

GLOBAL INSTITUTIONAL CONSULTING

# The Realities of Impact Investing

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# Agenda

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- What is impact investing?
- What is driving the recent growth in impact investing among investors?
- What are some of the benefits of impact investing?

# The spectrum of doing well and doing good



**Impact investing is a dynamic category with a range of investment approaches. You can invest to generate both financial returns and positive, measurable social impact.**




# How we define impact investing

## SOCIALLY RESPONSIBLE

Screen out entities based on faith-based or other personal preferences

### EXAMPLES

**Avoid investments associated with:**

-  Environmental harm
-  Tobacco, firearms, alcohol
-  Practices that are in conflict with religious beliefs

## SUSTAINABLE

Proactively choose entities that excel at a range of environmental, social and governance (ESG) factors

### EXAMPLES

**Seek investments in companies that:**

-  Promote and achieve sustainability
-  Encourage and measure corporate social responsibility
-  Are leaders in fair trade and factory worker safety

## THEMATIC

Investment opportunities that focus on environmental or social themes

### EXAMPLES

**Target areas of growth in:**




-  Green initiatives, such as climate change or water security
-  Gender equality and diversity
-  Healthcare and the global trend toward obesity

## IMPACT FIRST

Investments dedicated to addressing specific social or environmental concerns using market-based solutions

