ANNUAL REPORT 2008

SUSTAINABLE INVESTMENTS

FUNDED BY MISTRA

- Sustainable investing does not hurt financial performance at the portfolio level.
- Corporations adopting “green” policies have increased their market value and improved operating performance.
- For institutional investors with sustainable investment policies, internal organizational support drives sustainable investment practices.
- New methodologies have been developed for evaluating the quality of rating data.
- Environmental, Social and Governance (ESG) factors provide extra financial value.

Content

Communication is key

After its first three years, the Sustainable Investments research programme has been found to deliver research that is of practical relevance to its intended end-users. It is certainly our hope that the results, summarized in the following pages, will be of interest.

As the programme now enters a second phase 2009–2012, the perspective will be broadened to include also new topics for study. At the same time the organization will be changed in order to facilitate external communication, while allowing individual projects room to prosper. The map on the last page of this report gives an indication of the geographical scope of the programme, extending far beyond Sweden.

Given that the programme continue to comply with high academic standards, we need to ensure that the results become sufficiently known also outside of academia in order to be useful for practitioners. For this reason, the two sub programmes during phase I – managed from Umeå and Göteborg, respectively – have been merged into one. For the outside world it suffices to know that the objective of the programme remain unchanged, only that communication with investment practitioners and the general public will need to be emphasized even more.

LARS GAVELIN

Chairman of the Board for the programme and senior advisor at the Ministry of Finance

About Sustainable Investments

In its first three years, the research programme Sustainable Investments has presented results that show that sustainable investing can be profitable. In the next phase of the programme the focus will shift to the factors that drive investment behaviour.

The research programme Sustainable Investments (SI) has been underway for three years, and will launch its second four-year phase in 2009.

THE RESEARCH PROGRAMME Sustainable Investments (SI) has comprised of two sub-programmes: the Sustainable Investment Research Platform (SIRP) at the Umeå School of Business and Behavioral Impediments to Sustainable Investments (BISI) at University of Gothenburg. The researchers in Umeå collaborate with the European Centre for Corporate Engagement, which is connected to several Dutch universities (including Maastricht and Tilburg). The Gothenburg group is comprised of researchers from the School of Business, Economics and Law and the Psychology department at Gothenburg University, Chalmers University of Technology, University of Bath as well as the University of Perugia, Italy.

The researchers in Gothenburg are studying barriers to more institutional investors adopting sustainability criteria for their asset management. The Umeå group focuses on financial and capital markets, and is studying to what extent environmentally-sound investing creates value added for both investors and companies. The hope is that the results will lead to the development of better analytical tools for investors and asset managers.

FACTS: Programme Management

The SI research programme is hosted by the Umeå School of business and managed by a programme director and a programme board. Programme director is professor Lars Hassel. Members of the programme board have been appointed with a view to promote research that is relevant also for practitioners. Board members are Lars Gavelin, Senior Adviser at the Swedish Ministry of Finance (chairman), Helena Levander, CEO, Nordic Investor Services, John Howchin, Senior Analyst, Norges Bank Investment Managament and Måns Lönnroth, former CEO, Mistra (as from phase two). During phase one, Inga-Lill Carlberg, Head of Private Banking Sweden, Nordea, was also a member of the programme board.

RESULTS FOR END USERS

The SI programme was launched in 2006 and is financed by the Foundation for Strategic Environmental Research (Mistra), who's Board of Directors has approved financing for a second phase through 2012. To strengthen the connection between the research and practitioners, Mistra has on a number of occasions invited researchers, financial analysts and asset managers to seminars. Researchers and practitioners gather regularly at such events, under the name The Sustainable Investment Platform. The platform enables researchers to engage in an ongoing dialogue with the intended users of their results, which means that the results can be implemented relatively quickly.

Research with high visibility

The Sustainable Investment Research Platform (SIRP) at the Umeå School of Business at Umeå University can be proud of a results-rich year and first programme phase. "The strength of the programme is that we have succeeded in producing many research reports that have been published in scientific journals, while at the same time attracting the attention of the media.
Our research results have been relatively visible," says Lars Hassel, SIRP's Programme director.

