

# Why Good Companies Can Make Good Stocks

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**Please see important information at the end of this program. Filmed on 11/19/18.**

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Can good companies make good stocks? We think the answer is yes.

## **TEXT ON SCREEN**

*Predicting:*

- Future bankruptcies
- Future price declines
- Earnings risk

We found that ESG signals are very powerful in terms of predicting future bankruptcies, future price declines, earnings risk.

If you had only invested in companies with above average environmental and social ranks, you would have avoided 90% of the bankruptcies that we saw in the S&P 500 over the time period that we analyzed.

**(Source: "ESG from A to Z," BofA Global Research, Nov. 25, 2019)**

At a very basic level, ESG investing incorporates thinking about factors or attributes of companies that extend beyond valuation or growth aspects of companies.

## **[TEXT OVER B-ROLL]**

Environmental:

- *Carbon Emissions Profile*
- *Green Buildings*

Instead we look at attributes like, for example, from an environmental perspective what is the carbon emissions profile of this company? How many green buildings does this company own in its real estate profile?

Social factors can incorporate a wide variety of attributes, but they generally focus on three areas:

## **[TEXT OVER B-ROLL]**

Social

Interactions with:

- *Community*
- *Employees*

- **Consumers**

First, how the company interacts with the community; second, how the company interacts with its own employees; and third, how the company interacts with its consumers from a product safety and trust point of view.

**[TEXT OVER B-ROLL]**

Governance

Higher level considerations:

- *Diversity of Board of Directors*
- *Management Compensation*

Governance is a topic that encompasses higher level considerations. For example, how diverse is the board of directors of an organization? How is management compensated? Does a company run itself responsibly?

**[TEXT ON SCREEN]**

Who is interested in ESG investing?

Our research makes us confident that ESG investing is here to stay. For example, one of the most interested groups from a demographics' perspective is Millennials.

**[ANIMATED PIE CHART GRAPHIC]**

77% of Millennials own or are interested in impact investing  
(Source: 2018 U.S. Trust Insights on Wealth and Worth)

In fact, in a recent survey almost 80% of millennials said that they were either currently invested in or were interested in adding exposure to impact-oriented investments.

In fact, by our fairly conservative estimates, we found that if Millennials only diverted a small proportion of their future wealth to ESG investments,

**[ANIMATED BAR CHART GRAPHIC]**

As much as \$20 Trillion of inflows into ESG themes  
(Source: "ESG from A to Z," BofA Global Research, Nov. 25, 2019)

Over the next 20 years, this could be as much as 20 trillion dollars of inflows into ESG types of themes.

Ultimately, shareholders will drive corporations to care about ESG, especially given the growing evidence that good ESG attributes lead to great financial performance.

The information above is extracted from a previously published research report dated November 25, 2019, which contains additional information and important disclosures. The report may be found at: [https://www.bofam.com/content/dam/boamlimages/documents/articles/ID19\\_12722/ESG from A to Z.pdf](https://www.bofam.com/content/dam/boamlimages/documents/articles/ID19_12722/ESG_from_A_to_Z.pdf)

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