

Socially Responsible Mutual Funds

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Mutual Funds

Each mutual fund has clear investment objectives

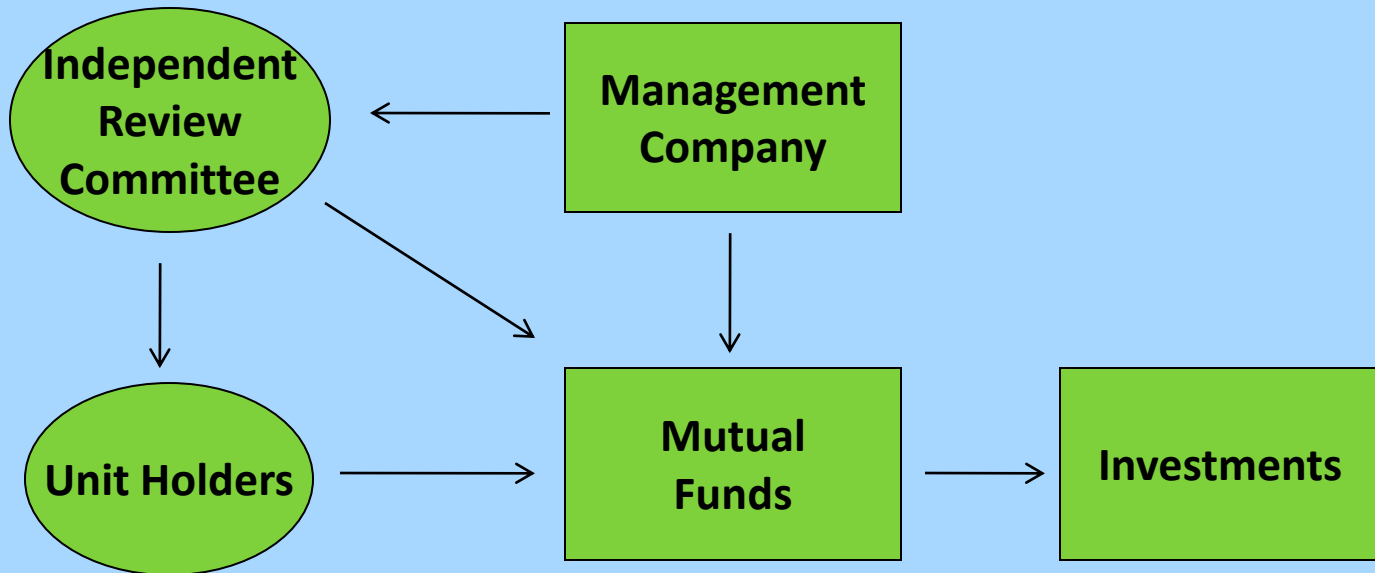
- socially responsible funds screen investments using environmental, social & governance

Each fund is run by a management co.

- the management co (manager) may manage more than one fund – called a family of funds

Canada – 1,800 funds; 64 socially responsible

Information Flow



Institutional Theory

Socially responsible funds have a rationalized logic that uses environmental, social & governance criteria for making investments

They encourage investees to be open & candid

H 1: are more likely to join an association that promotes socially responsible investing

H 2: are more likely to be more transparent in disclosing their governance structures



Transparency Score

Independent Review Committee Report (2008)	
Report accessibility (4 items)	7 points
Committee membership (5 items)	8 points
Committee structure (6 items)	7 points
Compensation (4 points)	5 points
Report content (3 items)	<u>6 points</u>
Total	<u>33 points</u>



Sample

	Families	Funds	Assets	SR	Assets
SR	11	499	\$194 B	64	\$5 B
Non-SR	<u>34</u>	<u>1,151</u>	<u>382 B</u>	<u>0</u>	<u>0</u>
Total	<u>45</u>	<u>1,650</u>	<u>\$576 B</u>	<u>64</u>	<u>\$5 B</u>



Univariate Results

Social Investment Organization (SIO)
promotes socially responsible investing

Mutual fund families that are members of
the SIO:

- offer a larger # of SR funds (6.3 v 0.0)
- have a greater ratio of SR funds (37.1 %)
- higher transparency scores (21.5 v 19.0)

Regression Results

Dependent variable is transparency score

- positively & significantly related to the ratio of SR funds (number of SR funds)
- control variables are irrelevant:
 - size of the fund
 - compensation paid to IRC committee
 - mutual fund controlled by a financial institution

Implications

Mutual fund families that provide socially responsible funds walk the talk

- SR funds screen using governance criteria
- members of a professional association that promotes socially responsible investing
- they are more transparent in disclosing their own governance structures

They should be able to lead by example