Bloomberg Environmental Social Goverance - Module 3

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Negative Screening & Positive Screening

Assessing Clients' Interests and Goals

Worthing Capital Management gathers data on asset owner interests, goals, and needs by conducting annual surveys. These surveys help the firm build on insights from previous years, identify trends, and uncover new potential investment areas. This year's survey revealed that 47% of respondents prefer investments aligned with their personal values. A large majority of millennial respondents and two-thirds of Generation X participants stated they avoid investing in companies involved in tobacco and weapons manufacturing, citing value misalignment. Consistent with prior years, many clients voiced concerns about fossil fuel companies, emphasizing the need for transparency and firm commitments to reducing greenhouse gas emissions due to their link with extreme weather and global warming. In response, the ESG investment team established an exclusion policy for fossil fuel producers and users as part of a broader strategy to mitigate climate change risks. The policy specifies that companies earning 25% or more of their revenue from thermal coal will be excluded from sustainability portfolios by the end of the fourth quarter.

Negative Exclusionary Screening Equities

Jolandi, an ESG research analyst, supports the ESG investment team by generating portfolio ideas and sharing ESG research. To begin her screening process, she uses Bloomberg's Equity Screening tool by typing EQS into the Terminal, selects "Equity Screening," and adds criteria aligned with the portfolio mandate. She first excludes companies involved in tobacco and weapons/defense manufacturing by selecting each under "Add Criteria," navigating to "Selected Screening Criteria," and choosing to exclude the sector. Next, she focuses on companies with strong carbon reduction profiles by adding the Greenhouse Gas (GHG) Intensity ratio to her screen, which represents absolute GHG emissions per unit of a company-specific metric such as revenue. She selects "Greenhouse Gas Intensity per Sales" and ensures that her chosen companies are logically comparable by benchmarking against their own sector using Bloomberg's "Relative Sector" filter. Because GHG emissions vary by industry—banks and energy companies, for example, differ significantly—this step ensures fair comparison. She also applies Bloomberg's ESG disclosure framework based on GRI standards, filtering for companies with disclosure scores of 40 or higher. Jolandi narrows her universe to companies listed on exchanges in Western Europe, Eastern Europe, and North America, where ESG regulations are strongest. Europe leads in ESG disclosure via the EU Taxonomy and SFDR, while in North America, the SEC has proposed rules to enhance climate-related reporting. Lastly, she filters for large-cap companies by setting a market cap threshold of $10 billion or more, with the option to set a base currency. She finalizes the exclusion screen by clicking "Actions" and selecting "Save As."

Practice: Using Bloomberg

In this practice exercise, you will screen for European and North American energy companies that are signatories of the UN Global Compact and rank in the top 60% for both GHG emissions per sales and ESG disclosure metrics. Begin by opening the sector screening criteria and selecting the Energy sector, then click Update. Next, add exchanges from Eastern Europe, followed by Western Europe and North America, clicking Update after each selection to save your choices. Add "Greenhouse Gas Intensity per Sales" to the screening criteria, set the condition to "Percentile," change the sequential dropdown to "Universe," and input 60 in the "Top Percentile" field, then press Enter. Similarly, add the ESG disclosure score criterion, again setting the condition to "Percentile," changing sequential to "Universe," and entering 60 in the top percentile field. To filter for companies that have signed the UN Global Compact, add the appropriate criterion and set its condition to "Equal to 1." Finally, give your screen a name and click Update to save it. Once the search is saved, click Continue to move on.

Analyzing Companies

After applying her screening criteria, Jolandi narrows her universe from over 98,000 to 178 companies and views the results using WATC¡GO¿. She selects the Results tab and uses the "Group By" dropdown to organize companies by sector. She begins comparing firms, starting with Consumer Staples, which can hedge against inflation and recessions. She identifies Diageo PLC for its high ESG disclosure score and low GHG intensity relative to its industry. By selecting DES and navigating to the ESG tab, she confirms that Diageo's targets align with the Paris Agreement. Jolandi consults third-party ratings and Bloomberg ESG performance scores to assess how Diageo aligns with the EU Taxonomy and SFDR metrics. The firm ranks highly on both Bloomberg and MSCI ratings and has a low ESG risk score per Sustainalytics. Though Diageo scores 7 out of 10 on Bloomberg, Jolandi inspects individual E, S, and G components by clicking the ESG SCORE link. She finds that Diageo leads its peers on various fronts, including sustainable packaging and recyclable materials. In social metrics, the company excels in responsible labeling and safety, though it has room to improve in supply chain management. Governance analysis shows strong performance across most indicators except for Director Roles and Votes. After reviewing all ESG dimensions, Jolandi returns to her exclusion list in WATC¡GO¿ to continue evaluating companies and gather more actionable ideas for her equity-focused colleagues.

Positive Screening for Sustainable Debt

The ESG investment team at Worthing Capital Management has observed strong performance trends in sustainable debt and increasing client interest due to alignment with long-term goals and successful asset returns. However, rather than fully divesting from fossil fuel-reliant companies—which would exclude 60% of the S&P 500—they choose to remain invested in order to influence these companies toward renewables. They also seek exposure to the utility sector through green bonds rather than utility stocks, focusing on sustainable debt tied to decarbonization efforts. At her desk, Jolandi initiates positive screening for green fixed income securities by typing `SRCH` and selecting Bloomberg's Fixed Income Search tool. She filters for corporate debt from utility companies using BICS classification, returning over 13,000 bonds. She then screens for green, social, and sustainability-labeled bonds, defined as those funding ESG activities (e.g., renewable energy) or behavioral changes (e.g., gender equality). Jolandi adds the Green Instrument Indicator to find bonds supporting decarbonization or other sustainability goals, and selects North America and Western Europe based on favorable regulatory environments. She further narrows the search to investment-grade bonds, seen by the team as offering yield advantages under fair valuations and central bank support. Finally, she sets a minimum maturity of 15 years, reducing the bond universe from over 309,000 to 77 bonds, and saves the search for further analysis.

Practice: Using Bloomberg

As demonstrated in the video, Bloomberg's Fixed Income Search tool can be used to generate ideas for green fixed income securities. Another method for identifying green debt within this tool involves linking to previously saved equity screens. Begin by clicking on "Sources" and selecting "Equity Screen." This displays any saved equity screens, including the one Jolandi previously saved in EQS. Selecting this screen returns 5,317 bonds issued by the companies included in Jolandi's exclusion list. To refine the results further, add criteria to search specifically for green bonds. This narrows the results to 99 green bonds. Click "Continue" to proceed.

Analyzing Fixed Income

Jolandi conducts further analysis on the bonds returned in her search by clicking on Evaluate Pricing FIW to assess Relative Value and Performance. She then navigates to the Bond Chart tab, which displays all bonds from her list by rating, showing their spread over treasuries on the y-axis relative to duration. To enhance visibility, she right-clicks the chart to enable ticker labels and selects "United States" to filter for U.S. bonds. Analyzing the chart, Jolandi identifies where she is getting good value based on duration and rating. She notes that triple B bonds offer higher spreads than single A bonds, but there is wide variation within single A bonds. She highlights AEP, PNW, and ED bonds as attractive due to similar duration and rating but better spreads, though she plans to conduct more credit research on these issuers. Next, she groups bonds by issuer to evaluate which provide the most value, identifying AEP as the standout. After completing their research, Jolandi and her colleague Jason write reports summarizing their recommendations, company highlights, industry context, financial and valuation analysis, risk factors, and whether any ESG-related risks can be mitigated through company engagement.