

# The Arbor Group

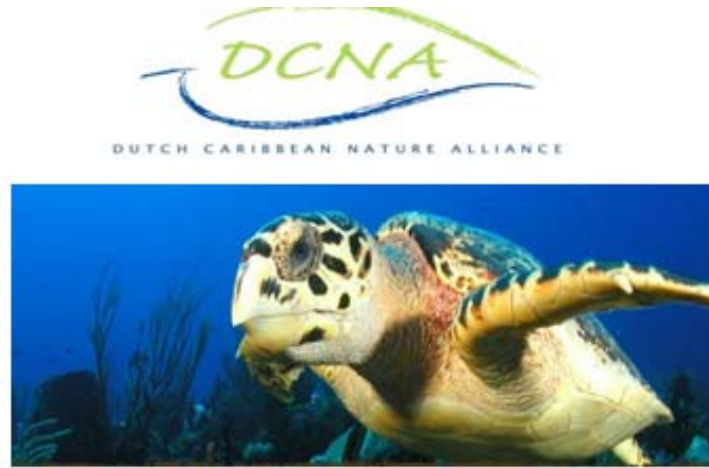
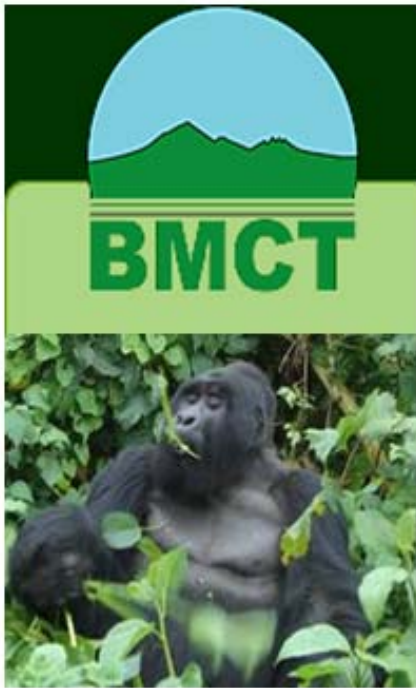
## *Evolution of Portfolio Management: The Impact of Corporate Environmental, Social and Governance (ESG) Information*

December, 2012



# A Commitment to Conservation Preservation

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# What is Sustainable or Socially Responsible Investing?

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**SRI is a "catch-all term" ...**

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Socially Responsible Investments (SRI) are investments which, in addition to traditional **financial** factors, also take **ecological, social** and **governance** criteria into consideration.

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**Different definitions referring to largely the same approach:**

