

# **Islamic mutual funds as faith-based funds in a socially responsible context**

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## **Abstract**

The definition of social investing and its boundaries, though being a challenging effort, is not a simple task. Since the religious beginning of ethical investments, indeed, many overlapping investment styles have converged into the broad bucket of socially responsible investments, included, for instance, faith-based investments (Dunfee, 2003). In this paper we study the underlying ideas of SRI as an investment class and try to understand if Islamic mutual funds, as faith-based investments, can be included into SR mutual funds or exhibit distinguishing characteristics that would be better expressed in a separate investment family (Elgari, 2002 and Wilson, 2003). We try to answer to the question both from a qualitative and quantitative point of view. To highlight potential differences, in the last part of the paper, using a Sharpe's style analysis, we discuss the final different sector composition of two generic portfolios, SRI and Islamic (proxied by some relevant European indices) deriving from the application of the investment screens. In addition, through a cointegration analysis on FTSE indices, we show that FTSE Islamic, though cointegrated with interest rates, exhibits peculiar and interesting portfolios' differences in terms of risk and return profile, when compared with conventional and SRI FTSE's indices.

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## Introduction

Social investing is gaining increasing popularity: more and more investors are starting to consider environmental and social concerns in allocating money to investments.

The amount of money that has been invested in socially responsible investments (SRI from here on) during the last two decades has grown substantially. Recent researches show that currently many investors are concerned with screened investments. Studies about Europe show a total amount of asset under management of about 1.150 billion Euros. Most of the investments, approximately 94%, according to Eurosif (2006), are to be referred to institutional investors, mainly Charities, Pension Funds and Churches (Methodists, Quakers, Presbyterians and Anglicans). SR investments in Europe totalize a 10-15% of the total assets under management and they are reaching a sensible importance also in the US, where about 2.290 billion US dollars are invested according to social and environmental screens (SIF, 2005) totalizing 9.4 % of the total assets.

Islamic investors, as Wilson (1997) points out, may be interested in different screening criteria but the idea of excluding companies according to a proper set of ethical constraints is of mutual interest. The guidelines of Islamic investments are based on *Tawhid*, a total adherence to the willing of God, revealed to the world by the words and saying of the Prophet Mohammed (Mills and Presley, 1999). The numbers and the investors entering the Shari'ah compliant investments and in particular the Islamic mutual funds (IF, from here on) are increasing about 12-15% a year and the total equity assets under management have reached the total of \$16 billion [(Smyth (2006) and Failaka (2007))].

To introduce moral and conscience into investments is a challenging task but a severe problem is to overcome. Even business ethics scholars are not able to properly define social investing and the effort to identify what properly falls within the ambit of social investing (Dunfee, 2003) can lead to different answers. Furthermore: when speaking of socially responsible, moral, faith-based, Catholic, Islamic, are we dealing with the same class of investments or we are associating investment styles that are not overlapping and show characteristics that can be mutually inconsistent?

In this paper we will try to address the question through both a qualitative and quantitative assessment. In the first part, after identifying the size of SRI in Europe and in the US, and their underlying ideas, we will move to consider a fast growing investment segment, the faith-based IF. They are often defined as *ethical* investments and it can be useful to highlight their ratio and fundamentals in order to shed light on similarities and, if existent, differences among IF and SR funds.

Starting from the assessment of the main investments strategies applied in the case of the screened portfolios (socially responsible and Islamic), we will, at last, discuss fund management issues, highlighting common tasks and differences in the strategies. Concentrating on similarities and differences between SR and IF we will address the question pertaining the possibility of inclusion or exclusion of faith-based investments in the wide bucket of the SRI.

Together with a qualitative assessment of SRI and IF characteristics, we will perform a Sharpe's style analysis (Sharpe, 1992), to exhibit the final sector composition of FTSE Islamic Europe, FTSE4good Europe, Dow Jones sustainability and Dow Jones Sustainability ex AGTF, deriving from the application of the investment screens. Furthermore, through a cointegration analysis on three selected indices (FTSE Islamic Europe, FTSE4good Europe and FTSE Developed Europe), we will try to enhance the knowledge of *Shari'ah* compliant investments and the portfolios' differences in terms of potential diversification, risk and return profile.

This paper tries, then, to unify the studies regarding SRI [Cooper and Schlegelmilch (1993), Cowton (1994), Taylor (2001), Dunfee (2003), Benson et.al. (2006), Hellsten and Mallin (2006)] and their performances [Hamilton et. al. (1993), Orlitzky et. al. (2003)], with the available studies on Islamic investments [Usmani (2002), Elgari (2002), Naughton and Naughton (2006)]. In addition, some authors have analysed the risk and return characteristics of Islamic indexes [Girard and Kassan (2005), Hakim and Rashidian (2004)], confronting them with the conventional indices: to the best of authors' knowledge,

though, this is the first time that SRI and Islamic indices are analysed and compared in terms of beneficial diversification attainable, sector composition and risk and return characteristics.

### **The birth and the fundamentals of socially responsible investments**

SRI have undergone a fast development in Europe in the last few years. The movement was originally born during the '20s in the UK when the Methodist Church began avoiding sin stocks in its investment policy. By the 1960s, this financial-moralist movement had started to spread to the whole Europe, since churches and religious groups wanted to place their financial investments in line with their views and principles. In 1971, pushed by the United Methodist Church and in response to ethical concerns about armaments, Pax World Funds was born. Some year later, in 1984, Friends Provident, an old mutual insurance company, founded by The Society of Friends (commonly known as the Quakers), launched the Friend Provident Stewardship.

At the beginning, deriving from religious schemes, screened investments were defined as “ethical” since, in a religious sense, the term is associated to a well precise set of norms. This terms keep on being used where the norm based religious approach is very important; this is the case, for instance, of the UK, where Ethical investments were born.

To define “ethical investments”, we refer to Cowton (1994), according to whom ethical investments make use of ethical and social criteria in the selection and management of investment portfolios. Starting from the term “ethical investments”, many authors tried to set an omni comprehensive definition. This is clearly not a simple task and there is not a general consensus among business ethicists. Many cultural roots can be identified, indeed, in the world of ethical investments. Religious criteria were used, at first, to be replaced, from time to time, from environmentally strategies, anti war projects and human rights activism (Sparkes, 2002). The terms “ethical investments” and “socially responsible investments” are often used as synonyms, given that, as said before, the former is widely used in some parts of the world (typically the UK, Canada and Australia), and the latter term in other parts (Hellsten and Mallin, 2006).

