

HKUST Department of Economics

ESG Investing

Course Outline: Spring 2025

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Course Description

Environmental, Social and Governance (ESG) issues are now an important topic in finance and investment. Environmental phenomena such as climate change, biodiversity and access to water are already having an effect on the world, and threaten even greater changes in future. Social concerns, such as child labour and workers' rights, have become important considerations for consumers, policy-makers and investors. At the same time, Governance issues, relating to how companies are managed, are now attracting more attention than before.

This course considers the implications of ESG issues for investors. We will consider the following topics:

1. Introduction to ESG issues: definitions, a brief history of ESG, the growth of the ESG investment market
2. ESG issues and companies: how are companies behaving in the face of ESG issues, and what are the implications for profits and firm value?
3. ESG and the asset management industry: how is the asset management industry responding to increased investor focus on ESG issues? We will consider the following topics:
 - a. An introduction to the asset management industry: who does what within the industry, and the competitive landscape for asset managers
 - b. The role of ESG data providers
 - c. The role of index providers and passive investment, and the impact that ESG considerations are having on them
 - d. Factor investing, 'Smart beta', and applications of this approach to ESG investment
 - e. ESG integration and active investment management: what impact do ESG considerations have on realized and expected asset returns?
 - f. Activist and Impact investment: what these approaches are and the role they play in ESG investment
 - g. Stewardship: definitions; as a strategic investment tool; impact and activist investing

- h. ESG as a Principal Agent problem in the asset management industry; fiduciary duty; legal/political challenges to ESG investing
- i. Where next for ESG investing?

Course Outline

A rough outline of the lectures is as follows (this is subject to change - we will cover as much of the material as time allows):

Lecture 1	Introduction: ESG issues, a brief history of ESG in investment, the growth of the ESG market; why has ESG become so important now?
Lecture 3	ESG and companies (1): ESG as a Principal/Agent problem; ESG and profits; ESG and firm value
Lecture 4	ESG and companies (2) ESG and disclosure (materiality); greenwashing
Lecture 5	Introduction to the asset management industry
Lecture 6	The role of data providers
Lecture 7	Indices, passive management and screening approaches
Lecture 8	Factor investing and ‘Smart beta’
Lecture 9	ESG integration and market efficiency: ESG and realized, expected returns
Lecture 10	Stewardship: definitions; as a strategic investment tool; impact and activist investing
Lecture 11	ESG as a Principal Agent problem in the asset management industry; fiduciary duty; legal/political challenges to ESG investing
Lecture 12	Where next for ESG investing?

Learning Outcomes - School Intended Learning Outcomes (“SILOs”)

Upon successful completion of this course, you should be able to:

- 1) Identify the key factors behind the importance of ESG company behaviour; (SILO # 4, 6)
- 2) Critically assess the motivation of companies in pursuing ESG aware strategies; (SILO # 4, 6)
- 3) Understand and critically assess the response of the asset management industry to companies’ and investors’ ESG aware behaviour; (SILO # 4, 6)
- 4) Understand the application of some fundamental concepts in finance theory to ESG investing. (SILO # 2, 4, 6);
- 5) Discuss the implications of the ‘ESG backlash’ for companies and asset managers; (SILO # 2, 4, 6)