



ESG Resilience

ANALYSIS OF ESG INDEX PERFORMANCE DURING THE COVID CRISIS

Zoltán Nagy, Equity Core Research, MSCI

■ About the speaker



Zoltán Nagy joined MSCI in October 2008

He has worked in Equity Research since then:

- Index methodologies, factor indexes
- Applied research for equity factor models
- ESG integration into equity portfolios

He is based in Budapest, Hungary.

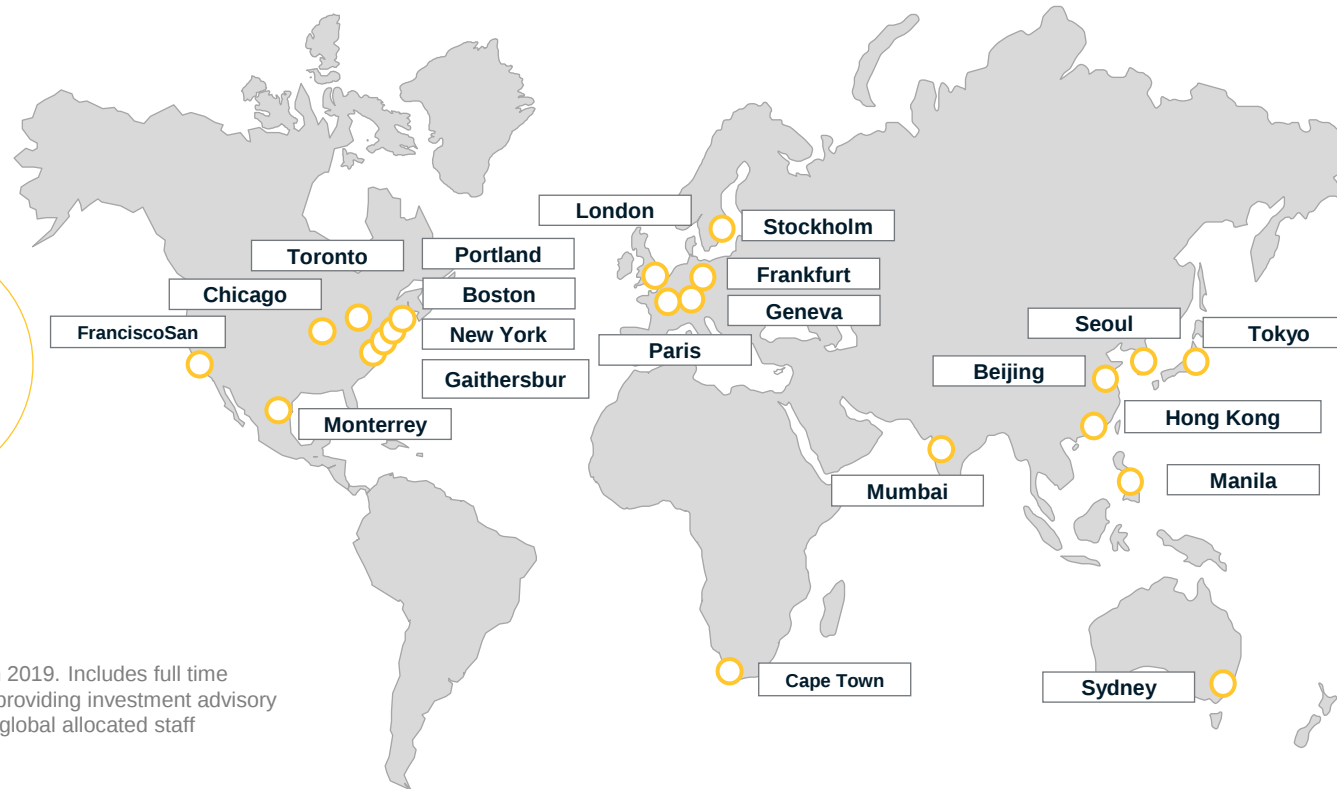
Introducing MSCI ESG Research

200+
ESG
analysts¹
(~350 FTE)

1400+
clients

1500+
ESG equity &
fixed income
indices use MSCI
ESG Research
ratings and data

¹ Source: MSCI ESG Research as of March 2019. Includes full time employees, employees of foreign affiliates providing investment advisory services to MSCI ESG Research LLC, and global allocated staff performing non-investment advisory tasks.



