Bloomberg Environmental Social Goverance - Module 2

James Evans

05/27/2025

Researching and Adopting ESG

Building Your Skills in ESG Investing

For the remainder of this course, we will follow the journey of Worthing Capital Management, a fictitious buy-side asset management firm, to see how practitioners at the firm implement ESG factors into their investment decision-making. While Worthing Capital Management is not a real firm, its ESG implementation process is modeled on what commonly occurs in the real world. This course is designed to bridge the gap between theory and practice, helping you build practical knowledge and skills on your path toward a career in sustainable finance. After completing the course, you will understand how to incorporate ESG considerations into investment decision-making and apply common ESG investment strategies using ESG datasets and tools available on Bloomberg.

About Worthing Capital Management

Worthing Capital Management manages funds for some of the largest asset owners in the world, including pension funds, endowment funds, insurance firms, and retail investors. Recently, the firm has noticed a growing demand from clients seeking to incorporate ESG considerations into their portfolios. Many clients express a desire to invest in sustainable assets to align their investments with their mission or to enhance long-term performance. During a company meeting, the CEO remarked, "ESG is something people care about. Every time I read the news, I see something about climate change and how it is impacting lives from fires or floods. Our clients see it too. The diversity and inclusion movement is growing. These concerns are making people ask, 'In which companies is my money being invested and what is the impact that these companies have on the climate?' There seems to be a lot of momentum behind ESG and sustainability." As a result, the firm decides to conduct research to better understand the market.

ESG Player Types

Worthing Capital Management creates a sustainable ESG investment team to carry out their sustainability efforts. Let's look at the different players on the team and their roles and responsibilities.

Researching Market Drivers

Jason, an ESG Analyst on the ESG investment team at Worthing Capital Management, decides to conduct research to better understand the market drivers of sustainable investing. He runs `BI ESG<GO>` on the Bloomberg Terminal and clicks "Primers" to gain insights from Bloomberg Intelligence analysts. He navigates to the "Topic" tab and selects the first note on sustainable investing. Jason finds a research note indicating that sustainable investing is largely driven by pension funds and millennial interest. Another note highlights that millennials and women lead in sustainability-investing value alignment, as shown by a 2018 U.S. Trust survey of high-net-worth investors. Their growing influence may further push companies to enhance their sustainability performance. Among surveyed groups, millennials led in social-impact investing interest and ownership at 77%. Although the figure later dipped, 37% continued investing based on social concerns, up from 28% two years prior. Around 35% of baby boomers and men also showed interest in sustainable investing. The survey also identifies the top reasons for owning impact investments in the U.S.—including a sense of civic duty and the belief that corporations should be held accountable for their actions by the private sector. Jason continues exploring research notes and learns that policy support from Europe and increased shareholder engagement may also drive sustainable-investing growth. He reads an article from BloombergNEF (BNEF) on changes in ESG disclosure policies. BloombergNEF, a research provider focused on global commodity markets and low-carbon transition technologies, reports an upward trend in ESG policy issuance. Jason sees that the number of annual global sustainable finance and corporate sustainability disclosure policies rose from 18 in 2010 to 47 in 2020, reaching over 86 countries by August 2021. He then investigates the ESG regulatory landscape in G20 countries to understand how markets are positioning themselves to confront sustainability challenges like climate change. He finds a timeline and relevant supporting research.

The Themes module in BI ESG<GO> identifies, analyzes, and tracks important trends and topics that are expected to significantly impact an industry or company over the next six months to two years, or sometimes even longer. Click on "Themes" in the menu on the left to explore it. The topics and trends covered in Themes are organized under tabs across the top. To focus on ESG-related concerns, click on the "Controversies" tab. Then, click the page forward arrow to preview a selection of research notes. Navigate to page three of thirteen and select the research note titled *Scarce Omissions Data Points to High Intensity*. Take a moment to read the research note, then click "Continue" to proceed. Like BI ESG<GO>, BloombergNEF (BNEF) also publishes research on ESG-related themes. Click "Themes More" to view a list of themes. The research in BNEF provides a time-ordered feed of themes focused on current trends and emerging technologies. Click "Continue" to move on.

