



## Opening Remarks: Research Findings for ESG x COVID-19

### The relative importance of ESG performance in times of financial crisis: Evidence from COVID-19 in China

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### Abstract

- Using an industry neutral, bi-annually re-balanced portfolios constructed by ESG scores, we track ESG-tilted investment portfolio performance for the CSI300 constituent stocks during 2015-2020. The differential cumulative return shows that an industry neutral ESG based investment strategy allows an investor to earn substantially higher returns in the Chinese market.
- Based on the short-term event window, there exhibits a positive relationship between stock returns and ESG ratings during COVID-19 outbreak.
- In conclusion, despite China is in the early stage of ESG investing and a lot of investors are unsophisticated retail investors, there are preference for high ESG firms, especially during the crisis.

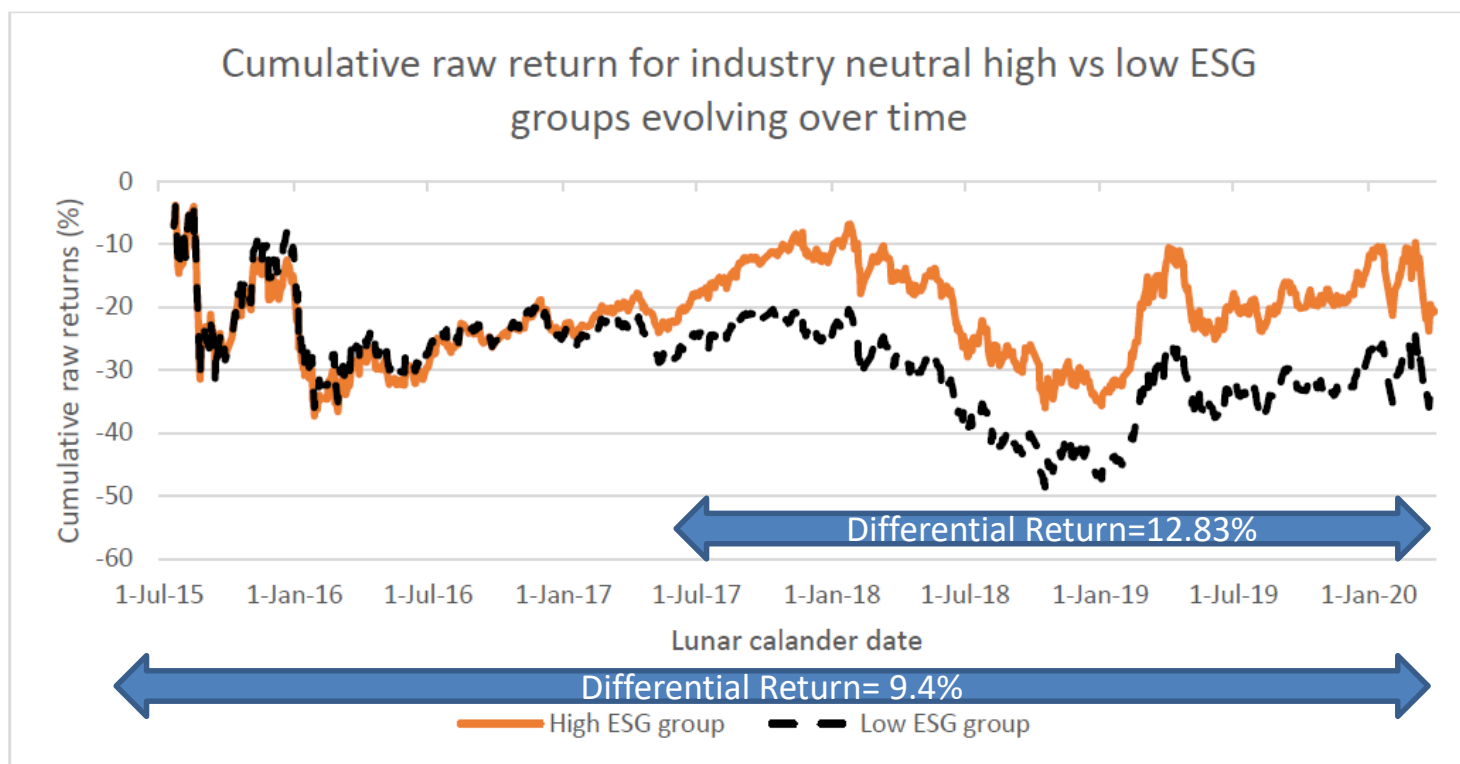


**Table 1 Information to SynTao Green Finance Dataset**

<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3 (examples)</b>
<b>E</b> Environmental	Environmental Management	Environmental Management System Certification, Water Conservation Objective, Green Product (Service) and Revenue
	Environmental Disclosure	Energy Consumption and Conservation, Waste gas Emission and Reduction
	Environmental Controversies	Negative Incidents regarding Water Pollution/Air Pollution/Solid Waste Pollution
<b>S</b> Social	Employee	Freedom of Association, Anti-Discrimination
	Supply Chain	Responsible Supply Chain Management
	Community	Community Communication
	Product	Fair Trade Product, Genetically Modified Food
	Philanthropy	Enterprise Foundation, Donation
	Social Controversies	Negative Incidents regarding Employees/Clients/etc.
<b>G</b> Governance	Business Ethics	Whistleblowing Policy, Overseas Tax Payment
	Corporate Governance	Board Diversity, Auditor Independence
	Governance Controversies	Negative Incidents regarding Business Ethics/Corporate Governance

**Figure 1: Cumulative raw return for industry neutral high vs low ESG groups evolving over time during the period between Jul 1, 2015 and Mar 31, 2020**

Using an industry neutral, bi-annually re-balanced portfolios constructed by ESG scores, we track ESG-tilted investment portfolio performance for the CSI300 constituent stocks during 2015-2020. The differential cumulative return for the high ESG vs the low ESG group is about 12.83% during the July 2017-December 2019 period, and for the whole sample is 9.4%. These figures imply that, even in normal times, an industry neutral ESG based investment strategy allows an investor to earn substantially higher returns in the Chinese market.



