

SRI & Intangibles

Assessment and Valuation of Intangible Assets SYMPOSIUM

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SRI & Intangibles

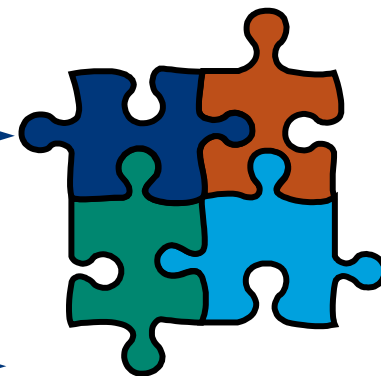
SRI still growing and growing... then asking more and more questions... on intangibles

SRI: external outlook by investors => need to be complemented by thorough internal examination

SRI in broad acception is about... sustainability, shareholder values and stakeholders' value... not Intangibles!

SRI scorings tell more about quality of management and cost of equity () than about accounting value

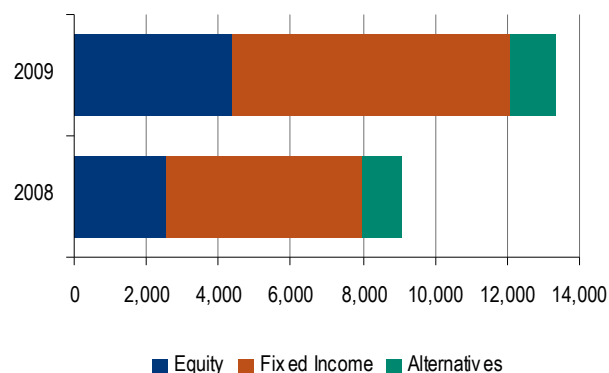
Most SRI scoring tools fundamentally biased (see Lucas-Leclercq, EFI 2010-2011)



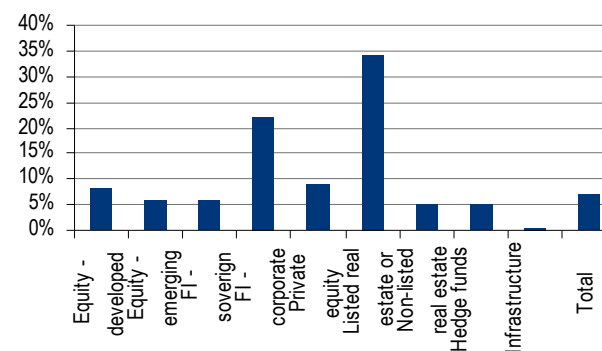
Is SRI going mainstream?

- Evidence of rapid growth
- Multi asset - fixed income larger than equity (though arguably a larger asset pool)
- Overall - market penetration 7% in 2009 (vs. 4% in 2008)
- Some evidence of adoption by alternative industry

AUM 2009 (\$bn)



Penetration by asset class



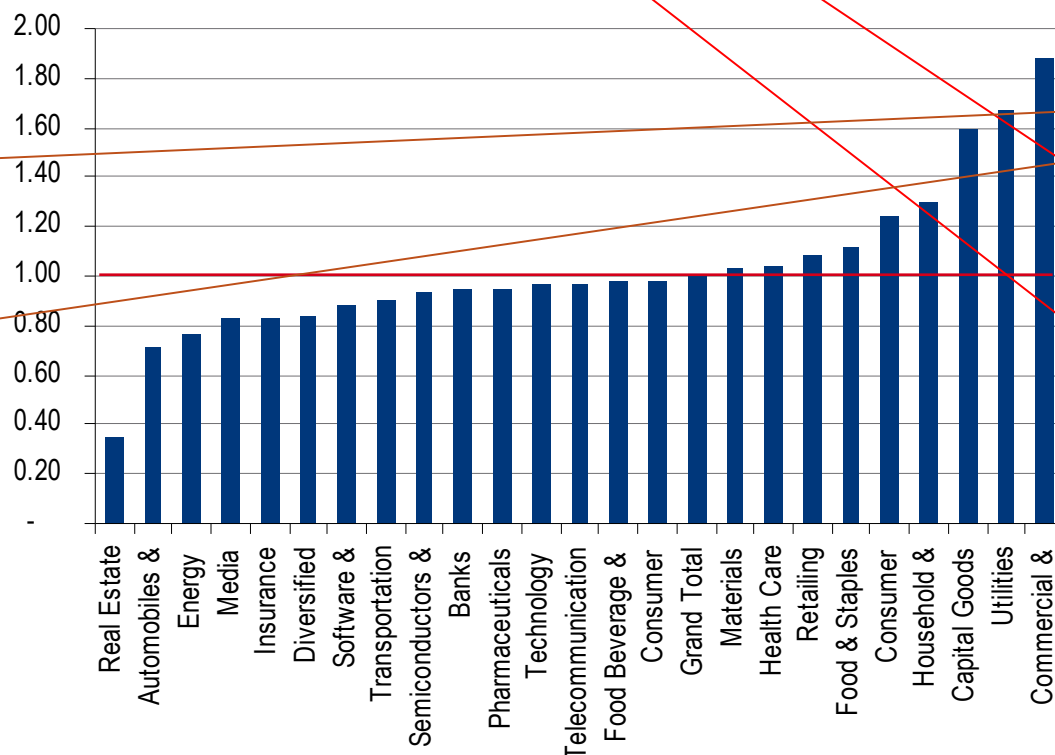
Source: UNEP Finance Initiative/UN Global Compact Report on progress 2010

