RIVISTA BANCARIA

MINERVA BANCARIA

www.rivistabancaria.it

ISTITUTO DI CULTURA BANCARIA «FRANCESCO PARRILLO»

Gennaio-Aprile 2024

1-2

Tariffa Regime Libero:-Poste Italiane S.p.a.-Spedizione in abbonamento Postale-70%-DCB Roma

RIVISTA BANCARIA
MINERVA BANCARIA

In copertina: "Un banchiere e sua moglie" (1514) di Quentin Metsys (Lovanio, 1466 - Anversa, 1530), Museo del Louvre - Parigi.

RIVISTA BANCARIA
MINERVA BANCARIA
ANNO LXXX (NUOVA SERIE) GENNAIO-APRILE 2024 N. 1-2

SOMMARIO

ISSN: 1594-7556 **La Rivista è accreditata AIDEA e SIE** **Econ.Lit**

RIVISTA BANCARIA - MINERVA BANCARIA

Rivista Bancaria - Minerva Bancaria è sorta nel 1936 dalla fusione fra le precedenti Rivista Bancaria e Minerva Bancaria. Dal 1945 - rinnovata completamente - la Rivista ha proseguito senza interruzioni l'attività di pubblicazione di saggi e articoli in tema di intermediazione bancaria e finanziaria, funzionamento e regolamentazione del sistema finanziario, economia e politica monetaria, mercati mobiliari e finanza in senso lato.
Particolare attenzione è dedicata a studi relativi al mercato finanziario italiano ed europeo.

La Rivista pubblica 6 numeri l'anno, con possibilità di avere numeri doppi.

Note per i collaboratori: *Gli articoli ordinari possono essere presentati in italiano o in inglese e devono essere frutto di ricerche originali e inedite. Ogni articolo viene sottoposto alla valutazione anonima di due referee selezionati dal Comitato Scientifico, ed eventualmente da un membro dello stesso.*
Gli articoli accettati sono pubblicamente scaricabili (fino alla pubblicazione del numero successivo) sul sito della rivista: **www.rivistabancaria.it**
Gli articoli di norma non dovranno superare le 35 cartelle stampa e dovranno essere corredati da una sintesi in italiano e in inglese, di massimo 150 parole. Per maggiori indicazioni sui **criteri redazionali** *si rinvia al sito della Rivista.*

La Rivista ospita anche, periodicamente, interventi pubblici, atti di convegni patrocinati dalla Rivista stessa, dibattiti, saggi ad invito e rubriche dedicate. Questi lavori appaiono in formato diverso dagli articoli ordinari.

La responsabilità di quanto pubblicato è solo degli autori.

Gli autori riceveranno in omaggio una copia della Rivista
Gli articoli possono essere sottomessi inviando una email al seguente indirizzo: **redazione@rivistabancaria.it**

Istituto di Cultura Bancaria "Francesco Parrillo"

L'Istituto di Cultura Bancaria è un'associazione senza finalità di lucro fondata a Milano nel 1948 dalle maggiori banche dell'epoca allo scopo di diffondere la cultura bancaria e di provvedere alla pubblicazione di *Rivista Bancaria - Minerva Bancaria*. La Rivista è stata diretta dal 1945 al 1974 da Ernesto d'Albergo e poi per un altro trentennio da Francesco Parrillo, fino al 2003. In questo secondo periodo, accanto alla trattazione scientifica dei problemi finanziari e monetari, la rivista ha rafforzato il suo ruolo di osservatorio attento e indipendente della complessa evoluzione economica e finanziaria del Paese. Giuseppe Murè, subentrato come direttore dal 2003 al 2008, ha posto particolare accento anche sui problemi organizzativi e sull'evoluzione strategica delle banche. Nel 2003, l'Istituto di Cultura Bancaria è stato dedicato alla memoria di Francesco Parrillo, alla cui eredità culturale esso si ispira.

Editrice Minerva Bancaria srl

DIREZIONE E REDAZIONE	Largo Luigi Antonelli, 27 – 00145 Roma redazione@rivistabancaria.it
AMMINISTRAZIONE	EDITRICE MINERVA BANCARIA S.r.l. presso PtsClas, Viale di Villa Massimo, 29 00161 - Roma amministrazione@editriceminervabancaria.it

Autorizzazione Tribunale di Milano 6-10-948 N. 636 Registrato
Proprietario: Istituto di Cultura Bancaria "Francesco Parrillo"
Spedizione in abbonamento postale - Pubblicazione bimestrale - 70% - Roma

Finito di stampare nel mese di aprile 2024 presso Press Up, Roma

Segui Editrice Minerva Bancaria su:

SRI VERSUS ESG INVESTING: THE PERFORMANCE OF *MSCI ACWI* SUSTAINABLE IMPACT INDEX

MATTIA CALOSCI*
MARCO SPALLONE**

Abstract

In the last decade, an idea of sustainability has developed that has led to the adoption of environmental, social, and governance (ESG) metrics as a guide for financial decisions. Within this framework, sustainable and responsible investing (SRI) is the most rigorous approach to sustainability to achieve economic and financial goals, including ESG assessments. In the article, the interaction between SRI and ESG metrics will be analyzed: specifically, the performance in terms of returns and volatility of the MSCI ACWI Sustainable Impact index (which includes listed companies whose predominant business meets at least one of the environmental and social goals defined by the SDGs) with that of companies listed in the main MSCI ACWI index (which includes a large sample of ESG-rated companies). We find that the MSCI ACWI Sustainable Impact index performs better than the MSCI ACWI index, mainly due to a selection bias induced by the EU Sustainable Finance Regulation (SFDR).

