THE VALUE OF VIRTUE: DO ESG (ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE) OR SOCIALLY RESPONSIBLE (SR) INVESTMENT PORTFOLIOS PRODUCE POSITIVE ALPHA?

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ABSTRACT

ESG investing incorporates environmental, social and corporate governance factors into investment decisions. Investors are becoming more intentional about how they invest and to what causes they contribute to. This paper examines the investment returns of ESG (or SR) portfolios over the last 5 years. The results showed that during the last 5-year period, the SR fund's rate of return underperformed the benchmark and the SR investment portfolios do not provide excess return (negative Alpha).

Keywords: Finance, Investments, ESG, Sociallly Responsible, Sustainability

INTRODUCTION

From an investor's standpoint, a sustainable company is one positioned for long-term success, one whose management understands and addresses short-term risks and innovates to exploit long-term opportunities. ESG data are a means that can enable an investor to understand a company's strategy, corporate purpose, and management quality, at scale and in an unbiased, quantifiable way. ESG is about understanding how companies are adapting to transformational change, such as the shift to a low-carbon economy. The term "sustainable investing" encompasses a range of strategies, from simply excluding stocks of companies deemed to be bad—like those in the business of fossil fuels or guns—to investments which have a direct positive or social impact, such as in a company making portable solar systems for rural areas.

As world leaders meet in New York City in 2018 for the United Nations General Assembly, advocates are drawing attention to how climate change should influence investment decisions, and how climate change relates to several of the U.N.'s Sustainable Development Goals, which are increasingly a way for investors to guide their thinking about sustainability. The adoption of the U.N. Sustainable Development Goals drove a lot of interest among CIOs and CEOs of major institutional investors and asset managers. The endowments, pension funds, and insurance companies need to look at returns across decades to pay long-term obligations. And there's an increasing recognition among them that if you're looking at long-term financial performance, you also need to consider the social and the environmental impact of your investment portfolio. That will be a powerful driver of impact investing over the coming years.

The total impact-investment asset under management is $228 billion. Among the sectors attracting significant interest are financial services, including microfinance, and energy, especially renewable energy, both large projects as well as energy access. In Europe, usage of ESG factors is considered commonplace. In the U.S., asset managers will adopt it as part of the course of business as they go after European clients. Large institutional investors, as well as individual clients, are seeking opportunities to put their capital to work and to build a more sustainable world.

ESG investments remain low in the U.S., with just 12% of those with at least $1 million in investable assets having sustainable investments, according to the latest UBS Investor Watch study. That compares with 39% globally. There are reasons to expect more U.S. investors to jump on board, however. Investors expect U.S. adoption to grow to 19% over the next five years, an increase of 58% from current levels, and one-third of U.S. investors expect sustainable investing to become the "new normal" in a decade.

One obstacle to adoption is confusion about terminology. Two-thirds of U.S. investors say the language of sustainable investing is perplexing. UBS defines it broadly as integrating "societal concerns, personal values or an institutional mission into investment decisions."

There are conflicting arguments regarding ESG investment performance: (1) Sustainable companies outperform over the long term because they are better at adapting to a changing world, and (2) using ESG as a limiting factor inhibits performance. Any restriction inhibits choice, and limiting choice limits the ability to perform.

Previous Studies in Social Responsibility

There has been a sizeable body of research that has delved into the topic of social responsible investing. The research that will be discussed in this section has yet to determine a distinctive answer as to whether socially responsible investing under or over-performs conventional funds, largely due to the differences in research methodology employed by researchers. This emerging area of research still has significant insights to investigate.

In a 2015 publication in Managerial Finance, Joan Junkus and Thomas Berry, reviewed the recent work published in financial journals pertaining to Socially Responsible Investing (SRI) (Junkus & Berry, 2015). The conclusion was that authors were unable to determine the impact of SR actions on firms and investors. Their findings also asserted that performance of SR mutual funds was not significantly different from conventional funds.

In the 2011 Social Responsibility Journal article explored the long history of how companies operated within society and the evolution of SR concepts (Moura, Leite & Padgett, 2011). Knowledge of this evolution provides the reader further insight into how investors behave and how companies respond to them.

The article "*Mutual Fund Attributes and Investor Behavior*" written by Nicolas Bollen in 2006, explores the existing belief that cash flow volatility in social responsible fund is lower than conventional funds (Bollen, 2006). The results from this study affirmed the notion investors gain utility from social responsible qualities.

