Individual Investors and Socially Responsible Mutual Funds

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Akademisk avhandling

som med vederbörligt tillstånd av Rektor vid Umeå universitet för avläggande av filosofie doktorsexamen framläggs till offentligt förvar i UB333, Samhällsvetarhuset, Fredagen den 7 september 2018, kl. 13:00.
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Fakultetsoppponent: Associate Professor, Maximilian Wimmer, University of Regensburg, Regensburg, and University of Mannheim, Mannheim, Germany.
Abstract
This thesis examines the behavior of individual investors towards socially responsible mutual funds. The results are reported in the four self-contained papers.

Paper [I] profiles SR individual investors. An understanding of SR investors' characteristics is important for the development of hypotheses and for understanding the adoption of SR investing. We find evidence indicating, for example, that females, more educated, relatively older individuals, those with higher wealth and those living in municipalities with a higher proportion of SR investors are more likely to hold SR equity mutual funds.

Paper [II] studies the relation between investments of adult children and their parents. The paper explores the importance of parent-child socialization in the formation of prosocial behavior. The study contributes to the understanding of when prosocial behavior is formed and how parent-child relationships influence it. We find evidence that there is a correlation between parents and children in the investment in SR mutual funds and that parental resources and parental experience are influential in the transmission of this prosocial behavior.

Paper [III] documents individual investors' trading behavior in relation to SR equity mutual funds. Results indicate that SR investors are less likely to sell SR than conventional fund as past negative returns decrease. Nonetheless, fund flows of SR and conventional funds are similarly sensitive to past returns. There is, however, evidence that sticky SR investors' fund flows are more sensitive to past positive returns and are less sensitive to past negative returns on their SR than on their conventional funds. Despite sticky SR investors showing behavior in line with values-driven motives, they also appear to be less likely to reinvest in SR than in conventional funds.

Paper [IV] examines whether SR investors are willing to forgo higher returns to invest responsibly. Based on administrative data on individual investors' equity mutual fund portfolios, it is found that socially responsible (SR) investors forgo return by investing in a socially responsible manner. In comparison with similar conventional investors (in terms of characteristics), SR investors have an equal performance on their non-SR part of their total portfolio, but an inferior performance on their SR part. Analysis of individuals' money flows to funds further indicate that fund flows of SR investors who invest in only SR funds are less sensitive to past returns. Given that investors who value non-financial fund attributes, e.g., ethical or social, may be presumed to care less about the financial performance, the results lend support to an investment behavior, at least partly, driven by prosocial concerns. Taken together, the findings favor the interpretation that some individuals willingly forgo higher financial returns to invest in accordance with their social preferences.

Keywords
Individual investors, mutual funds, socially responsible investing, prosocial preference

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