

Are You Looking for Long Term Evidence that ESG Outperforms?

One of the advantages of ethical investing that I have often mentioned is avoiding the reputational impact of controversies. Whilst over the last several years, the financial penalties for breaking the law have increased, they are very rarely of a sufficient size to force company management to alter their behaviour.

Company reputation affects investor returns

A piece of research has been brought to my attention which looked at over 100,000 news reports on companies in the S&P 500 from 2006 to 2016. The coverage was rather skewed towards certain industries, but it still provides a good overview of the impact of positive or negative media coverage on a company's share price. The reported impact is substantial.

A dramatic difference

On average, the 25% of companies with the most positive media coverage outperformed the 25% of companies with the worst media coverage by 3.2% per month. This is a staggering difference. It is of course impossible to forecast media coverage, but the figures suggest that if I was able to, I would massively outperform the market. So if I look for a proxy predictor of media coverage I would focus on companies with strong demonstrated ESG performance to direct me to those companies most likely to generate good media coverage; and avoid companies that invite poor media coverage. I might not be able to capture a 3% per month outperformance but if I only capture a fraction of that I would be doing exceptionally well.

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