

Introduction to ESG

2023 NCOIL Spring Meeting

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Definition of ESG

ESG: Environmental, Social, and Governance

A lack of consensus when it comes to

- 1) Definition of ESG
- 2) Measurement of ESG

Motivations & context matter!

- Risk management practice
- Opportunities that create long-term value
- Social values - good business & economics

etc.

E in ESG

1. Examples of environmental factors: Climate change, GHG, waste, pollution, etc.
2. Top 3 risks (World Economic Forum, 2019)
 - Extreme weather events
 - Failure of climate-change mitigation and adaptation
 - Natural disasters

S in ESG

1. Covers a company's relations with its workforce, customers, and society.
2. Examples of social factors: Human rights, diversity, workforce, community relations, etc.

G in ESG

1. The system by which a firm is governed and controlled.
2. Examples of governance factors: board structure, executive pay, SH rights, etc.

History of Modern ESG

1. Origin

The UN (Kofi Anan, Secretary-General) 2004 report titled “Who Cares Wins” coined the term ESG

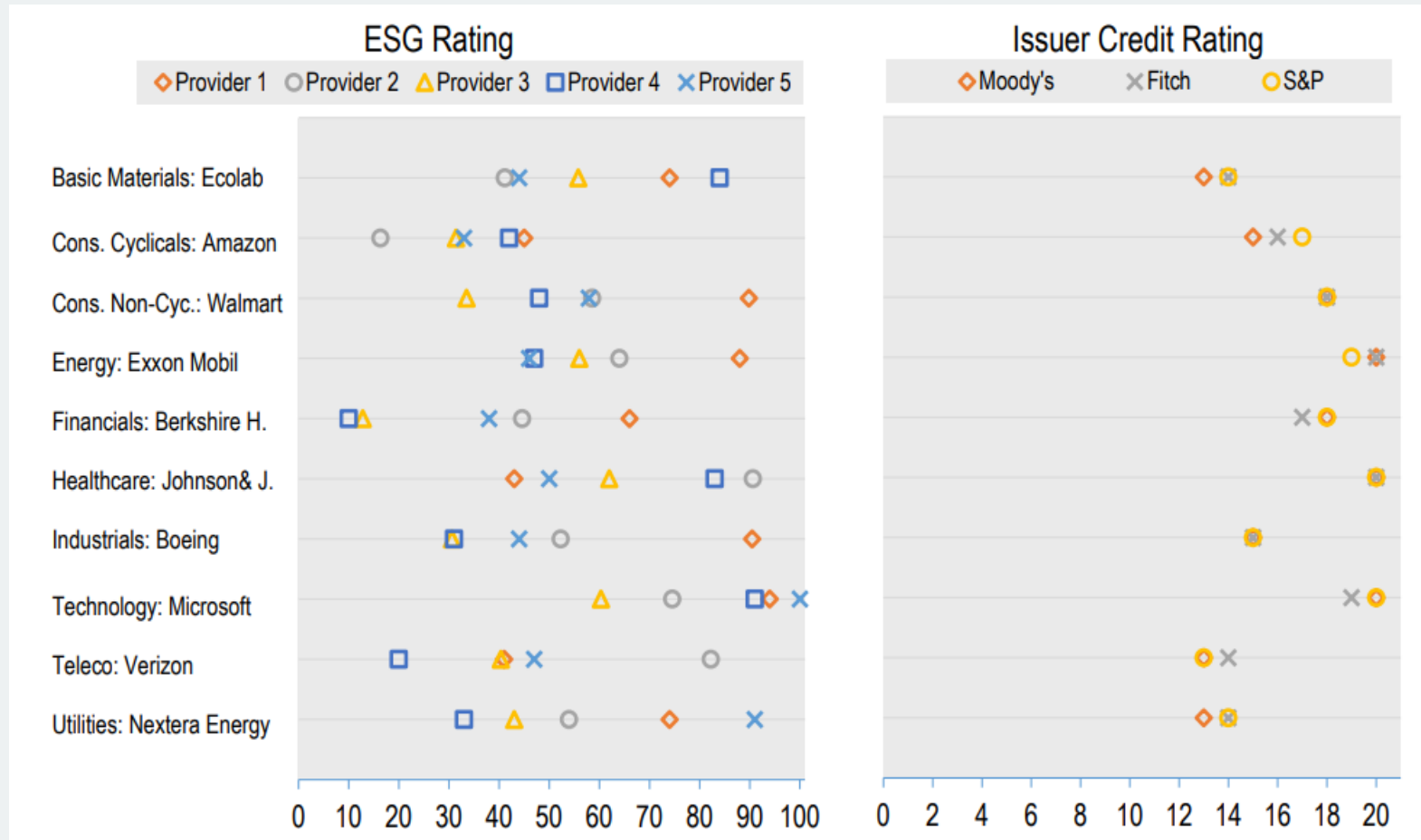
2. US Business Roundtable’s Statement on the Purpose of a Corporation (Aug 2019)

“commit to lead their companies for the benefits of *all* stakeholders—customers, employees, suppliers, communities and shareholders.”