SRI Investment: what does it change?

- Sector Allocation is modified at all levels (GICS1, 2, 3 and 4)
- Time to reckon that SRI has to do with the whole top-down investment process
- Key question to be explored: SRI as signal of a long-term sector allocation?

• SRI negative weighting:

- Real estate,
- Auto,
- Energy,
- Media, and
- Insurance



• SRI positive weighting:

- Commercial and Professional Services,
- Utilities,
- Capital Goods, and
- Household & Durables

SRI Sector Allocation & Performance

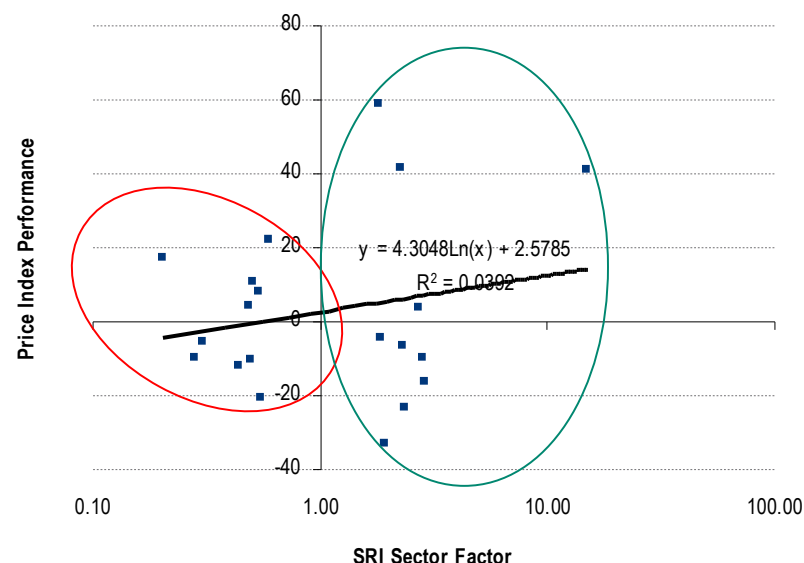
Table 5: SRI top/least preferred GICS and financial performance

