

# WHAT IS SOCIALLY INNOVATIVE INVESTING - HOW IS IT DIFFERENT THAN TRADITIONAL SRI?

June 3rd, 2014



## DISCLOSURE

Any examples presented are hypothetical and do not reflect specific strategies we may have developed for actual clients. They are for illustrative purposes only. The availability and effectiveness of any strategy is dependent upon your individual facts and circumstances.

This material is current as of the date specified and is for informational purposes only. It is not a solicitation, or an offer to buy or sell any security or investment product, nor does it consider individual investment objectives or financial situations. While the information contained herein is believed to be reliable, we cannot guarantee its accuracy or completeness.

Information in this material is not intended to constitute legal, tax or investment advice. Clients should be advised to consult with their legal, tax and financial advisors before making any financial decisions. If any information is deemed "written advice" within the meaning of IRS Regulations, please note the following:

**IRS Circular 230 Disclosure:** Pursuant to IRS Regulations, neither the information, nor any advice contained in this communication (including any attachments) is intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax related penalties or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

Investment products:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
----------------------	-------------------------	----------------

U.S. Trust operates through Bank of America, N.A., and other subsidiaries of Bank of America Corporation. Bank of America, N.A., Member FDIC.

© 2013 Bank of America Corporation. All rights reserved.

ARL74TRN | PRES-10-13-0653



## OUR DISCUSSION TODAY

- What is SRI, and how long has it existed?
- How many firms or products are out there, and how large is the asset pool?
- Trends in SRI/ESG?

## NEGATIVE SCREENING: A FUNDAMENTAL PRINCIPLE OF SRI

**Factoring out companies based on the products and services they offer: tobacco, gaming, etc.**



## SRI THROUGH AMERICAN HISTORY

1758                      1886                      1962                      1980s                      2000s

### Pre-American revolution

- The Religious Society of Friends (the Quakers) enacts an edict that no one would conduct business with people involved in the slave trade.



U.S. TRUST 

4

## SRI THROUGH AMERICAN HISTORY

1758                      1886                      1962                      1980s                      2000s

### Santa Clara v. Southern Pacific Railroads

- The Supreme Court rules that the 14th Amendment now applies to corporations, allowing them rights and protections previously held only by individuals.



U.S. TRUST 

5

## SRI THROUGH AMERICAN HISTORY

1758                      1886                      1962                      1980s                      2000s

---

### **Economic theories evolve**

- Milton Friedman publishes his reinterpretation of Keynesian Economics, stating that “the sole role of the corporation is to maximize shareholder wealth.”

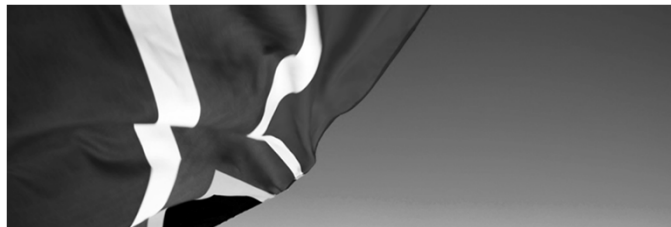
## SRI THROUGH AMERICAN HISTORY

1758                      1886                      1962                      1980s                      2000s

---

### **Driving change**

- Social investors achieve a major advocacy milestone by investing against apartheid in South Africa.



## SRI THROUGH AMERICAN HISTORY

1758                      1886                      1962                      1980s                      2000s

### Progressive transparency

- Sarbanes-Oxley Act
- Troubled Asset Relief Program (TARP)
- Consumer Protection Bureau

