

# ESG: a miérttől a hogyanig

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Nagy Zoltán, MSCI



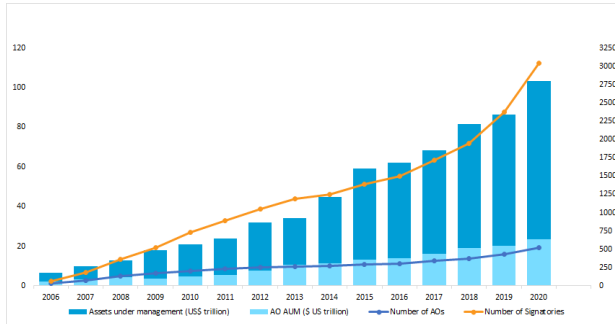
# ▼ Tartalom

1. Az intézményi befektetők motivációi
2. ESG modellek összeállítása
3. ESG integráció a gyakorlatban
4. Koronavírus: az életnagyságú teszt

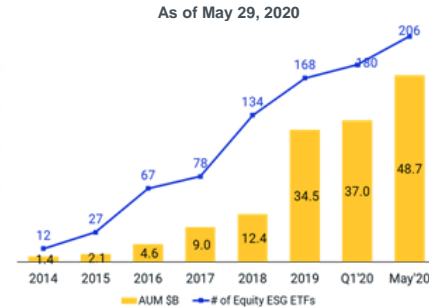


# ESG investing is growing dramatically...why now?

**UN PRI\* Has Grown to Over 3,000 Signatories with \$110 Trillion in AUM\***



**MSCI ESG Index linked equity ETFs <sup>2</sup> 140% growth of assets YOY**



## HERE'S WHY:

**1. Investors have become less tolerant of corporate ESG incidents**

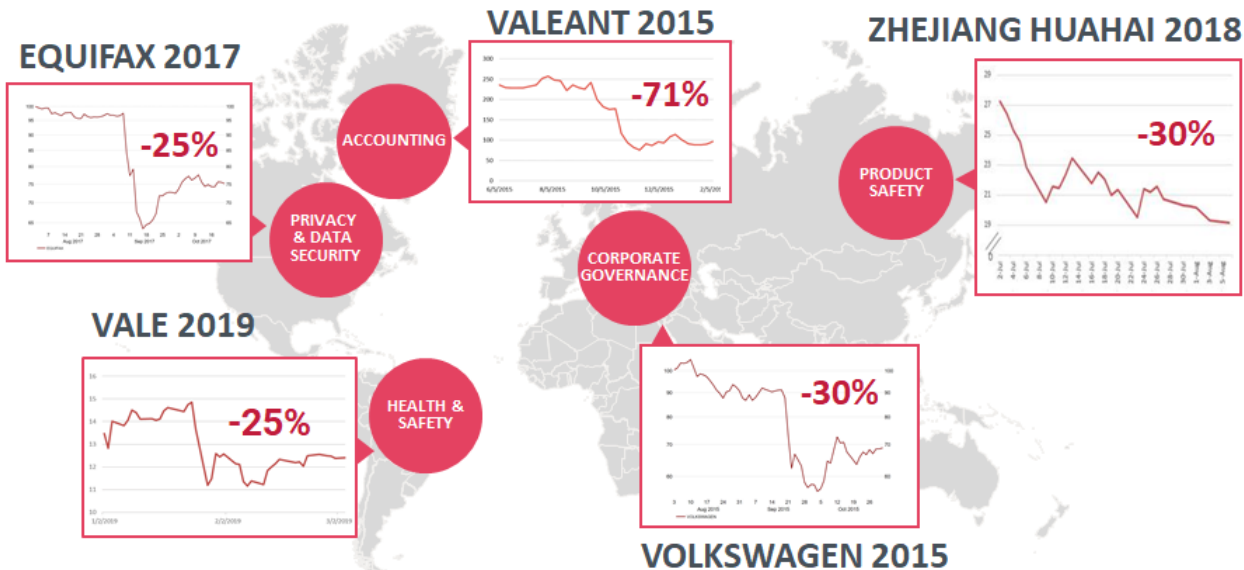
**2. Investors demonstrating willingness to act**

