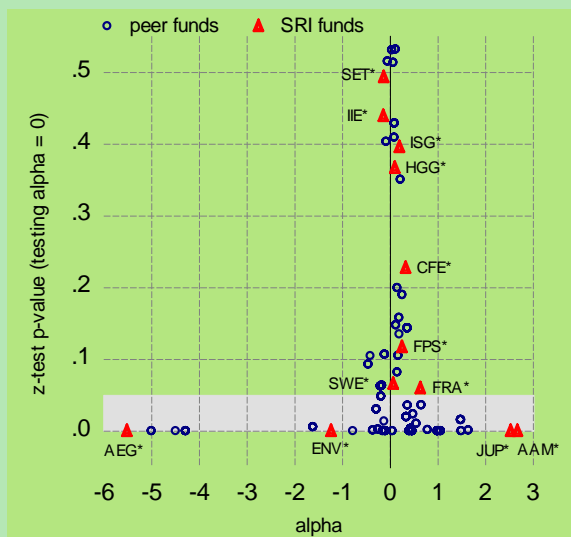


## Introduction

Socially responsible investment (SRI) is limited in the UK but is the fastest growing investment sector. Expansion is constrained by a common supposition that investing in a socially responsible or 'ethical' manner must entail a reduced financial return. This project examines the financial performance of 13 established SRI funds. A particular novelty of the project is the examination of the volatility of financial returns in addition to the mean level of returns.

### Mean Financial Return

A modified Capital Asset Pricing Model (CAPM) was used. Previous researchers have faced low efficiency in the detection of significantly high or low mean returns as the fluctuating volatility of the data (heteroscedasticity) is problematic with conventional regression techniques. Here heteroscedasticity was modelled using generalised autoregressive conditional heteroscedasticity (GARCH) models, delivering reliable estimates of risk-adjusted mean performance.

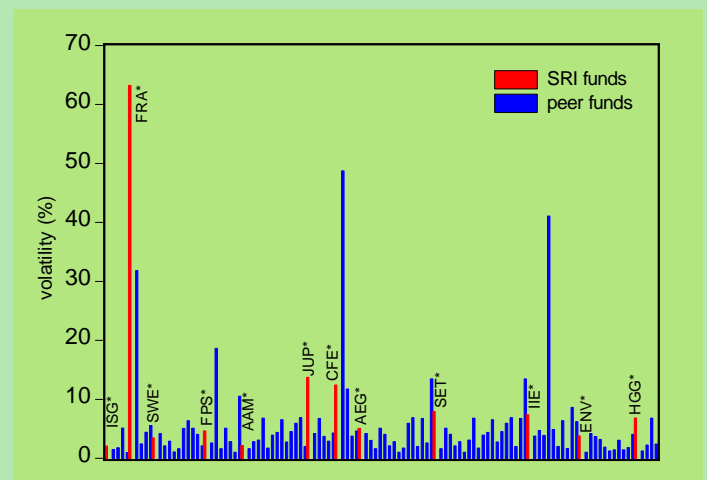


Mean performance (alpha) of SRI funds and peers

SRI funds (red) have similar mean return to their peers (blue) and in most cases not significantly different from the market (not in the grey region). Jupiter Ecology (JUP\*) and Allchurches Amity (AAM\*) stand out as good performers.

### Volatility of Returns

The GARCH modelling approach also yields information regarding the volatility of each fund about the market benchmark.



Volatility (mean conditional variance) of SRI funds and peers, listed in order of SRI fund launch date

Amongst funds listed as SRI (red), Framlington Health's (FRA\*) unusually high volatility stands out, however this is a healthcare fund that many socially responsible investors would avoid (due to animal testing).

Of the remaining 'true' SRI funds longer established SRI funds (towards the left of the figure) tend to have low volatility, with that of the two well-known Stewardship funds (ISG\*, FPS\*) and Allchurches Amity (AAM\*) significantly lower than their peers (blue).

More recently launched SRI funds (red, towards the right of the figure) have higher volatility and are therefore relatively more risky investments.

## Conclusions

SRI funds are a diverse group. Some high-performing SRI funds have mean financial return significantly above that of similar non-SRI funds and that of the market as a whole, and with lower volatility. Conversely some poorly-performing SRI funds have lower mean return and/or higher volatility. As a group, SRI funds deliver risk-adjusted mean financial returns similar to non-SRI funds but the volatility is greater for more recently launched SRI funds, a possible learning effect.

## References

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