MILANO FINANZA

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Studies by Banor SIM and the Politecnico di Milano confirm the relationship between performance and sustainability

A TREND THAT CREATES VALUE

Currently 'governance' is the most discriminating dimension

BY LAURA MAGNA

There is a positive correlation between the performance of a share or bond and the environmental, social and governance commitment of the company that issues it. This is not just a hunch, but a phenomenon that has been measured by two studies conducted by Banor SIM in collaboration with the Politecnico di Milano School of Management. "We consider them analysis tools to help us gain a profound understanding of the impact of ESG criteria on investments," explains **Massimiliano Cagliero**, CEO and founder of Banor SIM. And in effect, the results shed light on a phenomenon that is very on trend and where the race to not be left behind risks obscuring the true value. In the first of the two studies conducted in 2018 by Banor, the performance of shares on the Stoxx Europe 600 market was compared with their ESG rating from 2012 to 2017. "The analysis shows that companies with a high ESG rating were also the most efficient at driving their turnover volumes and improving their profit margins, especially when associated with a value-oriented investment approach," explains **Angelo Meda**, head of equities and ESG research manager for Banor SIM. In particular, the cumulative yield in the period of observation was 16% higher for more virtuous companies, with no change in terms of volatility; as such, shares characterised by high ESG scores recorded a cumulative performance of 86.1 (13.2% annualised) in the 2012-2017 period, compared to 70.9% (11.3%) for portfolios with low ESG content.
"Equity investors typically operate on a long-term perspective and it is only in the long term that the effects of the environmental, social and governance aspects can be seen. Bearing these in mind when making an investment offers greater "protection" than simply considering the financial risks," says Cagliero. But recognising that there is a positive correlation is also important because this can provoke a virtuous cycle in the real economy, with a consequent drive for listed companies to adapt in order to attract investors. As regards the bond market, the study "involved over 500 investment grade and high yield bonds issued by 146 medium and large-scale companies," adds Meda. "The most interesting findings were that high-yield shares with good ESG scores performed better (between 2014 and 2018, cumulatively 16.7% against 13.2%) and that the governance aspect was particularly relevant in indicating good performance. This can indicate that investors in bonds - which typically operate over shorter term horizon to shares - focus particularly on the fact that the bond is repaid and therefore are careful to ensure than the company management has been proven to honour its commitments."
This is significant data in a market that is still in its early stages of development. Today, in the United States, there is in fact no major institutional mandate for which compliance with ESG criteria does not apply," concludes Cagliero. "In our country however, we are still experiencing greenwashing, a sort of superficial respect for these requirements and moral suasion by market authorities. As we move forward, more players will distinguish themselves for being firm believers and for having had the courage and the foresight over the years to invest time and resources in research and in understanding correlations and the underlying dynamics."

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