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ANALYSIS AND EVOLUTION OF FTSE4GOOD IBEX

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Abstract: Through this paper, *Analysis and Evolution of FTSE4Good Ibex*, a report on Socially Responsible Investing (SRI) in Spain is developed. For some years now, Corporate Social Responsibility (CSR) is becoming an important concept in the business community due to its impact, both, at an academic level and at a corporate level.

This research article develops an evaluation about the main differences between social responsible companies' financial variables, those belonging to FTSE4Good Ibex, and other IBEX companies' financial variables. Furthermore, it includes some of the most remarkable initiatives related to CSR.

Nowadays, socially responsible investment is dramatically growing. An increasing number of firms are showing an important attitudinal shift towards social responsibility as well as ethics, solidarity, etc. Therefore, this essay expects to be an interesting basis to understand the current situation.

One of the most notable evidences of CSR is FTE4Good Ibex sustainable rate rising, which demonstrates that investors investing in an investing portfolio consisting on FTSE4Good Ibex shares achieve outperforming returns.

Key words: Corporate Social Responsibility, Socially Responsible Investment, FTSE4Good Ibex, responsible, sustainable, ESG (environmental, social and good governance criteria)

1. Introduction

In the last decades, Socially Responsible Investing (SRI) is soaring in popularity and it is becoming an interesting option to take into consideration. Global warming and climate change are two of the main reasons to bear SRI in mind, and also to think about the advantages of a green economy. It is a great challenge, since large amounts of resources are needed. However, people and companies change of thoughts and attitude towards social responsibility, ethics and solidarity are already a fact.

As proposed by Eurosif (2010), the term Socially Responsible Investment (SRI) can be understood as the investing process looking for economical profits, in which Environmental, Social and Governance (ESG) criteria are highly considered when making investing decisions. Therefore, according to these parameters, methodologies used to balance the profitability and the risks of a social responsible investment are gradually spreading to all the investment fields: rating, information management and communication, etc.

It is important to understand how and where is the money being invested, and the possible consequences for investors, considering that the new sustainable investing methods are at its peak. In the present, many new sustainability indices are appearing, and it is very important to understand this new market so that we can make decisions easily when balancing the benefits and the risks of investing in these new indices.

This research paper is focused on sustainability indices, and especially on FTSE4Good Ibex. It is the only sustainability index in Spanish Stock Exchange, and it has been compared to its opposite: IBEX 35. The inclusion and exclusion criteria, as well as some additional variables that investors should take into account, have been analysed in order to purchase an investment portfolio as reliable as possible.

2. Socially Responsible Investing (SRI)

As suggested by Nowosielski & Nadolski (2007), social and environmental criteria are becoming more and more important when making investing decisions. The main evidence for this fact is the extraordinary development that SRI has experienced in the last years. In the last decade, the supply of investment funds made up of values that have been selected according to Corporate Social Responsibility (CSR) criteria has increased faster than the supply of other investment funds.

Nowadays, we can find many different investment choices, which can provide returns on our capital. Among all the alternatives, current investors have got the chance to make Social Responsible Investments. SRI is a relatively new concept in our country; in fact, the Spanish Stock Exchange has not got many of these assets. However, SRI is gaining importance, and everything indicates that in the next years, this kind of investment will reach a significant level.

As it has already been mentioned and according to Gutiérrez (2001), SRI is the economical practice in which the goal is not only to obtain as much interest and liquidity as possible, but to meet certain criteria related to morals, principles and investors and consultants beliefs. In conclusion, SRI combines ethics and strictly financial aims.

Therefore, it can be said that an appropriate CSR policy may be an effective strategy to attract new potential investors, who will establish a series of ethical requisites in order to obtain yield either individually or collectively.

In the present, most of the SRI products generate a similar profitability to conventional products, since they follow the same financial philosophy. Nevertheless, as stated by Fernández (2006), SRI counts on the following advantages:

- It allows managing the excess money in a responsible way, coherently to the thrifty investors' principles.
- SRI facilitates the funding of certain investment projects.
- SRI has become a tool to promote CSR among investors.

The following diagram shows different classifications for SRI:

Diagram 1: Socially Responsible Investments classification

Instruments related to Stock Markets	Credit instruments and instruments for Ethical Saving	Other Instruments
<ul style="list-style-type: none"> - Ethical or Socially Responsible Investment funds. - Pension funds - Ethical and solidary bonds 	<ul style="list-style-type: none"> - Microcredits, Social and environmental impact credits. - Ethical Saving deposits 	<ul style="list-style-type: none"> - Venture capital - Credit cooperatives - Ethical banking

Source: own elaboration based on Fernández (2006).

As it can be observed in Diagram 1, SRI can be divided into three different groups: Instruments related to Stock Markets, Credit Instruments and Instruments for Ethical Saving, and Other Instruments.

On one hand, those belonging to the first category are the most common in Spain, in particular: Ethical or Socially Responsible Investment Funds. Nevertheless, it is important to mention that, as time goes by, Pension Funds are incrementing its potential due to the great quantity of individual and occupational pension funds. According to Fernández (2006), the pension funds growth is the consequence of the fiscal advantage they give and the instability in the pensions system (numerous government reforms, the continuous dissemination of recommendations from international organizations).

On the other hand, as Fernández (2006) argues, Credit Instruments and Instruments for Ethical savings are those that enable to allocate savings surplus towards smaller projects with social or environmental purposes, which are only financed in this way.

Finally, the third category corresponds to more complicated SRI methods. It should be remarked the Ethical Banking, since, as suggested by Fernández (2006), it can be considered the optimal financial instrument, in regards to an institution model regulated by ethical values.

Besides, investors play a decisive role within SRI development. As proposed by Fenrández (2006), invertors can be classified in:

- Aware particulars: they are the most active investors. One of their goals is to penalize companies going against their ethical principles.
- “Obligated” Groups: they are organizations that have the obligation of making this kind of investments according to the ethical values they defend. For example: foundations, NGOs or religious groups.
- Careful or prudent investors: they think that CSR good practices mean an appropriate management of their companies.
- Public institutions: their main goal is to look out for the society’s common good, as well as for the quality of the citizens’ lives.

These investors’ profiles will be decisive and each one of them will face every cause in a different way.

2.1 Characteristics of SRI funds

As it has already been mentioned, SRI funds are the most common SRI in our country and also in the world. Therefore, it is important to delve into them. In Spain, their commercialisation is not at the same level as in other European countries, since these countries began working with them some years ago. However, many foreign investing organisations are becoming interested in the Spanish market, due to the fact that it is quite unexploited and its great potential.

