

Ethical Issues on the Role of Fund Managers and Investors' Behaviour in Investment Decisions

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Abstract

The word "ethics" is defined as a system of moral principles, and it is the rules of conduct as used by a specific group or culture. Ethics is as a branch of philosophy dealing with values relating to human conduct, with respect to the right and wrong of certain actions and their respective motives and consequences. Nevertheless, the proper application of ethics to investments is a highly subjective topic that can raise some difficult questions for both investors and the regulatory agents. There are a number of different ways in which ethics can influence performance of fund managers, which it can influence at the company level and at the ethical portfolio level. Perceived ethical or unethical behaviour of fund managers can have an impact on reputation and share price. This paper attempt to take a look on how an individual, as potential investor, seeks high profits in short term without looking at the whole picture and take wrong investment decision; and are also accountable for their own losses to some extent. Also listing some of the observations that lead the individual investors behave in a self-harming way and how the ethical issues on the role of fund managers help them take such decisions. The concluding observation is that it is not likely that ethical criteria of fund managers will not always lead to outperformance, nor will it always lead to under performance.

Keywords: Ethics, Fund Managers, Investment Decisions, Performance, Relationship Managers, Wealth Managers

Introduction

Ethical investing generally mentioned as simply buying investments from the issuing authority that operate ethically; if one wants to invest wisely they should set a criterion as to determine which is ethical and unethical practices in the process of investing. Creating an ethical criterion for the use of evaluating the investments may sound simple, but the effective application

in the process of actual investment choices seem to be complicated? Since ethics are subjectivity in nature, and there is no complete typical yardstick for measuring what is or is not an ethical investment. Investors have to make a right decision for themselves what they consider being ethical and then should try to relate that to their investment choices. Many investors who seek to avoid what they consider to be unethical investments come across many investment vehicles such as communally conscious mutual funds that monitor companies according to specific ethically-based criteria.

Ethical Issues in Investing

The principles and thinking that direct ethically-minded investors vary to some extent for each individual; there are more than a few specific areas where ethics play a key position in the investment arena. The following are some of the important criterion that the investors examine from an ethical point of view includes:

- **Captivating at someone else's cost** - In a free economy there without doubt the existence of both winners and losers; the question of how a business wins is an anxiety to many investors. Many financial undertakings that have monopolies in a market or industry can perform very competently in many respects, but they also successfully avert any form of healthy business competition, and some investors believe this to be unethical.
- **Ecological accountability** –Many industrial undertakings such as energy and manufacturing have long been apparent as destroyers of environment and nature with their contamination and decimation of forests, oceans, lakes and rivers. Ethical investors support companies that restore what they take from the earth and stick to governmental standards for emissions.
- **Medical termination of Pregnancy and Stem-Cell Research** – Many business concerns which profits from certain medical dealings or types of investigations are time and again believed to be unethical or even unlawful by those in the religious group of people.
- **"Sin" Industries** - The very thought of an industry being sinful is perceptibly rather prejudiced, a part of the investing community still believes makers of alcoholic beverages and tobacco companies to be at least somewhat taboo. The products that these industries manufacture have been proved to be clearly injurious in one respect or another, at least under certain conditions. These industries has long been held responsible of targeting young people as customers and making its products as addictive as possible in order to

increase sales, while the dangers of alcoholic beverages and drunk driving stalk from the manufacture and supply of alcoholic beverages. Of course, these industries have made efforts to raise public awareness of the dangers of misusing their products and services as a statutory warning on the label of their products but the results are unproductive.

The use of ethical criteria in investment decision-making has grown in popularity since the mid-1970s. In the UK there are now more than 40 unit and investment trusts with ethical criteria, valued at over £2 billion. As the year 2010 came to its end, there popped shocking news about a wealth manager of a renowned multinational bank who diverted about 400 crores rupees of its customers/clients for his personal benefits. As the news flashed to the headlines, there is a serious concern about the ethics of the business (and particularly) that of the wealth managers (WMs) is being discussed about the un-ethical or unfair practices adopted by Wealth Managers/Relationship Managers (WMs/RMs) for generating more business from high net-worthy clients. The unfair practices adopted by WMs is of course a very serious issue, but their counterparts on the other side of the table i.e. their clients are equally responsible for many of such mishappenings, if not all! That was illegal and fraudulent. An attempt made to put the opinion about the role of the RMs/WMs in general. The debate about the ethics of the business (and particularly) that of the wealth managers (WMs) is being discussed about in this paper.