### EXAMPLES

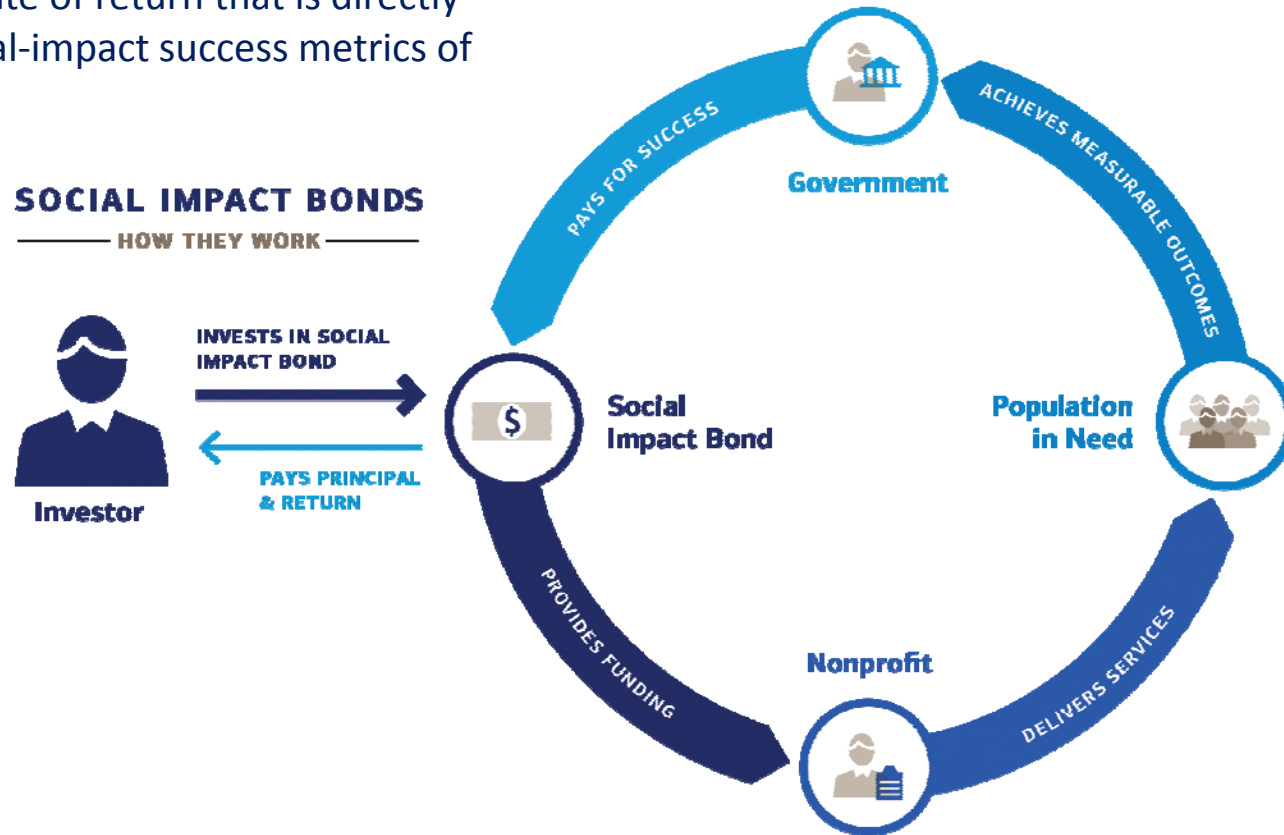
**Pursue investments that aim to:**

-  Improve early childhood education
-  Reduce prisoner recidivism
-  Address homelessness



# How social impact bonds work

Social impact bonds allow you to invest in social programs that pay a rate of return that is directly connected to the social-impact success metrics of the program.

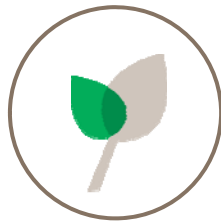


Social impact investing is a new and evolving investment opportunity which is highly speculative and involves a high degree of risk. An investor could lose all or a substantial amount of their investment. There is no secondary market nor is one expected to develop for these investments and there may be restrictions on transferring such investments. The specific terms of any individual offering may provide for substantial or total loss in the event that specific targets are not met and must be carefully reviewed with the various potential outcomes carefully considered.

# Evaluating approved investments for ESG factors

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After traditional review and due diligence, impact investments are then evaluated on the manager's ability to effectively integrate both ESG factors and traditional risk-return criteria into their investment selection.



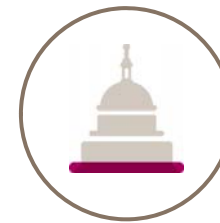
## ENVIRONMENT

- Published goals and progress in manager environmental impact
- Resource utilization—water, waste, energy
- Dedicated sustainability office, liability management



## SOCIAL

- Corporate philanthropy, community involvement
- Working conditions, supply chain management
- Updated and inclusive HR policies, progressive pay policies

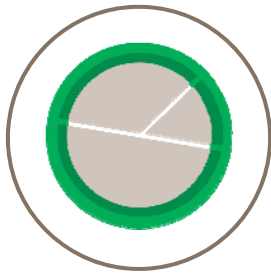


## GOVERNANCE

- Reporting and disclosure
- Published policies, balance of powers, board structure
- Product recalls, fines, settlements, consumer and employee lawsuits

## Conscious consumers and investors are driving change

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- **The rise of the conscious consumer** has increased the focus on environmental, social and governance (ESG) issues such as, but not limited to, climate change, sustainable practices and corporate transparency.
- **Investors are thinking beyond philanthropy** and looking to drive their capital with purpose.
- **Companies are responding to this shift in consumer behavior** by proactively publishing information about their sustainable and corporate social responsibility practices.

# A new generation of investing is emerging

Investors are increasingly looking for their investments to generate social and environmental impact alongside financial returns to help them pursue their goals.

51%

of investors say that social impact investing is “the right thing to do.”<sup>1</sup>

47%

say they want to make a positive impact on the world and that corporate America should be accountable for its actions.<sup>1</sup>

6 in 10  
investors

state they consider the social and environmental impact of the companies they invest in to be an important part of their investment decision-making process.<sup>1</sup>

## Impact investments

are made into companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return.<sup>2</sup>

<sup>1</sup> Source: “2015 U.S. Trust Insights on Wealth and Worth.” Page 32. 2015.

<sup>2</sup> Source: “About Impact Investing.” *Global Impact Investing Network*. Web. 27 April 2015.





## The market is rapidly growing and innovating

According to the Forum for Sustainable and Responsible Investment, sustainable, responsible and impact investing (SRI) assets have expanded

**76%**  
in two years

from \$3.74 trillion at the start of 2012 to \$6.57 trillion at the start of 2014.<sup>1</sup>

Mutual fund ESG assets under management increased by

**200%**  
from 2012 to 2014<sup>2</sup>

from \$641 billion to \$1.925 trillion.

And alternative investment ESG assets under management increased by

**70%**  
from 2012 to 2014<sup>2</sup>

from \$156.8 billion to \$224 billion.