Recently in 2017, the article "*Do Social Responsibility Screens Matter When Assessing Mutual Funds Performance?*" (Briere, Peillex, & Ureche-Rangau, 2017) addressed the question of do more screens placed on mutual funds provide a positive impact on performance. The result of the study identified showed that the variability of a typical fund's performance over time that can be attributed to SR screening is roughly two times lower than what can be attributed to active portfolio. SR screening earned investors between 4% and 10% while active portfolio management can earn between 8% and 15%.

There are a number of studies that further the notion that SR mutual funds underperform conventional funds. In the 2008 Journal of Business Ethics article *"The Investment Performance of Socially Responsible Investment Funds in Australia"* investigated the performance of 89 ethical funds in Australia from 1986-2005 (Jones, Laan, Frost, & Loftus, 2008). The conclusion of this study was that there is no statistically significant difference between ethical funds and their benchmarks. Another 2008 article in the Journal of Banking & Finance highlights how SR investors were willing to accept suboptimal returns in order to achieve their social and ethical goals (Renneboog, Horst, & Chendi Zhang, 2008).

Conversely, there have also been a number of studies that conclude that SR mutual funds indeed outperform their benchmarks and/or conventional counterparts. A 2005 article investigated the insights into long term performance of environmentally focused companies through eco-efficiency (Guenster, Bauer, Derwall, & Koedijk, 2010). The study concluded that eco-efficiency positively improved operating returns and stock performance. Alexander Kempf and Peer Osthoff contributed to the conversation in their 2007 article that explores if investors would increase their performance by incorporating SR screens into their investment process (Kempf & Osthoff, 2007). The study concluded that investors earned maximum abnormal returns if they used several high ranking screens simultaneously. The 2010 article *"A Tale of Values-Driven and Profit Seeking Social Investors investigated abnormal returns of mutual funds"* (Derwall, Koedijk, & Horst, 2011) concluded that abnormal returns were possible in the short run and SRI should be used on a short term basis. Another 2010 article published in the Journal of Business Ethics also concluded that SRI funds can outperform conventional funds when the fund specializes in SRI (Gil-Bazo, Ruiz-Verdu, & Santos, 2008). Funds that don't specialize in SRI tended to underperform.

This study aims to add to the debate about financial performance of SR mutual funds and their role in an investor's portfolio. This research will hopefully provide investors with an additional resource regarding Socially Responsible Investing.

History of Socially Responsible Investing

Social Responsible investing is an investment strategy that provides investors with a medium to have a social impact as well as financials gains (Investopedia, 2018). The concept of social responsible investing (SRI) goes back to the mid-1700s where Quakers prohibited its followers from participating slave trade (Kern, 2015). The most notable, early adopter of SRI was one of the founders of the Methodist church, John Wesley. Wesley penned a compelling sermon called the "Use of Money", laying foundational ideals of social responsible investing (Heitzenrater, 2002). These ideals housed concepts like not investing money in activities that could negatively affect the health and livelihood of your neighbor. Religions, like Methodism tend to challenge it patrons to avoid "sinful" companies that were involved with tobacco, alcohol, and guns. In 1950's, businesses were beginning to be seen as entities that had a responsibility to do good for society (Dimitriades, 2007). SRI became a tool for advocating the agenda of contemporary political issues, like women's suffrage, civil and gay rights and labor rights. In 1960 SR gained more traction to when Dow Company was boycotted in response to its involvement in the Vietnam War (Stolle & Micheletti, 2013). At the time Dow Company was the main producer of napalm, a flammable liquid that caused death and disfigurement (The Virginia Center for Digital History at The University of Virginia, 2011). After the media published the happenings in Vietnam, public outcry pushed investors to boycott Dow (The New York Times, 1972).

SRI also had a great impact on ending the apartheid in South Africa. From the 1970's to the early 1990's, numerous faith-based funds, like the Domini fund, divested from companies that operated in South Africa (Domini, 2009). In the 1990's, SRI focused on promoting environmental sustainability. Investors believed that global climate change could contribute to business and investment risk and it was in their best interest to support environmentally positive company. At this time companies began incorporating SR as part of its business strategy (Asongu, 2007). Currently, countless companies have declared their contribution to social responsibility as a vital component of how businesses are operated, creating a clear redline for investor.

