

An Overview of ESG Investing – History, Trends and Effectiveness

Panelist:

Tom Kuh – Executive Director – ESG Indices, MSCI

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Cambridge, MA



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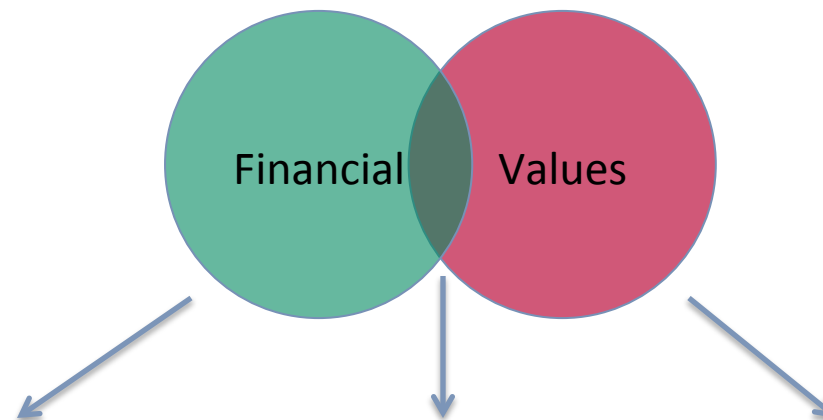
Intentionally Designed Endowments

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Investors, Objectives and ESG Strategies

- **SRI:** Values-driven screening
- **Sustainability:** Beta with an ESG “premium”
- **Integration:** Insights from ESG analysis to improve financial results



		ESG Strategy		
		Integration	Sustainability	SRI
Investment Thesis		Enhance performance using ESG	Materiality of ESG factors	Not Applicable
Objective	Better risk/return characteristics		Strong sustainability profile & market returns	Align investments with values
Focus		Alpha	Beta	Ethical & norms screens

The Evolution of ESG Research

- **Client demand**
 - “You do what?” to “More, more, more...”
- **Information**
 - From scarcity to (over)abundance
- **Research**
 - From reporting to ratings
- **Orientation**
 - From general to material
- **Industry consolidation**
 - From small to scale

Performance

- MSCI KLD 400 Social Index (May 1990)

- SRI benchmark that includes companies with outstanding sustainability profiles and avoids exposure to industries some investors consider to have negative social/environmental impacts

Index Performance — Gross Returns (%) (February 28, 2014)

	1 Mo	3 Mo	1 Yr	YTD	3 Yr	Annualized		
						5 Yr	10 Yr	Since Apr 30, 1990
MSCI KLD 400 Social Index	4.88	4.66	28.22	1.74	15.21	23.28	7.06	10.42
MSCI USA	4.70	3.86	25.77	1.15	14.50	23.12	7.37	9.97

- MSCI World ex USA ESG Index (Oct 2007)

- Sustainability benchmark for investors seeking exposure to companies with strong sustainability profiles with low tracking error to the underlying equity market

Index Performance — Gross Returns (%) (February 28, 2014)

	1 Mo	3 Mo	1 Yr	YTD	3 Yr	Annualized		
						5 Yr	10 Yr	Since Sep 28, 2007
MSCI World ex USA ESG	5.64	2.37	18.42	0.88	7.24	19.13	na	1.21
MSCI World ex USA	5.48	2.79	18.44	1.24	6.23	18.04	na	0.67