**\$1** in every **\$6**

under professional management is invested with some sort of impact investing approach.<sup>3</sup>

<sup>1</sup> Source: "U.S. Sustainable, Responsible and Impact Investing Trends 2014." *The Forum for Sustainable and Responsible Investment*.

<sup>2</sup> Source: "SRI Basics." *The Forum for Sustainable and Responsible Investment*. Web. 27 April 2015.

<sup>3</sup> The US SIF Foundation Report, 2014.

# Increased emphasis has led to greater reporting and choice of impact investments

IN 2011:  
**20%**

of the S&P 500 companies issued corporate social responsibility reports.

IN 2014:  
**80%**

of the S&P 500 companies were creating corporate social responsibility reports.<sup>1</sup>

Investment Funds Incorporating ESG Factors, 1995 – 2014<sup>2</sup>

	1995	1999	2003	2007	2010	2014
Number of funds	55	168	200	260	493	925
Total assets (in billion)	\$12	\$164	\$151	\$202	\$569	\$4,306

The proliferation of data means that managers have ready access to the information they need to make informed decisions—with **925 investment funds that incorporate ESG factors** in 2014, up from only 55 in 1995.<sup>2</sup>

<sup>1</sup>Source: Governance and Accountability Institute, Inc. 2014.

<sup>2</sup>Source: US SIF, "Report on US Sustainable, Responsible and Impact Investing Trends 2014".

## Gaining popularity among investors

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66%



surveyed are open to sustainable investing, and expect it to become more prevalent in the next 5 years.<sup>1</sup>

- You are thinking about the purpose of your wealth and the legacy they will leave behind
- You want your legacy to be invested in a meaningful way
- You want to pass on values, not just money, to the next generation
- You want personalized solutions
- You want investments that deliver performance with purpose

71%



of HNW women consider the social and environmental impact an important part of investment decision making<sup>1</sup>

85%



of Millennial investors feel their investments are a means of expressing their values<sup>1</sup>

<sup>1</sup> Source: "2015 U.S. Trust Insights on Wealth and Worth." 2015.

<sup>2</sup> Source: "Maximum Impact: Values-Based Investing Across the Spectrum." Merrill Lynch Private Banking and Investment Group. Web 27 April 2015.