Socially Responsible Investing Characteristics

In conventional funds, fund managers have the responsibility to its investors to provide solid returns on investment. However, for Socially Responsible investing, social screens take priority. The following are most prevalent social and ethical screens placed on SR funds. Table 1 below provides a summary of SR characteristics for each mutual fund.

Environmental, Social and Governance (ESG) Criteria: ESG is the most prevalent criteria that companies and mutual funds utilized for social responsibility. Organizations and funds tend to use the term "ESG" as a catch all to qualify their efforts. ESG's criteria are as follows:

The Environmental component looks at how a company is a good steward to the environment by striving to decrease the negative impact of business operations on the environment. Companies are assessed on their use of natural resource, their impact on climate change and pollution, as well as their adoption of clean technology. (Bernow, Klempner, & Magnin, 2017). The Social component of ESG pertains to the way the assessed company manages and interacts with its stakeholders in terms of worker's safety, impacts on the community and human rights. Governance highlights companies that employ proper governance principles that includes, board accountability, diversity, shareholder rights, executive compensation, business ethics and public policy. Another large component of ESG funds is that they do not choose to invest in "sin" stock. Sin stocks are companies that are involved in the manufacturing or sales of alcohol, tobacco, gambling products, civilian firearms, military weapons, nuclear power, adult entertainment and genetically modified organisms. Not all funds prohibit all types of sin stock. Some might choose to avoid alcohol and tobacco while other only avoid weapons manufacturers. Other funds play the fence by investing a maximum of 5% sin stocks. The practice of mixing SR with conventional stocks can be problematic since investors of ESG funds tend to resist the idea of investing in any sin stocks. The fund, Gabelli ESG, indicates that they will not invest in fossil fuel companies in addition to the aforementioned sin stocks. Some companies that would pass the ESG screen would be Boeing Co, Microsoft Corp, Facebook, and Alphabet Inc.

Catholic Principles: Ave Maria Rising and Aquina Catholic Equity are just a few funds that apply Catholic principles to their investment strategy. The Catholic Advisory Board set the screening criteria of which companies the fund can invest in. Catholic funds avoid four major categories of companies in their selection process. These include funds that are: (i) involved in the practice of abortion, (ii) involved in adult- film or entertainment, (iii) investors of Planned Parenthood, and (iv) supporters or involved in embryonic stem cell research (Ave Maria Mutual Funds, 2017). Examples of such companies that are acceptable for Catholic principles are Apple, Prudential Financial, Alphabet Inc., and Lowe's Companies, Inc.

Islamic Principles: Similar to the Catholic funds, the religious doctrine of the Islamic faith is the cornerstone to an Islamic funds' investment strategy. Some businesses that are prohibited are related to alcohol, gambling, pornography, insurance, pork processing, and interested-based banks or finance association. (Amana Mutual Funds Trust, 2017). Amana Income Investor fund's top holding are Microsoft Corp, 3M Co, Rockwell, Automation Inc., Parker Hannifin Corp, and Illinois Tool Works Inc.

Green: Shelton Green Alpha fund is committed primarily to "improve human well-being and increase economic efficiencies, while significantly reducing environmental risks and ecological scarcities" (Shelton Capital Management, 2018). The purposes of these funds are to invest in companies focused on mitigating the risks of climate change and resource scarcity. Environmental funds are specialized and tend to be intentional about the investing companies that edify the world. This fund's top holding includes Vestas Wind Systems A/S, Pattern Energy Group Inc., First Solar Inc., Applied Materials Inc., and Canadian Solar Inc.

DATA AND METHODOLOGY

According to a 2014 Nielsen Consumer Report regarding socially responsible companies, 55% of global respondent said they would be willing to pay more for products or services if it meant that the company would have a social impact of some kind (Nielson, 2014). Consumers for the most part want to feel good about the purchases and investments they are making. If given the opportunity the public would reward company with business which translates to sales in exchange for positive social impact. According to the 90's book, Service Profit Chain, good companies that care about its stakeholder thrive and have overall positive performance (Heskett, Schlesinger, & Sasser, 1997). With this rationale, the objective of this paper is to identify if investments in SR funds will pay out in higher returns.