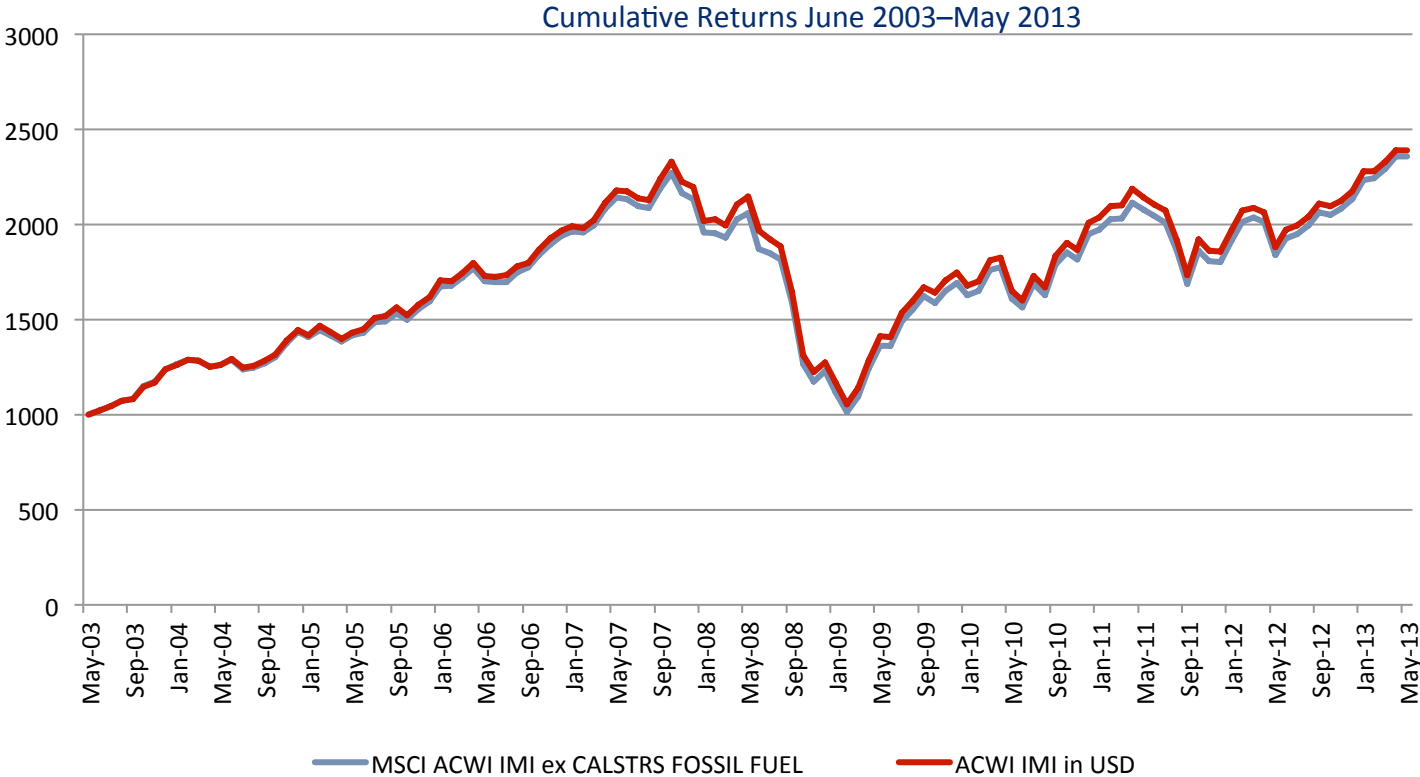
Performance (cont.)

- MSCI Custom Emerging Markets Low Carbon Optimized Index (Nov 2013)
 - Benchmark that reduces exposure to companies with high carbon footprint and high fossil fuel reserves, while exhibiting risk and return characteristics similar to those of the MSCI Emerging Markets Index

Statistics from 30/11/2009 to 31/08/2013	MSCI EM	SIMULATED LOW CARBON ABSOLUTE
Annualized Return (%)*	2.2%	3.5%
Annualized Risk (%)	20.0%	20.3%
Return/Risk	0.11	0.17
Sharpe Ratio	0.09	0.16
Tracking error (%)		1.2%
Correlation		1.00
Historical Beta		1.01
Information Ratio		1.16
Avg No of Stocks	804	664
Effective No of Stocks	186	218
Market Cap coverage (%)		83.3%
Top 10 Sec wt (%)	16.2%	14.3%
Avg. Annual Turnover (%)**	4.6%	19.1%

MSCI ACWI IMI vs. MSCI ACWI IMI CalSTRS ex-Fossil Fuel

- MSCI ACWI IMI outperformed over the 10-year period
- MSCI ACWI IMI ex-Fossil Fuel outperformed in 1-, 3- and 5-year comparisons
- Tracking error was 99 basis points over the time series



These results are based on a simulation. Past performance is not indicative of future results.



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