MSCI



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in Responsible Investment Survey**

MSCI voted **Best Firm for SRI Research,
Corporate Governance and Sustainability Indexes**
for the fourth consecutive year

2015

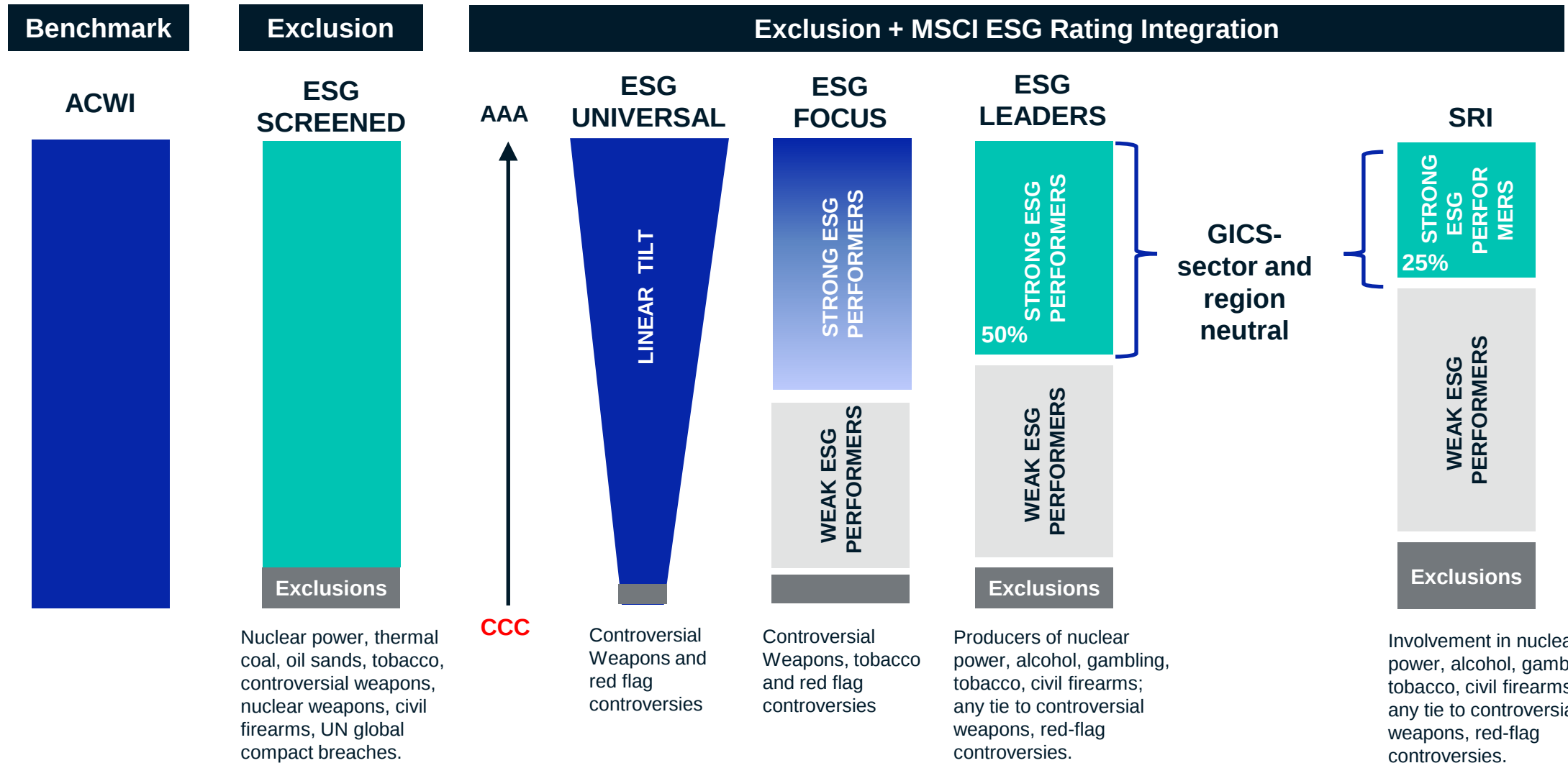
2016

2017

2018/19

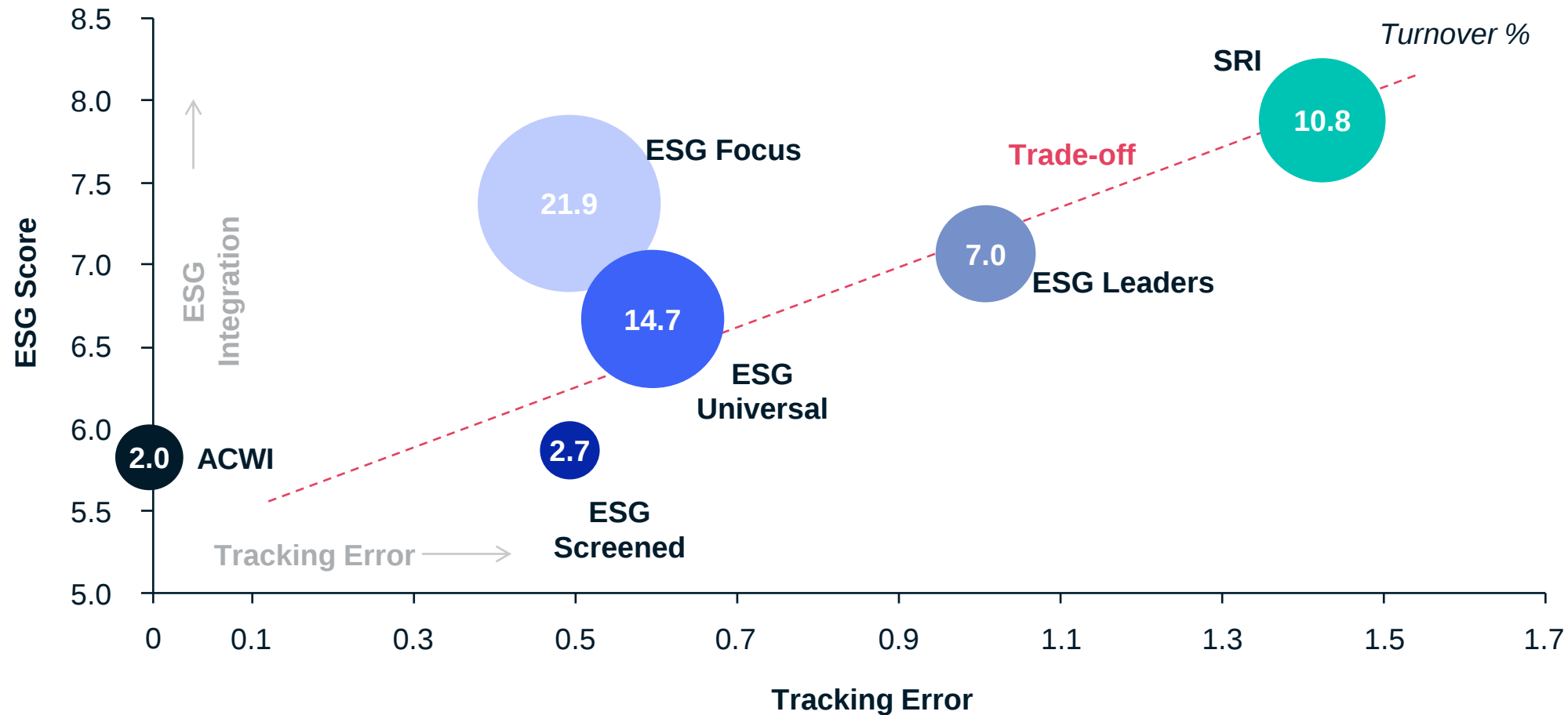


How to integrate ESG into indexes