# Benefits of impact investing

## High ESG Performers Exhibit Lower Earnings Volatility

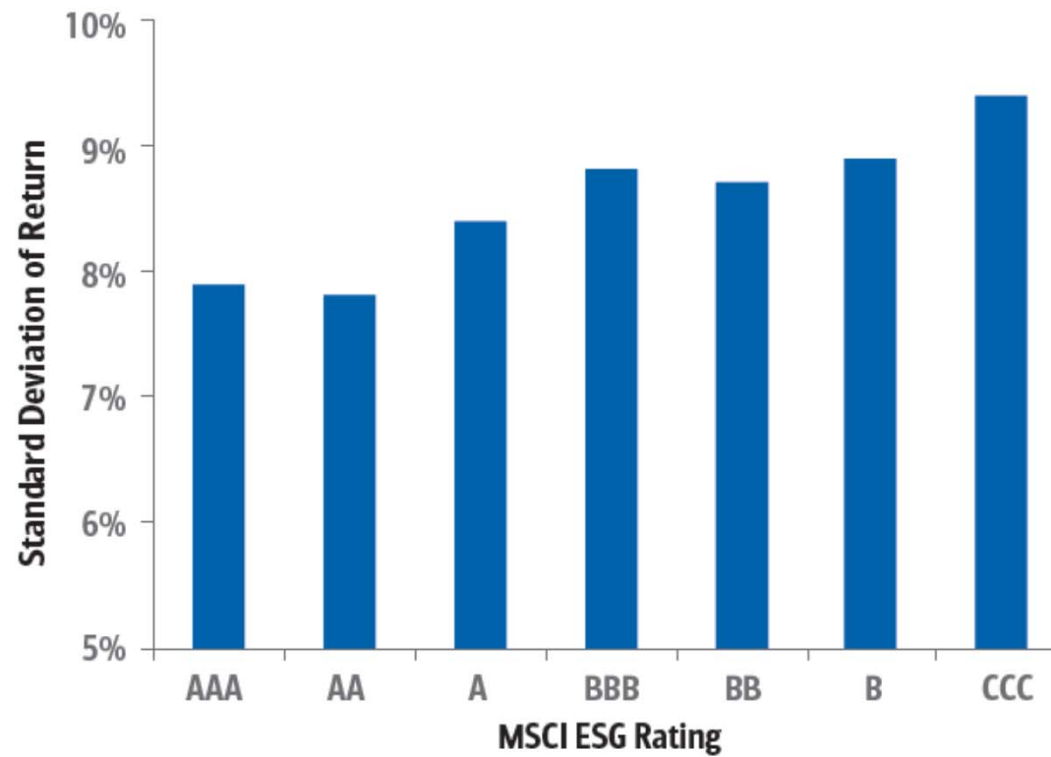


\*Represents Breckinridge's 100 Top Q214 ESG performers vs. peer group.  
Source: Bloomberg, Breckinridge.

# Benefits of impact investing

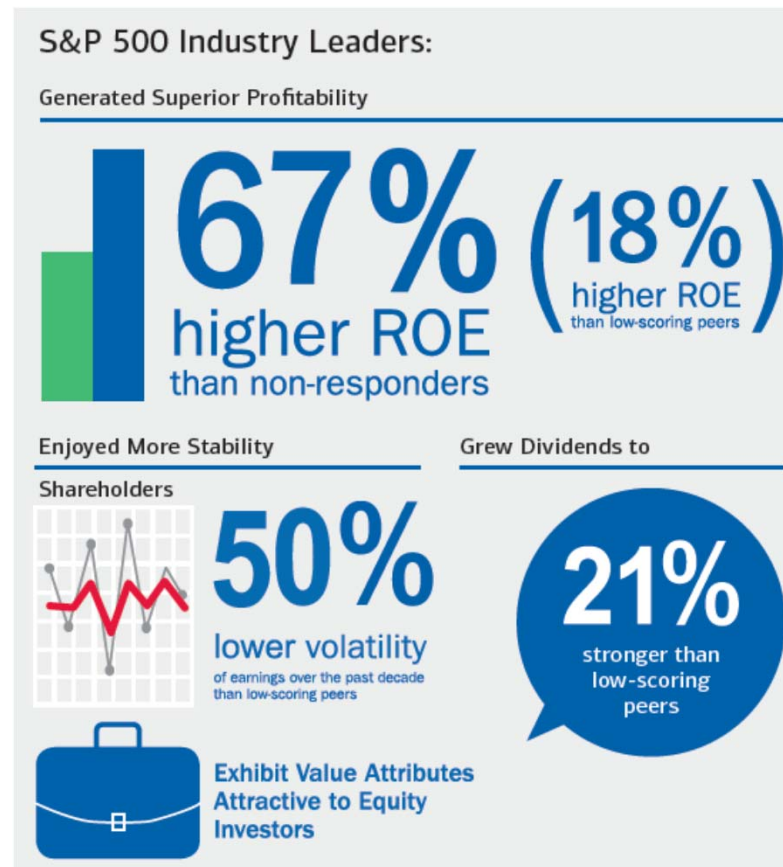
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Return Dispersion (2007-2012)



