FIN 372 ADVANCED TOPICS IN FINANCE
ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTING
SPRING 2012
MW 11:00-12:30

Professor	Laura Starks
Office	CBA 6.328
Office Hours	M-W 2:00-3:30 pm or by appointment
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Course Web Page	via Blackboard
Teaching Assistants	Bomi Lee Office hours MW 1:00-2:00 CBA 5.334G
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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 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 15-20 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 profile of two 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 a member of the S&P 500 index in order to have sufficient media and analyst coverage with which to gather information.

Important dates for research project:
February 6: Topic due in written one paragraph statement;
February 27: Outline of paper due with methodological approach detailed
April 2: Preliminary draft due
April 24: 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 blackboard, but there will also be a course packet with a few readings and cases available at the copy center (3rd floor of GSB). Please note that the readings and cases in the packet are copyrighted and require payment. It would be a violation of the University 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 of primarily 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. The readings are critical for being prepared as you will be called upon to participate in the discussion.

Class participation is a significant part of the learning process. Thus, it is highly important that you participate by providing your own thoughts and that you listen to and consider the thoughts of your colleagues. 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)	35
Class participation	20
Case write-ups	10
	100

Grades will be assigned according to the scale below.
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. The entire exam will be then be reconsidered.

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. First, if the intermediate and final steps in the research process are not completed on time and second, 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.fac.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 and Wednesdays 2-3:30. I will usually be available much later on Mondays and Wednesdays and you are welcome to come to my office at other 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, which can be found at the following link:
http://www.mccombs.utexas.edu/BBA/IP/Exchange/~/media/Files/MSB/BBA/IP/McCombs%20code%20of%20conduct.ashx
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 Policy Statement on Scholastic Dishonesty for the McCombs School of Business. By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all of the student responsibilities described in that document. If the application of that Policy Statement to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification. Policy on Scholastic Dishonesty: Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course an/or dismissal from the University. Since dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ or the General Information Catalog 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/index.html.

Other policies and information

Course communications: The primary means of communication for the course will be through Blackboard. New readings or additional information about the class or a case may be added, so please check Blackboard. In addition, please ensure that your email address is correct.
Password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on restricting directory information see: http://www.utexas.edu/student/registrar/catalogs/gi02-03/app/appc09.html.

Students with disabilities: The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.

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 syllabus supplement

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

Class	Date	Topic
1	1/18	Overview and history of ESG and SRI
2	1/23	ESG and SRI Investing
3	1/25	Approach to research
4	1/30	Economic theories underlying ESG, CSR, and SRI; class debate
5	2/1	ESG and fiduciary duty; class debate
6	2/6	Research methodologies and ESG issues
7	2/8	Value of Information on ESG, Trucost case
8	2/13	Exam I
9	2/15	Accessing ESG data (meeting in FTTC)
10	2/20	ESG investing – portfolio formation and risk issues
11	2/22	ESG investing – evaluating portfolio performance
12	2/27	Governance issues - overview
13	2/29	Governance issues - market for corporate control and CEO compensation
14	3/7	Governance issues - Stanley Black & Decker case
15	3/9	Governance issues - shareholder activism and governance
		Spring Break
16	3/19	Social issues and shareholder activism on social issues
17	3/21	Social issues - Microfinance and SKS case
18	3/26	Environmental issues - overview
19	3/28	Environmental issues - markets for environmental securities
20	4/2	Environmental issues - Patagonia Sur case
21	4/4	Behavioral finance introduction
22	4/9	Behavioral finance theory and evidence and ESG, CSR, and SRI
23	4/11	Exam 2
24	4/16	Peer review and discussion of research
25	4/18	ESG from the institutional perspective
26	4/23	ESG from the corporate perspective
27	4/25	Project presentations questions and answers
28	4/30	Project presentations questions and answers
29	5/2	Project presentations questions and answers