Twitter Thread by Jeffrey Ptak

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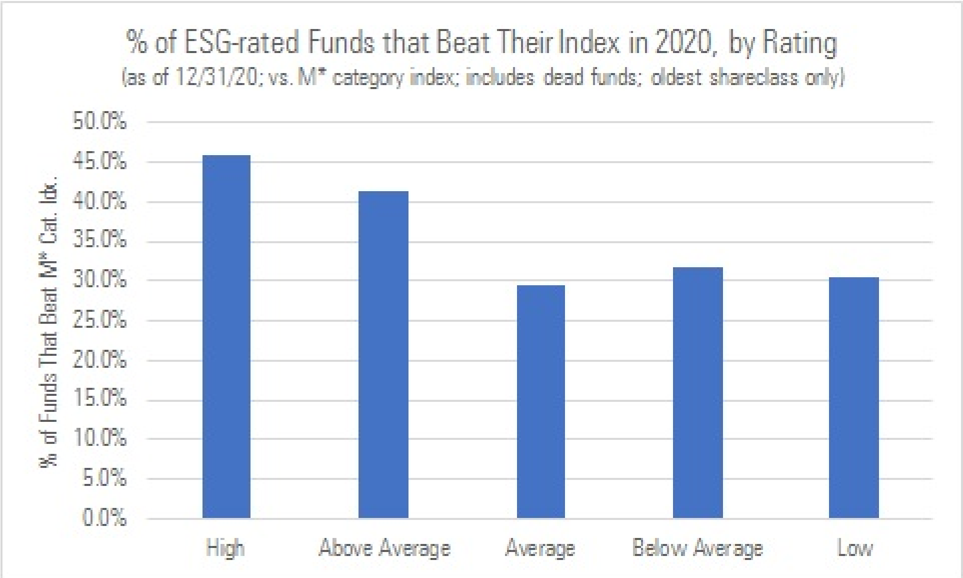
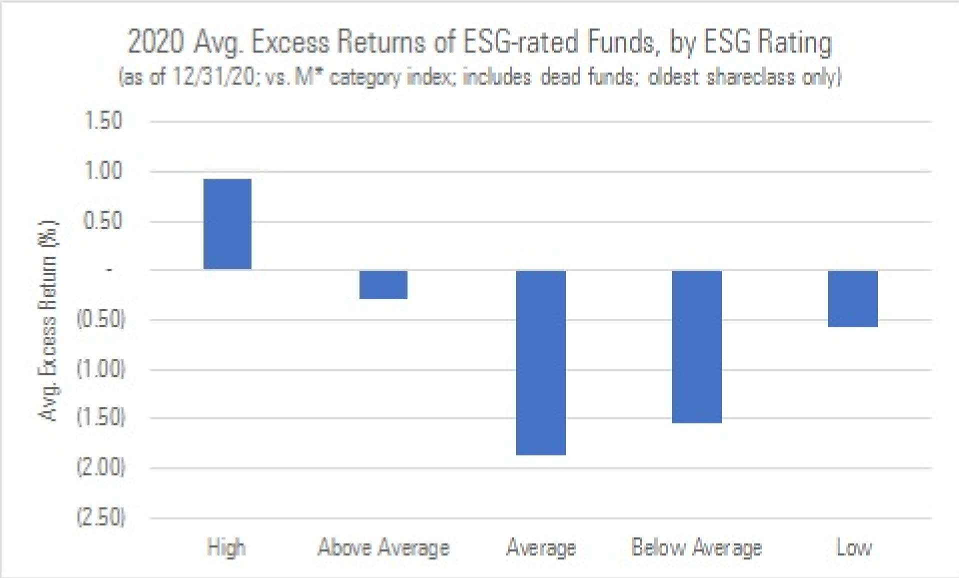
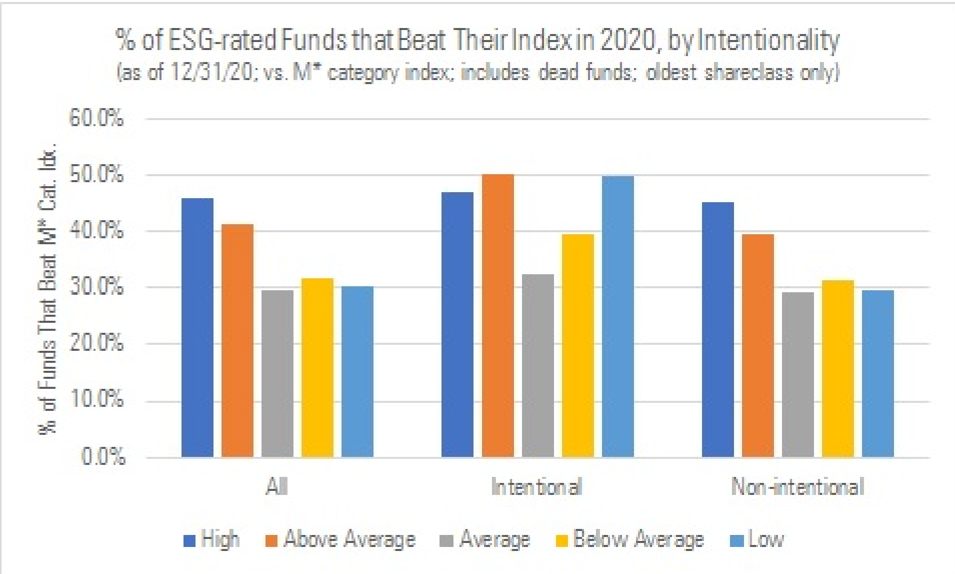
How'd funds fare in 2020 when viewed through an ESG lens? We assign Globe Ratings, w/'High' (ie 5 globes) going to funds whose holdings court less ESG risk and vice versa for 'Low' (1 globe). Tldr: Funds w/higher ESG ratings beat their M* idx more often than those w/lower ratings



