

ESG Investing and Performance

Intentionally Designed Endowments Conference

Arizona State University

Tempe, AZ

January 15-16, 2014

Thomas Kuh, PhD
Executive Director – ESG Indexes
thomas.kuh@msci.com

MSCI

ESG and Performance

- Studies from Deutsche Bank, Mercer, RCM and others show that integrating ESG factors into investments does not hurt performance, and may improve it
 - Studies of actual fund returns, which look at how investment managers have tried to capture the outperformance of Sustainable Investing...[show] truly “mixed” results...However, [fund managers] have not generally underperformed – in fact, **we found no academic studies that found underperformance at either the security or fund level.**¹
 - Evidence suggests there is no performance penalty from taking ESG factors into account in the investment management process...**[T]he academic literature confirms our belief that the consideration of ESG factors can lead to outperformance, especially over the longer-term.**²
 - The evidence indicates that investors’ portfolios are not negatively impacted by the introduction of ESG criteria into the stock selection process. But **the results go further than that, and show there is a probability of outperformance over the longer term.**³

(Emphasis added in these quotations.)

¹ Mark Fulton, Bruce Kahn & Camilla Sharples. Sustainable Investing: Establishing Long-Term Value and Performance. Deutsche Bank Climate Advisors. June 2012.

² Responsible Investment’s next decade: Developing CalPERS Total Fund process for ESG integration. Mercer. August 15, 2011.

³ Sustainability: opportunity or opportunity cost? Applying ESG factors to a portfolio does not negatively impact performance and may enhance it. By Dr. Michael Heldmann of RCM’s Systematic Equity Team and Jeremy Kent, Research Associate in the RCM Sustainability team. March 2011.

MSCI KLD 400 Social Index – Performance

- SRI benchmark designed to include companies with outstanding sustainability profiles and avoid industries some investors consider to have negative social/environmental impacts
- Launched in 1990

Index Performance — Gross Returns (%) (December 31, 2014)

	1 Mo	3 Mo	1 Yr	YTD	Annualized			
					3 Yr	5 Yr	10 Yr	Since Apr 30, 1990
MSCI KLD 400 Social Index	-0.34	4.89	12.72	12.72	20.24	14.60	7.44	10.51
MSCI USA	-0.31	4.81	13.36	13.36	20.41	15.50	7.82	10.12

ACWI ex USA ESG Index – Performance

- Sustainability benchmark designed to include companies with strong sustainability profiles while closely tracking the underlying market
- Developed Markets launched in 2007 / Emerging Markets in 2013

Index Performance — Gross Returns (%) (December 31, 2014)

	1 Mo	3 Mo	1 Yr	YTD	3 Yr	Annualized		
						5 Yr	10 Yr	Since Sep 28, 2007
MSCI ACWI ex USA ESG	-3.29	-2.58	-1.52	-1.52	11.26	6.65	na	1.34
MSCI ACWI ex USA	-3.57	-3.81	-3.44	-3.44	9.49	4.89	na	-0.25

Annual Performance (%)

Year	MSCI ACWI ex USA ESG	MSCI ACWI ex USA
2014	-1.52	-3.44
2013	18.43	15.78
2012	18.09	17.39
2011	-10.88	-13.33
2010	12.43	11.60
2009	40.95	42.14
2008	-43.48	-45.24

MSCI ACWI Low Carbon Target Index – Performance

- Benchmark designed to reduce exposure to carbon emissions and carbon reserves while tracking the underlying market closely (30 basis points expected tracking error)
- Launched in 2014

Index Performance — Gross Returns (%) (December 31, 2014)

	1 Mo	3 Mo	1 Yr	YTD	Annualized			
					3 Yr	5 Yr	10 Yr	Since Nov 30, 2010
MSCI ACWI Low Carbon Target	-1.95	0.86	4.96	4.96	15.19	na	na	10.97
MSCI ACWI	-1.89	0.52	4.71	4.71	14.72	na	na	10.60

MSCI ACWI ex Fossil Fuels Index – Performance

- Benchmark that excludes owners of fossil fuel reserves
- Launched in 2014

Index Performance — Gross Returns (%) (December 31, 2014)

	1 Mo	3 Mo	1 Yr	YTD	Annualized			
					3 Yr	5 Yr	10 Yr	Since Nov 30, 2010
MSCI ACWI ex Fossil Fuels	-1.77	2.04	6.60	6.60	16.51	na	na	11.70
MSCI ACWI	-1.89	0.52	4.71	4.71	14.72	na	na	10.60

MSCI 24 Hour Global Client Service

Americas

Americas	1.888.588.4567 (toll free)
Atlanta	+1.404.551.3212
Boston	+1.617.532.0920
Chicago	+1.312.675.0545
Monterrey	+52.81.1253.4020
New York	+1.212.804.3901
San Francisco	+1.415.836.8800
São Paulo	+55.11.3706.1360
Toronto	+1.416.628.1007

Europe, Middle East, Africa & India

Cape Town	+27.21.673.0100
Frankfurt	+49.69.133.859.00
Geneva	+41.22.817.9777
London	+44.20.7618.2222
Milan	+39.02.5849.0415
Mumbai	+ 91.22.6784.9160
Paris	0800.91.59.17 (toll free)

Asia Pacific

China North	10800.852.1032 (toll free)
China South	10800.152.1032 (toll free)
Hong Kong	+852.2844.9333
Seoul	00798.8521.3392 (toll free)
Singapore	800.852.3749 (toll free)
Sydney	+61.2.9033.9333
Taiwan	008.0112.7513 (toll free)
Tokyo	+81.3.5290.1555

clientservice@msci.com | www.msci.com

Notice and Disclaimer

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the “Information”) is the property of MSCI Inc. or its subsidiaries (collectively, “MSCI”), or MSCI’s licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the “Information Providers”) and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, “Index Linked Investments”). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research Inc. and Barra LLC, may be used in calculating certain MSCI equity indexes. More information can be found in the relevant standard equity index methodologies on www.msci.com.

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.’s revenue includes fees based on assets in investment products linked to MSCI equity indexes. Information can be found in MSCI’s company filings on the Investor Relations section of www.msci.com.

MSCI ESG Research Inc. is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and neither MSCI nor any of its products or services is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD, FEA, InvestorForce, and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor’s. “Global Industry Classification Standard (GICS)” is a service mark of MSCI and Standard & Poor’s.

© 2014 MSCI Inc. All rights reserved.

May 2014