more than 324% from 1995 to 2007.
- ✓ From 2005-2007 alone, **SRI assets increased** more than 18%, while the broader universe of professionally managed assets increased less than 3%.
- ✓ The average number of **shareholder** support for **resolutions** on social and environmental issues increased 57% from 2005 to 2007.
- ✓ Assets in **community investing** rose more than 32% from 2005-2007 and it is continuing to rise.

Source: Social Investment Forum (2009)

MOTIVATION

Table 1. SIF Member Mutual Funds' Performance by benchmark

	1-year	3-year	5-year	10-year
U.S. Large Cap				
Benchmark: S&P 500	26.46%	(5.63%)	0.41%	(0.95%)
# SRI funds analyzed	73	56	41	32
SRI fund performance	32.67%	(4.92%)	(0.24%)	0.03%
% SRI funds beating benchmark average	72.6%	50.0%	36.6%	62.5%
U.S. Mid Cap				
Benchmark: S&P 400 Mid Cap	37.38%	(1.83%)	3.27%	6.36%
# SRI funds analyzed	9	9	6	4
SRI fund performance	36.24%	(4.00%)	(0.15%)	0.77%
% SRI funds beating benchmark average	33.3%	33.3%	0.0%	25.0%
U.S. Small Cap				
Benchmark: Russell 2000	27.17%	(6.07%)	0.51%	3.51%
# SRI funds analyzed	16	10	6	5
SRI fund performance	32.37%	(7.65%)	(4.70%)	1.46%
% SRI funds beating benchmark average	62.5%	20.0%	0.0%	20.0%
U.S. Balanced				
Benchmark: Blend 60% S&P 500, 40% Barclays Capital U.S. Aggregate	18.40%	(0.67%)	2.52%	2.25%
# SRI funds analyzed	9	7	7	7
SRI fund performance	20.54%	(2.70%)	0.78%	1.12%
% SRI funds beating benchmark average	77.8%	14.3%	0.0%	28.6%
U.S. Fixed Income Bond				
Benchmark: Barclays Capital U.S. Aggregate	5.93%	6.04%	4.97%	6.33%
# SRI funds analyzed	15	14	13	10
SRI fund performance	8.04%	4.86%	4.13%	5.40%
% SRI funds beating benchmark average	66.7%	14.3%	7.7%	0.0%
International Equity- EAFE				
Benchmark: MSCI-EAFE	32.46%	(5.57%)	4.02%	1.58%
# SRI funds analyzed	16	12	5	5
SRI fund performance	28.11%	(10.45%)	(1.16%)	(2.94)%
% SRI funds beating benchmark average	31.3%	0.0%	0.0%	0.0%
International Equity-Global				
Benchmark: MSCI-World	30.79%	(5.09%)	2.57%	0.23%
# SRI funds analyzed	5	1	1	1
SRI fund performance	35.03%	(2.26%)	4.24%	3.33%
% SRI funds beating benchmark average	100.0%	100.0%	100.0%	100.0%
Percent of SRI funds (all asset classes) beating benchmark	65.0%	32.7%	21.5%	37.5%

Average Annual Returns

Source: Benchmarks selected by and data from Thomson Reuters; Analysis by Social Investment Forum, Washington, DC. 2009.

MOTIVATION

**Mutual Funds Performance
Measurement According to
Socially Responsible
Criteria**



**Mutual Funds Performance
Measurement
According to Financial Criteria**

RESEARCH QUESTIONS

Difficulty to find **performance measures** giving us information about the **strengths or weaknesses** of **mutual funds** with respect to **non financial** issues with a **multidimensional** and **qualitative nature** which are, most of the times, **intangible** and **incommensurable** in monetary terms.

How to translate in an operational way the social responsible issues into evaluation criteria?

How to describe in a quantitative way the different performance levels of each mutual fund with respect to those criteria?

MUTUAL FUNDS SRP

Socially Responsible Investment Strategies

Screening

Is the practice of evaluating mutual funds based on social, environmental and good corporate governance criteria. **Positive screening** implies investing in profitable companies that make positive contributions to society. Conversely, **negative screening** implies avoiding investing in companies whose products and business practices are harmful to individuals, communities, or to the environment.