The industry has become so competitive that if one RM tries to play safe, the other will try to mis-sell something or the other. It is on the part of the company to understand the concept of relationship management in totality rather than as a push strategy. In addition, to comment on what some RMs do and suggest that this is a general practice of the entire profile is a little unfair. It is the corporate world game and the brain behind this game is of finance advisers without the team setting the relationship manager does not move beyond certain point. These relationship managers they have the knack how to tackle the customer with utter patience and finally these corporate people totally corrupted without the corruption corporate does not work.

It is also important to denote that fund managers generally have different objectives than funds' investors. The former are mainly interested in money-flows and the resulting management fees, while the latter desire high risk-adjusted returns at low fees. Furthermore, fund investors not formally trained in portfolio analysis and their investment decision influenced by the media attention the funds receive. Consequently, fund managers may implement strategies that enhance their own revenues but are not in the best interest of the funds' investors. These conflicts of interests may induce excessive risk-taking by the fund managers. There are wide ranges of ways in which ethical or unethical behaviour could influence a company's commercial success and its

share price, and the use of ethical criteria in the selection of a portfolio of shares could have a variety of positive or negative effects upon investment performance. Against this background, this paper throws light on the role of fund managers in investment decisions with reference to ethical issues on investing through their influences in India.

Review of Literature

According to Michael McMillan (2017) Professionals often face ethical dilemmas that have no satisfactory responses. They have to think about the consequences to their clients, to the organization, to themselves, and also perception of others – be it colleagues or the public. Sometimes, the best option is not perfect but the lesser of the two evils. Situational influences have more to do with unethical behaviour than a person's character. They often make unethical decisions not because they are bad but because of psychological biases, social and organizational factors. According to ICICIdirect Money Manager March (2016), the yields on the longer duration securities particularly of government securities (G-Secs) continue to trade in a narrow range in the last three months as concerns over higher supply prevented any meaning correction in yields. Although, the outlook on G-Sec yields remains positive, the duration strategy should be played through actively managed income funds. They will be able to make swift duration change within G-Secs or switch between corporate bonds and G-Sec within specific duration. According to Kristina Zucchi (2015), the worldwide financial markets clutch an application for professionals and individuals alike; both are starving to race intelligence with the market, but difficult to cope with it. However, investors often find themselves caught by the market because it did not assist and perform as predictable. Due to the difficulty in accurately predicting the market, professional asset managers tend to develop an investment process—a procedure they follow to manage client assets so that clients know what to expect from the fund manager and their investment.

According to ICICIdirect Money Manager (2013) latest fund, reveals the overall outlook and investment sentiment towards the equity market, from a longer-term investment horizon, remains positive. Overall, domestic fund managers have turned slightly cautious in the near term after the recent rise in the market. However, none of them is bearish. Here they share their on equity and debt markets along with their recommended investment strategy for retail investors. According to Rica Bhattacharyya & Anita Bhoir, ET Bureau (2013) Massive pressure to meet targets and performance-oriented bonuses could be the reasons for unethical practices indulged in

by retail banking executives, say some bankers, reacting to a sting operation done by online magazine Cobra post, alleging rampant money laundering by some private banks. In 2011, some foreign bank officials were allegedly involved in duping wealthy clients. A Standard Chartered wealth manager had sold debentures of real estate firms and a Delhi-based education company to investors, who attracted by the buyback option, something not allowed under current regulations, and higher returns. They had to compensate the investors. This incident occurred after a rogue banker at Citi duped wealthy investors of about Rs 500 crore. The mastermind of the Citi fraud, Shivraj Puri, used clients' money to take positions in stocks and derivatives by selling a fraudulent investment scheme. According to Dan Dunkley, Financial News (2013) Fund executives now predict that investors will be pushing for agreements that are more formal on ethical investment decisions before they are willing to back funds. As European private equity ever more institutionalized, investors are demanding firms do more in the area of environmental social and governance issues. According to market executives, this places Europe's fund managers under more pressure than ever to deliver more reports and take extra measures to ensure they do not embarrass their investors. According to Abhijeet Chandra (2011), recent research has showed that markets move on fear and greed of investors. Generally investors and individual investors in particular influenced by greed and fear. Even high net worth individual investors (HNIs) are not exceptions! They gripped with several psychological biases as proved by research across the world. All these factors make them equally accountable for the loss attributed to wrong investment decisions. In the present paper, taken lead from these studies and examines the working of fund managers. An attempt made to contribute to this line of inquiry in several aspects. While the present study looks at ethical role of fund managers and investors behaviour from a domestic perspective and bring out a new perspective in evaluating fund managers' survey March 2013 regarding Views on Equity Markets, Debt Markets and Investment Strategy.

