

**ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTING
(SUSTAINABLE INVESTING)**

FIN 372

SPRING 2021

MONDAY-WEDNESDAY 11:00-12:30

Faculty

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Course Web Page: via Canvas

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Course Objectives

Environmental, Social and Governance (ESG) Investing is also known by other terms including Sustainable Investing and Responsible Investing. ESG Investing is additionally related to Stewardship Investing, Socially Responsible Investing, Values-Driven Investing, Impact Investing, Social Investing and Green Investing. The purpose of this course is two-fold: (1) for you to understand and be able to analyze the conceptual and theoretical foundations for corporate ESG or sustainable finance policies and actions as well as investors' preferences regarding such policies and actions; (2) for you to understand and be able to analyze how such policies and actions affect firm performance and investor reactions as well as portfolio risk and return. In the course we will examine cutting-edge theoretical and empirical research and practitioner articles on environmental, social and governance topics as well as cases, guest speakers, active discussions and a major project. The goal is for you to learn to critically assess the actions of corporate managers and investors with regard to ESG or sustainable finance policies, including the potential motivations and resulting consequences, that is, the valuation effects and externalities. Given that sustainable finance, environmental, social and governance issues are becoming increasingly important for both corporations and investors, the hope is that you will be able to incorporate what you learn in the course into your future work and personal life.

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.

Project and Presentation

You will design and conduct your own independent research project, which will be evidence-based. 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 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 or sustainable finance. Examples of potential research projects of this type would be:

(a) An empirical study of the stock price reaction to an ESG-type or series of events 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 could be qualitative or quantitative.

(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, and comparison to market factors such as the Fama-French factors.

(c) An examination of the effects of changes in ESG risk on portfolios and firms.

(d) An analysis of a mutual fund or pension fund's carbon footprint with additional analysis on the valuation or risk effects.

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.

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 readings and additional optional readings. The additional readings are provided for those who want to go deeper into a topic.

Cases: There will also be a course packet with several cases that must be purchased from the UT Co-op. There are additional cases without cost (some authored by the course professor) that will be available on Canvas.

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 on how the mainstream media views the field. In addition, online information such as *Impact Alpha* or *Bloomberg Good Business* or *Bloomberg Green* provide deep insights.

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 by email before 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. If at all possible, please have your video on so that you can participate more fully (and be recognized for your class participation). 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	30
Midterm and final exams	26
Class participation	22
Case write-ups and reading commentaries	<u>22</u>
	100

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 other electronic devices during class.

Exam policies

There will be one final take home exam that will cover the readings, cases, lectures and class discussions.

Case write-ups

There will be 6 cases during the semester that require write-ups. The case write-ups should be uploaded to Canvas by the morning 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). Out of the 6 cases with brief write-ups, only the top 5 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 6 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). These write-ups should be uploaded to Canvas by the morning *prior to the class* in which the commentary is to be discussed. *No late write-ups will be accepted.* Out of the 6 write-ups, only the top 5 grades will count.

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, which is online only this semester: <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 make an appointment at any time. You will be required to meet with me (virtually) twice to discuss your project.

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.

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

Please see the Syllabus Appendix on UT Canvas for important information on: course policies, course communications, students with disabilities, religious holy days, Title IX reporting, and University health services.

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)

There will also be guest speakers

<u>Date</u>	<u>Due Dates</u>	<u>Topic</u>
Wed. Jan 20		Overview of the interrelated concepts of ESG, CSR, SRI, sustainability, SDGs, and impact investing
Mon. Jan 25		Overview of ESG and SRI Investing – portfolio formation, risk and return, investor response
Wed. Jan 27	Readings Commentary I	ESG and SRI Investing – focus on ESG risk ESG and ETFs
Mon. Feb 1		ESG and SRI Investing – Fixed Income Investing (SRI bonds, green bonds, and social bonds)
Wed. Feb 3	Case I	Measuring ESG Just Capital (in case packet)
Mon. Feb 8		ESG portfolio integration
Wed. Feb 10	Readings Commentary II	Economic theories underlying ESG, CSR, and SRI - Debate
Mon. Feb 15		Portfolio and corporate ESG information
Wed. Feb 17	Case II	Downside Risk and E, S, and G Event Price Effects Case (available on Canvas)
Mon. Feb 22	Project Topic Due	ESG Investing – Engagement and Stewardship Overview
Wed. Feb 24	Readings Commentary III	Overview - Environmental issues, carbon markets, and markets for environmental securities
Mon. Mar 1	Project outline due	Environmental issues and risks, including climate risks
Wed. Mar 3	Case III	Fiduciary duty, divestment and ESG issues Cambridge University (available on Canvas)
Mon. Mar 8		Midterm Exam
Wed. Mar 10		Discussions on projects
Mon. Mar 15	Spring Break	
Wed. Mar 17	Spring Break	
Mon. Mar 22		Environmental issues and private equity
Wed. Mar 24		Overview of governance issues - shareholder activism and governance
Mon. Mar 29	Case IV	Shareholder activism and company goals Etsy case (available on Canvas)
Wed. Mar 31	Readings Commentary IV	Overview of social issues; Effects of COVID-19 on ESG investing
Mon. Apr 5	Expanded outline due	Social issues/crowdfunding/impact investing

Wed. Apr 7	Readings Commentary V	Finance and diversity, inclusion and inequality
Mon. Apr 12	Project preliminary results due	Behavioral finance and social finance
Wed. Apr 14	Readings Commentary VI	Behavioral finance and ESG
Mon. Apr 19		Measuring impact
Wed. Apr 21	Case V	Root Capital case (in case packet)
Mon. Apr 26		Social issues – Microfinance overview
Wed. Apr 28	Case VI	China Life: Microinsurance for the Poor case (in case packet)
Mon. May 3	Project presentations	Project Presentations
Wed. May 5		E and S: Carbon markets versus carbon taxes - Debate
Fri. May 7		Project Due