The Umeå researchers have produced syntheses of their results in two popular-science books published together with the accounting firm Öhrlings PriceWaterhouseCoopers, including the book CSR – from risk to value. The Umeå research has also been presented at several seminars targeting practitioners from the financial market and the private sector in Sweden, Norway, Denmark and Finland. Over the past year, the researchers have initiated new collaborations, with partners such as Asset4, a consulting firm that collects facts about how corporations handle Environmental Social and Corporate Governance (ESG) factors.

During the next programme phase, between 2009 and 2012, SIRP will broaden its collaboration with GES Investment Services, a consulting firm based in Stockholm that rates the 2000 largest corporations in the world based on sustainability, human rights, and corporate governance criteria. The researchers want to attempt to measure how companies utilize or burden ecosystems.

"During the programme's first phase we concentrated mainly on the MSCI World equity market. In phase two we will broaden the research to additional areas, such as real-estate and credit markets as well as small and medium-sized enterprises, where our interest lies in exploring the role of non-financial information in the venture-capital process and for private equity investors," says Lars Hassel.

LARS HASSEL
Programme director

Environmental risk in analysts' reports

Financial analysts incorporate environmental information into their research reports. In the next phase of the programme, the researchers will investigate if those analysts are better at predicting market developments than others.

SUSTAINABLE ASSET MANAGEMENT and corporate social responsibility have become economic questions for institutional investors, fund managers, financial analysts and corporations. A relevant question is, then, to what extent financial analysts report on Environmental, Social and Governance (ESG) factors in their analyses, and how such information influences investors. One of the SIRP research projects at the Umeå School of Business has illuminated how financial analysts use ESG factors in their analyses and reports to investors and asset managers.

"We are studying those actors in particular because they function as an information bridge between those who invest in companies and the companies' management. As a rule, it is difficult to see from the outside what goes on within a company. Therefore, the analysts' reports provide an important basis for a range of investment decisions," says Pontus Cerin, a SIRP researcher.

FACTS: Access to data

The researchers have access to large databases from the following sources. The GES-Investments services ESG Risk and opportunity ratings on MSCI world companies and SIX 300 companies. KLD-stats covering ESG ratings for the largest 3000 U.S. companies since 1991, and the world's largest database on ESG information provided by Asset4. The researchers have also compiled database of 4500 financial analysts' research reports over 400 companies globally. In addition, they have access to a number of reports from large investment banks. In the future they will have access to annual reports from those 400 companies.

FUTURE PRODUCTS

SIRP researchers have performed an initial study of three industries: chemicals; paper and pulp; and manufacturing. All three are associated with high environmental risks. In the study, the researchers compared the content of existing analysts' reports on companies, with a focus on the extent to which the reports contained environmental information.

More than a third of the reports for all industrial branches contained environmental information, compared to about 45 percent for the three branches studied. Seventy-seven percent of the reports with environmental information address environmental issues from the perspective of business opportunities. That is, they talk about how the company can improve market share and achieve high revenue flows by taking environmental issues into account. The environmental issues that analysts show interest in are in part the quantity and nature of companies' emissions and in part how high their energy consumption is. But above all, analysts describe how companies interpret and understand customers' future demand for products that perform environmentally.

"It is not primarily the current situation, but future opportunities for a company to sell its products that are included in the analyses. To a large extent, environmental preparedness from a strategic perspective – such as policies, management

"In its next phase, SIRP will study whether financial analysts that include a lot of information about environmental issues are better able to predict market developments than those that don't" says Pontus Cerin and Henrik Nilsson, SIRP researchers.

systems, and reporting – is lacking," says Pontus Cerin.

Thus far, the researchers can only speculate as to why this is so. But the results show in any case that financial analysts are interested in including environmental information when they believe that it can influence a company's financial position.

LARGE QUANTITIES OF DATA

The researchers have also looked into the quantity of environmental information contained in analysts' reports on other types of industries. Their study shows that analyses of companies that have little environmental impact hardly contain any environmental information at all, while analyses of companies that have large environmental impacts or large environmental risks contain more environmental information. "The higher the environmental risk, the more information there is about a company's environmental work. But there is also a good tradition within branches with low environmental impact – such as the telecommunications industry – to provide detailed reports regarding environmental issues. Despite that fact, financial analysts don't take the information into account. That indicates that financial analysts are selective regarding which information they believe needs to be reported on, and don't simply pass on the environmental information that they have access to in companies' reports," says Pontus Cerin.