Statement of the Problem

Many investors want their investment holdings to reflect their values, and support companies that behave in ways they consider appropriate or responsible. That is why growing numbers are getting behind investment managers and companies that perceived to be doing the right thing on a range of ethical, social and environmental issues. Investment/Fund managers are required to show in their Product Disclosure Statements "the extent to which labor standards or

environmental, social or ethical considerations are taken into account in the selection, retention or realization of the investment". This designed to encourage transparency and allow investors to compare one product with another. However, compliance levels are still patchy with the scope and content of relevant information disclosures varying from manager to manager. There is a research gap in the study of working of fund managers and ethical role of fund managers and investors behaviour in India. This study envisages the need for fund managers' Views on Equity Markets, Debt Markets and Investment Strategy.

Objectives of the Study

- To study the working of fund managers
- To focus on ethical role of fund managers and investors behaviour
- To deliberate on fund managers' survey March 2013 regarding Views on Equity Markets, Debt Markets and Investment Strategy

Research Methodology and Plan of the Paper

The methodology adopted is exploratory and descriptive based on the figures from the secondary data of the various Financial Reports and Speeches of Financial Advisors and Primary data from Researcher's and various Financial Expert's ideas and opinions and the observations presented are in the descriptive form. In order to achieve the above objectives, the present paper organized into four sections. Section-I elaborates the working of fund managers. Section II focuses on ethical role of fund managers and investors behaviour. Section-III deliberates into fund managers' survey March 2013 regarding Views on Equity Markets, Debt Markets and Investment Strategy. The conclusion and suggestions incorporated in Section-IV.

Working of Fund Managers

Investment processes are not imaginary on an impulse, nor are they immediate. They are time and again honed over many years of experiment and of investigative and participating in the markets, during times of recurrent wins and insuperable losses. And these processes tend to be experienced during different points in the economic cycle and are made to be repeatable. The belief is the process will provide the team (the manager and the client) with the best chance of "besting" the market to achieve their goals. Managers, in raising their investment development, need to settle

on some “universal regulations” that make it significant. More prominently, these guiding principle help set prospect for both the client and manger to set up a clear thoughtful of goals and lay out a map on how to realize them in a fair, moral and discreet manner. The Chartered Financial Analyst (CFA) Institute provides an Asset Manager Code of Professional Conduct that lays out six guidelines related to the investment process and manager actions:

- Managers must use sensible care and careful decision when managing customer assets. In other words, investment managers have to carry out investigation and examination and formulate decisions that make logic for the client based on how the manager decided to administer the client’s portfolio.
- Managers must not engage in practices intended to alter prices or synthetically blow up trading amount with the intent to give the wrong impression about market participants. This means managers cannot spread false rumors or deceptive information about a security. Nor can managers purchase a large position in a security just to influence the price or buy and sell in illiquid stocks at the end of a quarter to drive up the security’s price so that when they report their assets to clients, the price looks elevated. Although many of these events may be difficult to establish, particularly with the greater than before trading quantity and instability accredited to far above the ground occurrence of trading, from an ethical point of view, the asset manger’s procedure should prevent these types of actions.
- Managers must contract moderately and impartially with all patrons while providing investment information, making investment recommendations, or captivating investment deed. Clients need to be aware of certain that they are being treated evenly, that no other client is given special treatment that may unconstructively impact their portfolio. There are sure cases, however, when a manager may tender more finest services or products to a select set of clients (based on level of assets being managed, for example), but that manager needs to reveal these planning and make them accessible to all appropriate customers.
- Managers must have a sensible and sufficient basis for investment decisions. This rider, in particular, gets to the spirit of the investment process. Managers cannot arbitrarily decide on investments for a client’s portfolio without a “sensible and sufficient basis.” The investment process must be intended such that the manager can sensibly examine the investment chance, whether by means of fundamental or technical investigation, to devise an investment choice that is well-informed, has been methodically researched, and considers assumptions and risks

linked to the appropriateness of information, the kind of instrument, and the impartiality and sovereignty of any third-party follow a line of investigation.

