

## **Performance and Impact: Can ESG Equity Portfolios Generate Healthier Financial Returns?**

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Toby Heaps is the CEO and co-founder of Corporate Knights Inc. and publisher of Corporate Knights Magazine. He spearheaded the first global ranking of the world's 100 most sustainable corporations in 2005, and in 2007 coined the term "clean capitalism."

## **Abstract**

Investors have yet to aggressively integrate environmental, social, and governance (ESG) factors into portfolio construction due in part to concerns about data quality and availability along with uncertainty around how integration might affect returns. A chief obstacle to overcoming these concerns is the abundance of ESG indicators with a paucity of data-fill. In order to test the hypothesis that using ESG criteria for security selection need not be detrimental to returns, we review which ESG performance metrics are disclosed by a critical threshold of mid- and large-cap companies in relevant sectors. We then use this data to rate firms from the S&P 500. This information is used to construct ESG portfolios and test their performance against a market capitalization weighted benchmark. We then review how investors can reduce their investable universe by a random factor and still outperform the market capitalization weighted benchmark, using non-market capitalization weighting schemes. Finally, we field test this hypothesis with a live risk-weighted ESG portfolio and test its performance against a market capitalization weighted benchmark. The results demonstrate it is not necessary for an ESG factor to have predictive power over future security prices in order to be applied in a fiduciary compliant context.

With proper portfolio construction, investors can align their capital with their values, whether around ESG, gender, faith, or something else.

## **Introduction**

While an increasing number of investment managers are incorporating sustainability criteria into portfolio construction, most are not. The integration of environmental, social, and governance (ESG) data has challenged many portfolio managers for at least three, sometimes overlapping reasons. First, the data are incomplete and inaccurate, with diminishing corporate transparency in mid-cap and small public companies, as well as emerging and frontier markets. This data paucity, along with the reality that ESG data sources don't always agree on the underlying facts, has been an obstacle to adoption (Montiel et al., 2014). Second, while simple exclusionary values (screens) provide comfort to clients who wish to avoid sectors of the economy they abhor, some portfolio managers believe any reduction in an investable universe increases risk of benchmark underperformance, despite a large body of research that has found this not to be the case (Friede, Busch, and Bassen, 2015). Third, portfolio managers have varying views on materiality. Previous research (Khan, Serafeim, and Yoon, 2015) showed that companies with good ratings on material sustainability issues outperformed companies with bad ratings over long time frames. At the same time, companies with good ratings on immaterial sustainability issues did not outperform companies with bad ratings on these issues.

For portfolio managers focused on short-term returns, issues around data quality, availability, materiality, and diversification taken together have given ample reasons to avoid inclusion of ESG inputs. Despite these barriers, Amel-Zadeh and Serafeim (2017) find a growing number of investors who seek to use ESG inputs linked to financial performance.

In this paper we review ESG data that investors can use to group companies based on whether they align or do not align with a specific values-based preference. We then demonstrate how ESG factor integration is no better or worse than random security selection, which academic research has shown can lead to benchmark outperformance when combined with risk-efficient weighting. We then review a field test of this approach in the U.S. Equities (large-cap) market with a live product. The clear implication of this study extends beyond ESG, to a broader field of values-aligned investing.

## **State of the Data**

This paper reviews ESG data from four categories: raw, public data disclosed by companies; transparent thematic ratings from issue-focused nonprofits; revenue segmentation techniques to map the percent of revenues companies own from products or services that serve a green or sustainable development theme; and nascent big-data attempts that sift through online media mentions of companies.

## Raw Data Publicly Disclosed

While some of the major data providers, such as Bloomberg and Thomson Reuters, count over 400 ESG indicators, the vast majority of these are not reported by over 95% of mid- and large-cap companies, which limits their practical application. (It is worth noting that there are numerous initiatives to narrow down the ocean of ESG indicators and make a smaller, more relevant, and usable set. See World Federation of Exchanges, 2015; London Stock Exchange Group, 2017; SASB, 2015; Morgan Stanley, 2015.) In fact, for the 2014 performance year, we were only able to identify 24 indicators related to performance – not policy – that were reported on by at least 10% of mid- and large-cap companies as of December 31, 2016. Up to 20 of these indicators (depending on the industry) are included in the Corporate Citizenship Score used in this paper to split companies into values-aligned and non-aligned segments (see Table 1).<sup>1</sup>

**Table 1:** Corporate Citizenship Factors to Generate Company ESG Scores  
(based on percentile ranking compared to industry peers)

