ESG AI

Smarter Sustainable Investing Through Data Driven Analysis

What Is ESG?

Social issues around workplace practices & human capital

Environmental issues such as climate change & pollution

Governance issues such as executive pay, accounting, & ethics

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Examples

E: Nike (NKE)

"Its Flyknit and Flyleather products were developed with environmental sustainability in mind. Nike signed onto a coalition of companies called RE100, vowing to source 100% renewable energy across its operations by 2025. There's more, but any interested investors should read Nike's latest sustainability report, which uses the GRI framework, the Sustainability Accounting Standards Board (SASB), and the United Nations' Sustainable Development Goals (SDG)."

S: Accenture (ACN)

"Accenture pays close attention to its diversity and inclusion in its workforce. The company plans to improve its workplace gender ratios, with a goal to have 50% female and 50% male employees by the end of 2025. Accenture plans to better its corporate makeup as well, pledging to have at least 25% female managing directors by 2020."

G: Intuit (INTU)

"It has achieved a 40% diverse board, one of the highest levels in corporate America today. Intuit shows accountability by tying its executives' incentive compensation to revenue and non-GAAP (Generally Accepted Accounting Principles) operating income, as well as to the company's overall performance on annual goals related to employees, customers, partners, and stockholders."

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ESG Studies

- Higher ESG Associated with Higher Profitability and Lower Volatility
- High-ESG Performance Companies are Good Allocators of Capital
- Good-ESG Companies Generally Have Higher Valuations, EVA Growth, Size, and Returns
- Higher-ESG Performance and Profitable Firms Have Higher Returns with Lower Risk

ESG Matters

Posted by Subodh Mishra, Institutional Shareholder Services, Inc., on Tuesday, January 14, 2020

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Tags: Capital allocation, Climate change, ESG, Firm performance, Institutional Investors, Profitability, Risk, Risk management, Sustainability
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Editor's Note: Subodh Mishra is Managing Director at Institutional Shareholder Services, Inc, G. Kevin Spellman is a Senior Advisor, and Anthony Campagna is Global Director of Fundamental Research at ISS EVA. This post is based on their ISS memorandum. Related research from the Program on Corporate Governance includes Socially Responsible Firms by Alan Ferrell, Hao Liang, and Luc Renneboog (discussed on the Forum here); Social Responsibility Resolutions by Scott Hirst (discussed on the Forum here); and Reconciling Fiduciary Duty and Social Conscience: The Law and Economics of ESG Investing by a Trustee, by Max M. Schanzenbach and Robert H. Sitkoff (discussed on the Forum here).

Summary

- High/favorable ISS ESG Corporate Rating performance is Generally Positively Related to Valuation and Profitability and Negatively Correlated with Volatility
- High/favorable ISS ESG Corporate Rating firms are Good Allocators of Capital
- High/favorable ISS ESG Corporate Rating Performance / High-EVA Margin Stocks tend to Outperform
- High/favorable ISS ESG Corporate Rating Firms Tend to be Less Cyclical and are More Likely to be in the Technology, Health Care, and Consumer Non-Durables Sectors

There appears to be a link between ESG—Environment, Social, and Governance—and financial performance (figure 1). While one can argue that the relationship between ESG and financial performance is perhaps due to the fact that more profitable firms have the resources to invest in areas that positively influence ESG, it could also be that profitability rises as a result of a company better managing its material ESG risks, or it could be a little bit of both. If it is a little bit of both, then this means that good-ESG initiatives drive up financial performance, which then provides the monetary resources to invest to be an even better-ESG firm, which then drives up performance again, and so on.

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ESG Reporting

- 90% of S&P 500 index companies published annual sustainability reports
- There is not one standard reporting format, but there are general reporting guidelines (e.g. Nasdaq)
- Reports range from 30 pages to 200+ pages
- One report can take 6-7 hours of pure reading time
- Analysts read multiple reports to understand company trends and themes, spending weeks for their ESG thesis in addition to alternative data

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Greenwashing

"The practice of making statements or policies that make an investment appear more serious about ESG than it actually is."

Worldwide News

- Investors, individuals, and institutions alike leverage financial news to make investment decisions
- News impacts markets and contains important information to keep investors up to date
- Financial news can come from many sources: publications from the actual company to third party reporting
- News is worldwide as are companies and gives insight into many different categories: from technical details to sustainability to product release information

Putting AI in ESG

Problem

Determining an ESG score for a company is difficult. Currently, research analysts must leverage many different sources of data and spend time scouring news articles to put together an informed ESG scoring thesis. Time is of the essence and with so many comparable companies across many different sectors, the current manual approach, taking weeks to months, is highly inefficient. For individual investors this process is an even lengthier process. ESG scoring should be an automated approach and accessible to everyone.

Solution

ESG^{AI} is a research service and platform that ingests billions of company and industry wide news articles, performs sentiment analysis to understand tone across the categories, and uses deep learning in a graphical format to understand relations between companies and their news.

Using a data driven approach, we are able to automate and continuously monitor and score ESG performance for thousands of companies in real-time, saving investors thousands of hours of research time.

