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Equity SRI funds vacillate between ethics and money: an analysis of the funds' stock holding decisions¹

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Abstract

We provide a detailed holdings-based analysis of investment decisions made by U.S. equity SRI funds. Besides incorporating conventional fundamental factors, such as earnings growth, leverage, dividend yield, stock return and volatility, SRI funds adjust portfolio weights by considering companies' relative ESG performance. This holds for all categories of passively and actively managed funds, while for active funds ESG scores have a higher economic impact for value rather than growth funds. The timing of inclusion of companies in active SRI funds or their exclusion is driven primarily by fundamentals rather than by ESG performance. We find that both active SRI and matched conventional funds integrate ESG information as well as financial criteria in their investment decisions, but SRI portfolios exhibit higher average sustainability scores. Finally, we posit that SRI screening criteria effectively guide investment decisions, positive screening resulting in higher active portfolio weights of best performers in a corresponding ESG pillar.

Keywords: active and passive management, equity mutual funds, ESG performance, individual holdings, screening criteria, socially responsible investments

JEL classification: G11, Q56

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