

## Master of Science in Sustainability Management

### **Sustainable investing and Economic Growth - PS5320** **3 Credits**

#### **Instructor:**

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### **Course Schedule/Course Calendar**

#### **Introduction**

#### **The Financial Ecosystem and the Circular Flow of Savings and Investment**

Bose, S., D. Guo & A. Simpson. (2019) *The Financial Ecosystem: The Role of Finance in Achieving Sustainability*. Forthcoming from Palgrave Macmillan. Drafts of Chs. 1 & 2.

Staub-Bisang, M. (2012). *Sustainable Investing for Institutional Investors: Risk and Return*. *Sustainable Investing for Institutional Investors: Risks, Regulations and Strategies*. Contributing authors, Sven Bienert et al. Wiley Finance series. Hoboken, N.J. and Singapore: Wiley. Chs 1-2.

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Greenbaum, S. I., Thakor, A. V. & Boot, A. W. A. (2016). Contemporary Financial Intermediation. Elsevier. Ch 2.

Daly, H.E. (1996). Beyond Growth: The Economics of Sustainable Development. Beacon Press, Boston. Chs. 1-2.

### **Corporate Governance and the Joint Stock Corporation**

#### **Corporate Governance and Fiduciary Duty**

Monks, R. A. G. and N. Minow (2011). Corporate governance. Hoboken, NJ, John Wiley & Sons. Ch 1.

Youngdahl, J. (2014). The Basis of Fiduciary Duty in Investment in the United States. Cambridge Handbook of Institutional Investment and Fiduciary Duty. J. P. H. e. al. Cambridge, Cambridge UP: 20-30.

PRESENTATION: Weimer, J. and J. C. Pape (1999). "A Taxonomy of Systems of Corporate Governance." Corporate Governance: An International Review 7(2): 152.

#### **History of the Corporation**

Bose, S., D. Guo & A. Simpson. (2019) The Financial Ecosystem: The Role of Finance in Achieving Sustainability. Forthcoming from Palgrave Macmillan. Draft of Ch. 3.

Dari-Mattiacci, G., et al. (2017). "The Emergence of the Corporate Form." Journal of Law, Economics, and Organization 33(2): 193-236.

PRESENTATION: Robertson, J. and W. Funnell (2012). "The Dutch East-India Company and accounting for social capital at the dawn of modern capitalism 1602–1623." Accounting, Organizations and Society 37(5): 342-360.

#### **Modern Portfolio Theory**

##### **Markowitz portfolio choice and diversification & Alternative measures of risk.**

Fabozzi, F. J., et al. (2002). "The Legacy of Modern Portfolio Theory." Journal of Investing 11(3): 7.

PRESENTATION: Wilford, D. S. (2012). "True Markowitz or assumptions we break and why it matters." Review of Financial Economics 21(3): 93-101.

PRESENTATION: Byers, S. S., et al. (2015). "Using portfolio theory to improve resource efficiency of invested capital." Journal of Cleaner Production 98: 156-165.

Example: Two-stock data for portfolio optimization

#### **The Capital Asset Pricing Model**

##### **CAPM, APT and basic performance attribution.**

Perold, A. F. (2004). The Capital Asset Pricing Model. Journal of Economic Perspectives, 18(3), 3-24.

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Lydenberg, S. (2016). "Integrating Systemic Risk into Modern Portfolio Theory and Practice." *Journal of Applied Corporate Finance* 28(2): 56-61.

PRESENTATION: Hawley, J. and J. Lukomnik (2018). "The Long and Short of It: Are We Asking the Right Questions? Modern Portfolio Theory and Time Horizons." *Seattle University Law Review* 41(2): 449-474.

Example: Two Stock Portfolio Optimization

Example: GMI.SP500.Ratings.xlsx

## ESG Integration through Fundamental and Quantitative Due Diligence

How is ESG integrated into investment management?

- Active vs Passive
- Fundamental vs Quantitative
- Alpha vs Beta
- Stakeholder relations

PRI. "A Practical Guide to ESG Integration for Equity Investing." 2016. pp 12-55.

Zoltán Nagy, Altaf Kassam, Linda-Eling Lee, "Can ESG Add Alpha? An Analysis of ESG Tilt and Momentum Strategies." MSCI Report June 2015.

Jiao, Y. (2010). "Stakeholder welfare and firm value." *Journal of Banking & Finance* 34(10): 2549-2561.

Borgers, A., et al. (2013). "Stakeholder Relations and Stock Returns: On Errors in Investors' Expectations and Learning." *Journal of Empirical Finance* 22: 159-175.

Four Stock Optimization.

## Extending Responsible Investment Across Asset Classes and Addressing Correlation

Readings

David Wood and Belinda Hoff. *Handbook on Responsible Investment Across Asset Classes*. Boston College Center for Corporate Citizenship. 2008. (Links to an external site.)

PRESENTATION: Farrell Jr, J. L. (2011). "Asset Allocation under Extreme Uncertainty." *Journal of Portfolio Management* 37(2): 72-82.

Asl, F. M. and E. Etula (2012). "Advancing Strategic Asset Allocation in a Multi-factor World." *Journal of Portfolio Management* 39(1): 59-66.

Garcia-Feijoo, L., Jensen, G. R., & Johnson, R. R. (2012). The Effectiveness of Asset Classes in Hedging Risk. *Journal of Portfolio Management*, 38(3), 40-55.

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### **Sustainability and Financial Return I**

A polemic articulating the linkage between corporate strategy and new versions of corporate social responsibility:

Porter, M. E. and M. R. Kramer (2011). "Creating Shared Value." *Harvard Business Review* 89(1/2): 62-77.