- Managers require to only obtaining investment proceedings that are reliable with the affirmed objectives and constraints of that portfolio and endow with sufficient disclosures and information so investors can believe whether any projected changes in the investment approach or policy meet their investment requirements. The manger's investment procedure requirements to be adhered to and clients require to belief that managers will continue factual to their objectives. However, managers can also be approved some level of suppleness to take benefit of dissimilar market situations, but they require to exchange a few words these decisions with clients. Communication should be on a usual basis, in particular when managers diverge from their affirmed approach. It is important to keep clients well-informed and competent to decide if the amended strategy meets their prospect.
- Managers need to assess and appreciate the client's investment objectives. Managers, in order to take fitting measures on behalf of the clients, need to recognize the client's objectives. This is usually done in an Investment Policy Statement (IPS), which considers how much peril clients are ready or capable to bear, projected return objectives, span of time until the assets are considered necessary, short- and long-term money requirements, liabilities (e.g. car loans, mortgages, etc.), tax impacts, and any lawful, authoritarian, or other only one of its kind state of affairs. The IPS, which is reviewed every twelve months or when a transform in condition arises (such as a death or retirement), will assist the manager decide investments that are suitable for the client while also formative how the manager's act will be considered.

A fund manager is a financial expert who is in charge of an investment fund. Fund managers must lever the funds they oversee in a way reliable with their affirmed goals while functioning to make best use of returns to advantage investors. People who labor in these higher-ranking positions generally have wide-ranging knowledge in the financial industry, including knowledge at a range of levels of the fund management ladder. Funds prearranged in a number of dissimilar ways and for a variety of purposes. The fund manager is in charge of running both the day-to-day and long-term operations of the finance. He or she decides how the fund should invest the monies on hand to it, how to equilibrium the portfolio, and how to knob other aspects of organization of the fund. This can comprise things like selling the fund to prospective investors, implementing actions and policies in the office, and establishing ethical values for the business.

It may not be regular for a fund manager to have superior degree such as a Master of Business Administration (MBA), along with know-how in the industry. Fund managers may have worked for banks as well as other financial institutions in adding together to funds such as hedge funds or mutual funds. This wide-ranging knowledge over and over again includes actions in dissimilar aspects of fund management as a hatchling fund manager learns about bookkeeping, harmonizing portfolios, responding to market shifts, and financial moral values. Characteristically fund managers supported by a huge staff. This can comprise whole departments to center on issues like monitoring stock values and maintaining ethical values, as well as individual assistants who lend a hand the fund manager with managerial everyday jobs. Office hours can be extended, as there may be period when a fund manager wants to come in early or hang about late to meet over the phone with clients in other time zones or to act in response to up-and-coming market trends; a fund manager who sleeps through a market collapse will be not in of a job. A good fund will have steady management, which includes many long-standing employees. Based on performance the fund manager more often than not remunerated in the form of a payment, providing an inducement for the manager to grip the fund fine because his or her return attached to proceeds. Funds with far above the ground staff turnover may be experiencing harms, which investors possibly will potentially do well again to keep away from, and it is prudent to give the impression of being up and about a fund's history before plunging into an investment.