MUTUAL FUNDS SRP

Table 2. SIF Member Mutual Funds' Approaches to Issues

Issue Area	Excludes (x)	Restricts (r)	Positive screen (p)	Not active (-)
Climate and/or clean technologies	0.0%	5.9%	65.6%	29.4%
Pollution and toxics	0.0%	3.1%	65.0%	31.9%
Other environmental	2.5%	1.3%	88.8%	7.5%
Community development	0.0%	0.0%	72.5%	27.5%
Diversity and EEO	0.0%	1.9%	83.1%	15.0%
Human rights	0.0%	36.9%	49.4%	13.8%
Labor relations	0.0%	1.9%	80.6%	17.5%
Board issues	0.0%	0.0%	63.1%	36.9%
Executive pay	0.0%	1.3%	53.8%	45.0%
Alcohol	28.8%	55.0%	0.0%	16.3%
Animal testing	3.8%	71.9%	0.6%	23.8%
Defense and weapons	26.3%	65.0%	0.0%	8.8%
Gambling	28.8%	50.6%	0.0%	20.6%
Tobacco	37.5%	58.1%	0.0%	4.4%

- (x) Screens out companies involved in this issue.
- (r) Restricts investments in worst performers on this issue.
- (p) Selects best performers on this issue.
- (-) Is not active on this issue.

Source: Social Investment Forum, Washington, DC. 2010.

