

Prize-Winning Study Finds Higher CSR Standards Mean Lower Cost of Equity Capital for Firms

2011 Moskowitz Prize for Responsible Investing Awarded at the SRI in the Rockies Conference in New Orleans

COLORADO SPRINGS///October 4, 2011///Firms that score strongly in terms of corporate social responsibility (CSR) find that their cost of equity capital financing is consistently lower than firms with weaker CSR track records, according to the study that has been named the winner of the 2011 Moskowitz Prize for Socially Responsible Investing—the only global award recognizing outstanding quantitative research in the field of sustainable and responsible investing.

The Center for Responsible Business at UC Berkeley’s Haas School of Business today announced the winners of the 2011 prize are Sadok El Ghouli, professeur agrégé, Ph.D., MBA, University of Alberta, in Edmonton, Canada, Omrane Guedhami, Moore Research Fellow and associate professor, Ph.D., M.Sc., Moore School of Business, University of South Carolina, in Columbia, SC, Chuck C. Y. Kwok, Charles W. Coker, Sr. Distinguished Moore Fellow and professor of International Business, Ph.D., M.Sc., Moore School of Business, University of South Carolina, in Columbia, SC, and Dev Mishra, associate professor and Centre for Strategic Financial Management Scholar, Ph.D., MBA, University of Saskatchewan, in Saskatoon, Canada.

The Moskowitz Prize was conferred at the 22nd annual SRI in the Rockies Conference in New Orleans on October 3, 2011. SRI in the Rockies (<http://www.sriintherockies.com>) is the leading annual forum for the sustainable and responsible investment industry in North America.

El Ghouli, Guedhami, Kwok and Mishra’s study, “Does Corporate Social Responsibility Affect the Cost of Capital,” was published in the *Journal of Banking and Finance* (Vol. 35, Issue, 9, Sept. 2011). The paper examines the effect of corporate social responsibility (CSR) activities on firms’ implied cost of equity capital, and argues that low CSR firms suffer from higher cost of equity than high CSR firms because of smaller investor base and higher perceived risks. You can view the full paper here: (http://responsiblebusiness.haas.berkeley.edu/documents/Moskowitz_2011_CSR_Cost_of_Capital.pdf).

Using a sample of 2,809 U.S. firms over the period 1992 to 2007, El Ghouli, Guedhami, Kwok, and Mishra found that firms with better CSR scores exhibited lower cost of equity financing. Their findings remained consistent under a large number of robustness tests. In particular, their findings suggest that investment in improving responsible employee relations, environmental policies, and product strategies contributes substantially to reducing firms’ cost of equity. They also show that participation in two “sin” industries, namely, tobacco and nuclear power, increases firms’ cost of equity. The authors conclude that not only CSR activities contribute to society at large, but they also benefit firms by lowering their financing costs.

Sadok El Ghouli, Omrane Guedhami, Chuck Kwok and Dev Mishra, co-authors of this year's Moskowitz Prize-winning paper, said: "Our team is honored and humbled to receive the 2011 Moskowitz Prize. This is a prestigious award that recognizes and promotes high quality and innovative research on corporate social responsibility. Receiving this award reflects the significance of our evidence that socially responsible firms enjoy lower cost of equity financing, which has important practical implications for firms, security analysts, portfolio managers, and socially conscious investors."

This was an exceptionally competitive year for the Moskowitz Prize. For the first time in the history of the competition, two studies were awarded Honorable Mention status. They were: "Environmental Externalities and Cost of Capital" by Sudheer Chava of The Georgia Institute of Technology, and "Do Corporations Invest Enough in Environmental Responsibility?" by Yongtae Kim and Meir Statman of Santa Clara University.

Lloyd Kurtz, Moskowitz Prize administrator, commented: "We have never before seen a field as deep and strong as this one. The quality of academic work done in the field of social investing each year has become really exceptional. We believe this sustained, serious analysis will ultimately bring great benefits—not just for social investors, but for society as well."

Dozens of academic studies were submitted over the summer 2011 to be considered for the Moskowitz Prize. The \$5,000 prize competition is open to authors of studies relevant to responsible investing. More information is available at:

<http://responsiblebusiness.haas.berkeley.edu/programs/moskowitzresearchprogram.html>.

The Moskowitz Prize has been awarded since 1996 to encourage and recognize outstanding academic research on matters germane to the field of responsible investing. Named for Milton Moskowitz, one of the first investigators to publish comparisons of the financial performance of screened and unscreened portfolios, the Prize was originally created as a project of the Social Investment Forum; it came under the administrative umbrella of the Center for Responsible Business in 2005.

2011 Moskowitz Prize sponsors include Calvert Group, First Affirmative Financial Network, Nelson Capital Management, Rockefeller and Co., Neuberger Berman, and Trillium Asset Management.

About the Haas School of Business

As the second-oldest business school in the United States, the Haas School of Business at the University of California Berkeley is one of the world's leading producers of new ideas and knowledge. The school offers management education to about 2,200 undergraduate and graduate students each year who come from around the world to study in one of its six degree-granting programs. With 36,000 alumni, the Haas School's mission is to develop innovative business leaders—individuals who redefine how we do business by putting new ideas into action in all areas of their organizations, and who do so responsibly.

About the SRI in the Rockies Conference

SRI in the Rockies (<http://www.SRIintheRockies.com>) is the leading forum for the sustainable and responsible investment (SRI) industry in the North America. The 22nd annual conference was held in Orleans Hotel, October 2–5, 2011. For its 23rd year, SRI in the Rockies will move to the Mohegan Sun in Connecticut, October 2–4, 2012. For more information about the agenda, speaking, or sponsorship, please contact Krystala Kalil, at 888-774-2663 or krystala@sriintherockies.com.

About First Affirmative Financial Network

First Affirmative Financial Network, LLC (www.FirstAffirmative.com) is an independent fee-only Registered Investment Advisor (SEC File #801-56587) offering investment consulting and asset management services through a nationwide network of investment professionals who specialize in serving socially conscious investors. First Affirmative produces the annual SRI in the Rockies Conference, the premier gathering of sustainable and responsible investors and investment professionals in North America.

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