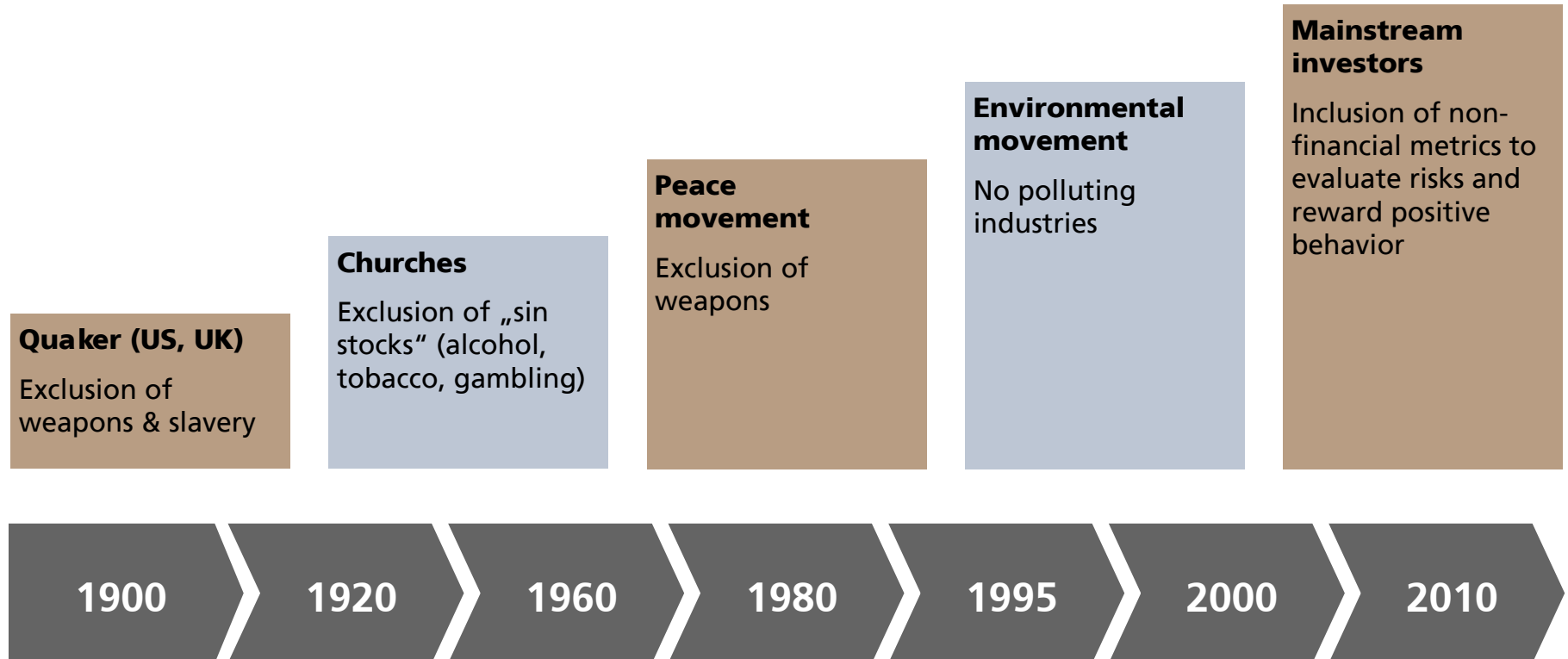
- Socially Responsible Investments (SRI)
- Environmental, Social and Governance (ESG)
- Extra-financial
- Ethical investments
- Sustainable Investments



