
2025 GCGC

Edmans, Gosling & Jenter

Sustainable Investing in Practice:

Objectives, Constraints, and Limits to Impact

discussion by: Pedro Matos



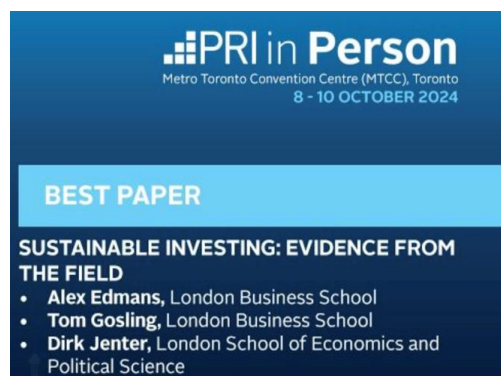
This paper:

Survey ~500 portfolio managers of equity mutual funds **on E&S** -> smaller differences between traditional vs. sustainable funds than commonly thought

- ➔ **Beliefs**: expect E&S to deliver positive alpha but less material than financial drivers (and performance is interlinked)
- ➔ **Objectives** (no return concession due to fiduciary duty) but common E&S **Constraints** (fund mandates, firmwide policies and client wishes) that lead them to take **Actions** (stock selection, voting and engagement)

-> *Great contribution: survey offers some surprising results*

... kudos (PRI best paper award 🏆)!



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-> *From PMs' expressed perspectives, E&S immaterial but constraints matter ... so no "greenwashing" by investment managers? ... however do end-investors feel PMs are E&S-preference "aligned", maybe run next a survey on asset owners 😊 ?*

-> *Acknowledging limitations of the survey ...*

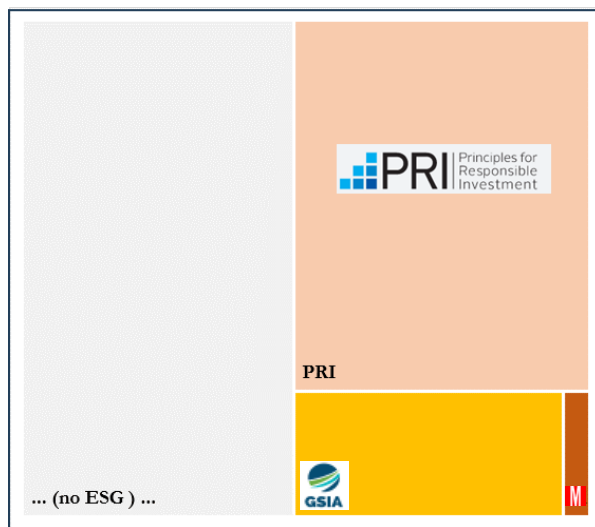
#1: institutional investment is a big world, with ESG equity MFs being a relatively small share (especially those based in US!)



Update on Matos (CFA Institute, 2020)
ESG and Responsible Institutional Investing
Around the World: A Critical Review

SIFMA:

Total Global Capital Markets = \$ 231 Trillion
 [Equity Market Cap + Fixed Income Outstanding in 2023]



PRI:

ESG = **\$ 120 Trillion ?**

[AUM of signatories to the PRI in 2021]

GSIA:

ESG = **\$ 30.3 Trillion ?**

[Sustainable investing assets in 2022]

M (Morningstar):

ESG = **\$ 3.1 Trillion ?**

[ESG-labelled mutual funds + ETFs in 2024-Q3]

-> *Acknowledging limitations of the survey ...*

#1: institutional investment is a big world, with ESG equity MFs being a relatively small share (especially those based in US!)

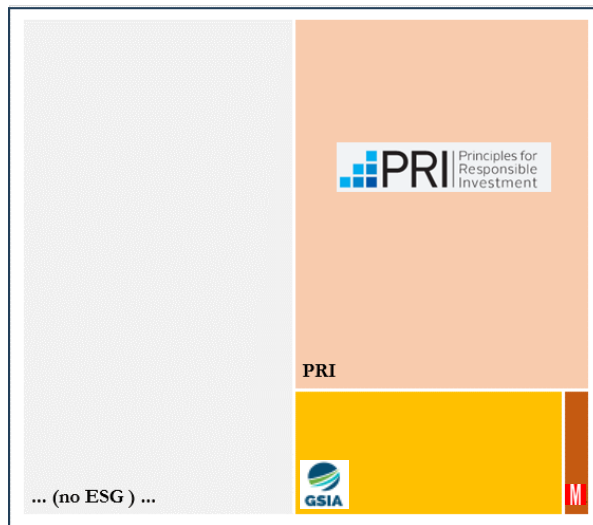


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Generalizability?

*-> beyond pooled mutual funds?
(other investment managers,
asset owners, etc.)*

*-> beyond active managers?
(passive)*

*-> beyond equities? (secondary
vs. primary market)*

*-> beyond PMs? (stewardship
teams typically vote/engage, or
asset owners themselves)*

*... consider some of these for
your next survey?*

-> Acknowledging limitations of the survey ...
 #2: point in time (Nov 2023 – Feb 2024)?