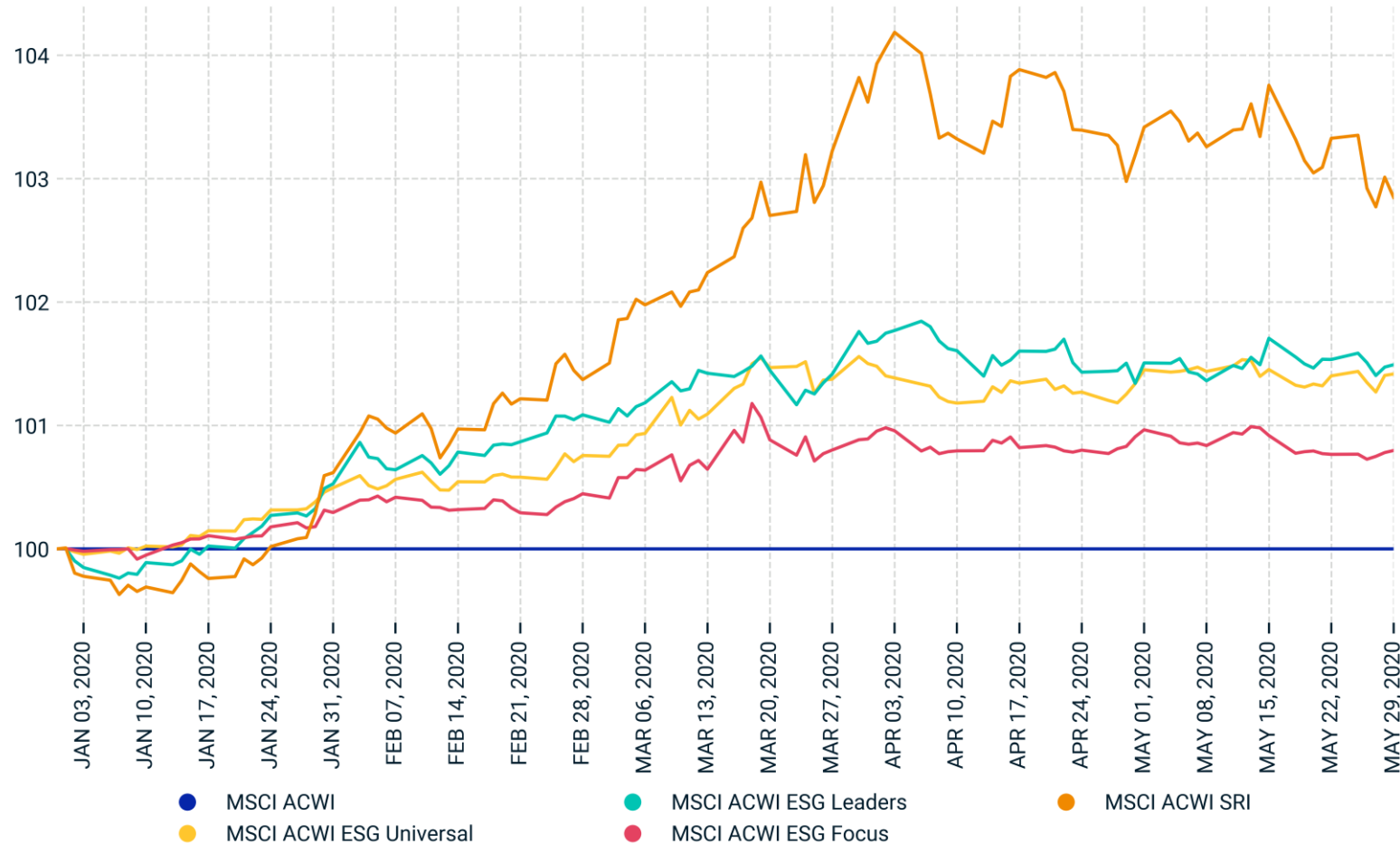
MSCI ESG Index construction approaches

Trade-off: ESG integration versus tracking error and turnover



MSCI Indexes during the COVID-19 market crisis

Relative performance from 31 December 2019 to 31 May 2020

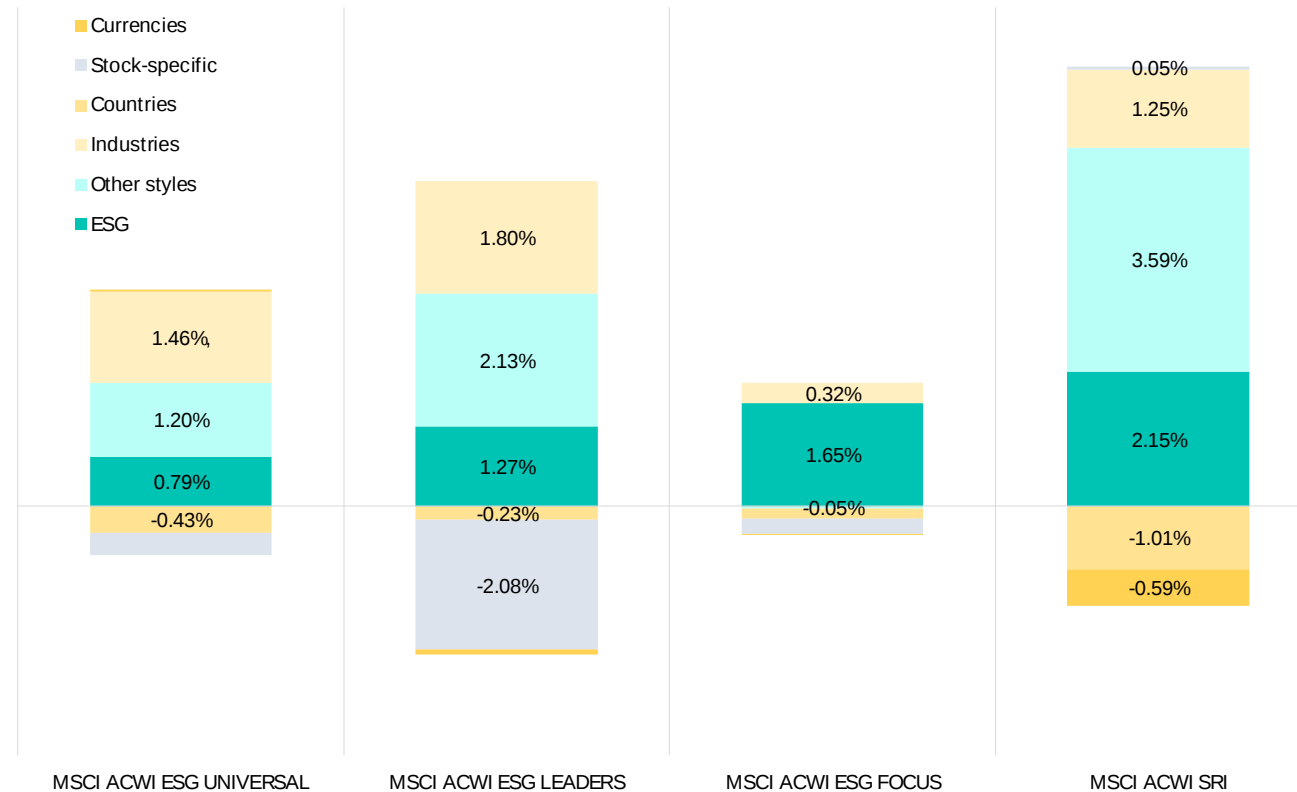


MSCI Indexes during the COVID-19 market crises

Active return attribution from 31 December 2019 to 31 May 2020

Attribution is done with a global equity factor model supplemented with an **ESG factor**

It allows us to **separate** the pure ESG effect from quality, low volatility and other effects



The foundations of ESG investing: How ESG affects equity valuation, risk, and performance¹