Ethical Role of Fund Managers and Investors Behaviour

Today there are a number of Environmental funds available some of which cover a wide range of ethical, social and environmental issues others only consider environmental issues. A small number focus on a single environmental single issue or niche - such as climate change, or a specific resource such as water. Further variations, where fund managers seek out positive, forward-looking companies, are funds that focus on Sustainability as a theme. This style is increasingly popular as fund managers and investors recognise the growing importance of the sustainability agenda to business and therefore investment returns. These funds often consider a wide range of issues. A further, perhaps more specialists, option are Clean Technology investment funds. Clean Technology fund managers invest in companies that have significant expertise in newer, clean energy technologies or related environmental markets. These funds may invest in a number of 'themes', supporting companies with related strategies or in similar sectors or

markets. Similarly, to Environmental and Sustainability themed funds Clean Technology funds often focus on issues such as clean energy, responsible resource management, addressing climate change challenges and other related sustainability issues. The difference between Clean Technology funds and other options is that they are likely to offer greater exposure to smaller, 'pure play' companies, which specialise in particular areas - as opposed to investing in larger companies with high standards or areas of excellence. The success of the companies they hold often integrally linked to the success of the environmental solution or technology they offer. Clean Technology funds also tend not to carry out any form of screening or apply values based exclusions.

All active fund managers screen out or select stocks for various reasons. Over the longer term, performance often held to be primarily a function of fund management skill. When fund managers incorporate ethical issues into a portfolio, they usually consider how the portfolio can be re-balanced to take account of excluded companies. Generally, individuals improve the ethical profile of their portfolios by avoiding investments in particular businesses and encouraging better practices in others. There are two types of Ethical Investment Styles.

'Traditional Ethical Funds': Funds where negative screens are dominant, absolute and clear. These funds are likely to have a range of negative and/or positive ethical screening criteria but the negative screens are most clearly apparent in terms of where funds actually invest. These funds have been called 'Traditional Ethical' as this represents a common view of how ethical funds started out.'

'Unbiased Ethical Funds': Funds which encompass wide-ranging ethical viewing criterion and have criteria which poise the optimistic aspects of what companies do in opposition to behavior that are regarded as unconstructive. This can necessitate weighing up the ethical 'pros and cons' of exacting issues as well as companies. Fund managers therefore often have to poise issues and construct realistic decisions when deciding whether or not invest.

Both approaches are likely to cover a wide range of ethical, social and environmental issues, often in great detail - but 'Traditional Ethical Funds' are more likely to have clearly defined and detailed exclusions whereas 'Balanced Ethical Funds' are likely to be more nuanced or positively oriented. Investors who are looking to specifically avoid certain areas may be best suited by Traditional Ethical funds whereas investors who are looking for broadly 'ethical' companies may prefer 'Balanced Ethical' options.

Fund managers are to ensure the client's investments as long-term partnerships with company managements and engage in constructive dialogue and practice active voting to challenge social, environmental and ethical considerations. Ethical research integrated with financial analysis is prime factor key to investment process. Fund managers are responsible for both financial and ethical analysis. City wire rates several fund managers of Responsible Investment funds as AAA or AA, and an ethical investment fund manager won a 2005 Lipper City wire All Stars Award. According to City wire, "fewer than 5% of all UK fund managers achieve an AAA rating... If they do, it means that they have performed very well and are among elite. "The investors' behaviour listed below:

- Individual investors refrain from visiting fee-based professional financial advisors who said to be able to chalk out sound financial plans for their clients but since such advisors charge **hefty fees for their suggestions**, people avoid consulting them often. Rather they approach RMs/WMs who do not charge at all, or at least the burden is not on the investors directly.
- Most of individuals are eager to kick start speedy wealth creation, so they want short cuts to mint money from the stock markets. It seen that many of them have their own list of preferred investments, even if they know little about the basics of those investments. RMs/WMs have to **cater their needs**, so they have to heed what investors/their clients want.
- Very few investors invest according to their risk appetite and time horizon; they believe stock market investments as money minting machine and this belief exploited by RMs/WMs to **generate business for their employers**. After all, they are taking salary for this only!
- Yeah, it is also true that WMs/RMs **do not take time to understand clients** or alter their approach, because they (the investors/clients), too, do not have time to spend with their WMs/RMs in order to plan for their investment decisions. They need readymade financial plans that fit into their budget and yield higher returns quickly.
- WMs/RMs is **marketers**, not sales people. They just project (attempt to position) the products from their own kitty as the best of the market. Some responsibility also lies on the investors to investigate properly before taking final call.
- Finally, WMs/RMs acts as **case managers** who need to consider the clients' requirements, perceptions and ability to invest. At the same time, they have to generate business for their employer organizations.