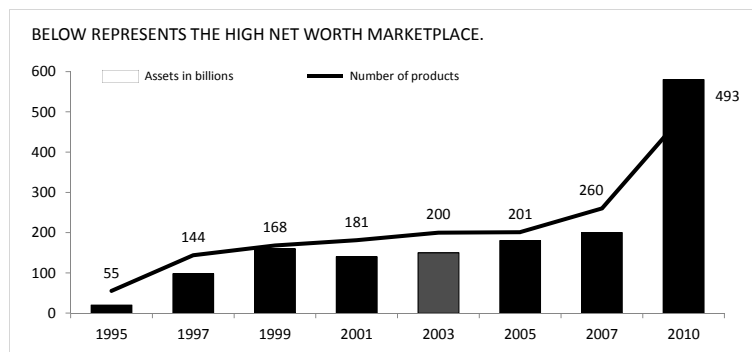


U.S. TRUST 

8

## MODERN-DAY SRI TRENDS IN THE U.S.

### The SRI marketplace totals more than \$3.7 trillion in the U.S.



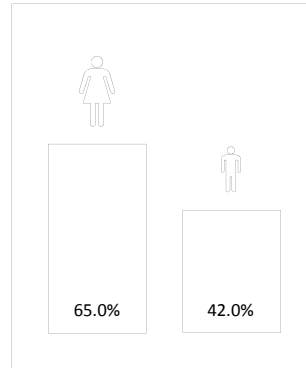
Number of products indicates products which incorporate some SRI factors in security selection.  
Source: 2010 Report on Socially Responsible Investing Trends in the United States, Social Investment Forum, www.socialinvest.org

U.S. TRUST 

9

## MODERN-DAY SRI TRENDS IN THE U.S

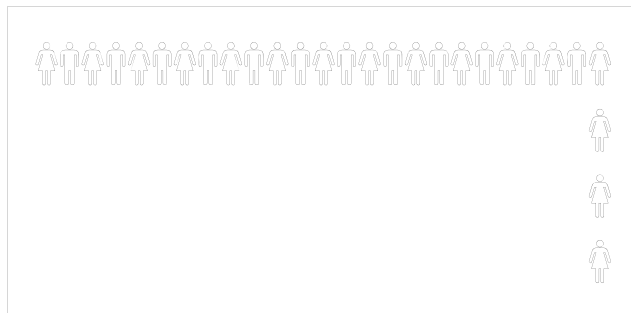
- **65% of women** say social, political or environmental impacts of investments are important (compared to **42% of men**).
- **72% of women** wouldn't want to invest in a company that negatively impacts society or the environment.



The U.S. Trust 2013 *Insights on Wealth and Worth* survey

## TRANSLATING CONCERN INTO ACTION

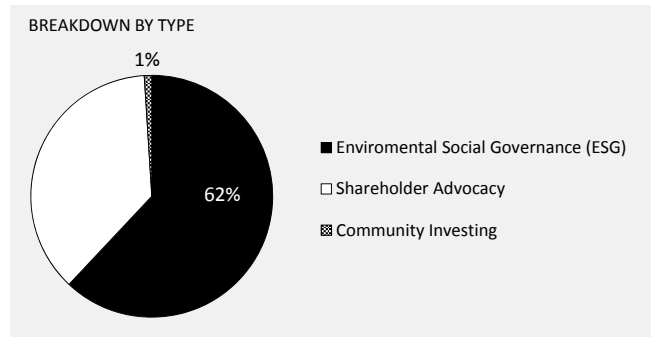
**Percentage who have reviewed their investment portfolio for social, political or environmental impact: 24%**



The U.S. Trust 2013 *Insights on Wealth and Worth* survey

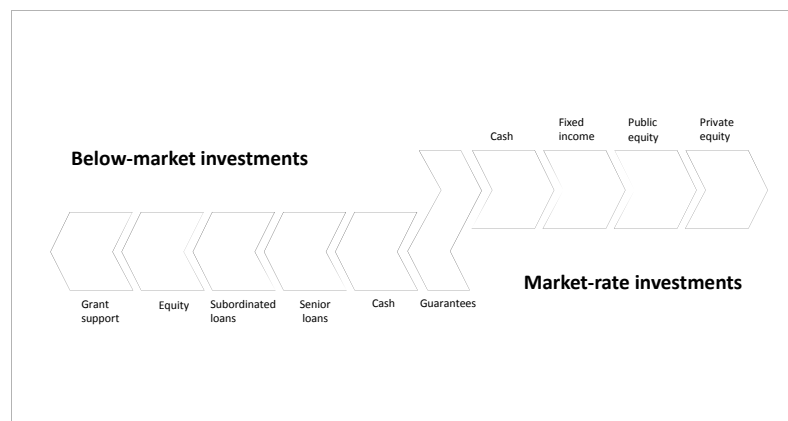
## SRI BY TYPE

### Breakdown of \$3.7 trillion in SRI



Source: 2010 Report on Socially Responsible Investing Trends in the United States, Social Investment Forum, www.socialinvest.org