SRI funds can be defined as the funds that not only take into account financial data, but certain environmental, social and Corporate Governance (ESG) criteria, in their analysis and investment choices. There exist many different methods to manage SRI, from just excluding specific activities (E.g. weapons manufacturing), to selection processes based on the best ESG assessments or even mixing ESG analysis with traditional financial analysis.

The funds listing process is carried out according to the informative leaflet, which is reviewed and authorised by the supervising body in the market. In Spain the National

Securities Market Commission (CNMV) is in charge of that process. During the process, the management company will act as the administrator, while the depository company will keep the stocks. Therefore, SRI funds are collective investments, whose portfolios are made up conforming to a series of social responsibility criteria.

Different strategies for the selection of the companies that will be part of the SRI funds have been developed. Some of the most remarkable ones have been studied in this research paper:

Exclusion of Activities in the Investment Universe

This strategy consists in excluding specific investments from the Investment Universe. It includes companies, sectors and even countries that are related to weapons, pornography, tobacco and animal testing. This kind of exclusion can be carried out on isolated funds and also on whole companies for all kind of investment products.

Rules-based Screening

Screening means the review of investments according to international standards and the rules based on ESG criteria. Some interesting examples of screening could be the rules developed by the United Nations and its branches. For example: UN Global Compact, UNICEF, etc.

This SRI strategy implies the review of investments based on international rules or rules defending ESG aims. That rules are created by international organisations, like The United Nations, and they are usually universal norms. Screening tries to establish some minimum standards that all companies must obey. When a company with assets breaching the established regulations, the fund manager will act accordingly to that fault: he or she will notify the company or will proceed with the disinvestment.

As stated by Spainsif (2010), the exclusion and review strategies may coincide, so it is necessary a concrete measure to establish an appropriate listing. The main difference is in the manager's hand: when the fund manager refers to external rules (e.g. The UN Global Compact or The Organisation for Economic Cooperation and Development's directives) he or she is referring to external norms. On the contrary, the fund manager will be applying exclusions. Besides, rules-based screening involves an analysis of the company's activity according to similar corporations activity or according to the ESG criteria.

Best-in-class

This method includes the selection of the best performance in a concrete investment universe or category, based on the ESG criteria. This means that the most remarkable development among the companies' assets is identified through an ESG study.

The main requirement in order to carry out a Best-in-class strategy is that financial and management entities make a commitment to follow sustainable investment policies. One of the advantages of this method is that it does not require large time and material costs. It can be adapted to its own resources.

Firstly, we can find many sustainable stock index markets, which manage their members according to its region, sector or ESG behaviour among others. This is called passive management of the portfolio. An example of passive management of the portfolio is the Dow Jones Sustainability Index.

Secondly, when further requirements are needed to manage its assets, there exist service suppliers that meet the company's concrete needs and provide information about ESG. Some examples of this case are MSCI, Sustainalytics and VIGEO-EIRIS.

Finally, those corporations with higher resources, which demand a whole management in their best-in-class process, there is the chance of counting on an ESG team within the own entity. This team's goals will be the analysis and study of the ESG data of the companies they are interested in or searching for information, indices and rates in order to develop innovative best-in-class strategies based on their investment philosophy.

According to Spainsif (2019), this method might be a useful nexus between exclusion, selection and inclusion strategies. Therefore, in financial markets with enough ESG maturity, the best-in-class strategy tends to go towards ESG integration.

Thematic investing

Thematic Investment is a useful instrument to deal with the numerous environmental and social problems. In order to promote the long-term value of the industry, it could be a good option to invest in assets that take advantage of the main trends related to sustainability.

Some examples of these challenges are: global warming, violation against human rights or overexploitation of natural resources. Therefore, thematic funds can be settled with concrete aims like, for example, encouraging the use of renewable resources, sustainable mobility, energetic efficiency or companies' responsible management.

Impact investing

Impact investing's main goal is to generate an environmental and social impact at the same time it generates financial returns on previous investments. This kind of investment may be carried out both in developed markets and in emerging markets.

The Impact investing market's growth provides with capital to develop solutions to the main problems in sectors like sustainable agriculture, affordable housing, access to clean water, renewable technologies or financial services.

One of the most remarkable impact investing characteristics is that its investors are strongly committed to analyse and inform about environmental and social development and also about the growth of underlying investments.

In general terms, the main stages to manage the best impact investing practices are:

- Establishing the main environmental and social goals for the relevant stakeholders
- Determining parameters to achieve the previously established goals through standardised techniques, if possible.
- Monitor and manage the investments according to its aims.
- Provide information about environmental and social development to the main stakeholders.

Engagement

As suggested by Spainsif (2019), shareholder activism through active dialogue is a common SRI strategy used to establish communication between stakeholders and issuing authorities, so as to ESG strategies can be improved. ESG engagement can be performed via formal letter, telephone call, email or face-to-face meeting among others.

Voting

Shareholders can take part on ESG strategies and actions of the issuing authorities throughout shareholding activism. They can exercise their right to vote or participate in the company's annual general meeting.

Integration of ESG methodologies into financial analysis

One of the most remarkable methodologies for the ESG criteria integration is related to the compulsory restrictions when making investment decisions. These restrictions are based on financial ratings derived from the study on ESG criteria.

ESG methodologies offer significant advantages, which make the difference between them and other sustainable investment strategies.

Adopting ESG methodologies implies a high commitment degree depending on the corporation's sector, investment types, management of risk, etc.

In short, it can be understood as a strategy able to create portfolios meeting most of ESG criteria, which allows to beat competitors operating in the same sector that have got lower ESG qualifications.

Most of the investing entities choose and apply their own criteria throughout an Ethics Committee, since there do not exist concrete guidelines establishing the suitable and the unsuitable companies.

2.2 Requirements for SRI Funds in Spain

In Spain, SRI funds are regulated by the *Asociación e Instituciones de Inversión Colectiva y Fondos de Pensiones* (INVERCO), to which belong most of the Collective Investment Institutions (CII), Spanish Pension Funds and Portfolio Management Societies.

It was INVERCO that in 15th November 1999 published a memo, which regulated the use of ethical, ecological and other socially responsible funds approved by the National Securities Market Commission (CNMV). According to this memo and as suggested by Gutiérrez (2010), there exist four requirements that will be demanded to the CII, so that they can include the Socially Responsible certificate into their publicity:

1. Investment Policies Criteria: the CII information leaflet must be registered into the CNMV. Furthermore, it will establish the ethical criteria that stocks in the portfolio must fulfil in order to be considered as ethical, ecological or socially responsible. As it has already been mentioned, the criteria might be positive or negative.
2. Selection of suitable stocks to invest in: an Ethical Commission, provided and regulated in the CII information leaflet, will be in charge of the selection of the suitable stocks. Most of the Commission members will be independent individuals with experience in CII.

