

FIN 397
ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTING
SPRING 2017
MONDAY-WEDNESDAY 12:30-2:00

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Office Hours	Monday 3:30-5:00 and Tuesday 3:00-4:30 pm, by appointment, or just drop by
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Course Web Page	via Canvas
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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 project, the goal is for you to 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.

Project and Presentation

Each student will be a member of a group that will design their own independent project related to Environmental, Social and Governance Investing. The culmination of the project will be a written paper of 10-15 pages. Groups should consist of 2 or *at most* 3 students. Groups will present the results of their projects during class. The majority of the projects would be one of the following two types, although you may choose a different project with permission. The one requirement is that the project should have a financial economics perspective and incorporate statistical analysis.

1. Conduct an examination of the effects of an ESG event on firm value. Examples of potential projects of this type would be:

- (a) An empirical study of the stock price reaction to an ESG event that 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 and MSCI ESG ratings (previously called KLD) through WRDS.

Important Dates for Project

February 9: Groups and preliminary topics due in written one page statement with methodological approach sketched out;

March 27: Outline due with detailed topic locked in

April 12: Preliminary results due

April 30: First draft due

May 3: Final project paper due

Prerequisites

BA 285T or equivalent

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, it is very important to read periodicals such as the *New York Times*, *Wall Street Journal*, *Financial Times* or the *Economist*, which 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:

	<u>Percent</u>
Group project and presentation	35
Case brief and reading commentary write-ups	25
Class participation	25
Final Exam (take home)	<u>15</u>
	<u>100</u>

Grading of project

The project paper will be graded primarily on the basis of its content, however, there will be points deducted if the paper does not exhibit professionalism in the exposition. The presentation of the project will consist of several parts. There will be periods during the class that students will be called upon to talk about their 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.

Case brief write-ups

There will be 5 cases during the semester, 4 of which will require brief write-ups with your group. 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. These write-ups must be prepared with your project group. The rationale in having the cases written up by the group is because of the learning that occurs with the group discussions. (It does not work well to divide cases (or parts of cases) among group members to be written individually. The quality is obviously lower.) 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 that are to be written individually. 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 do the take home exam, you don't have a lot of reading to catch up on). *No late write-ups will be accepted.*

Class participation grades

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. Class participation will be graded primarily on the quality of the comments.

Exam policies

The final exam will be a take home exam that will cover the readings, cases, lectures and class discussions prior to the exam. The exam will be designed to allow you to integrate these materials and

it should be completed by each student independently, that is, without collaboration with anyone, although you may reference the materials from the class. Exam grades may be curved.

Office Hours

You are welcome to drop by my office at any time (and please note that I will be moving offices, probably in mid-March). My official office hours are Mondays and Wednesdays 1:00-2:30, but you are very welcome to come to my office at other times as well.

Course Policies:

Academic Integrity

I believe that we should all abide by the University of Texas at Austin McCombs School of Business *Honor Pledge*: The University of Texas at Austin McCombs School of Business requires each enrolled student to adopt the Honor System. The Honor Pledge best describes the conduct promoted by the Honor System. It is as follows:

"I affirm that I belong to the honorable community of The University of Texas at Austin Graduate School of Business. I will not lie, cheat or steal, nor will I tolerate those who do."

"I pledge my full support to the Honor System. I agree to be bound at all times by the Honor System and understand that any violation may result in my dismissal from the McCombs School of Business."

Because this is a class in which you will be conducting your own investigations 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

(Some of these dates may change due to the evolution of the course)

Class	Date	Due Dates	Topic
1	Wed. Jan 18		Overview of the interrelated concepts of ESG, CSR (corporate social responsibility), and SRI (socially responsible investing or sustainable and responsible investing)
2	Mon. Jan 23		ESG and SRI Investing – portfolio formation, risk and return, investor response
	Wed. Jan 25	Readings Commentary I	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		Economic theories underlying ESG, CSR, and SRI (Class debate)
	Mon. Feb 6	Readings Commentary II	Market valuation and ESG corporate actions
	Wed. Feb 8	Preliminary Topic due	Overview of social issues/crowdfunding/impact investing
	Mon. Feb 13		Project team meetings
	Wed. Feb 15		Project team meetings
	Thurs. Feb. 16		SSI evening speaker: Hanna Jamal, Social Finance
	Mon. Feb 20		Social issues – shareholder activism, boycotts, financial effects
	Wed. Feb 22	Readings Commentary III	Social issues – Microfinance
	Thurs. Feb 23		Business for Good Summit
	Mon. Feb. 27	Case I	Social issues - SKS case
	Wed. Mar 1	Outline due	Behavioral finance
	Mon. Mar 6		Project team meetings and assistance
	Wed. Mar 8		Project team meetings and assistance
	Mon. Mar 13	Spring Break	
	Wed. Mar 15	Spring Break	
	Mon. Mar 20		Behavioral finance and ESG, CSR and SRI
	Wed. Mar 22	Case II	China Life: Microinsurance for the Poor case
	Mon. Mar 27		Governance issues - overview
	Wed. Mar 29	Case III	Chiquita Banana case
	Mon. Apr 3		Governance issues - market for corporate control and CEO compensation;

Wed. Apr 5	Case IV	Stanley Black and Decker case
Mon. Apr 10		Governance issues - shareholder activism and governance;
Wed. Apr 12	Case V	Genzyme case
Mon. Apr 17	Readings Commentary IV (includes Case VI)	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	Readings Commentary V	Environmental issues and ESG investing Fiduciary duty, divestment and ESG issues (Class debate)
Mon. May 1		Project presentations/discussions
Wed. May 3		Project presentations/discussions