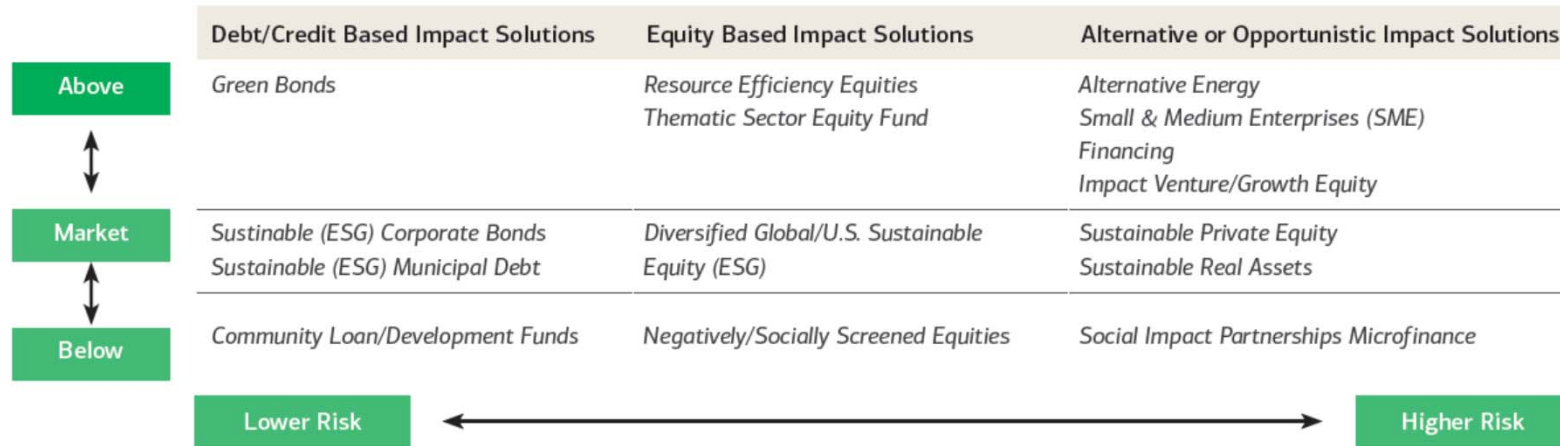
Source: MSCI®, Analytic Investors

# Benefits of impact investing



Source: CDP S&P 500 Climate Change Report 2014

# Range of risk and return profiles for impact investments



## Committed to taking the lead in impact investing

Bank of America and Merrill Lynch are constantly evolving our impact investing capabilities to include new products and innovative impact investing investment vehicles for our clients.

We're one of only two U.S. institutions to offer Social Impact Bonds<sup>1</sup>, which provide an innovative way for private investors to finance social programs.

In 2013, we introduced a Social Impact Bond in partnership with New York State and Social Finance, Inc. that raised \$13.5 million to fund a 5½-year program focused on reentry employment services for 2,000 formerly incarcerated individuals.

We issued the first-ever corporate "Green Bond" in 2013, a \$500 million offering financing renewable energy projects and added a \$600 million Green Bond on May 14, 2015 for renewable energy and energy efficiency projects.

### We're the #1 underwriter of Corporate Green Bonds in the country<sup>2</sup>

#	BOOKRUNNER	VALUE (\$M)	# OF DEALS	SHARE (%)
1	BofA Merrill Lynch	4,163	23	11.5
2	Credit Agricole CIB	4,058	37	11.2
3	HSBC	3,876	23	10.7
4	SEB	2,251	15	6.2
5	Morgan Stanley	2,072	13	5.7
6	JPMorgan	2,054	19	5.7
7	Barclays	1,702	12	4.7
8	Citi	1,395	13	4.1
9	BNP Paribas	1,233	10	3.4
10	SG Corporate & Investment Banking	1,092	6	3
<b>Total</b>		<b>36,110</b>	<b>102</b>	

