

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

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1. What are the research questions?

- Do investors value sustainability and invest in sustainable firms?
- Why do investors treat sustainability in such way?

2. Why are the research questions interesting?

- Different investors view sustainability differently.
- Firms invest more resources in sustainable and socially responsible endeavors.
- It's interesting to study whether such investments reflect investors' preferences.

3. What is the paper's contribution?

1. the literature that examines how investors value non-financial aspects of stocks.
 - **Past studies:** examine how subsets of investors value characteristics of securities.
 - **Expand:** evaluate how all fund investors collectively value the characteristic.
2. literature examines the set of investment with explicit social responsibility mandates.
 - **Past studies:** just examines investment with social responsibility mandates.
 - **Expand:** examines the preferences for sustainability into products lacking sustainability goals.
3. the literature on why firms invest in sustainability.
 - **Past studies:** break sustainability down into the part due to agency versus the part due to appeasing shareholders.
 - **Expand:** a significant part of the observed investment in sustainability is not due purely to agency issues.

4. What hypotheses are tested in the paper?

- H1: publication of the sustainability ratings affect how investors traded mutual funds.
- H2: investors place a positive value on sustainability through following ways:
 - (a) institutional investors value sustainability due to constraints by their institution.
 - (b) investors (rightly or wrongly) view sustainability as a signal of higher future returns.
 - (c) investors have a preference for sustainability for non-pecuniary 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.

- Theory: H1: investors collectively value sustainability; H2: three hypotheses.
- Logic: H1 researches the phenomenon and H2 explore the reasons.

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, it's proper.

6. Comment on the appropriateness of variable definition and measurement.

- this paper constructed normalized flow and sustainability ratings, it's proper.
7. **Comment on the appropriateness of the regress/predict model specification.**
- category-by-year-by-month fixed effects are controlled in the model, it's proper.
8. **What difficulties arise in drawing inferences from the empirical work?**
- this paper only studies on the level of mutual funds which is not so convincing.
9. **Describe at least one publishable and feasible extension of this research.**
- We could further study whether investors focused on ESG disclosures of firms.