

SR "Eye" - Introducing the BofAML SRI Consensus

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The BofAML SRI Consensus provides a unique measure of the weight of SRI (Socially Responsible Investment) in stocks' and sectors' market values. We believe that the SRI Consensus can offer valuable insights into how sectors and stocks are perceived, positively or negatively, on ESG (environmental, social and corporate governance issues).

1% of the MSCI AC World

Our analysis of the top 500 global SRI funds by AUM – including negative and positive screening, and long-term thematic funds – shows that they hold 0.97% of the proportion of market value (MV) of the MSCI All Country World held by mutual funds. SRI represents a robust proportion of capital allocation – with 2%+ of the market value of seven sectors. In Europe, SRI funds have greater clout, holding 1.7% of the MV of the MSCI Europe as held by mutual funds.

Most favoured SRI sectors

Based on our analysis of SRI allocation in the MSCI AC World's MV weightings, the most commonly held sectors by SRI investors are Water Utilities in number one place with 14.53%, followed by Diversified Consumer, Building Products, Independent Power Producers & Energy Transmission, Machinery and Gas Utilities. We have also included results at GICS1, GICS2 and GICS3 sub-sector level.

Least favoured SRI sectors

Based on the same analysis, the least held sectors by SRI investors are Tobacco with 0.2% followed by REITs, Healthcare Tech., Airlines and Metals & Mining.

Top 20 stocks, SRI as a % of market value

The 20 companies with the highest proportion of market value held by SRI funds are: EDP Renovaveis, Kurita Water, Guangdong Investment, Industrivärden, Acciona, Severn Trent, Wacker Chemie, Verbund, American Water Works, Woongjin Coway, Sabespp, Viterra, China Agri-Industries, Novozymes, Vestas Wind, Energen, Suez Environnement, MDU Resources, McCormick, and REC.

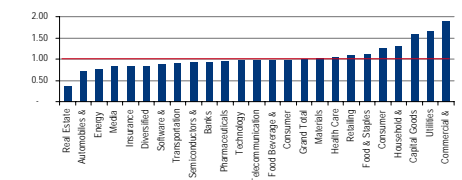
Top 20 most widely held SRI stocks

The 20 companies most commonly held by SRI funds are: Energen, MDU Resources, ITT, Kurita Water, Canara Bank, E.Sun, SP Setia, Plains E&P, Motech, Acciona, Sims Metal Mgmt, Verbund, McCormick & Co., International Game Technology, Seoul Semiconductor, Ayala Land, BAT–Malaysia), Pepco Hdg, GS Yuasa Corp, and Statoil.

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Chart 1: SRI Sector weightings



Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

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Refer to important disclosures on page 39 to 41. Analyst Certification on Page 38. Link to Definitions on page 38.

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BofAML SRI Consensus: top stocks & sectors

Top 100 SRI stocks, SRI as a % of market value

Based on our analysis of the 500 largest global SRI mutual funds by AUM at September 2011 – including negative screening, positive screening and long-term thematic funds – we have identified the following 100 stocks as the most held in terms of the percentage of market value held by mutual funds.

The stocks listed in the tables below are not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances and objectives before making any investment decisions.

Table 1: Top 100 holdings of the 500 largest global SRI funds (in terms of MV held by mutual funds)

