

Bloomberg Environmental Social Governance - Module 5

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05/29/2025

ESG Integration - Equities

Analyzing ESG Funds

After focusing on single-security ESG analytics, Andrew now shifts his attention to evaluating the firm's new ESG portfolio—called the “Worthing ESG Focus Fund”—at an aggregate level. To perform this portfolio-wide analysis, he uses the Portfolio and Analytics function, accessed by entering `PORT ;GO;` on the Bloomberg Terminal. This allows Andrew to assess overall ESG performance and alignment with the firm's sustainability objectives.

Background: Worthing's ESG-Focused Fund Launch

Launched in 2019, the Worthing Capital ESG Focus Fund is a global equities strategy designed to balance strong financial performance with responsible investing. Fundamentally, the fund targets companies that deliver high returns on capital relative to their peers. From an ESG perspective, it emphasizes firms led by management teams and boards that demonstrate long-term stewardship capable of sustaining those returns. The fund aims to provide investors with a vehicle that integrates ESG materiality—an often-overlooked driver of competitive advantage and durable growth. Committed to sustainability, the fund has a net-zero emissions target by 2050, aligning with the Paris Agreement and benchmarking itself against the Bloomberg Paris-Aligned Benchmark Developed Markets Index. This rigorous benchmark, aligned with TCFD guidelines, enables the team to identify relative exposure to sustainable investment opportunities and reduce risks related to climate transition and physical impacts.

Analyzing ESG Characteristics in PORT

To analyze the ESG characteristics of the Worthing Capital ESG Focus Fund, Andrew uses Bloomberg's `PORT ;GO;` function, selecting the fund and its benchmark—the Bloomberg Paris-Aligned Benchmark Developed Markets Index. Within the Characteristics tab, he compares ESG scores from multiple providers, including MSCI, Sustainalytics, and Bloomberg, to get a comprehensive view. Andrew normalizes MSCI's letter grades to a 0–10 scale and uses Sustainalytics' 0–100 scale, where lower scores indicate better ESG performance. He finds that the ESG Focus Fund outperforms the benchmark in both providers' metrics, with a higher weighted MSCI score (8.14 vs. 6.91) and a lower Sustainalytics risk score (17.65 vs. 19.85). He also identifies individual companies like BCE, Progressive, and Starbucks with mid-tier ESG scores that may need deeper review. To gain further insight, Andrew breaks down ESG into its environmental, social, and governance pillars using Bloomberg's 0–10 scoring system and flags companies with potential reputational risks via MSCI ESG Controversy Flags. For example, Starbucks, despite being highly rated, was flagged due to an investigative report alleging child labor links, which was later debunked. This highlights how controversy flags help surface issues that may not affect scores immediately but still warrant stakeholder scrutiny.

Andrew is encouraged to see that the Worthing ESG Focus Fund outperforms its benchmark across all three ESG pillars—Environmental, Social, and Governance—with its strongest performance in the Environmental dimension. Most holdings in the portfolio carry “green” controversy flags, indicating low reputational risk,

and no companies are flagged red for severe controversies. However, he does identify Iberdrola, a Spanish clean energy firm, with orange flags on social and governance issues, prompting further engagement. Additionally, the fund's Bloomberg ESG Disclosure Score is higher than that of the benchmark, reflecting greater transparency in ESG reporting. This score, which ranges from 0.1 to 100, considers the breadth and importance of disclosed data, giving more weight to critical metrics like greenhouse gas emissions. On average, companies in the fund disclose more ESG data than their benchmark counterparts, enhancing overall accountability and reinforcing the portfolio's leadership in sustainable investing.

Identifying Companies to Engage

The Worthing ESG Focus Fund emphasizes active engagement with portfolio companies, encouraging transparency and commitments to net-zero carbon targets in line with the Paris Agreement. Using Bloomberg's PORT tool, Andrew flags Progressive Corp for weak ESG metrics—lower MSCI and Sustainalytics ratings, poor ESG disclosure, and no stated net-zero target. He notes broader industry trends showing that U.S. insurers, unlike their European peers, have been slower to adopt ESG standards. However, regulators such as the CFTC and SEC are beginning to push for mandatory climate-related disclosures. Through BloombergNEF and Transcript Analyzer (TA `¡GO!`), Andrew finds little evidence that Progressive is proactively addressing ESG in earnings calls, but DS filings reveal gradual improvements. The company has recently added SASB and TCFD disclosures and reported a 68% reduction in carbon emissions since 2008. Additional policies include environmental stewardship and social initiatives like diversity, equity, and community outreach. This evolving profile will guide Andrew's engagement strategy moving forward.