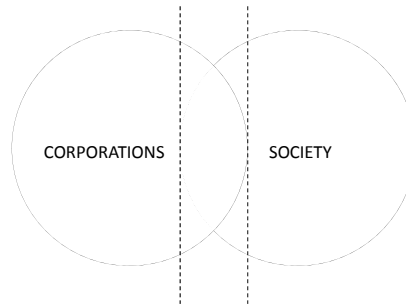
## SOCIAL INVESTMENT CONTINUUM



## THE "SHARED VALUE" PRINCIPLE

**Corporations** need vibrant communities to:

- Provide infrastructure
- Maintain a strong educational system
- Protect intellectual property



**Society** needs healthy competitive companies:

- Develop goods and services
- Create jobs
- Pay taxes

### Shared Value

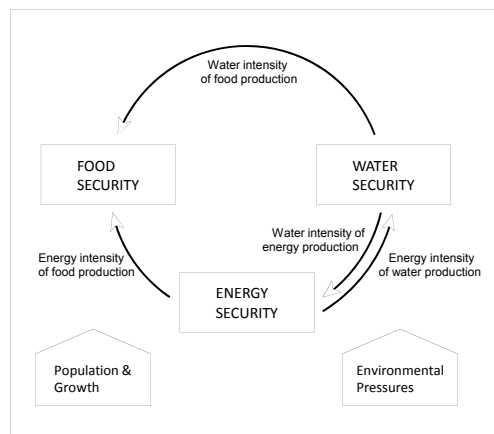
Policies and management practices that enhance company performance while addressing social concerns such as the environment, corporate citizenship and human capital engagement

## SIGNIFICANT TRENDS AND CHALLENGES

**A "perfect storm" is brewing.**

Globally by 2030:

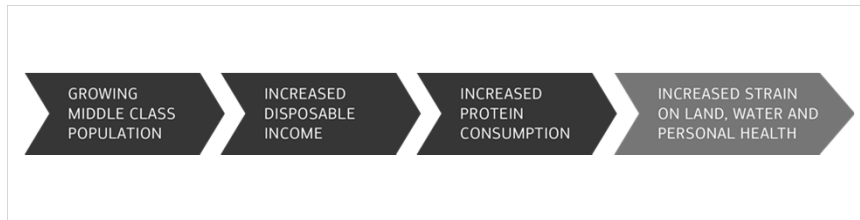
- **50%** increase in food demand
- **40%** in water demand
- **50%** in energy demand





## SIGNIFICANT TRENDS AND CHALLENGES

### Food security



## SIGNIFICANT TRENDS AND CHALLENGES

### Water scarcity

- 783 million people lack access to clean water.
- 2.6 billion don't have proper sanitation.
- 46 countries face stressed or scarce water resources.
- Water demand will be 40% greater than supply by 2030, putting 45% of global GDP at risk.



*Charting Our Water Future, 2030 Water Resources Group, 2009.*

## SIGNIFICANT TRENDS AND CHALLENGES

### Global obesity

- Around the world, there are 500 million people who are obese.
- Another 1.4 billion are overweight.<sup>1</sup>
- Obesity represents \$190 billion or 21% of U.S. medical spending.<sup>2</sup>



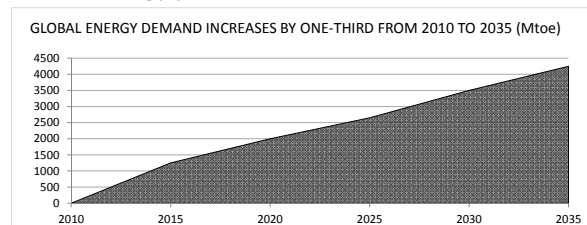
<sup>1</sup> CDC, *Prevalence of Obesity in the United States, 2009-2010*. NCHS Data Brief No. 82, January 2012.

<sup>2</sup> UMFMedical, *Obesity and its Growing Impact on Health Care*, June 12, 2013.

## SIGNIFICANT TRENDS AND CHALLENGES

### Energy efficiency

- Energy demand is set to increase one-third by 2035.<sup>3</sup>
- The world already spends more than 9% of global GDP on energy.
- Cash-strapped governments are putting efficiency at the heart of their energy policies.



Source: EA WEO 2011, BofA Merrill Lynch Global Research

<sup>3</sup> International Energy Agency, *World Energy Outlook 2012* Factsheet.

Q&A SESSION



**Jason T. Baron**  
Managing Director  
Product and Strategy Executive  
U.S. Trust