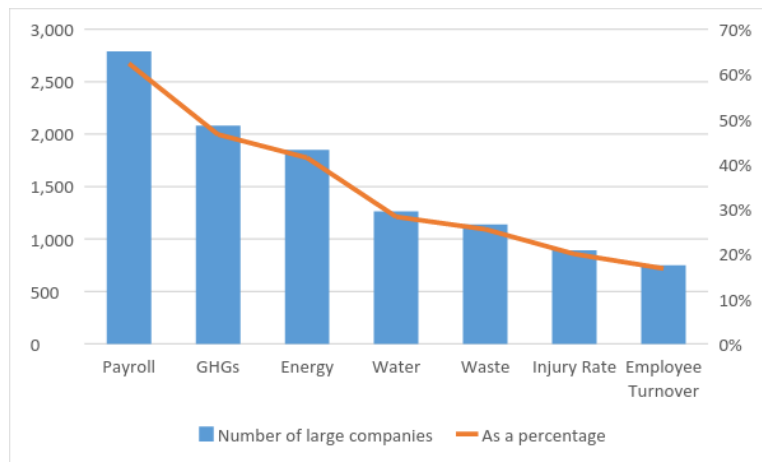
<b>Key Performance Indicators</b>	<b>Methodology</b>
<b>Energy Intensity</b>	Revenue (converted to USD using <b>PPP exchange rate</b> ) / (Energy use – <b>renewable energy use</b> )
<b>Carbon Intensity</b>	Revenue (converted to USD using <b>PPP exchange rate</b> ) / GHG emissions: scope 1 & 2
<b>Water Intensity</b>	Revenue (converted to USD using <b>PPP exchange rate</b> ) / Water use
<b>Waste Intensity</b>	Revenue (converted to USD using <b>PPP exchange rate</b> ) / Non-recycled or reused waste generated
<b>Innovation Capacity</b>	R&D expenses / revenue – three year trailing
<b>Percentage Tax Paid</b>	Cash tax amount paid / EBITDA – five year trailing
<b>CEO-Average Employee Pay</b>	CEO compensation / average employee compensation
<b>Pension Fund Status</b>	75% (total DB and DC employer contributions/ FTE employees percentile-ranked against peers) + 1/4 (fair value of DB plan assets/FTE employees percentile-ranked - (1-(fair value of DB plan assets/liability percentile-ranked))
<b>Safety Performance</b>	Fatalities and lost time incidents

<sup>1</sup> The four factors that met the 10% reporting threshold in at least one industry but are not included in our scoring are: certified palm oil as a percentage of total palm oil produced/used/processed; fleet average fuel efficiency; percent power asset financing for renewable energy; and total amount of corporate or group donations/community investments made to registered not-for-profit organizations.

<b>Employee Turnover</b>	Number of departures / average total employees
<b>Leadership Diversity</b>	Female representation on board of directors, executive management team, and existence of a female CEO
<b>Clean Capitalism Pay Link</b>	Mechanisms that link senior executive pay to clean capitalism targets
<b>Supplier score</b>	<ul style="list-style-type: none"> <li>▪ The company's largest supplier as determined by Bloomberg</li> <li>▪ Largest supplier will be scored using the same new methodology for the 2017 Global 100 minus the "Supplier score" KPI.</li> </ul>
<b>Clean Air Productivity score</b>	<ul style="list-style-type: none"> <li>▪ Revenue (converted to USD using PPP exchange rate) / VOC emissions (25%)</li> <li>▪ Revenue (converted to USD using PPP exchange rate) / Nox emissions (25%)</li> <li>▪ Revenue (converted to USD using PPP exchange rate) / Sox emissions (25%)</li> <li>▪ Revenue (converted to USD using PPP exchange rate) / Particulate matter emissions (25%)</li> </ul>

Of these 20 indicators, some have nearly 100% disclosure because they are part of regulatory disclosures – percent female board directors and cash taxes paid as percentage of EBITDA, for instance. The majority of the indicators, however, fall within the domain of voluntary disclosures. For the past five years, the annual State of Sustainability Disclosure Report published by Corporate Knights and Aviva has tracked mid- and large-cap company disclosure of seven indicators. These indicators achieve at least a 10% report rate for the majority of industries (Corporate Knights & Aviva, 2016). But as Figure 1 and Table 2 illustrate, with the exception of payroll, fewer than half of mid- and large-cap firms across most sectors voluntarily disclose information on these seven indicators.