	SRI Factor	PERF -1Y	PERF -3Y	PERF -5Y
TOBACCO	0.20	19.0	13.8	17.3
REITS	0.28	-3.0	-3.6	-9.8
HEALTH CARE TECHNOLOGY	0.30	68.8	37.6	-5.5
AIRLINES	0.44	-15.7	-11.4	-11.7
METALS & MINING	0.48	7.8	11.3	4.2
REAL ESTATE M & D	0.50	13.3	-4.0	-10.0
AEROSPACE & DEFENSE	0.50	6.1	-2.9	10.6
AUTOMOBILES	0.54	8.7	6.9	8.2
ELECTRONIC EQPT INSTR. & COMP.	0.54	-8.8	-7.4	-20.6
BIOTECHNOLOGY	0.59	13.7	1.9	22.4
CHEMICALS	1.82	16.8	17.5	59.2
COM. SERVICES & SUPPLIES	1.86	9.2	-1.3	-4.4
PAPER & FOREST PRODUCTS	1.91	-12.5	-22.4	-32.8
GAS UTILITIES	2.24	10.0	16.9	41.6
MACHINERY	2.29	9.7	15.6	-6.7
INDEPENDENT POWER	2.38	3.8	-21.4	-23.0
ELECTRICAL EQUIPMENT	2.73	-7.0	-16.8	3.8
BUILDING PRODUCTS	2.82	5.7	2.5	-9.8
DIVERSIFIED CONSUMER SERVICES	2.89	-3.3	-35.8	-16.5
WATER UTILITIES	14.98	10.8	19.1	41.3

Source: BofA Merrill Lynch Global Research

- SRI sector allocation **not correlated** to performance, but...
- If focused only on 10 most/10 least invested industry groupings (GICS3), 5Y perf might be helped in some cases by **additional SRI flows**

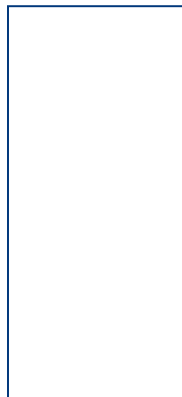
5Y performance and most /least invested sectors



Climate Change: SRI at play

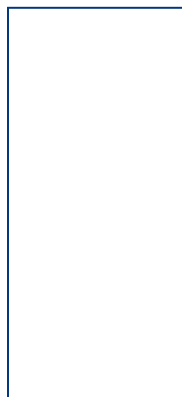
- Sector linked to climate change but rather seen as exposed to tougher regulations are underweighted

▪ Energy (coal)	0.32x
▪ Airlines	0.44x
▪ Automobile (car makers)	0.53x
▪ Energy (integrated oil & gas)	0.73x
▪ Containers & Packaging	0.83x



- Sector linked to climate change perceived as « solution suppliers » are overweighted

▪ Road & Rail	1.06x
▪ Auto Part Makers	1.21x
▪ Construction & Engineering	1.43x
▪ Paper & Forests	1.91x
▪ Building Products	2.82x