Voluntary, cross-sectoral, non-governmental ESG reporting has gained attention since as early as 1997. That year, the Global Reporting Initiative (GRI) pioneered a set of guidelines to help companies and organizations document their ESG performance. In 2000, the Carbon Disclosure Project (CDP) introduced standards to help companies and cities disclose their environmental impact. More than a decade later, the Sustainability Accounting Standards Board (SASB), a non-profit sustainable reporting initiative, launched a series of industry-specific standards. These standards are based on metrics deemed financially material to each sector in achieving sustainability goals. The Climate Disclosure Standards Board and similar frameworks for reporting environmental information have followed. In 2017, the Task Force on Climate-related Financial Disclosures (TCFD) released voluntary recommendations for climate-related financial reporting to help companies provide comprehensive data that support informed financial decisions. As of now, more than 2,300 corporations across 88 countries have adopted these recommendations. All of these initiatives represent voluntary frameworks that provide guidance to organizations but are not legally binding. Policies can either be mandatory, requiring specific behavior, or voluntary, focused on implementing best practices. In recent years, mandatory ESG regulations have become increasingly prominent—accounting for 62% of new ESG policies in 2020 and 57% overall between 1930 and 2020. In 2016, voluntary regulations outpaced mandatory ones, with 26 voluntary and 14 mandatory policies enacted. However, by 2020 this trend reversed, with 29 new mandatory regulations compared to just 18 voluntary ones.

One challenge of implementing ESG criteria in corporate and investment processes is the lack of standardization and transparency in methodologies used to assess risk, calculate emissions, and determine relevance. Even data availability is an issue—larger companies tend to report more frequently. An increase in mandatory ESG disclosure requirements can help address this challenge by compelling companies to report in instances where they otherwise would not under voluntary guidelines. Based on his research, Jason concludes that ESG data disclosure regulation will be a major driver of ESG demand. He finds further research showing that sustainable investments reached $35.3 trillion in assets at the start of 2020, a 15% increase from 2018, according to the Global Sustainable Investment Alliance. Growth has been driven by pension funds' long-term investment horizons and asset managers' interest in Millennial investors. European policy initiatives, such as the Green Deal and EU Taxonomy, also support climate strategies. Although the region experienced a decline in assets, this is due to changes in measurement criteria and is not directly comparable. For example, global investments in sustainable mutual funds and ESG-focused exchange-traded funds (ETFs) rose by 53% in 2021 to $2.7 trillion, with $596 billion in net inflows, according to Morningstar Inc.

This growth reflects stricter labeling standards in Europe for sustainable funds. Meanwhile, the U.S. and Japan continue to show strong growth potential, with ESG assets increasing 42% and 34%, respectively, over two years.

Another sign of the increased focus on sustainability is divestment from the finance industry. As of December 2021, organizations had made more than 1,500 fossil fuel divestment and phase-out commitments, pledging to withdraw financial support from coal, oil, and gas. Leading financial institutions in this movement include pension funds, with over 160 commitments, followed by insurance companies, banks, and asset managers. Organizations that serve these entities—such as investment banks, money managers, credit rating agencies, and data firms—have also begun competing to demonstrate their ESG capabilities.

Tail Risk Performance

Portfolio managers at Worthing Capital Management who have become aware of the concept of ESG have noted that it presents an opportunity to manage tail risk. Tail risk, also known as black swan risk, refers to the chance of a rare and extreme loss occurring with an asset or a portfolio of assets, as predicted by a probability distribution. These portfolio managers aim to mitigate major tail risk events, such as one that occurred a few years ago involving a significant oil spill. At the time, one portfolio manager had a heavy concentration in the energy sector, specifically in a company with a strong earnings outlook. Using a fundamentals-based investment approach, they believed the company was attractively valued—but they did not consider any ESG-related factors. Although the oil company consistently delivered positive earnings, the number of oil spills it was responsible for increased year after year. Eventually, a major oil spill dominated headlines, leading to a sharp decline in the company's stock price.

Navigating Shifts in Investment Demand

So what does this rise in ESG demand mean for Worthing Capital Management? Akshay, the CIO of Worthing Capital Management, is sitting in an annual meeting reviewing figures and preparing for the year ahead. As he works on developing new strategies, he finds himself repeatedly distracted by news alerts highlighting the growing demand for sustainable investments.

Practice: Using Bloomberg

Take a moment to learn about Bloomberg news functions that can help you stay informed on ESG-related news concerning your counterparties or investments. Type TOP ESG in the command line and press <GO>. TOP ESG<GO> provides ESG-related headlines from Bloomberg News, featuring the day's top global stories, editorially curated charts, and news digests—allowing you to access the most important ESG news in one place. Next, explore another Bloomberg function for ESG-related content by typing NSUB ESG in the command line and pressing <GO>. NSUB ESG<GO> helps you discover ESG content subscriptions relevant to your market focus. The current focus is set to North American equities; click "Change Market Focus" to adjust it. From this screen, you can preview new columns and reporting series available on the Bloomberg Terminal and manage your subscriptions. Now let's set alerts to receive ESG news notifications. Type NISENV, NISSOC, or NISGOV into the command line to view news on environmental, social, or governance topics, respectively. Then, click on "Actions" in the red toolbar, select "Alert Delivery," choose a delivery option, and click "Close" to save. Your ESG news alert is now active. Click "Next" to move on.