3. Warning in Advertising: in order to avoid false advertising in marketing messages, every advertising message must include the following note: *Please, check the company's ethical criteria at the information leaflet.*
4. Information about the ethical ideology and the Ethical Commission: the quarterly report must include in a summarised way the important information about the CII ethical ideas, as well as the formation and decisions by the Ethical Commission.

In the memo itself, it is specified that the name “ethical” given to certain CII, does not mean that their investments are ethical, but that those CII follow concrete ethical and socially responsible criteria that must be met in their investments.

2.3 Increase of ISR

In the last years, SRI has considerably improved its business turnovers. Between 2016 and 2019 SRI has grown 34%.

In Diagram 2 it can be observed the Global sustainable investments between 2016 and 2018 in American Dollars.

Diagram 2: Global sustainable investments between 2016 and 2018 in American Dollars

Región	2016	2018
Europe	12040\$	14075\$
USA	8723\$	11995\$
Japan	474\$	2180\$
Canada	1086\$	1699\$
Australia/New Zealand	516\$	734\$
TOTAL AMOUNT	22890\$	30683\$

Source: own elaboration based on www.compromisoempresarial.com

SRI assets continue their global growth, obviously with certain countries with a higher increase and others with a slower rising. The most important expansion of SRI assets took place in Japan, where they grew more than 300%. It is a striking development, since its global assets amount has quadrupled since 2016. Meanwhile, in Europe we can observe a 17% rising from 2016 to 2018. Although it was in 2016 when the highest increase occurred (Europe achieved almost 53% of the SRI assets). Finally, in the USA,

Australia/New Zealand and Canada have not experienced significant variations on their SRI assets corresponding amounts.

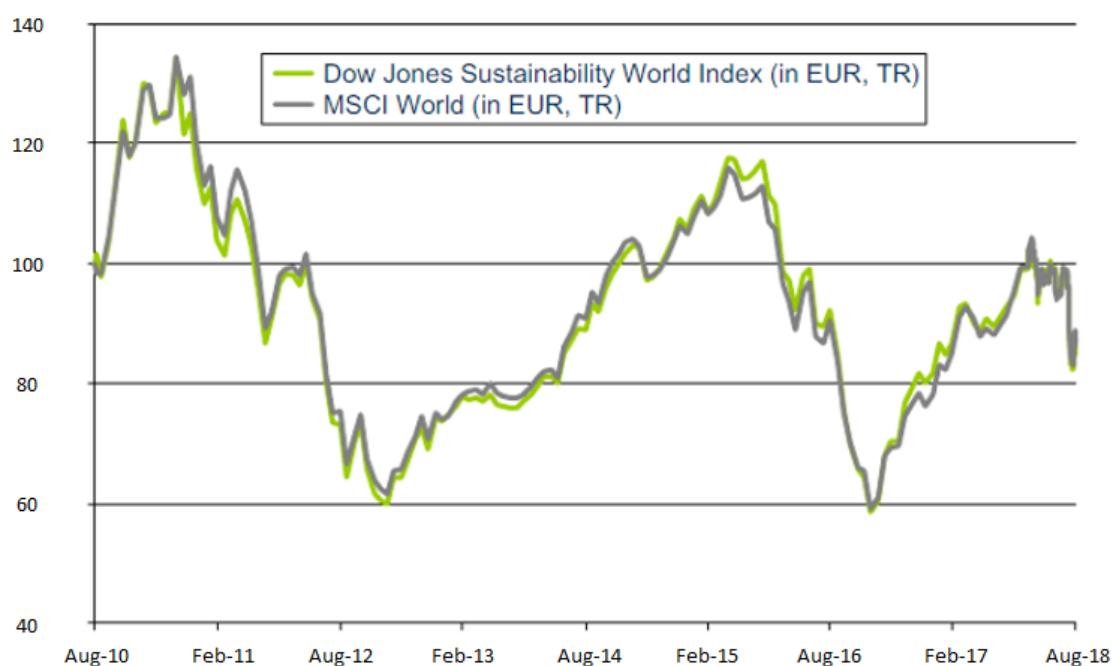
2.4 Positive effects of SRI

Among the multiple benefits of SRI, there are two of them that deserve a special mention:

Firstly, the economic profits. Socially responsible indices generate similar profitability to the rest of the indices in the stock market. However, corporations listed in these indices have got a series of benefits that other companies do not. For example, firms belonging to SRI indices are one of the main objectives for SRI funds, which implies a lower risk. Furthermore, the number of socially responsible investors is increasing, which means that this kind of investment instil confidence and the feeling of security. These indices meet the established sustainability criteria, which permit its companies benefit from its modifications. Besides, being listed in SRI indices increases the firms' values and classifies them as profitable entities.

As it can be seen in chart 1, DJSI's trend and MSCI World Index's (which is made up of some of the most important companies from developed economies) trend are quite equal, even in some moments DJSI is higher.

Chart 1: Dow Jones Sustainability and MSCI World trends



Source: <http://www.sustainability-indices.com>

Secondly, it is necessary to talk about reputation. Corporations listed in these socially responsible indices enjoy an excellent reputation, which positions them in a privileged position into the market. Moreover, these companies' employees will be motivated since being part of a socially responsible corporation is considered a prestige.

The facts are making the companies realise about the benefits of SRI. SRI does not seem to be a temporary movement, but its advantages are consolidating SRI as an essential option to be taken into account by companies looking for success.

However, many people think that SRI is just a myth and it is not worth to take some benefits away only to adopt some sustainable policies. Despite this belief, it is being demonstrated day by day that it is not true, and SRI is the future. An obvious example of that is in the DJSI companies.

As proposed by Lorenzo B. (2012), being one of the corporations in these indices is plenty of advantages. In fact, one of the most recognised investors in the UK, Hermes B.T., suggested that companies expecting to survive in a long-term period, must carry an efficient management of the relationships with their costumers, suppliers and employees as well as they must be respectful towards the environment and the society.

It can be concluded that belong to any socially responsible index implies that it is being carried out a proper management of that company, and that it is an entity focused on the future, which is concerned about the environment and the society. So we can state that these are the keys to be listed in a SRI index.

The next step is to analyse how to take this new version of Small and Medium Enterprises (SME) into a larger scale, since the success of this new concept has already been confirmed with bigger corporations.

3. Initiatives to promote Corporate Responsibility

In the last decades, many organizations have encouraged corporations to become socially responsible with the purpose of achieve the establishing of the ethical conduct in the business world.

3.1 The European Union Green Paper

It is a document, whose main goal is to create a European framework for Companies' social responsibility. It focuses on how the EU can help to spread the concept of corporate responsibility through Europe and also through the World.

This paper includes some guidelines about the management of social and environmental responsibility, human rights, SRI, the world's ecological issues or working conditions among others.