Questions to ask Fund Managers for their Ethical role by Investors:

- What Responsible Investment services do they provide?
- What positive and negative screens applied to investments?
- How the criteria defined and applied?
- Does screening cause the portfolio to be over or underweight in particular sectors and how is addressed?
- Do they engage with companies (if so which ones and on what issues).
- Are they able to exercise voting rights in accordance with trustees' instructions?
- What resources do they employ for research?
- Do they charge an additional fee for a Responsible Investment service?
- How do they incorporate social, environmental and ethical matters into their risk management framework and investment process?
- How do they assess and report their Responsible Investment performance?
- What is their record of accomplishment of Responsible Investment involvement?
- Do they collaborate with other interested parties: e.g. other fund managers, research organizations, charities, collaborative organizations etc.?
- What are their reporting practices in terms of frequency and quality?
- Are they a member of a Responsible Investment network or initiative

The above questions relate specifically to Responsible Ethical Investment, and do not include the more general questions one may wish to ask about factors such as investment philosophy and process, mix, risk, returns, benchmarks, fees (including the availability of lower-charging institutional classes of share in a fund), client relationships etc.

Deliberations of ICICIs Fund Managers' Survey March 2013

Views on Equity Markets

- Regarding expectation of Bombay Stock Exchange (BSE) Sensex at the end of calendar year, 2013 most of the fund managers are positive on the market from a one-year perspective. Majority of the fund managers expect the market to be up in a range of 10-15% at the end of 2013. A minority (30%), among fund managers, expect the market to deliver returns in the range of 5-10%.

- Regarding positioning the Indian equity market on a valuation scale after the recent run up, 80% of the respondents believe the markets are better valued.
- Regarding outlook on the markets in the next three months, overall, domestic fund managers have turned slightly cautious in the near term after the recent rise in the market. However, none of them is bearish. The number of participant having a bullish outlook in the near term has reduced from 58% three months ago to 40% currently. As compared to three months ago, neutral outlook for the markets in the near term has increased from 42% to 60%.
- Regarding comparison to the previous three months, the confidence about investment in the equity market the bullish sentiment has reduced as compared to three months back when 50% of them, as against 10% currently, were more confident about investing in the markets.
- Regarding major global risk for Indian markets, concerns over higher global crude oil prices have increased after the recent rise in oil prices. As the Indian currency seems to have stabilized, concerns over it seem to have subsided, to a certain extent. A slow recovery in the US and the European sovereign also remains a source of concern for fund managers.
- Regarding corporate earnings growth expectation for FY12-13 and FY13-14, with the recent quarterly results better than expected for a large number of companies, earnings growth expectations for FY12-13 have increased significantly with 60% of them now expecting earnings growth to be in the 5-10% range. Majority of the fund managers continue to expect earnings growth of 10-15% for FY13-14.
- Regarding segment of the market preferred with an investment horizon of one year, after the significant outperformance of midcaps in 2012, preference for midcaps has reduced and 80% of the respondents believe large caps better placed for investment in the current environment.
- Regarding ranking the preferred sector preference towards the infra/ capital goods, pharmacy and Information Technology (IT) sectors has increased. The Fast Moving Consumer Goods (FMCG)/consumer oriented sector has seen a significant decline in preference. Sectors like banking, auto and telecom have also seen some decline in preference.
- Regarding expectations from the Union Budget and the implication in the short term for the equity market, majority of the fund managers expect the Union Budget to balance with no major impact on the markets in the near term. Total 30% of them expect it to be reform oriented and positive for the markets. None of the respondents expects the Budget to be populist and negative for the markets.

Views on Debt Markets

- Regarding seeing benchmark 10 year G-Sec yield in three months, majority of the fund managers expect the 10-year benchmark G-sec yield to be in the 7.50- 7.75% range. However, a significant minority (40%) of the respondents expect the 10-year yield to be in the 7.75%-8.00% range.
- Regarding the segment of the debt market with a six-month horizon, the expectation to deliver better returns, majority of the fund managers expect income funds to outperform in the next six months. With G-Sec, yields already correcting significantly, fewer respondents expect G-Sec funds to outperform. Preference for short-term funds has also increased.