**3. Greater understanding of potential financial benefit**

**4. Improved ESG ratings**

# Investors have become less tolerant of corporate ESG incidents

30 years ago, Exxon's stock price barely moved when Exxon Valdez spilled 11mm gallons of oil on the Alaskan shore.\* Today, with social media allowing for immediate, global communication of issues, investors are making companies accountable for their actions.



\*Source: <https://www.fool.com/investing/general/2014/03/24/25-years-on-from-exxon-valdez-what-weve-learned-wh.aspx>; Examples only. Past performance is not indicative of future results, which may differ materially.

# Greater understanding of potential financial benefits

## ACADEMIC STUDIES BUILD CASE FOR FINANCIAL IMPLICATIONS

### Higher cost of capital

for poor ESG performers, including loan debt, bond debt, and cost of equity.

### Higher volatility

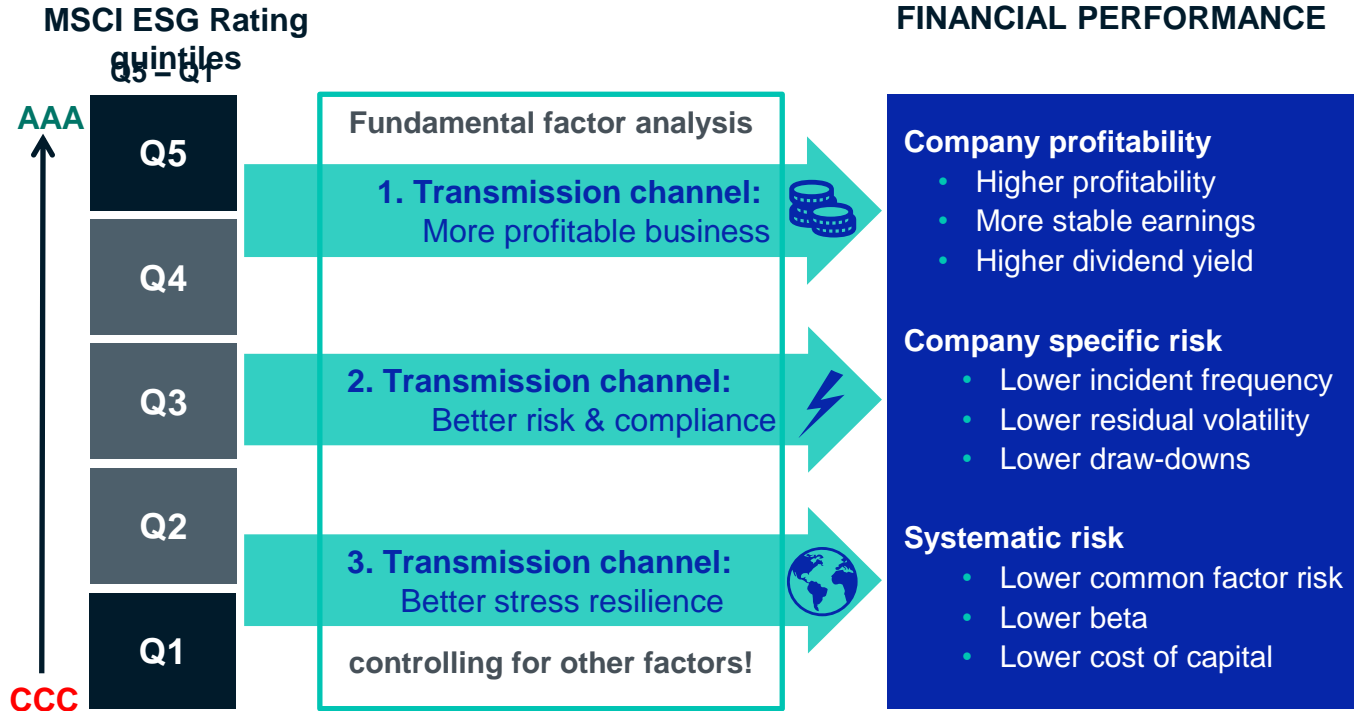
for poor ESG performers and after ESG events such as spills, labor strikes, and fraud.