**Figure 1:** The seven sustainability indicators: disclosure by mid- and large-cap companies and as a percentage of the total number of large companies (2014 performance year). Source: Corporate Knights and Aviva, 2016



**Table 2:** Disclosure rate by Global Industry Classification Standard (GICS) sector, 2014. Dark grey cells imply worst disclosure rates, light grey imply best disclosure rates. Source: Corporate Knights and Aviva 2016

GICS Sector	Energy	GHGs	Water	Waste	Employee turnover	Injury rate	Payroll
Consumer Discretionary	38%	46%	24%	22%	11%	13%	61%
Consumer Staples	52%	51%	34%	32%	18%	27%	70%
Energy	37%	44%	33%	26%	20%	30%	44%
Financials	35%	30%	22%	19%	17%	12%	64%
Health Care	40%	31%	28%	26%	11%	20%	55%
Industrials	46%	52%	31%	28%	15%	23%	74%
Information Technology	38%	45%	22%	22%	12%	13%	46%
Materials	56%	57%	46%	42%	26%	40%	70%
Telecommunication Services	52%	55%	29%	30%	34%	29%	80%
Utilities	44%	51%	39%	32%	25%	27%	66%

Despite limited disclosure rates for any particular performance indicator, it is still possible to design a rules-based rating system rooted in these indicators that identifies which companies are lagging and which are leading; this scoring also takes into account firm size and industry type. In this paper, our Corporate Citizenship Score awards a zero to firms that do not disclose relevant indicators.

### ***Thematic Ratings by Issue-focused Nonprofits***

Complementing the raw indicators publicly disclosed by companies is an emerging ecosystem of transparent, thematic ratings produced by issue-focused nonprofits. In addition to Just Capital (2017), which rates 1,000 American companies on a range of indicators intended to reflect American values, we identified 12 nonprofit efforts to rate companies on a particular theme. Each of these ratings uses a replicable methodology. The ratings range from how well pharmaceutical companies are providing access to medicine in developing countries to percent of capital expenditure on projects that are likely to be stranded assets in a world that adheres to the commitments of the Paris Accord. (See Table 3 for a detailed description of each rating.)

**Table 3: Nonprofit Thematic Ratings**

Ranking Topic	Ranking Source and Details
Access to Medicine score	The Index analyzes 20 of the world’s largest research-based pharmaceutical companies on how they make medicines, vaccines, and diagnostics more accessible in low- and middle-income countries.
Access To Nutrition Score	<p>The Access to Nutrition Index (ATNI) is founded on the premise that food &amp; beverage manufacturers can greatly contribute to addressing poor nutrition and related diseases. By assessing and ranking the world’s largest manufacturers on their nutrition-related commitments, practices, and performance globally, ATNI aims to encourage companies to:</p> <p>Increase consumer access to nutritious and affordable foods and beverages through actions related to product formulation, pricing, and distribution; and</p> <p>Responsibly exercise their influence on consumer choice and behavior through actions in areas such as marketing, labeling and promoting healthy diets, and active lifestyles.</p>
Animal Welfare	The Business Benchmark for Animal Welfare assesses how the world’s leading food companies are managing risks and opportunities associated with farm animal welfare. It has established itself as a catalyst for influencing change in corporate practices on animal welfare management and reporting.
Percent of Upstream Capex Outside 2-degree Celsius budget (% band)	This new analysis provides a way of understanding whether the supply options of the largest publicly traded oil and gas producers are aligned with demand levels consistent with a 2-degree Celsius (2D) carbon budget. By allocating the carbon budget to potential oil and gas projects using the economic logic of a carbon supply cost curve, it is possible to identify which companies have the highest exposure to potential capital expenditure (capex) to 2025. This report provides a snapshot of the potentially unneeded capex spend for 69 global oil and gas companies, highlighting for the first time the wide-ranging degree of exposure amongst companies in the sector.
Corporate Human Rights Benchmark	The Benchmark ranks 98 of the world's largest publicly traded companies, from three at-risk sectors, on human rights performance.
Forest 500	The Forest 500 is the world’s first rainforest rating agency. It identifies and ranks the most influential companies, financial institutions, and governments in the race towards a deforestation-free global economy. By objectively identifying and ranking the 500 powerbrokers that have large-scale influence