**...encompassing many different strategies**

# Investing based on values has a long history

SRI is a trend which has been evolving over the last century



# Corporate earnings impacts

## Environmental, Social and Governance key indicators

### ESG Inputs

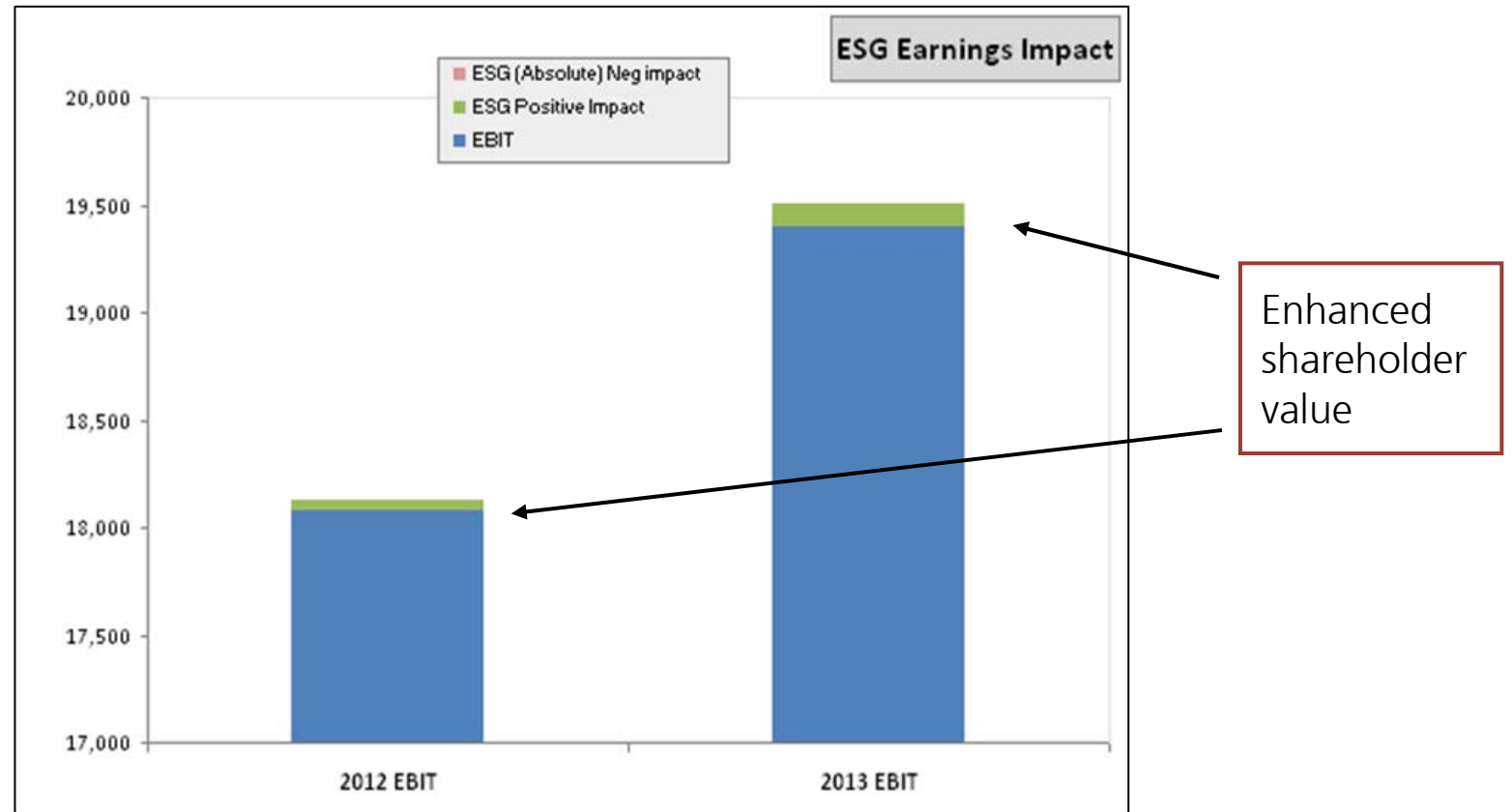


### Key Performance Indicators (KPI)

- Energy Intensity
- Direct GHG Intensity
- Travel CO<sub>2</sub> Intensity
- Waste Intensity
- Water Intensity
- Paper & Packaging Intensity
- Accident Severity
- Employee Turnover
- Workforce Replacement
- Pensions
- Philanthropic contributions
- ESG Provisioning
- Board Independence