In the following, we will refer to Eurosif (*the European Social Investment Forum*), definition, stating that “*socially responsible investments combine investors’ financial objectives with their concerns about social, environmental and ethical (SEE) issues*”. The acronym used (SEE) can be enriched adding corporate governance issues, becoming ESG (*environmental, social and governance*). In both these cases, emphasis is posed on financial performance, following the so called “*triple bottom line*”, commonly known as the “three P’s rule: *people, planet and profit*”.

The definition provided by the North American Social Investment Forum is only slightly different: *socially responsible investing (SRI) is an investment profit that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis* (Social Investment Forum, 2005). Also in this case there is a second layer focused on corporate governance issues: *CSR includes issues as environment, health and safety, diversity and human resources policies, and human rights and the supply chain*”.

In both the definitions cited the accent on financial performances is stressed: there is not social investment without strength toward financial soundness. Even if, in theory, an investor could be potentially willing to sacrifice a little part of performance to reach social goals that he considers very important, the performance of ethical funds is very much of concern as in any other financial investment (Wilson, 1997).

According to these ideas, widely accepted, SRI’s ratio can be summarized as follows:

- a moral duty exists and it is related to sustainable development. As suggested in the Brundtland Commission’s report, “Our common future” (1987), the behaviour towards development should ensure the development that meets the needs of the present without compromising the ability of future generations to meet their own needs;

- SRI can represent a positive economic value added, related to company performance. SR companies, indeed, are less subject to potentially damaging legal controversies linked to environment pollution, human rights charges, and illegal working practices. Virtuous companies can, then, avoid corporate scandals and reputation losses. Implementing a code of conduct and socially responsible practices may lead to additional costs to be suffered in the short period, but could be “reimbursed” in the long run, in terms of reputation and avoiding of unexpected legal costs.

When applying socially responsible filters, asset managers have, from time to time, used different strategies, as highlighted in the following table, based on Eurosif (2006) and focused on Europe.

**Table 1: Most common strategies used in Europe**

STRATEGY	DEFINITION
<b>Ethical exclusions</b>	This refers to exclusions where a large number of negative criteria and/or filters are applied (as opposed to just tobacco or weapons for example).
<b>Positive screening</b>	Seeking to invest in companies with a commitment to responsible business practices, or that produce positive products and/or services. Includes Best-in-class and Pioneer screening.
<b>Best-in-class</b>	Approach where the leading companies with regard to SEE* criteria from each individual sector or industry group are identified and included in the portfolio.
<b>Pioneer screening / Thematic investment propositions</b>	Thematic funds, based on ESG* issues such as the transition to sustainable development and a low carbon economy. May focus on sectors such as Water, Energy, etc.
<b>Norms-based screening</b>	Negative screening of companies according to their compliance with international standards and norms such as issued by OECD, ILO, UN, UNICEF, etc.
<b>Simple screens / Simple exclusions</b>	An approach that excludes a single given sector from a fund such as arms manufacture, publication of pornography, tobacco, animal testing, etc.). Simple screens also include human rights screens (such as excluding Sudan or Myanmar) and Norms-based screening.
<b>Engagement</b>	Engagement is applied by some fund managers to encourage more responsible business practices and/or enhance investment returns. It relies on the influence of investors and the rights of ownership, and mainly takes the form of

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**Integration**

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dialogue between investors and companies on issues of concern. Engagement may extend to voting practices.

The explicit inclusion by asset managers of CG / SEE-risk into traditional financial analysis.

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\* SEE stays for *social, environmental and ethical*, whilst ESG stays for *environmental, social and governance*.

Source: Eurosif (2006)

The *Best-in-class* strategy is largely used in Continental Europe, whilst the *Ethical exclusion* strategy is very popular in the UK and in the case of Danish Pension Funds. Differently from Europe, in the United States and in Canada, a commonly used strategy is shareholders' advocacy that allows investors to file and vote shareholders' resolutions focused on social and environmental concerns.

The decision about criteria and their implementation is not always a simple task: to overcome difficulties, some funds appoint "Ethical Committee" with the main duty to face and solve the most critical decisions about stocks and socially responsible policies.

Many funds make use, in their asset management process, of socially responsible indices, composed by a universe of securities created according to well pre-defined criteria. There are a number of screened indices, investing in different asset classes and well diversified. It is the case, for instance, of Dow Jones Stoxx Sustainable indices, the Domini Social Indices or *FTSE4Good*. To create a SR index, the researchers select stocks starting from the wide universe of conventional index and apply criteria related to social behaviours, environmentally friendly projects and practices, human rights and workers' rights respect<sup>1</sup>. Furthermore, a particular stress for negative criteria is posed on some "countries of concern", where human rights are trodden on: States such as Angola, Egypt, Iran, Saudi Arabia, Syria, Zimbabwe are on the watch list.

According to the last researches about European SR market, mutual funds in Europe have reached the number of 388, covering all main European countries. These open end funds, primarily invested in equities, are marketed as socially responsible and are available to institutional and retail investors (Avanzi, 2006). The assets under management in Europe are estimated in about 34 billion Euros and the leading countries, UK, France, Sweden and Belgium, totalize more than 60% of the total.

In the US, the size of screened mutual fund is more consistent, in terms of size, totalizing 180 billion of investments, even if the number of mutual funds is smaller than Europe (201 funds at the end of 2005).

Since open-end mutual funds represent the main objective of this paper, we have focused only on these figures. The total amount of screened investments, including separated accounts and funds devoted exclusively to institutional investors is much more consistent.

### **The fundamentals of Islamic investing**

Islamic law and precepts are a constituting part of every Muslim's cultural and spiritual identity (DeLorenzo Y.T., 2002). These laws are based largely upon the Qur'an and the *Sunnah*, which is the practice of the Prophet and to use Usmani's wording (2002), "*the divine revelations are to be followed in letter and spirit and cannot be violated or ignored on the basis of one's rational arguments or his inner desires*".

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<sup>1</sup> See, for instance, FTSE (2001 and 2006).