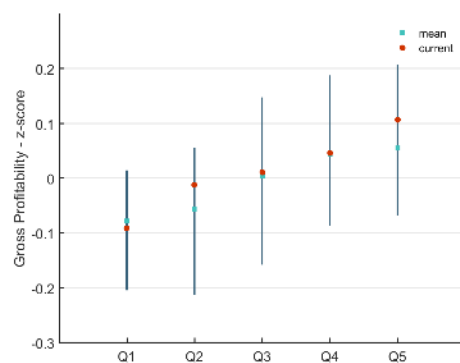
We identified three fundamental channels from ESG to financial value. Higher ESG profile was associated with:

1. Higher profitability

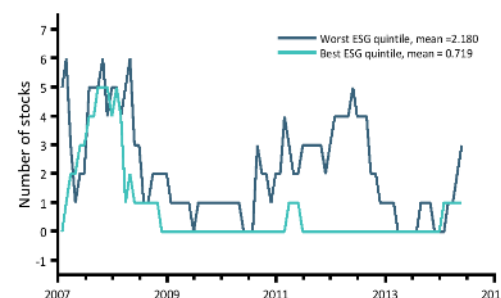
2. Lower tail risk

3. Lower systematic risk

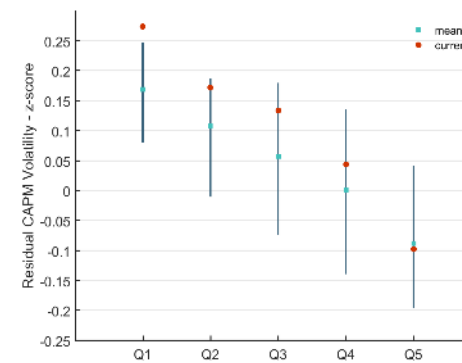
CASH FLOW CHANNEL:
Gross profitability of ESG quintiles



STOCK-SPECIFIC RISK CHANNEL:
Large drawdown frequency of top vs. bottom ESG quintile