	<p>over forest risk commodity supply chains, the Forest 500 holds companies, financial institutions, and governments accountable for their actions. The results and insights from the Forest 500 indicate shortcomings and gaps in powerbrokers' commitments, highlighting where greater action is required to achieve overarching deforestation commitments. Specifically, the Forest 500 assesses 250 companies, 150 investors and lenders, 50 jurisdictions, and 50 other powerbrokers, each selected based on their exposure to forest risk commodity supply chains.</p>
Sustainable Fishing	<p>The "Carting Away the Oceans" report evaluates and ranks major grocery stores on their commitments to sustainable seafood.</p>
Human Rights Campaign (Equality)	<p>Human Rights Campaign Foundation's 2017 Corporate Equality Index is the national benchmarking tool on corporate policies and practices pertinent to lesbian, gay, bisexual, and transgender employees.</p>
InfluenceMap Performance	<p>The rankings measure how a corporation or trade association behaves towards 2-degree Celsius aligned climate and energy policies. For corporations, the score (from A to F) can be viewed as an indicator of readiness for a transition to low-carbon policy globally.</p>
KnowTheChain	<p>In 2016, KnowTheChain benchmarked 60 large global companies on their efforts to address forced labor and human trafficking in their supply chains. Companies came from three sectors: information &amp; technology communication, food &amp; beverage, and apparel &amp; footwear.</p>
Sustainable Cotton	<p>Rank a Brand scored company performance across three areas: policy, sourcing and use, and traceability. Most points were available for sourcing and use with companies assessed according to volumes used from Better Cotton, Cotton made in Africa, Organic, and Fairtrade – the four standards judged to be sustainable for this research.</p>
Sustainable Palm oil	<p>WWF Palm Oil Buyer Score Card evaluates major retailers, consumer goods manufacturers, and food service companies from the US, Canada, Europe, Australia, Japan, and India to see what percent of their palm oil is sourced sustainably.</p>

The advantage of these ratings is that credible actors present them using transparent methodologies endorsed by institutional investors. The coverage is not universal, nor is it intended to be; rather, these thematic ratings focus on the biggest, most relevant companies. While these ratings do not help ESG-oriented investors determine the suitability of unrated smaller companies in a relevant sector, they can be used with some confidence to identify the relative merit of rated large actors.

### ***Revenue-exposure Ratings***

For most large, publicly traded equities, there are private databases that offer revenue exposure (by percentage) to climate-related or sustainable development goals. These databases include but are not limited to Bloomberg's New Energy Revenue Exposure field, MSCI's green revenue metrics and SDG revenue metrics, and FTSE-Russell's Environmental Markets and Low Carbon Economy database. A related product is the oekom Sustainability Solutions Assessment, which documents the extent to which companies further or hinder the attainment of the UN Sustainable Development Goals, or individual sustainability topics, through their products and services.

In addition to these private ratings, investors can also invent their own or use non-proprietary taxonomies for sustainable development or clean energy themes. These can be matched to segmented revenue databases like Factset Revere, Thomson Reuters, or Bloomberg to generate thematic revenue exposure scores.

### ***Big Data***

Big data offers the promise of factoring in real-time ESG information, which none of the above sources can do. We reviewed three notable efforts on this front represented by RepRisk, Arabesque S-Ray, and TruValue. RepRisk synthesizes data from media, stakeholders, and other public sources external to the company to produce daily data feeds on a range of themes and specific to one company. Arabesque S-Ray combines over 200 ESG metrics with news signals from over 50,000 sources across 15 languages to rate companies on human rights, labor rights, the environment, and anti-corruption. They also provide an industry-specific assessment of companies' performance on financially material sustainability criteria. TruValue's Insight360 data feed provides investors with daily updates and analyses on ESG-related issues for select public companies and industries.

We find the approaches used by RepRisk, Arabesque S-Ray, and TruValue to be a useful first-cut to help investors identify where companies sit on a particular set of values, but independent human review is still advisable before acting on these signals. Over time, advances in artificial intelligence and machine learning may obviate this need. Until then,

the challenges of issues related to discerning credible news from “fake news,” detecting sponsored content, or parsing a product or company’s incidental or direct relevance to a mention on the Internet inhibit the reliability of these feeds.

In this section we have reviewed four types of data sources: raw data reported by companies, thematic ratings by non-profits, revenue exposure, and real-time ratings powered by big data scrubbed from the internet.

For the purpose of this paper we used elements of the first three data types to split 500 U.S. large-cap firms into an ESG aligned list and an ESG non-aligned list. The client mandate in this instance was to avoid companies that derive revenue from tobacco (>5 percent), thermal coal (>30 percent), and weapons (>50%). The mandate also stipulated inclusion of best-in-class and exclusion of worst-in-class firms. A worst-in-class company from one of the nonprofit thematic ratings (see Table 3) was automatically classified as non-aligned. The remaining securities – generally more than 90% of the starting universe – were scored on three equally weighted factors: percent female board directors, overall corporate citizenship score (see Table 1), and percent exposure to new energy sources (BNEF New Energy Exposure). The companies with composite scores in the top half remained eligible for the portfolio.

After ESG scoring was complete, ~200 of the original SP500 remained eligible for inclusion.