Where are Markets Headed?

After reading several articles about the rise of ESG assets under management, Akshay begins to wonder where markets are headed and what investors are focusing on. He decides to go to BI ESG<GO> on the Bloomberg Terminal to gain more insight. He wants to analyze how different regions perform in terms of ESG. The chart he reviews shows median Bloomberg ESG disclosure scores and median ESG rankings by country. From this, he observes that European investors are the most likely to consider ESG factors, and that European companies, on average, score the highest in sustainability-related data reporting and rankings.

ESG performance appears to be closely linked to transparency, as shown by the strong correlation—around 79%—between Bloomberg's ESG disclosure scores and S&P's sustainability rankings across countries. As of August 2021, European pension funds, known for their large asset holdings and long-term investment horizons, were major market drivers.

What are Investors Focusing on when Engaging with Companies?

Akshay wants to learn what investors are focusing on when engaging with companies, particularly through shareholder proposals. He navigates to the Governance section on the Bloomberg Terminal and opens the U.S. Proxy Voting 2021 Deep Dive research note. Proxy voting on environmental and social issues reached an inflection point in 2021, generating record support, with approved proposals among Russell 3000 companies increasing by 75%. In some cases, even corporate management supported these resolutions, highlighting ESG's growing influence on corporate strategy. Institutional investors frequently pushed for racial diversity improvements, with proposals calling for greater diversity reporting or representation among leadership roles. Support for these proposals rose to over 40% in 2021 from 25% in 2020. This included calls for the release of the Employment Information Report (EEO-1), successfully enacted at companies like Union Pacific and DuPont. A newer form of diversity-related proposal—racial equity audits—has also emerged, with firms such as JPMorgan, Wells Fargo, and Amazon facing growing shareholder pressure. The research also revealed increased shareholder pressure on oil and gas companies to address climate risk. For instance, Exxon was forced to seat three dissident directors following an activist campaign aimed at expediting its fossil fuel transition. U.S. firms lag European peers in setting greenhouse gas (GHG) reduction targets; Chevron, Conoco, and Phillips 66 all faced pressure to set emissions goals. Shareholders increasingly demand Say-on-Climate votes, which require firms to submit GHG reduction plans for shareholder approval, akin to Say-on-Pay votes on executive compensation. BI ESG analysts note that such measures create positive feedback loops around climate strategy, with several proposals receiving support from over a third of shareholders. Nonetheless, boards often resist these measures due to resource burdens and reporting challenges. Still, global companies like Unilever, Rio Tinto, Moody's, and S&P all received over 97% shareholder approval on climate plans in 2021. As climate change poses trillions in potential losses, investors are concentrating their portfolios on firms best equipped to mitigate these risks. Although 2022 saw increased flows to low-carbon and fossil-free ETFs, evaluating performance in this area remains challenging.

Practice: Using Bloomberg

`BI PROXY<GO>` can help you navigate proxy season as market participants increasingly turn to proxy voting and activism to advance ESG issues. The BI Proxy Tracker includes all shareholder and management proposals from definitive proxy statements at global shareholder meetings, with records dating back to 2016. Let's practice searching for proposals related to compensation linked to ESG metrics. First, set the proposal category to "Compensation" and the proposal type to "Link Compensation to ESG Metrics." All U.S. proposals concerning ESG-linked compensation will be returned. You can right-click on a company name to explore further. For example, right-click on FedEx and select "Meeting Results." The source document will appear—Form 8-K, which is a report that companies must file with the SEC to disclose major events relevant to shareholders. Take a moment to scroll through the source document, then click "Continue" to proceed.

How Does ESG Perform?

Akshay decides to examine ESG performance to better understand how ESG investments behave in various market conditions. He navigates to Portfolio Strategy research and selects the report titled *ESG Factors & Performance: 2022 Outlook*. According to the report, ESG investments tend to outperform during market downturns. He reviews charts analyzing ESG performance from both factor and sector perspectives. One chart illustrates outperformance during COVID-related downturns, followed by underperformance as markets begin to recover. This trend is largely attributed to factor allocations. U.S. and European ESG indexes show a tilt toward low-volatility and quality stocks—companies with high profitability and low leverage. From a sector allocation standpoint, Akshay observes that U.S. ESG funds are typically overweight in technology and underweight in more carbon-intensive sectors such as energy and utilities.