The Holy Qur'an does not contain only moral teachings but offers guidance in all life's aspects, including every socio-economic behaviour. This should not surprise: the Prophet was a successful business man, known for his integrity and honesty and in his saying and teachings he regulates family rulings and inheritance, contracts and property, social and fiscal norms, the use of public and private goods. These prescriptions have been revealed and are to be intended as imperative for every man. The religion is a fusion of temporal and spiritual aspects of life (Elfakhani and Hassan, 2005): Islam is, then, a *modus vivendi*, a lifestyle (Abbasi *et. al.*, 1989) and differs from the other two monotheistic religions, the Christian and Hebraic one, because a coincidence exists between the State and the religion itself (Baldwin, 1990).

Islamic economics is founded on the Shari'ah: it does not deny profit, private ownership and market forces, but they are not given a total freedom but must be reached following the divine prescriptions. In terms of major macroeconomic goals, Islamic economy tends to achieve full employment, a positive economic growth rate and a stable value of the money (Chapra, 1985). A "just" rate of profit is admissible and must derive from one's own work (Mills and Presley, 1999). No reward can exist without strength and honest effort and working represents a moral duty. Health and development are meant to reach the betterment of the Islamic society as a whole, the *Ummah*. The everyday business conduct must be characterized by honesty and *bona fides* and the contracts are always to be honoured (DeLorenzo Y.T., 2002).

Money is only a mean of exchange, it cannot be used as an asset and may not generate a profit. At the same time it cannot be left unproductive and hoarding is not allowed under the Shari'ah law. Islamic economics, then, is an asset-backed economics.

Charging interest on money (*riba*), regardless of the rate imposed, is explicitly prohibited. *Riba* encompasses every form of exploitation in business conduct and the concept is not strictly related only to the interest charging (Naughton S. and Naughton T., 2000). It is stated, Qur'an, II, 275-283: *Those who devour usury will not stand except as stand one whom the Evil one by his touch hath driven to madness. That is because they say: -trade is like usury-, but Allah hath permitted trade and forbidden usury. And more, Quran, XXX,39: That which ye give in usury in order that it may increase on (other) people's property hath no increase with Allah; but that which ye give in charity, seeking Allah's Countenance, hath increase manifold.*

The *riba* condemnation has an historical root: during the Prophet times, according to some commercial habits, when the matured debt was not paid back, the amount due to the creditor was doubled (Saleh, 1986). Condemning *riba* as leading to restless curse and madness, the Prophet, instead, recommends to share the risk associated to any lawful business, since "*profit comes with liability*". This prescription constitutes the base for the profit and loss sharing economic scheme and it means that one becomes entitled to profit only when shares the risk of loss, otherwise being considered an economic parasite and a sinner [(Archer and Karim (2002), (Nyazee, 1998)].

Another of the basic elements of the Islamic finance is related to the prohibition of risk and uncertainty: any sort of ambiguity in contracting is referred to as *gharar* and it is not allowed. Any uncertainty as to quantity, quality, deliverability or existence of the asset to be transacted will be prohibited (Fadeel, 2002). The concept of *maisir*, or any gambling activity is strictly related to *gharar*. All the prohibitions combined together have the ultimate and cumulative effect of preserving balance, distributive justice and equality of opportunities and must be always honoured in any transaction that must be regarded as an Islamic one<sup>2</sup>.

### **A comprehensive view of the Islamic mutual funds industry**

Starting from the '80s, the most prominent Islamic institutions have started to widen the coverage of financial instruments, to serve the more sophisticated financial needs of the High Net Worth Individuals

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<sup>2</sup> For a general discussion about the Islamic financial system, see Wilson, 2002.

living in the Gulf area. In addition to the demand deposits and the basic current accounts, the Islamic intermediaries started to implement collective investment schemes, through *Special Purpose Vehicles* intended to manage the savings of the customers, in line with the Shari'ah law. The assets management instruments, then, were born as a demand-driven answer.

These funds are still in their infancy but have the potentiality to play a pivotal role on financial markets, since Muslims constitutes about 20% of the world population (Girard and Hassan, 2005).

IF have experienced a dramatic growth during the second half of the '90; from less than 10 funds, the equity *Shari'ah* compliant investments have now reached the number of 218 and are being managed from primary investments houses, with a cumulative total of \$ 16 billion of assets under management (Failaka, 2007). The economic reasons backing this increase are to be identified in the extreme growth experienced by the GCC stock markets, leaded, in particular, by Saudi Arabia (Smyth, 2006a and 2006b). The pioneer in the collective investment schemes have been the *Saudi Commercial Bank*, and the *National Commercial Bank* in the '80s. At first, these financial institutions established *joint ventures* with most experienced western investment houses that provided the skills to structure and manage Islamic mutual funds (Cox 2007). Many primary western investment houses, like UBS, Schrodgers, HSBC, Deutsche Bank, are now managing *Shari'ah* compliant mutual funds and are trying to attract also retail Muslim investors who want to screen their investments according to their religious beliefs.

Being the most successful asset class, in the following of the paper we will focus our analysis on equity funds, but there exist a number of different funds available to investors. *Sukuk* funds, for instance, invest on asset-backed securities and are considered the compliant counterpart of bond funds. The *sukuk*, in general, represents a certificate that gives the right to obtain a pro rata ownership in the tangible assets owned by the fund (Usmani, 2002).

The most common IF contractual structure is linked to the PLS-based *mudarabah*. The capital provider (the investors), called *rabb-ul-mal*, entrusts the asset manager, called *mudarib*, to take care of the business, using his expertise and skills. The manager's efforts will be remunerated by a share in the profits, according to pre-agreed ratios. If the business is not successful, the whole capital loss will be suffered by the *rabb-ul-mal*, unless the loss has been caused by the misconduct, negligence, or the manager did not act according to *bona fides* or *ultra vires* (Fadeel, 2002).

Before detailing the investment process, it is important to assess that, to be valid under the *Shari'ah's* Law, the investments must abide by two basic conditions (Usmani, 2002): the first is related to the PLS the investors enter into when deciding to delegate their investment choices to the fund managers. No fixed return can be promised or obtained: the profit is strictly linked to the performances of the companies whose stocks are in the portfolios. The second binding condition is referred to the compliance to *Shari'ah's* acceptable securities. We can ideally split the process into three distinct phases, all ruled by the religious prescriptions, namely, portfolio asset allocation, instruments and trading strategies and the distribution of the profits earned.

### **- Portfolio asset allocation**

As in the case of socially responsible funds, the starting menu of stocks is to be screened according to the religious prescriptions. The manager has to set up qualitative and quantitative criteria to ensure the compliance of the final portfolio.

