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Ethical, green and transparent. ESG-aware companies boost stock market returns

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MASSIMILIANO CAGLIERO, CEO at Banor SIM

HOW TO ASSESS A COMPANY

What does the ESG acronym mean?

ESG stands for environment, social and governance: new criteria to evaluate a company. However, there are no agencies to "certify" this judgement.

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Massimiliano Cagliero, CEO at Banor SIM, one of Italy's leading Italian securities firms specialising in capital management, has been working in the financial sector for over 25 years.

Since 1999, when he founded the firm that he now leads, he has developed a firm conviction: the managed investment industry cannot ignore the importance of ethics, social responsibility and corporate transparency. Qualities that those in the field know as environment, social and governance, or ESG for short. "It was our customers who brought it home to us", says Cagliero, "given that for many years now we've been managing the assets of people who are sensitive to these issues, such as religious organisations".

So one day the entire financial industry will need to follow the same path as you?

“Well, I’d say that in certain countries the path has already been mapped out. If we look at the world of the institutional investors, for example, especially in a developed market like America’s, you won’t find an asset management mandate that doesn’t follow ESG criteria. And there’s a very precise rationale for that”.

What?

“Various analyses have shown that companies that pay heed to business transparency and social responsibility are the ones with the greatest capacity to create value for shareholders. This is also shown by the recent research project we conducted in cooperation with the School of Management of Politecnico di Milano on securities on the Stoxx Euro 600 index, which includes the most important companies listed on the European stock markets”.

What did you analyse for your research?

“We examined the performance of companies that meet certain ethical standards, using the same methodology as applied by Professor George Serafeim of Harvard Business School in his analysis of companies listed on the US financial markets. It’s important to underscore that, although our investigation was conducted on a different sample, we reached the same conclusions: the stocks of ESG-aware companies are more profitable in the medium and long term”.

But isn’t there a risk that the ESG acronym can just be used as a marketing tool, a sort of bait dangled by investment houses?

“That’s a very good question. Unfortunately, that risk does exist, for one main reason: at present there’s no authoritative third party that has established clear ethical standards that apply across the board and that judges who complies with them and who doesn’t. To evaluate the financial soundness of countries or large multinationals, we have ratings agencies like Standard & Poor’s or Moody’s. In the world of socially responsible investment, however, we have nothing like that”.

So what advice can we give savers who are dipping their toe in these investment waters for the first time and want to recognise which financial products really follow ESG criteria?

“In cases like that, financial advisers play a very important role. They must guide clients and help them discover and learn more about these issues. For us at Banor SIM our encounter with the world of ESG was in some respects a “ outcome, because it’s second nature for us to pay close attention, when we invest, to a company’s soundness and balance sheet fundamentals. We don’t take a speculative approach. If you follow these social responsibility criteria, you’re unlikely to encounter companies involved in major financial scandals like the ones that have hit the headlines in the past”.