### Accounting irregularities and performance

linked to ESG and broad governance factors.

# Foundations of ESG Investing

## POTENTIAL IMPACTS ON PROFITABILITY, COMPANY RISK AND SYSTEMATIC RISK





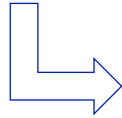


# ESG, Meet Industrialization

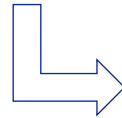
**FROM...**



*hand-crafted,  
1 company: 1  
analyst*



*'scale' driven,  
specialization*

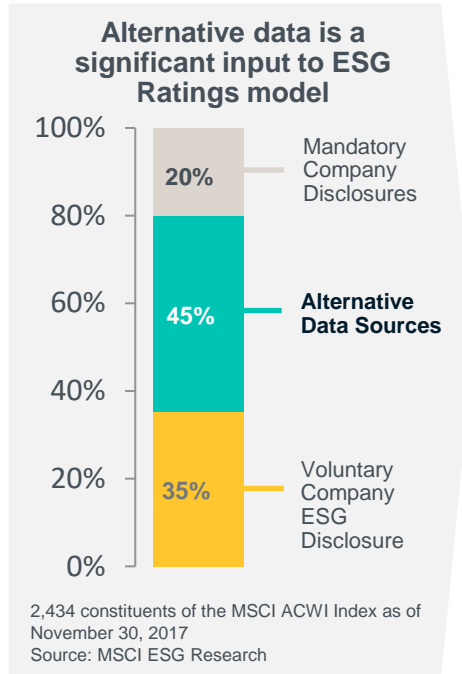


**TO...**



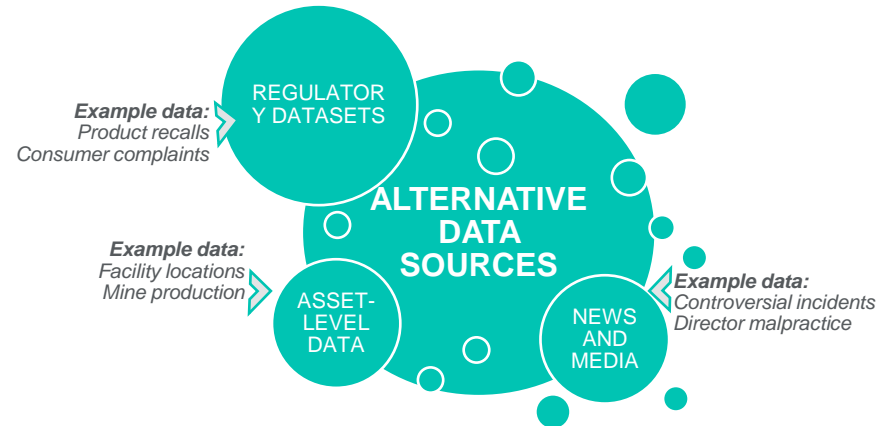
*scale + insight,  
tech-enabled human  
insights*

# Alternative data helps minimize reliance on voluntary disclosure to deliver key insights

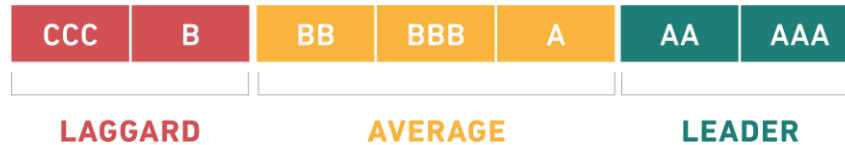


**Alternative data sets** are *information about a company published by sources outside of the company*. We use them to:

- Deliver insight not captured with voluntary company disclosures
- Identify unexplored risks and opportunities
- Create innovative signals