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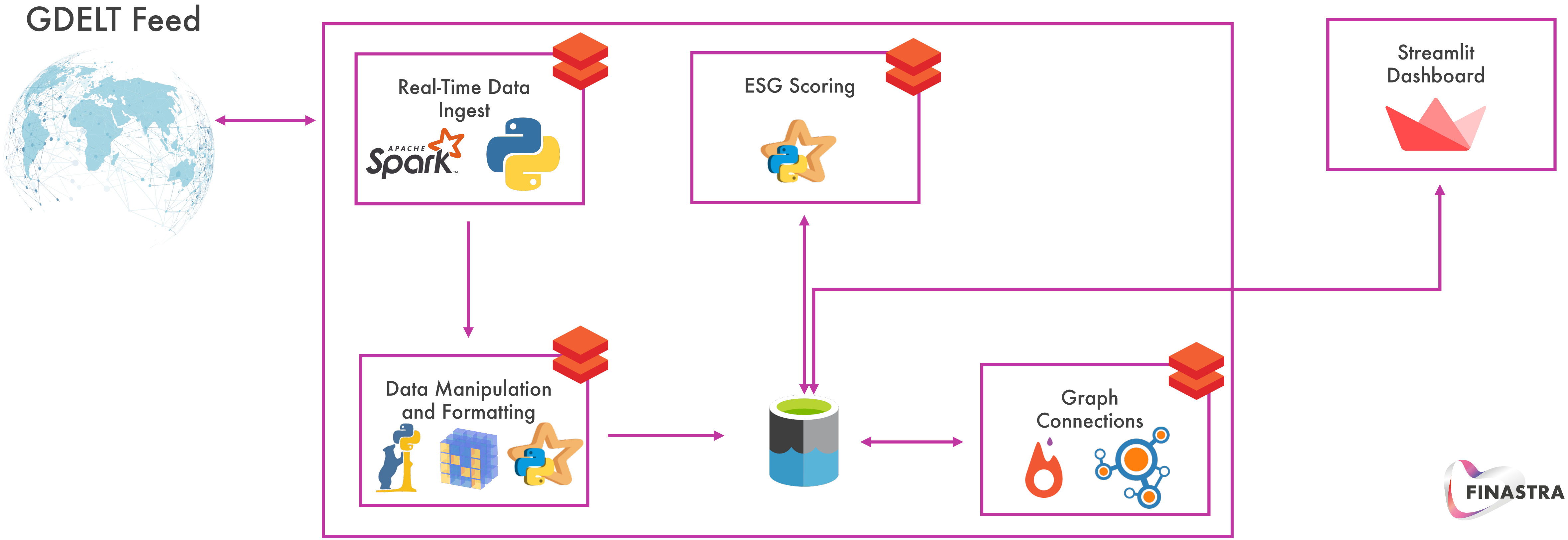
750,000,000,000+ data points

We leverage Google's real-time GDELT database, which grows larger every minute, to curate billions of news articles around company sustainability.

Technical Stack



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Value

Dashboard

The ESG^{AI} dashboard allows users to visually explore companies and their ESG performance over time. Filter, slice, and dice through different metrics, publishers, and competitors to cut down research time and arrive at ESG insights

API

Query our API in real-time to get the latest ESG scores for one company, a list of companies, or all companies we track ESG for. Our API offers a flexible approach for the tech savvy customer who wishes to embed the data and insights we gather into their own systems and applications.

Data Share Feature Set

Submit a list of companies and automatically receive a featurized dataset containing information from our ESG data bank through Finastra's FFDC DataShare platform. This allows customers to access and download sets of data at their leisure through the easy and convenient Azure suite.

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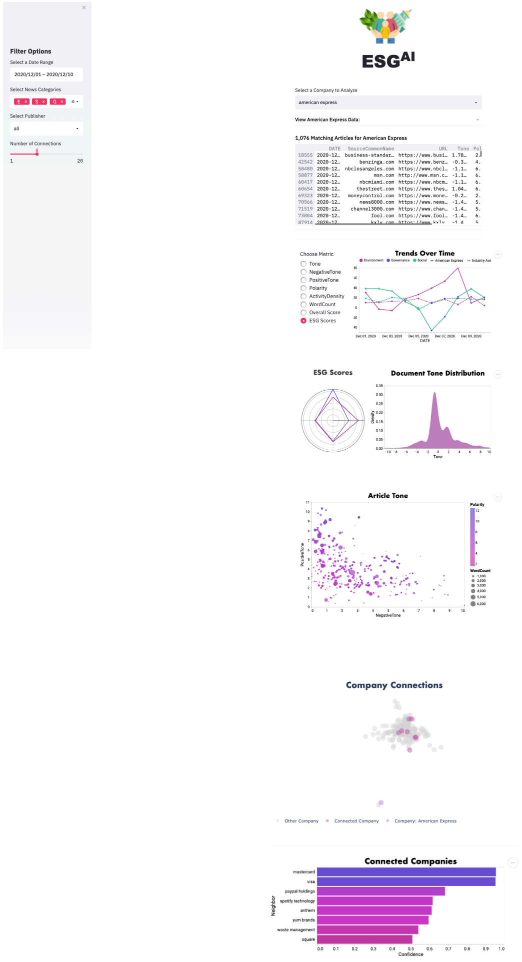
Research Portal



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