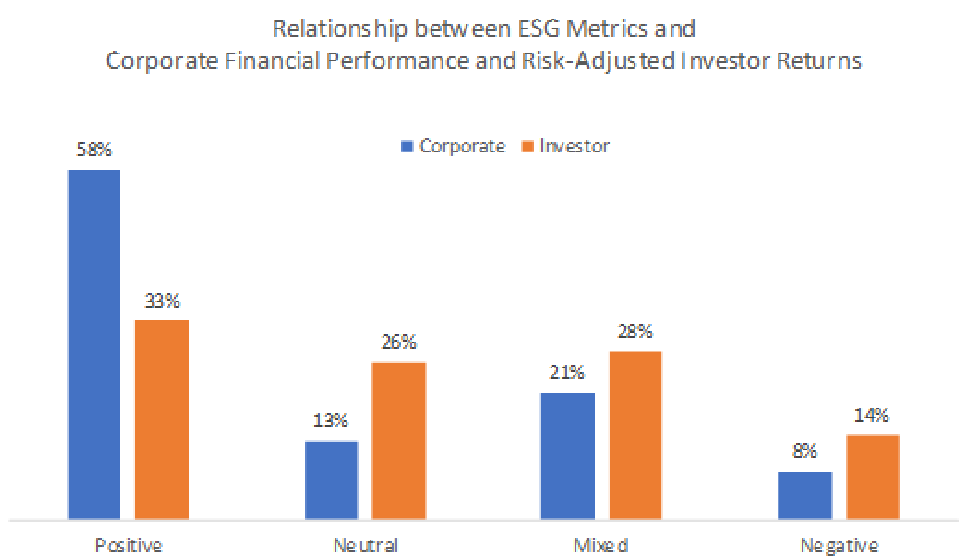
Real-time insight from DuPont Capital Management's Global Equity Team (November 2021)

Earlier this year, the NYU Stern Center for Sustainable Business published the results of a Meta Study examining the relationship between ESG and financial performance in more than 1,000 research papers published between 2015 to 2020. They divided the research papers into those focused on corporate financial performance (e.g. operating metrics such as ROE) and those focused on investment performance (e.g. Alpha or Sharpe Ratio on a portfolio of stocks).

The chart depicts the finding of the study and shows the correlations between ESG factors and corporate financial performance (in blue labeled Corporate) and risk-adjusted share price performance (in Orange labeled Investor).



Source: NYU Stern

The main conclusions of the study are the following:

- ESG metrics are Long-Term operating and share price performance indicators (not short term).
- Sustainability initiatives at corporations appear to drive better financial performance due to mediating factors such as improved risk management and more innovation.
- As a result of this, ESG Investing provides asymmetric benefits given the strong correlation between lower risk and sustainability and better financial performance.
- ESG investing appears to provide downside protection, especially during a social or economic crisis. The downdraft experienced at the depth of the Pandemic provided a striking and recent example.
- ESG integration, broadly speaking as an investment strategy, seems to perform better than negative screening approaches.
- Investment strategies should focus on either ESG "leaders" or ESG "Improvers". ESG "Improvers" are showing uncorrelated alpha-enhancing potential over the long-term (Clark & Lalit, 2020).
- ESG disclosure on its own does not drive financial performance.

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The positive direct correlation between ESG and corporate financial performance is a little stronger than the direct correlation between ESG and share price performance. Mediating factors between ESG and Corporate financial performance will generally be positive (risk management, innovation, …), while mediating factors between Corporate Financial Performance and Share Price Risk reward will be influenced by the market environment and relative valuations.

Reference: NYU Stern Center for Sustainable Business: "ESG and Financial Performance", 02/2021