# ESG Ratings methodology



COMPANY, INDUSTRY, AND THEMATIC REPORTS



RATINGS, SCORES AND DATA



PORTFOLIO ANALYTICS & ESG INDEXES

# ESG Ratings focus on **most relevant** ESG factors by industry

INDUSTRY-SPECIFIC		UNIVERSALLY APPLICABLE
ENVIRONMENTAL (E)	SOCIAL (S)	GOVERNANCE (G)
<b>Climate Change</b> Carbon Emissions Product Carbon Footprint Financing Environmental Impact Climate Change Vulnerability	<b>Human Capital</b> Labor Management Health & Safety Human Capital Development Supply Chain Labor Standards	<b>Corporate Governance</b> Board Pay Ownership Accounting
<b>Natural Capital</b> Water Stress Biodiversity & Land Use Raw Material Sourcing	<b>Product Liability</b> Product Safety & Quality Chemical Safety Financial Product Safety Privacy & Data Security Responsible Investment Ins. Health & Demographic Risk	<b>Corporate Behavior</b> Business Ethics Anti-competitive Practices Corruption & Instability Financial System Instability Tax Transparency
<b>Pollution &amp; Waste</b> Toxic Emissions & Waste Packaging Material & Waste Electronic Waste	<b>Stakeholder Opposition</b> Community Relations* Controversial Sourcing	
<b>Environmental Opportunities</b> Clean Tech Green Building Renewable Energy	<b>Social Opportunities</b> Access to Communications Access to Finance Access to Health Care Nutrition & Health	