3.2 “Agenda 21” Action Plan

It is a 351-pages document held in Rio de Janeiro (Brazil), in 1992, after the UN Conference on Environment and Development. More than 170 countries voted to adopt and execute the program.

The United Nations (2014) stated that its main aims are to achieve a sustainable development of the world's economy and reducing the humans' negative environmental impact.

3.3 International Organization for Standardization

The ISO focuses on the development and publication of global standards. It is an independent non-governmental international organisation that brings together experts from all over the world in order to develop international standards.



In 2010, ISO launched *ISO 26000 Social Responsibility*, which is a set of guidance to help business and organisations to translate principles into effective actions regarding to social responsibility. It includes seven fundamental principles, which must be taken into account by the companies when carrying out its activities. One of those principles to be mentioned is the Ethical Behaviour principle.

3.4 Global Reporting Initiative (GRI)

There are some entities concerned about the corporations' expected or recommended behaviour patterns in order to gather and promote the principles and values that should lead any firm. One of the GRI measures consists of asking the companies to write a report in which it must develop and demonstrate its own ethical and responsible behaviour policy.



Nowadays, GRI is one of the leading organisations within the sustainability field. As it is stated in Globalreportin.org (2014), it is an independent international organisation that

has pioneered sustainability reporting since 1997. GRI developed the first global standardised frame of reference for corporations' sustainability. It helps business understand and communicate their impact on sustainability issues like, for example, climate change, human rights, governance and social well-being. These guides are available for free for everyone interested on them.

Its mission can be summed up as the task to motivate decisions that result in social, environmental and economic benefits for a company. Therefore, GRI is trying to spread its services, so that companies can achieve a balance between sustainability and profitability.

Finally, it is important to mention that The GRI sustainability reporting standards are developed together with experts, governments' members and multi-stakeholder contributions.

3.5 Principles of Responsible Investment

According to UNEP (2016), investment entities have to do their best in relation to their costumers in a long-time period. They suggest that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios (varying degrees depending on companies, sectors, regions, asset types, etc.). We also recognize that the application of these principles can favour investors with broader social goals.

The 6 principles on which responsible investment is based are:

1. The Incorporation of ESG issues into investment analysis and decision-making processes.
2. Being pioneer in the adoption of ESG issues into property practices and policies.
3. Transparency on companies' publishing of ESG issues.
4. The promotion of the adoption and the application of the Principles in the investment sector.
5. Work to improve effectiveness in the Principles application.
6. Report the effects and developments of the Principles during their application.

3.6 Sustainable Development Goals (SDG)

As proposed by The UN (2020), The SDG consist of a project, whose main goal is to achieve a better and more sustainable future. They try to face current global problems

like, for example, poverty, climate change, inequality or environmental degradation among others.

The process to achieve such aims is based on three main pillars: protection of the environment, economic growth and social inclusion.

Sustainable Development Goals constitute an unprecedented agreement in favour of sustainable development between the 193 member states of The UN. It has been financed by parliaments and private institutions among others. The decision of creating this initiative was taken in Rio de Janeiro in June 2012, and it established 17 SDG to be fulfilled by the year 2030.

There are currently 17 SDGs to be achieved by 2030.



Source: www.un.org

3.7 EU Paris Agreement

On December 12, 2015 the twenty-first session of the United Nations Climate Change Conference on Climate Change was held in Paris. In addition, a meeting between the participants in the Kyoto Protocol also took place.

The Paris Agreement is a pact, whose main goal is to face climate change and intensify investments to achieve a sustainable future by the year 2020.

As proposed by El Ágora (2019), another of the main objectives of the PAB EU is to ensure that the increase in world's temperature in this century is lower than 2 degrees Celsius.

The most remarkable points in this agreement's emerging document were: reaching climate neutrality, reduce the emission of greenhouse gases or providing financial support among others.

4. Socially Responsible Investment Indices

Markets internationalisation, due to globalisation, implies a continuous movement of capital and dynamic speculative deals. With the purpose of improving SRI popularity and credibility, there have been created many sustainable or socially responsible indices, following the social and environmental responsibility criteria. Some of the most remarkable are: FTSE4Good Ibex, Dow Jones Sustainability Index (DJSI) or Ethibel Sustainability Index among others.

Most SRI indices use to be quite recent. They indicate the development of the most significant corporations in the market the same way as traditional stock market indices. However, their field is focused on socially responsible markets. Besides, according to Fernández and Muñoz (2008), SRI indices share some important characteristics like, for example: they act as the indicative measure for the markets they represent, they serve as underlying assets in derivatives markets and they can be used as a reference for the management of socially responsible portfolios (benchmark).

It is also important to mention that there is a real interest in promoting reference and environmental indices. In fact, the European Commission has got de aim of encouraging sustainable finances and preventing greenwashing (consists of using sustainability just as a marketing technique). Moreover, EU has got expectations on climatic stock market indices, since it will create its own indices following the criteria stipulated by the Technical Experts Group on Sustainable Finance (TEG). The guidelines that have already been given by the TEG must be approved by the European Parliament. It is expected that before 2022 the process has finished.

Long-term ISR is more sustainable and profitable. This is because ISR allows for better control and management of risks, since when one more parameter is added to investment decisions, there is more information about companies. Thus, the ISR offers a more perception on the quality of management, a better knowledge of the regulatory dynamics of the sector in which the company operates. So it can be said that ISR is an indicator of potential risks and opportunities.

4.1 Dow Jones Sustainability Index (DJSI)

This index is made up of a series of indices that joined in September 1999 as a Dow Jones & Co. initiative, in order to monitor CSR activities from the leading companies in different economical sectors. Dow Jones & Co. is one of the head corporations within the economical information supplying sector. It is also the owner of the well-known The Wall Street Journal, which merged Sustainable Asset Management (SAM) to create this reference index. Most indices are segmented into different areas: Global, Europe, North America, USA, Asia-Pacific and Korea. Furthermore, there exists a division into sectors and sub-sectors.

In 2018, DJSI was made up of 317 companies approximately, which represent about 9% of the 3504 corporations belonging to Dow Jones Global Total Stock Market Index. In Diagram 3 it can be observed the leading companies in the 59 DJSI.

