

The Editor's word

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Special Issue of the *Journal of Environmental Investing*, State of ESG Data and Metrics

It is with great pride that we bring you this issue of the Journal of Environmental Investing, looking for the first time at the **State of ESG Data and Metrics**, marking our 8th year of publication, and hosted for the first time by two leading academics at Yale, Professors Dan Esty and Todd Cort.

My own journey to sustainable investing took me from earlier careers in technology and what is now mostly referred to as big data (we built the original global institutional ownership data one now sees on Bloomberg terminals), towards an eventual goal of 'let's take this ownership data on global institutional ownership and add environmental or social metrics' to see how mutual funds were doing on a comparative basis. This brought me into the formation of the PRI process in 2005, and eventually into the Carbon Tracker Initiative and Trucost, both of which had interest in versions of this concept of mutual fund performance (now moving forward as Real Impact Tracker).

However, as we have seen, and can see in this issue of the JEI, the existing ESG Data has strengths and weaknesses.

While I was truly thrilled to see the 2016 launch of the Morningstar Globe system of mutual funds being ranked for the first time on their ESG performance, when Parnassus Endeavor only received 3 out of 5 Globes on launch (and is still at 3 Globes as of this writing), and understanding that fund's significant financial outperformance using value investment strategies, the flaws in simple applications of ESG data were exposed for all to see. It is also a question as to whether an ESG data shop such as Sustainalytics, now owned 40% by Morningstar (or MSCI or Trucost or anyone else who derives their revenue from investors for that matter) would ever want to be seen as critics of their customers. That is just one of the flaws I have seen being embedded in the world of ESG data.

In fact, one would like to suggest we've had the entire ESG data system exactly backwards.

Instead of building ESG databases and then trying to figure out how to use them, let's instead:

- 1. figure out what outcomes do we seek, then**
- 2. pinpoint the strategies we need to deploy, and finally,**
- 3. determine what data we need to see how we are doing**

This way, ESG data can be useful, and I think the most important word I can offer is just that – **useful**.

Data is either useful, or it isn't, and if thought of as information that tells us what else we might need to do differently, then it couldn't be more important. I'm less convinced myself in the word "materiality," which is more loaded and baked in with existing SEC definitions and interpretations which can be local or regionally as opposed to globally relevant.

And all this is why I am truly thrilled and honored to be helping bring you this issue of the Journal of Environmental Investing. We are attempting to bring you just this sort of three-step decision tree described above, with specific use cases demonstrating when ESG data has been useful (and am also thrilled to be co-teaching Sustainable Finance at the Yale School of Management for the first time with Todd Cort, diving into just such questions as well).

Here you will find use cases, such as on satellites and how to use them to derive better ESG data and invest accordingly as well as on machine learning and ESG. A number of papers are also provided on specific alpha strategies, on green bonds and financial performance, on the future of indices and a number of other specific corporate and investor use case perspectives.

Sustainable Investing remains a nascent field of sorts, but now every fund manager needs to be in this game. The race is on to develop the best investment processes and in this age of increasing transparency, investors need to be thorough, and understand where data specifically helps them.

With corporations continuing to see a "wild west" of ESG data requests, and no sign that policy makers have straightened this situation out, we hope to have started an important conversation on just this area of use cases and ESG data utility in this issue of the journal.