

The Cost of ESG Investing*

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Abstract

Socially-responsible investment mandates can cost nothing. Optimal systematic portfolios, using many approaches and rich information in asset characteristics, can be tilted to achieve ESG investing goals with negligible effects on performance. Nonetheless, strategies based on ESG-based mispricing can be profitable if we pool information across ESG scores or use specific environmental criteria. Our evidence is inconsistent with ESG measures conveying novel information about systematic risk; but it is consistent with investors placing significant weight on certain ESG subcomponent information, and with ESG-driven mispricing having occurred.

Keywords: ESG, IPCA, tangency portfolio, portfolio tilt, responsible investing, sustainable investing

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