MORE RESULTS TO COME

In the next phase of the programme, the researchers will explore the extent to which financial analysts that do report on companies' ESG factors are also able to make better prognoses, both for the near and medium term. "We have a hypothesis that there is a relationship between ESG factors and corporate value, and we believe that they are potentially important for being able to assess a company's future returns and risks; that which in the end determines a company's value," says Henrik Nilsson, a SIRP researcher.

If that hypothesis is right, it should be important for how financial analysts work. "One can think that it should lead to a larger focus on those types of factors. Some analysts are already good at using that type of information, but we also know that it is an area of knowledge that is almost completely left out of their education. Those who use that type of information today have a personal interest in it, or work with branches where the factors play a large role," says Nilsson.

For analysts to be able to use ESG factors, companies must report on them. Then the question is how the information is used by analysts. "That's why we are also planning to investigate if there is a connection between the quality of company reporting on such factors and how financial analysts use the information. The investigation will be carried out by comparing companies' annual reports to financial analysts' reports that are based on them," says Henrik Nilsson.

RESULTS THAT BRING ABOUT CHANGE

Pontus Cerin believes that if it should turn out that analyses that contain ESG factors are better at predicting market developments, then these types of analyses will get a real push. "Then the research will contribute knowledge that can change the behaviour of actors on financial markets," says Pontus Cerin.

Barriers to sustainable investing

Behavioral Impediments to Sustainable Investments (BISI) has presented many results over the past year that illuminates barriers to sustainable investments. One of the research projects shows that herding behaviour on the market – i.e., following the majority – can be a barrier. Another barrier may lie in the culture of organizations. "We have been able to show that corporate Boards and managerial groups often place more weight on Corporate

Social Responsibility (CSR) criteria than asset managers do when they make decisions about buying or selling. That would seem to indicate that management has not succeeded in integrating CSR questions into the culture of their organizations, which in and of itself is a barrier to more companies investing sustainably," says Evert Carlsson, BISI's Programme director.

BISI has also studied how asset managers' bonus systems influence sustainable investments. The researchers have investigated how often bonuses are distributed and, importantly, the relationships between investment evaluations and different reward systems. "Preliminary results indicate that if you want a system of rewards that encourages sustainable investments, then its fixed bonus portion should be as small as possible. In addition, evaluations shouldn't be too frequent," says Carlsson.

A common argument for not investing sustainably is that doing so has a negative impact on returns. "But we have been able to show that there is no evidence that sustainable investing is disadvantageous for investment returns."

Under the next phase of the programme the researches will study further how reward systems can be designed to encourage sustainable investments. "In addition, we will look at how portfolios that are more closely aligned with CSR criteria can be constructed, and what the consequences of doing so will be in terms of risk and returns in a stock portfolio," says Evert Carlsson.

EVERT CARLSSON
Former Programme director

Herding behaviour on the stock market

Actors on the stock market often make decisions about future investments based on the behaviour of the majority. Herding isn't always negative, but can be a barrier to sustainable investing.

THE SHARE OF THE SWEDISH stock market affected by sustainable investing is increasing, but investors that make decisions that incorporate sustainability criteria are still in the minority. Researchers in the Behavioral Impediments to Sustainable Investments programme (BISI) are interested in understanding what the barriers are to institutional investors applying sustainable-investment criteria to a larger extent.

Financial markets are characterized by uncertainty and a large number of information sources regarding future returns. The question is, on what basis, and based on what analyses, investors make their decisions. In one of BISI's research projects, the researchers have explored why financial analysts and stock brokers make decisions based on herding behaviour – i.e. doing as others do, or following the herd.

"There are many earlier studies and analyses that confirm the theory of herding behaviour. It is important for us to chart the mechanisms behind the behaviour, to get a better theoretical understanding of why more investors don't base decisions on sustainable investment criteria. If many follow the herd without thinking, the mechanism could lead to an increased number of decisions about sustainable investments, provided that the majority is moving in that direction. But herding behaviour is primarily a barrier to more shareholders embracing sustainable investing, because the percentage of sustainable investors is still small," says Tommy Gärling, Professor of Psychology at Gothenburg University and a researcher in BISI.

