HKUST Department of Economics

ECON 5660: The Economics of ESG Investing

Course Outline: Spring 2026

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Course Description

This course focuses on ESG (Environmental, Social, and Governance) Investing as it is applied in the asset management industry. We begin by defining ESG, tracing its evolution, and explaining its critical rise in investment management. The curriculum then examines corporate responses to ESG issues and their impact on profits and valuation. The core focuses on the asset management industry, exploring how it integrates ESG through data analytics, passive indexing, factor investing strategies, and active stewardship. We consider how asset managers are incorporating Artificial Intelligence (AI) techniques into ESG Investing, focusing on 1. Materiality and classification and 2. AI as a tool to earn excess returns. Finally, we assess market efficiency, fiduciary duty, and future challenges to ESG Investing.

We will consider the following topics:

1. Introduction to ESG issues: definitions, a brief history of ESG, the growth of the ESG investment market, and why ESG Investing has become an important topic in the investment management world
2. ESG 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 use of AI in ESG Investing: materiality and classification, and the use of AI tools to earn excess returns
    d. The role of index providers and passive investment, and the impact that ESG considerations are having on them
    e. Factor investing, 'Smart beta', and applications of this approach to ESG investment

f. ESG integration and active investment management: what impact do ESG considerations have on realized and expected asset returns?
    g. Stewardship and Engagement: use as a strategic investment tool to earn excess returns
4. The recent evolution of ESG Investing and 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 and the evolution of ESG Investing; why has ESG become so important now?
Lecture 2	ESG and companies (1): ESG as a Principal/Agent problem; ESG and firm performance; Greenwashing and Disclosure
Lecture 3	The role of data providers
Lecture 5	AI in ESG Investing: materiality and classification
Lecture 6	Introduction to the asset management industry
Lecture 7	Indices, passive management and screening approaches
Lecture 8	Factor investing and ESG
Lecture 9	ESG integration and market efficiency: ESG and realized, expected returns
Lecture 10	Stewardship and Engagement: a strategic investment tool
Lecture 11	Where next for ESG investing? fiduciary duty; legal/political challenges to 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)