DATA

Data Sources and Sample Construction

The required data of this research was five years (2013-2017) historical mutual funds returns and S&P 500 stock prices. SR policies are provided in the company's prospectus. The selected Mutual Funds were obtained from Charles Schwab's Socially Responsible Fund List. Another metric that was needed to conduct this research was the 1, 3, 5-year Treasury rates to be referenced as the risk free rate to for the determination of the required rate of return.

Data Organization and Preparation

The method of selecting the funds was done in a randomized manner. Each mutual fund and ETF on the Socially Responsible list was assigned a number. Numbers were randomly generated with Excel. Through this process, it was determined that most ETFs on the Socially Responsible list were relatively new and had less than the required 5-year historical data for this study. For the purpose of this study, it is necessary for the mutual funds to have at least a 5-year history. At that point, all funds with less than 5-years history was omitted from the selected list of companies and the random number generator was ran against the remaining funds. 30 mutual funds were chosen for the evaluation. For the full list of funds refer to Table 1 below.

Data was organized by the mutual funds style, (large value, medium blend, etc.). The 5- year historical performance data (fund price) for all 30 funds was downloaded from Yahoo! Finance. This same process

was performed on the S&P 500. The S&P 500 would function as a benchmark to compare the funds against. For the purpose of this research, all of the mutual funds regardless of its style would be compared to the S&P 500.

TABLE 1

Summary of evaluated funds, their symbol, style and top holdings

	INDEX	SYMBOL	STYLE	TOP HOLDINGS
1	American Century Sustainable Equity Inv	AFDIX	Large Blend	JPMorgan Chase & Co, Boeing Co, Apple Inc, Microsoft Corp, Prologis Inc
2	LKCM Aquina Catholic Equity	AQEIX	Large Blend	PayPal Holdings, zions Bancorp, Roper technologies Inc, Alphabet Inc, Honeywell
3	Ave Maria Rising Dividend	AVRDX	Large Blend	Moody's Corporation, Lowe's Companies Inc, VF Corp, United
4	Domini Impact Equity Investor	DSEFX	Large Blend	Apple Inc, PepsiCo Inc, Prudential Financial Inc., Alphabet Inc, Mastercard Inc
5	iShares MSCI KLD 400 Social ETF	DSI	Large Blend	Microsoft, Facebook, Alphabet Inc C/A,
6	Integrity Growth & Income A	IGIAX	Large Blend	BlackRock Inc, JPMorgan Chase & Co, Thermo Fisher Scientific Inc, Visa Inc, Alphabet Inc
7	JPMorgan Intrepid Sustainable Equity A	JICAX	Large Blend	Apple Inc, Microsoft Corp, Citigroup Inc, The Home Depot Inc, Lowe's Companies Inc
8	Walden Equity	WSEFX	Large Blend	Microsoft Corp, Apple Inc, Alphabet Inc, JPMorgan Chase & Co, Johnson& Johnson
9	Amana Income Investor	AMANX	Large Blend	Microsoft Corp, 3M Co, Rockwell Automation Inc, Parker Hannifin Corp, Illinois Tool
10	Calvert Us Large Cap Core Respnb Idx A	CSXAX	Large Blend	Apple Inc., Microsoft Corp, Alphabet Inc, Amazon.com,
11	Dreyfus Sustainable US Equity A	DTCAX	Large Blend	Microsoft Corp, Gilead Sciences Inc, Alphabet Inc A, Applied Materials Inc, Citigroup Inc
12	Parnassus Core Equity Investor	PRBLX	Large Blend	Danaher Corp, Intel Corp, Gilead Sciences Inc, Praxair Inc, VF Corp
13	Steward Large Cap Enhanced Index A	SEEKX	Large Blend	Apple Inc, Microsoft Corp, Facebook Inc, Berkshire Hathaway Inc,
14	Gabelli ESG AAA	SRIGX	Large Blend	Xylem Inc, Conagra Brands Inc, Mondelez International Inc, Danone SA, PayPal Holdings
15	TIAA-CREF Social Choice Eq Retail	TICRX	Large Blend	Microsoft Corp, Johnson & Johnson, Alphabet Inc C/A, S&P 500 Emini Fut
16	Parnassus Endeavor	PARWX	Large Blend	Gilead Sciences Inc, Qualcomm Inc, VF Corp, Allergan PLC,
17	Amana Growth Investor	AMAGX	Large Growth	Adobe Systems Inc, Apple Inc, Intuit Inc, Trimble Inc, Agilent
18	Green Century Equity	GCEQX	Large Growth	Microsoft, Facebook, Alphabet Inc C/A, Procter & Gamble Co
19	Calvert Equity A	CSIEX	Large Growth	Alphabet Inc, Visa Inc, Thermo Fisher Scientific Inc, Danaher Corp, Microsoft Corp
20	Neuberger Berman Socially Rspns A	NRAAX	Large Growth	Texas Instruments Inc, Progressive Corp, W.W. Grainger Inc, Comcast Corp, AmerisourceBerg
21	Ariel Focus Investor	ARFFX	Large Value	KKR & Co LP, BorgWarner Inc, Laboratory Corp of America Holdings, Oracle Corp, Lazard Ltd
22	Baywood Socially Responsible Invs	BVSNX	Large Value	Bank of America Corp, Cisco Systems Inc, Intel Corp, Air Lease
23	Touchstone Premium Yield Equity	TPYAX	Large Value	Cisco systems Inc, Vodafone Group PLC ADR, Verizon Communication Inc, LyondellBasell Industries, Target Corp
24	American Funds Washington Mutual FT	WSHFX	Large Value	Microsoft Corp, The Home Depot Inc, Boeing Co, Intel Corp,
25	Montcalm Select Value I	MVEIX	Large Value	Dollar Tree Inc, C.H. Robinson worldwide Inc., Acuity Brands Inc., AutoNation
26	Ave Maria Value	AVEMX	Mid Cap Blend	Texas Pacific Land Trust, QVC Group, Heico Corp, InterXion Holding,
27	Parnassus Mid-Cap	PARMX	Mid Cap Blend- S&P 500?	Motorola Solution Inc, Fiserv Inc., first Horizon National Corp, Verisk Analytics
28	Azzad Ethical	ADJEX	Mid Cap Growth	Moody's Corp, Lam Research Corp, Verisign Inc, Citrix Systems Inc, Packaging Corp
29	Ave Maria Growth	AVEGX	Mid Growth	Lowe's Companies Inc, Mastercard Inc, Moody's Corporation, Copart Inc, O'Reilly Automotive Inc
30	Shelton Green Alpha	NEXTX	Mid Growth	Vestas Wind Systems A/S, Pattern Energy Group Inc, First Solar Inc, Applied