### **A Theory on Why ESG Factors Aren’t Prejudicial to Performance**

A combination of ESG indicators can be used to create a scoring function,  $S$ , as long as the function results in an ordered set of stocks and the top  $N$  can be retained. Most investors would be fearful of doing this as it is akin to a random selection of securities from the portfolio. However, Arnott et al. (2013) show that a series of equally weighted random portfolios of 30 stocks (sampled from the benchmark) outperform the same cap-weighted benchmark over a 40-year period. The implication for investment managers is that buying firms assigned any ESG metric – a lower carbon footprint, for instance – can be done in a fiduciary-compliant manner provided the weights are chosen to maximize some risk-to-return goal. For factors assumed to influence security prices, Amenc, Goltz, and Lodh (2012) create reduced-universe portfolios based on variables such as market cap. These portfolios achieve a superior result compared to the market capitalization weighted benchmark in all cases except one: high volatility stocks weighted to reduce portfolio volatility. By using a risk-to-return weighting scheme these techniques result in greater risk-adjusted performance relative to the market capitalization weighted benchmark – findings that were borne out by Balkissoon and Heaps (2014) when using carbon efficiency scores to create carbon-reduced portfolios. Amenc and Shirbini (2012) show how market

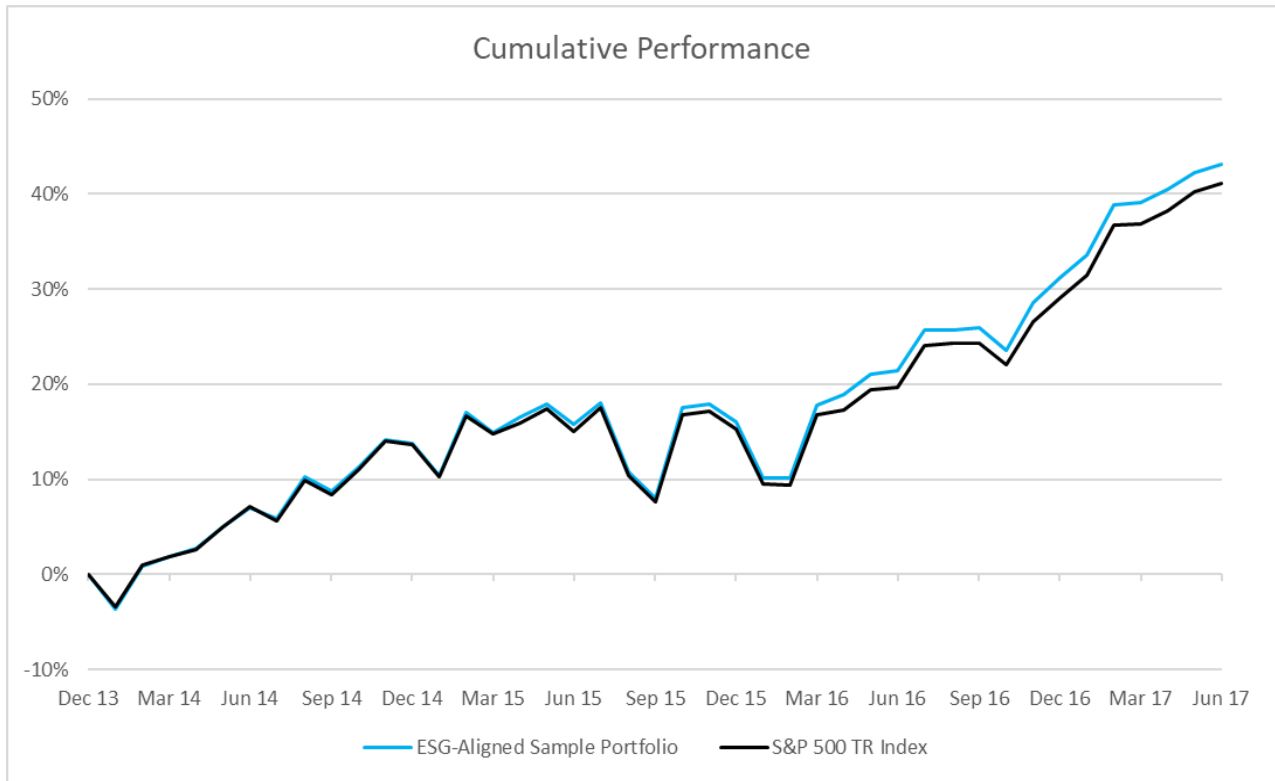
capitalization inefficiencies are compounded in a reduced investable universe (ESG screens), which furthers the case for weighting in an ESG-reduced universe.

Expanding beyond carbon-reduced portfolios, we analyzed the impact on portfolio performance of ESG factors representing good corporate citizenship. Good corporate citizens are companies that score in the top half on the composite of metrics outlined in Table 1. These companies are considered ESG-aligned.

