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The focus of our special issue is the continuing discussion regarding ESG (environmental, social, and governance) factors and their impact on the future financial performance of companies. To begin our discussions, Filbeck, Filbeck, and Zhao explore whether firms rated highly by Sustainalytics based on ESG criteria are rewarded with superior long-term stock price performance. They find that overall, investors are not hurt by following an ESG philosophy, with the market rewarding firms for good governance. Alford explains that investors need to determine which ESG issues are important for them, and how these issues should be reflected in a portfolio. He presents several considerations for investors regarding use of ESG factors in the investment process, evaluation of companies with regard to their ESG profile, level of active risk (tracking error) relative to the policy benchmark, monitoring an ESG strategy over time, and articulating an investment thesis for an ESG strategy.

Next, Breedt, Ciliberti, Gualdi, and Seager test the proposition that making an allowance for ESG criteria within an equity portfolio enhances returns, by incorporating ESG criteria into a worldwide market neutral portfolio using an "off-the-shelf" third-party database of individual security ratings. They conclude that ESG should not be considered as a unique equity factor. Clark, Krieger, and Mauck examine the link between corporate social responsibility (CSR), as measured by the Kinder, Lydenberg, and Domini Research and Analytics Inc. (KLD) data, and the likelihood that a firm experiences an extreme return in a given year. They find that CSR is negatively related to the likelihood of a firm experiencing an extreme return.

As we continue, Dong, Feng, Parida, and Wang study the performance consequences of exposure to CSR through stock holdings for mutual funds. Conclusions include that investors tend to avoid low-CSR stocks due to either social norms against these stocks or risk of underperformance of these investments when overall trust in corporations suffers a negative shock. Reed, Cort, and Yonavjak diagnose the lack of premiums in the green bonds market as a result of the inability to differentiate net environmental benefits among bonds. They present an idealized rating framework and contrast currently proposed green bond rating systems from major firms.

To conclude our issue, Dolvin, Fulkerson, and Krukover analyze the Morningstar sustainability metric. They present several findings regarding funds with high sustainability scores: These funds have about the same risk-adjusted returns (i.e., alphas) as other funds; the vast majority of these funds are concentrated in the large-cap space; and these funds generally mimic those of self-proclaimed SRI funds. Last, they find that funds that specifically designate and market a social mandate experience more stable cash flows.

As always, we welcome your submissions. We value your comments and suggestions, so please email us at journals@investmentresearch.org.

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