

WHY ESG MATTERS - AND HOW TO IMPLEMENT IT

Panel discussion

Milano, 8 November 2018

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MSCI ESG RATING METHODOLOGY



EVALUATE CORPORATE
GOVERNANCE



IDENTIFY KEY ISSUES BY
INDUSTRY



SCORE KEY ISSUES
(0-10)



FINAL ESG RATINGS
(AAA-CCC)

Analysis begins with a **deep governance assessment**

Ownership, Board, Pay, Accounting,
Corporate Behavior

Focus on **most relevant ESG factors** by industry

Quantitative Approach +
Annual Consultation

Focus on **risk exposure** not just
disclosure

Scoring Models Assess Risk Exposure
+ Risk Management

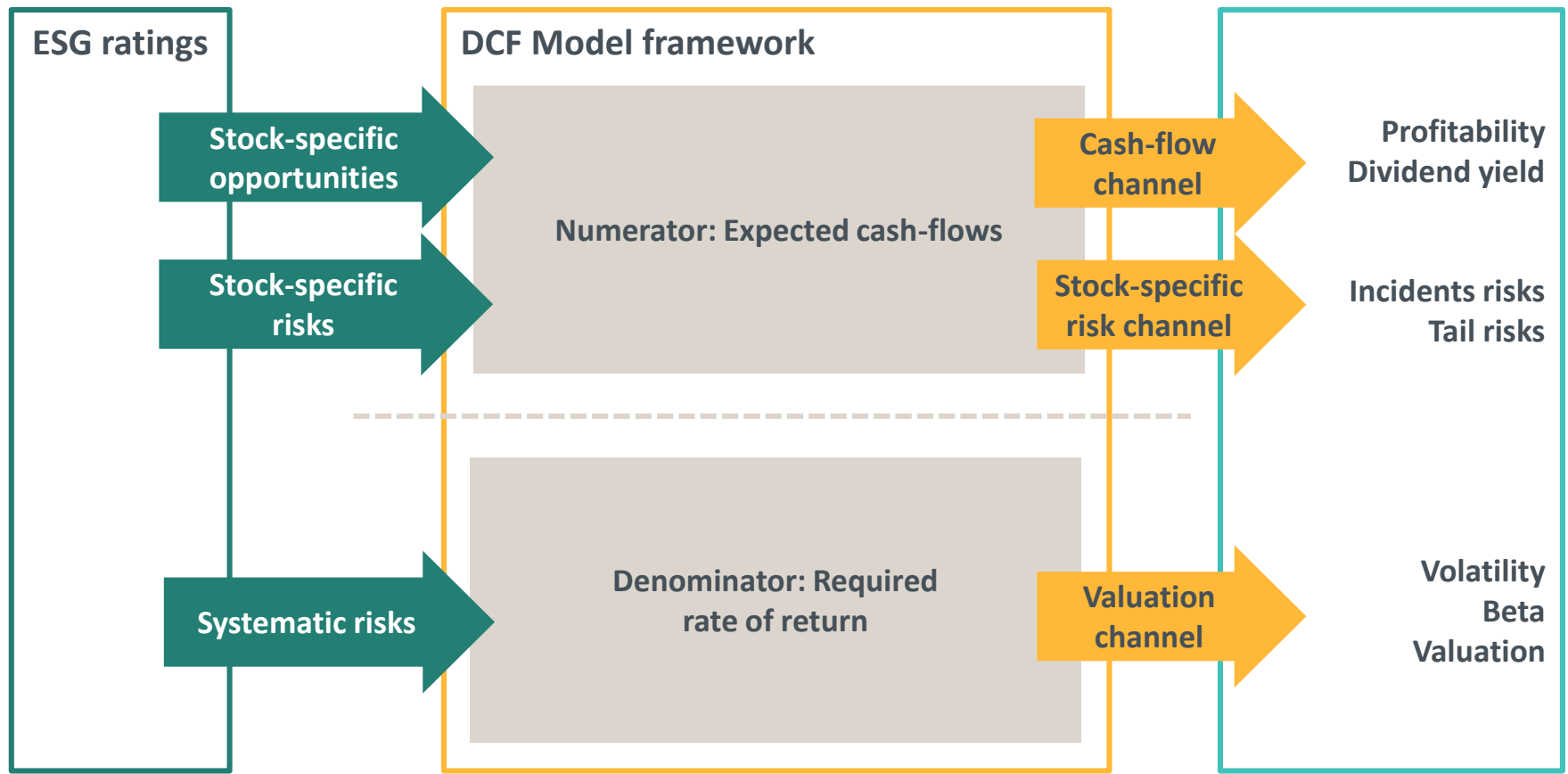
Identify **leaders and laggards**, not business
type exclusion

