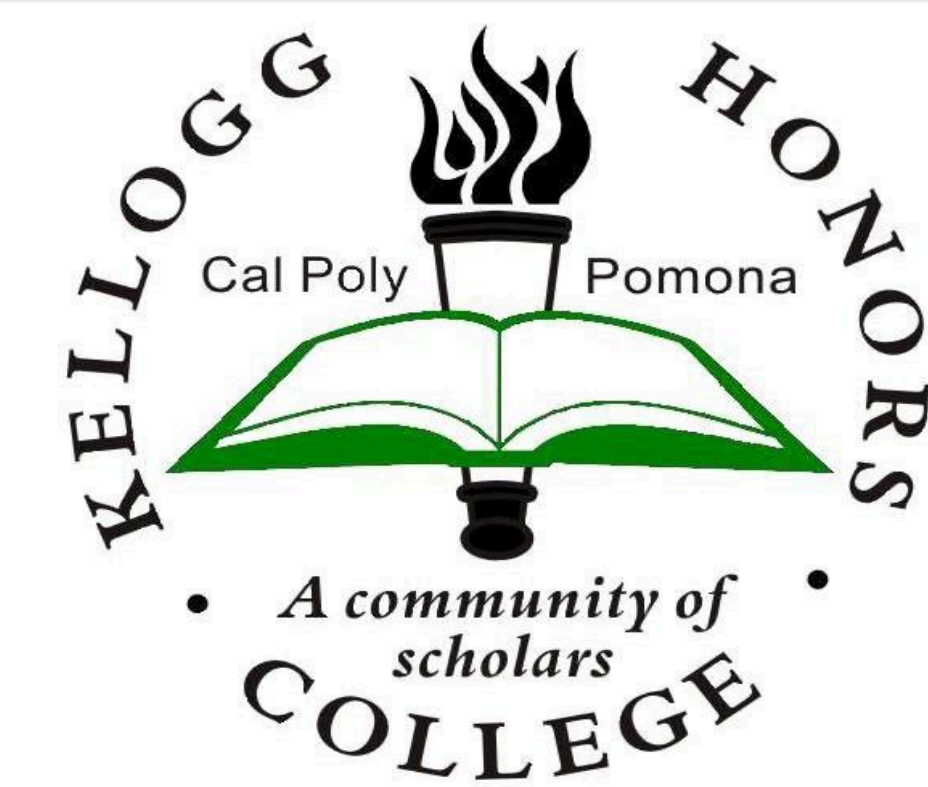


# ESG Investing

## More Important Now...More Important in the Future



**Sarah Bibb, Accounting**  
 Mentor: Professor Don St. Hilaire  
 Kellogg Honors College Capstone Project



### Abstract

Within the last thirty years, the United States has experienced tremendous growth in the world of technology; giving individuals access to an unlimited amount of data at the tips of their fingers. With this new access to information, came the opportunity for individuals to become more informed on matters and transform the way that they viewed the world around them. One area of growth that has occurred, is the consumer's increased desire to support brands and businesses that engage in corporate social responsibility (also known as ESG Investing). This poster aims to showcase the growing importance of ESG Investing by delving into the history of its existence and its three main components; Environment, Social, and Government. The future of ESG Investing and its forecasts of increased usage are also presented. Last, but not least, using the Standard Industrial Classification (SIC) system, this poster compares ESG ratings for selected eating places (5812) to hotels and motels (7011).

### What is ESG?

ESG stands for Environmental, Social, and Governance. Investors are increasingly applying these non-financial factors as part of their analysis process to identify material risks and growth opportunities. ESG metrics are not commonly part of mandatory financial reporting, however, companies are increasingly making disclosures in their annual report or releasing standalone sustainability reports. ESG Investing is a term that is often used synonymously with sustainable investing, socially responsible investing, mission-related investing, or screening.

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| <p><b>Environmental</b> – Consideration of the Natural World</p> <ul style="list-style-type: none"> <li>• Climate Change and Carbon Emissions</li> <li>• Air and Water Pollution</li> <li>• Biodiversity</li> <li>• Deforestation</li> <li>• Energy Efficiency</li> <li>• Waste Management</li> <li>• Water Scarcity</li> </ul> | <p><b>Social</b> – Consideration of People &amp; Relationships</p> <ul style="list-style-type: none"> <li>• Customer Satisfaction</li> <li>• Data Protection and Privacy</li> <li>• Gender and Diversity</li> <li>• Employee Engagement</li> <li>• Community Relations</li> <li>• Human Rights</li> <li>• Labor Standards</li> </ul> | <p><b>Governance</b> – Standards for running a company</p> <ul style="list-style-type: none"> <li>• Board Composition</li> <li>• Audit Committee Structure</li> <li>• Bribery and Corruption</li> <li>• Executive Compensation</li> <li>• Lobbying</li> <li>• Political Contributions</li> <li>• Whistleblower Schemes</li> </ul> |
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### Developmental History of ESG