ESG

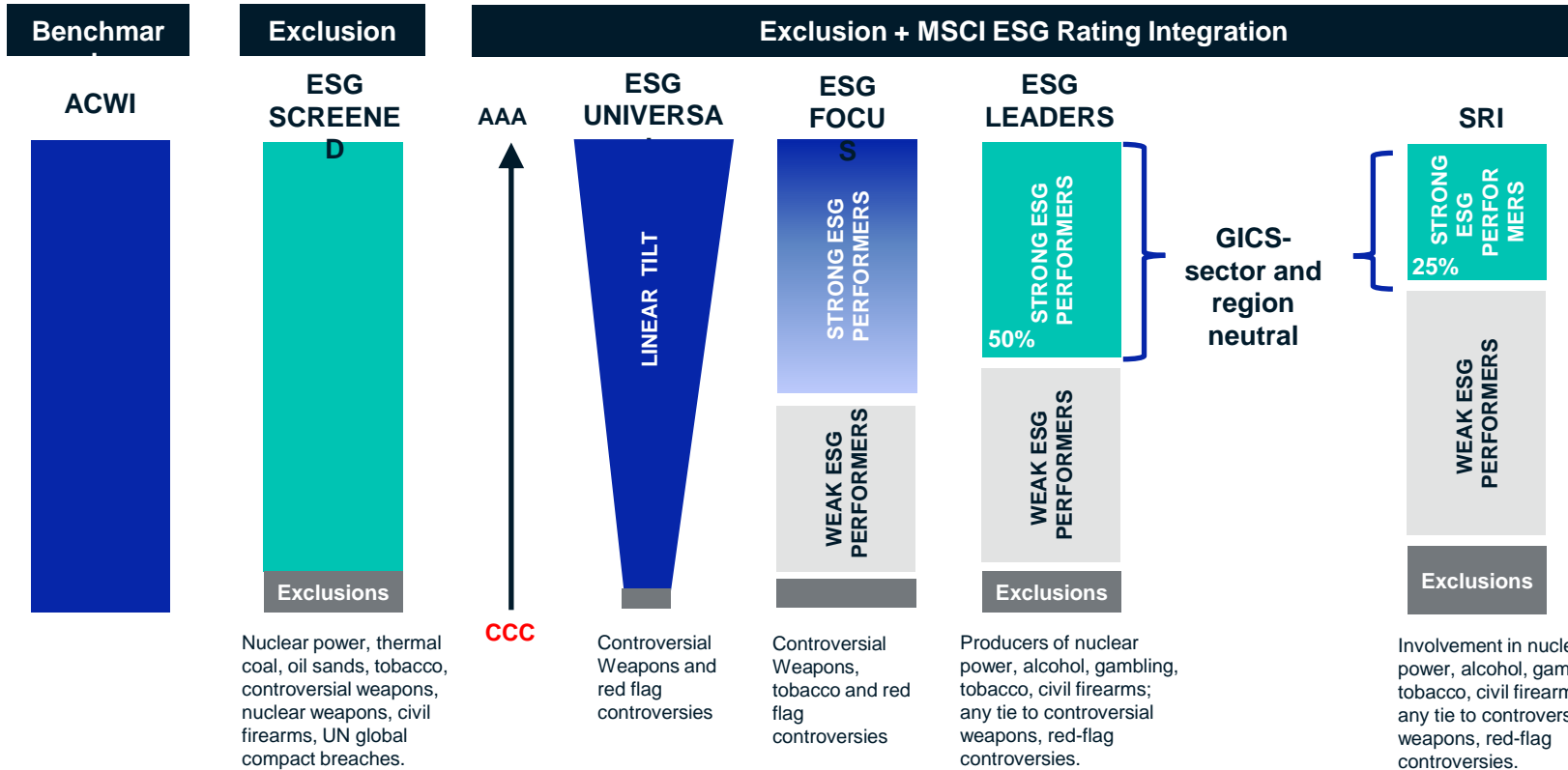


# Align investor objectives with investment design

Incorporating ESG into investment strategy or creating products typically starts with understanding client objectives, which may combine elements of managing long-term risk, reflecting values and positive impact.