* Dipartimento di Scienze filosofiche, pedagogiche ed economico-quantitative, Università "G. d'Annunzio" Chieti-Pescara. mattia.calosci@unich.it

* Dipartimento di Scienze filosofiche, pedagogiche ed economico-quantitative, Università "G. d'Annunzio" Chieti-Pescara. marco.spallone@unich.it

Investimenti SRI contro ESG: la performance dell'indice di impatto sostenibile MSCI ACWI – Sintesi

Nell'ultimo decennio il concetto di sostenibilità si è evoluto fino all'adozione di metriche ambientali, sociali e di governance (ESG) da utilizzare come linee guida per le decisioni finanziarie. In questo quadro, l'investimento sostenibile e responsabile (SRI) rappresenta l'approccio più rigoroso alla sostenibilità per raggiungere gli obiettivi economici e finanziari, includendo anche e non solo le valutazioni ESG. Nell'articolo viene analizzata l'interazione tra l'SRI e le metriche ESG: in particolare, la performance in termini di rendimenti e volatilità dell'indice MSCI ACWI Sustainable Impact (che include le società quotate la cui attività prevalente soddisfa almeno uno degli obiettivi ambientali e sociali definiti dagli SDG) con quella delle società quotate nell'indice principale MSCI ACWI (che include un ampio campione di società con rating ESG). Scopriamo che l'indice MSCI ACWI Sustainable Impact ha una performance migliore rispetto all'indice MSCI ACWI, soprattutto a causa di un selection bias indotto dal regolamento UE sulla finanza sostenibile (SFDR).

Parole chiave: SRI; ESG; Investimenti Sostenibili; MSCI ACWI Sustainable Impact Index; Performance finanziarie.

Codici JEL: G10; G15; G28.

Keywords: SRI; ESG; Sustainable Investments; MSCI ACWI Sustainable Impact Index; Financial performance.

1. Introduction

Although not newly created, the topic of financial sustainability has become increasingly important in the globalized society in which we live. It is a widespread opinion that a paradigm shift, in which financial flows should be directed toward sustainable investments able to generate both economic performance and positive impact on present and future society, is urgent.

Since the 1950s, scholars claimed that economic actors must consider not only monetary interests, but also issues related to communities at large (Bowen, 1953). In fact, theories have been developed to combine social and environmental dimensions with economic ones. The main idea was that businesses that were strategically and operationally oriented to meet economic, social, and environmental expectations should adopt production and distribution processes suitable for limiting environmental impact on territories, direct and indirect stakeholders, and promoting sustainable consumption habits and socially active behavior.

A more recent example of this view is the "Triple Bottom Line" model (Elkington, 2007): companies should aim at achieving profits, respecting the rights of workers and the surrounding community, and protecting the environment. They should implement the so-called "profit, people and planet" approach.

In the last decade, a broader idea of sustainability was developed that meets social, environmental, and economic expectations by improving the management of natural, financial, and human resources to reduce waste and, consequently, costs. This evolution led to the adoption of environmental, social and governance (ESG) metrics as a guide for financial decisions.

The main idea is that in an economic system characterized by the massive use of finite resources, the change of approach toward a resilient model that makes more efficient use of natural, social, and financial resources should drive the development of sustainable strategies for companies, funds, and indexes (Mulgan et al., 2011). Shore and Writht (2015) believe that ESG metrics embody this mission, as they show "corporate exposure, risk management, and non-financial opportunities, creating a trend in which the principles and techniques of accounting and financial management are applied to the governance of people and organizations".

In this new framework, sustainable and responsible investing (SRI) represent the most rigorous approach to sustainability, that leverage the ethical and moral component of investment decisions to achieve economic and financial goals, also encompassing ESG evaluations: in fact, green finance represents the key component of sustainable finance aimed at achieving the Sustainable Development Goals (SDGs) (Migliorelli & Dessertine, 2019)[1].

To examine whether financial choices allocate money in a socially responsible manner, at the same time being able to generate higher returns and resilience to supply and demand shocks (such as, for example, those caused by the Covid-19 pandemic), in this article the interaction between SRI and ESG metrics will be analyzed. In particular, the performance in terms of returns and volatility of the MSCI ACWI Sustainable Impact Index (which includes listed companies whose predominant activity meets at least one of the environmental and social goals defined by the SDGs) will be compared with that of companies listed in the MSCI ACWI Index. In our view, the first index is representative of SRI, the second one of ESG investing.

We find out that the MSCI ACWI Sustainable Impact Index performs better than the parent MSCI ACWI Index.

We argue that this result is mainly due to selection bias induced by regulation, in particular by EU Sustainable Finance Regulation (SFDR), aimed at promoting environmental and social criteria in the investment choices of

1 The key events driving the trend on the sustainability and green finance front are COP 21 and the subsequent Paris Agreement. They placed emphasis not only on environmental issues aimed at global climate adaptation to reduce the global average temperature below 2°C compared to pre-industrial levels and continue efforts to limit its increase to 1.5°C; but especially on promoting the environmental transition through financial investments consistent with ambitious targets. In September 2015, the United Nations General Assembly, with its 193 representative countries, prepared a set of goals for the period 2015-2030 by adopting the 2030 Agenda for Sustainable Development (UN, 2015b), which consists of 169 goals and 17 targets for sustainable development called the Sustainable Development Goals (SDGs).

companies belonging to the Sustainable Index, hence fostering SRI, and encompassing ESG metrics in financial strategies. In particular, strategies induced by SFDR in terms of incentives related to EU taxonomy and disclosure requirements for asset managers on how to integrate ESG factors into risk management processes can be seen as the main link between performance and sustainability.

The article is organized as follows. Section 2 summarizes the literature on sustainability, with a special focus on financial issues; section 3 outlines the link between sustainable and responsible investing (SRI) and ESG metrics; section 4 illustrates the comparison between the performance of the MSCI ACWI Sustainable Impact Index and the MSCI ACWI Index. The last section is devoted to concluding remarks.

2. Brief literature review on sustainability

The debate on sustainability has its roots in Malthus' theory and was fueled in the 1950s and 1960s by the contributions of many scholars (among all, see Bowen, 1953).

However, until the 1970s, the so-called Shareholder Theory (Friedman, 1970) remained prevalent, establishing that the primary objective of the firm was the creation of value for shareholders, pursuing exclusively the increase and distribution of profits.

The paradigm shift occurred in 1979, with Carrol's introduction of the "Corporate Social

Performance" (CSP) model (Carrol, 1979). The author provided an initial definition by stating that "corporate social responsibility encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at all times". In this context, the term "stakeholder" was introduced; in fact, the author tackled the issue of business ethics and corporate social responsibility (CSR) in terms of meeting the needs not only of shareholders, but also of other stakeholders.

