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# What Factors Drive ESG Performance? A Comparison ESG Vs Non-ESG Funds

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*Abstract.* ESG (environmental, social, and governance) funds are exploding globally and growing exponentially. According to the latest PWC report, the growth of ESG funds in the US at the end of 2021 has reached US$ 67 trillion. This growth could be partly attributable to the renewed attention to environmental issues due to the post-Covid-19 period. Anyway, exponential growth does not spare Europe. It would appear that over 81% of institutional investors in the US and over 83.6% in Europe are moving towards ESG products. The growth of ESG shares in the portfolio is estimated to increase from 14.4% to 21.5% in 2026 and would total over 20% of the managed assets portfolio (https://www.pwc.com/gx/en/financial-services/assets/pdf/pwc-awm-revolution-2022.pdf).

Environmental factors include GHG emissions, energy consumption, and waste management, while social factors include labor considerations and human rights (Morgan Stanley Bank, 2022). Governance factors refer to issues related to management and the board. Environmental and climate factors pose risks to financial institutions through physical and transition risks. These risks can be transmitted through different channels and affect the traditional financial risk categories. Physical risks refer to the direct impact of environmental factors such as natural disasters, while transition risks are related to the shift towards a low-carbon economy and changes in regulations or market preferences that could affect financial institutions.

Flugum and Souther (2023) argue that firms falling short of earnings expectations are more likely to cite stakeholder-focused objectives in their public communications following earnings announcements. This behavior is consistent with managers preferring to be evaluated by subjective stakeholder-based performance criteria when falling short on objective shareholder-based measures.

Hartzmark and Sussman (2019) find that sustainability is viewed as positively predicting future performance, but they do not find evidence that high-sustainability funds outperform low-sustainability funds.

Mosson (2022) finds that ESG funds are more oriented toward large caps and developed economies and that these factors are correlated with lower ongoing costs. However, even after controlling for fund characteristics and differences in portfolio exposures, ESG funds remain statistically cheaper and better performing than non-ESG peers between April 2019 and September 2021.

The goal of our paper is to investigate, in a comparative analysis, two samples represented by ESG and non-ESG funds, respectively. Using an unique dataset composed by 116 funds during the period 2022, that includes several indicators of performance, risk, and risk-adjusted performance (e.g., Sharpe index, Sortino index, Beta, Standard Deviation, annualized performance), we investigate the relationship between performance, some personal traits of CEO (e.g., age, educational qualification, professional background), and Hofstede cultural dimension for both ESG and non-ESG funds. We do not find a statistically significance differences between ESG and Non-ESG funds performance. Our results suggest that the performance of funds is not driven by environmental, social and governance issues but from the

choice of sectors in which to invest and some cultural factors such as Hofstede's variables, and the educational level of CEOs.

*Keywords:* ESG funds, Non-ESG, performance, risk-adjusted performance, cultural dimension

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