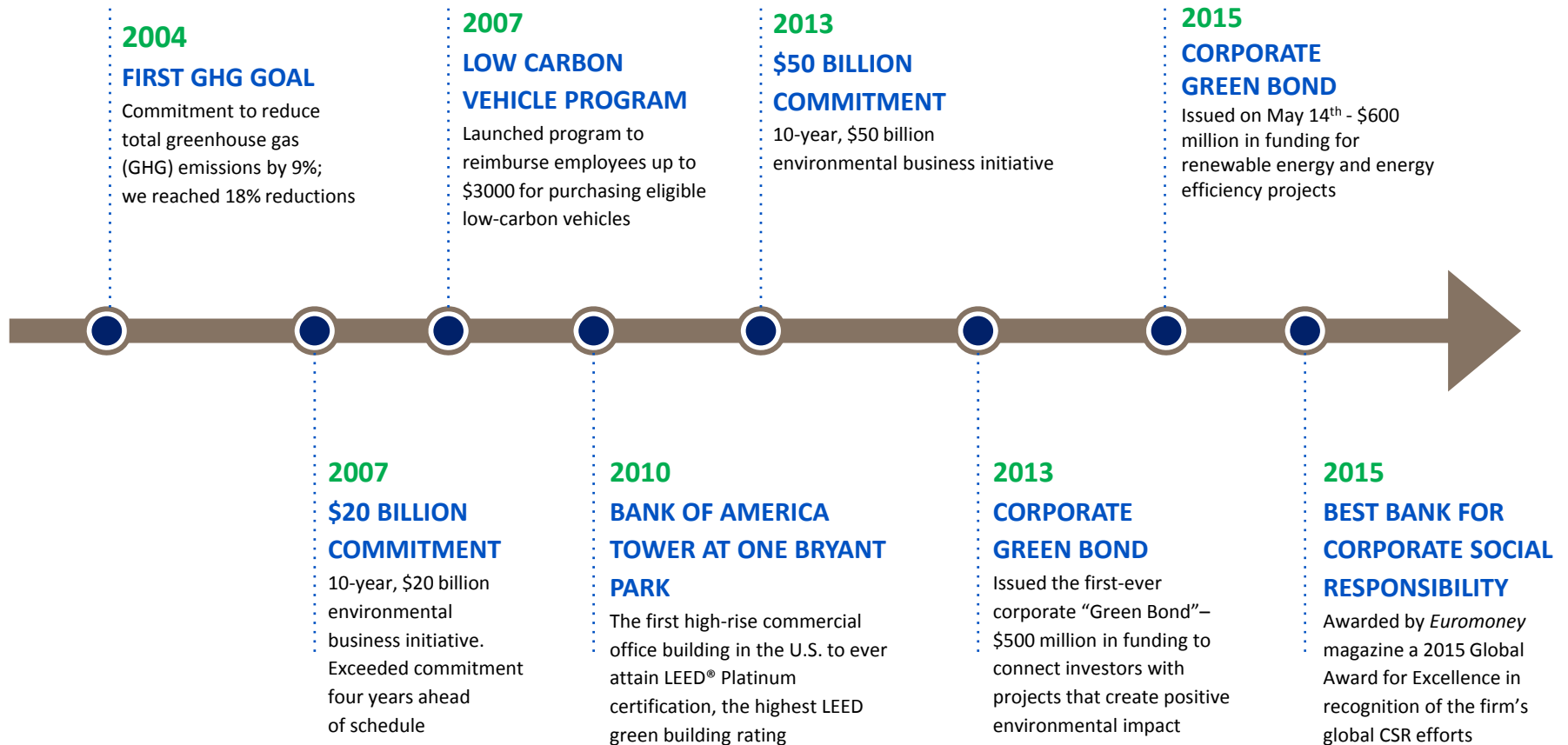
<sup>1</sup> An offer to purchase Interests in a Social Impact Bond offering can only be made pursuant to a Confidential Private Placement Memorandum ("PPM"), which contains important information concerning risk factors, conflicts and other material aspects of the Company and must be carefully read before any decision to invest is made.

<sup>2</sup> Source: Dealogic 1/1/2015–12/31/2015. Apportioned



# Directing our own capital with a purpose

Bank of America's key environmental, social and corporate governance milestones over the last decade.



# We're a leader in impact investing

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Signatory to Principles for Responsible Investment

## Catalytic Finance Initiative

Committed \$1 billion in capital to stimulate at least ten times that amount in investments in clean-energy projects

**\$1.1  
Billion**

in Green Bond offerings between 2013 and 2015



Named Best Global Bank for Corporate Social Responsibility, 2015<sup>1</sup>

<sup>1</sup> Euromoney 2015 Awards for Excellence

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# Market perspectives

## Charting today's investment environment

November 2016

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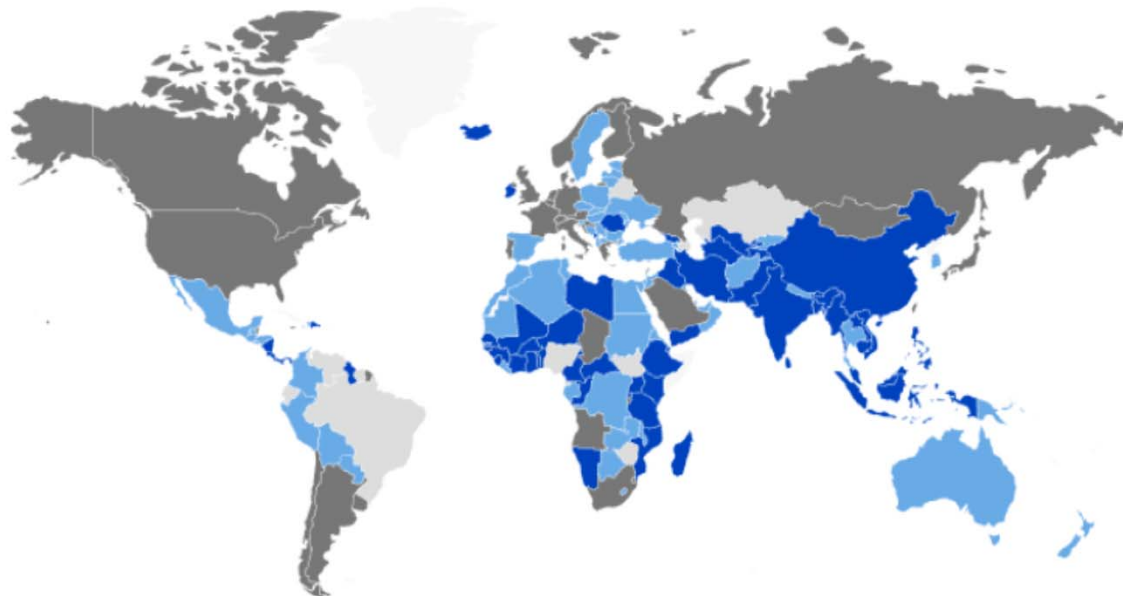
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# Projected global growth, 2016–2017



Source: International Monetary Fund estimates, October 2016. Most current data available.

Charts shown throughout are for illustrative purposes only and are not meant to predict actual results.

Gross domestic product (GDP), which measures the value of all goods and services produced by a nation, is a common measure of economic health. For the past several years, GDP growth has tended to follow a single dynamic: Countries in emerging markets have generally outpaced countries in the developed world. Today's conditions are different, however, with growth rates varying across emerging and developed nations.

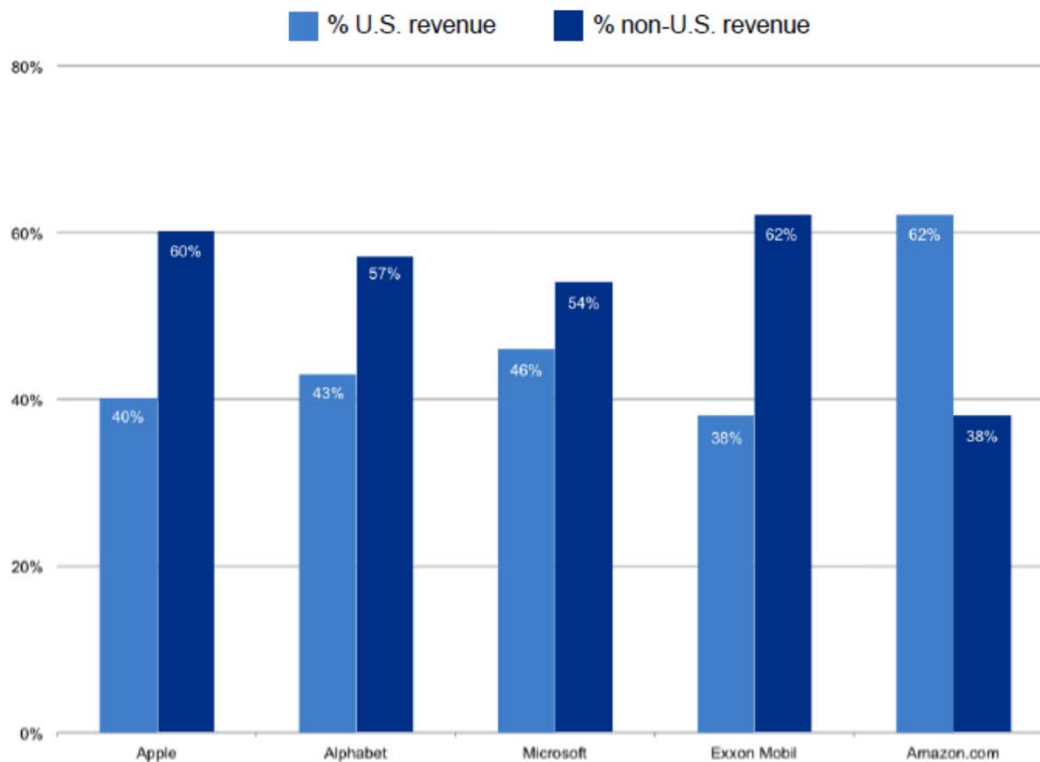
**What the map shows:**

*The average projected GDP growth in 2016–2017 around the world.*





# Globalization is pervasive



Data: FactSet, based on each company's most recent financial filings as of Dec. 31, 2015. Financial services companies are excluded from this list, as they typically do not report earnings by geography. Most recent data available.

