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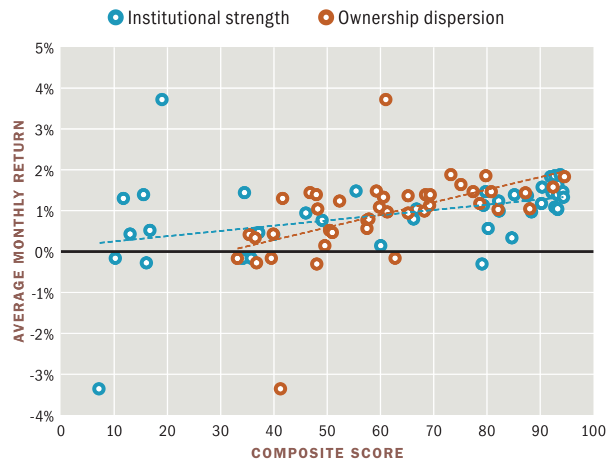
ESG: Global governance matters

Investors need to pay attention to a country's laws and traditions, which can vary widely and impact how its companies transfer value. Under the governance branch of ESG investing, factors including shareholder dispersion and legal systems, were the subjects of the recent study published in the CFA Institute's Financial Analysts Journal: "Corporate Governance, ESG, and Stock Returns around the World" by Mozaffar Khan, of Causeway Capital Management.

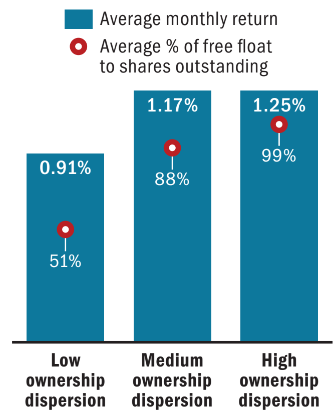
Will of the people: Researchers observed the returns* of companies in 42 countries, noting higher returns in those countries with greater shareholder dispersion and institutional strength.

Returns by institutional strength and ownership dispersion



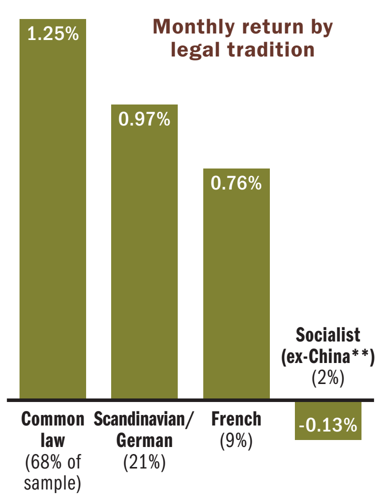
Free floating: Ownership dispersion shows significant return improvements when fewer shares are held by single parties, such as families or governments.

Returns by share ownership dispersion



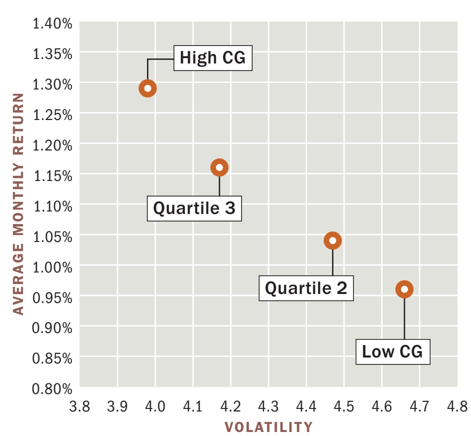
*Average monthly returns January 2009 - November 2017. **China was excepted from the Socialist category due to recent significant structural changes.
Source: "Corporate Governance, ESG, and Stock Returns around the World" by Mozaffar Khan, Ph.D., of Causeway Capital Management

Institutional focus: Countries where minority shareholders are better protected by the legal system also proved to have higher average returns.



Proof of concept: Researchers combined corporate governance factors into a composite score and found significant risk/return benefits in investing with higher-rated companies.

Risk/return by governance quartile rankings



Compiled and designed by Charles McGrath and Gregg A. Runburg