In order to determine the value of a broad portfolio of ESG-aligned companies, we analyzed the members of the S&P 500 Index. For each consecutive January 1<sup>st</sup> starting in 2014, the holdings of the index were divided into ESG-aligned and non-aligned companies. We readjusted the percentage of the basket after eliminating the non-aligned firms, yielding a new weight to reflect the percentage share within the ESG-aligned group. This sample portfolio is rebalanced each January 1<sup>st</sup> and the constituent holdings drift in weight between these rebalances. The performance of the sample portfolio would likely improve with quarterly rebalancing.

The sample portfolio provides a remarkably similar return and risk profile to the S&P 500 TR Index (SP500TR). Although the sample portfolio outperformed from January 1, 2014 through June 30, 2017, the annualized amount was minimal, at 0.46%. The sample portfolio and the SP500TR are correlated 0.9982 and the tracking error was small, at 0.65%.

**Figure 2:** Cumulative performance of ESG-aligned sample portfolio compared to S&P 500 TR Index.

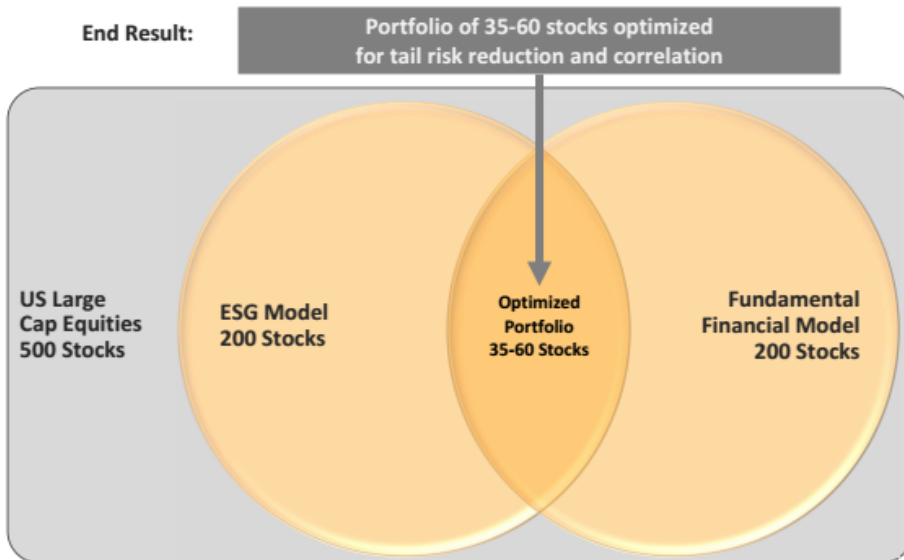


Further, the distribution of returns of the sample portfolio was quite similar to that of the SP500TR. The skewness of the sample portfolio for the period was 0.1653 and the SP500TR was 0.1338. The kurtosis of the sample portfolio for the period was 3.535 and the SP500TR was 3.364. The closeness of the two distributions shows that the sample portfolio exhibits extremely similar risk profiles. These analyses clearly demonstrate how splitting a portfolio based on ESG factors is akin to random selection.

### Putting the Theory into Practice

When deploying this technique, given a preference or scoring function,  $S$ , any series of ESG indicators with coverage for the variables of interest can be used as long as that function can create an ordered set of securities. With an ordered set of securities we can cut a benchmark in half, effectively randomly sampling the securities that are preferred by the investor. We then intersect this set with securities from a predictive model based on standard fundamental ratios. Finally, we optimize this set to maximize diversification and reduce tail risk as shown in Figure 3.

**Figure 3:** Optimization Venn Diagram of ESG Integration.  
Source: Stance Capital, 2017

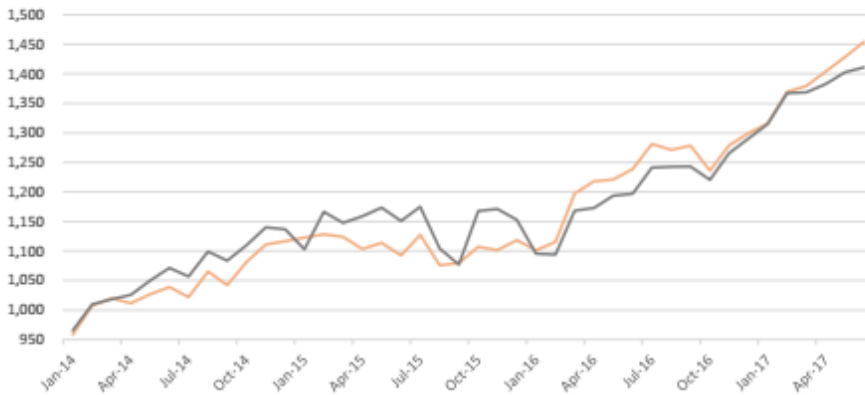


This process allows us to switch out any ESG screen or model and intersect with any source of alpha, edge, or manager edge, similar to the way value managers or fundamental managers have their picks. The only requirement is that the manager has sufficient breadth in his edge and can identify a large enough candidate pool.

