The **Sustainability Footprint** of Institutional Investors

Philipp Krüger (with Rajna Gibson Brandon)
University of Geneva & Swiss Finance Institute

What do we do in this paper?

1. Propose a way of measuring the **portfolio-level** sustainability of institutional investors (→ "footprint")
2. Study the link between
   i. investment horizon and footprint
   ii. risk-adjusted returns and footprint

→ Gain a better understanding of which types of institutions engage in sustainability oriented investment strategies

Measuring sustainability at the **stock-level**

- Environmental and social (ES) ratings from MSCI and Thomson Reuters

- U.S. stocks between 2003 and 2015

- Use **average** MSCI and Thomson Reuters rating

Measuring sustainability footprint at the **institutional investor-level**

- Combine **(i)** *portfolio weights* with **(ii)** *stock-level sustainability scores*
- "Footprint"=*Value-weighted* sustainability of the stocks in the institution's portfolio:

$$Susty\_VW_{jt} = \sum_{i=1}^{N_{jt}} w_{ijt} \times Susty_{it-1}$$

- Focus on *"13F institutions"*: institutions that exercise investment discretion over $100 million in U.S. stocks

Panel B: Institutional investor-level sustainability footprint

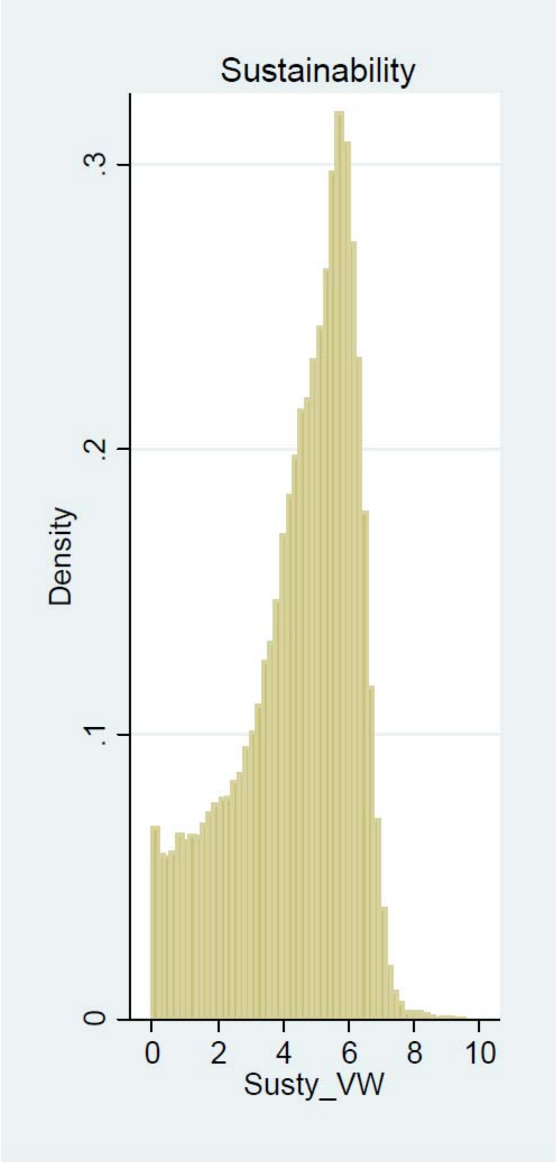

Figure 1, Panel B

- Very few institutions have good footprints (i.e., only 3 % of institutions have a footprint of 8 or better)

Note: The higher the footprint, the better…

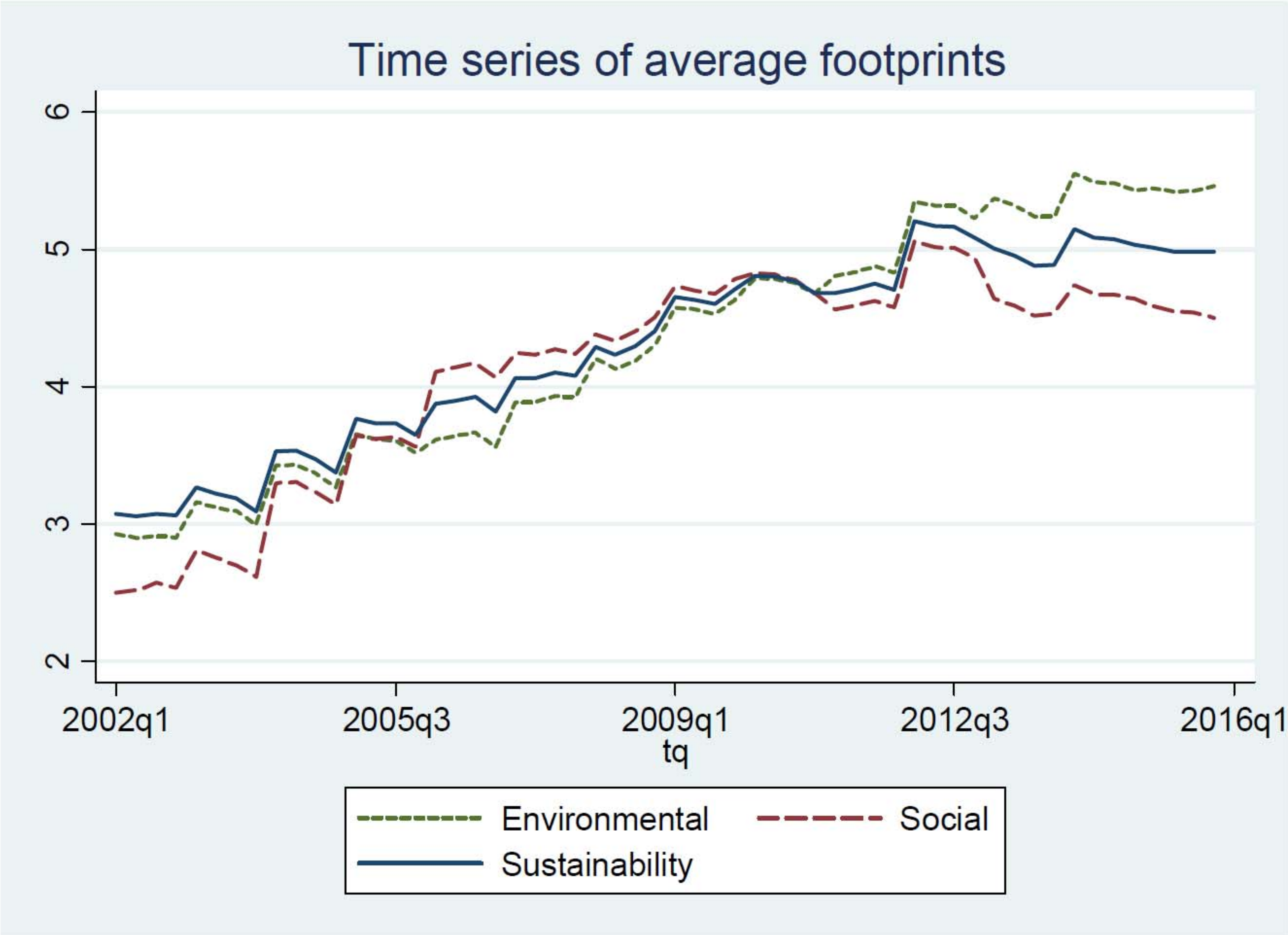

Figure 2

1.) Footprint of the average institutional investor has increased by about 65 % between 2002 and 2015

2.) Divergence of E and S footprint since 2010 (BP oil spill?)

Institutions with longer investment horizons have higher (i.e., better) footprints

