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ANALYZING ESG MANAGEMENT IN THE U.S. O&G BIG CAP COMPANIES. EVIDENCE FROM ASSET PORTFOLIO MANAGEMENT.

Abstract:

The oil and gas industry is increasingly in the spotlight of investors and shareholders. The upward trend of sustainable finance and ESG management is causing the financial market to take more account of responsible management of environmental, social and governance issues.

Through the comparative analysis of portfolio management, this paper tries to answer how ESG management influences the performance, risk and composition of an asset portfolio. The sample is composed of the 20 big cap companies within the O&G industry in the United States, for a time period of 10 years (2013 - 2022). This sample has been distributed between the 10 companies with the best ESG indexes and the 10 companies with the worst ESG indexes. On the other hand, the analysis carried out deepens the study of the industry through the differentiation of the sample by subsectors (upstream and downstream).

The results confirm that a portfolio composed of companies with high ESG criteria reports higher returns than a balanced portfolio and a portfolio composed mainly of companies with low environmental, social and governance responsibility. As for the subsector study, the portfolio composed mainly of downstream companies with a high ESG indicator reports a higher expected return and a lower beta than the balanced downstream portfolio and the downstream portfolio dominated by less responsible companies. On the other hand, the portfolio composed of upstream companies and with a low ESG indicator yields a higher expected return and a lower beta compared to the balanced portfolio and the portfolio with responsible companies.

In short, investors are inclined to invest in downstream companies with high ESG criteria, unlike the upstream sub-sector. Therefore, financial markets apply ESG criteria in the O&G industry depending on which subsector the company belongs to.

Keywords:

O&G industry; ESG index; Sustainable finance; Portfolio management

JEL Classification: G11, Q50, F23