Industry-Relative
ESG Ratings (AAA-CCC)



TESTING THE FINANCIAL VALUE OF MSCI ESG RATINGS

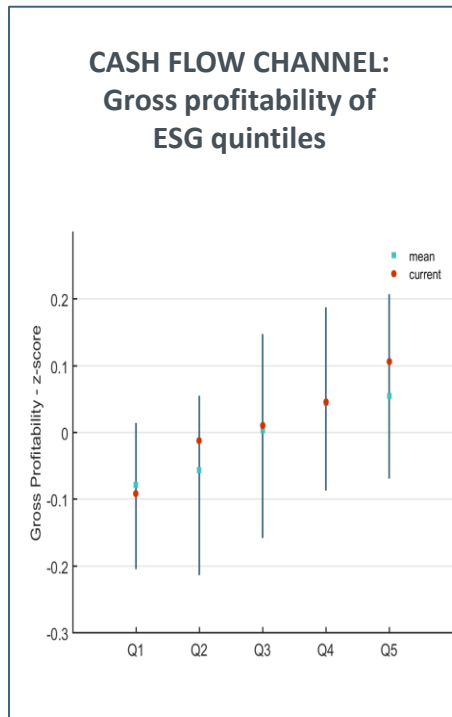
Understand channels from ESG to financial values



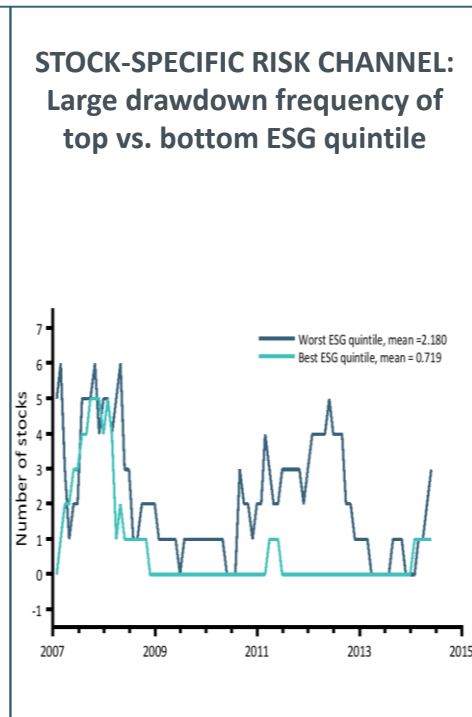
THE FINANCIAL VALUE OF MSCI ESG RATINGS

We identified three transmission channels from ESG to financial value. During the study period (MSCI World universe, January 2007 – May 2017) higher ESG profile was associated with:

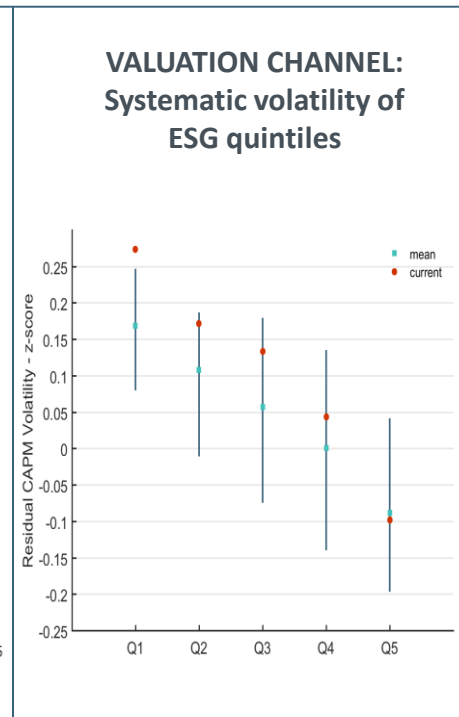
1. Higher profitability



2. Lower tail risk



3. Lower systematic risk



SELECTED INCIDENTS AND PERFORMANCE IMPACT

Firm	Benchmark	Incident date	1 year active performance after incident	Weight in benchmark (% , as of incident date)
BP	MSCI World	April 1, 2010	0.31%	0.80
VW	MSCI World	September 21, 2015	0.02%	0.09
Equifax	MSCI World	September 11, 2017	0.01%	0.04
Petrobras	MSCI ACWI	May 27, 2014	0.09%	0.15
Petrobras	MSCI EM	May 27, 2014	0.73%	1.39
Wells Fargo	MSCI World	September 12, 2016	0.07%	0.71
Facebook	MSCI World	March 17, 2018	0.10%	1.08

TESTING CAUSALITY: ESG MOMENTUM

From the static relationship



We derive the dynamic relationship

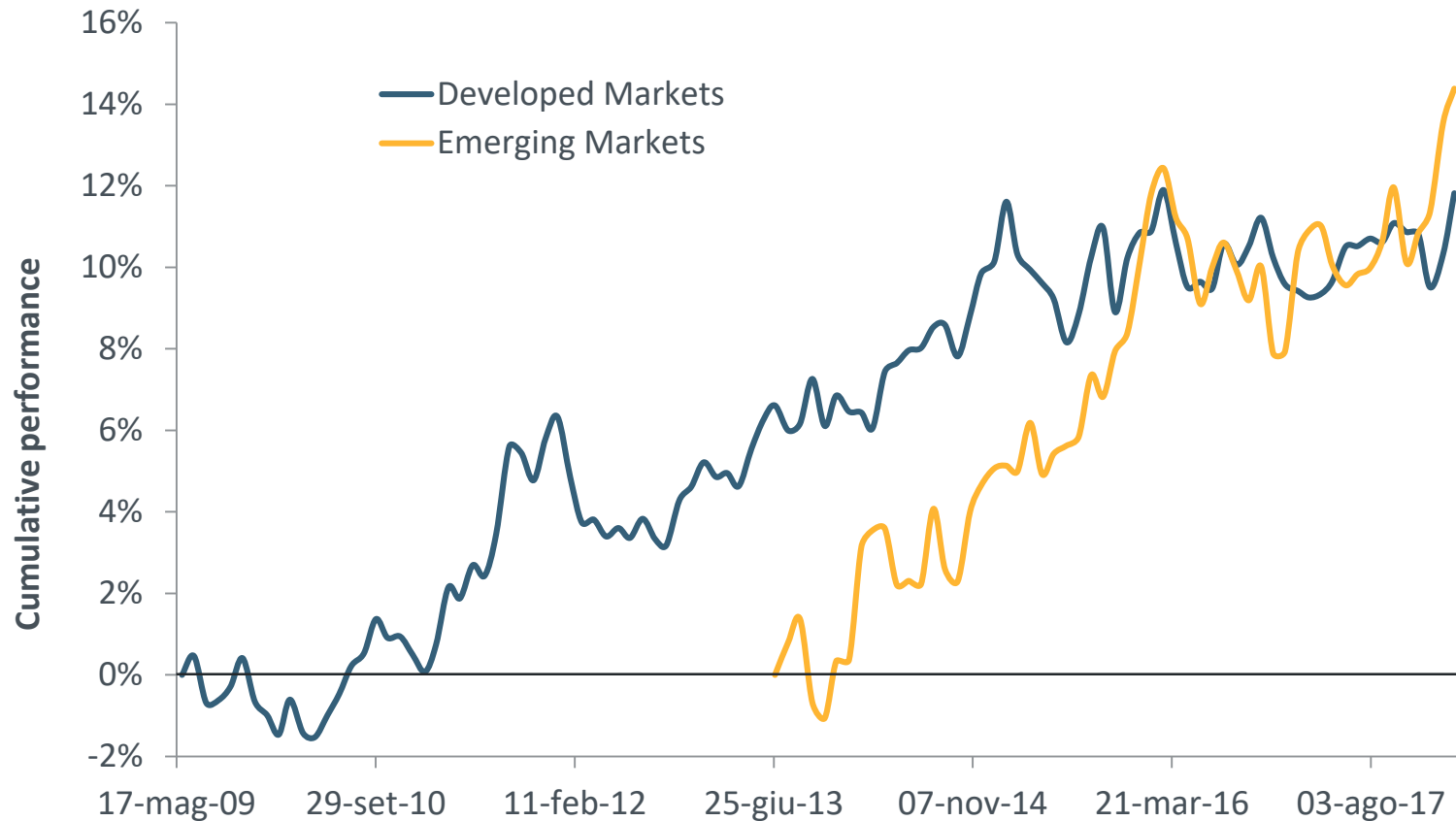


ESG Momentum (= change in ESG rating)