After the necessary funds were identified, the investment strategy for the funds needed to be established. Each fund has a Prospectus provided on the fund's website to refer to. In the prospectus, the fund explains the purpose of the fund and how the stocks are chosen for the fund. All of these details were catalogued and organized in Table 2 below to be used later to compare to against the quantitative data. The metric that is used to track the intensity of SR efforts will be the "Sustainability Index" provided by Morningstar.

TABLE 2
Summary of Investment types and Characteristics

INDEX	SYMBOL	CATEGORIES	CHARACTERISTICS									
			Alcohol	Tobacco	Gambling	Defense/ Weapons	Pornography	Life Ethics*	Environment	Human Rights	Labor Relations	Employment/ Equall
American Century Sustainable Equity Inv	AFDIX	ESG	X	X	X	X			X	X	X	X
LKCM Aquinas Catholic Equity	AQEIX	CATHOLIC PRINCIPLES	X	X	X		X	X				
Ave Maria Rising Dividend	AVEDX	CATHOLIC PRINCIPLES	X	X	X		X	X				
Domini Impact Equity Investor	DSEFX	CATHOLIC PRINCIPLES	X	X	X		X	X				
iShares MSCI KLD 400 Social ETF	DSI	ESG	X	X	X	X			X	X	X	X
Integrity Growth & Income A	IGIAX	ESG	X	X	X	X			X	X	X	X
JPMorgan Intrepid Sustainable Equity A	JICAX	ESG	X	X	X	X			X	X	X	X
Walden Equity	WSEFX	ESG	X	X	X	X			X	X	X	X
Amana Income Investor	AMANX	ISLAMIC PRINCIPLES	X		X		X					
Calvert Us Large Cap Core Responsible A	CSXAX	ESG	X	X	X	X			X	X	X	X
Dreyfus Sustainable US Equity A	DTCAX	ESG	X	X	X	X			X	X	X	X
Parnassus Core Equity investor	PRELX	ESG	X	X	X	X			X	X	X	X
Steward Large Cap Enhanced Index A	SEEKX	NON RELIGIOUS- NO VICE			X			X				
Gabelli ESG AAA	SRIGX	ESG	X	X	X	X			X	X	X	X
TIAA CREF Social Choice Eq Retail	TICRX	ESG	X	X	X	X			X	X	X	X
Parnassus Endeavor	PARWX	ESG	X	X	X	X			X	X	X	X
Amana Growth Investor	AMAGX	ISLAMIC PRINCIPLES	X		X		X					
Green Century Equity	GCEQX	ESG	X	X	X	X			X	X	X	X
Calvert Equity A	CSIEX	ESG	X	X	X	X			X	X	X	X
Neuberger Berman Socially Respns A	NRAAX	ESG	X	X	X	X			X	X	X	X
Ariel Focus Investor	ARFFX	NON RELIGIOUS- NO VICE		X		X						
Baywood Socially Responsible Invs	BVSNX	ESG	X	X	X	X			X	X	X	X
Touchstone Premium Yield Equity	TPYAX	ESG	X	X	X	X			X	X	X	X
American Funds Washington Mutual FT	WSHFX	ESG										
Montanaglie Select Value I	MVEIX	NON RELIGIOUS- NO VICE			X			X				
