Bridge of Sighs, Oxford University

# Returns OK, risk higher: Oxford Uni commissioned report on SRI funds

**Report supports colleges' consideration of SRI for investment funds.**

*by* **Hugh Wheelan** | March 19th, 2008

Investment in socially responsible investment funds does not automatically lead to poorer returns and can perform better than non-SRI funds, albeit with slightly higher risk due to close correlation to small and mid cap funds, according to a market survey carried out for the investment funds of Oxford University. However, the survey by Jewson Associates, a consultant to clients running £7bn (€8.8bn) in assets, found significant geographical differences in SRI fund performance. The review compared UK, US, European and global equity SRI funds with mainstream peers. It also compared performance of UK bond funds. The analysis of 39 UK equity SRI funds found that on average they bettered the market and 319 mainstream UK equity fund peers over one, three, five and seven years and matched both over ten years, with particularly strong performance over the past year. Nonetheless, it said SRI funds lagged when performance was calculated using an average of rolling three- and five-year periods over ten years. It found SRI approaches had slightly higher overall risk than non-ethical funds over most periods but generated better excess return relative to risk taken. The survey found a wide dispersion of perfomance between different UK SRI funds, which it said placed a premium on selecting the best manager. Over the past year, it recorded SRI fund returns of between 10% and 29%, while back in 1999, the range of fund performance was as high as 83%. Overall, SRI performance is less encouraging in the US where the survey found that SRI equity funds lagged the market modestly and gave slightly worse returns than mainstream peers over the same time periods with slightly higher volatility and lower efficiency.

In European equities, performance of SRI funds was mixed relative to the market, with good relative returns in 2006, but lower performance than the market over longer-term periods, both including and excluding the UK. SRI global equities funds delivered returns better than the market over one, three, five and seven years but lagged over ten years. They outperformed non-SRI funds over all these periods except five years. Using average rolling returns, however, the performance lagged the market and non-SRI funds over three- and five-year periods.

In sterling bonds, SRI fund returns were below the market over one, three and five years but outperformed the non-SRI peer group. Again, the average return over rolling three and five periods was behind the market and non-SRI fund peers.

The findings of the report were presented to Oxford University's working group on the implementation of an SRI policy. The group's chairman, Sir Derek Morris, said: "This report is an important piece of analysis. Socially responsible investing has moved to the forefront of debate in the investment industry over recent years, and, in commissioning this report, we are reflecting the importance which the university attaches to this issue. The report has played a key role in the formulation of our recommendations to the Council of the University."



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