2021:

REUTERS
 How 2021 became the year of ESG
 investing
 December 23, 2021

2022:



How 'ESG' came to mean everything and nothing
 10 November 2022

2023:

The Economist
 How ESG became part of America's culture wars

FT
 ESG put to the test in a high-inflation world

Prices have proved volatile as regulators probe claims of greenwashing

2024:

THE WALL STREET JOURNAL

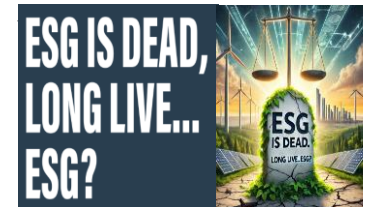
The Latest Dirty Word in Corporate America: ESG

Executives switch to alternatives like 'responsible business' to describe corporate initiatives

Step Aside, ESG. BlackRock Is Doing 'Transition Investing' Now.

The world's biggest asset manager has abandoned the acronym while pumping billions of dollars into clean energy

2025?



-> no going back in time, but what if you did it in 2025 or every year 😊?

Survey vs. archival data:

Well-thought survey design but always an issue with expressed vs. revealed preferences.

✓ get underlying
beliefs / objectives
& constraints/
actions

? generalizability?

*-> over-representation of
ESG/sustainable funds?
... Tab OA1: add how
respondent demographics
compares to Morningstar
equity fund universe?*

Survey vs. archival data:

Well-thought survey design but always an issue with expressed vs. revealed preferences.

✓ get underlying
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? generalizability?

? interpreting the
questions?

*-> ES performance:
inside-out in double
materiality (externalities)
... but then Q1 is to rank
ES for “importance for
the long-term value of
the companies”?*

Survey vs. archival data:

Well-thought survey design but always an issue with expressed vs. revealed preferences.

✓ get underlying
beliefs / objectives
& constraints/
actions

? generalizability?

? interpreting the
questions?

? misreport their
answers?

*-> there is anonymity, but
respondents might still
answer “what they ought
to believe”? no chance to
link to holdings / archival
data?*

Tests on Beliefs: *-> How internally consistent are respondents' answers ... confusing aggregate vs. individually 😊?*

T1: ES performance relative to other factors? (#1 strategy and competitive position, #2 operational performance, #3 corporate culture, #4 governance, #5 capital structure, #6 ES performance)?

-> non-material, but could #3 corporate culture be considered part of vs. "S"? how separable is "ES" from "#4 G"?

T2: ES sub-dimension performance in absolute terms?

T3: ES performance and shareholder returns? T4: good ES performers?

T5: bad ES performers?

-> T2 (ES not material) vs. T3+T4 (ES leaders positive alpha): confused on materiality vs. market underpricing of ES? ... but also interlinked with other factors

T6: firm-level investment in ES? T7: overinvest/underinvest?

-> companies invest optimally on ES ?

Tests on Objectives & Constraints:

T8: Objectives and trade-offs

- > *main objectives is financial performance (no concession in returns for ES / no trade-offs) but how consistent with T3?*
- > *fiduciary duty: any tests for cross-sectional heterogeneity in fiduciary duties (lawyers here at GCGC 😊?)*

T9: Constraints

- > *ES constraints are common: go beyond just fund names (EU SFDR article 6/8/9) and firmwide policies (PRI, CA100+, NZAM signatories)?*

Tests on Actions:

T10: Stock selection

-> adjusting portfolio weights for ES by both traditional and sustainable investors ... again, how consistent with T3?

T11: Voting

-> low voting for shareholder proposal that was even slightly negative for shareholder value ... but voting typically not by PM, rather by stewardship team?

T12: Engagement

-> again, stewardship teams typically do any type of engagement, or even the asset owners themselves?

Tests on Specifics:

T13: Carbon emissions

-> some evidence of personal values of PMs (“carbon emissions are bad for wider society”)?

T14: Board diversity

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We will be featuring the following top academics from January – June 2025:

- January: [Laura Starks](#) (McCombs School of Business, University of Texas at Austin)
- February: [Pedro Matos](#) (Darden School of Business, University of Virginia)
- March: [Madison Condon](#) (Boston University)
- April: [Rodolphe Durand](#) (HEC Paris)
- May: [Ayako Yasuda](#) (University of California, Davis)
- June: [Christian Leuz](#) (Booth School of Business, University of Chicago)

The background image is a photograph of the University of Virginia campus, featuring a large bronze statue of Thomas Jefferson on the left, a circular fountain in the foreground, and a long, classical building with columns in the background. The entire image has a warm, orange-brown color cast. The text "Good luck for the paper!" is overlaid in the center in a large, white, sans-serif font.

Good luck for the paper!



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