**Figure 4:** Investment Performance of ESG+Fundamentals+Efficient Weighting vs. Benchmark. Source: Stance Capital, 2017

		Last 3 months	YTD	Last 1 year	Last 2 years	Last 3 years	ITD
	Stance Equity (Net)	5.44%	11.91%	17.37%	33.09%	40.01%	45.42%
	S&P 500 TR	3.09%	9.34%	17.90%	22.60%	31.70%	41.10%

**INVESTMENT PERFORMANCE (as of 6/30/2017)**



As shown in Figure 4 and Table 4, our cumulative performance net of fees has been better than benchmark SP500TR. However, given our lower level of risk, this product offers superior risk-adjusted performance when compared to the benchmark.

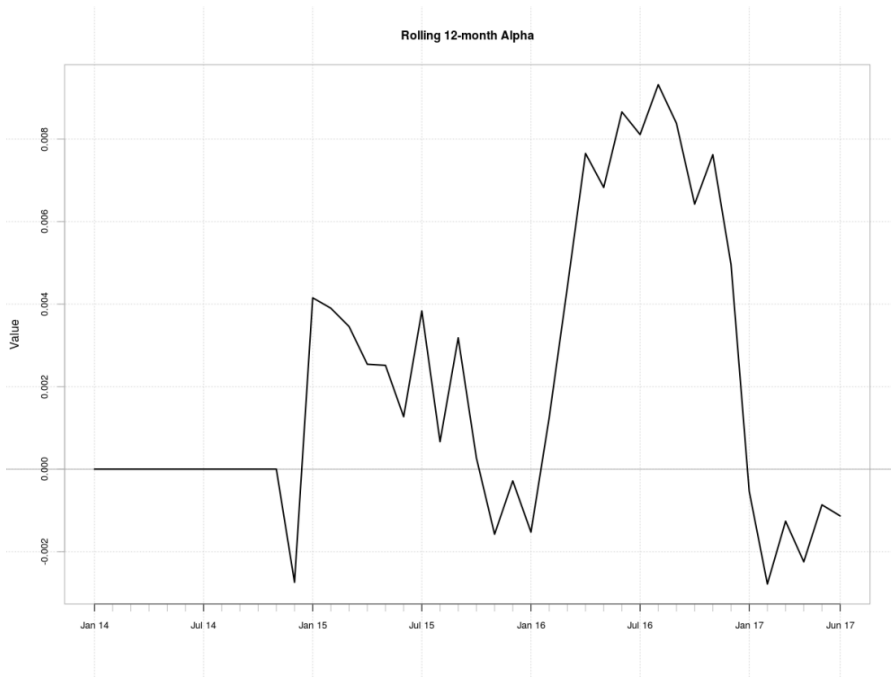
**Table 4:** Investment Performance of ESG+Fundamentals+Efficient Weighting vs. Benchmark. Source: Stance Capital, 2017

	Stance Equity	S7P 500 TR
Cumulative Return	45.42%	41.10%
Annualized Return	11.29%	10.34%
Standard Deviation	8.37%	10.10%
Sharpe	1.35	1.02
Alpha	4.51%	0.00%
Beta	0.64	1.00
Treynor	17.57%	10.34%
Max Drawdown	4.61%	8.36%
Up Capture	81.7%	100.00%
Down Capture	51.22%	100.00%
R-Squared Adjusted	59.23%	100.00%
Correlation	0.78	1.00
Downside Deviation	2.37%	2.83%
Value at Risk	-2.99%	-3.74%
Sortino	72.91%	54.89%

Looking at the rolling alpha in Table 4 – single factor vs. the SP500 – we see how the product generates positive alpha in most periods net of fees.