Diagram 3: Leading DJSI companies and sectors, 2018

Sector	Company	Country
Aerospace & Defense	Thales SA	France
Airlines	ANA Holdings Inc	Japan
Aluminum	Norsk Hydro ASA	Norway
Auto Components	Pirelli & C SpA	Italy
Automobiles	Peugeot SA	France
Banks	Bancolombia SA	Colombia
Beverages	Thais Beverage PCL	Thailand
Biotechnology	Biogen Inc	United States
Building Products	Owens Corning	United States
Casinos & Gaming	Star Entertainment Grp Ltd	Australia
Chemicals	Koninklijke DSM NV	Netherlands
Coal & Consuable Fuels	Banpu PCL	Thailand
Commercial Services & Supplies	Waste Management Inc	United States
Communications Equipment	Cisco Systems Inc	United States
Computers & Peripherals and Office Electronics	Konica Minolta Inc	Japan
Constructions & Engineering	Hyundai Engineering & Construction Co Ltd	Republic of Korea

Construccion Materials	Group Argos SA/Colombia	Colombia
Containers & Packaging	BillerudKorsnas AB	Sweden
Diversified Financial Services and Capital Markets	UBS Group AG	Switzerland
Electric Utilities	Terna Rete Elettrica Nazionale SpA	Italy
Electrical Components & Equipment	Signfy NV	Netherlands
Electronic Equipment, Instruments & Components	Delta Electronics Inc	Taiwan
Energy Equipment & Services	Saipem SpA	Italy
Food & Staples Retailing	METRO AG	Germany
Real Estate	Stockland	Australia
Restaurants & Leisure Facilities	Sodexo SA	France
Retailing	Industria de Diseño Textil SA	Spain
Semiconductors & Semiconductor Equipment	ASE Technology Holding Co Ltd	Taiwan
Software	SAP SE	Germany
Steel	Tata Steel Ltd	India
Telecommunication Services	True Corp PCL	Thailand
Textiles, Apparel & Luxury Goods	Adidas AG	Germany
Trading Companies & Distributors	ITOCHU Corp	Japan
Transportation and Transportation Infrastructure	Royal Mail PLC	United Kingdom
Life Sciences Tools & Services	Agilent Technologies Inc	United States

Machinery and Electrical Equipment	CNH Industrial NV	United Kingdom
Media	Telenet Group Holding NV	Belgium
Metals & Mining	Newmont Mining Corp	United States
Multi and Water Utilities	Engie SA	France
Oil & Gas Refining and Marketing	IRPC PCL	Thailand
Oil & Gas Storage & Transportation	Enagas SA	Spain
Oil & Gas Upstream & Integrated	PTT PCL	Thailand
Paper & Forest Products	UPM-Kymmene OYJ	Finland
Personal Products	Unilever NV	Netherlands
Pharmaceuticals	Roche Holding AG	Switzerland
Professional Services	SGS SA	Switzerland
Food Products	Thai Union Group PCL	Thailand
Gas Utilities	Naturgy Energy Group SA	Spain
Health Care Equipment & Supplies	Abbott Laboratories	United States
Health Care Providers & Services	UnitedHealth Group Inc	United States
Homebuilding	Sumitomo Forestry Co Ltd	Japan
Hotels, Resorts & Cruise Lines	InterContinental Hotels Group PLC	United Kingdom
Household Durables	Electrolux AB	Sweden
Household Products	Essity AB	Sweden
Industrial Conglomerates	Siemens AG	Germany
Insurance	Allianz SE	Germany
IT services & Internet Software and Services	Atos SE	France
Leisure Equipment & Products and Consumer Electronics	LG Electronics Inc	Republic of Korea

Source: own elaboration based on RobecoSAM

As it can be observed in Diagram 2, Spain counts on 3 corporations among the 59 DJSI leading corporations: Naturgy SA, Industria de Diseño Textil SA and Enagas SA. In spite of that, in 2018, there were 15 Spanish firms belonging to DJSI.

As stated by Blasco (2017), inclusion and exclusion of companies from this index is performed once a year and it is based on the analysis of the corporate economy, its environmental and social repercussions, risk management, working policies, etc. The Swiss firm RobecoSAM, previously mentioned, is the responsible for this process. It sends a survey with 100 questions approximately, related to 3 main issues (economy, environment and society), to every corporation in the S&P Global Index. Then, it checks their answers and gives them a mark between 1 and 100 points. Therefore, after a series of technical adjustments, 10% of the eligible values in each sector become a part of the most important Sustainable Index

4.2 FTSE4Good Index Series

The FTSE4Good Index is part of the FTSE All-World Index Series. The main objective of the index is to measure the behavior of the companies that meet corporate responsibility standards. Within this index we can find the FTSE4Good Ibex, which will be explained in detail later.

According to Marichalar, B. (2014) “The transparency that characterizes this index, as well as the criteria on which the companies that constitute it are based, make investors, consultants, fund managers and brokers among others taking this index into account when looking for a type of responsible investment. In addition, it is proved that more and more investors and corporations are becoming interested in this type of investment”.

It is an index that represents the global market, since it comprises the markets from Europe, the United States, the United Kingdom and Japan.

This index was created by FTSE4Good together with the FTSE4Good Committee, which is made up of a large group of experts related to corporate responsibility issues that act independently. Both are responsible for the verification that all the companies that are listed in the index meet the established criteria.

Those criteria to be met refer mainly good practices in social responsibility. Some remarkable examples of them are: climate change, human rights or environmental management among others.

The criteria that companies must fulfil in order to be included in FTSE4Good Ibex index are established taking into account the participation of different stakeholders such as NGOs, academics, government agencies and consultants.

4.3 Climate Indices

As defined by Spainsif (2019), climate indices are investment indices that include financial goals as well as specific goals related to the reduction of Greenhouse Gases (GHG) emissions. They are also committed to a low carbon economy, based on the scientific evidences by the Intergovernmental Panel on Climate Change (IPCC).

European Commission is working on two important Climate Indices: the first one is focused on the EU Climate Transition Benchmark (EU CTB). Meanwhile the second one is related to The EU Paris Agreement.

Its main aims are: on one hand, promoting financial comparability. On the other hand provide investors with an effective instrument for their investment strategies. The result of these actions is the achievement of transparency in terms of investments in climate change and energy transition and also the greenwashing dissuasion.

It is important to point out that each one of these indices has got specific goals. For example, EU CTB Index is aimed at investing institutions trying to protect their assets from different risks related to climate change and to the evolution towards a low carbon economy. This index is less restrictive than others, so it allows a wider diversification.

The EU Paris Agreement Index is more appropriate for investing institutions trying to stand at the top of the transition towards a low carbon economy with a global warming limit of +1,5°C. Therefore, this index is distinguished by its soft requirements.

5. FTSE4Good Ibex

The index on which this study is focused was launched onto the market 9th April 2008. It was born from the fusion of FTSE Group and *Bolsas y Mercados Españoles* Group (BME). This flourishing index is the main reference from SRI, as well as the driving force of new financial products like, for instance, traditional investment funds, Exchange-Traded funds (ETFs) or ethical and socially responsible investment funds among others.

FTSE4Good Ibex members are principally companies that are listed in the IBEX 35 indices from BME and also in FTSE Spain All Cap. All of them comply with the corporate

social responsibility guidelines: they try to protect the environment, cooperate with projects for human rights defence, etc.