The qualitative screens to be applied are related to the main activity of the company and to the way in which the company itself is financed or invest its liquid assets. Stock investment decisions are not a simple task since, according to Moore (1997), "*strictu sensu, basing on most rigorous Shari'ah interpretation, all stocks are virtually off-limits*".

All the main activity of the company must be *halal*: all banks and insurance companies whose activity is interest-based are to be screened out together with all companies involved in alcohol, tobacco and

armaments manufacturing and trading, or involved in entertainment businesses<sup>3</sup>. Moreover, if the business is *halal* but the company borrows money on interest, or deposit its surpluses into interest-bearing accounts, the shareholders' have the moral duty to file resolutions in the general assembly to publicly condemn this behaviour (Usmani, 2002). This is similar to the shareholders' activism in the SR case.

After applying these qualitative filters, all remaining stocks are to be analysed on the basis of quantitative screens related to debt, interest bearing securities and receivables and cash. According to Elgari (2002), the total outstanding debt must not exceed one-third and the same rule applies for cash and interest bearing securities. The threshold of 33% straight derives from the words of the Prophet, where stating that "*Judgment is based on majority, not on minority*"; furthermore, "*The dividing line between a majority and minority is one third, and the third as a portion is considered to be much*". The stress posed on debt, interest bearing securities and receivables clearly derive from the avoidance of *riba*. The prohibition of hoarding, instead, is the base for the condemnation of excessive cash.

For interest based companies, according to the more orthodox interpretation, to invest on companies involved in interests does mean a silent acceptance of these unlawful practices. Given this assumption, all these companies are to be screened out with no additional possibility. However, some other experts do not endorse this stringent view, arguing that a stock company is different from a simple partnership since all decisions are to be approved during the assembly through majority<sup>4</sup>.

#### **- Instruments and trading strategies**

Once decided which companies can be included in the portfolio, the fund manager must comply with the rules related to the portfolio management activity. Since there is not a clear *Shari'ah* guidance on their acceptability, instruments such as shares, bonds, futures, options, and swaps can create problems in the portfolio management. Following the interpretation given by the *Islamic Fiqh Academy of Organization of Islamic Countries*, representing one of the primary authorities for the interpretation of Islamic law, it is possible to identify the problems that arise using such instruments and the correct *modus operandi* in an Islamic context.

Common shares in a listed company are (as the name suggests) "shares" in the assets of the company. Thus, if the company's business is legitimate, and its conduct is in compliance with the rules of *Shari'ah*, Muslims are allowed to own such common shares (stock). The same is not valid for preferred stocks, that guarantee the amount of the dividend. As a general rule, Muslim investors may trade only in common stock.

As for the bonds, the certificate itself is evidence of a lender-creditor relationship and it is clear that in the conventional system of bond issuance and trading, the interest is at the centre of any transaction, contrasting with the general prohibition of usury in Islamic financial system (Al-Amine, Al-Bashir, 2001). By the way it is possible to overcome the problems associated with the prohibition on charging interest, and some innovative structures have been developed to allow greater freedom for investor. These certificates are the *mudarabah* or *muqaradah* bonds, the *musharakah* bonds, the *Ijarah* bonds, the *istisna'* bonds, the *salam* bonds and the *murabahah* bonds.

As seen, common stocks are a legitimate form of instrument in Islam, but many of the practices associated with stock trading are not *halal* (permitted). Short selling and margin trading, for instance, are severely restricted. The prohibition of borrowing to invest (margin trading) is based on the prohibition of *riba*, whilst short selling involves huge risk that almost has no upper limits. Moreover, from *Shari'ah* point of view: "*you cannot sell what you do not possess*".

Some important additional considerations are related to *derivatives*, for instance to stock futures and options. In spot or cash transactions both commodity and money are exchanged simultaneously and

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<sup>3</sup> See FTSE (2001) and Dow Jones (2006) for a discussion about the criteria used.

<sup>4</sup> For a discussion, see Usmani (2002).

immediately. Transactions based on future contracts, instead, in which either delivery of money and commodity are to be done at a future date, are not accepted (see Chapra, 1985b<sup>5</sup>).

As for option contracts, a number of scholars have found option contracts objectionable: Kamali (1997) concluded that: *"there is nothing inherently objectionable in granting an option, exercising it over a period of time or charging a fee for it, and that options trading like other varieties of trade is permissible and as such it is simply an extension of the basic liberty that the Quran has granted."*

#### **- Income distribution and purification**

When included into the portfolios, partially "contaminated" balance figures are to be cleansed or purified. Once identified what is not acceptable from a *Shari'ah* point of view, the manager should deduct from the returns the *haram* (prohibited) part of the earning. The choice is summed up in the "deduct or inform" dilemma. In the "deduct" case, the manager distributes to the investor a "net" (purified) profit. The second option, instead, is more practicable: the fund manager inform the investor and highlight the part to be purified. In this case, the manager can also indicate to the Muslim investor the part to be subject to *Zakah*, a religious form of charity that all wealthy people have to pay on personal wealth every lunar year (Ahmed, 2002). Under a return and market appeal point of view, if no deduction is made from the net asset value of the portfolio, the fund appears more profitable and can be sold also to non-Islamic investors who could, instead, be penalised by the "deduct" option.

#### **The Shari'ah boards**

Shari'ah Board supervision is fundamental in structuring any of the Islamic instruments that are to be issued on financial markets. In managing Islamic funds, the board has the twofold role to certify the compliance of any stock traded to *Shari'ah* law and to ensure that the portfolio is able to create value for the shareholders<sup>6</sup>.

Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) have recently introduced a Standard for the board composition. According to AAOIFI, *"a Shari'ah Supervisory Board is an independent body of specialised jurists in fiqh al-mu'amalat (Islamic commercial jurisprudence). [...] it may include a member who should be an expert in the field of Islamic financial institutions and with knowledge of fiqh al-mu'amalat. The Shari'ah supervisory board is entrusted with the duty of directing, reviewing and supervising the activities of the Islamic financial institution... The fatwas and ruling of the Board shall be binding"*.

From a practical point of view, the main difficulties in interpreting are linked to the different jurisprudential schools to which the Shari'ah experts belong to. These schools' point of views differ on *ijtihad*, the correct ruling on a given issue, on the legal interpretation of Qur'an and Sunnah. The four major Sunni "schools of law or jurisprudence" (*madh'hab*) are the Maliki, Hanafi, Sha'fi'i, and Hanbali and their ideas could differ on some points. Those funds not willing to establish a *Shari'ah* Board can delegate all the relevant decisions to the Islamic Indices that provide a *Shari'ah* compliant menu of stocks already screened from eminent scholars.