- Was verified by empirical analysis
- Is an indication for causality in the three transmission channels
- Was found to be a performance driver in empirical analysis

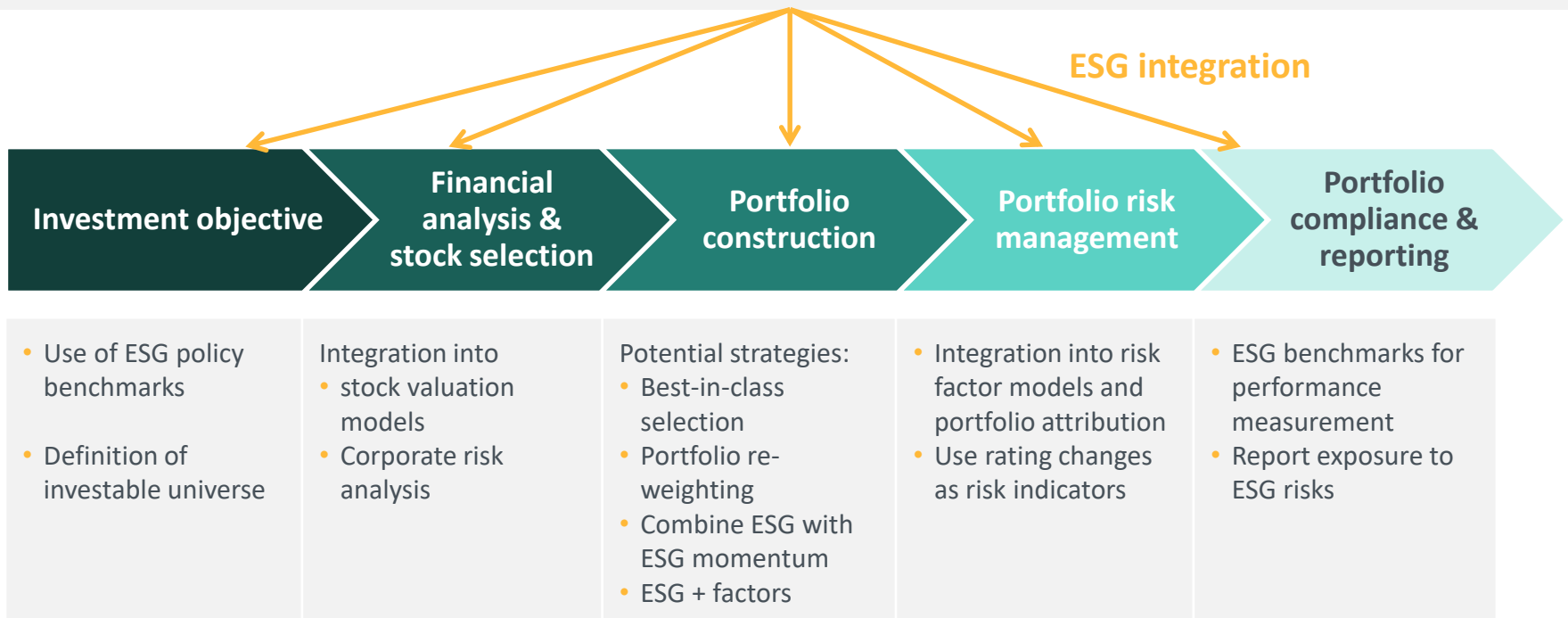
TESTING CAUSALITY: ESG MOMENTUM

Financial performance of ESG momentum: Top versus bottom quintile



HOW TO INTEGRATE ESG INTO ASSET MANAGEMENT?

- The **principles of UNPRI*** require ESG integration into financial analysis & decision making
- Part 1 of this paper has studied the **financial motivation** and potential benefits of ESG integration
- Parts 2 to 4 explore ESG integration along the **asset management value chain**



*See <https://www.unpri.org>

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