It can be considered the first stock index in the market made up of Spanish firms centred on good corporate practices and social responsibility. Companies belonging to this index are obtaining great recognition due to the development of the good policies already mentioned. Therefore, they are improving their image, which allows them to reevaluate their corporate brands or even become more popular in the market and increase the number of stakeholders interested in investing in them.

Diagram 4 below shows the companies and their respective sectors that are part of the FTSE4Good Ibex index in 2020.

Diagram 4: FTSE4Good Ibex members 2020:

COMPANY	SECTOR
ArcelorMittal	Steel Industry
Banco Sabadell	Banking
Bankinter	Banking
BBVA	Banking
BME (Bolsas y Mercados Españoles)	Financial services
CaixaBank	Banking
Enagás	Utilities
ENCE	Utilities
Ercros	Chemical Industry
FCC	Construction Industry
Ferrovial	Sustainable Infrastructures
Fluidra	Pools and Wellness
Iberdrola	Utilities
Inditex	Retail Trade
Mapfre	Insurances
Mediaset	Media
Meliá Hotels	Hotel sector
Naturgy Energy	Utilities
OHL	Construction Industry
PRS	Cultural Industry
Prosegur	Industrial Goods and Services
Red Eléctrica	Utilities

Repsol	Petroleum and Energy
Santander	Banking
Siemens Gamesa	Wind Energy Sector
Telefónica	Telecommunication

Source: compilation based on data from FTSE and BME

FTSE4Good Ibex prices consist of assessments on floating capital. This fact enables the companies belonging to this index to be available in the market, so that they can be easily replicated. This prices are real-time calculated in euros and the index has not got a fixed number of components, since if there is a company that wants to join, and it meets all the criteria, it will automatically be included into the index; just as if there is a firm, already belonging to the index, that does not accomplish the requirements, it will be excluded from it.

Some of the most remarkable purposes for this index are the following:

- Enable the investors to obtain capital throughout a corporate responsibility policy.
- Act as a tool for social commitment, since it requires the companies to be focused on being as responsible as possible.
- It assists the investors in investing in companies committed to CSR's global principles.
- Spanish laws require that at least 10% from pension refunds must be invested in SRI. Therefore, in this respect, FTSE4Good ibex is an interesting option.

In order to go deep into the main details of FTSE4Good Ibex, it is going to be developed a description below on its selection criteria, its regular reviews as well as the possible modifications on its structure.

5.1 Regular Revisions of FTSE4Good IBEX

Every FTSE4Good index is reviewed twice a year, in March and September. During the revision process, it is taken the information existing in the market by the last sessions in February and August. As it has been already mentioned, companies must meet certain requirements in order to be included in the FTSE4Good Ibex index. Those requirements are checked and verified by FTSE4Good Ibex's data provider, which will include the current data until the last Friday before 15th January and 15th July.

At the close of the 3rd Friday of March and September, maximum weightings from the index's members are applied, and also the biannual revision is conducted. It should be noted that the terms taken in this process must be the same for all FTSE4Good indices.

Furthermore, the decisions related to the biannual revisions will be published once the FTSE4Good Policy committee meeting concludes, since it plays the leading role within the FTSE4Good indices organisation.

The revision of the maximum weightings that are admitted by its value will be effectively accepted at the closure of the session on the 3rd Friday in March and September.

This index utilises the prices adjusted by corporate operations once the session on the 2nd Friday in March and September comes to its end. In addition, the application of maximum weightings will be based on the corresponding members, quantity of shares and floating ratios on the next day after the negotiation on the 3rd Friday each month.

5.2 Selection Criteria

FTSE4Good Ibex inclusion criteria represent those standards described as good practices relating to CSR, which are constantly evolving. The aforementioned criteria have been developed throughout a long and hard process, consisting in continuous inquiries into the market. In fact, a wide range of interest groups takes part in the selection criteria establishing process. Some of the most remarkable ones are: NGO, financial consultants, academics, government entities or investors and entrepreneurs among others.

The most important selection criteria are:

- Corporations belonging to FTSE Spain All Cap and IBEX 35 indices (provided that they meet the CSR criteria, which are clearly described in the document named *FTSE4Good Ibex index Inclusion Criteria*) will be selected as this index securities.
- Lower capitalisation stocks are evaluated through a specific method that is adapted to the FTSE4Good Ibex selection criteria. This is due to the fact that most of them are companies that have never been included in the index selection criteria before. The eligible corporations, which are not considered FTSE Spain All Cap medium or large capitalisation companies or do not belong to IBEX 35 rate, will be considered as small capitalisation stocks by the time of applying the selection criteria process on them. The main reason for this is that the majority of these corporations are still in their development processes in Spain.
- Lower capitalisation stocks, previously mentioned, must comply with all the stipulated environmental criteria. However, with the passage of time, they will have to meet all the other requirements.

- When new criteria are added into the FTSE4Good indices series, they will be gradually transferred into the FTSE4Good Ibex.
- On the other hand, areas like tobacco companies, arms companies or nuclear power plants owners will not be included in that selection.

5.3 Possible modifications on its components

The main reasons to include or exclude companies after the pertinent revisions might be:

- New companies added into the FTSE4Good index will be considered belonging to it only after the next biannual revision.
- When one of the FTSE4Good Ibex index's stocks rules out of the FTSE4Good indices series, it is automatically excluded from FTSE4Good Ibex.
- Likewise, if a stock is excluded from IBEX 35 index for a period of, at most, 2 years; then, they will be applied the selection criteria adjusted to FTSE4Good Ibex index (only if the mentioned stock still belongs to FTSE Spain All Cap index).

Company mergers and acquisitions

- When a firm not belonging to the index takes over one of the index's corporations, this will be automatically excluded from FTSE4Good Ibex and its values will disappear from it.
- If two companies pertaining to the index are merged or whether one of the index's firms acquires another one, the resultant corporation will be the one selected to be included within FTSE4Good Ibex.
- Partnerships resulting from the acquisition of a company belonging to the index by an external corporation will not be included into FTSE4Good ibex; except if the purchaser firm was one of the eligible companies in the last revision term. Then, it will be after the next biannual revision when that partnership will be added into the index or not.

Equity divisions or corporate splits

- Whenever one of the index's corporations conducts an equity division, that new company will be eligible to be included in the FTSE4Good Index, provided that it meets all the required criteria.

Suspension of negotiations

- When the suspension of negotiations on one of the index's stocks occurs, its price will be kept the same as when it has been suspended for 10 working days. During this term, FTSE will decide if its value will be deducted from the suspension price or from a price of zero.
- Corporations that have been excluded from the index due to suspension of negotiations and, afterwards, that suspension gets cancelled, they will be considered as eligible companies for the next biannual revision.