THE MAJORITY INFLUENCE

According to BISI researchers, there are a number of reasons for herding behaviour. One reason is a form of social influence that occurs when people meet face to face. It is difficult to go against the majority. Another reason is what researchers call "the wisdom of the crowd," where people allow themselves to be influenced by a majority because a larger group is more often correct than a smaller one. One possible

reason why investments are not sustainable is that people follow others. “It is difficult to draw firm conclusions from our research related to the influence of herding behaviour on sustainable investing, but one influencing factor is that the majority doesn’t always made decisions based on solid analysis,” says Maria Andersson, a doctoral student in the Psychology department at Gothenburg University and a participant in BISI.

In a number of experiments, the researchers have placed experiment subjects in situations similar to situations on the stock market and asked them to describe how they make decisions regarding their investments. One of the questions that the researchers have attempted to illuminate is the extent to which the majority and the minority influence such decisions. The experiments show that the majority very commonly influences decisions and that the influence occurs with relatively little reflection. “We have been able to show that people follow the majority regardless of whether the majority is right or wrong in its analysis regarding the results of an investment. People may follow the minority if it is right, if many members of the minority are in clear agreement and if they are adamant in their argumentation,” says Maria Andersson.

But another mechanism lies behind this phenomenon. “Following the minority requires that one is made aware of the minority opinion in the first place, and that one then analyzes the information and compares it with what one already knows. Herding behaviour doesn’t dominate decision making in such situations,” says Maria Andersson.

RIGHT OR WRONG DECISIONS

There are several other behaviour that influence decisions.

"One factor that contributes to keeping more investors from investing sustainably is that the majority doesn't make decisions based on solid analyses", says Maria Andersson, a doctoral student in the Psychology department at Gothenburg University and a participant in BISI.

Stock prices depend, amongst other things, on demand. When demand decreases prices fall. This in turn leads to even weaker demand. People follow each other because the price goes down and then the price falls further, and a mutual dependency between falling prices and decreasing demand occurs.

One problem with the stock market is that it is very difficult to determine what is right and what is wrong, because chance plays a large role," says Tommy Gärling. That makes it difficult to determine if a decision is right or wrong, regardless of whether it is a majority or a minority that has influenced an investment decision. "That's why one can't say whether making decisions based on the majority opinion is worse in general. It can be good in some situations, but when one has very little knowledge or a situation is difficult to judge it can be less so. In such situations it is better to use a more analytical method of making decisions," says Gärling.

SHORT- AND LONG-TERM GOALS

Another factor that lies behind sustainable investing is that people may not make decisions primarily because they want to make money, but because they want, for example, to invest in the future or contribute to sustainable development. "This is another area that we want to study more closely. Many companies naturally invest with a long-term perspective because they are interested in remaining in business for a long time, but on the stock market people often invest in stocks that are doing well at the time," says Tommy Gärling.

The stock market's short-term reward system is often identified as a barrier to investing sustainably, and that is an area that the researchers in Gothenburg will explore during the second phase of the programme. Most often, stock brokers are rewarded when they beat the stock index, but there are other reward systems. "First we will investigate how reward systems are structured and try to decipher how they influence investors' willingness to make sustainable investments. One question is, what happens with investments if an institutional shareholder makes rewards based on long-term performance. If it takes a year before you are rewarded you may risk investing in something that will provide returns in a longer time frame," says Gärling.

2008 in Brief

The seminar Sustainable Investments: Can environmental and ethical concerns create added value? was held in conjunction with Al Gore's January visit to Gothenburg, where he received the Göteborg Award for Sustainable Development.

In late January the entire Sustainable Investments research team gathered in Umeå to exchange research experience and ideas at a two-day workshop.

In March, Maria Andersson defended her licentiate thesis Social Influences on Predictions in Simulated Financial Markets at the University of Gothenburg. Her thesis examines whether different bonus systems or consistency among investors has an impact on the level of herding (i.e. when investors are imitating each other).

The Globe Forum Award for Best CSR Research was awarded to the Sustainable Investment Research Platform (SIRP) in May, "for outstanding and tangible research in the field of CSR," by the Globe Forum Business Network. Lars Hassel, Henrik Nilsson and Pontus Cerin received the Award from HRH Crown Princess Victoria.

SIRP researchers contributed to two books: Voices about transparency and sustainable reporting and CSR – from risk to value, together with Öhrlings Pricewaterhouse-Coopers.

A seminar on Corporate Social Responsibility and Behavioural Finance was held in June at the School of Business, Economics and Law at the University of Gothenburg, as part of the annual European Association of Environmental and Resources (EAERE) conference.

