

**FIN 372 ADVANCED TOPICS IN FINANCE**  
**ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTING**  
**SPRING 2017**  
**MW 11:00-12:30**

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**Office** GSB 5.167  
**Office Hours** Monday 3:30-5:00 and Tuesday 3:00-4:00 pm, by appointment,  
or just drop by  
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**Course Web Page** via Canvas  
**Teaching Assistants:** Parth Venkat and Sophia Yue Sun

**Course Objectives**

The purpose of this course is two-fold: (1) to provide a conceptual and theoretical foundation for corporate ESG (Environmental, Social and Governance) policies and actions and investors' preferences regarding such policies and actions and (2) how such policies and actions affect firm performance and investor reactions. Using a blend of readings, cases, discussions, and a major research project, you will learn to critically assess the actions of investors and corporations with regard to ESG policies, including the potential motivations and resulting consequences, that is, the valuation effects and externalities.

This course carries the Independent Inquiry flag. Independent Inquiry courses are designed to engage you in the process of inquiry over the course of a semester, providing you with the opportunity for independent investigation of a question, problem, or project related to your major. You should therefore expect a substantial portion of your grade to come from the independent investigation and presentation of your own work.

**Research Project and Presentation**

You will design and conduct your own independent research project. The culmination of the project will be a written paper of 14-20 pages, which will have the following sections: introduction, literature review, data, methodology, results and conclusions. Students will present the results of their projects to the class and respond to questions by the professor and other students.

The majority of the projects would be one of the following two types, although you may choose a different project with permission.

- I. Conduct an independent research project into an aspect of ESG. Examples of potential research projects of this type would be:
  - (a) An empirical study of the stock price reaction to an ESG event which would be expected to affect a number of firms. The analysis will include how the valuation of the firms changed after this event (i.e., how investors reacted to the event) and how firms themselves responded

through any changes (or non-changes) in their ESG profile. It is expected that the first analysis would be statistical in nature while the second would be qualitative.

- (b) An examination of the returns to a portfolio of firms that are screened on past ESG factors. The student will decide which factors to employ for the screening for the inclusion of firms into the portfolio and explain the motivation for the factors chosen. The returns will be analyzed in a statistical analysis which will include comparison to returns on index portfolios, controlling for risk.

II. Conduct an independent research project on the ESG actions of firms in the same industry. The analysis should include an examination of each corporation's policies and actions over a period of time (e.g., 10 years) and how the firms' ESG profiles have changed over this period. The analysis will compare the student's assessments to those of a professional ESG rating service and will also include in the analysis a consideration of the economic and behavioral finance theories underlying the firms' actions. The firms should be members of the S&P 500 index in order to have sufficient media and analyst coverage with which to gather information. The project would also include an analysis of market reaction to some of the firms' actions. Students have access to several sources for ESG ratings including Bloomberg ESG ratings through the Bloomberg terminals, MSCI ESG ratings (previously called KLD) through WRDS.

### **Important dates for research project:**

February 8: Topic due in written one page statement with methodological approach sketched out;

March 1: Outline of paper due with methodological approach detailed

March 27: Preliminary results due

April 10: Expanded outline due

April 16: Preliminary draft due

May 5: Final paper due

### **Prerequisites**

The official prerequisite is FIN 357/357H, but the course also requires competence in investments and statistics, so it would be best if you have already taken FIN 367 and STA 371 or STA 375.

### **Materials**

Most readings will be posted on Canvas, but there will also be a course packet with cases available at the copy center (3rd floor of GSB). Five of the six cases are part of the packet. The Chiquita Banana case will be handed out in class. Please note that the cases in the packet are copyrighted and require payment. It would be a violation of the McCombs Honor Code to not pay for your packet. In addition, please note that all slides and written materials in the class are copyrighted.

Because the ESG field is constantly evolving, reading periodicals such as the *Wall Street Journal*, *New York Times*, *Financial Times* or the *Economist* will improve your understanding of the issues and keep you current.

### **Format of class**

The class will consist primarily of discussion with some lectures included. It is essential that you come to class *prepared to actively participate* in the discussions of the day's topic and with the knowledge from the previous class discussions. In particular, the readings are critical for being prepared as you will

be called upon to participate in the discussion. If occasionally you are not prepared and do not want to be called on, please let me know at the beginning of class.