What are the Most Material ESG Metrics Across Sectors?

Akshay wants to understand which ESG metrics are most relevant or material for specific sectors. He clicks on "Primers" and chooses to explore research on the Materials sector, which includes the discovery and processing of raw materials like metals and chemicals. The displayed primers highlight essential ESG priorities for each sector, helping investors know what to focus on. Akshay selects the primer on base metals and examines ESG's scoring approach. He studies the Issue Priority Heat Map, which ranks environmental materiality by industry. For base metals, greenhouse gas (GHG) management is particularly important due to aluminum's high carbon intensity, while precious metals—being less carbon intensive—rank lower. Akshay explores a heatmap of key ESG metrics to quickly gain insight into sector-level ESG factors. He learns that better environmental and social performance may reduce costs and risks for base metal miners. The map showcases peer performance based on Bloomberg's "E" and "S" scores. Aluminum producers tend to have higher footprints due to the type of metal produced. Akshay discovers that climate is a material issue across many sectors and wants to analyze companies' carbon reduction progress. He accesses BBG Scores, focusing on BI Carbon scores, which are designed for forward-looking analysis. These scores evaluate companies' carbon reduction trends, current and projected CO_2 intensity, planned cuts, and alignment with temperature benchmarks, scoring from 0 to 10. To deepen his understanding, Akshay goes to the Environmental section and reviews BI Carbon research. He also looks at sector-specific primers, starting with steel, to compare company performance. For example, the International Energy Agency (IEA) states that steel's carbon intensity should be reduced to 1.37 by 2030, but only three companies had met that benchmark at the time of publication. After reading more news and research, Akshay becomes convinced that Worthing Capital Management should pursue ESG investing, particularly focusing on climate and diversity. He is personally motivated by concern for the planet and future generations, having read about communities devastated by extreme weather events. Inspired by the potential to make a difference, Akshay believes that ESG investing can support a sustainable future. As a result, the ESG investment team at Worthing Capital Management begins researching sustainable investment strategies to prioritize.

Determining Top Engagement Themes / ESG Priorities

The ESG investment team decided to review the Global Sustainable Investment Alliance (GSIA) report to gain insight into which ESG strategies to prioritize. The report outlines seven of the most common sustainable investing strategies.

ESG Investment Strategy Trends

According to Bloomberg Intelligence ESG Analysts, sustainable and values-based investing typically involves a mix of strategies ranging from ethical exclusions (e.g., screening out so-called sin stocks like tobacco) to ESG integration and niche strategies focused on specific themes such as gender or climate change. ESG integration overtook ethical exclusions as the most popular strategy in 2020. Bloomberg Intelligence ESG Analysts believe this momentum will likely continue, supported by favorable regulatory developments like the EU Taxonomy (which will be discussed later in the course). In recent years, the breadth of ESG strategies has expanded significantly, supporting further ESG growth but also presenting analytical challenges due to their diversity. The ESG investment team ultimately decides to focus on implementing three major strategies—Negative/Exclusionary Screening, ESG Integration, and Corporate Governance and Shareholder Activism—since these approaches currently represent the largest shares of assets under management.

Worthing Capital's Pledge to ESG Integration

Portfolio managers at Worthing Capital Management conduct analysis to identify companies with strong ESG characteristics. After months of research and backtesting, they conclude that climate change poses significant economic risks and will impact the portfolios they manage for clients and beneficiaries. They believe finance has a critical role to play in the transition to a low-carbon economy, addressing broader concerns such as ecosystem collapse and social inequality. In response, Worthing Capital Management's CEO announces a pledge in the annual earnings report to integrate ESG into the firm's business vision: "We're reducing our emissions in line with a 1.5°C future." The firm joins the Net Zero Asset Managers initiative, aligning with peers to support decarbonization targets. As a Net Zero Asset Manager signatory, Worthing Capital Management commits to working with asset owners to reach net-zero emissions by 2050 across all assets under management. The firm also aims to align investments with millennial values, launching sustainability-focused strategies and developing new ESG products. These top-down announcements, combined with evolving ESG policy and regulation, influence the firm's overall strategy. ESG investment teams are now challenged with balancing financial returns while contributing to emissions reductions. Going forward, Worthing Capital Management's portfolio managers must refine their investment process to embed ESG principles. In the following sections, the firm will explore implementation approaches including Negative Exclusionary Screening, ESG Integration, and Corporate Governance and Shareholder Activism.