

## ZICKLIN CENTER FOR BUSINESS ETHICS RESEARCH SEMINAR SERIES

**SPEAKER:** Christopher C. Geczy, Assistant Professor, Finance Department  
The Wharton School, University of Pennsylvania

**TITLE:** Investing in Socially Responsible Mutual Funds

**DATE:** October 5, 2004 – Noon – 1:30 PM – Room 641 JMHH

*If you plan to attend and would like a lunch, please email Gale Davis,  
[agale@wharton.upenn.edu](mailto:agale@wharton.upenn.edu)*

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### **ABSTRACT**

#### **Investing in Socially Responsible Mutual Funds**

by Chris Geczy, Rob Stambaugh and David Levin

We construct optimal portfolios of mutual funds whose objectives include socially responsible investment (SRI). Comparing portfolios of these funds to those constructed from the broader fund universe reveals the cost of imposing the SRI constraint on investors seeking the highest Sharpe ratio. This SRI cost depends crucially on the investor's views about asset pricing models and stock-picking skill by fund managers. To an investor who believes strongly in the CAPM and rules out managerial skill, i.e., a market-index investor, the cost of the SRI constraint is typically just a few basis points per month, measured in certainly-equivalent loss. To an investor who still disallows skill but instead believes to some degree in pricing models that associate higher returns with exposures to size, value, and momentum factors, the SRI constraint is much costlier, typically by at least 30 basis points per month. The SRI constraint imposes large costs on investors whose beliefs allow a substantial amount of fund-manager skill, i.e., investors who rely heavily on individual funds' track records to predict future performance.

### **BIOGRAPHICAL SKETCH**

**Christopher C. Geczy, Ph.D.**, is an Assistant Professor on the Finance Department faculty of The Wharton School at the University of Pennsylvania.

His current research focuses on various topics including risk management, multifactor models, the performance of mutual funds, various aspects of equity lending, and shareholder agreements among parties to firms. His work has appeared in various books and scholarly journals including the *Journal of Finance*, *Journal of Financial Economics* and the *Journal of Political Economy*.

Professor Geczy is a Fellow of the Wharton Financial Institutions Center and has been the New York Stock Exchange and the Geewax-Turker Fellow at the Rodney L. White Center for Financial Research at Wharton. He regularly teaches investment management at The Wharton School along with a number of executive education courses and has taught AIMR-accredited professional Risk Management courses through the University of Chicago's Graduate School of Business. Chris also has appeared often in the Securities Industry Association's annual Institute, speaking about hedge funds and alternative investments. He is an editor of the *Journal of Alternative Investments*, a founding board member of the Mid-Atlantic Hedge Fund Association, and serves on the curriculum and exam committees of the Chartered Alternative Investment Analyst Association.