



## Can High ESG Ratings Help Sustain Dividend Growth?

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Despite market uncertainties, investor interest in Environmental, Social, and Governance (ESG) considerations remains high. Flows into ESG exchange-traded funds, while slowing down compared to 2021, have remained positive this year. Understanding the relationship between ESG scores and subsequent dividend growth therefore could be of significant value to investors.

This post presents a case study of US large and mid-cap equities and their subsequent three-year dividend growth, distinguishing among them based on their ESG ratings at the start of the study period, December 2018. The analysis is based on a starting equity universe drawn from the 2018 composition of the Solactive GBS United States Large and Mid Cap Index.

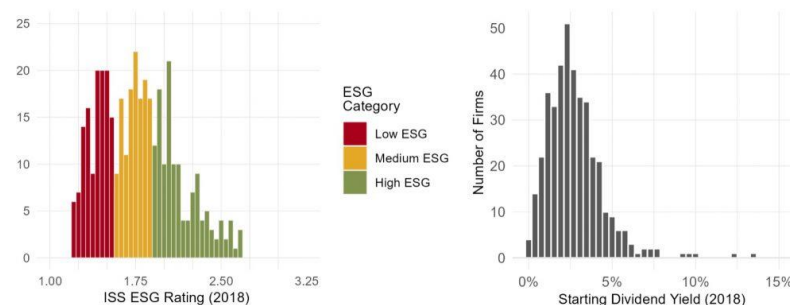
The two key metrics in the analysis are the [ISS ESG Corporate Rating](#) as of December 2018, as well as annual dividends paid in the calendar years 2018 and 2021, drawn from Bloomberg. The ISS ESG Corporate Rating is ISS ESG’s comprehensive ESG Score, incorporating Environmental, Social, and Governance pillars. The 2018 and 2021 dividends are used to calculate a three-year dividend growth rate.

The analysis’ equity universe contained 562 constituents at inception in 2018. To address the motivating question—“Are high ESG ratings associated with higher subsequent dividend growth?”—the case study uses overall ESG ratings in December 2018 and examines the three-year dividend growth rate. Constituents that did not pay any dividends at all during the three-year period were not included: the analysis focused on dividend payers.

With this filter applied, the final dataset contains 401 securities. Note that some companies were significantly affected by COVID-19 during this period and cut or eliminated dividends. Companies that paid dividends in 2018 but later eliminated dividends, resulting in -100% dividend growth, are included.

To illustrate the dataset, Figure 1 shows the distributions of the numeric ESG ratings (possible range 1-4) as well as the starting dividend yield of the universe. The data is grouped into the bottom, middle, and top third of ESG scores and is color coded and labeled “low,” “medium,” and “high” ESG.

**Figure 1: Distributions of ESG Ratings and Dividend Yield**



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