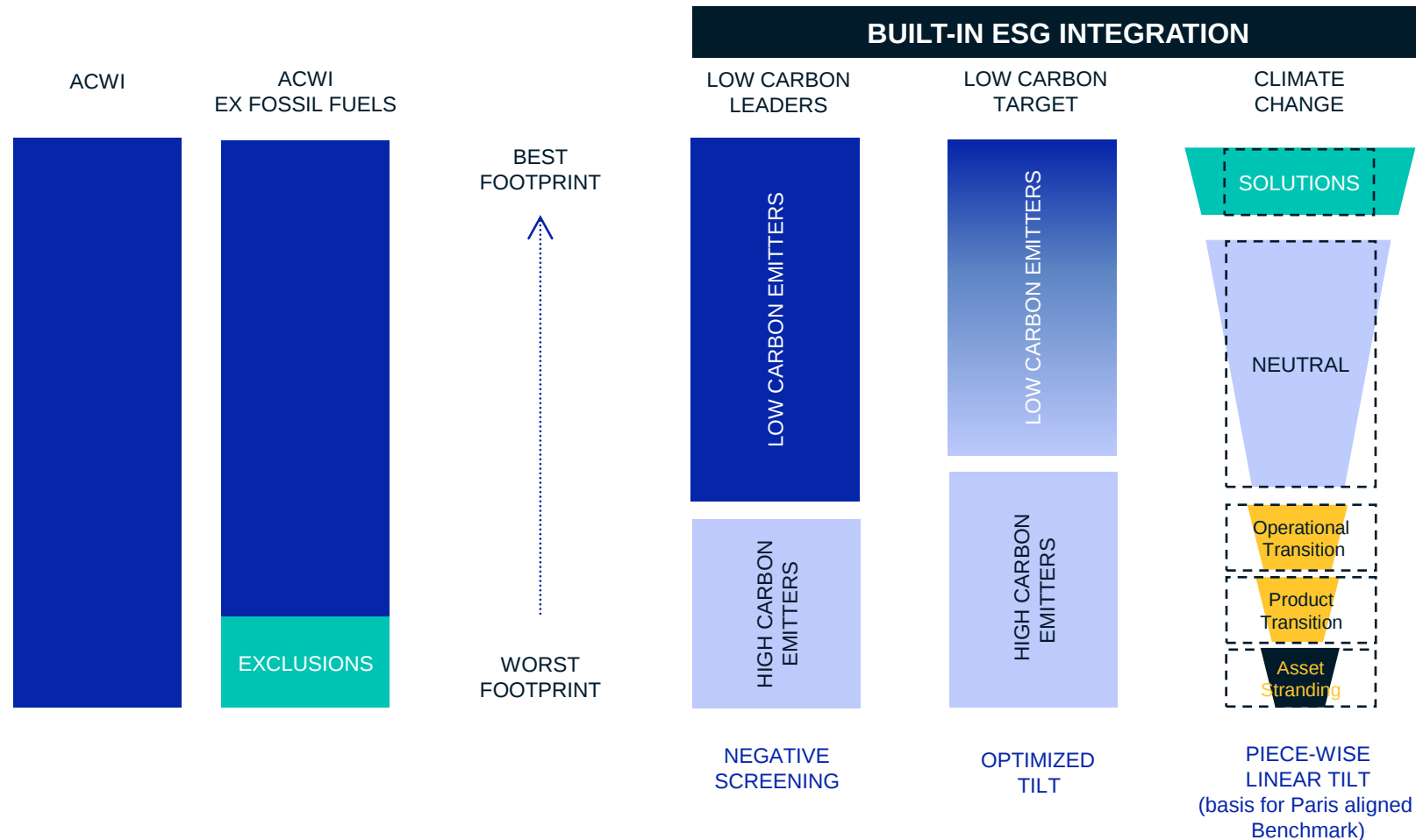


VALUATION CHANNEL:
Systematic volatility of ESG quintiles



MSCI Climate Index construction approaches