Ave Maria Value	AVEMX	CATHOLIC PRINCIPLES	X	X	X		X	X				
Parnassus Mid-Cap	PARMX	ESG	X	X	X	X			X	X	X	X
Azzad Ethical	ADIEX	ISLAMIC PRINCIPLES	X		X		X					
Ave Maria Growth	AVEGX	CATHOLIC PRINCIPLES	X	X	X		X	X				
Shelton Green Alpha	NEXTX	GREEN							X			
Dow Jones Sustainability Index		ESG	X	X	X	X			X	X	X	X

**No abortion, stem cell research, GMO*

METHODOLOGY

In this study, mutual funds will be assessed on its ability to provide investors with comparable or better returns than conventional funds. The metrics to be measured will be the annualized return and Jensen's alpha.

Annualized Return: The annualized return helps provide a perspective of an investment's performance. It tracks the annual geometric average of the returns made from an initial investment over a period of time.

Beta: Beta measures volatility compared to the market. Securities are benchmarked against indexes like the S&P 500, which has a beta of 1. The beta will be used in the Capital Asset Pricing Model to assess the required rate of return.

Required Rate of Return (Benchmark): This rate is a measure of the necessary return based on a securities' level of risk. Securities with higher betas (systematic risk) than the market will require a higher return. Conversely, securities with lower betas will require less of a return compared to the

market. The required rate of return can be used as a standard to identify the minimum return an investor should get for holding a particular security. Using the Capital Asset Pricing Model (CAPM) to calculate the required rate of return (Benchmark), the formula is as follows:

$$\text{Required Rate of Return} = R_f + (R_m - R_f)*\text{beta} \quad (1)$$

Where: R_f is the risk free rate measured provided by current Treasury bills and notes rates.
R_m is the required rate of return for the market.
beta measures the systematic risk of the portfolio

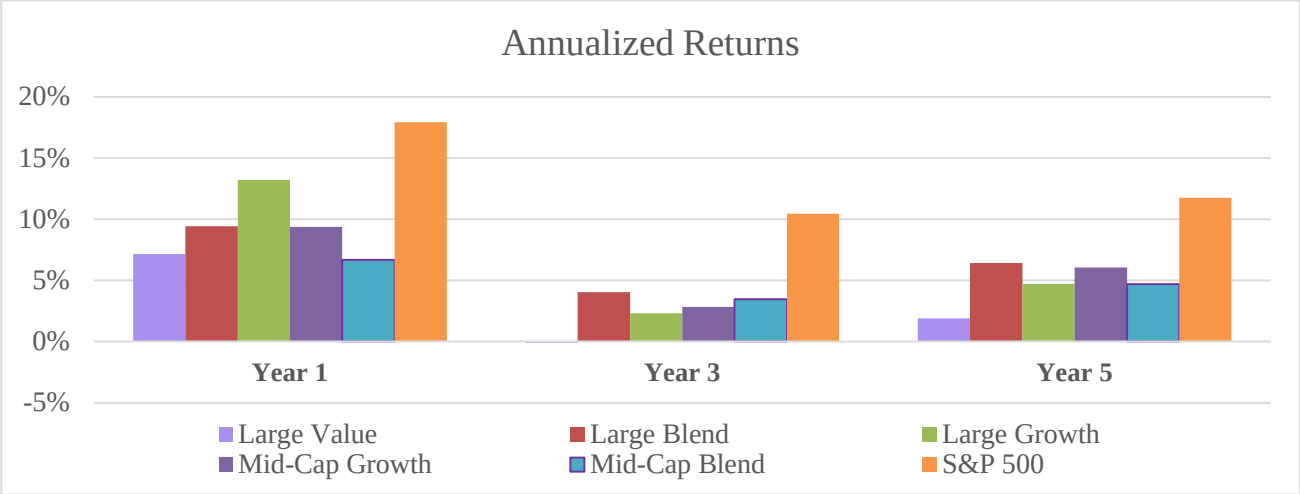
Jensen's Alpha measures the performance of the portfolio investment against the "Required Rate of Return". A positive Alpha means that the fund is giving excess return relative to the return of the benchmark index. A negative Jensen's alpha means that the security's actual performance has fallen short of it requirements and might not be a worthwhile investment.