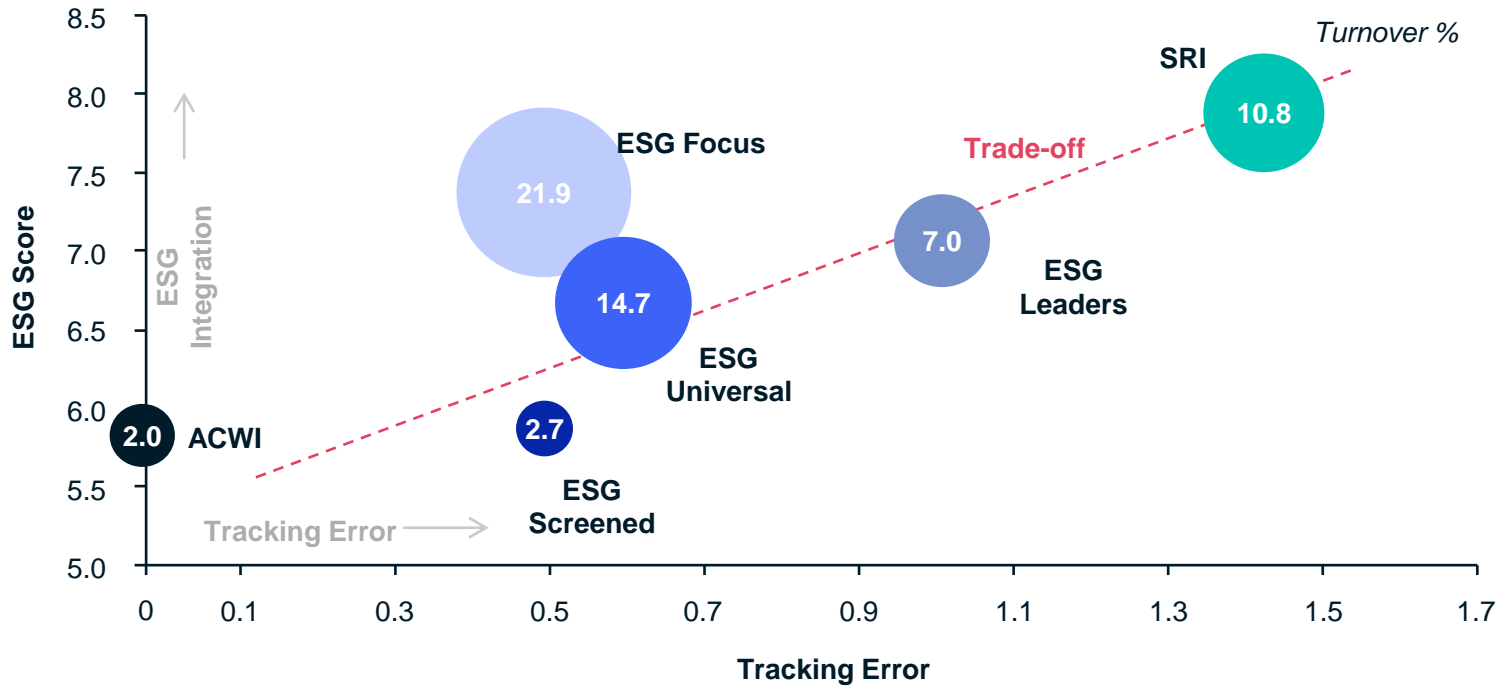


# How to integrate ESG into indexes



# MSCI ESG Index construction approaches

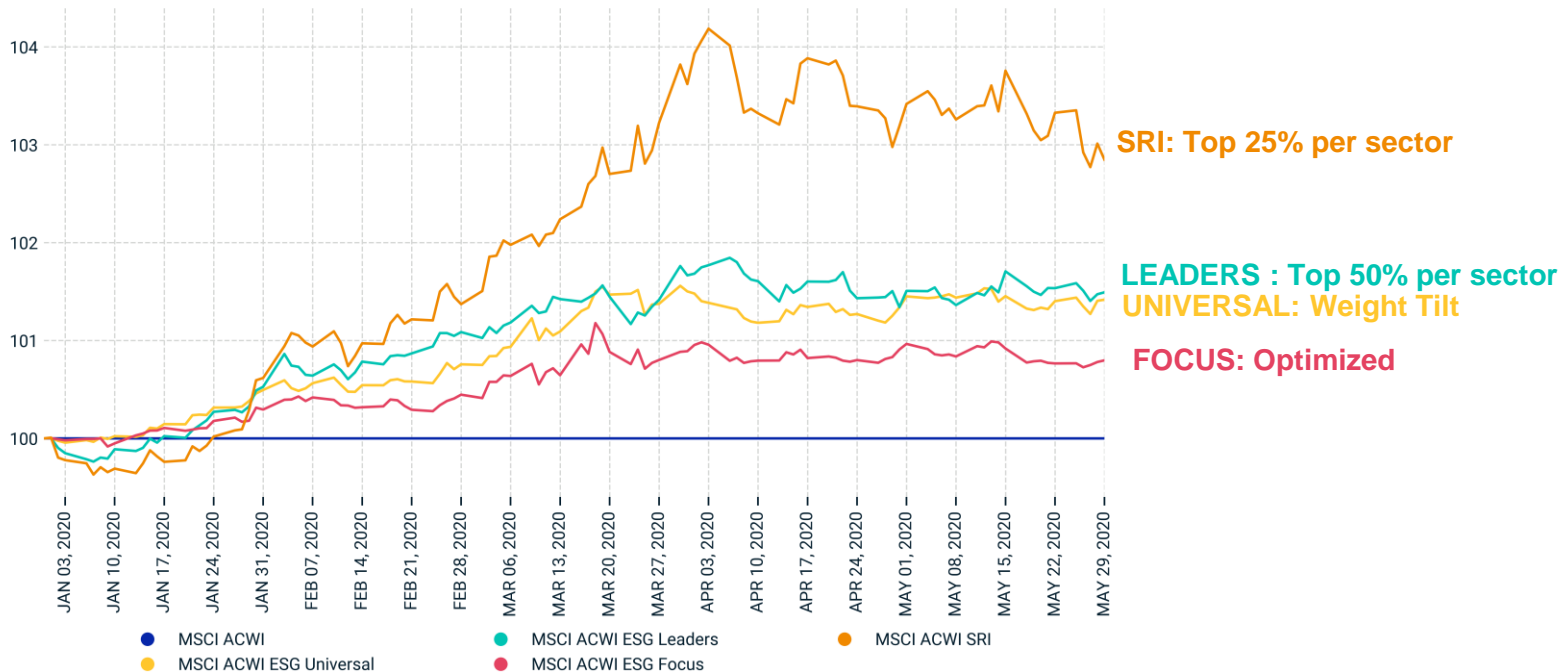
Trade-off: ESG integration versus tracking error and turnover