The contribution that definitively broadened the horizon with respect to shareholder theory is that of Freeman, who in 1984 published the book "Strategic Management: A Stakeholder Approach", in which he provided a new approach to value creation. The theory recognized the relevance of actors outside the firm and promoted a new way of doing business, moving from the single goal of economic return to an "eco-system" type of business. Stakeholder theory proved suitable for considering not only profitability, but also ethics and morality.

In 1985, based on Carrol's theories, Wartick and Cochran (Wartick & Cochran, 1985) developed the landmark model of Corporate Social Performance (CSP). This model started from a critique of Friedman's theory, arguing that the CSP model should integrate the concept of social responsibility[2].

A further important impetus was due to Elkington (1994) through the construction of the Triple Bottom Line (TBL) model, thanks to which the relevance of implementing socially responsible behavior in the long run was recognized, combining environmental objectives with social and economic ones. The TBL (People, Planet and Profit) paradigm involved maximizing the positive impact on employees, the community, and the environment, hence strengthening the idea that the profits were not the only corporate goal.

The main outcome of this stream of research was that the goals of sustainability started to be measured by three directives: economic, i.e., the ability to generate wealth and ensure the survival and development of the enterprise; social, defined as responsibility to the various stakeholders inside and outside the organization; and environmental, interpreted as attention to ecological balance and the proper use of resources. It is now a widespread opinion that the balance between these three directives can foster the long-term development of firms, by preserving them from international boycott initiatives by

2 The first rigorous definition of "Corporate Social Performance" is introduced in 1991 by D.J. Woods as "the configuration of the social responsibility principles, social response processes, policies, programs, and observable outcomes of the corporate organization in relation to the company's social relationships" (Woods, 1991).

consumers or possible contrary reactions from public authorities.

In a properly incorporated CSR strategy, such factors can become elements of competitive enhancement and differentiation[3].

The concept of socially responsible investing (SRI) fits in this view. It naturally includes the components Planet, People, Profit, since through these three targets sustainability is affirmed, and sustainable development is achieved. Although the topic initially emerged from an ethical and philanthropic perspective, it was later realized that it was possible to produce financial returns by combining them with social and environmental elements. To this end, new forms of investment have emerged over time that not only consider sustainable aspects, but also integrate them through strategies designed to optimize performance and shareholder value (Jensen, 2001; Battisti et al., 2019)[4].

The sustained growth of sustainable and responsible investing has benefited from three main developments that have increased its attractiveness to investors (Ronnebog et al., 2008). The first development can be traced back to environmental sciences, with the rise of pollution and warnings from scientists about climate change; the second is the increased awareness that poor corporate governance can be as damaging to the financial sector as it is to the social and environmental sectors; the third involved the belief that institutional investors should increase their purchase of sustainable financial instruments.

However, focusing on financial issues, the most rapid development took place in the early 2000s through the concept of environmental, social, and governance (ESG) metrics[5]. This evolution led to the definition that "sus-

3 Among new developments, the European Commission has required large publicly traded companies to publish socalled "Triple Bottom Line Reporting," a form of financial statements that inform shareholders about the 3P balancing process. The disadvantage of TBL, as with all CSR initiatives, is the absence of common units of measurement; thus, it is complex to add up the three elements, especially social and environmental impacts, which are not subject to economic evaluation, like profits. If companies can address the challenge of how to measure the 3Ps, the TBL framework is an innovative tool that enables companies to use a system to evaluate their decisions from a long-term perspective.

4 Unlike traditional economic and financial theories that referred to investing according to the logic of risk/return, responsible investing encapsulates an ethical and social ideal, in which individuals make choices by relating monetary incentives to the social context in which they live (Akerlof, Kranton, 2000, 2005).

5 ESG ratings are essentially "assessments of companies based on comparative analyses of quality, standards, or

tainable and responsible investing (SRI) is a long-term oriented investment approach that integrates environmental, social, and governance (ESG) factors into the research, analysis, and security selection process within an investment portfolio. It combines financial analysis with an assessment of ESG factors to achieve long-term returns for investors and benefit society by influencing corporate behavior" (Eurosif, 2016)[6].

Because of ESG metrics, the quality of traditional financial analysis increased, as it is required to identify new risks and opportunities; moreover, social and environmental aspects became relevant and fostered higher financial returns (Ricardo, 2018).

The link between SRI and ESG metrics is detailed in the following section.

3. The link between SRI and ESG metrics

As already said, SRI refers to investments that aim at increasing value for both investors and companies through a strategic approach that considers environmental, social, and governance (ESG) metrics. SRI is defined by a set of strategies (see Table 1), based on two different metrics, one positive and the other negative: funds that exhibit negative metrics (for example funds that hold stakes of companies that do not comply with sustainable ethics) cannot be targeted by responsible investors (Ricardo, 2018)[7]. One of the examples of negative screening is "norms-based" screening, which involves excluding certain investments from one's portfolio, based on the principles established

performance related to environmental, social, and corporate governance issues" (Tao, et al. 2018). Such analyses are conducted by rating companies through the study of mandatory non-financial information and integrated sustainability reports (Jackson et al., 2019), providing a concrete score of ESG metrics (Fiore et al., 2020).

6 The idea of SRI is related to that of corporate social responsibility (CSR), defined as the adoption of business practices based on transparency, ethics, and respect for employees, society, and the environment (Rey-Marti et al., 2016; Balyaeva et al., 2020).

7 According to Blowfield and Murray, the risk associated with the application of negative screening is the possibility of having a geographic and sectoral uneven allocation (Blowfield & Murray, 2014).

by the UN Global Compact. Positive screening, on the other hand, helps investors identify investments that perform best on social issues: corporate governance, environmental protection, ethical criteria, and sustainability ("best-in-class" strategies are typical examples of this type of screening)[8].

Table 1 - SRI strategies

Exclusion	Through negative screening, excluding anything that does not meet sustainability and social responsibility criteria (weapons, tobacco, pornography, animal testing).
Integration of ESG	Metrics for initial selection, due diligence, monitoring, and reporting are examined.
Engagment and Voting	Dialogue and confrontation with companies on everything related to sustainability with the aim of influencing the behavior of companies through voting rights in capital participation.
Norm-based Screening	Investment choice based on international regulations and standards (OCSE, ONU)
Best in Class	Approach of selecting or weighting issuers in a portfolio using ESG criteria by selecting the best within a sector.
Sustainability Themed	Selection of assets related to sustainable development.
Impact Investing	Selection of investments in entities that are created with the objective of generating an economic return and a positive and resilient impact on the socio-economic sector (social bonds, green bonds).

