

**FIN 372 ADVANCED TOPICS IN FINANCE**  
**ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INVESTING**  
**SPRING 2019**  
**MW 11:00-12:30**

**Professor** Laura Starks  
**Office** GSB 5.167  
**Office Hours** In RRH: Monday 2:00-2:30 and Wednesday 4:00-5:00  
In GSB: Monday 4:00-6:00 or just drop by, I am usually there other days of the week as well.  
Of course, I can meet either place by appointment  
**Phone** 512-471-5899  
**E-Mail** [Laura.Starks@mcombs.utexas.edu](mailto:Laura.Starks@mcombs.utexas.edu)  
**Course Web Page** via Canvas  
**Teaching Assistants:** Alex Priest Lee Seltzer  
CBA 1.312F CBA 3.332C  
Wednesdays Thursdays  
2:30-4:00 PM 3:00-4:30 PM  
They can also meet by appointment.

**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 12-20 pages (including graphs and tables), which will have the following sections: introduction, literature review, data, methodology, results and conclusions. Students will present the results of their projects to a group of students in the class and respond to questions by the professor and other students. The majority of the projects will be one of the following three types, although you may choose a different project with permission. The two requirements are that the project should have a financial economics perspective and incorporate some type of statistical analysis.

- 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 measures. You will decide which measures to employ for the screening for the inclusion of firms into the portfolio and explain the motivation for the measures chosen. The returns will be analyzed in a statistical analysis, which will include comparison to returns on index portfolios, controlling for risk or comparison to market factors such as the Fama-French factors.
  - (c) An examination of the effects of ESG risk on portfolios and firms.

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 could compare your 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. You 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 and Sustainalytics will be available as well.

### **Important Dates for the Project**

February 11: Preliminary topics due in written one page statement with methodological approach sketched out

February 25: Outline due with detailed topic locked in

April 1: Preliminary results due

April 8: Expanded outline due

April 17: Preliminary draft due

April 24: Presentations in small groups

May 4: Final project paper due

### **Prerequisites**

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

## **Materials**

**Readings:** There will be readings for each class session posted on Canvas. These readings are divided into required reading and additional optional readings. The additional readings are provided for those who want to go deeper into a topic.

**Cases:** There are four cases in the class. Cases I and II are written by me and will be available on Canvas. Cases III and IV will be in a course packet. 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.

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. Everyone benefits from carefully listening to the diverse ideas and unique perspectives contributed to the discussion. 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 team presentation portion of the course and during the guest speaker visits, it is particularly important to have 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	33
Exams (2)	30
Class participation	20
Case write-ups and reading commentaries	<u>17</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 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 4 cases during the semester that require brief write-ups. The case brief write-ups should be uploaded to Canvas *before the class period* in which the case is to be discussed. The write-ups can be written simply as answers to the individual questions. The write-ups should be between 1 and 3 pages (double-spaced).

### **Reading Commentary brief write-ups**

There will also be 4 reading commentary brief write-ups. These 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 visit the Undergraduate Writing Center in the Perry Casteneda Library (across the street from the McCombs School), #2.330, 512-471-6222. 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. This presentation will be made to a group of three to five other students. 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 described on the first page. You are of course welcome to come to my office at any time.

## **Important comment on readings for class**

Many of the readings for class will be academic articles. For the purposes of the class, what you should take away from these articles are the goals of the study, the approach, the conclusions and insights (rather than getting too caught up in the scientific methods that are being employed). The methodologies employed in these articles are often complex and you should not be overly concerned with the details of the methodology at this point. Nevertheless, whether from academics or practitioners, you should always be aware of the fundamental aspects of the writer's goals and remain skeptical when reviewing the author's general methodology.

### **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://legacy.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.

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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. Please note that there will be an additional event included outside of class time - the panel session on Tuesday evening April 9 regarding Social Impact Bonds. More speakers will be added to the schedule. (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 23		Overview of the interrelated concepts of ESG, CSR (corporate social responsibility), SRI (socially responsible investing or sustainable and responsible investing), Impact investing, Philanthropy
Mon. Jan 28		ESG Investing: Portfolio formation, risk and return, investor response
Wed. Jan 30	<b>Readings Commentary I</b>	ESG Investing: Theoretical basis for ESG and Impact Investing (Class debate); Measuring ESG
Mon. Feb 4		ESG Investing: Focus on ESG risk
Wed. Feb 6	<b>Readings Commentary II</b>	ESG Investing: ESG and ETFs
Mon. Feb 11	<b>Preliminary Topic due</b>	Data resources and methodology for project
Wed. Feb 13	<b>Readings Commentary III</b>	ESG Investing: Fixed income investing
Mon. Feb 18		ESG Investing: Company valuation and ESG issues
Wed. Feb 20	<b>Case I</b>	ESG Investing: Company valuation and ESG issues Chiquita Banana tax inversion case
Mon. Feb 25	<b>Project outline due</b>	Governance Issues: Shareholder activism and governance
Wed. Feb 27	<b>Case II</b>	Governance Issues: Shareholder activism and company goals Etsy case
Mon. Mar 4		Governance Issues:
Wed. Mar 6		Review and research paper assistance
Mon. Mar 11	<b>Exam I</b>	Exam I
Wed. Mar 13		Research paper assistance
Mon. Mar 18	<b>Spring Break</b>	Spring Break
Wed. Mar 20	<b>Spring Break</b>	Spring Break
Mon. Mar 25		Social issues: Impact Investing - Measuring returns and impact
Wed. Mar 27	<b>Case III</b>	Social issues: Root Capital and the Efficient Impact Frontier
Mon. Apr 1	<b>Project preliminary results due</b>	Social issues: Microfinance
Wed. Apr 3		Social issues: Behavioral finance and ESG

Mon. Apr 8	<b>Expanded outline due</b>	Social issues: Markets for social issues (crowdfunding/impact investing/social impact bonds)
Tues. Apr 9	<b>Note this is a Tuesday</b>	Social issues: Panel on social impact bonds
Wed. Apr 10	<b>Case IV</b>	Social Issues: China Life: Microinsurance for the Poor case
Mon. Apr 15		Environmental issues: Overview of issues and markets for environmental securities
Wed. Apr 17	<b>Preliminary draft due</b>	Environmental issues: Risks including climate risk; Climate change and real estate valuations
Mon. Apr 22		Environmental issues: Private markets Guest speaker: Shawn Cumberland, Managing Director, Prisma Energy and CEO, ESG Force
Wed. Apr 24	<b>Project presentations</b>	Project presentations/discussions
Mon. Apr 29		Environmental issues: Carbon markets versus carbon taxes and effects on investors and companies
Wed. May 1		Environmental issues: Corporate actions and valuation
Mon. May 6	<b>Case V</b>	Environmental issues: Fiduciary duty, divestment and ESG (Class debate)
Wed. May 8	<b>Exam</b>	Exam II