# MSCI Indexes during the COVID-19 market crisis

Relative performance from 31 December 2019 to 31 May 2020

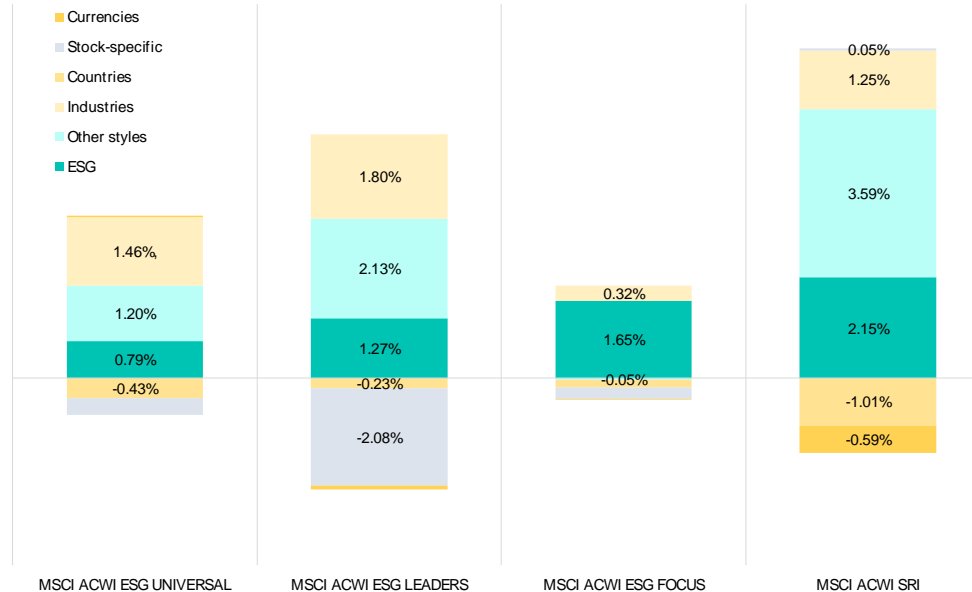


# MSCI Indexes during the COVID-19 market crisis

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



# Konklúziók

- **Intézményi befektetők** oldalról továbbra is növekvő igény van ESG szempontok figyelembe vételére a befektetések kezelése során, ideértve a klímaváltozás okozta kockázatokat
- A gyenge gazdasági növekedés mellett, és a terjedő hozamsivatagban egyre kevésbé megbocsáthatóak a **látható veszteséget** okozó vállalati botrányok és botlások
- Növekvő jelentési kötelezettségek mellett alternatív adatforrások használatával és innovatív adatbányászati technikákkal szolgálható ki a kapcsolódó **adatigény**
- A koronavírus kiváltotta válsághelyzetben relatíve jól teljesítettek a **defenzív** jellegű ESG befektetések

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