→ Shift from shareholder capitalism to stakeholder capitalism

Issues on ESG Ratings

The Divergence of ESG Ratings (Reference: OECD.org)



ESG Investing

(Generally) Interchangeable with

≈ Impact Investing

≈ Sustainable Investing

≈ Socially Responsible Investing (SRI)

≈ Responsible Investing

≈ CSR Investing

≈ Green Investing

etc.

ESG Investing

ESG Investing Strategies:

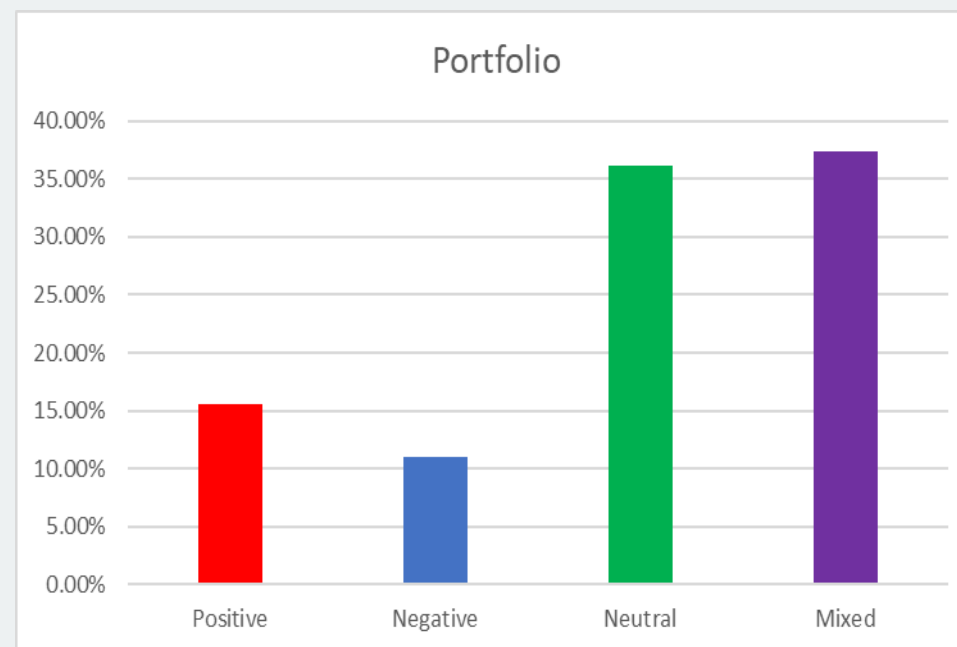
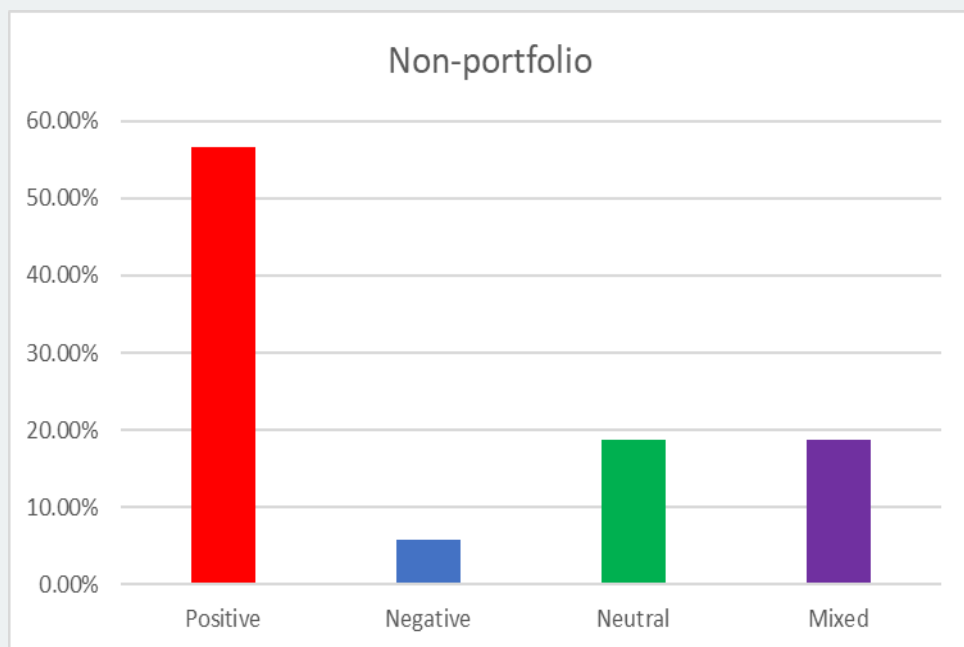
- Negative screening / Exclusion / Divestment
- Positive screening (tilt)
- Engagement (active ownership or stewardship)
- Integration
- Thematic investing

etc.