# Positive earnings impacts

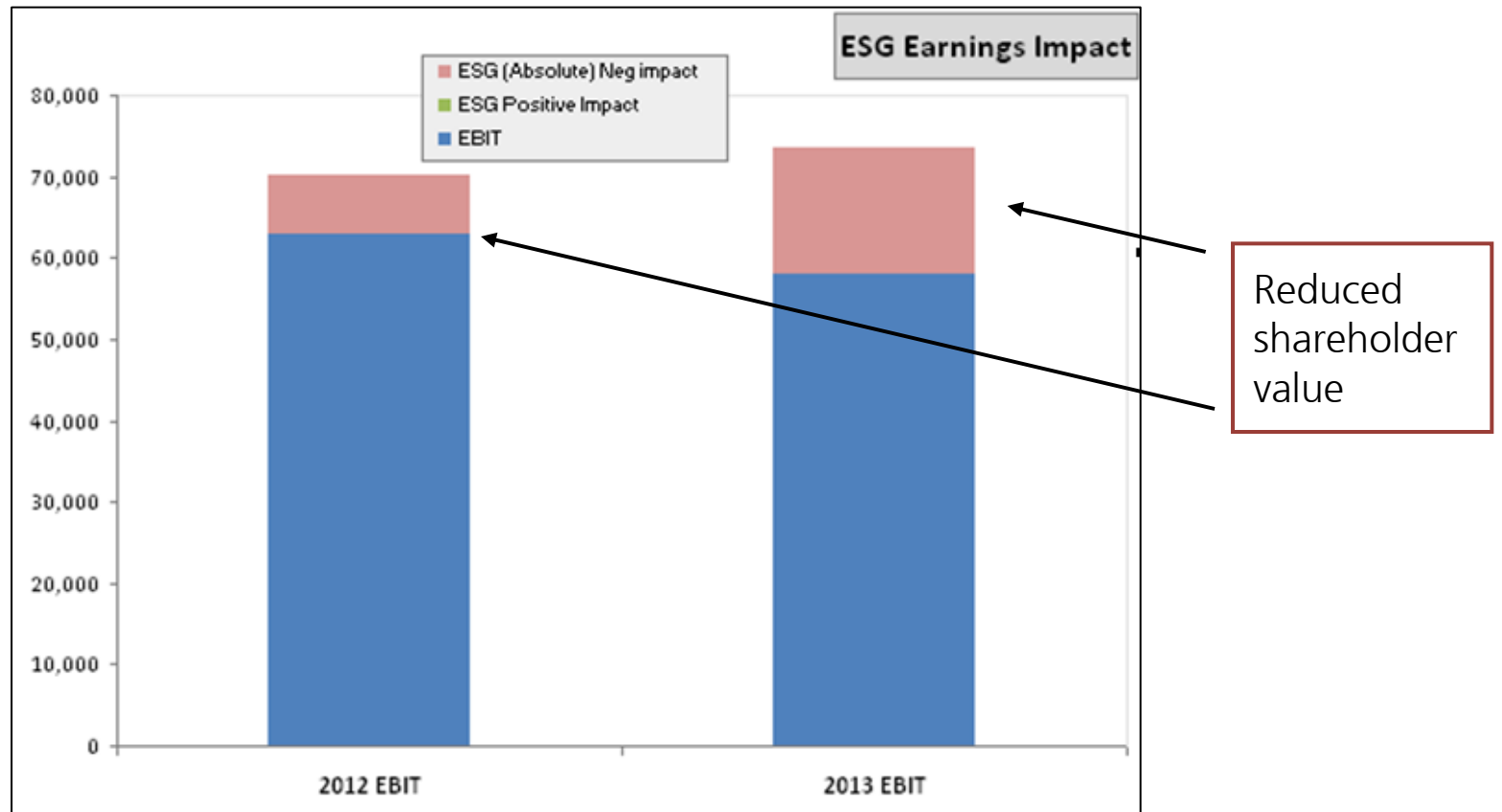
## Meaningful contribution to earnings



Source: Bloomberg. Intel Corporation

# Negative earnings impacts

## Significant detractor from earnings



Source: Bloomberg. Exxon Mobile Corporation

# Does corporate social responsibility affect the cost of capital?

Study: September 2011

## Academic Studies



Using a sample of 12,915 U.S. firms from 1992 to 2007

### **Findings**

Firms with better Corporate Social Responsibility scores exhibit

- Higher valuation and lower risk
- Lowers equity financing costs through alignment of corporate leadership with the interests of shareholders and stakeholders.

**Authors: Sadok El Ghoul, Omrane Gudehami, Chuck C. Kwok, De R. Mishra**



# Corporate environment management and credit risk

Study: June 2011

## Academic Studies



Using Mergent Fixed Income Securities Database (FISD) to track the yield spreads on 2,242 bonds by 582 different issuers from 1995 to 2006.

### **Findings**

Environmental concerns are associated with a higher cost of debt financing and lower credit rating while proactive environmental practices are associated with a lower cost of debt.

- Author's estimate a maximum environmental performance effect on the cost of debt of up to 64 basis points per annum.