Despite its growing importance within the last twenty years, the roots of ESG Investing can be traced back to the late 17<sup>th</sup> century. During this period, many different religious communities began to form, one of which was The Religious Society of Friends, also known as the Quakers. With the development of this religious group, also came the first acts of socially responsible investing (SRI); for example, the Quakers refused to invest in any “sinful” businesses that dealt with alcohol or tobacco. Centuries later, SRI began evolving into the modern ESG Investing method that we are familiar with today.

While the 20<sup>th</sup> century was a period of great growth for responsible investing, there were a couple of years that came to be viewed as milestones in the developmental process. The first noticeable achievement, in the evolution of SRI, occurred in the year 1928. At this point in time, Phillip L. Carret launched the US Pioneer Investment Fund. However, this was not just another investment fund, instead, it was the first “responsible” investment vehicle; declining investments in the alcohol and tobacco industries due to the harsh affects the products have on the human body. In 1972, following the creation of the Pioneer Fund, the United Nations held one of its yearly conferences on the topic of the human environment. This conference, which was held in Stockholm, Sweden, was the first of its kind and discussed the trade-offs, more specifically the challenges, of sustainability, economic growth, and development. One last “first”, which occurred in 1990, was the release of the Domini 400 Social Index. The index, which was the world's first “socially responsible” stock index, was created to help socially conscious investors consider social and environmental factors when making investment decisions by providing them benchmarks for comparison.

Due to the developments made in the 20<sup>th</sup> Century, socially responsible investing was able to become the investment method that we now know it to be. In 2004, when the UN Environment Programme Finance Initiative issued its yearly report, the abbreviation ESG was first used; ESG stood for Environment, Social, and Government. The term ESG was used to represent three different areas of SRI. The United Nations continued to use the term ESG in its work to grow and encourage responsible investing. For example, in 2006, they launched the Principles for Responsible Investment, which is a network of the world's largest investors who work together to incorporate ESG issues into investment practices across all asset classes. Similarly, in the year 2015, 193 countries of the UN General Assembly adopted the Sustainable Development Goals, which were designed to be a guide for achieving a better and more sustainable future. As of 2018, approximately \$31 trillion dollars of assets, across five of the world's major markets, are invested based on ESG principles!

### Data Providers

- Bloomberg ESG Data Service
- Corporate Knights Global 100
- Dow Jones Sustainability Index (DJSI)
- Institutional Shareholder Services (ISS)
- MSCI ESG Research
- RepRisk
- Sustainalytics Company ESG Reports
- Thomson Reuters ESG Research Data

### Investment Brokers

- J.P Morgan Asset Management
- Fidelity Investments
- The Vanguard Group
- Charles Schwab
- TD Ameritrade
- E\*TRADE