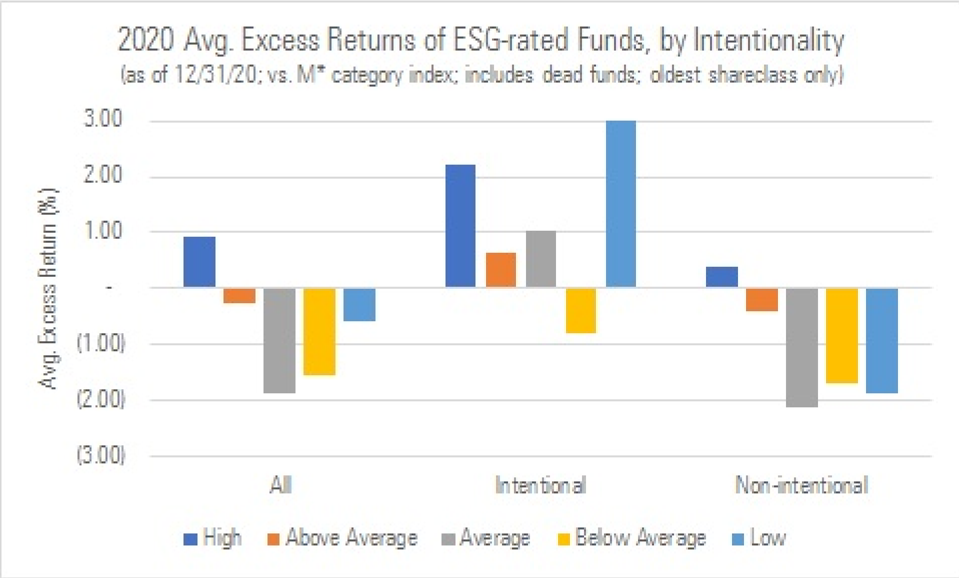
Given this, it's not too surprising that higher ESG-rated funds generated larger avg. excess returns (vs. M* cat. index) in 2020 than lower ESG-rated funds, meaning there was a better payoff to investing in funds that courted less ESG risk. That said, caveats apply...



1st caveat: When we look at success rates by 'intentionality' (ie, is strategy intentionally aiming to incorporate ESG, etc), we find success rates don't vary much by rating. In other words, success didn't depend as much on whether fund was actually *trying* to minimize ESG risk