Source: Author's elaboration based on elements acquired from Eurosif, 2021.

A significant number of sustainable investors base their choice on the assessment of ESG metrics. ESG indicators, largely excluded from traditional financial analysis, show a strong link to corporate performance. The environmental factor quantifies risks and opportunities arising from climate change, assesses conversion operations to renewable resources to ensure long-term financial stability; the social factor considers appropriate labor standards, gen-

8 According to Blowfield and Murray, positive evaluations (such as promoting optimal working conditions, integrating with environmental criteria in the production chain, preventing corruption, eliminating child labor, and promoting economic and social development) have over the years made companies more responsible in their search for extrafinancial returns (Blowfield & Murray, 2014).

der equality, human rights, health and safety; and corporate governance, on the other hand, refers to the degree of board composition, gender neutrality, understanding of environmental and social risks, potential financial impacts, audit functions, internal controls, and shareholder rights (Townsend, 2017).

Although there are differences between the concept of SRI and ESG investing (see Table 2 for a summary of these differences), these seem to be narrowing as the sustainable investment market develops. However, the main difference between the two relates to the ethical and moral dimensions that are embodied in the more fundamentalist view of SRI, in which, regardless of socially responsible impact, strict constraints are placed that do not necessarily respond to market logic. In SRI, investors select instruments through a top-down approach, while with ESG metrics, investors implement a bottom-up approach to assess risks and opportunities of individual assets by better capturing their intrinsic qualities.

These differences between SRI and ESG investing are reflected in the risk/return comparison between two different set of assets detailed in the following section.

Table 2 - Differences SRI – ESG

SRI	ESG
Investments driven by ethical-moral values	Includes long-term sustainability factors and directs investments towards companies with high potential
Prohibits investing in unethical assets (exclusion strategy)	Does not present investment prohibitions. Assigns values to ESG factors (if values are negative, it does not technically exclude a company from investment but is cause for further consideration)
They are restrictive for investors	Incorporate factors that guide the investor to select securities
SRI analysis is driven by moral factors and is different for every investor	ESG analysis is potentially applicable to all investment options

Source: Author's elaboration based on evidence acquired from Commonfund Institute, 2018.

4. Index performance in terms of total return and risk/return profile

The MSCI ACWI Sustainable Impact Index is an index structured by Morgan Stanley International (MSCI) as a subset of the MSCI ACWI index. In particular, it includes listed companies whose core business addresses at least one of the seventeen goals defined by the United Nations. Sustainable impact sectors include nutritious products, treatment of major diseases, health care products, education, affordable housing, small and medium business lending, alternative energy, energy efficiency, green building, sustainable water, and pollution prevention. The criteria used to select the 154 companies that make up the index are the result of company evaluations provided by MSCI ESG Research Inc.

These criteria are based on MSCI ESG Ratings, which provides an assessment of the company's management of environmental, social, and governance risks and opportunities; MSCI ESG Impact Monitor, which assesses the environmental, social, and governance impacts on all company operations, products, and processes; MSCI ESG Business Involvement Screening Reserch, which screens publicly traded companies that produce arms, tobacco, thermal coal mining, unconventional oil and gas extraction, conventional oil and gas extraction, oil and gas-based power generation, thermal coal-based power generation, and nuclear power generation; and MSCI ESG Sustainable Impact Metrics, which identifies companies that offer products or services in line with the Sustainable Development Goals (UN, SDGs) and have a positive impact on the Environment and Social macro-areas shown in Table 3.

Table 3 - Macro Areas Impact

Macro Area	Topic	Categories
Environment	Climate Change	• Alternative energy • Energy efficiency • Sustainable building
	Scarcity of resources	• Water sustainability • Pollution prevention
Social	Basic necessities	• Nutrients • Pharmaceuticals against major diseases • Health products • Affordable housing
	Empowerment	• Loans to small and medium-sized enterprises • Promotion of education

Source: Author's elaboration based on evidence acquired from MSCI Inc, 2022.

To be included in the MSCI ACWI Sustainable Impact Index, a company must demonstrate that at least 50 percent of its total turnover comes from the sustainable impact categories mentioned in the table above, in addition to meeting minimum ESG standards analyzed and certified by MSCI ESG Reserch Sustainable Impact Metrics (MSCI, 2022).

These minimum standards include total tobacco and alcohol production turnover of no more than 10 percent; non-involvement in predatory lending practices; an ESG rating greater than or equal to BB; and non-involvement in the production of mines, white phosphorus, cluster bombs, depleted uranium, biological and chemical weapons, and nuclear weapons.

The benchmark index is the MSCI ACWI, which includes 2,900 large- and mid-cap companies from 23 developed countries (Developed Markets) and 24 emerging countries (Emerging Markets),[9] operating in the Healthcare, Materials, Real Estate, Consumers Staples and IT technologies sectors.

Of the main index, 154 companies active in the Information Technology, Consumer Discretionary,