In September, SIRP's Dutch partner – the European Centre for Corporate Engagement (ECCE) – organized their first Academic Conference, together with the UN Principles for Responsible Investments initiative.

The researchers within the Sustainable Investment program have presented their findings at various academic conferences. In September, Pontus Cerin presented his work at the Annual Sustainable Development Research Conference in New Delhi, India.

Evaluation produces high marks

The Sustainable Investments (SI) research programme has been evaluated in preparation for a second phase. The programme received high marks for scientific content and user value. The two evaluation panels look forward to closer collaboration between the SI research groups in the second phase.

After a first three-year period, the Sustainable Investments research programme has been extended for a second phase of four years. The sub-programmes, Behavioral Impediments to Sustainable Investments in Gothenburg and the Sustainable Investment Research Platform in Umeå, have been granted 18 and 40 million Swedish Crowns respectively. The programme contributes to the development of improved analysis tools, and studies, for example, the extent to which it is profitable for investors and corporations to engage in sustainable investing.

The scientific panel that evaluated the programme felt that several components of the programme maintain a high – and in some cases very high – level of scientific quality. They were impressed by, among other things, the Umeå group's compilation of new data and the number of scientific publications. They were also impressed by the fact that several different scientific disciplines – and, thereby, approaches – are involved in the Gothenburg group, which the panel hopes will lead to innovative interdisciplinary results.

"Similar research is being performed elsewhere, but Sustainable Investments can be seen as relatively unique in that the two research groups complement each other. The strength of the Umeå group is that they have acquired a good understanding of how financial markets work. The Gothenburg group's strength lies in their study of behaviour on the market and what it is that drives the different actors in the market," says Werner de Bondt, Professor of Behavioral Finance at DePaul University in Chicago and one of the programme's scientific evaluators.

CLOSER COLLABORATION

The scientific panel hopes, however, that the two groups will collaborate more under the programme's second phase. They identified four areas that the sub-programmes could develop together. The first involves developing a theoretical framework that considers the behaviour of different actors' behaviour while allowing careful measurement of performance, and that enables assessments and understanding of institutional frameworks in order to enhance institutional design. Another area entails combining driving forces and organizational characteristics that both prevent and promote the use of sustainability criteria in companies and by investors. A third area is the diversity of indicators, indexes and standards that address sustainable investing. The fourth area touches on publication strategies for achieving the largest possible influence on researchers in relevant fields.

Lars Hassel, the programme director for the Sustainable Investment Research Platform at the Umeå School of Business, thinks that the scientific evaluation contains a number of valuable suggestions. "The need to bring the sub-programmes together and strive to develop new theoretical

"Sustainable Investments can be seen as relatively unique in that the two research groups complement each other", says Werner de Bondt, Professor of Behavioural Finance at DePaul University of Chigaco and one of the programme's scientific evaluators.

foundations increases with the growing quantity of results from both groups. And there is some overlap in both sub-programmes' projects that should enable new theoretical development."

A MEANINGFUL EVALUATION

The scientific evaluation was important for the programme because it determined if and how the research would proceed. Lars Hassel feels that it is good that the evaluation was carried out by the same panel that evaluated the original programme proposal. "The initial evaluation identified a number of weaknesses in our proposal that equired us to reorganise the program. The recent evaluation confirms that we are on the right track," he says.

That said, he would have preferred to see that the scientific and end-user evaluation groups had interacted, to provide a better overview of both the scientific quality and the end-user value of the research being performed. The panel that judged the practical value of the research, i.e. the extent to which the results may be used by practitioners, found that during the first phase both research groups acquired a deeper understanding of the type of results that can be useful to practitioners, but that their understanding could be even better. Like the scientific panel, they recommended that collaboration between the two research groups should be strengthened.

Research Outcomes

The first stage of the research programme has resulted in a large number of mainly empirical studies about Sustainable Investments (SI) and the related concept Corporate Social Responsibility (CSR). The researchers within the Sustainable Investment Research Platform (SIRP) have performed large-scale quantitative studies of databases from different professional SI services, large-scale surveys of financial-market actors' perceptions, and in-depth content analyses of analysts' reports from a selected set of industry cases. Our intention has been to deepen understanding of the economic value of SI and CSR policies from the perspective of investors, analysts and companies.