How SRI approaches interfere with investment process

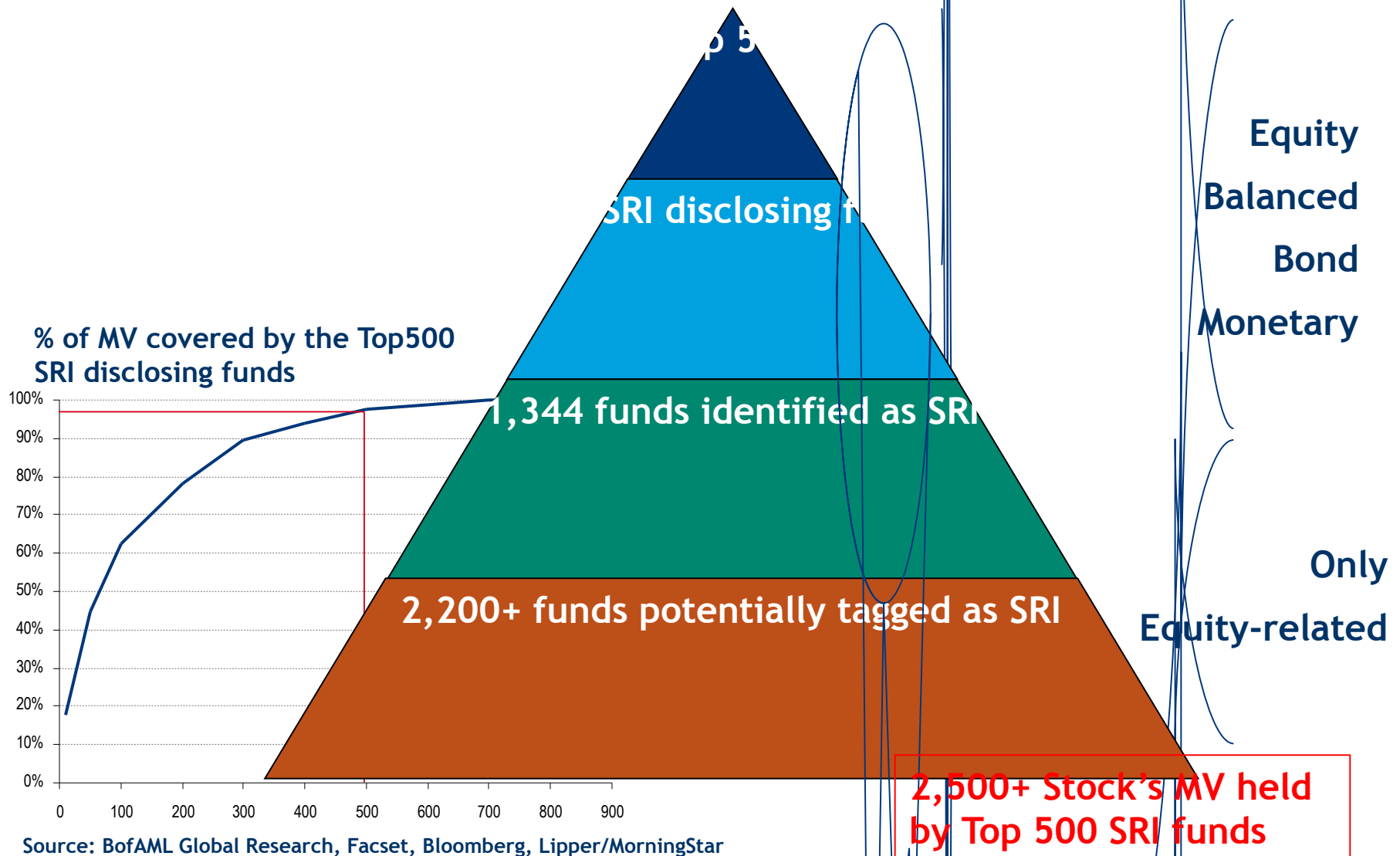
Sector		Stock	
Up	Down	Up	Down
NO	YES Exclusion of sectors or sub-sectors	NO	YES Exclusion within sectors
NO	NO	YES Selection / overweighting of companies for ESG reasons	YES Deletion / underweighting of companies for ESG motivations
YES Selection / overweighting of sectors exposed to theme	YES Deletion / underweighting of sectors non exposed	YES Selection / overweighting of stocks exposed to themes	YES Deletion / underweighting of stocks non exposed

Exclusion

Best-In-Class

Thematic

SRI Consensus: From Funds to Stocks



SRI Consensus: the Top500 SRI Funds

- Our target: SRI % of Market value (as held by Mutual Funds)

1.71%: Europe leads the way in SRI money invested

SRI: 0.97% of MSCI AC World MV, as held by Mutual Funds

Table 20: Market value held by the top 500 largest SRI (disclosing) funds

Sector (GICS1)	AFRICA/MIDEAST	ASIA/PACIFIC EX JAPAN	EUROPE	JAPAN	LATIN AMERIC.	NORTH AMERIC	Grand Total
Consumer Discretionary	0.43%	0.51%	1.42%	0.62%	0.43%	0.88%	0.93%
Consumer Staples	1.91%	0.55%	1.22%	0.79%	0.36%	1.01%	1.03%
Energy	1.14%	0.40%	1.50%	0.39%	0.07%	0.51%	0.74%
Financials	0.35%	0.47%	1.52%	0.47%	0.34%	0.53%	0.77%
Health Care	0.40%	0.63%	1.48%	0.53%	0.79%	0.72%	0.95%
Industrials	0.35%	0.42%	2.52%	0.95%	0.70%	1.10%	1.44%
Information Technology	0.05%	0.50%	1.97%	0.67%	0.17%	0.88%	0.89%
Materials	0.10%	0.50%	1.95%	0.70%	0.09%	0.69%	1.00%
Telecommunication Services	0.11%	0.73%	1.62%	0.45%	0.20%	0.46%	0.94%
Utilities		1.50%	2.66%	1.33%	1.92%	0.80%	1.62%
Grand Total	0.45%	0.52%	1.71%	0.68%	0.39%	0.76%	0.97%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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