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Working Paper Title:

The financial performance of screened responsible investment funds and indexes – Preliminary evidence from the first Meta-Regression-Analysis (MRA) on this research issue

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Abstract:

This paper provides a Meta-Regression-Analysis (MRA) of the 1,409 Jensen Alpha estimations performed by the 20 largest studies on the financial performance differential between responsible and conventional investment. This MRA is able to explain roughly 30% of the variability between the estimated Jensen Alphas with variables, which 'authentically' affect RI's financial performance as (e.g. investment vehicle or time period), research method choices and research process characteristics. Due to the MRA's ability to control for such variables and due to its exceptionally large sample, the MRA is able to estimate RI's financial performance less biased and more precise than any primary empirical study. The result of this estimation is that the average responsible investment approach performs better than the market. However, the size and the precision of the performance differential estimation are not big enough to be significant at any common significance level. Regarding the variables affecting RI's financial performance, this paper finds that hypothetical RI indexes perform more than 0.8% and 1% better per month than existing indexes and existing funds, respectively. Responsible investments performed above their average during the period 1986-2000, while they strongly underperformed their average from 2001 to 2005. Responsible investment managers experience a strong inability to time the market exposure of their portfolios and studies, which received external funding, estimated monthly Jensen Alphas of 0.43% below average. These latter two findings raise the questions, if market exposure timing is substantially more difficult for responsible than for conventional investment managers and to what degree one can expect academic integrity in a highly political research area like responsible investment, respectively.

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