SUSTAINABLE INVESTMENT AT THE PORTFOLIO LEVEL

AIM

To estimate and understand how risks related to Environmental, Social and Governance (ESG) factors are assessed and priced in financial markets.

RESULTS

- Various studies of mutual funds, fixed-income funds and self-composed portfolios indicate that ethical investment funds and portfolios do not under perform.
- Investors can integrate ESG factors into their investment decisions without a financial penalty.

BENEFITS FOR PRACTITIONERS

The research has shown that the relations between CSR and financial performance measures are more pronounced at disaggregate levels. There is no clear attractiveness to studying how non-financial information is related to mutual fund and (abnormal) portfolio returns. Most fund and portfolio studies show a neutral risk-adjusted return. Nevertheless, the findings illustrate the need to understand the multiple channels through which CSR measures translate to company-level financial performance, and ultimately the company's stock-market performance.

RESEARCHERS

Rob Bauer, Jeroen Derwall, Ian Hamilton, Kees Koedijk and Rickard Olsson.

CSR OR ESG AND FINANCIAL OUTCOMES ON THE FIRM LEVEL

AIM

To deepen understanding of the economic value of CSR and ESG factors by examining whether CSR practices improve a firm's profitability and whether financial markets place a premium on corporate social responsibility.

RESULTS

- ESG factors provide extra financial value. This conclusion is a result of several studies using data from different professional services rating agencies – such as GES-Investment Services, KLD and Innovest – data for different time periods, and different firm-level accounting and economic-performance measures.

BENEFITS FOR PRACTITIONERS

The research has demonstrated a business case for CSR.

RESEARCHERS

Robin Braun, Gary M. Cunningham, Jeroen Derwall, Lars G. Hassel, Tommy Lundgren and Henrik Nilsson.

THE ROLE OF ESG INFORMATION FOR FINANCIAL ANALYSTS

AIM

To better understand how financial analysts incorporate environmental, social and governance (ESG) issues into their analysis, valuation and investment decisions, and to find out how environmental information is reported together with financial information.

RESULTS

- Corporate governance is the most important factor for analysts.
- Analysts believe that ESG information has a higher impact on brand and reputation than on market value or financial performance.
- Companies that score high on ESG criteria seem to be rewarded with premium valuations.

BENEFITS FOR PRACTITIONERS

We have documented in surveys that actors in European financial markets have become increasingly attuned to ESG criteria, and they encourage sell-side and other research analysts to routinely incorporate non-financial factors into investment recommendations.

RESEARCHERS

Pontus Cerin, Rob Bauer, Gary Cunningham, Jeroen Derwall, Lars G. Hassel, Henrik Nilsson and William Jaworski.

CONSISTENCY IN JUDGMENT AMONG SRI ANALYSIS ORGANIZATIONS

AIM

To investigate how environmental sustainability is defined within the investment community, and to assess whether criteria used by SRI research service providers address relevant aspects of environmental sustainability. To develop a framework for assessing environmental sustainability among industries.

RESULTS

SRI research service providers:

- Tend to address relevant aspects of environmental sustainability, although some miss key indicators and some evaluate less relevant indicators
- Rank companies very differently, although there is agreement with regard to the worst performers.

BENEFITS FOR PRACTITIONERS

SRI analysis organizations can use the framework for developing or improving environmental indicators.

SRI reporting of environmental performance among industries will be facilitated.

RESEARCHERS

Martin Hedesström, Anders Biel and Ulrika Lundqvist.

CSR VS. FINANCIAL PERFORMANCE

AIM

To determine the extent to which sustainability ratings explain/predict corporate performance measured in terms of return on assets (ROA) and stock returns.

An empirical risk-factor analysis has been performed on the longest CSR dataset to date (i.e., the KLD dataset from 1991-2007), in order to investigate investors' perceptions of the relevance of CSR performance with regard to US corporations' financial risk.

RESULTS

- A change in investors' perceptions of CSR performance occurred between 1992 and 2008.
- From July 1992 through June 2004, CSR performance had a statistically-significant positive effect on anticipated stock-return performance, due to incorrect pricing.
- From July 2004 through June 2008, the effect of CSR performance on anticipated stock-return performance was negative, indicating that investors began to weigh in CSR as a risk factor, due to increased availability of CSR information that could be incorporated into valuation models.