Views on Investment Strategy

- Regarding the preferred asset class, which outperform in the calendar year 2013 from current levels, equity markets are the most preferred asset class among fund managers with an investment horizon of one year, with 60% of them expecting them to outperform. After the recent good performance, expectations of an outperformance from the Indian debt markets, in relative terms, have declined.
- Regarding equity market strategy well suggested now, majority of the fund managers continue to advise investors to increase allocation to equity markets. However, with the recent rise in equity markets, a higher number of respondents advise investors to maintain their existing asset allocation.

Investors who are keen to influence companies and support positive change can invest in funds where fund managers use their position as asset owners to influence companies through dialogue and **‘responsible engagement’**. Today many funds covered by responsible engagement strategies. This includes screened and themed funds, but by far the majority is regular unscreened (regular) investment options with ‘engagement’ strategies that may brought to the attention of financial advisers or their clients. Strategies vary between investment providers - either a result of resource differences or other strategic decisions. There are however common engagement features. These exist irrespective of whether engagement work carried out in house or subcontracted. To encourage companies to pay attention to long-term issues such as environmental constraints, social issues and governance structures is a major feature of all

engagement strategies. All however operate on the basis that engagement must be in the best interest of investors and encourage companies to work towards long-term business success.

Concluding Observation and Suggestions

A look at the portfolio effects from the fund manager perspective the ethical investment industry often claims that while assessing a company's environmental and social record, a better insight into an organization's financial performance obtained. A fund manager's style and experience may or may not fit with a particular ethical approach. Some styles may suit restrictions better than others may or for some fund managers an ethical policy may interfere with their strategy. For example, if an active manager's strategy calls for an overweighting of chemical stocks, screening may interfere with implementation because of environmental considerations. A possible source of underperformance could therefore be a mismatch between the skills and style of the fund manager, and the requirements of the particular ethical approach adopted. The fund managers those who do believe in a consistently positive ethical investment effect on performance need to explain why a market focused on profit maximization would overlook a potentially successful strategy for so long. An apparent guiding principle relating to ethical investing is necessary because when an extra variable added to the maximizing purpose it impinges on the additional variables. The citizen-owners of the Fund should have a right to know about policy variables that will impinge on the Fund's performance. in the same way, the Fund portfolio managers require to be held both answerable for ethical investing violations but also be secluded by making apparent the impact on risk and return caused by adding an extra variable to the maximizing role. Ethical investing might lessen the portfolio of potential savings thus dipping the aptitude to branch out the portfolio and, presumptuous some level of incompetence in the market place, dipping the menu of possibly undervalued securities. The impact of choosing to trade off risk diversification benefits and possibly accepting lower returns in order to gain ethical value needs to be made clear to interested parties but should not serve as an excuse for poor portfolio performance. Many years of practical experience demonstrate that ethical funds need not underperform. A well-managed, balanced ethical portfolio can outperform its non-ethical peers. The skill of the fund manager and their stock selection abilities are critical. A focus on Socially Responsible Investor (SRI) issues can help investors to identify risks and opportunities that could be materially significant in the long-term. Ethical investment does not have to mean exclusion and

divestment - positive screening and engagement used. Apparently, running the fine line up between the pessimistic bang of abridged investment potential and deprived organization presentation is not a simple task. It is not the 'always' case that relationship managers or wealth managers cheat investors/potential clients. The behavior of potential investors is also responsible for any untoward actions taken by them, which may later prove financially harmful. Therefore, it is the high and right time to think about the role of our own (individual investors, in general), along with that of intermediaries who are there to help us take profitable investment decisions.

Scope for Future Research

It also raises further questions about how some approaches by fund managers have been more successful over some periods. It does not appear that the answer lies entirely with the ethical approach itself but rather in how the fund manager attempts to deal with the challenge of investing within an ethical framework. As more investors seek an ethical approach, further research needed to understand how different fund management approaches interrelate with different ethical frameworks to produce good (or not so good) financial performance for the Socially Responsible Investor.

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CORE THEME : ETHICS IN INVESTMENT

**TITLE OF THE PAPER: ETHICAL ISSUES ON THE ROLE OF FUND MANAGERS
AND INVESTORS' BEHAVIOUR IN INVESTMENT DECISIONS**

**WE declare that the submitted paper is original research work, which is not been
published or submitted for publication elsewhere.**