Modifications on FTSE4Good Index stocks estimations

- The necessary stock adjustments will be conducted on the same date that the index's calculation is carried out (just before the beginning of this process). However, if the market circumstances do not allow fulfilling those adjustments in that moment, they will be completed as soon as possible.
- The adjustments reflecting variations on the components' capital must be performed before the commencement of the session in which those adjustments will be effective. On the contrary, the adjustments declared after the index's calculation conclusion, will be executed on the following day.

Investors and companies from all over the world are getting more and more interested in the management of environmental and social matters. The fact that these issues have got a strong effect on companies' long-term success as well as on their competitiveness in the global market is becoming a reality. This trend is spreading

through the world's financial markets, since investors are trying to influence the corporations in their portfolios to improve their environmental and social policies.

FTSE is strongly committed to the eligible companies trying to meet the FTSE4Good Index inclusion criteria. As new criteria are established, FTSE communicates the index firms in order to inform and explain them about the new requirements. Next, there is a monitoring process via email, telephone and face-to-face meetings. Moreover, after the establishing of new criteria, companies already belonging to the index are given a period of time to fulfil them in order to remain in the index.

6. Comparison of FTSE4Good Ibex and IBEX35 profitability

The central issue in this part is the comparative analysis between the profitability obtained by FTSE4Good Ibex and IBEX35.

It is important to keep in mind that IBEX35 is the reference index in Spanish Stock Market. It was created on 14th January 1992 by BME (*Bolsas y Mercados Españoles*). It is composed of 35 companies, which have got the higher liquidity in the country and they are listed on the *SIBE* (Spanish Stock-market Interconnection System).

Diagram 5 contains the corporations belonging to both indices in 2020.

Diagram 5: FTSE4Good Ibex and IBEX35 companies

Compañía	FTSE4Good Ibex	IBEX 35
ArcelorMittal	X	
Acciona		X
Acerinox		X
ACS		X
Aena		X
Amadeus		X
Arcelormittal		X
Bankia		X
Bankinter	X	X
BBVA	X	X
BME	X	
Caixabank	X	X
Cellnex Telecom		X
CIE Automotive		X
Enagás	X	X
Ence	X	X
Endesa		X

Ercris	X	
FCC	X	
Ferrovial	X	X
Fluidra	X	X
Grifols		X
Iberia		X
Iberdrola	X	X
Inditex	X	X
Indra		X
INM.Colonial		
Mapfre	X	X
Masmovil Ibercom		X
Mediaset	X	X
Melia Hotels	X	X
Merlin Prop.		
Naturgy	X	X
OHL	X	
Promotora Informaciones SA	X	
Prosegur	X	
REE	X	X
Repsol	X	X
Sabadell	X	X
Santander	X	X
Siemens Gamesa	X	X
Telefonica	X	X
Viscofan		X

Source: own elaboration based on www.investing.com

As it can be observed, there are 19 firms present in both indices.

In order to obtain historical data related to FTSE4Good Ibex and IBEX35 a deep search in www.invertia.com has been carried out. The values used in this analysis are monthly data from a 10 years period (from 1st January 2009 to 31st December 2019). It is important to mention that both indices have got the same number of prices.

Diagram 6 shows the historical prices of both indices as well as their profitability.

Diagram 6: Historical prices and profitability 2009-2019.

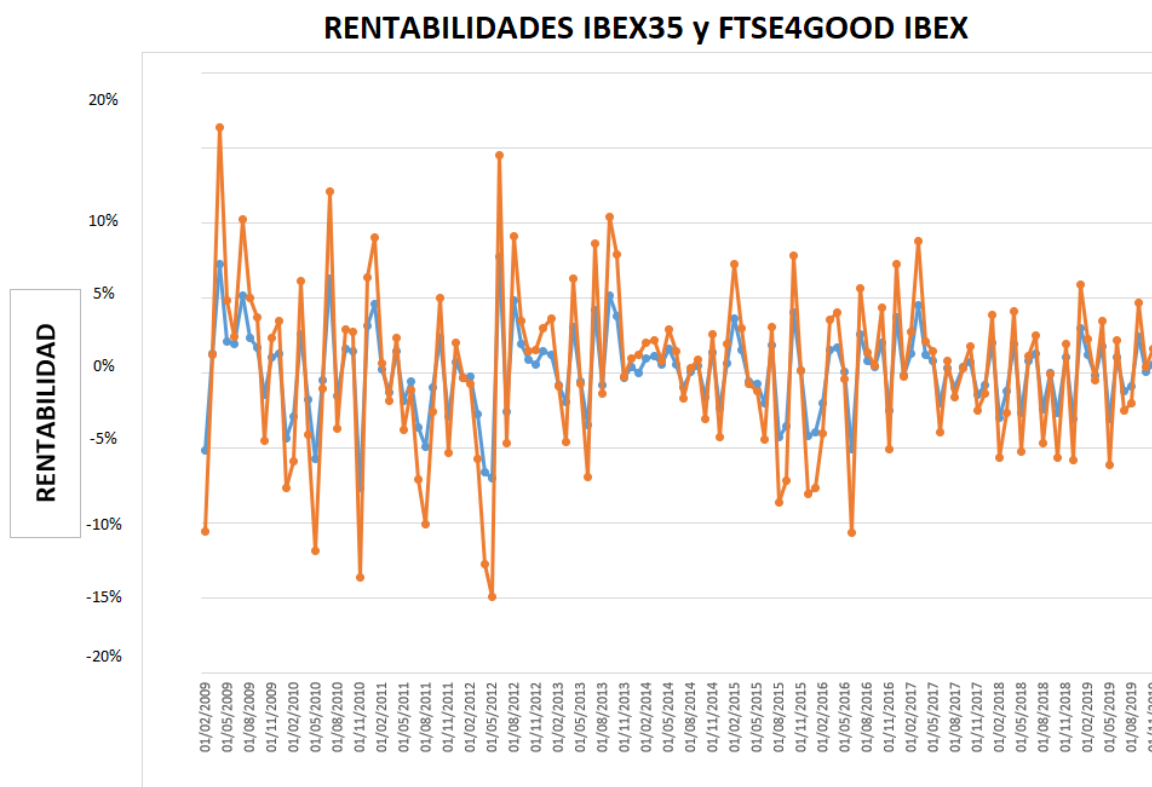
COTIZACIONES			RENTABILIDADES		
Fecha	IBEX 35	IBEXFG	Fecha	IBEX 35	IBEXFG
01/12/2019	9.549,20	9.791,00	01/12/2019	=+LN(C3/C4)	1,16%
01/11/2019	9.352,00	9.678,10	01/11/2019	LN(número)	2,13%
01/10/2019	9.257,50	9.474,50	01/10/2019	0,14%	0,70%
01/09/2019	9.244,60	9.408,80	01/09/2019	4,78%	4,46%
01/08/2019	8.812,90	8.998,00	01/08/2019	-1,78%	-2,32%
01/07/2019	8.971,00	9.209,40	01/07/2019	-2,51%	-2,60%
01/06/2019	9.198,80	9.452,10	01/06/2019	2,14%	2,13%
01/05/2019	9.004,20	9.252,70	01/05/2019	-6,10%	-6,22%
01/04/2019	9.570,60	9.846,70	01/04/2019	3,51%	3,34%
01/03/2019	9.240,30	9.523,00	01/03/2019	-0,40%	-0,62%
01/02/2019	9.277,70	9.581,80	01/02/2019	2,41%	2,06%
01/01/2019	9.056,70	9.386,50	01/01/2019	5,88%	5,84%
01/12/2018	8.539,90	8.853,70	01/12/2018	-6,10%	-5,52%
01/11/2018	9.077,20	9.356,60	01/11/2018	2,04%	1,72%
01/10/2018	8.893,50	9.197,00	01/10/2018	-5,42%	-5,95%
01/09/2018	9.389,20	9.761,00	01/09/2018	-0,11%	-0,10%
01/08/2018	9.399,10	9.770,50	01/08/2018	-4,90%	-4,56%
01/07/2018	9.870,70	10.226,60	01/07/2018	2,54%	2,44%
01/06/2018	9.622,70	9.980,10	01/06/2018	1,65%	0,64%
01/05/2018	9.465,50	9.916,00	01/05/2018	-5,30%	-5,18%
01/04/2018	9.980,60	10.443,60	01/04/2018	3,88%	4,38%
01/03/2018	9.600,40	9.996,50	01/03/2018	-2,47%	-2,86%
01/02/2018	9.840,30	10.286,70	01/02/2018	-6,03%	-5,32%
01/01/2018	10.451,50	10.848,40	01/01/2018	3,98%	3,77%
01/12/2017	10.043,90	10.447,30	01/12/2017	-1,65%	-1,19%
01/11/2017	10.211,00	10.572,40	01/11/2017	-3,01%	-2,06%
01/10/2017	10.523,50	10.792,60	01/10/2017	1,36%	2,07%
01/09/2017	10.381,50	10.571,00	01/09/2017	0,79%	-0,26%
01/08/2017	10.299,50	10.598,40	01/08/2017	-1,95%	-1,39%

