



# ESG Investing and Sustainable Finance

## FS24

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| <b>Lecture:</b>    | Tuesdays, 12:15 – 14:00, <a href="#">Engehaldenstrasse 8</a> (E8), room 001   |
| <b>Assistance:</b> | Jessica Marti <a href="mailto:jessica.marti@unibe.ch">jessica.marti@unibe.ch</a> and for administrative questions:<br>Karin Dolder <a href="mailto:karin.dolder@unibe.ch">karin.dolder@unibe.ch</a> (+41 31 684 3775) |
| <b>Website:</b>    | <a href="https://www.ksl.unibe.ch">https://www.ksl.unibe.ch</a>   |
| <b>ECTS:</b>       | 4.5   |

### General Information

More information about the course can be found on ILIAS.

### Course Description

This course is aimed at students who would like to learn more about the world of environmental, social and governance (ESG) investing and sustainable finance. In 2020, 1 in 3 dollars of the total US assets under professional management was being managed according to ESG principles (US-SIF, 2020). This course provides an overview of the most relevant aspects of ESG and sustainable investing which are presented in a way that should nurture critical thinking.

The course is structured in five main parts:

- In the first part, we will start with an introduction to sustainable finance. You will learn about the differences between the terms ESG and corporate social responsibility (CSR), attributes of the ESG market, major players in the ESG landscape, European Commission's view on the topic, as well as the importance of the ESG risks through the lens of World Economic Forum (WEF).
- In the second part, we will cover ESG factors. We will cover each of the ESG pillars in depth. We will look at the most important metrics in the E = environmental, S = social and G = governance pillars in isolation, as well as their interdependencies.
- The third part is the core of this course. It covers all major issues that each user of ESG ratings should be aware of: anatomy of ESG ratings, the market for ESG rating providers and their oligopolistic market power, current trends in the ESG rating design, ESG data backfilling, the incentives in the ESG ratings industry. The section concludes with a discussion of the real effects of ESG ratings.
- The fourth part is about ESG investing. We will cover the concept of materiality and double-materiality, and will talk about the risk-return relationship in finance. You will also learn about sustainable investor types, ESG analysis, valuation, and integration.
- In the fifth part, we will talk about ESG engagement – its forms and success factors, a case study of ExxonMobil and Engine No. 1, and we will also cover the trade-off between maximizing firm value and implementing other objectives, effects of divestment, and the fact that “looking green” is not the same as “being green”.

## Learning Outcomes

1. Define the terms ESG and sustainable finance.
2. Describe the ESG market – its size, assets under management, current trends, and the market for ESG data.
3. Describe the EU taxonomy – its goals and attributes.
4. Define ESG through the lens of risk management.
5. Describe the most important metrics of environmental, social and governance pillars.
6. Define the anatomy of ESG ratings.
7. Characterize the market for ESG rating providers and their oligopolistic market power.
8. Describe current trends in the ESG rating design, and the incentives in the ESG ratings industry.
9. Describe the real effects of ESG ratings and ESG investing.
10. Contrast the concept of financial materiality to the concept of double-materiality.
11. Understand and critically discuss the risk-return relationship in finance.
12. Characterize sustainable investor types.
13. Describe different approaches to ESG investing, valuation, and integration.
14. Define ESG engagement – its forms and success factors.
15. Discuss the effects of divestment.
16. Critically evaluate strategies followed by firms to become more sustainable.

## Organization

The lecture will take place **in-person only (no podcast or live-stream)**. The in-class participation is highly encouraged.

## Course Material

- Slides
- Additional material that will be posted online or distributed in class

## Evaluation

Final (closed-book) exam will count with 100% towards the final grade.

Additional details to be communicated in class during the semester.

## Academic Integrity

You are expected to adhere to the Academic Code of Honour which states:

“Written examinations and other forms of assessment should be completed honestly, truthfully and correctly, using only those methods and/or tools authorized by the faculty member in charge. Using unauthorized books, lecture notes or other materials (electronic or print) during an examination, or bringing such unauthorized items into an examination, will not be tolerated unless prior approval is obtained from the faculty member in charge of the examination. Copying from the examination or course work of a fellow student, allowing a fellow student to copy from your own examination or course work, using unapproved materials during examinations or assessments of any kind, or preparing assignments or other work for a fellow student to submit as their own are also considered forms of cheating and will result in disciplinary action.”

Read more about plagiarism at <https://plagiarism.org/article/what-is-plagiarism/> or at <https://www.turnitin.com/static/plagiarism-spectrum/>.

## Preliminary Schedule

| Lecture | Date       | Start | End   |
|---------|------------|-------|-------|
| 1       | 20.02.2024 | 12:15 | 14:00 |
| 2       | 27.02.2024 | 12:15 | 14:00 |
| 3       | 05.03.2024 | 12:15 | 14:00 |
| 4       | 12.03.2024 | 12:15 | 14:00 |
| 5       | 19.03.2024 | 12:15 | 14:00 |
| 6       | 26.03.2024 | 12:15 | 14:00 |
| 7       | 09.04.2024 | 12:15 | 14:00 |
| 8       | 16.04.2024 | 12:15 | 14:00 |
| 9       | 23.04.2024 | 12:15 | 14:00 |
| 10      | 30.04.2024 | 12:15 | 14:00 |
| 11      | 07.05.2024 | 12:15 | 14:00 |
| 12      | 14.05.2024 | 12:15 | 14:00 |
| 13      | 21.05.2024 | 12:15 | 14:00 |
| 14      | 28.05.2024 | 12:15 | 14:00 |

## Preliminary Exam Dates

05.06.2024 08:15 – 09:45, E8 001

12.09.2024 13:15 – 14:45, HG201

## Preliminary Reading List

- Voting for Socially Responsible Corporate Policies
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4057792](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4057792)
- Firm-level Climate Change Exposure
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3642508](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3642508)
- Aggregate Confusion: The Divergence of ESG Ratings
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3438533](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3438533)
- ESG Confusion and Stock Returns: Tackling the Problem of Noise
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3941514](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3941514)
- Is History Repeating Itself? The (Un)Predictable Past of ESG Ratings
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3722087](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3722087)
- Do Debt Investors Care about ESG Ratings?
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4032923](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4032923)
- The Impact of Impact Investing
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3909166](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3909166)
- Do Investors Care About Impact?
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3765659](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3765659)

- The Importance of Climate Risks for Institutional Investors
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3235190](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3235190)
- Sustainable Investing in Equilibrium
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3498354](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3498354)
- Dissecting Green Returns
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3869822](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3869822)
- Does Socially Responsible Investing Change Firm Behavior?
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3837706](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3837706)
- Sustainable investing with ESG rating uncertainty
  - <https://www.sciencedirect.com/science/article/abs/pii/S0304405X21003974>
- Stock Price Reactions to ESG News: The Role of ESG Ratings and Disagreement
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3765217](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3765217)
- Corporate Sustainability: First Evidence on Materiality
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2575912](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912)
- Exploring Social Origins in the Construction of ESG Measures
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3212685](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3212685)
- Investor Reliance on ESG Ratings and Stock Price Performance
  - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3801703](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3801703)