**Table 2: Trading Volume of CSI300 Stocks Before and During the COVID-19 Pandemic Period**

This table reports the trading volume of Mainland CSI300 firms traded on Shanghai Stock Exchange and Shenzhen Stock Exchange. Normal period is from Feb 11, 2019 to Mar 31, 2019, and the pandemic period is from Feb 3, 2020 to Mar 31, 2020. High ESG firms are portfolios above ESG\_total sample median, low ESG firms otherwise. These two periods cover 2 months after the Chinese New Year holidays. Trading volume data are from the Wind database.

The symbols \*, \*\*, and \*\*\* indicate significance at the 10%, 5%, and 1% levels, respectively.

	All CSI300 firms		
	Daily trading volume (RMB Yuan, in million)	Daily number of trades	Average trade size (RMB Yuan)
Normal period	792	32550.9	24.28
Pandemic period	878	36698.4	30.72
Difference	-85.8	-4147.5	-6.44
T-statistics	-6.26***	-8.44***	-7.17***
	High ESG firms		
	Daily trading volume (RMB Yuan, in million)	Daily number of trades	Average trade size (RMB Yuan)
Normal period	775	33114.2	24.64
Pandemic period	856	35658.5	33.36
Difference	-80.8	-2544.3	-8.72
T-statistics	-3.92***	-3.17***	-8.29***
	Low ESG firms		
	Daily trading volume (RMB Yuan, in million)	Daily number of trades	Average trade size (RMB Yuan)
Normal period	805	32125.6	24.01
Pandemic period	896	37517.5	28.64
Difference	-90.3	-5391.9	-4.63
T-statistics	-4.92***	-8.82***	-3.39***
	High ESG firms minus Low ESG firms		
	Daily trading volume (RMB Yuan, in million)	Daily number of trades	Average trade size (RMB Yuan)
Normal period	-30.2	988.5	0.63
T-statistics	-1.61	1.39*	0.63
Pandemic period	-39.7	-1859	4.72
T-statistics	-1.97**	-2.70***	3.26***

**Table 3: The Impact of ESG Performance on Stock Market Reactions and volatility to Covid-19**

This table provides the results on relationship between ESG scores of Mainland CSI300 firms and stock market reaction during the Covid-19 outbreak period.  $r[-1,1]$  refers to cumulative raw return (in percentage) over Jan 23– Feb 4, 2020.  $\ln(BM)$  is the logarithm of book to market ratio.  $\ln(Size)$  is the logarithm of the market value equity two weeks prior to the start of the pandemic. Leverage is ratio of total liability to total assets. All of the regressions include controls variables, industry fixed effects (not reported for brevity).

	$r[-1,1]$	$r[-1,1]$	volat[-1,39]
Variables	[1]	[2]	[3]
ESG_total	Positively Significant		Negatively Significant
ESG_mngt		Positively Significant	
Controls	yes	yes	yes
Constant	yes	yes	yes
Industry FE	yes	yes	yes
Observations	300	300	300
R-squared	0.125	0.152	0.310