Jensen's Alpha = Annualized portfolio Returns – Required Rate of Return (1, 3 & 5 years) (2)

RESULTS

ESG or SR Portfolio failed to beat the Benchmark. The S&P 500 index was used as the benchmark. The results from this research has showed that during 1-,3- and 5-year holding period, all socially responsible mutual funds failed to outperform the S&P 500. SR mutual funds annualized returns were compared to that of the S&P 500 index and as shown in Figure 1 below

FIGURE 1
Annualized Returns for All Fund Styles and The S&P 500



SR mutual funds has not outperformed the market in the last 5 years. ESG (or SR) Portfolios produced Negative Jensen's Alpha. When investors look for favorable investments they seek to outperform the market. As previously discussed, the Jensen's alpha is utilized to assess a stock or fund's excess return. Unfortunately, for socially responsible investing, for 1- 3- and 5- years holding periods, the funds do not provide positive excess return for investors. The average Alpha for 1 year is -3.75%, for 2-year is -6.78% and for 3-year is -6.14% as shown in Table 3 below.

TABLE 3

Summary of Annualized Returns, Beta, Required Rate of Return and Jensen's Alpha organized by style.

	Annualized Return			Beta			Required Rate of Return			Jensens Alpha		
	1 Yr	3 Yr	5 Yr	1 Yr	3 Yr	5 Yr	1 Yr	3 Yr	5 Yr	1 Yr	3 Yr	5 Yr
S&P 500	**17.94%**	**10.45%**	**11.77%**	**1.0000**	**1.0000**	**1.0000**	**17.94%**	**10.45%**	**11.77%**	**0.00%**	**0.00%**	**0.00%**
Large Value												
WSHFX	10.45%	4.75%	6.00%	0.9529	0.9566	0.9664	17.10%	10.11%	11.46%	-6.64%	-5.36%	-5.46%
ARFFX	3.56%	0.46%	2.20%	0.8265	1.1865	1.0682	14.83%	11.94%	12.39%	-11.27%	-11.48%	-10.19%
BVSNX	10.40%	2.52%	0.95%	0.7745	1.0579	1.0229	13.89%	10.92%	11.98%	-3.49%	-8.40%	-11.03%
TPYAX	5.07%	0.07%	1.24%	0.7150	0.9294	0.8600	12.83%	9.89%	10.49%	-7.76%	-9.82%	-9.25%
MVEIX	6.24%	8.24%	0.88%	0.8290	1.1538	1.2107	14.87%	11.68%	13.70%	8.64%	19.92%	14.58%
Large Blend												
AFDIX	19.29%	9.31%	11.34%	0.7526	0.9626	0.9688	14.02%	10.16%	11.48%	5.27%	-0.85%	-0.14%
AMANX	10.21%	3.86%	6.21%	0.6815	0.8967	0.9576	12.89%	9.63%	11.38%	2.68%	5.77%	5.17%
AQEIX	8.96%	1.10%	1.95%	0.6027	0.9746	1.0772	11.64%	10.25%	12.48%	-2.68%	-9.15%	-10.53%
AVEDX	6.62%	1.79%	4.29%	0.6482	0.8960	0.9592	12.36%	9.63%	11.40%	-5.74%	-7.83%	-7.11%
CSXAX	17.07%	7.10%	9.84%	0.7170	1.0062	1.0282	13.45%	10.50%	12.03%	3.62%	-3.41%	-2.19%
DSEFX	0.13%	-0.50%	4.13%	0.2054	0.8828	0.9779	5.34%	9.52%	11.57%	-5.21%	-10.02%	-7.44%
DSI	15.83%	9.17%	11.13%	0.8613	1.0042	0.9961	15.74%	10.49%	11.73%	0.09%	-1.32%	-0.60%