See slide 16 for index definitions; slide 17 for important risk considerations.

A closer look at the five largest companies in the S&P 500® Index (in terms of market capitalization) reveals that these types of companies often have international operations that span the globe.

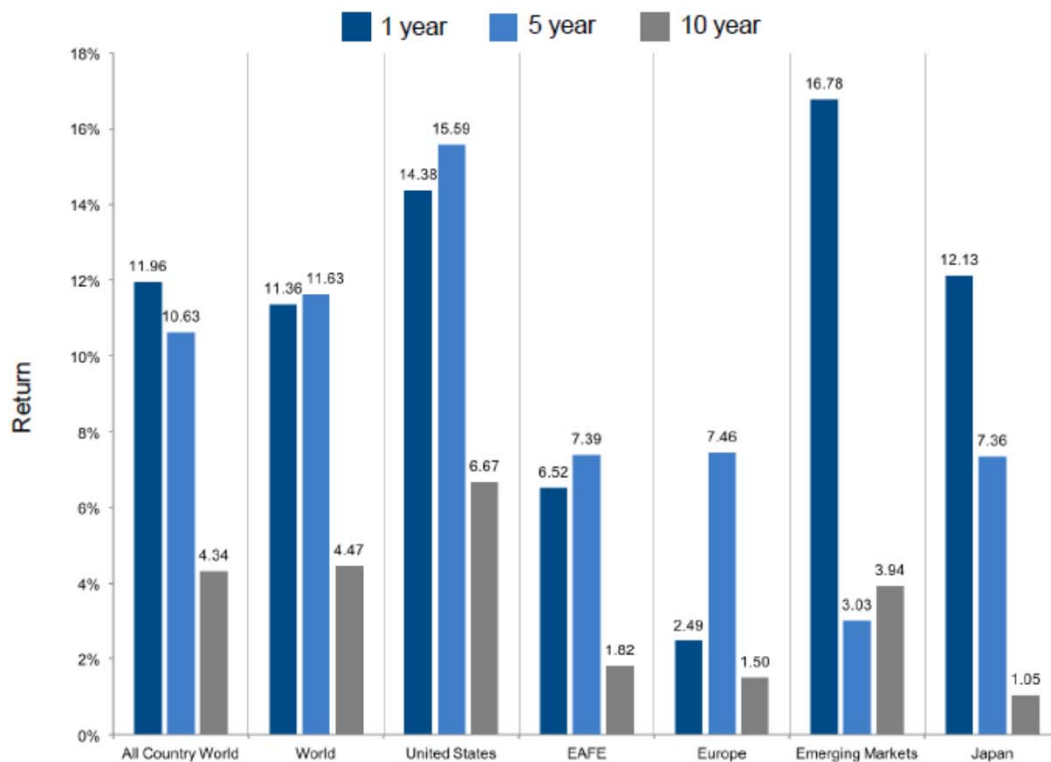
In certain cases, these companies' non-U.S. revenues significantly eclipse the revenues from their U.S. operations.

**What the chart shows:**  
*Percentage of revenues from U.S. versus non-U.S. sources for the five largest companies in the S&P 500 Index in terms of market capitalization.*



# Global equity returns

Annualized total returns as of September 30, 2016



Data: MSCI, October 2016. Return data based on MSCI indices, in U.S. dollars, net of dividends. Most recent data available.

**Past performance does not guarantee future results. See slide 16 for index definitions; slide 17 for important risk considerations.**

Chart is for illustrative purposes and is not representative of the performance of any specific investment.

Returns on domestic stocks have outpaced those of both international developed and emerging markets. With this type of performance, valuations on domestic stocks also have climbed relative to other parts of the world.

**What the chart shows:**

*Global equity market 1-, 5-, and 10-year annualized total returns as of Sept. 30, 2016, based on MSCI indices.*