

Seminar: Socially Responsible Investments

Winter 2016/17

Seminar within the specializations "**Financial Markets**" and "**Financial Intermediation**"

Market economies are based on the notion of creating value by the decentralized and considerate actions of individuals. Nevertheless, there is a wide-spread feeling that the aggregate outcomes of markets are mechanical, impersonal and even myopic drivers of value. Impersonal markets are readily made responsible for crises, not necessarily the (many) individuals behind the underlying strategies. Often in periods of crises markets are made accountable for implementing irresponsible strategies. Do markets lure individuals into irresponsible behavior? How can unintended outcomes result from otherwise responsible investments? Can monitoring and certification by third parties improve market outcomes? These are the underlying issues that the seminar wants to address by discussing investment behavior in global securities markets.

Cooperation:

This seminar is organized in cooperation with Mag. Markus Stadlmann, MBA (U. Chicago, 1999) of Lloyds Banking Group, London.

Requirements:

This is an advanced master-level seminar. It also serves as a potential basis for the preparation of a master thesis or other advanced work. Therefore, having passed successfully the course "Principles of Finance" is a pre-requirement. Prior knowledge of any specialization in "Market Microstructure" or "Financial Intermediation" strongly recommended. Knowledge of "Empirical Finance" or "Financial Econometrics" is helpful for presenting and testing empirical analyses.

Topics:

- **Markets, Agents and Morality**
 - Markets and individual responsibility
 - Uncertainty, information and trust
 - Altruism, externalities and cooperation
 - Conduct, client treatment and principal agent challenges
 - Are markets myopic?

- **What is SRI? Different notions of social responsibility**
 - Market trends and industry evolution
 - UN development goals
 - Sustainable investments
 - Ethical investments
 - Community investments
 - Alternative investments
 - Private equity

- **Do SRIs perform differently?**
 - Drivers of risk and return (value, liquidity, ...)
 - Ratings and external monitoring
 - Investment horizon and trading frequency

- **Does CSR affect management decisions and investment behavior?**
 - Best customer treatment
 - Impact on company policies
 - The role of internal and external stakeholders
 - The role of large shareholders and ownership concentration
 - Shareholder activism

- **University Endowments and Sovereign Wealth Funds**
 - Investment policies
 - Investment performance
 - Role of liquidity
 - Impact on markets

Literature:

- Adamsson, Hampus and Hoepner, Andreas G. F. (2015): The 'Price of Sin' Aversion: Ivory Tower Illusion or Real Investable Alpha?. Available at SSRN: <http://ssrn.com/abstract=2659098> or <http://dx.doi.org/10.2139/ssrn.2659098>
- Ang, A., A. Ayala, W. Goetzmann (2013): Investment Beliefs of Endowments, Yale WP.
- Appel, Ian and Gormley, Todd A. and Keim, Donald B., (2016): Passive Investors, Not Passive Owners. *Journal of Financial Economics (JFE)*, Forthcoming. Available at SSRN: <http://ssrn.com/abstract=2475150> or <http://dx.doi.org/10.2139/ssrn.2475150>
- Barber, Brad M. (2006): Monitoring the Monitor: Evaluating CalPERS' Activism. Available at SSRN: <http://ssrn.com/abstract=890321> or <http://dx.doi.org/10.2139/ssrn.890321>
- Baron, D., M. Harjoto, H. Jo (2009): The Economics and Politics of Corporate Social Performance, Stanford Business School, WP. 1993.
- Dimson, E., O. Karakas, X. Li (2015): Active Ownership, *Review of Financial Studies* 28(12), 3225-3268.
- Dowell, G., S. Hart, B. Yeung (2001): Do Corporate Global Environmental Standards Create or Destroy Value?
- El Ghouli, Sadok and Guedhami, Omrane and Kwok, Chuck C.Y. and Mishra, Dev R. (2011) Does Corporate Social Responsibility Affect the Cost of Capital? *Journal of Banking & Finance*, Vol. 35(9), pp. 2388-2406. Available at SSRN: <http://ssrn.com/abstract=1546755>
- Ferrell, A., H. Liang, L. Renneboog (2016): Socially Responsible Firms, ECGI 432/2014.
- Flammer, Caroline (2013): Does Corporate Social Responsibility Lead to Superior Financial Performance? A Regression Discontinuity Approach. Available at SSRN: <http://ssrn.com/abstract=2146282> or <http://dx.doi.org/10.2139/ssrn.2146282>
- Friede, Gunnar and Busch, Timo and Bassen, Alexander (2015): ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies. *Journal of Sustainable Finance & Investment*, Volume 5(4), p. 210-233, 2015, DOI: 10.1080/20430795.2015.1118917. Available at SSRN: <http://ssrn.com/abstract=2699610>
- Krueger, Philipp (2015): Climate Change and Firm Valuation: Evidence from a Quasi-Natural Experiment. Swiss Finance Institute Research Paper No. 15-40. Available at SSRN: <http://ssrn.com/abstract=2565523> or <http://dx.doi.org/10.2139/ssrn.2565523>
- Otten, Rog er and Bauer, Rob and Koedijk, Kees C. G (2002): International Evidence on Ethical Mutual Fund Performance and Investment Style. LIFE Working Paper No. 02.59. Available at SSRN: <http://ssrn.com/abstract=297882> or <http://dx.doi.org/10.2139/ssrn.297882>
- Suchanek, A. (2008): Business Ethics and the Golden Rule, Wittenberg Center for Global Ethics, Working Paper 2008-3.
- Teoh, Siew Hong and Welch, Ivo and Wazzan, C. Paul (1995): The Effect Of Socially Activist Investment Policies On The Financial Markets: Evidence From The South African Boycott . London Business School Institute of Finance and Accounting working paper 222. Available at SSRN: <http://ssrn.com/abstract=10203> or <http://dx.doi.org/10.2139/ssrn.10203>
- v. Wallis, M., C. Klein (2015): Ethical requirement and financial interest: a literature review on socially responsible investment, *Business Research* 8(1), 61-98.
- Ziegler, A., K. Rennings, M. Schr oder (2016): Der Einfluss  kologischer und sozialer Nachhaltigkeit auf den Shareholder Value europ ischer Aktiengesellschaften, ZEW Discussion Papers 02-32.

Schedule

17.10.2016
10-12 Uhr Thomas Gehrig and Markus Stadlmann: Introduction and allocation of topics

- Individual meetings during the course of the semester

23.1.2017
13-16.30 Uhr Thomas Gehrig and Cooperation Partners: Final Presentation and Discussion (Skylounge, OMP 1, tbc)

Grading:

Grading is based on three elements:

1. The worked out seminar paper (40 points).

Each candidate has to submit a single-authored paper not exceeding 12 pages.

The seminar draft has to be *submitted one week prior to the presentation* in electronic form. This version is distributed to seminar participants in order to allow them preparation. After the presentation the paper can still be improved.

Final submission for all papers is **February 6, 2017**. Thereafter no corrections are possibly anymore.

2. Presentation of the seminar paper (30 points)

Presentations can be shared, but each candidate will be assessed on his/her own part.

3. Course participation (30 points)

Active preparation and active participation are required, which requires regular participation. You will be asked questions even if you are not presenting in order to generate discussions. If you are repeatedly denying answers, this will affect your grade. Likewise repeatedly missing sessions will not help to increase your score. You will not be able to score more than 5 points per meeting.