#### **Some critical points on Islamic mutual fund management**

Under a general point of view, not specifically related to the mutual funds stock picking, some scholars have pointed out their view of interest and hoarding. According to some pragmatic experts, cited in Moore,

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<sup>5</sup> For a discussion, see also Samuels J.M. and Yacout N. (1981).

<sup>6</sup> For a discussion, see Moore (1997) and Bakar (2002).

(1997) even though *riba* and investments on the base of interest are severely prohibited, a similar prohibition is valid also for hoarding and unproductive money accumulation. For this reason it is important to find an acceptable compromise.

A compromise can also be necessary in the case of western banks as capital providers. Islamic financial intermediaries, indeed, are not as sound, to allow Islamic companies to avoid western banks, acting on the base of *riba*. Similarly, Islamic stock markets, still growing, cannot, by their selves, entirely provide the capital needed for development. As a whole, Islamic economy is characterized by an inefficient liquidity management: there is not yet an interbank market and an effective lender of last resource is not still in place [Maroun Y. (2002) and Husain S. (2002)].

The stock market development is strictly linked to the access to market from small investors: this participation, though desirable, is not yet perfectly in place. Focusing our attention on the mutual funds industry, for instance, this aspect can be of some concern: the minimum investment required, in some cases, is of USD 50.000 or 100.000 or even 200.000. Some experts criticize this threshold, arguing that the funds should constitute an instrument devoted to all the investors who want to invest their money in line with their religious beliefs.

Furthermore, the country allocation can represent a critical aspect of the management: to ensure liquidity and diversification, many Islamic funds invest in big corporations (incorporated in Japan or Western countries) but it is necessary to reconcile this portfolio necessity with the moral duty to help the betterment of the Ummah (Moore, 1997) and to support Islamic companies. This aspect has not a trivial solution: as seen before, Islamic stock markets are not so capitalised to absorb all the investments from mutual funds and allow an efficient diversification.

Together with these fund management issues, to definitely entering the financial markets mainstream, Islamic funds have to invest on policy and disclosure. Traditionally, according to Smyth (2006), since first funds were devoted to HNWI and Institutional investors, on-shore regulation was unimportant and most Islamic funds were registered on off-shore markets. Today, instead, to be registered on markets widely known and regulated, such as the European or US markets would be useful to allow retail investors to access Islamic mutual funds. Strictly connected to legal protections for small investors are monitoring and disclosure. From time to time, researchers have experienced a general lack of transparency in the disclosure of NAV, management guidelines, asset allocation. Still today, most of Islamic mutual funds are incorporated in Arab jurisdictions like Bahrain, Saudi Arabia, Malaysia, Kuwait and the economic figures are not gathered in the financial databases of conventional data providers (COX, 2002). Summing up, in order to allow Islamic mutual funds to compete on the global arena and to convince the sceptical investors, it is important to ensure transparency and to stress the importance of disclosure.

### **A quantitative analysis on selected indexes**

Since acceptance of a responsibility different from maximising profits may impose a burden on returns, as emphatically argued by the Nobel laureate Milton Friedman (1970 and 1987), many researchers, starting from the '80s, have focused their research interest on SRI performances and, in the following decades, on Islamic funds. From a portfolio theory point of view, as soon as we restrict the menu of assets the portfolio managers can choose among, we are likely to endanger the performance of the portfolio, due to a lack of diversification. For this reason, most of the researches have tried to understand if these SRI funds underperform relatively to common funds because of less diversification and/or sector exclusion<sup>7</sup>. This same idea has been applied to Islamic portfolios.

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<sup>7</sup> See, for instance, Grossman and Sharpe (1986), Luther, Matatko and Corner (1992), Mallin, Saadouni and Briston (1995), Gregory, Matatko and Luther (1997), Hamilton, Jo and Statman (1993), Orlitzky et. al. (2003), Bauer, Koedijk and Otten (2004).

Empirical evidence appears to suggest that SRI funds and conventional funds have a similar performance in terms of financial returns. From a statistical point of view the differences in performances, where existing, are not significant. In spite of different techniques used by different authors the results state that the hypothesis of SRI funds' underperformance due to a lack of diversification can be rejected; however, SRI funds do not add value in terms of performance. As for Islamic funds there is not yet a rich literature on their behaviours and performances: most of the researches are based on *Shari'ah* indices<sup>8</sup> and show mixed results. According to Elfakhani and Hassan (2005) and Hussein (2005), the behaviour of Islamic mutual funds does not differ from that of conventional funds. The simple explanation of these similar performances relies on the number of stocks that belong to the portfolios: the minimum threshold needed to eliminate specific and diversifiable risks is guaranteed for both the SR and Islamic investment context.

Hakim and Rashidian (2004), instead, focusing on indices, find that the application of Islamic filters create an Islamic index (DJIMI) that has peculiar risk and return profile that is not affected by the market as a whole.

Our empirical analysis concentrates on the major relevant indices for the European market. Applying a standard Sharpe's style analysis (Sharpe, 1992), the primary objective was to test the impact of social responsible, as well as faith-based screens on the sector composition of most popular SR and Islamic indices. The exercise is not intended to reveal statistically significant differences on long run performance. Indeed, as discussed previously, the contraction in the universe of eligible assets doesn't show a relevant impact on performances. A deep investigation on the sector composition of the indices can provide, instead, a useful starting point to assess if SRI and IF are to be considered eligible alternative investments.

We focus on four relevant European indices, namely three sustainability indexes (the DJ Sustainability Europe, the DJ Sustainability Europe ex AGTF and the FTSE4 Good Europe) and one Islamic index (FTSE Islamic Europe). We would expect that, excluding alcohol, gambling, tobacco and firearms, Dow Jones sust. ex AGTF should exhibit characteristics that can be different from the other two and more similar to FTSE Islamic.

As clearly shown from the exhibits in Table 2, this seems not to be true: the three sustainability indexes, regardless of the provider (FTSE or Dow Jones) and the screening filters, behave in a very similar way; the FTSE Islamic, instead, is clearly different in the weights assigned to some peculiar sectors.

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<sup>8</sup> See also Girard and Hassan (2005).