Source: own elaboration

Once the historical prices were found out, the next step has been the indices historical profitability calculation. For this operation, the profitability has been calculated as the difference between the value log (t) and the value log (t-1) as it can be seen in Diagram 6.

Finally, the obtained results have been transferred into a line chart in order to draw the corresponding conclusions.

Chart 2: IBEX35 and FTSE4Good Ibx historical profitability



Source: own elaboration

At this point, it is important to understand that the orange line shows FTSE4Good Ibx trend, while the blue line expresses IBEX35 trend.

At first sight, it can be observed a great similarity between both indices' behaviour. It may be pointed out that, in that 10 years period, Spanish Stock Market suffered many noteworthy fluctuations.

After evaluating the correlation between both trends, it can be noticed that they have almost got a correlation of 1. Nevertheless, a high correlation does not mean that both indices evolution is exactly the same. For example: in a given moment, IBEX35 had a more positive behaviour, in respect of profitability. Meanwhile, there are certain points in which FTSE4Good Ibx profitability was higher. Nowadays, both indices profitability are very similar.

In any case, investing in the Spanish ethical index provide diversification advantages or benefits that investing in IBEX35 would not give. This may seem obvious since the stocks in both indices almost identical. In fact, two thirds of the companies belonging to FTSE4Good Ibx are also listed in IBEX35 index. That is the main reason of their profitability similarities.

Therefore, after observing these results, investors may wonder what are the actual advantages of FTSE4Good Ibex over IBEX35.

According to Dolores et al. (2018), ethical or socially responsible indices' *raison d'être* is the identification of companies that have certain moral principles, and also to ease ethically concerned investors' research on suitable corporations in line with their beliefs. However, it must be said that many studies argue that some firms in this kind of index do not act as ethical and socially responsible companies are supposed to do.

This research paper proposes that there is not a big difference within the corporations' selection of both indices. The main evidence for this statement is that the top 5 companies in FTSE4Good Ibex index (BBVA, Telefónica, Banco Santander, Repsol and Iberdrola) are also listed in IBEX35 Index. These five corporations' assessments set constitutes 40% of FTSE4Good ibex whole, while it signifies 45% of IBEX35 whole. This means that the value of the companies listed only in FTSE4Good ibex, and not in IBEX35, represent a very small percentage of the index.

Due to the aforementioned, the FTSE4Good is an indicator of the stock market behaviour of socially responsible companies in Spain that provides companies with a competitive advantage since being part of said index as a socially responsible company attract new flows of investors. Also, remember the obligation for some institutional investors to invest a percentage of their portfolio in shares of socially responsible companies.

7. Conclusion

Along this paper I have tried to develop a deep analysis of what Socially Responsible Investing is as well as its evolution in the world and in our country. After this process I have reached some conclusions.

First of all, it is important to remark that nowadays there is a great supply of SRI funds, which is making investors opting for socially responsible indices. The main reason for this fact is that it is becoming essential to get into the ISR market for the world's companies in general and for Spanish corporations in particular.

Secondly, socially responsible stock indices are really helpful for those investors looking for a responsible investment. Besides, the fact that belonging to this kind of indices provides companies with good reputation serves for improving the companies' responsible policies and behaviour. Therefore, working according to responsibility criteria provides benefits both for corporations and for the society. However, there are also some people who stand against this kind of stock market activity or the criteria used to proclaim a company as sustainable. These groups try to discredit SRI throughout continuous criticism.

Moreover, it is essential to increase and promote companies' ethical codes and social responsibility since they are already present in many firms' policies. It is important to be aware of the fact that SRI is a relatively new concept, so it can be improved with the passage of time and with the companies' experience. Nevertheless, it is spreading all over the world's economies and many companies are meeting most of the required criteria, which demonstrates that adopting SRI policies may make the difference.

Finally, I would like to mention that the comparison and contrast of FTSE4Good Ibex's profitability and IBEX35's profitability shows that there does not exist a great difference between both indices' profitability, because of the fact that many companies are listed in both indices. In spite of that, the trend is that more and more companies are becoming interested in belonging to SRI indices since it entails an improvement of their images as well as engaging new investors. Furthermore, we mustn't forget that some investment entities have to keep a certain percentage of their portfolios for shares on socially responsible corporations.

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