Volume 2 | Number 3 | Spring 2022

THE JOURNAL OF
impact&esg
INVESTING

Brian R. Bruce
Editor-in-Chief

Mitchell Gang
Production Editor

Deborah Brouwer
Production and Design Manager

Mark Adelson
Content Director

Alice Blackwell
Senior Marketing Manager

William Law
Account Manager–Asia/Middle East

Ryan C. Meyers
Subscription Sales Director–Global

David Rowe
Commercial & Business Development Director

Cathy Scott
General Manager and Publisher

To open this issue, Harjoto and Kownatzki hypothesize that private firms tend to have a lower ESG performance than public firms because of capital resource constraints. They find that US public firms have lower ESG than non-US public firms, while US private firms have better ESG compared to US public firms and non-US private firms. Plagge presents an analysis of an asset-weighted ESG 'market portfolio' based on ESG equity index funds with US investment focus observed over 15 years (2006 to 2020). It shows substantial and persistent deviations in industry allocations relative to the broad market, with a strongly declining trend over time. They find that deviations in industry allocations can account for most return differences between the ESG portfolio and the market and be minimal at others. Next, Lindeman reports that ESG integration requires a mix of quantitative analysis and careful consideration of objectives. Their approach requires developing a taxonomy framework and functions that map metrics to scores and, ultimately, portfolio weights. The report suggests that investors can consider optimization to specify nuanced and specific objectives involving both scores and ESG metrics.

As we continue the issue, Chen, Mussalli, Amel-Zadeh, and Weinberg use advanced natural language processing methods to identify companies that are aligned with the UN Sustainable Development Goals (SDGs) based on the text in their sustainability disclosures. They report that combining NLP with machine learning methods for classification allows scalability in measuring SDG contribution of public companies with reasonably high accuracy. Ascioglu, Gonzalez, and Zbib analyze the sustainability reports of the top 20 companies from the S&P 500. They find that their reports differ significantly based on the number of pages and the count of numbers/words in the reports. Their results support the current work of regulators on the need for standardization of sustainability reports to provide better ESG information to investors.

Next, Blitz examines how divesting from fossil fuel stocks, as announced by several large institutional investors, affects the systematic risk exposures of an equity portfolio. He finds that fossil fuel stocks exhibit a highly significant positive exposure toward changes in the oil price. He concludes that excluding fossil fuel stocks comes down to an active bet against the oil price, making a portfolio vulnerable to significant underperformance in the short and medium-term.

To conclude this issue, Jacobs and Levy provide a commentary that highlights the nature and sources of the ESG rating disparities and advises investors to understand these aspects of noisy ESG ratings and exercise caution when implementing ESG integration.

As always, we welcome your submissions. We value your comments and suggestions, so please email us at journals@investmentresearch.org

Brian Bruce
Editor-in-Chief

Downloaded from *https://jesg.pm-research.com/content/2/3*, by guest on August 19, 2022. Copyright 2022 With Intelligence Ltd.
It is illegal to make unauthorized copies, forward to an unauthorized user, post electronically, or store on shared cloud or hard drive without Publisher permission.