A meta-analysis of the links between corporate social performance and corporate financial performance, from a perspective sympathetic to CSR.

Busch, T. and G. Friede (2018). "The Robustness of the Corporate Social and Financial Performance Relation: A Second-Order Meta-Analysis." *Corporate Social Responsibility & Environmental Management* 25(4): 583-608.

Two competing narratives on the link between social responsibility in investing and portfolio return:

PRESENTATION: Kempf, A. and P. Osthoff (2007). "The Effect of Socially Responsible Investing on Portfolio Performance." *European Financial Management* 13(5): 908-922.

PRESENTATION: Hong, H. and M. Kacperczyk (2009). "The price of sin: The effects of social norms on markets." *Journal of Financial Economics* 93(1): 15-36.

### **Sustainability and Return II**

Are socially responsible funds less volatile during market crises?

Nofsinger, J. and A. Varma (2014). "Socially responsible funds and market crises." *Journal of Banking & Finance* 48(0): 180-193.

Can ESG ratings generate persistent alpha?

Halbritter, G. and G. Dorfleitner (2015). "The Wages of Social Responsibility--Where Are They? A Critical Review of ESG Investing." *Review of Financial Economics* 26: 25-35.

Are SRI mutual funds significantly different from broader index funds?

PRESENTATION: Utz, S. and M. Wimmer (2014). "Are they any good at all? A financial and ethical analysis of socially responsible mutual funds." *Journal of Asset Management* 15(1): 72-82.

### **Break NO CLASS**

Sample Midterm and Solutions from last year for review.

### **In Class Midterm**

#### **A Primer on Valuation Analysis, The Principal-Agent Problem**

#### **Valuation Analysis**

Review of comparable valuation analysis:

GD.Comp.xlsx

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Holthausen, R. W. and M. E. Zmijewski (2012). "Valuation with Market Multiples: How to Avoid Pitfalls When Identifying and Using Comparable Companies. " *Journal of Applied Corporate Finance* 24(3): 26-38.

Jayashankar, P., et al. (2015). "Slow money in an age of fiduciary capitalism." *Ecological Economics* 116: 322-329.

PRI. (2013). "The Value Driver Model: A Tool for Communicating the Business Value of Sustainability (Links to an external site.)."

Damodaran, A. (2018) *Stream On: An IPO Valuation of Spotify*. (Links to an external site.)

### **The Agency Problem and Corporate Fraud:**

Imhoff, E. A., Jr. (2003). "Accounting Quality, Auditing, and Corporate Governance. " *Accounting Horizons* 17: 117-128.

Bebchuk, L. A. and J. M. Fried (2003). "Executive Compensation as an Agency Problem." *Journal of Economic Perspectives* 17(3): 71-92.

Chaitman, H. D. & L. Gotthoffer. "Hallelujah: Jamie Dimon's Been Born Again — or Has He? " Chapter 7 in *JPMadoff: The Unholy Alliance between America's Biggest Bank and America's Biggest Crook*.

Optional Reading:

Dyck, A., et al. (2010). "Who Blows the Whistle on Corporate Fraud? " *Journal of Finance* 65(6): 2213-2253.

### **Inequality and Sovereign Risk**

#### **Income Inequality and Sovereign Risk, cross-country credit risk differentials**

Aizenman, J. and Y. Jinjark (2012). "Income Inequality, Tax Base and Sovereign Spreads ." *FinanzArchiv* 68(4): 431-444.

BlackRock Investment Institute (2011). *Introducing the BlackRock Sovereign Risk Index: A More Comprehensive View of Credit Quality* (Links to an external site.).

### **The Impact Potential of Municipal Finance**

Guest Speaker: James Dearborn, Columbia Threadneedle Investments

Speaker Bio and Annual Report describing Columbia Threadneedle's Impact Assessment Framework for Municipal Bonds

Video about Social Impact Bond FundPlay media comment.

Link to the Municipal Impact Coalition (Links to an external site.)

Energy and Limits to Growth:

### **Tentative Solutions**

Readings

Lietaer, B. and G. Hallsmith (2011). *Making Money for Business: Currencies, Profit, and Long-Term Thinking*, Rocky Mountain Institute. 2: 64-69.

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Clarkin, J. E. and C. L. Cangioni (2016). "Impact Investing: A Primer and Review of the Literature. " *Entrepreneurship Research Journal* 6(2): 135-173.

Griffith, J., Woelfel, T. & Faire, K. (2015). *Unleashing the Power of Pensions: Expanding Economically Targeted Investments by U.S. Pension Funds.*

Cho, M. (2017). "Benefit Corporations in the United States and Community Interest Companies in the United Kingdom: Does Social Enterprise Actually Work? " *Northwestern Journal of International Law & Business* 37(1): 149-172.

### **Energy and the Limits to Growth**

Daly, H.E. (1996). *Beyond Growth: The Economics of Sustainable Development.* Beacon Press, Boston. Ch. 4 .

Ayres, R. U. (2008). "Sustainability economics: Where do we stand?" *Ecological Economics* 67(2): 281-310.

Mitchell, T. (2011). *Carbon Democracy: Political Power in the Age of Oil.* Verso. Conclusion.

Goerner, S. J., et al. (2009). "Quantifying economic sustainability: Implications for free-enterprise theory, policy and practice. " *Ecological Economics* 69(1): 76-81.

### **Student Presentations**

Group Presentations of investment cases: