# CESG Conference 2024. Vienna.

## Panel: What is the role of the analyst in a rapidly changing ESG Environment?

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CEE EQUITY STRATEGY

# What is the role of the analyst in a rapidly changing ESG environment?

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# Implied question – will the role of financial analysts change?

> "Our results are saying that analysts, because they know their companies from the bottom up, are likely to have the insights that are most helpful in consuming companies' ESG disclosures."

Aaron Yoon quoted in "Investors Are Eager for Accurate ESG Information. Can Financial Analysts Provide It? (northwestern.edu), Kellog Insight

Role of financial analysts

# What do we face, what do we need….

- "… financial analysts are late entrants to the ESG space …"
- "… analysts argue that it is difficult for ESG information to be incorporated into traditional valuation frameworks because ESG information is non-financial in nature."
- "… given the disagreement about what constitutes ESG activities, unstandardized ESG disclosures, and challenges to measuring and quantifying the costs, benefits and risks associated with ESG performance, analysts may need time to understand ESG …"
- "At least some ESG risks are financially material and would have important value, reputation, and regulatory implications to firms."

- "…. financial analysts' revisions of recommendation and target prices predict the frequency of future ESG incidents…"
- that analysts embed ESG risk into their outputs through adjustments in discount rates rather than updates to expected cash flows

"… analysts' ability to predict future ESG incidents significantly improved after SASB issued its guidance on material ESG issues."



*Source: Sell-side Analysts's Assessment of ESG Risks, Park, Yoon, Zach, October 2022:*

## Role of financial analysts

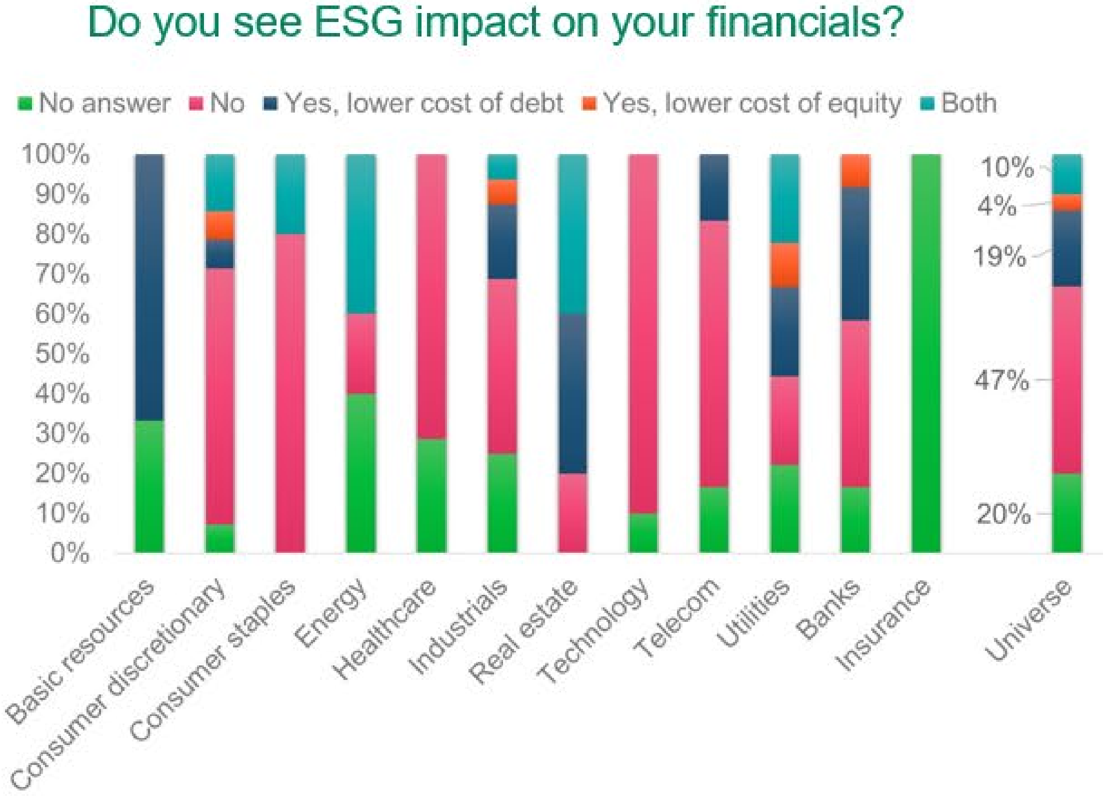
# … and how can we contribute?

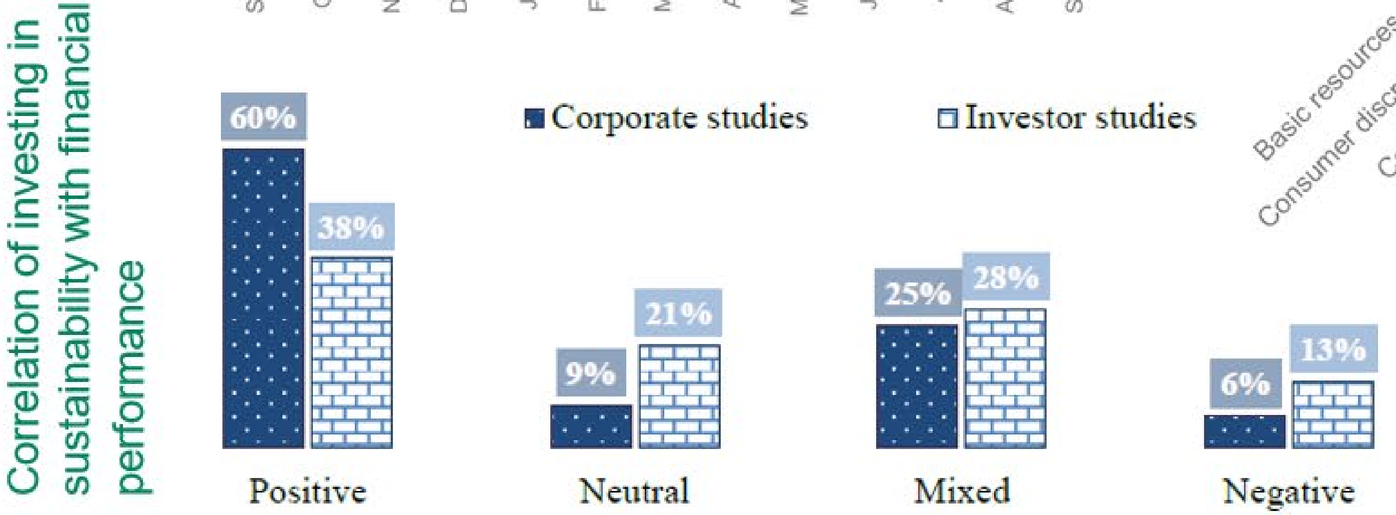
- “…analyst coverage encourages (…): (1) encourage firms’ awareness on ESG issues via ESG-oriented information production; (2) alleviate ESG undervaluation and strengthen the financial relevance of ESG performance; (3) mitigate financial constraints to support corporate ESG activities.“
  - “…dataset of listed firms in China from 2009 to 2020, (…) analyst coverage significantly improves (…) firm’s ESG scores
- “…positive relationship between analyst coverage and the target firms’ ESG performance…“
  - “…firms followed by more ESG-oriented analysts face more pressure to improve ESG performance…”
    - “…analyst coverage improves financial relevance of ESG performance, which is a critical motive for ESG engagement. (…) means that managers can elevate the firm’s market value through good ESG attributes…
    - “…negative relationship between analyst coverage and financial constraints, indicating that firms with greater analyst coverage are better positioned to engage in sustainable investments.”

*Source: Does Analyst Coverage affect corporate ESG performance?, Haoyu, Hui, Huiyu, April 2023:*

Role of financial analysts

# Real world - Progress and way to be gone




*Source:* Does Sustainability Generate Better Financial Performance? Atz, Van Holt, Zongyuan, Bruno, July 2022, *Factset, Erste Group Research*

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RESPONSIBLE INVESTMENTS

# What is the role of the analyst in a rapidly changing ESG environment?

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**Practical Example**

# What does it take to align ESG with financial materiality?

**50€**

**vs**

**200€**

*Source: de.freepik.com*



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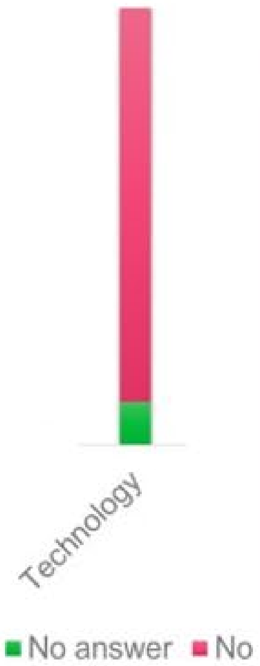
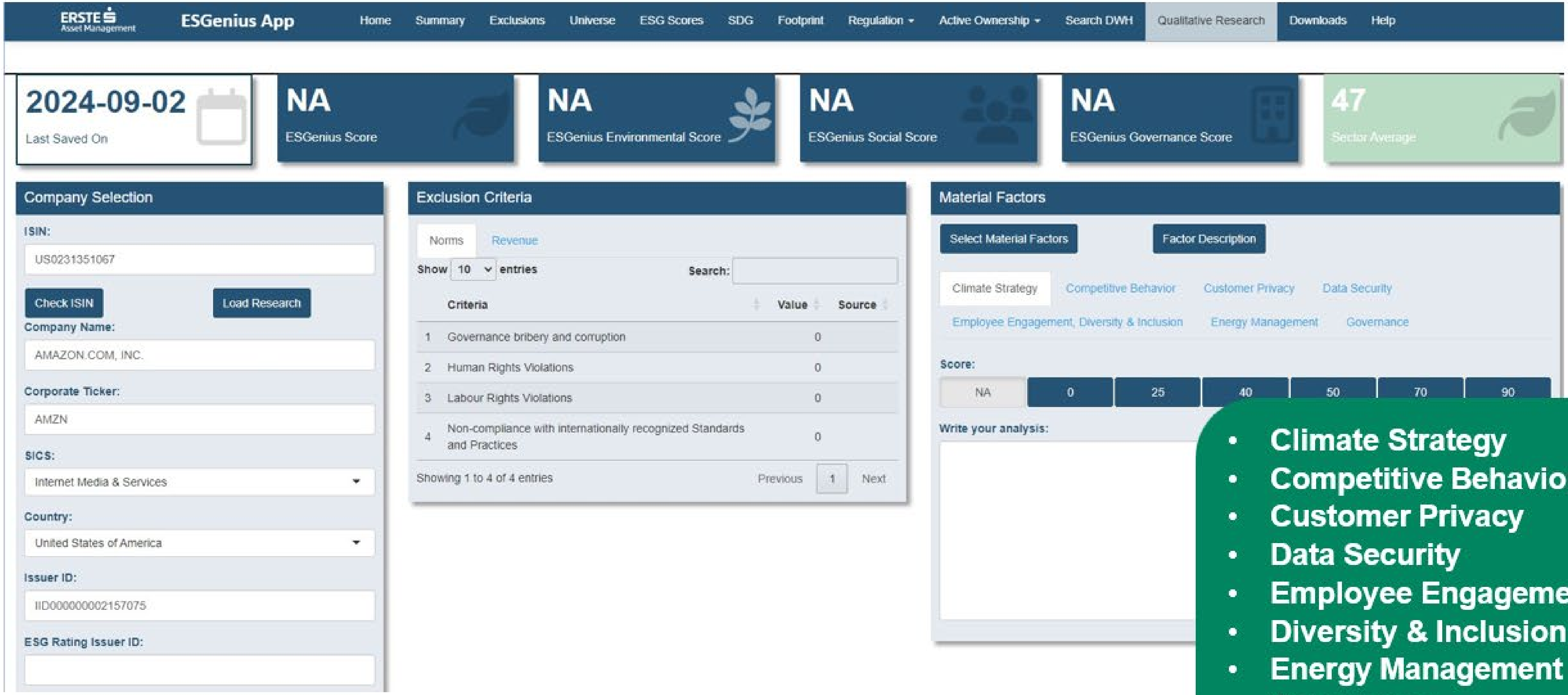
## Qualitative ESG Analysis

# What Technology got wrong in their self assessment

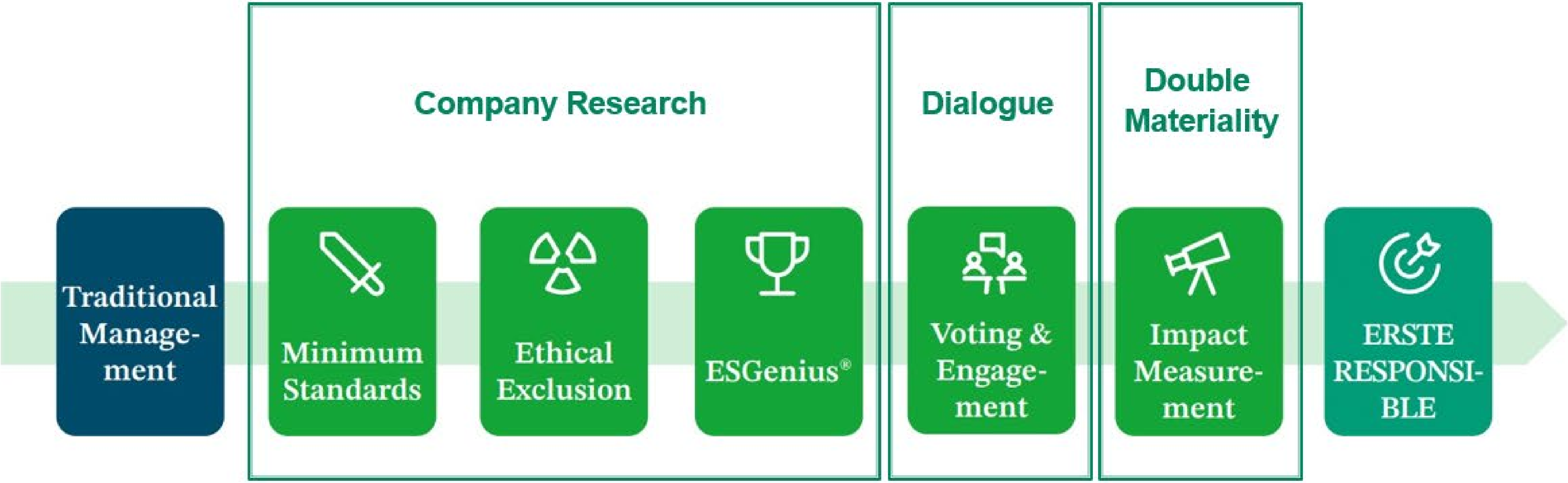



- Climate Strategy
- Competitive Behavior
- Customer Privacy
- Data Security
- Employee Engagement
- Diversity & Inclusion
- Energy Management
- Governance

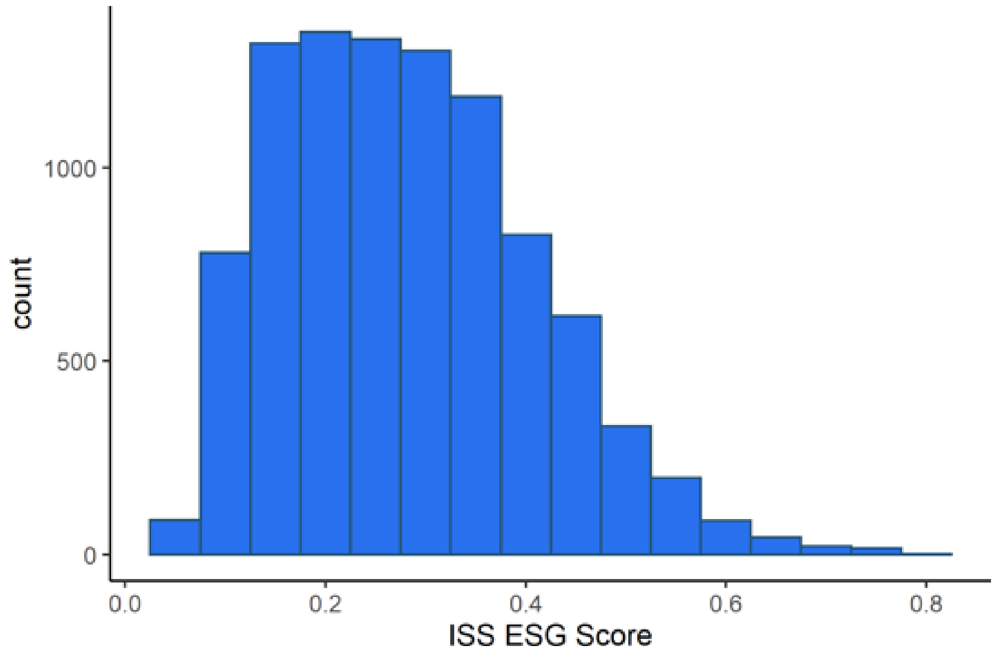
*Source: Research Dashboard ERSTE Asset Management*

