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Markets reward sustainable investment

Forum per la Finanza Sostenibile

The subject of sustainable finance is attracting more and more interest in financial spheres, among both retail and institutional investors. At the same time, there is a widely held idea that taking environmental, social and governance (ESG) criteria into account when selecting securities for investment necessarily involves a loss of potential returns. However, a growing number of analyses and academic studies shows that the opposite is true. A recent study conducted by Banor SIM and the School of Management of Politecnico di Milano, for example, found that the securities of companies that distinguish themselves for their sustainability practices proved to generate better returns.

The study focused on the Stoxx® Europe 600 index, which consists of 600 securities of high, mid and low-cap companies operating in 17 European countries. The period monitored was from 2012 to 2017. For each security, data were collected on stock market performance, the operating profit reported in the company's financial statements, and its non-financial reporting on ESG matters. The aim was to examine the relationship between financial performance and ESG rating and form an overview of the soundness of the security and/or issuer from a sustainability practices perspective.

It emerged that companies with a good ESG record are also more efficient in terms of increasing sales and dividend yields. As a result, their securities are more profitable. In addition, the study underscores that only companies with high scores in all three ESG areas perform better. In those that adopt good practices in just one or two of the areas the correlation with performance is not nearly so marked.

The importance of this research lies in the fact that it fosters a virtuous circle between the financial sector and the real economy. If a growing number of investors incorporate ESG criteria in their securities analyses, companies too will be incentivised to take these issues into consideration in operating their business. These dynamics are crucial in setting up a true collaboration between the financial and business worlds in the interests of sustainable development.

EVENTS IN THE SPOTLIGHT: SRI BREAKFAST

The research results will be presented on Thursday 20 September in Milan, during the SRI Breakfast on "ESG rating and market performance: socially responsible investing is worth it", organised by the Forum per la Finanza Sostenibile in cooperation with Banor SIM.

For information and to register: <http://finanzasostenibile.it/eventi/rating-esg-performance-mercato-lsri-conviene/>

Read more

- Banor SIM press release with the main results of the study: <https://www.banor.it/wp-content/uploads/2018/05/20180503-CS-RICERCA-BANOR-PQLIMI-Investimenti-ESG.pdf>
- A definition of ESG Rating from the glossary produced by Investiresponsabilmente.it, edited by the Forum per la Finanza Sostenibile: <http://investiresponsabilmente.it/glossario/rating-esg/>