**Authors: Rob Bauer, Daniel Hann Maastricht University**

# Does corporate social responsibility affect the cost of capital?

Study: September 2011

## Academic Studies



Using carbon emission data from firms participating the in Carbon Disclosure Project during 2006-2008.

### Findings

Evidence the market attaches an implicit cost to carbon emissions even though there is currently no explicit cost

- Disclosures inform investors
- This translates into a firm value penalty of \$1.28 billion for firms in the 3rd quartile (in terms of carbon emissions) relative to firms in 1st quartile.

Authors: Ella Mae Matsumura, Rachna Prakash, Sandra C. Vera-Muñoz

# The Arbor Group Team



**John S. Adams, CFP, CIMA**, is the Director of the Arbor Group and has been in the investment field for 27 years. He is a Certified Financial Planner, Certified Investment Management Analyst, and has a master's degree in Management and a Master's Degree in Financial Services. Prior to the financial field John was a concert classical guitarist.

John and his wife Andrea have three children and a Bernese Mountain dog. He is an avid mountaineer and amateur wildlife photographer.



**Stephanie Keeton Honan, CFP**, has been a financial advisor since 1996. She has extensive background in wealth management services that includes corporate asset management, high net-worth planning, business retirement programs, charitable giving, and employee stock options.

Stephanie earned a B.A. in political science from Washington State University and has completed postgraduate work in finance at the University of Washington. She is a Certified Financial Planner, CFP®, and holds a Wealth Management Certification. Stephanie currently resides in Magnolia with her husband and her pets.



**Carlos Obando** was born in Guayaquil, Ecuador and moved to Brooklyn, NY when he was six years old. He attended Stuyvesant High School, Duke University (cum laude degree in Engineering) and Harvard Business School, where he earned his MBA in 1983.

Carlos has two sons, 3 dogs. He enjoys international travel, skiing and modern art and is active with and has been President of the MIT Enterprise Forum of the Northwest.



**Patrick T. Drum, CFA, CFP**, has been in the financial industry for over fifteen years with previous positions at Morgan Stanley and at Washington Mutual as a member of the Capital Markets Group. Patrick is a Chartered Financial Analyst (CFA) charter holder, Certified Financial Planner and obtained his MBA from Seattle University in 2007.

Patrick and his wife Jennifer have two children. He enjoys the Seattle Mariners, the Tacoma Rainiers, sea-kayaking and golfing.



**Jason Hamlin, CIMA, CRPC**, is a Wealth Strategy Associate and has been with UBS for 6 years. Jason is a Certified Investment Management Analyst (CIMA) and a Chartered Retirement Planning Counselor (CRPC). Jason earned his CIMA designation from the Wharton Business School and his CRPC designation from the College for Financial Planning.

Jason was President of the Greater Wasilla Chamber of Commerce and served on multiple high profile boards. He was one of Alaska's 'Top 40 Under 40' in 2009. Jason and his wife Joey have three children. He likes to play soccer, hike, and cheer for Seattle sports teams.



**Deena Fuller, RCSA**, is a Registered Paraplanner. She provides administrative support and client service, and has over 10 years of experience in the financial industry. After graduating from Seattle University she traveled throughout Asia and began her career teaching English as a Second Language in Japan and then returned to teach high school in the Seattle area.

In her spare time, Deena enjoys Japanese gardening, her book club, playing the violin and traveling with her husband.



**Leah Cairns** is a Client Service Associate. She provides administrative support and client service for our team. She recently graduated from the University of Washington with a degree in Painting and Drawing and is working toward her Series 7 license.

Leah lives in Seattle, and enjoys cooking, traveling and graphic design.



**Tom Aguirre** is a Senior Registered Client Service Associate. He provides administrative support and client service for our team and has over 10 years of experience in the financial service industry. After graduating from California State University, San Bernardino he was a Peace Corps volunteer in Niger, West Africa. Prior to working in finance, he was in the bicycling industry. In his spare time, he enjoys bicycling, painting and spending time with his wife and family.

# Contact

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