

Research Grant Final Report

Names of Researchers:

Developing Researcher: Dan Daugaard, Macquarie Business School,
dan.daugaard@mafc.mq.edu.au

Established researcher : Professor Tom Smith, Macquarie Business School,
tom.smith@mq.edu.au

Project Title: A Quasi Experimental Solution for Fund Flow Endogeneity Problems

Grant round: AFAANZ 2019 Research Fund

Category: Mentoring Developing Researchers

Project Summary:

Analysing SRI fund flows reveals the underlying motivations driving SRI investment decisions. However, fund flow analysis is fraught with endogeneity issues and the standard solutions (eg Instrumental Variables and GMM) are difficult to construct. Quasi-natural experiments were employed as an alternative solution to the inherent endogeneity issues. Environmental, Social and Governance natural experiments are an ideal alternative solution because of their exogenous nature, the number of events (Heider & Ljungqvist, 2015), and their impact on the investor preferences (Bialkowski & Starks, 2016). A longitudinal sequence of exogenous ESG shocks provides a robust device for mitigating the interference of confounding patterns when analysing fund flows.

Data was collated through establishing a systematic and replicable search methodology for identifying ESG events which attracted significant media coverage. The collated data include measurements for volume, peak and distributional characteristics of the ESG media coverage. These “exogenous ESG shocks” have been categorised according to type of issue and ESG category.

The original intention was to employ a research analyst (RA) to run regressions to established for a relevant “base case” for Socially Responsible Investing (SRI) fund flows (ie analysing whether SRI designations affect fund flows), contrast with the efficiency improvements from introducing the exogenous ESG shocks series and employ to test the value of United Nation’s Principles for Responsible Investing (UN PRI) and the Forum for Sustainable and Responsible Investment (US SIF PRI and SIF) designations for SRI.

Due to the actual budget received being less than the original requested budget, the implementation of the exogenous ESG shocks in regression analysis were not carried out by an RA in the project and were therefore carried out subsequent to the project by the developing researcher.

Bialkowski, J., & Starks, L. T. (2016). SRI funds: Investor demand, exogenous shocks and ESG profiles.

Heider, F., & Ljungqvist, A. (2015). As certain as debt and taxes: Estimating the tax sensitivity of leverage from state tax changes. *Journal of Financial Economics*, 118(3), 684-712.

Funds Granted: \$2000

Expenditure: Research Assistant for 28.9 hours = \$2000 (no variation)

(please see final page for Macquarie University’s Income and Expenditure acquittal form)

Outcomes

Conference presentation:

Does PRI Influence SRI Investors An ESG Natural Experiment submitted at the Global Research Alliance for Sustainable Finance and Investing 2020

Prize submission:

Value of PRI designation: ESG natural experiments submitted to the Moskowitz Prize

Journal submissions:

Do the PRI activate fund flows to SRI: This looks like a job for system GMM submitted to Business & Society

Does PRI Influence SRI Investors: An ESG Natural Experiment submitted to Journal of Finance

Included some data in a supporting element in Dan Dugaard's PhD thesis submission:

Do the Principles for Responsible Investing activate fund flows to build a sustainable future? Using systematic methods to scope out the environmental, social and governance landscape and analyse the fund flow drivers.

Future Intentions:

a. Conference submissions

planning to submit to FMCG and AFAANZ conferences 2021

b. Journal submissions

planning to submit to Journal of Financial Intermediation and Journal of Business, Finance and Accounting

c. planning to use this grant's success to support further grant applications



STATEMENT OF INCOME AND EXPENDITURE

For the period 01-Jul-2019 to 30-Jun-2020

Project : A Quasi Experimental Solution for Fund Flow Endogeneity Problems
Sponsor : Accounting and Finance Association of Australia and New Zealand (AFAANZ)
Sponsor reference : N/A
Account reference : 5122900 C/R File : 19/454

Life to date
01/07/19 - 30/06/20

INCOME

Grant received (excl GST) 2,000.00

Total Income 2,000.00

EXPENDITURE exl GST

Salary and allowances 2,000.00

Total Expenditure 2,000.00

Surplus / (Deficit) 0.00

Uncommitted / (Overcommitted) Balance 0.00

I certify that the expenditure itemised above have been incurred solely for the purpose of this project.

I certify that the salary rates paid to persons employed on this project are in accordance with the rates applicable to persons of similar status and responsibility employed by the University.

Sima Gadhavi
Financial Reporting Manager - Financial Control & Treasury
Office of Financial Services