Performance of socially screened portfolio at the Nairobi Securities Exchange

Abstract:

Since its introduction in the early 1970s, socially responsible investment (SRI) has gained prominence as both a rival and a complement to conventional investment. SRI is the philosophy and practice of making strategic investment decisions by integrating financial and non-financial considerations, including personal values, societal demands, environmental concerns and corporate governance issues. One of the major concerns in socially responsible investing is whether there is a difference between the performance of socially screened portfolios and that of conventional funds. This study sought to determine whether applying social screens to a portfolio would affect the portfolio`s performance. Two portfolios were formulated each comprised of 20 firms. One comprised of the NSE 20-share index firms and the second comprised 20 firms that passed the negative screening criterion that was employed. The descriptive research design approach was used. The target population was all the firms listed at the NSE. The risk adjusted returns were computed using the Sharpe index. Monthly and annual returns were calculated for years 2007 - 2011. F and T-tests were used to determine whether there was significant difference between the risk adjusted returns of the two portfolios. The NSE-20 portfolio had a higher average Sharpe ratio than the social screened portfolio hence it outperformed the socially screened portfolio when compared in terms of risk adjusted returns. The study concludes that social screening results in reduced portfolio performance.