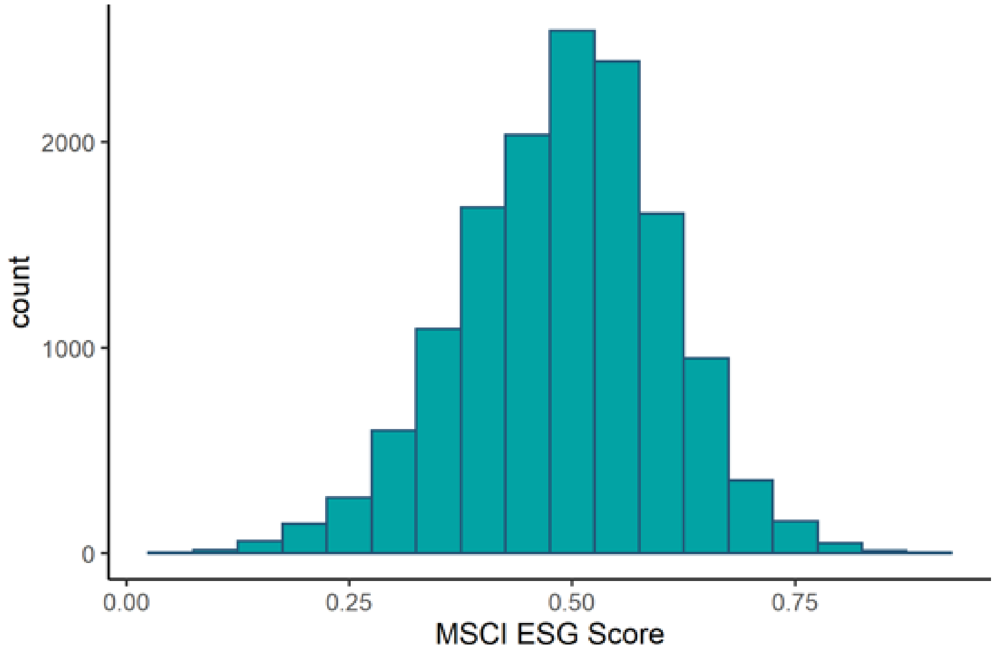
# Toolbox for ESG investments




*Source: ERSTE Asset Management Research*

# Distribution of ESG Scores depends on Rating Provider

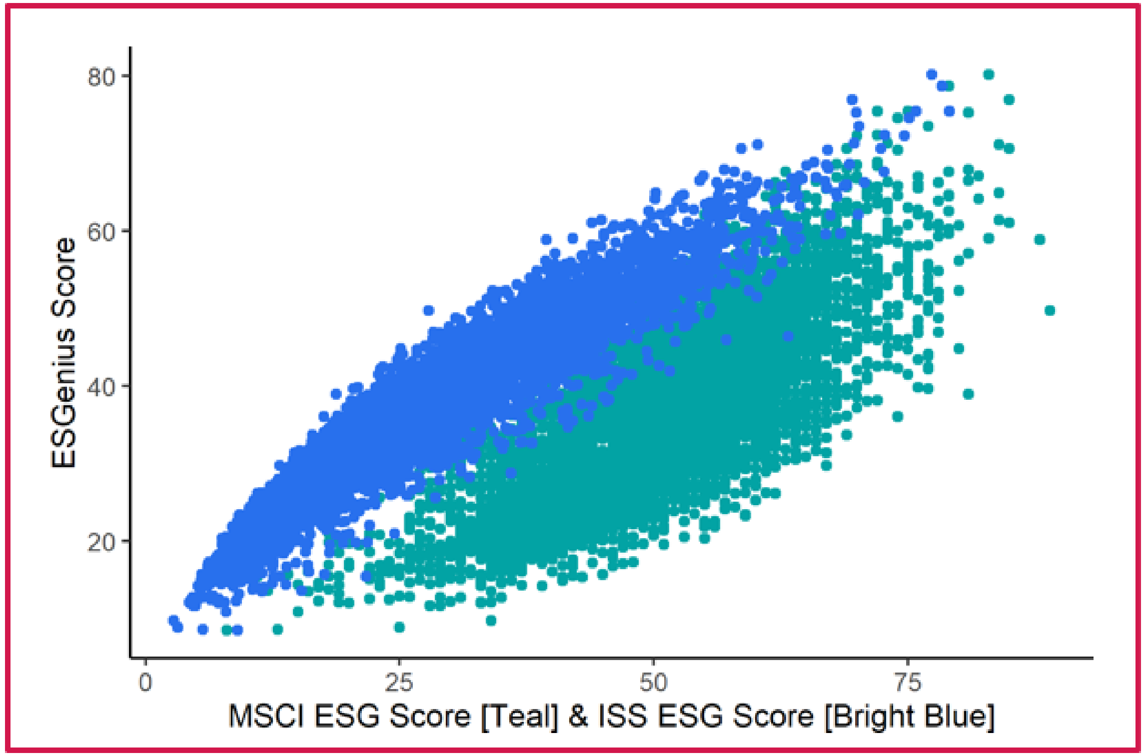


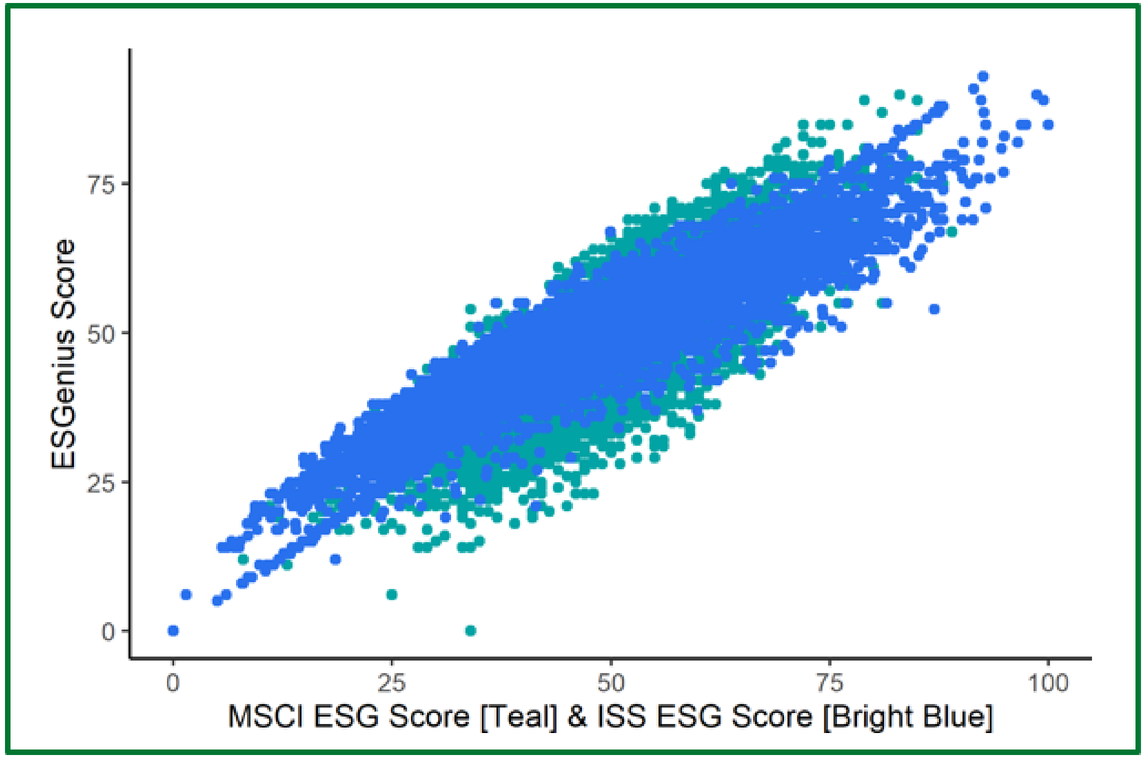




*Source: MSCI ESG, ISS ESG, ERSTE Asset Management Research*

## Quantitative ESG Analysis

# Combined results are not only affected by inputs but also their distribution




*Source: MSCI ESG, ISS ESG, ERSTE Asset Management Research*

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