ESG & Financial Performance

Friede, Busch, and Bassen (2015)

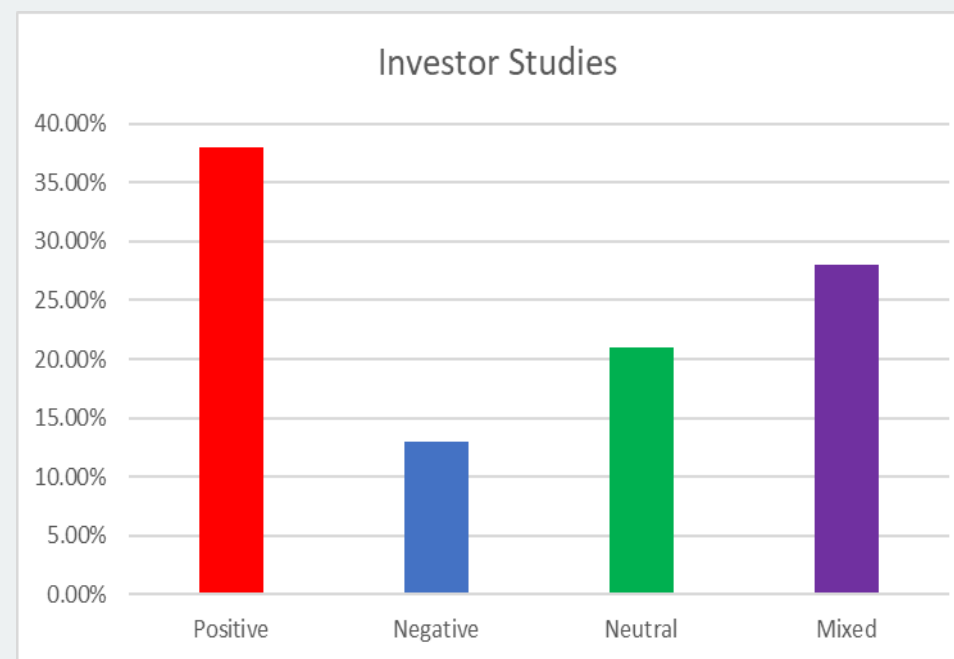
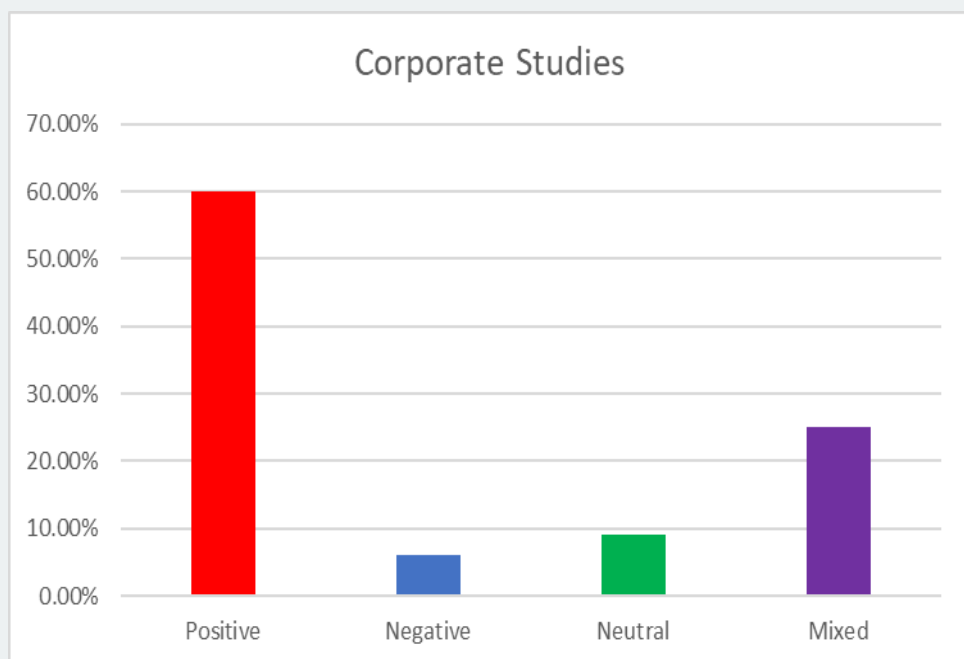
- Sample: 1970 - 2014
- + 2,200 Studies



ESG & Financial Performance

Atz, Holt, Liu, and Bruno (2022)

- Sample: 2015 – 2020
- + 1,100 Studies



Q&A

Thank you!

References

Laura Starks, Presidential Address at AFA (2023)

Laura Starks, Speech at SSE (2022)

Pedro Matos, ESG and Responsible Institutional Investing Around the World: A Critical Review (2020)