Class participation is a significant part of the learning process. Thus, it is highly important that during class you are involved in the discussion by providing your own thoughts and by listening to and considering the thoughts of your colleagues. My further goal is to get you comfortable expressing your ideas and opinions in a group situation. It is something you will be doing throughout your life, both at work and in extracurricular activities such as volunteer work, and it is important for leadership. During the presentation portion of the course and during the corporate representative visits, it will be important for full class participation. Failure to participate in these parts of the course will result in a significant negative penalty on your class participation grade.

### **Course Requirements and Grading**

Your grade in the course will be determined by the following percentages:

	Percent
Research project and presentation	35
Exams (2)	30
Class participation	22
Case write-ups	<u>13</u>
	<u>100</u>

Grades will be assigned according to the following scale:

A >93 A- 90-92.9 B+ 87-89.9 B 83-86.9 B- 80-82.9 C+ 77-79.9 C 73-76.9 C- 70-72.9, D will be comparable, below 60 is an F.

Exam grades may be curved. Note that since class participation is an important component of the grade, attendance is an important part of the grade. The expectation is that each student will arrive on time, participate in every class discussion and not use electronic devices during class.

### **Exam policies**

There will be two exams that will cover the readings, cases, lectures and class discussions prior to the exams. If you have an excused absence for an exam, you may take a make-up exam at the final exam time which will cover material over the entire course. If you believe there has been an error in the grading of your exam, please provide a written request for it to be reconsidered within two weeks of the exam being returned. The entire exam will be then be reconsidered.

### **Case brief write-ups**

There will be 5 cases during the semester, 4 of which will require brief write-ups. The case brief write-ups should be uploaded to Canvas *by midnight on the day prior to the class* on which they are discussed. They should be written in memo style as if you are a consultant to the main actors in the case. It should include an executive summary at the beginning and should be clear on your recommendations. You will be provided questions to address for each case. The write-ups should be 2 or 3 pages (double-spaced), no more than 4 pages. *No late cases will be accepted*. Out of the 5 cases with brief write-ups, only the top 4 grades will count. (Thus, if you need to skip a case, there is not a large penalty.)

**Reading Commentary brief write-ups**

There will also be 5 reading commentary brief write-ups. They should be no more than one page and the grading will be perfunctory (check plus, check, check minus, zero). The purpose of these write-ups is for you to reflect upon some of the readings before the class period in which they are discussed (and to have the added benefit that when you take the exams, you don't have a lot of reading to catch up on). *No late write-ups will be accepted.*

**Grading of Research project**

The research project paper will be graded primarily on the basis of its content, however, there will be points deducted for two other reasons: (1) if the intermediate and final steps in the research process are not completed on time and (2) if the paper does not exhibit professionalism in its presentation, for example, in the grammar, spelling, punctuation, etc. If you would like help in the writing of the paper or in basic writing skills, please consult the book, *The Elements of Style*, by William Strunk, Jr. and E.B. White, published by Macmillan or the Undergraduate Writing Center in the Flawn Academic Center, Room 211, 471-6222. The website for the Writing Center is <http://www.uwc.utexas.edu/>

The presentation of the research project will consist of several parts. There will be periods during the class that students will be called upon to talk about their research project in process. There will also be a more formal presentation of the project after it has been completed. The grading of the presentation of the research project will be based on the professionalism and content of the presentations.

**Office Hours**

My official office hours are Mondays 3:30-4:30 and Tuesdays 3:00-4:30. I will usually be available much later on Mondays and Tuesdays as well as other afternoons and you are welcome to come to my office at any time.