**Table 2: sector composition**

	<b>FTSE4GOOD EUROPE (E) - TOT RETURN IND</b>	<b>DOW JONES Sustainability Europe</b>	<b>DOW JONES Sustainability ex AGTF</b>	<b>FTSE ISLAMIC EUROPE E - TOT RETURN IND</b>
No. monthly observations = 91 Starting from 1 Jan 1999 through Aug 2006				
<b>Sectors</b>				
<b>Automobiles &amp; Parts</b>	0%	0%	0%	0%
<b>Banks</b>	16%	16%	18%	0%
<b>Basic Resources</b>	3%	6%	6%	5%
<b>Chemicals</b>	5%	6%	6%	0%
<b>Construct &amp; Materials</b>	0%	0%	0%	3%
<b>Food &amp; Beverage</b>	7%	6%	3%	9%
<b>Financial Svcs</b>	4%	0%	0%	0%
<b>Health Care</b>	7%	9%	10%	12%
<b>Indus Goods</b>	7%	10%	8%	7%
<b>Insurance</b>	11%	9%	9%	0%
<b>Media</b>	0%	0%	0%	4%
<b>Oil&amp;Gas</b>	15%	12%	12%	21%
<b>Pers &amp; Household Goods</b>	0%	0%	0%	4%
<b>Retail</b>	4%	1%	1%	7%
<b>Technology</b>	7%	6%	6%	10%
<b>Telecom</b>	13%	14%	15%	13%
<b>Travel &amp; Leisure</b>	0%	0%	0%	0%
<b>Utilities</b>	1%	5%	6%	6%
<b>TE</b>	0,608%	0,654%	0,658%	0,729%
<b>R2</b>	98%	98%	98%	97%
* Sectors follow the ICB standards				

In the FTSE Islamic, as foreseeable, Financials (including Banks, insurance and Financial Services) show a zero weight. The sustainability indexes, instead, are strongly invested in Financials (16-18% on Banks, 9-11% on Insurances).

Investments on Oil&Gas show substantial differences: the FTSE Islamic is invested in this sector in a percentage that is almost double when compared to the remaining indexes (21% vs 12-15%); again, this is not surprising: Islamic countries are primary producers of Oil and Gas and the investment in this companies is both permissible and suggested, since it favors the economic betterment of the *Ummah*. Sustainability indexes, instead, apply some filters on these companies: being a polluting sector, only those companies acting as sustainability leaders can be included in the portfolios.

Though, in the Islamic case, does exist an overweight on Oil and Gas, this is not enough to counterbalance the zero weight on Financials: on average, other sectors, such as Food and Beverage, Retail, Personal and House Goods show higher values when compared to the sustainability indexes.

Although, from a performance point of view no differences can be detected in the long run, as shown in previous researches, the underlined different composition in terms of style and sectors discussed in Table 2, could signal potential divergence in the behaviours of these indices.

We, therefore, going beyond a simple correlation analysis, test this divergence hypothesis using appropriate econometric techniques. For robustness reasons, we turn our attention to daily time series, with a sample ranging from 1<sup>st</sup> June 2000 to 30<sup>th</sup> April 2007 (1803 observations). The analysis now involves only FTSE indices. The FTSE4GOOD and FTSE Islamic represent, again, the proxies for screened portfolios in a socially responsible and Islamic sense. The universe from which both restricted indices select the stocks is the FTSE developed Europe Index. The idea is to verify if there exists cointegration between them, as well as with interest rates, proxied by Euribor 3m.

At first we check the results of a standard unit root test (Augmented Dickey Fuller)<sup>9</sup>. For the three series, our results clearly reject the null hypothesis of unit root in the differences but not in the levels.

We, then, turn our attention to their links over time. The traditional approach is based on correlation of returns among the series. However, this approach is unable to identify a stable relation; also high levels of correlation, indeed, can be spurious. The correlation is strongly linked to the sample selected, and neglects to consider the link in the stochastic trends.

We rely, instead, on the theory of cointegration discussed in Engle and Granger (1987) and use the testing procedure developed by Johansen and Juselius (1990). We investigate the cointegrating relations between the four series in an overall model, as in couples. Since the results from cointegration tests may be sensitive to the lag structure chosen, we determine the proper lag profile on the basis of the Akaike Information Criterion (AIC), which suggests considering 6 lags, or trading days. The results will be sensitive also on the choice of constant and trend assumption. Because we tested our variables for unit roots and have rejected the hypothesis of (trend-) stationarity in favour of unit roots, we do not want a linear trend in the cointegration equation. In addition, any unexplained parts in our model (for example, the risk premium on stock returns) are not assumed to have a deterministic trend. Approximations usually introduce some constant term, for example we use raw interest rates rather than  $\log(r-g)$ . Also, accounting for the units of measurement can introduce constant terms. In this case stock prices are measured by indexes and an index multiplies the original values by some constant. We chose then to include an intercept in the CE, as our preferred model<sup>10</sup>.

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<sup>9</sup> The results of the test are not reported but are available from the authors, at request.

<sup>10</sup> The motivation is that changes in the interest rate are on average zero, and the average growth rate of stock price indices is equal and therefore does not require a separate constant/intercept. The results are robust also respect to other choice of trend and constant specifications.

**Table 3: Tests for cointegration**

Tests for Cointegration		
Period: 12/06/2000 - 30/04/2007, obs n. = 1796, Lags interval (in first differences): 1 to 6		
H0=Number of Cointegrating Vectors	Trace stats	CV (5%)
Cointegrating System: {FTSEIslamic, FTSE4GOOD, FTSEDevel., Euribor3m}		
None*	97,85934	54,07904
At most 1*	52,27756	35,19275
At most 2*	21,07771	20,26184
At most 3	6,496648	9,164546
Cointegrating System: {FTSEIslamic, Euribor3m}		
None*	48,31568	20,26184
At most 1	7,183698	9,164546
Cointegrating System: {FTSE4GOOD, Euribor3m}		
None*	45,38563	20,26184
At most 1	6,095224	9,164546
Cointegrating System: {FTSEDevel., Euribor3m}		
None*	44,01816	20,26184
At most 1	5,677516	9,164546
Cointegrating System: {FTSEIslamic, FTSEDevel., }		
None	17,15440	20,26184
At most 1	0,652550	9,164546
Cointegrating System: {FTSE4GOOD, FTSEDevel. }		
None*	26,29465	20,26184
At most 1	7,601791	9,164546
Cointegrating System: {FTSEIslamic, FTSE4GOOD, }		
None	18,75476	20,26184
At most 1	1,160726	9,164546

Note: the trend assumption is of intercept in CE

\* denotes rejection of the hypothesis at the 0.05 level.

