

Sustainable Finance and ESG Investing (60 hours, 9 ECTS)

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Objectives and Structure

The purpose of the course is to provide students with concepts and knowledge of sustainable finance. After introducing the basics of traditional finance, they will be developed, extended, and integrated, to explain how an apparently purely financial and short-term concept is indeed strongly related to environmental and social aspects, that are long-term values. The course describes why and how serving shareholders' interest and having success in the long run require looking after environmental, social, and governance needs. It also demonstrates that stakeholders' and shareholders' interests are more aligned than one can think.

Outline

- Finance as usual (shareholder value theory): traditional tools to analyze stocks, bonds, and their portfolios
 - ✓ Basics of fundamental analysis and technical analysis
 - ✓ Basics of bond analysis
 - ✓ Evaluation of portfolio performance and risk
- From shareholder value to sustainable finance: theory, approaches and ongoing debate
 - ✓ Enlightened shareholder value
 - ✓ Stakeholder value (Triple Bottom Line)
 - ✓ Pieconomics and common good value
- Measuring and pricing externalities, forms of internalization, and the concept of Integrated Value.
- How to move from short term horizons to long term value creation
 - ✓ Changing business models and reporting mechanisms
 - ✓ The role of intangibles
 - ✓ Principles of materiality, comparative advantage, and multiplication
- How firms are incentivized to create value for the long term
 - ✓ Optimizing executive and employee compensation
 - ✓ Investor engagement: the role of hedge funds; mutual, pension, and index funds
 - ✓ Share repurchases: are they the evil?

- ✓ Incorporating sustainability into the board of director and internal committees
- ✓ Other corporate governance issues
- Measuring and disclosing a firm's sustainability
 - ✓ Common metrics and Integrated Reporting
 - ✓ ESG rating agencies
 - ✓ Pros and cons of ESG ratings
- Firm performance and sustainability: Empirical evidence
- Integrating ESG issues in equity investment strategies
 - ✓ Negative screening, integration, best-in-class, and other strategies
 - ✓ Is sustainability a source of higher investment performance? Evidence from ESG funds' performance and risk
 - ✓ Impact investing
- Integrating ESG issues in investment strategies without voting power
 - ✓ Green bonds
 - ✓ Social bonds
 - ✓ Social impact bonds
- EU Regulation on sustainability
 - ✓ Taxonomy (Regulation (EU) 2020/852)
 - ✓ Corporate sustainability reporting (Regulation (EU) 2022/2464, NFRD)
 - ✓ Sustainability finance disclosure (Regulation (EU) 2019/2088, SFDR)
- The bottom line: conclusions, proposals, guidelines, and challenges of tomorrow's sustainable finance

Textbooks and Teaching Material

Mandatory readings

- a) Schoenmaker, D., & Schramade, W. (2018). **Principles of sustainable finance**. Oxford University Press. Chapters 1-2-3-5-6-7-8-9
- b) Edmans, A. (2021). **Grow the pie: How great companies deliver both purpose and profit**, updated and revised version. Cambridge University Press. Chapters 1-2-3-4-5-6-7-8-9

Suggested readings

- 1) Barber, B. M., Morse, A., & Yasuda, A. (2021). Impact investing. *Journal of Financial Economics*, 139(1), 162-185.
- 2) Berg, F., Koelbel, J. F., & Rigobon, R. (2022). Aggregate confusion: The divergence of ESG ratings. *Review of Finance*, 26(6), 1315-1344.

- 3) Bolton, P., & Kacperczyk, M. (2021). Do investors care about carbon risk?. *Journal of financial economics*, 142(2), 517-549.
- 4) Flammer, C. (2021). Corporate green bonds. *Journal of Financial Economics*, 142(2), 499-516.
- 5) Gibson Brandon, R., Glossner, S., Krueger, P., Matos, P., & Steffen, T. (2022). Do responsible investors invest responsibly? *Review of Finance*, 26(6), 1389-1432.

Final assessment

Oral exam