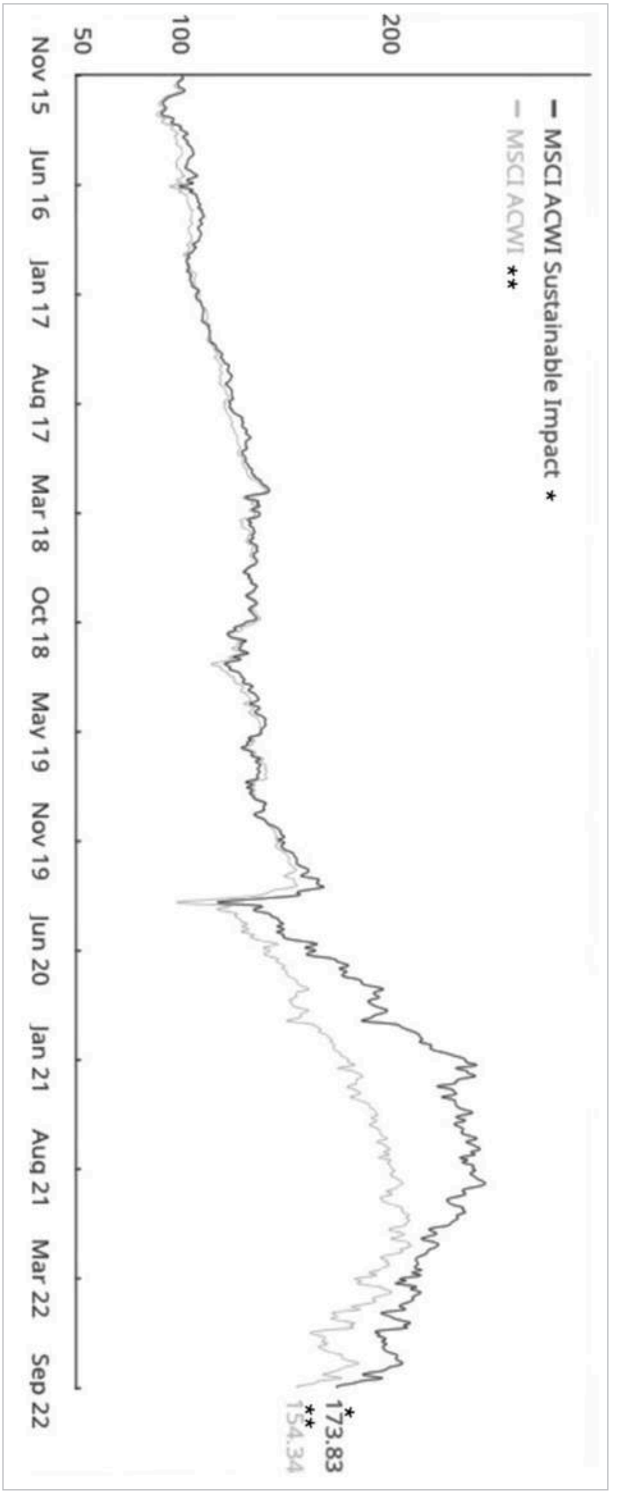
Health Care, Financial, Indistrials, Consumer Staples, Materials, Communication Services, Real Estate, Energy, and Utilities sectors have been selected, making up the MSCI ACWI Sustainable Impact Index.

So, we take the comparison between the two index as a proxy of the comparison between the most fundamentalist view of SRI and the more inclusive approach of ESG investing.

Turning to the analysis of the performance of the MSCI ACWI Sustainable Impact Index, Chart 1 shows that during the time interval November 2015 - September 2022, MSCI ACWI Sustainable Impact Index performed better than the parent index.

9 The Developed Market nations are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.
The Emerging Markets nations are Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

Chart 1 - Cumulative net returns of index performance (USD).



Source: MSCI Inc, 2022.

The following table contain indications of the cumulative net returns of index performance based on risk/return profiles.

Table 4 - Index Risk and Return

	Beta	**Tracking Error %**	**ROT%**	**ANNUALIZED STD DEV %**		**SH ARPE RATIO>2**		**MAXIMUM DRAWDOWN**
				3Yr	5 Yr	3 Yr	5Yr	
MSCI ACWI sustainable Index	0.88	7.32	40.15	18.91	16.59	0.47	0.37	28.95
MSCI ACWI Benchmark	1 .00	0.00	2.62	19.40	17.15	0.25	0.27	33.74

Source: MSCI Inc, 2022.

The performance shown in Chart 1 can presumably be attributed to the application of the Sustainable Finance Regulation (SFDR) 2019/2088 (EU), aimed at promoting environmental and social criteria in the investment choices of companies belonging to the Sustainable Index.

In other words, the result seems to be due to selection bias.

In fact, the securities that make up the best performing fund, turn out to be assimilated to the socalled dark greens (Art. 9 of EU SFDR), i.e., funds whose objective is sustainable investment or reduction of carbon dioxide emissions. In turn, these are the companies that possess MSCI ESG ratings between AAA and BB, which provide them with better market positioning, greater efficiency, and attractiveness for investors.

In particular, EU SFDR regulation distinguishes three types of funds based on their level of ESG ambition.

The first type, referred to in Article 6, is "pale green" funds, which, while legally aligned on the inclusion of risk considerations within their decision-making processes, are not focused on sustainability and may not use the terms "ESG" or "sustainability" in their description.

The second type, referred to in Article 8, is "light green" funds, which are "funds that promote, among other features, environmental or social elements, or a combination of the two, provided that the companies in which investments are made follow good governance practices." To enhance environmental and social features, the fund must adopt the mandatory principle of adverse sustainability indicators (ASI) and integrate sustainability risk indicators into its investment decisions. In addition, light greens require FMPs to disclose in pre-contract documentation how the characteristics are met and whether an index has been chosen as a benchmark and whether it is consistent with the characteristics. Additional disclosure requirements for light green funds, governed by Article 10 of the SFDR, stipulate that to qualify as such, they must present certain information on websites where a description of environmental or social characteristics and information on the methodologies used to assess, measure, and monitor these characteristics are provided.

The third type of funds regulated by Article 9 concerns "dark green" funds, defined as "funds that have sustainable investment or carbon reduction as an objective." The article stipulates that for products with a sustainable investment objective, FMPs must offer information in pre-contractual disclosures on how to achieve this objective. Where an index is chosen as the benchmark, how it is aligned with the objective must be made explicit. According to Article 9, the Fund's portfolio must be evaluated based on the principle of "no significant harm," taking into account IAPs and incorporating considerations of minimum social guarantees specified in the Taxonomy Regulation (Regulation (EU) 2020/852 establishing a framework to facilitate sustainable investments). Fundamentally, the criteria developed by the regulation pursue the principle of dual materiality: companies will have to provide clear information on both the risks they face and the impact of their activities on sustainability factors (Forum for Sustainable Finance, 2021).

The risk/return evidence, illustrated in Table 4, shows that the MSCI ACWI Sustainable Impact Index, at both three and five years, exhibits a lower standard deviation (that is, lower volatility) and a higher return (see the column Sharpe Ratio) than the benchmark, MSCI ACWI. A reduced maximum drawdown compared to the benchmark is also observed.

Again, the idea that these funds are compliant with Art. 9 of EU SFDR regulation may provide a plausible rationale for this evidence.

