The Financial Consequences of Low ESG Ratings

ESG scores help investors allocate capital, and companies with better scores seem to fare better.

- MSCI's '*How ESG Affects Equity Valuation, Risk, and Performance*' showed that companies in the bottom 20% of ESG scores are **3x more likely to experience severe losses (95% stock drawdown) or bankruptcy** compared to companies in the top quintile.

- Further, a 2022 study '*ESG scores and the cost of debt*' has shown that for 2 companies with the same credit rating, **a single grade ESG score decrease results in a 1.2% bond yield increase.** Lower E, S, and G pillar scores all individually correlate with higher costs of debt as well.

Our Research on ESG Rating Cut-Offs in Sustainable Funds

- Fruuit conducted an analysis of the top 20 ESG equity funds in the world, representing $180B USD AUM, to clarify the standards around ESG investing.

- On average, these sustainable investment funds:
  - Have an MSCI ESG grade cutoff of BBB
  - Allocate 48% of capital to AA and AAA companies

Further Evidence of the Impact of ESG Scores

- According toMorgan Stanley, **companies below BBB miss out on $3.4T** from sustainable funds, while **AA and AAA companies have exclusive access to a growing $1.6T capital pool**.