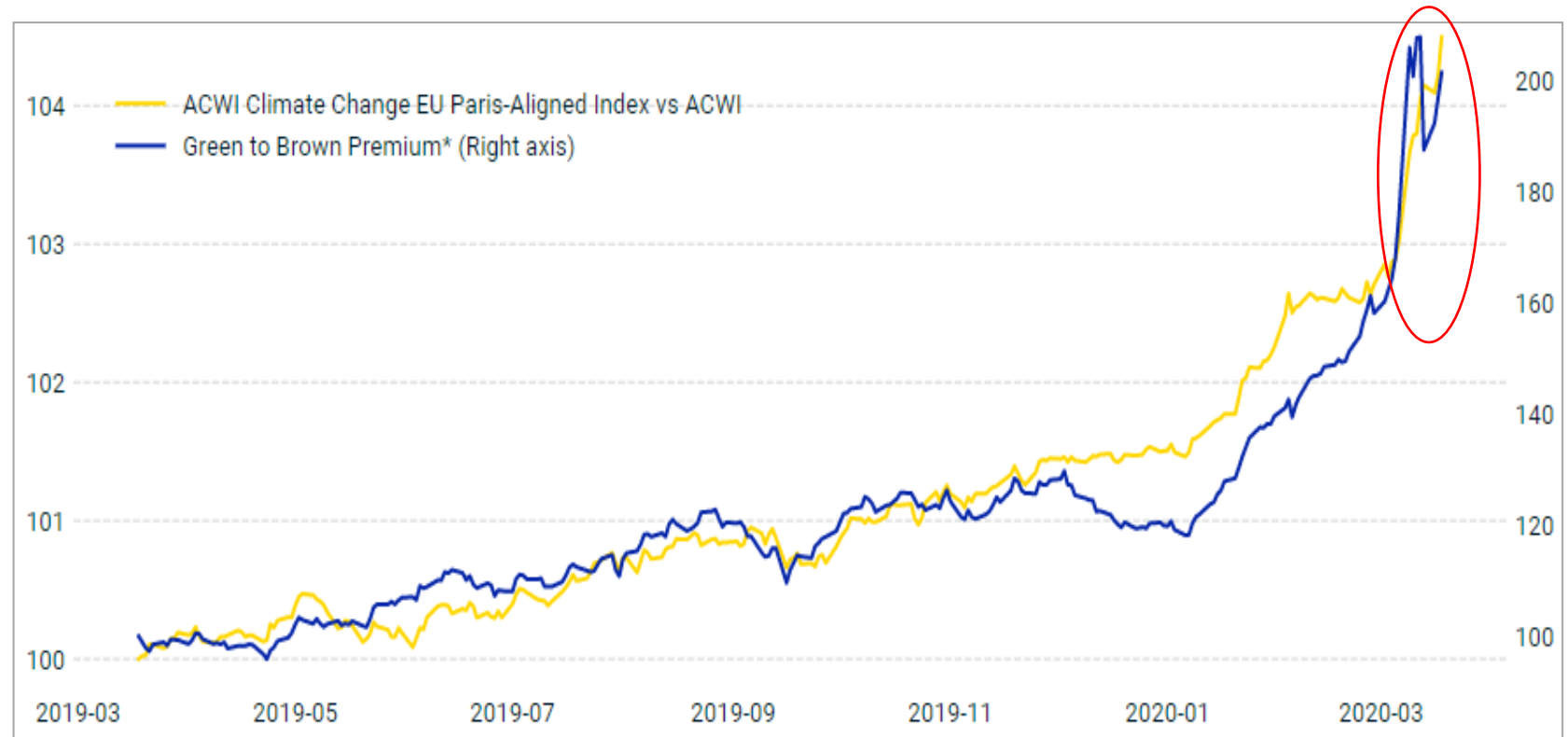
Overview of Climate Risk Integration approaches in equity MSCI Climate indexes



