

Socially Responsible Investment and Market Performance: The Case of Energy and Resource Firms

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Abstract Energy and resource companies have a crucial role in achieving future sustainable economies. We investigate the performance of international Socially Responsible Investment (SRI) energy and resource companies on the stock market over a 10-year period (February 2005-January 2015). We select portfolios of established energy and resource stocks with substantial environmental and social responsibility activities. Our findings demonstrate that the annual average performance of the energy and resource SRI portfolio was superior to returns of different benchmark indices. The energy and resource SRI stock investments were also more profitable on the risk-adjusted basis. Additionally, we applied Fama-French and Carhart four factor models and found that the returns of our portfolios are more consistently explained by the market factor than by other factors. We also show that oil price has a statistically significant influence on the returns of the SRI energy and resource stocks. However, the performance of the energy and resource SRI portfolio was no longer superior when dividends were excluded from the calculation of total returns. Indeed, the performance of portfolios without dividends was poor compared to the benchmark indices in most sub-periods, in the sub-samples of bullish and bearish markets and in the full sample. This finding demonstrates the importance of dividends in the investment performance of the energy and resource SRI stocks.

Keywords Socially Responsible Investment (SRI), SRI Stocks, Energy Stocks, Stock Market Returns, Dividends

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