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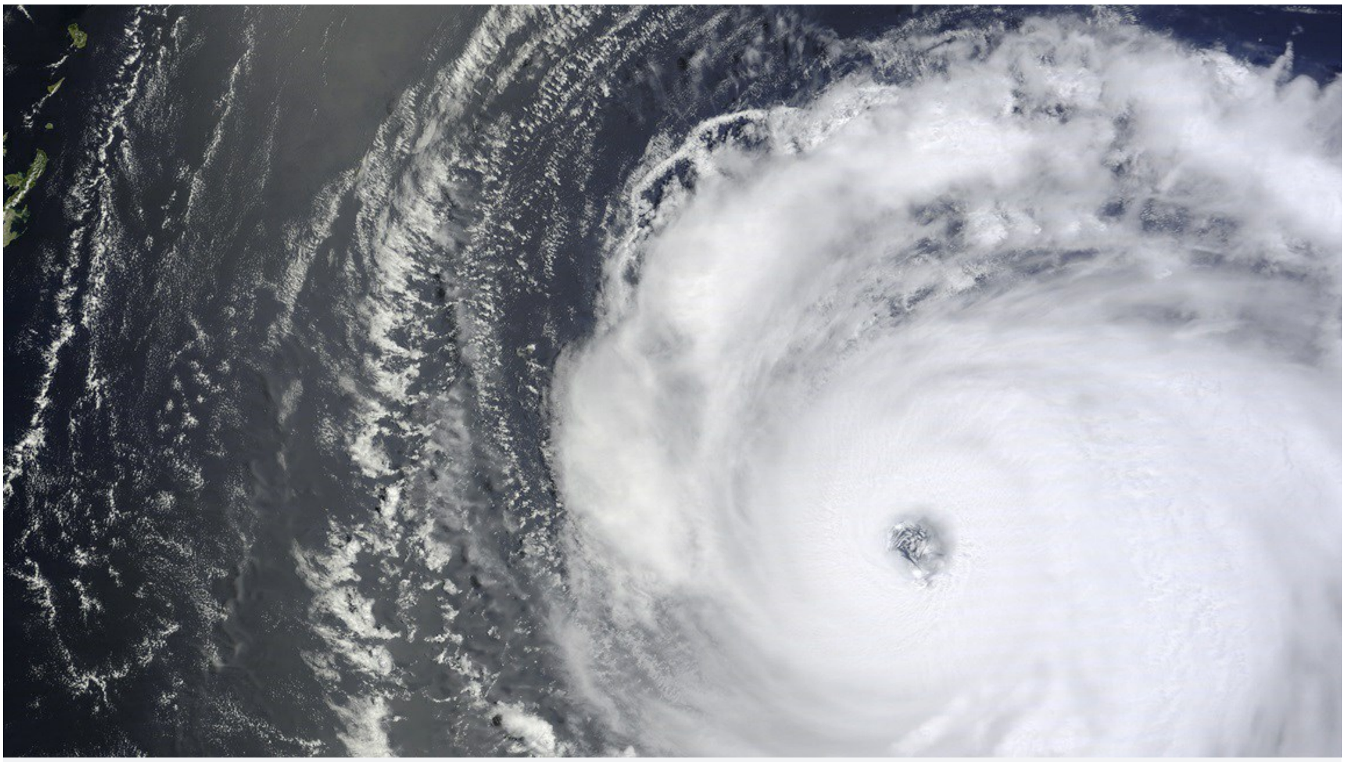
# Why ESG Investing Really Matters to Investors

Steffen Hörter | 27/11/2015




## Summary

Read why our Head of ESG thinks investing sustainably can have a positive impact on portfolio performance and why active managers may just be in the sweet spot to benefit from this fundamental research platform.


*AllianzGI publishes a magazine called* ESG matters *– but does ESG really matter to investors, and if so, how?*
The short answer is yes. Asset owners increasingly look at the financial impact of ESG integration. There has been an ongoing debate on how the integration of Environmental, Social and Corporate Governance (ESG) factors affect risks and return of investment portfolios. In order to get more insight into the topic, we launched a series of research with an initial focus on evidence for financial materiality of ESG for equities. For this purpose, we screened recent, high-quality academic and industry research. In total, we analyzed nine selected core studies and one meta-study, which includes more than 190 sub-studies.

*What are the key findings of your meta-study?*
The overall conclusion is that integration of material, industry sector relevant ESG criteria into equity investment strategies may contribute to better risk adjusted returns. In particular, our findings indicate that ESG integration into stock selection may contribute to volatility reduction in equity portfolios. High ESG performing corporates seem to surprise markets less often and contribute to quality stock selection.

*Are all three ESG dimensions equally important?*
Of the three ESG dimensions, good corporate governance appears to be the most relevant to creating shareholder value. However, the materiality of ESG dimensions and the type of ESG criteria may change significantly across industry sectors. For example in the financial sector, environmental factors are of smaller weight compared to the mining or fossil energy sector. Hence good bottom-up ESG research needs to reflect these differences through for example, sector-adjusted ESG ratings.

*In the light of the global attention that environmental and climate risk currently receive shouldn't Environment be the dominant ESG dimension?*

There is no doubt there is a strong need to fight global warming on a global level. And people are rightly asking global leaders to come up with solutions. At a company level, climate risk can be both a challenge as well as an opportunity. It seems quite intuitive that good corporate governance will also positively influence how well climate change related risks, for example regulatory or technology changes, are anticipated in the business and shareholder value strategy of corporations. Both dimensions, corporate governance and environmental factors may be important drivers of future stock price performance.

*How can ESG integration support alpha creation in equity portfolios?*
According to research evidence, an encouraging approach to create alpha appears to be a forward-looking ESG momentum strategy, which focuses on the selection of stocks where improvements of material ESG factors at a corporate issuer or industry level can be expected but haven't been priced in yet. I am strongly convinced that active investment strategies are very well positioned to utilize ESG signals which have the potential to achieve better outcomes for clients.

For more information, read ESG in Equities or our latest issue of ESG Matters.



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- ESG in Equities
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# Steffen Hörter

Global Head of ESG

Dr Steffen Hoerter is the Global Head of ESG at Allianz Global Investors which he joined in 2001. He is internationally responsible for the ESG integration strategy at AllianzGI including ESG Policy and Framework, ESG Investment Positioning, ESG Investment Offering/ Product Design and ESG Client Investment Advisory. Dr Hoerter has published various whitepapers and thought leader pieces on financial materiality of ESG in Equities, ESG in Corporate Fixed Income, ESG in Sovereign Bonds and ESG in Strategic Asset Allocation. Between 2010 and 2016 he has been advising institutional investors, in particular pension funds in Europe on investment strategy, risk management and ESG. Prior to joining Allianz Global Investors, Dr Hoerter worked as a Management Consultant for banks and risk management at an international consultancy firm. Dr Hoerter studied Business Administration in Regensburg, Edinburgh and Ingolstadt/Eichstaett. He holds a doctorate from the Catholic University of Eichstaett-Ingolstadt, where he worked as a lecturer at the Department of Finance and Banking at WFI – Ingolstadt School of Management.

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Multiple Authors | 04/12/2015


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