**Course Policies:****Academic Integrity**

I believe that we should all abide by the University of Texas at Austin Honor Code:

*The core values of The University of Texas at Austin are learning, discovery, freedom, leadership, individual opportunity, and responsibility. Each member of the university is expected to uphold these values through integrity, honesty, trust, fairness, and respect toward peers and community.*

I also expect that we will all abide by the Policy Statement on Scholastic Dishonesty for the McCombs School of Business:

**Policy on Scholastic Dishonesty**

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Program's Statement on Scholastic Dishonesty at

<http://my.mcombs.utexas.edu/BBA/Code-of-Ethics>. By teaching this course, I have agreed to observe all faculty responsibilities described there. By enrolling in this class, you have agreed to observe all student responsibilities described there. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our

academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs/> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Because this is a research class in which you will be conducting your own research and writing about it, it is important that you understand plagiarism as sometimes individuals unintentionally plagiarize others' work. Please go to the following website which has the definition of plagiarism as well as helpful information on how to avoid unintentional plagiarism:

<http://www.lib.utexas.edu/services/instruction/learningmodules/plagiarism/>

### **Other Policies and Information**

Course communications: The primary means of communication for the course will be through Canvas. New readings or additional information about the class or a case may be added, so please check Canvas. In addition, please ensure that your email address on Canvas is correct so that you will receive class communications in a timely manner.

### **Students with Disabilities**

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://diversity.utexas.edu/disability/>.

### **Religious Holy Days**

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

### **Campus Safety**

Please note the following recommendations regarding emergency evacuation, provided by the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety>:

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050 (or <https://operations.utexas.edu/units/csas/bcal.php>).
- Further information regarding emergency evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.

The class lecture slides are copyrighted and intended only for your personal use. They should not be distributed or posted without my specific permission.

**Course outline**

Readings are provided in the syllabus supplement available on Canvas  
(Some of these dates may change due to the evolution of the course)

<b>Date</b>	<b>Due Dates</b>	<b>Topic</b>
Wed. Jan 18		Overview of the interrelated concepts of ESG, CSR (corporate social responsibility), and SRI (socially responsible investing or sustainable and responsible investing)
Mon. Jan 23		ESG and SRI Investing – portfolio formation, risk and return, investor response
Wed. Jan 25	<b>Readings Commentary I</b>	ESG and SRI Investing – fixed income investing (SRI bonds, Green bonds, Social impact bonds)
Mon. Jan 30		Measuring ESG – meeting in FTTC
Wed. Feb 1	<b>Preliminary Topic due</b>	Economic theories underlying ESG, CSR, and SRI (Class debate)
Mon. Feb 6	<b>Readings Commentary II</b>	Market valuation and ESG corporate actions
Wed. Feb 8		Overview of social issues/crowdfunding/impact investing
Mon. Feb 13		Project assistance
Wed. Feb 15		Project assistance
<b>Thurs. Feb. 16</b>		SSI evening speaker: Hanna Jamal, Social Finance
Mon. Feb 20		Social issues – shareholder activism, boycotts, financial effects
Wed. Feb 22	<b>Readings Commentary III</b>	Social issues – Microfinance
<b>Thurs. Feb 23</b>		Business for Good Summit
Mon. Feb. 27	<b>Case I</b>	Social issues - SKS case
Wed. Mar 1	<b>Outline due</b>	Behavioral finance
Mon. Mar 6		Exam I
Wed. Mar 8		Project meetings and assistance
Mon. Mar 13	<b>Spring Break</b>	
Wed. Mar 15	<b>Spring Break</b>	
Mon. Mar 20		Behavioral finance and ESG, CSR and SRI
Wed. Mar 22	<b>Case II</b>	China Life: Microinsurance for the Poor case
Mon. Mar 27		Governance issues - overview
Wed. Mar 29	<b>Case III</b>	Chiquita Banana case

Mon. Apr 3		Governance issues - market for corporate control and CEO compensation;
Wed. Apr 5	<b>Case IV</b>	Stanley Black and Decker case
Mon. Apr 10		Governance issues - shareholder activism and governance;
Wed. Apr 12	<b>Case V</b>	Genzyme case
Mon. Apr 17	<b>Readings Commentary IV (includes Case VI)</b>	Overview - Environmental issues, Patagonia Sur case
Wed. Apr 19		Environmental issues: carbon markets, and markets for environmental securities
Mon. Apr 24		Environmental issues and ESG investing
Wed. Apr 26	<b>Readings Commentary V</b>	Environmental issues and ESG investing Fiduciary duty, divestment and ESG issues (Class debate)
Mon. May 1		Project presentations/discussions
Wed. May 3		Exam II