The results shown in Table 3 are surprising. The full cointegration system reveals at least 3 possible vectors of cointegration.

First of all, all the three indices under analysis are cointegrated with interest rates; this is not surprising for the FTSE Developed and the FTSE4Good: their investment philosophy, indeed, is related to the market as a whole, and the market behaviour is influenced by interest rates.

At first sight, instead, the cointegration between FTSE Islamic and the Euribor looks odd. Basing our reasoning on the FTSE Islamic methodology's of strict avoidance of interest rates primary related stocks, such as Financials, and the exclusion from the portfolios all those stocks with a balance-sheet deeply influenced by interest rates (i.e. high leverage, or high debt), we could expect that the FTSE Islamic is not influenced by interest rates' trends. According to our results, this is not true: the FTSE Islamic, indeed, even if based on *riba* avoidance, is a market index and the market, as a whole, is affected by interest rates.

When we look at the pair cointegration, we see that FTSE4Good and FTSE Developed are cointegrated whilst we cannot reject the null when we pair the Islamic index with FTSE Developed and FTSE4Good.

In the first case, our explanation strictly derives from the building methodology of FTSE Developed and FTSE4Good. The latter index straight derives from FTSE Developed, after applying strict SR filters: a part from the exclusion of a few sectors, the general philosophy is related to a best-in-class screening that allows the asset manager to choose those corporations intending to become corporate sustainability leaders (see Table 1). So, the two indices, though different, have a common and similar root.

The second evidence, related to FTSE Islamic vs FTSE Developed and FTSE4Good, is quite interesting: we cannot reject, indeed, the null of no cointegration.

In particular, if we want to provide a quantitative answer to our research question, we can state that, relying on our market data, SRI portfolios and Islamic portfolios show a different behaviour. Similarly, we find that the application of Islamic filters create an Islamic index that has peculiar risk and return profile that is not affected by the market as a whole, proxied by FTSE Developed.

### **Conclusions: faith-based investments as ethical or socially responsible investments**

To provide an answer to the paper research question, we can highlight some important characteristics linked to SRI and Islamic mutual funds.

The first socially responsible funds had a religious root and were, at first, defined as an *ethical fund*. In religious terms, the word *ethic* (deriving from the ancient Greek word "ethos", meaning "habit, use") is associated to a well defined set of behavioural norms. In the founders' idea, the term "ethical" was a synonym of "religious".

In the following decades, the scholars tended to abandon the "ethical" definition, replacing it with a more general idea of "socially responsible" and associating the idea to some good cause, worth to be pursued. For this reason, socially responsible funds are perceived as "different" from the conventional ones and whenever the concerned investors judge that their personal values are consistent with the underlying philosophy of the SR fund, they decide to concentrate on a screened universe of stocks (Benson *et. al.*, 2006).

The critical point related to this reasoning is that do not exist a single class of SR fund: each fund is free to stress the points that the promoter judges to be of the highest importance and to reflect that values in the exclusion or inclusion screens. This is why do not exist a SR archetype fund and on financial markets all funds who include in their management non financial criteria can generically defined as being socially responsible. This "rule of thumb" can lead to the existence, in the SR category, of funds that are completely different in terms of composition and can ideally pursue values that are mutually inconsistent (Dunfee, 2003). Addressing this point, Sparkes (2001) emphatically wonder: *whose ethics, which investment?*

Referring to Islamic funds, Elgari (2002) includes them in the family of "ethical funds", stating that the basic concept of Islamic investments derives from ethical investments, as in the Pax World Fund case. DeLorenzo (2002), goes further in his reasoning: according to Shari'ah, he states, business must be

“responsible” and “committed” to good causes. Unifying these two ideas, expressed by two eminent experts, it would seem a natural proceeding to include the Islamic funds in the SR family.

Furthermore, we could add, the general aim which the Islamic economic rules and the socially responsible funds tend to is very similar. In both cases, the betterment of the whole society represents the ultimate purpose; in the Islamic word, this cannot be reached without a strict compliance to all Shari’ah and Sunnah prescriptions. In the socially responsible case, the ultimate purpose is a sustainable economic system, under a social and environmental point of view: the final effect of the two ideas is, *strictu sensu*, the same.

Notwithstanding these similarities, the inclusion of the faith based Islamic funds in the SR family is not straightforward. To clarify these points, we would like to propose a comparison table that can sum up what we have said about the *modus operandi* of a fund marketed as SR fund and for Shari’ah compliant investments.

**Table 3: Key characteristics of SR funds and Islamic funds**

	<b>ISLAMIC FUNDS</b>	<b>SOCIALLY RESPONSIBLE FUNDS</b>
<b><i>Clear definition of action limits</i></b>	Yes. The guide is the Qur'an, integrated when possible by legal interpretations	NO. A universally recognised definition of social responsibility does not exist. It is the case, for instance, of SEE and ESG definitions
<b><i>Faith- based rules</i></b>	Yes	NO
<b><i>Supervisory committee</i></b>	Yes, <i>Shari’ah Supervisory Board</i>	Not necessary; where present, it is called <i>Ethical Committee</i>
<b><i>Management Strategy</i></b>		
- sector exclusion	Yes, sectors considered not compliant to Qur’an are excluded	Yes. Sectors not compliant with social and environmental criteria are excluded
- best-in-class	NO. There is a general distinction between admissible and prohibited assets*. The strategy is in-out	Yes. Firms operating in sectors generally forbidden can be included if they exhibit an ongoing tendency towards social responsible principles.
- screens based on environmental filters	NO	Yes
- screens related to the human rights respect	NO	Yes
-screens associated to transparent corporate practices	NO	Yes, but not in all cases
- Shareholders’ advocacy	Shareholders are recommended to formally express an adverse opinion to practices not compliant	Yes, mostly used on US and Canadian markets
<b><i>Restriction on investment management</i></b>	Yes; some financial instruments (i.e. preferred stocks) and investment activities are forbidden	NO
<b><i>Financial Screens</i></b>	Yes. Faith-based filters are applied in the stock selection process. The core principles on which the filters are based, relate to: leverage, presence of interest bearing asset and	There are not financial parameters that determine the inclusion of one asset in the SRI index. The fund manager will decide which ratios or financial characteristics are required to include a stock in the managed portfolio.

	liabilities, high level of debts and credits.	
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\*Some sectors may be subject to interpretation

Source: Authors' own

From a close analysis of the table, we can infer that there exist potential clashes in the strategies, related to the different stress posed on the various criteria.