5. Concluding remarks

The article addresses the issue of financial sustainability, which takes the form of so-called sustainable investments, suitable for developing strategies that combine the ethical and moral component in investment decisions to achieve economic and financial objectives.

In particular, the paper illustrates the differences between SRI and ESG investing, both from a theoretical and an empirical standpoint.

In fact, considering the time interval analyzed (November 2015-September 2022), we compare the relative performance of the return and volatility of the MSCI ACWI Sustainable Impact index (which includes listed companies whose predominant business meets at least one of the environmental and social goals defined by the SDGs) versus that of companies listed in the parent

MSCI ACWI index. We take the first sample as a proxy of SRI and the second one as a proxy of ESG investing. In our view, the first index is representative of SRI, the second one of ESG investing.

The main result that emerges is that the sustainable index has lower standard deviation (i.e., lower volatility), higher return and lower maximum drawdown than the benchmark, the MSCI ACWI, at both three and five year time horizon.

Interestingly, this result can be due to the selection bias induced by the application of the Sustainable Finance Regulation (SFDR) 2019/2088 (EU), aimed at promoting environmental and social criteria in the investment choices of companies included in the Sustainable Index. The stocks that make up the best-performing sustainable fund compared to the benchmark index turn out to be similar to the so-called dark greens (Art. 9 of the EU SFDR), i.e., funds whose objective is sustainable investment or reduction of carbon dioxide emissions that hold MSCI ESG rating between AAA and BB. So SRI induces high ESG ratings, which imply better market positioning, greater efficiency, and attractiveness to investors.

This study is not intended to be conclusive. It is just the starting point of a research project aimed at understanding whether the differences between SRI and ESG investing are still relevant or are narrowing along time. In particular, the role of regulation should be further investigated to understand whether ESG requirements are able to direct investments toward socially responsible objectives, increasing at the same time both attractiveness and performance in terms of risk/return opportunities.

References

[1] Akerlof, G. A., Kranton, R. E., "Economics and identity". The quarterly *journal of economics*, 115 (2000), 715-753.

[2] Akerlof, G. A., Kranton, R. E., "Identity and the Economics of Organizations". *Journal of Economic perspectives*, 19 (2005): 9-32.

[3] Alafi, Khaled, and Abdel Baset Hasoneh. "Corporate social responsibility associated with customer satisfaction and financial performance a case study with Housing Banks in Jordan." *International Journal of Humanities and Social Science* 2.15 (2012): 102-115.

[4] Alkhafaji, A. F. *A stakeholder approach to corporate governance: Managing in a dynamic environment.*, *Quorum Books*, New York. (1989).

[5] Anchino, S., Ciavarella, A., Deriu, P., Fiore, F., Nocella, S., Tambucci, M. Turi, A. "Gestione del risparmio e sostenibilità: l'approccio dei gestori in Italia. Survey sull'applicazione di criteri ESG nell'ambito delle politiche di investimento e delle attività di stewardship da parte dei gestori di attivi". *Quaderno Consob di finanza sostenibile,* no. 2, (2022).

[6] Azahara, L., and R. González. "Una taxonomía de actividades sostenibles para Europa. Documentos Ocasionales.", *Banco de Espana* (2021): 2101.

[7] Balluchi, Federica, et al. *La responsabilità sociale delle imprese: un percorso verso lo sviluppo sostenibile: Profili di governance e di accountability. Giappichelli Editore*, 2017.

[8] Banca D'Italia., "Rapporto sugli investimenti sostenibili e sui rischi cli-

matici". n.1° maggio 2022. https://www.bancaditalia.it/pubblicazioni/rapporto-investimenti-sostenibili/2022/RISC-2022.pdf

[9] Battisti, Enrico, et al. "Value creation, innovation practice, and competitive advantage: Evidence from the FTSE MIB index." *European Journal of Innovation Management* 23.2 (2019): 273-290.

[10] Belyaeva, Zhanna, et al. "Unpacking stakeholder relationship management in the public and private sectors: the comparative insights." *EuroMed Journal of Business* 15.3 (2020): 269-281.

[11] Blowfield, M. & Murray, A., *Corporate Responsibility*, *Oxford University Press.*, (2014).

[12] Bowen, H. R., *Social responsibility of the businessman*. New York: *Harper & Row.*, (1953).

[13] Brundtland, Gro Harlem. *Report of the World Commission on environment and development:" our common future."*. UN, doc. A/42/427., (1987).

[14] Carroll, Archie B. "A three-dimensional conceptual model of corporate performance." *Academy of management review* 4.4 (1979): 497-505.

[15] Carroll, Archie B. "The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders." *Business horizons* 34.4 (1991): 39-48.

[16] Cf, O. D. D. S. "Transforming our world: the 2030 Agenda for Sustainable Development." *United Nations: New York, NY, USA* (2015b).

[17] Chan, MuiChing Carina, John Watson, and David Woodliff. "Corporate governance quality and CSR disclosures." *Journal of business ethics* 125 (2014): 59-73.

[18] Chapple, Wendy, Catherine J. Morrison Paul, and Richard Harris. "Manufacturing and corporate environmental responsibility: cost implications of voluntary waste minimisation." *Structural Change and Economic Dynamics* 16.3 (2005): 347-373.

[19] Cole, Matthew A., and Andrea Lucchesi. *Economic growth and the environment*. Handbook of sustainable development. *Edward Elgar Publishing*, 2014. 252-266.

[20] Commonfund Institute., "What are the Differences Between SRI and ESG? creation through social entrepreneurship". *Journal of Business Research* 69, (2018): 20672072.

[21] Daugaard, Dan. "Emerging new themes in environmental, social and

governance investing: a systematic literature review." *Accounting & Finance* 60.2 (2020): 1501-1530.

[22] Davis, Keith. "Can business afford to ignore social responsibilities?" *California management review* 2.3 (1960): 70-76.

[23] Dressler, Marc, and Ivan Paunović. "Towards a conceptual framework for sustainable business models in the food and beverage industry: The case of German wineries." *British Food Journal* 122.5 (2020): 1421-1435.

[24] Duque-Grisales, Eduardo, and Javier Aguilera-Caracuel. "Environmental, social and governance (ESG) scores and financial performance of multilatinas: Moderating effects of geographic international diversification and financial slack." *Journal of Business Ethics* 168.2 (2021): 315-334.