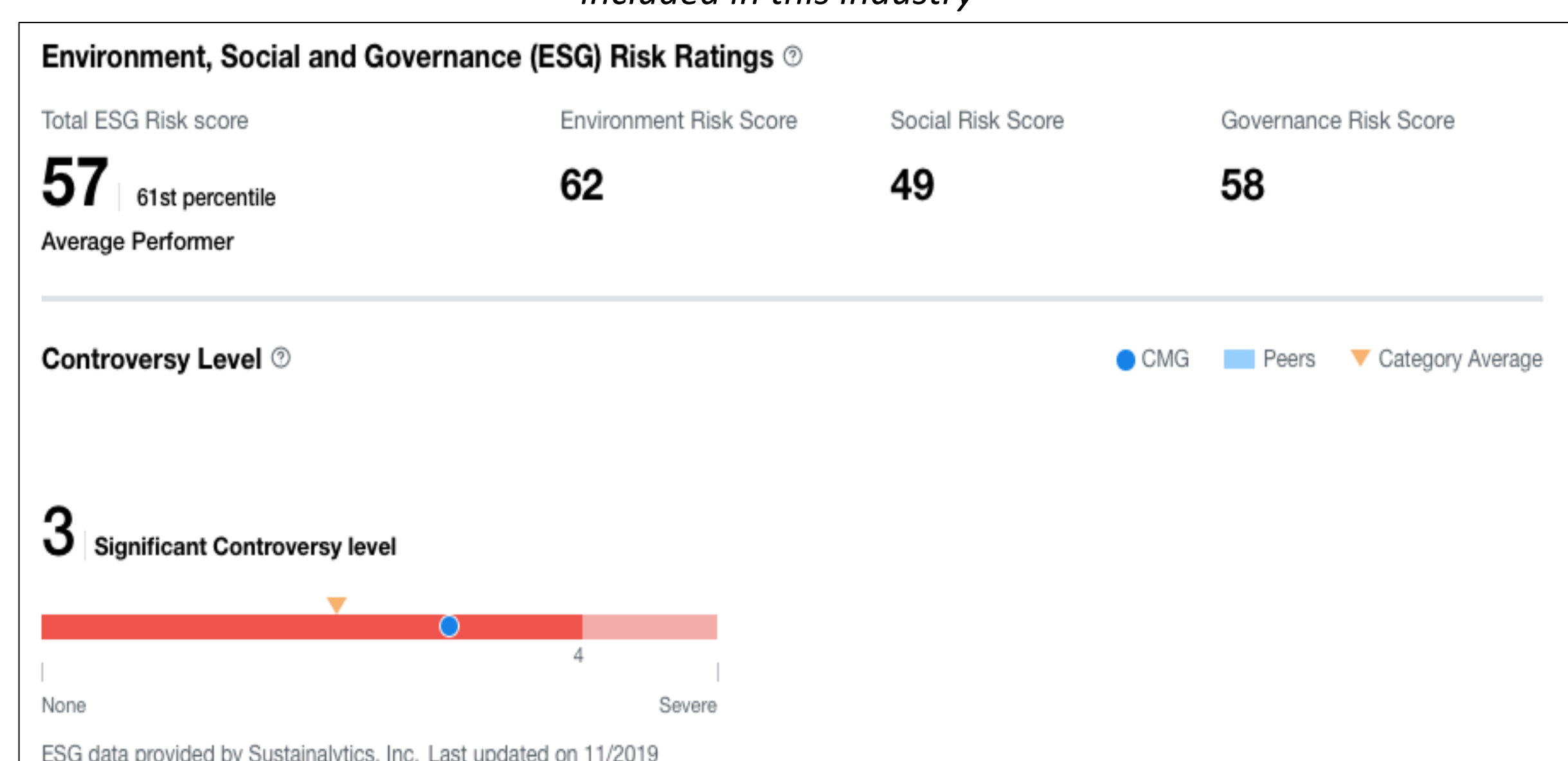
### ESG Ratings using the Standard Industrial Classification System - As of January 10, 2020

Lodging Facility	SIC Code	Ticker	Total ESG Rating	Environmental Rating	Social Rating	Governance Rating
Hilton Worldwide Holdings Inc	7011	HLT	69	76	61	68
Hyatt Hotels Corp	7011	H	62	58	59	71
Las Vegas Sands Corp	7011	LVS	70	71	66	73
Marriott International, Inc.	7011	MAR	60	62	53	65
MGM Resorts International	7011	MGM	57	60	51	59
Wynn Resorts Ltd	7011	WYNN	48	48	40	62

\*SIC Code 7011 (which consists of 107,994 businesses) - Commercial establishments, known to the public as hotels, motor hotels, motels, or tourist courts, primarily engaged in providing lodging, or lodging and meals, for the general public\*

Restaurant Company Name	SIC Code	Ticker	Total ESG Rating	Environmental Rating	Social Rating	Governance Rating
Aramark	5812	ARMK	55	55	54	57
Chipotle Mexican Grill Inc	5812	CMG	57	62	49	58
Darden Restaurants, Inc.	5812	DRI	51	41	50	69
Domino's Pizza Inc.	5812	DPZ	44	40	45	49
McDonald's Corp	5812	MCD	58	61	58	53

\*SIC Code 5812 (which consists of 655,350 businesses) - Establishments primarily engaged in the retail sale of prepared food and drinks for on-premise or immediate consumption. Caterers and industrial and institutional food service establishments are also included in this industry\*



\*Here is an example of an ESG Profile, received from Yahoo! Finance, for Chipotle Mexican Grill Inc.\*

### Future Research

- What kind of relationship exists between ESG Investing and the financial performance of a company?
- Could ESG Investment ratings play a role in the valuation of CEO performance?
  - Would it be appropriate to evaluate a CEO based on financial performance, accounting performance, and ESG performance?
- How does the list of top investment brokers dealing in ESG Investing compare to the list of top brokers in the United States?
  - Is there any correlation?

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