The first substantial mismatch in the strategies is linked to the filters imposed. Through best-in-class strategy, SR funds are allowed to consider companies or sectors that can be considered border line and this represents a beneficial addition to the fund diversification strategy. There are not neither specific financial ratios to be considered nor restrictions posed on fund management activities, such as margin trading and short sale or the use of derivatives. Ethical committee, where existent, has a consulting role and they do not generally have a veto power.

In the *Shari'ah* funds, instead, referring to the same criteria under analysis, some sectors such as conventional banks and insurance companies are to be excluded tout-court; asset managers are requested a strict adherence to financial ratios and the settlement of these criteria is demanded to the Shari'ah board, whose decisions are binding for the manager.

In addition, we should mention an essential point related to the behaviours in the case of the human rights and environmental screens. In the case of Islamic funds, the application of some of the SR screens can lead to a potential conflict of interest. Some of the "countries of concern" that are on the watch list for human rights' violation are Islamic countries and, where applied, negative screens would oblige Islamic asset managers to exclude countries like Syria, Egypt, Iran, Saudi Arabia. In Islamic terms, this is a contradiction or even nonsense: these countries belong to the *Ummah* and should be, therefore, favoured. Furthermore, in managing *Shari'ah* funds, no stress is posed on environmental issues and this can have, as a result, the inclusion of stocks that, in a SR context, would be screened out for their unhealthy impact on environment.

In terms of ultimate effect of the application of Islamic and SR's approach, we expected that, applying similar criteria, the screened portfolios would be very similar in terms of sectors, at least for FTSE Islamic index vs FTSE4Good ex AGTF (that excludes alcohol, gambling, tobacco and firearms). As seen in Table 2, instead, the portfolios are sensibly different, due to the exclusion, in the Islamic case, of financials and to the overweight in Oil&Gas that, being a high polluting sector, is instead carefully managed in the SR portfolios and often penalised.

The second layer of careful thoughts is related to the stress on performances. In the socially responsible case the basic idea is twofold: first, to be socially responsible "pays" in terms of performance because socially responsible companies are managed as to minimize legal and environmental future issues: there is, then, a *forward looking* company vision because a virtuous conduct can improve the performance of the company. Second, under a social point of view, the responsibility represents a *moral duty* to take care of the future generations.

So, as a general results, in the SR case, the social and environmental screens are important as the financial ones (and this explains why, at a certain point of their life, SR managers introduced the best in class strategy), according to the triple bottom line, People, Planet, Profit.

In the Islamic management, instead, there exist two layers in terms of importance. First layer includes all the religious screens and the second layer is referred to the research of a positive risk/return profile. The attainment of a positive return is, of course, of fundamental importance but is subdued to the religious screens.

Some of the potential inconsistency between faith-based investments and SR ones are, of course, not confined to *Shari'ah* investments and the result can be generalised. We could mention, for example, *AveMaria* mutual fund investment policies: the portfolio includes companies that do not violate the core

teachings of the Catholic Church. In applying the negative criteria, the fund manager excludes all those companies that offer non-marital partner benefits to their employees. This screen could clash with some SR funds promoting non discriminatory practices towards, for instance, employees with different sexual habits. Some Catholic funds, furthermore, screens out pharmaceutical companies producing contraceptives: again, this could collide with those SR funds promoting, for example, active anti HIV practices.

On the investment arena do exist many faith-based funds (Mennonite, Lutherans, Catholic, Islamic, Methodist, just to quote the most important) and they could apply a wide range of different screens: religious groups place their investments in line with their views and those views could be expressed in mutually inconsistent portfolios. One company could be included or excluded according to the values underlying the fund management.

These universes could become more similar if shareholders' advocacy methods were largely used. In the Islamic investments, according to Valpey (2001) and Usmani (2002) a moral duty exists to promote *Shari'ah* compliant business practices, using the mean of shareholders' advocacy and this practice could become more and more important, as in the US case. If extensively used, this strategy could lead to more similar portfolios because where shareholders' advocacy gains pace, the exclusion criteria become less important.

Some asset managers consider SR and Islamic funds as different investment classes and very recently two famous indexes providers, Dow Jones and Sam Group, have launched *Dow Jones Islamic Market Sustainability*, a bridge between Islamic and SR funds. The index represents companies that are compatible with Islamic investment guidelines, while at the same time are determined to be corporate sustainability leaders. Explaining the ideas underlying this new index, the SAM executives state that they have repeatedly received inquiries from asset managers who want to combine Islamic investment principles with a thorough selection of leading companies in terms of economic, environmental and social criteria (Dow Jones and SAM Group, 2006). According to these asset managers, then, SR companies and *Shari'ah* compliant ones belong to different menu.

Our quantitative analysis confirms the intuition of the asset managers: though being co-integrated with interest rates, when comparing the FTSE Islamic with the conventional FTSE Developed Europe and the SR FTSE4Good, we cannot reject the hypothesis of no cointegration. So the results shown suggest that, when comparing Islamic portfolios with a general SR portfolios, we are looking to different classes of investments and the same is valid for FTSE Islamic vs a conventional index (i.e. FTSE Developed Europe).

On a qualitative side, conscious of the paradoxes that we have discussed, Dunfee (2003) proposes a generic and broad definition of social investing, including any investment strategy based upon non financial criteria incorporating a social dimension. Of course this definition, being generic, is open to several criticisms since it includes criteria that can be antithetical.

To sum up, even being able to include faith-based funds in a large and omni comprehensive qualitative definition, we cannot neglect the results deriving from our quantitative analysis, showing that we are dealing with two different portfolios.

*Rebus sic stantibus*, it could be useful to define norm-based funds, as Catholic or Islamic, or Lutherans or Methodist as *religious funds or faith-based funds*, in order to underline their religious attribution and to give the investors a clear understanding of the values that underlie the modus operandi of each fund and of the potential risk and return profile. These classes of religious investments are, of course, similar to socially responsible investments but have intrinsic characteristics that are easily distinguishable and should be stressed. This means, on the other way, the urgent need to find some shared and transparent guidelines for managing SR investments, linked for instance, to a norm-based secular screening.

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