[25] Elkington, John. "Partnerships from cannibals with forks: The triple bottom line of 21st-century business." *Environmental quality management* 8.1 (1988): 37-51.

[26] Elkington, John. "Towards the sustainable corporation: Win-win-win business strategies for sustainable development." *California management review* 36.2 (1994): 90-100.

[27] European Commission, "Guidelines on Non-Financial Reporting: Methodology for Reporting Non-Financial Information". Brussels, Belgium., (2017).

[28] Eurosif, European SRI study (2016), in www.eurosif.org

[29] Eurosif, European SRI study (2021), in www.eurosif.org

[30] Fiore, Mariantonietta, et al. "Stakeholders' involvement in establishing sustainable business models: The case of Polish dairy cooperatives." *British Food Journal* 122.5 (2020): 1671-1691.

[31] Folger-Laronde, Zachary, et al. "ESG ratings and financial performance of exchange-traded funds during the COVID-19 pandemic." *Journal of Sustainable Finance & Investment* 12.2 (2022): 490-496.

[32] Fombrun, C.J. and Shanley, M. (1990) What Is in a Name? Reputation Building and Corporate Strategy. Academy of Management Journal, 33, 233-259

[33] Fontana, Franco, and Paolo Boccardelli. *Corporate Strategy: una prospettiva organizzativa e finanziaria per la crescita*. *Hoepli*, 2015.cap. 4, pp. 55-75 (2015).

[34] Forum per la finanza sostenibile. "Definizione di Investimento Sostenibile e Responsabile"., (2013)., www.finanzasostenibile.it

[35] Forum per la finanza sostenibile. "Gruppo di Lavoro sulla definizione di investimento sostenibile e responsabile"., (2020)., www.finanzasostenibile.it

[36] Forum per la Finanza Sostenibile., "Tassonomia UE e altre normative sulla finanza sostenibile: implicazioni e prospettive per gli operatori finanziari"., (2021).

[37] Freeman, R. Edward. "Divergent stakeholder theory." *Academy of management review* 24.2 (1999): 233-236.

[38] Freeman, R. Edward. *Strategic management: A stokcholder approach*. Pitman, (1984).

[39] Friedman, M., "The social responsibility of business is to increase its profits", *New York Times Magazine*, September 13, (1970).

[40] Galbreath, Jeremy, and Paul Shum. "Do customer satisfaction and reputation mediate the CSR–FP link? Evidence from Australia." *Australian journal of management* 37.2 (2012): 211-229.

[41] Gormsen, Niels Joachim, and Ralph SJ Koijen. "Coronavirus: Impact on stock prices and growth expectations." *The Review of Asset Pricing Studies* 10.4 (2020): 574-597.

[42] Guglielminetti, Elisa, and Concetta Rondinelli. "Consumption and saving patterns in Italy during Covid-19." *Bank of Italy Occasional Paper* 620 (2021).

[43] Haanaes, Knut, et al. "Making sustainability profitable." *Harvard business review* 91.3 (2013): 110-115.

[44] Harji, K. & Jackson, E. "Accelerating Impact: Achievements, Challenges and What's Next in Building the Impact Investing Industry". New York: *Rockefeller Foundation*. (2012).

[45] Jackson, Gregory, et al. "Mandatory non-financial disclosure and its influence on CSR: An international comparison." *Journal of Business Ethics* 162 (2019): 323-342.

[46] Jensen, M.C., "Value maximization, stakeholder theory, and the corporate objective function". *Journal Applied Corporate Finance* 14, (2001), 8-21.

[47] Kalkuhl, Matthias, and Leonie Wenz. "The impact of climate conditions

on economic production. Evidence from a global panel of regions." *Journal of Environmental Economics and Management* 103 (2020): 102360.

[48] Lieberman D., "Impact Investing 2.0-Not Just for Do-Gooders Anymore", *The Journal of Investing*, 29, (2020) 58- 69.

[49] Luo, Xueming, and Chitra Bhanu Bhattacharya. "Corporate social responsibility, customer satisfaction, and market value." *Journal of marketing* 70.4 (2006): 1-18.

[50] Malthus, R. *An Essay on the Principle of Population*. Oxford, Oxford University Press., *Business Horizons*, (1798) 39-44.

[51] Margolis, J. D., Elfenbein, H. A., & Walsh, J. P. "Does it pay to be good? A metaanalysis and redirection of research on the relationship between corporate social and financial performance". *Ann Arbor*, 1001, (2007) 48109-1234.

[52] Margolis, Joshua D., and James P. Walsh. "Misery loves companies: Rethinking social initiatives by business." *Administrative science quarterly* 48.2 (2003): 268-305.

[53] McGuire, Jean B., Alison Sundgren, and Thomas Schneeweis. "Corporate social responsibility and firm financial performance." *Academy of management Journal* 31.4 (1988): 854-872.

[54] Migliorelli, Marco, and Philippe Dessertine. "The rise of green finance in Europe." Opportunities and challenges for issuers, investors, and marketplaces. *Cham: Palgrave Macmillan* 2 (2019): 2019.

[55] Moskowitz, Milton. "Choosing socially responsible stocks." *Business and society review* 1.1 (1972): 71-75.

[56] Msci. (2022). www.msci.com

[57] Mulgan, Geoff, et al. "Social impact investment: the challenge and opportunity of social impact bonds." *London: The Young Foundation* (2011).

[58] N. Rescher, "A Philosophical Introduction to the Theory of Risk Evaluation and Management", *University Press of America*, (1983).

[59] Nilsson, Jonas. "Segmenting socially responsible mutual fund investors: The influence of financial return and social responsibility." *International Journal of Bank Marketing* 27.1 (2009): 5-31.

[60] Orlitzky, Marc, Frank L. Schmidt, and Sara L. Rynes. "Corporate social and financial performance: A meta-analysis." *Organization studies* 24.3 (2003): 403-441.

[61] Parket, I. Robert, and Henry Eilbirt. "The practice of business social responsibility: The underlying factors." *Business horizons*18.4 (1975): 5-10.

[62] Parmar, Bidhan L.; Freeman, R. Edward; Harrison, Jeffrey S.; and al., et, "Stakeholder Theory: The State of the Art". *Management Faculty Publications*. 99., (2010).

