

Market Decode: Is Impact Investing Right for You?

With Jackie VanderBrug

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[ON-SCREEN TEXT]

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Hi, I'm Jackie VanderBrug with the Chief Investment Office at Bank of America.

[ON-SCREEN GRAPHIC]

(Illustrated icon of a portfolio folder with a green leaf and the words IMPACT INVESTING)

Impact Investing is increasingly part of mainstream news headlines. And lately, I've been getting more and more questions from people asking, "What is it?" and if it may be suitable for them.

Here's what I tell them:

[ON-SCREEN TEXT]

Impact Investing

Making the World a Better Place

Potential for Competitive Returns



Impact investing combines the desire to make the world a better place with the goal of earning a competitive return on your investments.

So how exactly does that work?

Well, let's take the first part of that definition and apply it to you.... Think about the issues that, for you, would make the world a better place. The issues you want to have an impact on.

[ON-SCREEN GRAPHIC]

(Illustrated icon of the world and people holding hands around it.)

[ON-SCREEN TEXT]

Environmental

Let's say you're concerned about the environment, like climate change and energy and water conservation ...

[ON-SCREEN TEXT]

Social

Or social concerns, like workplace policies that support diversity and inclusion and gender pay equity.

[ON-SCREEN TEXT]

Governance

Perhaps you value companies that have strong governance policies ... for example, in promoting shareholder rights, or having a diverse board of directors.

[ON-SCREEN TEXT]

Environmental

Social

Governance

These issues, or others that reflect your personal values, can now be factored in when you make your investment decisions through a framework called E-S-G... for Environmental, Social and Governance.

[ON-SCREEN TEXT]

Sustainable Practices

In recent years, this framework has become a way for investors of all kinds to measure a company's progress in implementing sustainable practices. And more and more companies are realizing its value—and providing information to investors on their progress.

[ON-SCREEN TEXT]

Diagnostic Tool

Think of this framework as a diagnostic tool for impact investing.

[ON-SCREEN GRAPHIC]

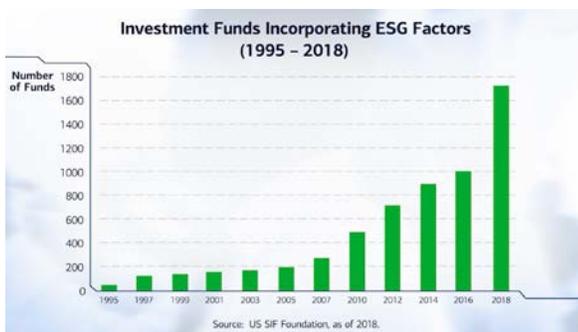
(Illustrated icon of a building with the letters ESG next to it.)

Just like a doctor will use an X-ray to help make a clinical decision, ESG provides additional information that you and investment firms can use to gain deeper insights on the inner operations of companies.

[ON-SCREEN TEXT]

Investment Funds Incorporating ESG Factors 1995-2016

Source: US SIF Foundation, as of 2016.



In the past 20 or so years, the number of investments funds that utilize ESG data has risen dramatically.

[ON-SCREEN GRAPHIC]

(Three illustrated icons: An envelope with a ribbon and the word STOCKS; an envelope with a ribbon and the word BONDS; an illustration of Earth.)

And they can cover all the major asset classes, including stocks and bonds, and different countries and regions too.

And here's where the second part of our definition comes in: The goal of **making a competitive return**.

There is growing data showing that impact investing may potentially produce long-term returns that are as good as ... or even better than "traditional" investing.

[ON-SCREEN TEXT]

Equity Strategy Focus Point

ESG: Good companies can make good stocks

We are only in the early innings of a US ESG boom

Not only do ESG attributes appear to be good signals of future performance and risk, but growth in the US is just gathering momentum.

Source: ESG: Good companies can make good stocks, BofA Merrill Lynch Global Research, Dec. 18, 2016.



[ON-SCREEN TEXT]

Equity Strategy Focus Point

ESG: Good companies can make good stocks

ESG could have helped investors avoid 90% of bankruptcies

Based on our analysis of companies with ESG scores that declared bankruptcy, an investor who only held stocks with above average-ranks on both Environmental and Social scores would have avoided 15 of the 17 bankruptcies we have seen since 2008.

Source: ESG: Good companies can make good stocks, BofA Merrill Lynch Global Research, Dec. 18, 2016.



[ON-SCREEN TEXT]

Equity Strategy Focus Point

ESG: Good companies can make good stocks

ESG has signaled future volatility & stock price declines...

Large companies within the highest quartile of the ESG framework tended to have consistently lower future price volatility than poorly ranked companies. Stocks with extreme price declines — over 90% — had average initial Environmental/Social scores in the 40th or lower percentiles. And the better a stock's score, the lesser the price decline.

Source: ESG: Good companies can make good stocks, BofA Merrill Lynch Global Research, Dec. 18, 2016.



Findings from BofA Merrill Lynch Global Research show that companies with high ESG ratings tend to be healthier financially, and less likely to go bankrupt, than those with lower scores.

It also found that ESG is a strong predictor of a company's future earnings performance.

That means there's a link between companies' sustainable practices and their overall financial health.

[ON-SCREEN TEXT]

Impact Investing:

- **Not short-term approach**
- **Doing well = Doing good**
- **Competitive return potential**

Keep in mind that impact investing is not a short-term approach.

Big changes don't happen quickly and companies understand it may take a while for the practices they implement today to see results.

But if the idea of investing in companies that are doing well while doing good with the potential to earn a competitive return is appealing to you, then impact investing may be worth exploring.

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