MUTUAL FUNDS SRP

Literature Review on Mutual Funds' Socially Responsible Performance

SOCIALLY RESPONSIBLE PERFORMANCE



SCREENING INTENSITY



NUMBER OF APPLIED SCREENS

MUTUAL FUNDS SRP

OUR APPROACH TO SOCIALLY RESPONSIBLE PERFORMANCE (SRP) MEASUREMENT

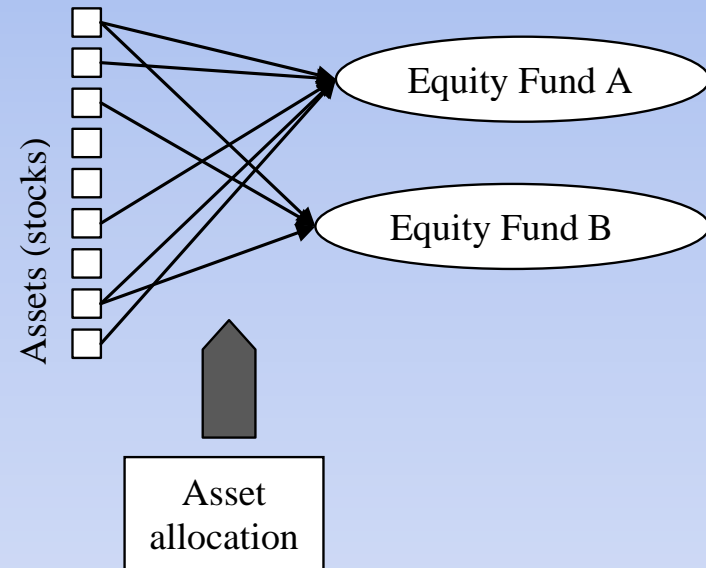
**LEVEL 1: COMPANY LEVEL
(CORPORATE SOCIAL
RESPONSABILITY)**

**LEVEL 2: MUTUAL FUND'S
MANAGEMENT LEVEL
(SRI INVESTMENT STRATEGY &
TRANSPARENCY AND CREDIBILITY)**

**MUTUAL FUNDS' MANAGEMENT
SOCIAL RESPONSIBILITY
PERFORMANCE MEASUREMENT**

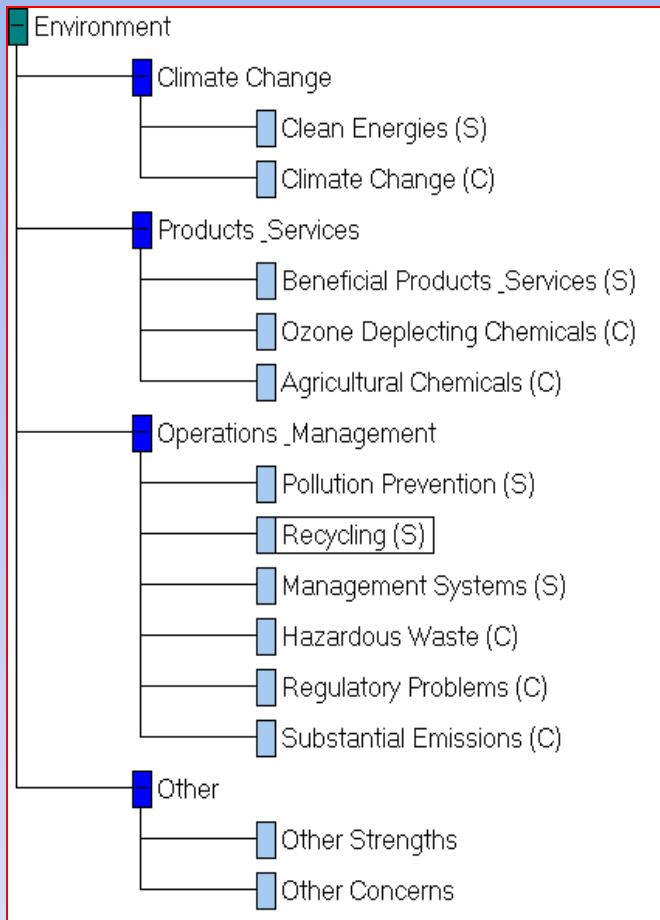
LEVEL 1

LEVEL 2



MUTUAL FUNDS SRP

LEVEL 1: Decision Making Criteria at the company level (Environmental Performance Criteria: Strengths and Concerns)



Criteria	Description
Strengths	(S ₁) Beneficial Products & Services. The company derives substantial revenues from the development of innovative products with environmental benefits, including remediation products, environmental services, or products that promote the efficient use of energy or it has developed innovative products with environmental benefits.
	(S ₂) Pollution Prevention. The company has strong pollution prevention programs, including both emissions and toxic-use reduction programs.
	(S ₃) Recycling. The company is either a substantial user of recycled materials in its manufacturing processes, or a major firm in the recycling industry.
	(S ₄) Clean Energy.
	(S ₅) Management Systems. The company has demonstrated a superior commitment to management systems through ISO 14001 certification and other voluntary programs.
Concerns	(C ₁) Hazardous Waste. The company has substantial liabilities for hazardous waste, or has recently paid significant fines or civil penalties for waste management violations.
	(C ₂) Regulatory Problems. The company has recently paid substantial fines or civil penalties for, or it has a pattern of controversies regarding, violations of air, water, or other environmental regulations.
	(C ₃) Ozone Depleting Chemicals. The company manufactures ozone depleting chemicals such as HCFCs, methyl chloroform, methylene chloride, or bromines.
	(C ₄) Substantial Emissions. The company's emissions of toxic chemicals into the air and water from individual plants are notably high.
	(C ₅) Agricultural Chemicals. The company is a substantial producer of agricultural chemicals, including pesticides.
	(C ₆) Climate Change. The company derives substantial revenues, directly or indirectly, from the sale of coal or oil and its derivative fuel products.

MUTUAL FUNDS SRP

LEVEL 2: Decision Making Criteria at the Management Level (Transparency and Credibility of the Screening Information provided by the Mutual Fund)

3. QUALITY OF INFORMATION PROVIDED BY MUTUAL FUNDS: CONTENTS, TRANSPARENCY & CREDIBILITY

DESCRIPTION OF CRITERIA		
A. Screening Approach	N1	✓ The fund indicates the explicit criteria for screening decisions.
	N2	✓ The fund applies social screening first, then financial screening.
B. Advocacy & Public Policy	O1	✓ The fund has a proxy voting policy and discloses voting practices and reasoning for decisions.
	O2	✓ The fund sponsor/co-sponsors shareholder resolutions.
C. Research process	P1	✓ The fund presents a description of its SRI research methodology and process.
	P2	✓ The fund has its own internal research team composed by experts in SRI analyzing company activities in order to identify suitable investments.
	P3	✓ The fund uses external research expert providers such as rating agencies to get that information.
D. External Control	Q1	✓ The fund is engaged in an ethical external audit periodically.

ACTUAL CHALLENGES

- ✓ **CORPORATE SOCIAL RESPONSIBLE QUANTITATIVE DATABASE FOR SPANISH COMPANIES**
- ✓ **RELATIONSHIP BETWEEN FINANCIAL AND ENVIRONMENTAL PERFORMANCE**
- ✓ **INCORPORATION OF MANAGER'S SKILLS, KNOWLEDGE, EXPERTISE LEVEL INTO THE EVALUATION MODEL.**
- ✓ **INVESTMENT DECISION MAKING SOFTWARE DEVELOPMENT FOR PRIVATE INVESTORS**
- ✓ **FINANCIAL SUPPORT**



THANK YOU VERY MUCH!