Summary of *Do Investors Value Sustainability: A Natural Experiment Examining Ranking and Fund Flows*

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Summarized by Li Ziming

1. **What are the research questions?**
   - What signals do investors collectively view sustainability?
   - Do publication of the sustainability ratings affect how investors traded mutual funds?

2. **Why are the research questions interesting?**
   - Not clear how to identify average preferences of all investors in the market, analysis of investment products with an explicit focus reflects preferences only subset of investors.
   - A large shock in the salience of sustainability of mutual fund assets gives the opportunity to conduct a natural experiment.

3. **What is the paper's contribution?**
   - Contributes to literature on how investors value nonfinancial aspects of stocks.
     - Prior literature: how subsets of investors value characteristics of securities (Hong and Kacperczyk, 2009).
     - Extend: examine an exogenous shock to a significantly larger part of the market.
   - Contributes to literature on investment products with social responsibility mandate.
     - Prior literature: strong preferences of subset investors cause no effect of the ratings on net flows (Berk and Green, 2004).
     - Extend: examine preferences for sustainability among universe of fund investors.
   - Contributes to literature on why firms invest in sustainability.
     - Prior literature: sustainable investing driven by agency issues (Cheng, Hong, and Shue, 2013); improve morale ((Edmans, 2011).
     - Extend: a significant part of the observed investment in sustainability is not due purely to agency issues.
   - Contributes to literature that studies the role of emotion in guiding investment decisions.
     - Prior literature: feelings associated with stimulus often and guide subsequent judgments and decisions (Finucane et al., 2000).
     - Extend: higher globe funds link to higher returns and lower risk.

4. **What hypotheses are tested in the paper?**
   - H1: Sustainability ratings catch attention and affect mutual fund flow.
   - H2a: Institutional investors value sustainability due to constraints imposed by their institution.
   - H2b: Investors view sustainability as a signal of higher future returns.
   - H2c: Investors have a preference for sustainability for nonpecuniary reasons.

   a) Do these hypotheses follow from and answer the research questions?

   - Yes.

   b) Do these hypotheses follow from theory? Explain logic of the hypotheses.

   - Three hypotheses are not mutually exclusive, and it is likely that each affects the results to some degree.

5. **Sample: comment on the appropriateness of the sample selection procedures.**
   - The sample includes all U.S. domiciled open-end funds with a sustainability rating from Morningstar.
6. **Comment on the appropriateness of variable definition and measurement.**
   - The meaning of sustainability may vary across different investors and not be consistent with Morningstar's definition.
7. **Comment on the appropriateness of the regress/predict model specification.**
   - Standard DID balance trend test was not conducted.
8. **What difficulties arise in drawing inferences from the empirical work?**
   - Cannot directly examine the driven of investors, reaction to the globe rating as an arbitrary ranking without regard to the sustainability it attempts to measure.
9. **Describe at least one publishable and feasible extension of this research.**
   - Study the investors response to the corporate ESG behavior by stock cash flow.