# Sustainable Finance

## Prof. Alfonso Del Giudice; Prof. Andrea Signori

***COURSE AIMS AND INTENDED LEARNING OUTCOMES***

The course aims to explore the possibility to include non-financial elements in traditional investment models, in order to help students develop the skills they need to become professional experts directly or indirectly – as consultants – involved in business financial management and in the operations carried out by financial intermediaries. At the end of the course, students will be able to:

1. Develop their knowledge of the key concepts of the subject, and use them to interpret financial sustainability analysis.

2. Use their newly acquired knowledge to make the assessment of sustainable investments within simplified environments.

3. Collect and interpret the data at the basis of responsible investment decisions, and form independent judgments.

4. Communicate their knowledge using an appropriate terminology.

5. Develop the skills they need to pursue further studies in this field, and use them in the other courses of their degree curriculum and on their future work place.

***COURSE CONTENT***

The course will focus on the following topics.

1. *A definition of sustainable finance, strategies, and market*. The definition of sustainable finance, the historical background, and the evolution of the main strategies. Responsible investments. Thematic and impact investing. Institutional investors and social activism.
2. *Responsible investments*. Non-financial ratings (ESG) and the main methodologies used by analysts. The limits of non-financial analysis and the evolution of non-financial rating markets and companies. ESG rating and the *pricing* of listed securities: the extension of factor analysis models to non-financial analysis. Sustainability and company value: flows and rates within sustainable companies. ESG investment funds: rating, risk, and performance. Sustainable *asset location*.
3. *Sustainability and asset pricing.* The involvement of sustainability on the mainmodels of asset pricing*.* Introduction to the *climate finance.* Sustainability and *Capital Asset Pricing Model.* Sustainability and *Arbitrage Pricing Theory.* Sustainability and *option pricing.* Empirical evidence.
4. *Thematic and impact investing*. *Green bonds*: issue, pricing, and certification process. *Social bonds*: definition, issue, and certification process. Thematic funds: *green* Impact investing: definition, measurability of its socio-environmental impact, and the link with economic yield. *Social impact bonds*: economic and financial features and agency costs.
5. *The engagement of institutional investors*. Agency costs and sustainability. The non-financial activism of institutional investors: *asset managers* and *beneficial owners*. An introduction to regulations: the differences between the European and the US market. The effectiveness of activism.

***READING LIST***

Del Giudice, *La finanza sostenibile*, Giappichelli, 2022 (only the chapters and the paragraphs indicated in class).

Suggested readings

Dyck A. - Lins K.V. - Roth L. - Wagner H.F. (2019), *Do institutional investors drive corporate social responsibility? International evidence*, Journal of Financial Economics, 131, 693-714.

Giglio, S., Kelly, B., Stroebel, J., 2021. *Climate Finance. Annual Review of Financial Economics* 13, 15-36.

Hackenberg B. - Schiereck D. (2018), *Are green bonds priced differently from conventional bonds?*, Journal of Asset Management, 19 (6), 371-383.

Hart O. e Zingales L. (2017), *Companies Should Maximize Shareholder Welfare Not Market Value*, Journal of Law, Finance, and Accounting, 2 (2): 247-274.

Hsu, P., Li, K., Tsou, C., 2023. *The Pollution Premium. Journal of Finance, in press.*

Pástor, L, Stambaugh, R. F., Taylor, L. A., 2021. *Sustainable Investing in Equilibrium*. Journal of Financial Economics 142, 550-571.

Pedersen, L. H., Fitzgibbons, S., Pomorski, L., 2021. *Responsible Investing: The ESG-Efficient Frontier*. Journal of Financial Economics 142, 572-597.

Statman M. - Glushkov D. (2016), “*Classifying and measuring the performance of socially responsible mutual funds*”, Journal of Portfolio Management, 42(2), 140-151.

Lecture notes, bibliographical references, and further teaching material indicated in class. Please note that the majority of the teaching material is written in English.

***TEACHING METHOD***

Frontal lectures (60 hours, organised in 5 hours per week x 12 weeks), including theoretical explanations and subject matter experts.

***ASSESSMENT METHOD AND CRITERIA***

Written exam, to be taken during the official exam sessions, and consisting in two calculation exercises and an open-ended question on the theory; please note that also the ‘theoretical’ question may include the request to perform simple calculations. Both the exercises and the theoretical question will have the same importance in terms of score. There will be no interim tests.

***NOTES AND PREREQUISITES***

*Notes*

In order to get the most out of this course and prepare for the final exam, students are invited to regularly attend classes and do the exercises. In addition, attending students will have the possibility to discuss some case studies in class. Therefore, they are invited to consider this in the organisation of their activities.

Further information can be found on the lecturer's webpage at http://docenti.unicatt.it/web/searchByName.do?language=ENG or on the Faculty notice board.