Andrew observes that while Progressive Corp demonstrates strong governance with a score of 7.34, it lags behind in environmental and social performance. This governance strength reflects Worthing Capital's confidence in Progressive's leadership, yet the company has not joined initiatives like the UN's Net Zero Insurance Alliance or committed to a 2050 net-zero underwriting target. As an additional check, Andrew reviews the ESG page and finds that Progressive is held by a significant number of SFDR Article 8 and 9 funds—51 and 647 respectively—indicating broader market acceptance. To guide engagement, Andrew prepares four key questions for Progressive's management: (1) What GHG management framework aligns with the 1.5°C Paris goal? (2) How are physical risks being measured for climate-impacted assets? (3) How is climate integration influencing asset allocation? (4) How are DEI, equal pay, and community outreach aligned with corporate goals? These inquiries aim to enhance transparency and encourage improvements that could boost the company's long-term profitability and resilience.

Analyzing ESG Risk

Amid growing concerns about ESG greenwashing and regulatory scrutiny, Andrew emphasizes the importance of aligning the Worthing ESG Focus Fund's strategy with meaningful ESG risk mitigation. Given the fund's explicit focus on ESG materiality, he highlights the need for robust documentation and performance tracking. To support this, Andrew uses Bloomberg's CDE `¡GO!` (Custom Data Editor) tool to record engagement notes in PORT, detailing the actions Progressive's management has taken so far. These notes also reflect Worthing Capital Management's backing of shareholder proposals that urge Progressive to adopt stronger alignment with the Paris Agreement and enhance disclosure around climate transition planning through initiatives like "Say on Climate."

Beyond ESG Scores

The Worthing ESG Focus Fund has committed to reducing its carbon footprint to at least 50% below that of the global economy. Reflecting this environmental objective, Andrew begins by analyzing key metrics around Global Greenhouse Gas (GHG) emissions, including scope 1 and 2 emissions normalized by company value (EVIC) and sales. Encouragingly, the fund outperforms its benchmark on all major GHG intensity metrics, which aligns with climate targets set by the IPCC and Bloomberg's own benchmarks. On the governance side, Andrew notes that although it is harder to quantify, gender diversity on corporate boards has been shown to correlate with long-term performance. Using GP `¡GO!`, he examines trends in the top ten

holdings and observes a consistent increase in the percentage of women on boards—even among Asia-based firms—indicating progress on governance metrics within the fund’s portfolio.

Incorporating ESG into Risk and Attribution Analysis

One of the strategic priorities at Worthing Capital Management is the integration of ESG (Environmental, Social, and Governance) considerations across departments. Adam, the Head of Risk, aims to incorporate ESG analysis into his risk dashboards. The rationale is that ESG represents an additional bottom-up risk factor, which should be evaluated alongside more traditional metrics commonly used in risk management.

Ex-Ante (Predicted) Risk Analysis

Using the Tracking Error/Volatility tab in Bloomberg PORT, Adam is able to analyze the ex-ante (predicted) risk of the Worthing ESG Focus Fund by decomposing active risk through Bloomberg’s advanced models. While traditional risk decomposition considers factors like sector or country, Adam now integrates ESG metrics, breaking the portfolio down by MSCI ESG Rating. Notably, he observes that the AAA-rated ESG companies, comprising 32% of the portfolio, act as risk diversifiers, with a -25% contribution to active risk—validating his belief that such firms have a lower risk profile and informing his portfolio construction strategy. Additionally, higher MSCI ESG-rated companies are seen to reduce beta and growth exposure relative to the Bloomberg Paris-Aligned-Benchmark Index. This is advantageous in volatile markets but could become a risk if conditions shift toward favoring high-growth stocks. Adam plans to present these insights at the next quarterly risk committee meeting.

Performance Attribution

In addition to ex-ante risk analysis, Adam applies ESG criteria to ex-post performance attribution to better understand the drivers of portfolio returns. For the 2021 calendar year, he compares the Worthing ESG Focus Fund to the Bloomberg PAB DM benchmark. The Fund returned 25%, outperforming the benchmark by 4.4%. He finds that higher-rated ESG companies, as defined by MSCI ESG Ratings, significantly outperformed lower-rated ones—AAA-rated stocks returned 35.7%, while CCC-rated stocks returned -8.8%. From an active return decomposition perspective, two key insights emerge: the fund benefited from an overweight in AAA-rated stocks (+3.8%), and it also gained from strong selection within AA-rated stocks (+3.35%) compared to their counterparts in the benchmark.

Portfolio Optimization

A key objective of the Worthing ESG Focus Fund is to reduce its climate impact, measured through “Greenhouse Gas Scope 1 & 2 Estimates,” which aggregate each company’s CO₂e emissions using both reported and Bloomberg-estimated data. To optimize the portfolio, Adam uses Bloomberg Portfolio Optimizer to minimize GHG emissions while maximizing the Sharpe ratio. He sets a maximum Sustainalytics ESG score of 15, ensures industry group weights stay within $\pm 1\%$ of current levels, and caps individual holdings at 5%. The resulting portfolio lowers GHG emissions by over 20%, improves the ESG score from 17.71 to 15, and slightly raises the Sharpe ratio from 0.45 to 0.47—all while maintaining the portfolio’s structural integrity. Adam saves the optimized portfolio and will monitor its future performance relative to the live fund.