

Executive Summary

Purpose

The terminology ESG, which stands for Environment, Social, and Governance, evaluates companies in the area of sustainability and helps investors make more advanced sustainable investments. The ESG integration is, according to Busch et al. (2022) SSF, the second most commonly used sustainable investing approach in the Swiss market, with a volume of 1,330 trillion Swiss francs, increasing by 24 percent from 2021 to 2022. Although these numbers show the importance of sustainability and ESG in the investor's universe, no study exists that analyzes the performance of ESG-certified companies in the Swiss market. This study examines the following questions: What influence has the ESG certification had on the monthly excess return of certified Swiss companies? Can this excess return be described by higher operating profitability or a lower cost of capital?

Analysis

The thesis used financial data from 218 SPI companies mostly from the Thomson Reuters Eikon database and partly from Bloomberg. The ESG-certification data is obtained from Inrate, a Swiss-based rating agency working closely with SIX. The sampling period is from 2016-2021. The analysis of impact of ESG on the monthly excess stock return was examined, both on the portfolio-level and the stock-level. For the portfolio regression, the SPI companies are divided into A-rated and D-rated portfolios, along the overall rating ESG and each of its' pillars. To control for common risk, the risk factors of Fama and French (2015) are used as dependent variables.

The stock-level regression controls for the beta (idiosyncratic risk factor), PE (price-earning ratio), EBIT (earning before interest and taxes margin), BM (book-to-market ratio), DIV (dividend yield), size (total assets) and leverage (debt-to-equity ratio). The regression was conducted as OLS and fixed effect panel regression to address the unobserved heterogeneity.

In the next step, using the same control variables as in the stock-level regression, the effect of ESG and its' pillars on the operating profitability was analyzed with the OLS and fixed effect model. In the end, the same framework was used to evaluate the effect on the weighted cost of capital.

Results

The portfolio regression of the monthly excess return on the A-rated and D-rated portfolios showed no significant overperformance but a significant, slightly negative excess return of all the D-rated portfolios.

The OLS stock-level regression showed a significant G dimension effect with a magnitude of 0.1%. In the fixed effect regression, the S dimension showed a significant effect with -0.1%. Both models have a low adjusted R^2 , indicating bad model fits.

For the operating profitability analysis, both models showed a significant negative impact of ESG and all its' pillars. The magnitude reached from -0.2% to -1.0%. The OLS regression of the WACC on the ESG rating showed a significant, positive effect of ESG, E, and L. However, the fixed effect model showed opposing effects for ESG and all its pillars with a value of -0,1%.

Conclusion

The results show no apparent effect of ESG on the monthly excess return of SPI companies in the period of 2016-2021. The same unclear results are obtained from the regression on the WACC. However, the results are consistent in the operating profitability analysis, showing a negative effect. This could be explained by higher economic costs for ESG integration. The methodological issues

and the short sampling period make it difficult to draw a clear, causal effect of ESG on the stock return and the cost of capital. Therefore, the ESG market needs to further mature and other study approaches must be used to research the impact in the Swiss market further.