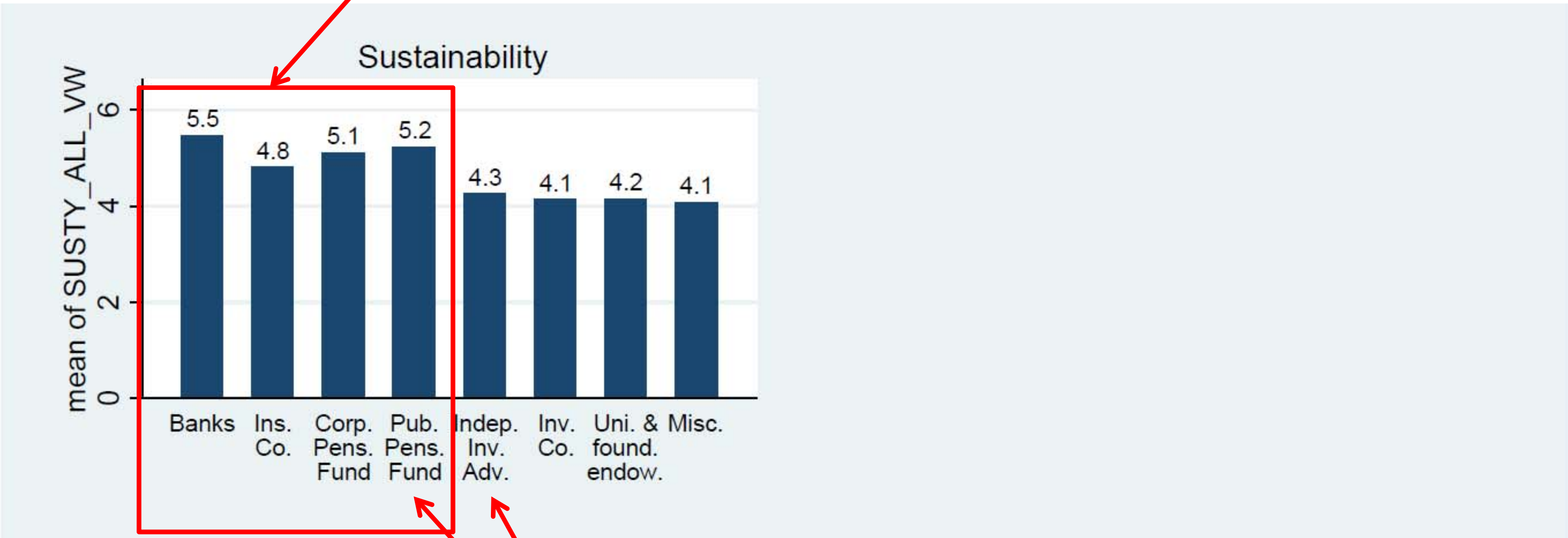

Figure 3, Panel A

Differences economically meaningful.

For example, average Public Pension Fund has a 21% (=5.2/4.3-1) better footprint than the average independent investment advisor.

Institutions with lower portfolio turnover have better footprints

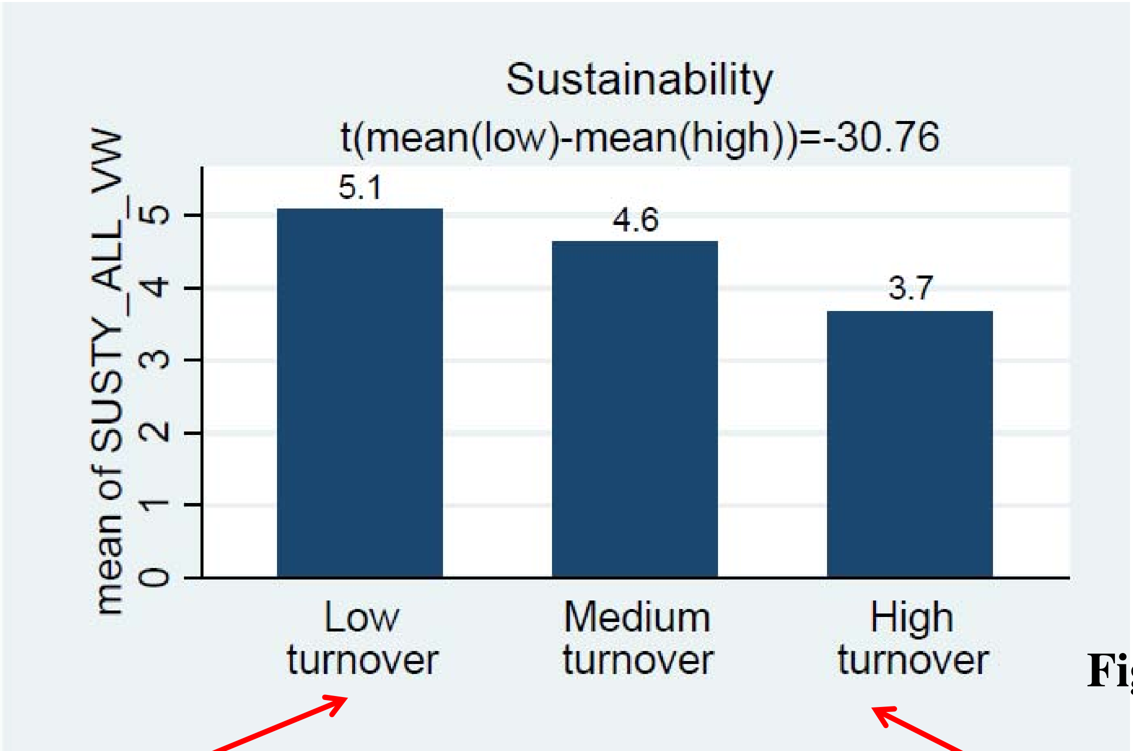

Figure 3, Panel B

Low-turnover institutions have a 38 % better sustainability footprint than high turnover institutions

What about the link between risk-adjusted performance and footprints?

Institutions with better footprints have…

… (i) lower returns

… (ii) lower risk

… (iii) higher Sharpe ratios

Conclusion

1. Propose new way of measuring the portfolio-level sustainability footprint of 13F institutions
2. Show that investment horizon correlates with sustainability footprints: longer horizons, better footprints
3. Show that institutional investors with better sustainability footprints exhibit higher risk-adjusted performance
   – primarily through a reduction of portfolio risk
4. IV and a DID identification strategy suggest a causal impact

Thank you for your attention!