DTCAX	-10.75%	-6.70%	-1.38%	-0.0521	0.8727	0.9450	1.25%	9.44%	11.27%	-12.00%	-16.14%	-12.65%
IGIAX	7.08%	4.49%	3.04%	0.6373	0.8646	0.9214	12.19%	9.38%	11.05%	-5.11%	-4.88%	-8.01%
JICAX	9.42%	7.29%	10.62%	0.5673	0.9330	0.9986	11.08%	9.92%	11.76%	-1.66%	-2.63%	-1.14%
PARWX	9.93%	6.99%	9.19%	0.7962	0.9459	0.8974	14.71%	10.02%	10.83%	-4.78%	-3.03%	-1.64%
PRBLX	8.56%	3.28%	5.97%	0.8796	0.8218	0.8621	16.03%	9.03%	10.51%	-7.47%	-5.75%	-4.54%
SEEKX	19.80%	4.17%	5.88%	0.8641	1.1140	1.1020	15.78%	11.36%	12.70%	4.02%	-7.20%	-6.82%
SRIGX	2.18%	2.32%	5.68%	0.9555	0.8397	0.9369	17.23%	9.18%	11.19%	-15.05%	-6.85%	-5.51%
TICRX	15.47%	5.41%	7.86%	0.7408	0.9771	1.0017	13.83%	10.27%	11.78%	1.64%	-4.86%	-3.92%
WSEFX	11.14%	5.75%	7.06%	0.6246	0.8988	0.9500	11.99%	9.65%	11.31%	-0.84%	-3.89%	-4.25%
Large Growth												
AMAGX	9.43%	1.11%	4.59%	0.2989	0.8238	0.9280	6.82%	9.05%	11.11%	2.61%	-7.94%	-6.52%
GCEQX	16.64%	8.93%	11.02%	0.8129	0.9952	0.9896	14.97%	10.42%	11.67%	1.67%	-1.48%	-0.65%
CSIEX	16.68%	-2.57%	1.91%	0.5315	0.9068	0.9681	10.51%	9.71%	11.48%	6.17%	-12.28%	-9.57%
NRAAX	10.12%	1.75%	1.41%	2.6545	0.1693	0.4488	44.18%	3.84%	6.73%	-34.05%	-2.09%	-5.32%
Mid-Cap Growth												
AVEGX	12.76%	3.54%	4.62%	0.4410	0.8178	0.9556	9.07%	9.00%	11.36%	3.68%	-5.46%	-6.74%
NEXIX	13.61%	4.37%	10.67%	0.7218	1.0499	1.2096	13.53%	10.85%	13.69%	0.08%	-6.48%	-3.02%
ADJEX	1.77%	0.59%	2.85%	0.1933	0.8207	0.9606	5.14%	9.03%	11.41%	-3.38%	-8.44%	-8.56%
Mid-Cap Blend												
PARMX	4.60%	4.47%	7.38%	0.3785	0.7101	0.7806	8.08%	8.14%	9.76%	3.48%	3.68%	2.38%
AVEMX	8.78%	2.45%	1.99%	0.3862	0.8681	0.9458	8.20%	9.40%	11.27%	0.58%	-6.95%	-9.29%

CONCLUSIONS

This research shown that SR investment portfolios do not outperform the benchmark or providing excess investment returns (Alpha) to the ESG investors. Upon initial examination of this study's results, it was becoming very clear that investing in socially responsible mutual funds is not as profitable as conventional funds. But perhaps there are a few lessons to learn from this. The most obvious takeaway is that if investors are solely focused on maximizing their return on investment, SR funds are not for them. The second takeaway is that returns might not be the only motivator for socially responsible investors. SR investors may get intrinsic value from investing in SR funds despite their underperformance. Therefore, investors in SR mutual funds should only do so if they possess a strong ambition to make a statement through investing.

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