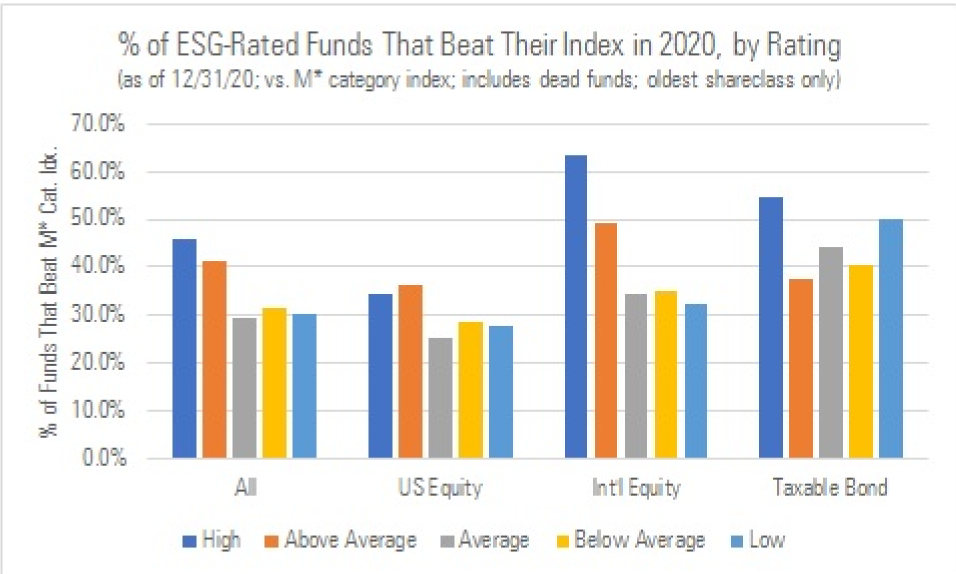


Along those lines, there was a better payoff to minimizing ESG risk among non-intentional than intentional ESG funds. That is, there was a wider spread in the avg. excess return of higher- and lower-ESG rated non-intentional funds than there was among intentional funds. Nuanced.

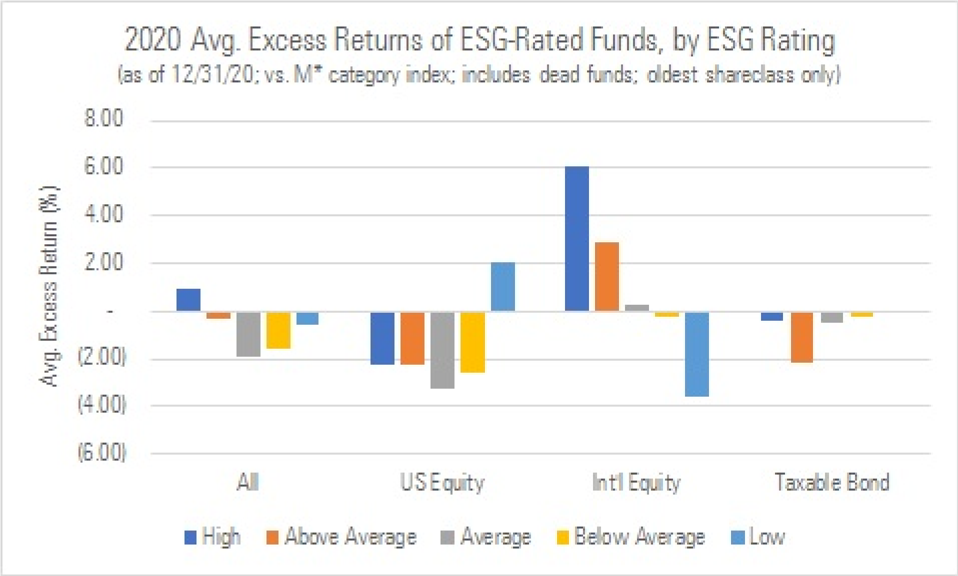


Worth noting there are relatively few 'intentional' ESG funds. Of 4,000+ funds I examined, ~460 were classified 'Sustainable Investment--ESG Overall' as of 12/31/19, the starting point for the study. So, non-intentional funds drive the results.

2nd caveat: Relationship between ESG risk/fund success varied a lot by asset class. Nearly all ESG-rated funds invest in stocks (US stock funds >50% of all). Relationship strongest among intl stock funds, where higher ESG-rated succeeded nearly twice as often as lower ESG-rated.



This is even more apparent when we examine avg. excess returns by ESG risk and asset class. There's not a clear relationship between ESG risk and avg. payoff among US stock and bond funds whereas it's much clearer among intl stock funds.



There's a lot of debate about whether incorporating ESG helps or hurts returns and I'm not sure the above--which covers a single year and looks at it on a few relatively simple measures--settles it any. But hopefully it sheds a bit of light on perf trends last year, fwiw. /end

ps -- I'm aware that some ESG investors don't concern themselves with beating a benchmark, as they measure their goals in other ways/non-financial terms. Given that, the above will be irrelevant to them.

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