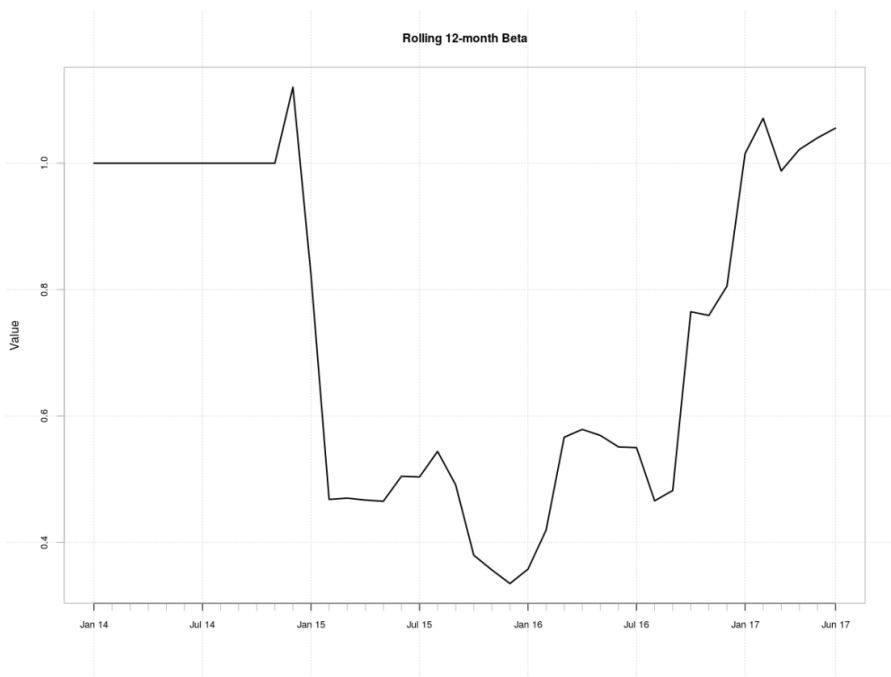


**Figure 5:** Monthly alpha of the portfolio vs. the benchmark S&P500



Looking at the rolling beta in Figure 6 – single factor vs. the SP500 – the ESG portfolio has run a lower beta for most of the period.

**Figure 6:** Rolling 12 Month Beta of the portfolio relative to the S&P 500



Finally, we perform Fama-French Regression in order to identify if our outperformance is due to manager skill or some other factor (Table 5).

**Table 5:** Fama-French Regression of the portfolio vs. the Fama-French Factors

	Estimate	Std. Error	t value	Pr(> t )
(Intercept)	0.0049690906	0.0025231995	1.9693609836	0.0562343451
Mkt.RF	0.0060868267	0.0008425365	7.2244068435	1.22482436163804 E-008
SMB	0.0002779498	0.0010044042	0.276731006	0.7834863845
HML	-0.0010309457	0.0009493289	-1.0859731058	0.284332129

We see that the alpha is significant at the 10% level and the most significant factor in explaining our returns is the market risk premium; firm-size premium and value factors are not useful.

We see an alpha that is slightly significant at 10%, which may be an artifact of our low sample size or potential over-fit from the other two factors, firm-size premium and value premium. However our single-factor alpha is significant at the 5 percent level. We have back tested portfolios using gender diversity, carbon, water, and, as long as the weighting is optimized using non-market capitalization schemes, investors can expect outperformance in the long-term.

## Conclusion

With over 1,750 signatories from 50 countries representing \$70 trillion aligned around the Principles for Responsible Investment, ESG investment portfolios are on the rise and likely here to stay. That said, considering the scope and scale of ESG, it is surprising that its value appears to be both misunderstood and poorly positioned. Our view is that good ESG behavior (around material issues) is a proxy for good management – that is all. Other variables (including cost) being equal, most investors would rather invest in a well-managed company, as doing so will likely mitigate future tail risk and further position the investment for long-term out-performance.

But portfolio managers are largely incentivized (compensated) for near-term results, and, given it's not clear that ESG considerations will provide an immediate performance edge,

managers that don't buy into the benefits of ESG are not being penalized for their point of view. Nor do they fully understand the potential of ESG.

The ESG screen and split-field test presented in this paper demonstrates the ability to generate compelling risk-adjusted and absolute outperformance using ESG criteria. Given the limited role ESG selection criteria has played in the performance of our use case, we were able to model similar risk-adjusted and absolute benchmark outperformance across a range of values-based strategies. These include: gender, faith, and low carbon. As long as ESG criteria mimics random security selection, ESG factors can be used to split an investable universe, which can be expected to outperform the benchmark when combined with fundamental value screens and risk-efficient weighting.

This is a powerful result as it allows portfolio managers to create portfolios that take into account the preferences of their clients while also being able to generate excess after-fee returns. These results imply that if investment managers can provide non-financial utility in the form of better ESG impact for their clients, ESG investing is no longer a question of "why," but "why not."

This study adds to the growing body of work around the value of ESG integration. Specifically, we demonstrate the potential for ESG outperformance while placing ESG factor integration within the context of its utility: the ability to align capital with values without sacrificing performance. Values, importantly, need not be limited to ESG, but can include any ethical preferences.

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