[63] Posner, B. Z., & Schmidt, W. H. "Values and the American manager: An update updated". *California Management Review*, 34(3), (1992) 80-94.

[64] Preston, Lee E., and Douglas P. O'bannon. "The corporate social-financial performance relationship: A typology and analysis." *Business & Society* 36.4 (1997): 419-429.

[65] R. Taplin & N. Schymyck, "An interdisciplinary and cross-cultural approach in Risk Management and Innovation in Japan, Britain and United States", *Routledge*, 2005.

[66] Renneboog, Luc, Jenke Ter Horst, and Chendi Zhang. "Socially responsible investments: Institutional aspects, performance, and investor behavior." *Journal of banking & finance* 32.9 (2008): 1723-1742.

[67] Rey-Martí, Andrea, Domingo Ribeiro-Soriano, and José Luis Sánchez-García. "Giving back to society: Job creation through social entrepreneurship." *Journal of Business Research* 69.6 (2016): 2067-2072.

[68] Ricardo, R. (2018). "Obtenido de ESG, SRI e inversión de impacto: ¿cuál es la diferencia?" *Exo Negocios*. (2018).

[69] Richard Eells, "Corporation Giving in a Free Society", *Harper*, (1956).

[70] Saeidi, Sayedeh Parastoo, et al. "How does corporate social responsibility contribute to firm financial performance? The mediating role of competitive advantage, reputation, and customer satisfaction." *Journal of business research* 68.2 (2015): 341-350.

[71] Selekman, B. M. "A Moral Philosophy for Management", *Journal of Political Economy,* Vol. 68, num. 3 giugno, (1959).

[72] Shore, Cris, and Susan Wright. "Governing by numbers: Audit culture, rankings and the new world order." *Social Anthropology/Anthropologie Sociale* 23.1 (2015): 22-28.

[73] Staub-Bisang, Mirjam. *Sustainable investing for institutional investors: Risks, regulations, and strategies*. John Wiley & Sons, 2012.

[74] Sustainability. "Rate the Raters 2018: Ratings Revisited". (2018).

[75] TEG, EU. "Taxonomy: Final report of the Technical Expert Group

on Sustainable Finance." *Report. Brussels, Belgium: EU Technical Expert Group on Sustainable Financing* (2020).

[76] Townsend, Blaine. "From SRI to ESG: The origins of socially responsible and sustainable investing." *The Journal of Impact and ESG Investing* 1.1 (2018): 10-25.

[77] Ullmann, A., "Data in search of a theory: A critical examination of the relationships among social performance, social disclosure, and economic performance of US firms." *Academy of management review* 10.3 (1985) 450-477.

[78] Waddock, Sandra A., and Samuel B. Graves. "The corporate social performance–financial performance link." *Strategic management journal* 18.4 (1997): 303-319.

[79] Walton, C.C. *Corporate social responsibilities*. Belmont, Calif., *Wadsworth Pub. Co*. (1967).

[80] Wartick, Steven L., and Philip L. Cochran. "The evolution of the corporate social performance model." *Academy of management review* 10.4 (1985): 758-769.

[81] WCED, Special Working Session. "World commission on environment and development." *Our common future* 17.1 (1987): 1-91.

[82] Wood, Donna J. "Corporate social performance revisited." *Academy of management review* 16.4 (1991): 691-718.

[83] Wood, Donna J. "Measuring corporate social performance: A review." *International journal of management reviews* 12.1 (2010): 50-84.

Per rinnovare o attivare un nuovo abbonamento
effettuare un **versamento** su:

c/c bancario n. 10187 Intesa Sanpaolo
Via Vittorio Veneto 108/b- 00187 ROMA
IBAN IT92 M030 6905 0361 0000 0010 187

intestato a: **Editrice Minerva Bancaria s.r.l.**

oppure inviare una **richiesta** a:
amministrazione@editriceminervabancaria.it

Condizioni di abbonamento ordinario per il 2024

	Rivista Bancaria Minerva Bancaria bimestrale	**Economia Italiana** quadrimestrale	**Rivista Bancaria Minerva Bancaria + Economia Italiana**
Canone Annuo Italia	**€ 120,00** causale: MBI24	**€ 90,00** causale: EII24	**€ 170,00** causale: MBEII24
Canone Annuo Estero	**€ 175,00** causale: MBE24	**€ 120,00** causale: EIE24	**€ 250,00** causale: MBEIE24
Abbonamento WEB	**€ 70,00** causale: MBW24	**€ 60,00** causale: EIW24	**€ 100,00** causale: MBEIW24

L'abbonamento è per un anno solare e dà diritto a tutti i numeri usciti nell'anno.
L'abbonamento non disdetto con lettera raccomandata entro il 1° dicembre s'intende tacitamente rinnovato.
L'Amministrazione non risponde degli eventuali disguidi postali.
I fascicoli non pervenuti dovranno essere richiesti alla pubblicazione del fascicolo successivo.
Decorso tale termine, i fascicoli disponibili saranno inviati contro rimessa del prezzo di copertina.

Prezzo del fascicolo in corso **€ 40,00 / € 10,00** digitale
Prezzo di un fascicolo arretrato **€ 60,00 / € 10,00** digitale

Pubblicità

1 pagina **€ 1.000,00** - 1/2 pagina **€ 600,00**

RIVISTA BANCARIA
MINERVA BANCARIA

ABBONATI - SOSTENITORI

ALLIANZ BANK F. A.

ANIA

ASSICURAZIONI GENERALI

ASSOFIDUCIARIA

ASSONEBB

ASSORETI

ASSOSIM

BANCA D'ITALIA

BANCA FINNAT

BANCA IFIS

BANCA POPOLARE
DEL CASSINATE

BANCA PROFILO

BANCA SISTEMA

BANCO BPM

BANCO POSTA SGR

BLUE SGR

CASSA DI RISPARMIO DI BOLZANO

CBI

CONSOB

Divisione IMI - CIB
Intesa Sanpaolo

ERNST & YOUNG

FONDAZIONE AVE VERUM

GENTILI & PARTNERS

IBL BANCA

INTESA SANPAOLO

IVASS

MERCER ITALIA

NET INSURANCE

OCF

OLIVER WYMAN

VER CAPITAL