BENEFITS FOR PRACTITIONERS

Knowledge about the effect of CSR performance on profitability and stock returns is important for corporate managers (who can make better decisions regarding socially-responsible projects) and for portfolio managers (who can better evaluate the CSR risk component of their investments).

RESEARCHERS

Cristiana Manescu and Catalin Starica.

HOW INSTITUTIONAL INVESTORS MAKE DECISIONS

AIM

To investigate whether decisions to adhere to or reject a Sustainable Investment (SI) policy can be explained by the organizational structure and decision-making processes within investment organizations.

RESULTS

- There is little evidence that social and environmental values promote SI.
- Organizational support is a strong driver among institutional investors that have adopted a SI policy.
- Institutional investors tend to underestimate the importance that beneficial owners place on environmental and social issues in their investments, and overemphasize the importance they place on financial returns.
- Institutional investors that have adopted a SI policy are more sensitive to the behaviour of other financial actors in the SI domain than investors that have not adopted a SI policy. The latter group is more strongly influenced by agreed-upon rules and market regulations. Hence, factors that promote SI may differ among the two groups of investors.

BENEFITS FOR PRACTITIONERS

Management can find support for the importance of norm setting in their organization when promoting SI.

Investment organizations gain a more accurate picture of investment motives amongst their beneficiaries.

RESEARCHERS

Anders Biel and Magnus Jansson.

BREAKING THE INFLUENCE OF THE MAJORITY IN FINANCIAL MARKETS

AIM

To better understand the mechanisms of social influence, or herding, in financial markets. Social influences are believed to prevent mainstreaming of Sustainable Investment policies, to some extent.

RESULTS

- Participants in experiments are influenced by the majority, irrespective of whether or not it makes accurate predictions.
- The influence of the majority can be broken when it is made clear that the majority is inaccurate. Similarly, a minority is followed when its predictions are known to be accurate.

BENEFITS FOR PRACTITIONERS

A better understanding of how investment decisions are made will provide a basis for understanding how long-term sustainable investment practices can be promoted.

RESEARCHERS

Maria Andersson, Martin Hedesström and Tommy Gärling.

HOW EXPENSIVE IS TO BE A SUSTAINABLE PORTFOLIO MANAGER?

AIM

To understand the impact of sustainable investment (SI) constraints on the performance of efficient portfolios.

RESULTS (PRELIMINARY)

It is assumed that portfolio optimization is performed applying the classical mean-variance approach to investigate the impact of different methods for incorporating SI constraints in portfolio optimization on the performance of efficient portfolios. Our analysis uses the KLD sustainability grading system, the longest CSR dataset to date.

- Two efficient frontiers were computed for each half of each year from 1995 to 2008. For the first case, no sustainability constraints were imposed. The second was computed from a screened investment universe where all of the companies with negative scores in any of three criteria were removed.
- The difference between the screened and the not-screened frontiers gives a clear measure of the impact of the Environmental, Social and Governance responsibility criteria constraints on the construction of efficient portfolios. How the difference evolves over time is currently under investigation.

BENEFITS FOR PRACTITIONERS

Understanding the price one has to pay (in terms of decreased returns for the same risk) is extremely important for managers that have a sustainability mandate.

Being able to measure the impacts of incorporating sustainability constraints into the investment process on returns enables portfolio managers with sustainability mandates to make informed choices.

RESEARCHERS

Stefano Herzel, Marco Nicolosi and Catalin Starica.

PROPOSAL AND TEST OF DIFFERENT RECOMMENDATIONS AND FIDUCIARY MEASURES

AIM

To explore practical issues related to integrating sustainability issues into mainstream asset management.

EXAMPLES

This project is composed of studies related to issues identified in other projects of the programme.

- The study "How long should short-term be?" is an attempt to determine the optimal stopping times, and potential deviations from the benchmark index for portfolio managers, depending on how they are "incentivized."
- One study questions if managers are influenced by monitoring, e.g. the frequency of monitoring.
- "How/if incentive systems influence corporate behavior" is a study in which the willingness to make long-term investments depends on ownership structure, equity turn-over, risk and the existence of incentive systems.
- How to compensate for biases that may arise in portfolios that are strongly focused on SI-criteria is studied in another project.

RESEARCHERS

Evert Carlsson, Marianne Frisén, Georgious Foufas, Taylan Mavrak, Mattias Hamberg, Ann-Brith Strömberg and Mattias Sunden.

