

# sub stan tive

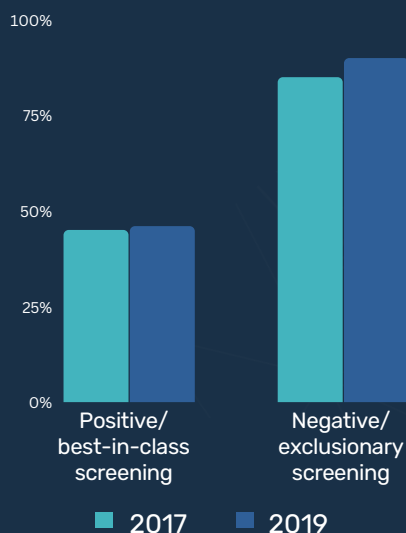
RESEARCH

## INVESTMENT SCREENING

**A Case Study on Green  
Energy Stocks vs Transition  
Stocks' Market Performance**



### SCREENING METHODS BY ASSET CLASS (percentage of PRI signatories)



Source: UN PRI, 2020

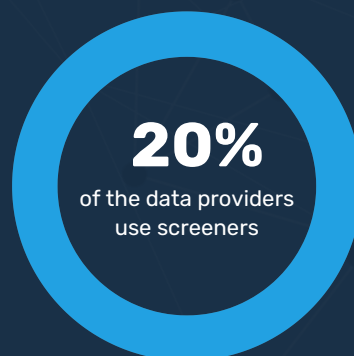
## INVESTMENT SCREENING

is the practice of excluding or only including investments into portfolios based on a specified criteria. Often, the criteria is based on environmental, social or governance considerations. Using a set of filters, this process determines which companies or sectors are eligible or ineligible to be included in the investment strategy.

To give an example of how screens can be used, we delve into the energy sector and investigate the difference in the performance of portfolios with varying investment screening strategies below. Positive screening applies when asset managers only select renewable energy companies when building a portfolio, while negative screening excludes fossil fuel companies and activities such as nuclear energy.

As Substantive Research tagged ESG data providers who cover data, ratings and impact valuation, we provide a TripAdvisor-like directory to help clients navigate the ESG space according to their ESG data requirements.

Within our database, 20% of data providers use screens to either produce their ESG scores/ratings, or offer data screening as a tool for asset managers to use in implementing a responsible investment policy. Most of them use AI and NLP to collect and analyse data.



If interested in the further analysis of the energy sector, we have published a recent report about the future of renewables. **Please contact one of our ESG team members to get a copy.**

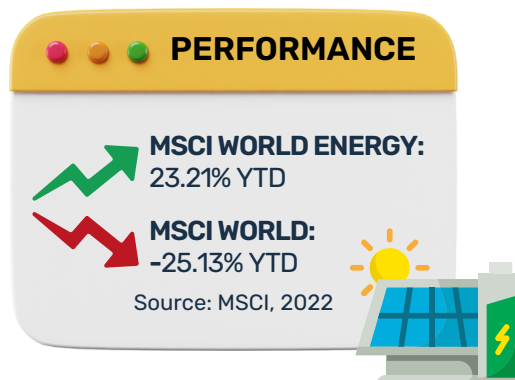


**Contact the team to have the list of providers we are highlighting this month.**

# GREEN VS TRANSITIONING



The renewable energy vs fossil fuels debate has only gotten louder in recent years as a result of government policies promising to meet climate targets and the rising cost of fuel in the market. With the continuing effects of the conflict in Russia and Ukraine, countries are being forced to reconsider their energy supplies, increasing the volatility of the market. As winter approaches as well, the demand for energy will only increase. Is it time to invest in more sustainable sources? If yes, how are asset managers choosing stocks from the energy market? Does screening for positive and negative criteria help in building high-return portfolios?



## A STUDY USING GREEN STOCKS AND TRANSITIONAL STOCKS AS EXAMPLES

A preliminary study conducted by a University of Edinburgh Business School student compared the performances of investing in green stocks vs "transition stocks" in the energy sector. *Green Stocks* were shares of companies that invest in environmentally-friendly alternative energy sources while *Transition stocks* were defined as shares of existing energy companies that are trying to transition into greener businesses through investing in renewable energy technologies or improving auxiliary processes.

Creating two portfolios with 18 stocks each and testing their performance using five different regression models, the results showed that over 20 years, transition stocks yielded the highest returns. But when tested against the S&P500, a fully green portfolio performs better, thus showing that investing in green stocks can yield good returns.

The results reflect market sentiment regarding this topic - while investing in fossil fuel companies remains lucrative for investors, investing in green energy stocks moving forward is a smart decision. With demand for renewable energy only increasing as countries and firms tackle climate change, green stocks will continue to be a popular choice for investors over the next several years.



## NICHE DATA PROVIDERS' SOLUTIONS

- ✓ Scanning unstructured media to check for controversies and compare & contrast against ESG indicators
- ✓ Carbon Underground 200 - a globally recognised fossil free screening standard
- ✓ Positive screening using UN SDGs
- ✓ Screening using different national, regional and international market practices
- ✓ Screening stocks through social media platforms: track data through Twitter for news or controversies
- ✓ Screening for materiality

## WHO ARE WE?

**Substantive Research** was launched in 2015 and has grown rapidly to become a trusted partner to asset managers globally where we are best known for offering an independent and impartial discovery and comparison service across the entire external investment research and market data universe.

In the past year, we have expanded our coverage into the ESG space as a response to our clients' desire for us to map the ESG data / research marketplace, carry out due diligence and help in market discovery of this rapidly evolving space. We have developed an industry-first ESG Provider dashboard that provides a searchable database of 165+ ESG research and data providers with thematic and coverage filters to match client preferences. We have also incorporated ESG research into our research discovery product to help asset managers navigate through the oversaturated market.



**PLEASE EMAIL THE  
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