

A Systematic Review of ESG Integration in Investment Portfolio Construction and Optimization

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ABSTRACT

Integrating Environmental, Social, and Governance (ESG) factors into investment portfolio construction and optimization marks a significant evolution in investment strategies, diverging from traditional financial analysis to encompass a broader evaluation of potential risks and opportunities. This approach entails the systematic incorporation of ESG criteria alongside conventional financial metrics, aiming to assess the sustainability and ethical impacts of investments. Specifically, environmental considerations address a company's stewardship of the natural environment, including its resource use, pollution management, and climate change mitigation efforts. Social factors scrutinize the company's relationships with its employees, suppliers, customers, and the communities where it operates, focusing on human rights, labor standards, and overall societal impact. Governance aspects evaluate the quality of a company's management, its board practices, shareholder rights, and transparency, underscoring the importance of accountability and ethical governance.

Keywords: Sustainability, ESG Integration, Portfolio Construction, Sustainable Investing, Asset Allocation.