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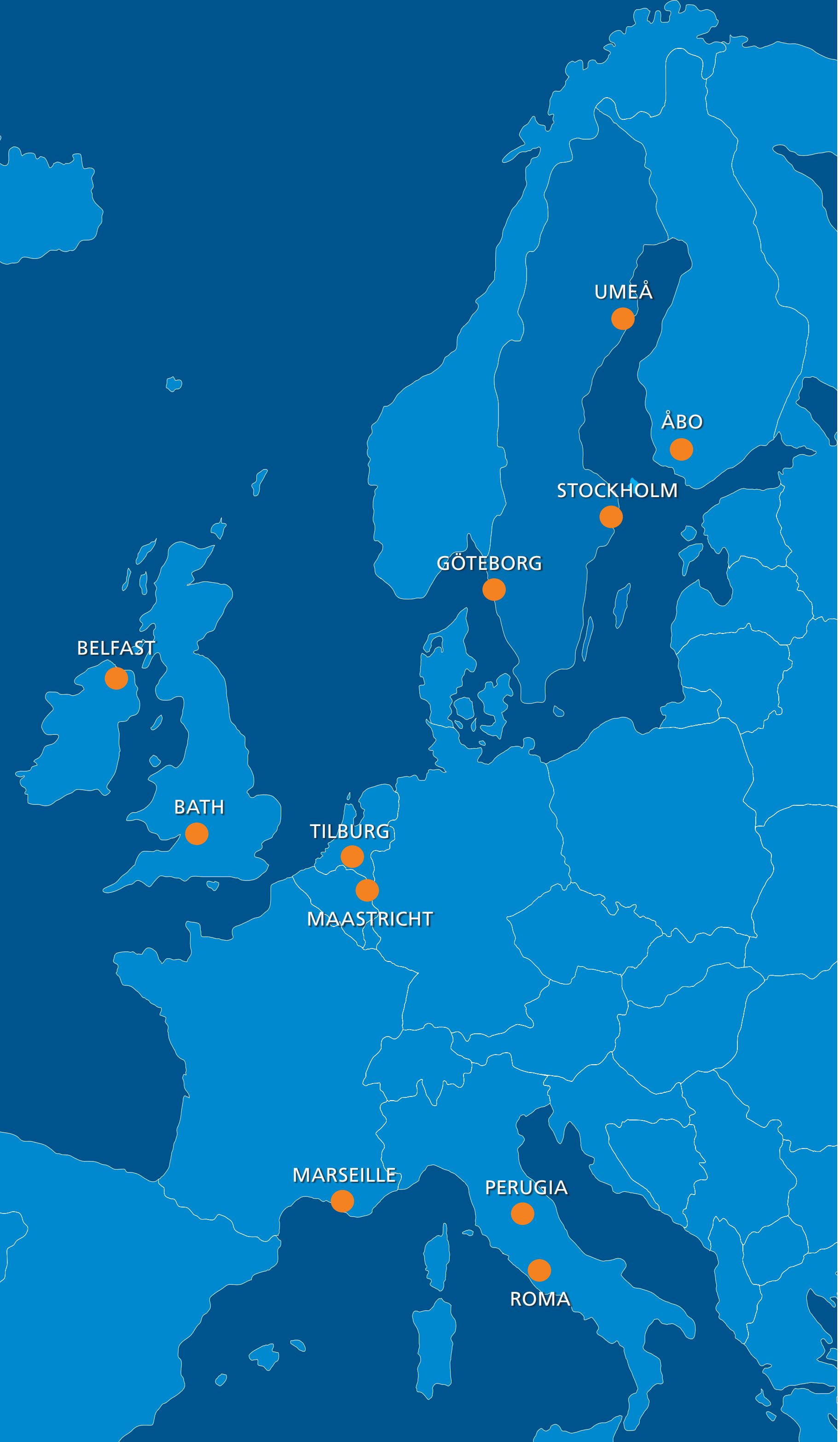

- An international and interdisciplinary research programme aimed at understanding how sustainable investment practices can add value to investors and identifying barriers for such practices to becoming mainstream.
- Umeå School of Business is the host for the Sustainable Investments research programme and is responsible for co-ordinating the various projects.
- The research covers multiple academic disciplines including finance, economics, accounting, psychology and statistics.
- A Mistra-funded research programme with a budget of 102 million SEK for the period 2006-2012.

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