

# What is ESG?

# Where do strategies get invested?

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# What is ESG?

Environmental, social, and governance (ESG) investing refers to a set of standards for a company's behavior used by socially conscious investors to screen potential investments.

Environmental criteria consider how a company safeguards the environment.

Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates.

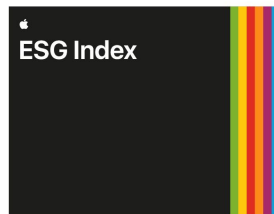
Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.



# ESG Quantification Strat 1

## Good Ole Company Reports

- Companies publish their own ESG and Business/Sustainability reports.
- Found underneath investor relations
- Takes a long time to read through but comes directly from the source.
- Take a qualitative approach similar to previous years and if company seems to have ESG initiative that align with fund then it is eligible.



## Apple's ESG Report & Index

We're furthering our commitment to transparency with Apple's Environment, Social and Governance (ESG) report, which brings together existing and new disclosures.

[Read Apple's ESG Report >](#)

We've mapped our ESG disclosures across metrics outlined in the Global Reporting Initiative (GRI), Sustainable Accounting Standards Board (SASB) and the Task Force on Climate-Related Financial Disclosures (TCFD) voluntary disclosure frameworks.

[View Apple's ESG Index >](#)

# ESG Quantification Strat 2

## MSCI ESG Ratings

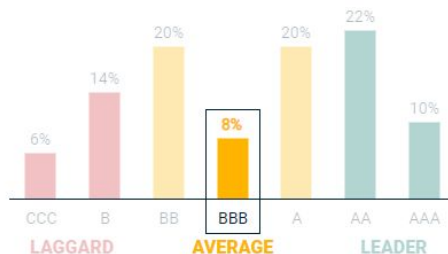
- Each underlying security must have a minimum MSCI rating of “A”
- Have to create an account with student email to get access to ratings
- Has access to 8,500 companies and more than 680,000 equity and fixed income securities globally



Apple is **average** among 137 companies in the technology hardware, storage & peripherals industry.

### ESG Rating distribution in relation to industry peers

Universe: MSCI ACWI Index constituents technology hardware, storage & peripherals, (137 companies)



# How MSCI determines ESG Ratings

To arrive at a final ESG Rating, the weighted average of individual Key Issue Scores is normalized relative to ESG Rating Industry peers. After any committee-level overrides are factored in, each company's Final Industry-Adjusted Score corresponds to a rating between best (AAA) and worst (CCC).

Figure 1 MSCI ESG Key Issue Hierarchy

3 Pillars	10 Themes	35 ESG Key Issues	
Environment	Climate Change	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Capital	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opportunities in Renewable Energy
Social	Human Capital	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing Community Relations	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opportunities in Nutrition & Health
Governance*	Corporate Governance	Ownership & Control Board	Pay Accounting
	Corporate Behavior	Business Ethics Tax Transparency	

# ESG Quantification Strat 2

## Bloomberg Terminal

- Bloomberg creates a BESG score on a scale from 1 - 10 with 10 being the best.
- Also generates individual pillar scores for Environmental, Social and Governance pillars.
- Shows weights, peer distribution, trend, etc.

## Bloomberg Terminal ESG Functions:

- *FA ESG* - Financial analysis in regards to ESG on individual equities
- *XLTP XESG* - Generates ESG report using Excel Plugin
- *ESG SCORE* - Shows overall ESG score and rank against peers



# ESG Quantification 2 Options

## Option #1

All underlying equities in a trading strategy have to meet the ESG Criteria of one of the ESG quantifications.

## Option #2

Average of equities in trading strategy have to fit ESG Criteria.

- Ex: If we choose Strat 1 then a trading strategy then the underlying average MSCI score has to be an “A”
- However this can be obtained through a mix of As, AA, Bs, etc.

# Which Fund Gets Chosen

The next problem to tackle is which fund gets chosen for an investment.

This was broken down into 4 guidelines. While there are more suggestions than hard set rules, and should help guide investment decisions.

1. Cash on hand
2. Risk
3. Sector Weights





# Which Fund Gets Chosen – Cash on Hand

The first factor to consider for an investment to be feasible is if we have available capital.

Assuming we want to keep a certain percentage of cash on hand (up for discussion) (we recommend ~3-5%), see which fund has the available capital to support the investment, preference given to funds with a higher percent cash.

If no funds have available cash, refer to when to sell (from another presentation), to find positions to exit.



# Which Fund Gets Chosen – Risk

Assuming we have ample cash on hand, fund selection can be done using risk thresholds.

These are up for discussion as to where the thresholds fall, our recommendation for 3 year beta and yearly return std dev (3 year):

## **Davidson:**

Beta: up to 3

Std Dev: 20%

## **Milner:**

Beta up to 2

Std Dev: 15%

## **School:**

Beta: up to 1.5

Std Dev: 12.5%

## **ESG:**

Beta: up to 1.5

Std Dev: 12.5%

# Which Fund Gets Chosen – Sector

In order to more easily decide where funds should be allocated - we should have a discussion on max sector exposure.

We recommend that the total fund have more than 20% of its capital in any one sector.

To maintain even sector weights - we recommend selecting a fund where the strategies largest sector is not one of the two largest sectors in the selected fund.

# Sources

[0]<https://eccles.utah.edu/student-investment-fund/about/fund-description-bylaws/>

[1] (SIF\_Annual\_Report\_2022-2023)

[2]<https://www.forbes.com/advisor/investing/esg-investing/#:~:text=ESG%20stands%20for%20environment%2C%20social,performance%20in%20these%20three%20areas.>

[3]<https://www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp>

[4] <https://www.msci.com/esg-101-what-is-esg>