Source: MSCI. Gradient fills denote indexes using optimization techniques.

Climate strategies during the COVID-19 crises

- MSCI Research shows that **green stocks outperformed brown ones** over the past few months, a trend even more pronounced over the past few weeks.
- **MSCI Climate Indexes** are designed to shift from brown to green by underweighting companies exposed to carbon stranded assets and overweighting companies providing green solution



Green defined as: companies with 50% or more revenues from environmentally friendly products or services (alternative energy, energy efficiency, green building, pollution prevention, or sustainable water). These companies are mostly in the Industrials, Utilities, Technology and Real Estate sectors.

Brown defined as: companies with 50% or more revenues from thermal coal mining, generation of power from fossil fuels (thermal coal, liquid fuel, natural gas) and/ or extraction and production of conventional and unconventional oil & gas. These companies are mostly in the Energy and Utilities sectors.

Research on ESG and performance

MSCI ESG Indexes during the coronavirus crisis



ESG and the cost of capital



Has ESG affected stock performance?



Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk and Performance



Looking inside ESG indexes



Understanding MSCI ESG Indexes



Integrating ESG into factor portfolios



Corporate-bond performance by factors and ESG



Research on ESG and performance

ESG INTEGRATION IN ACTIVE, FACTOR AND PASSIVE PORTFOLIOS

MSCI ESG Research Insights



FOUNDATIONS OF ESG
INVESTING – PART 1

How ESG Affects
Equity Valuation,
Risk and
Performance



FOUNDATIONS OF ESG
INVESTING – PART 2

Integrating ESG
into Benchmarks



FOUNDATIONS OF ESG
INVESTING – PART 3

Integrating ESG
into Passive
Institutional
Portfolios



FOUNDATIONS OF ESG
INVESTING – PART 4

Integrating ESG
into Factor
Strategies and
Active

Academic publications by MSCI

The Journal of Portfolio Management

Giese, G., L.-E. Lee, D. Melas, Z. Nagy and L. Nishikawa.
“Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk and Performance.” Journal of Portfolio Management, forthcoming July 2019.

indexinvesting

ETFs, ETPs & Indexing

Giese, G., L.-E. Lee, D. Melas, Z. Nagy and L. Nishikawa.
“Performance and Risk Analysis of Index-Based ESG Portfolios.” The Journal of Index Investing Spring 2019, 9 (4), pp. 46-57.

THE JOURNAL OF INVESTING

Nagy, Z., A. Kassam and L. Lee. “Can ESG Add Alpha? An Analysis of ESG Tilt and Momentum Strategies.” Journal of Investing, Vol. 25, No. 2, pp. 113-124.

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