Social Values and Mutual Fund Clienteles*

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Abstract

We study socially responsible investor (SRI) clienteles by using a large and unique individual-investor data set. Our purpose is to relax the implicit assumption of many previous studies that socially responsible investors are a homogeneous group. We conduct a comprehensive segmentation analysis based on the proportion of SRI mutual funds in the portfolio of investors and the utility function of investors. The first segmentation shows that investors who are male, wealthy, risk tolerant, have extensive financial knowledge and have a professional financial advisor, invest significantly less in SRI mutual funds. We use a conjoint analysis to estimate the multi-attribute utility function of investors, which includes pecuniary and non-pecuniary utility. Segmenting individuals on their utility function yields different groups of socially responsible investors. The segments differ significantly in their loyalty towards SRI mutual funds and the attention they pay to past performance and fees. First, we identify a very loyal segment that obtains many non-pecuniary benefits by investing in SRI mutual funds and which largely ignores past performance and fees. Remarkably, instead of focusing on non-pecuniary benefits from SRI, the largest subset of the SRI clientele predominantly chases past returns. Another segment focuses primarily on fees, again suggesting a financial mindset among many of the socially responsible investors. Our finding on the heterogeneity among responsible investors offers new insights into the way mutual fund families can enhance product differentiation, advertising, and the selection of distribution channels.

Key words: socially responsible investing, mutual funds, behavioral finance, investor heterogeneity, individual investors

JEL Classifications: G11, G23

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