Rank	Company Name	Sector (GICS2)	Sector (GICS4)	Country	% of MV
1	Edp Renovaveis S/A	Utilities	Independent Power Producers & Energy Tra	Portugal	37.7%
2	Kurita Water Industries Ltd.	Capital Goods	Industrial Machinery	Japan	31.3%
3	Guangdong Investment Ltd.	Utilities	Water Utilities	China	22.6%
4	Industrivarden Ab C	Diversified Financials	Multi-Sector Holdings	Sweden	17.4%
5	Acciona S.A.	Utilities	Electric Utilities	Spain	16.8%
6	Severn Trent Plc	Utilities	Water Utilities	United Kingdom	15.8%
7	Wacker Chemie Ag	Materials	Specialty Chemicals	Germany	15.4%
8	Verbund Ag	Utilities	Electric Utilities	Austria	15.4%
9	American Water Works Co.	Utilities	Water Utilities	United States	15.4%
10	Woongjin Coway Co. Ltd.	Consumer Durables & Apparel	Household Appliances	Korea	15.2%
11	Companhia De Saneamento Basico	Utilities	Water Utilities	Brazil	15.0%
12	Viterra Inc.	Food Beverage & Tobacco	Agricultural Products	Canada	14.9%
13	China Agri-Industries Holdings Ltd.	Food Beverage & Tobacco	Agricultural Products	China	14.9%
14	Novozymes A/S	Materials	Specialty Chemicals	Denmark	13.1%
15	Vestas Wind Systems A/S	Capital Goods	Heavy Electrical Equipment	Denmark	12.6%
16	Energen Corp.	Energy	Oil & Gas Exploration & Production	United States	12.4%
17	Suez Environnement S.A.	Utilities	Multi Utilities	France	11.7%
18	Mdu Resources Group Inc.	Utilities	Multi Utilities	United States	11.5%
19	Mccormick & Co. Inc.	Food Beverage & Tobacco	Packaged Foods & Meats	United States	10.6%
20	Renewable Energy Corp. Asa	Semiconductors & Equipment	Semiconductor Equipment	Norway	10.6%
21	Pentair Inc.	Capital Goods	Industrial Machinery	United States	10.4%
22	Johnson Matthey Plc	Materials	Specialty Chemicals	United Kingdom	10.4%
23	United Utilities Group Plc	Utilities	Water Utilities	United Kingdom	10.3%
24	Sims Metal Management Ltd.	Materials	Steel	Australia	9.9%
25	China Longyuan Power Group Corp. Ltd.	Utilities	Independent Power Producers & Energy Tra	China	9.7%
26	Sulzer Ag	Capital Goods	Industrial Machinery	Switzerland	9.4%
27	Sei Investments Co.	Diversified Financials	Asset Management & Custody Banks	United States	8.7%
28	Quanta Services Inc.	Capital Goods	Construction & Engineering	United States	8.7%
29	Umicore S.A.	Materials	Specialty Chemicals	Belgium	8.4%
30	China High Speed Transmission Equipment Group	Capital Goods	Heavy Electrical Equipment	China	8.3%
31	Geberit Ag	Capital Goods	Building Products	Switzerland	8.3%
32	Veolia Environnement S.A.	Utilities	Multi Utilities	France	8.2%
33	Tryg A/S	Insurance	Property & Casualty Insurance	Denmark	8.2%
34	Yara International Asa	Materials	Fertilizers & Agricultural Chemicals	Norway	7.9%
35	Norsk Hydro Asa	Materials	Aluminum	Norway	7.7%
36	Devry Inc.	Consumer Services	Education Services	United States	7.7%
37	Straumann Holding Ag	Health Care Equipment & Services	Health Care Equipment	Switzerland	7.3%
38	Canara Bank	Banks	Diversified Banks	India	7.2%
39	Companhia Energetica De Minas Gerais-Cemig	Utilities	Electric Utilities	Brazil	7.1%
40	Mohawk Industries Inc.	Consumer Durables & Apparel	Home Furnishings	United States	7.0%
41	Skf Ab	Capital Goods	Industrial Machinery	Sweden	7.0%
42	Gcl-Poly Energy Holdings Ltd.	Semiconductors & Equipment	Semiconductor Equipment	China	6.9%
43	Plains Exploration & Production Co.	Energy	Oil & Gas Exploration & Production	United States	6.8%
44	Motech Industries Inc.	Semiconductors & Equipment	Semiconductors	Taiwan	6.8%
45	Pall Corp.	Capital Goods	Industrial Machinery	United States	6.7%

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Rank	Company Name	Sector (GICS2)	Sector (GICS4)	Country	% of MV
46	Energy Development Corp.	Utilities	Independent Power Producers & Energy Tra	Philippines	6.6%
47	Bendigo & Adelaide Bank Ltd.	Banks	Regional Banks	Australia	6.6%
48	Atlas Copco Ab B	Capital Goods	Industrial Machinery	Sweden	6.6%
49	Ilt Corp.	Capital Goods	Aerospace & Defense	United States	6.5%
50	Baloise Holding Ag	Insurance	Multi-Line Insurance	Switzerland	6.5%
51	Scania Ab B	Capital Goods	Construction & Farm Machinery & Heavy Tr	Sweden	6.4%
52	Bunge Ltd.	Food Beverage & Tobacco	Agricultural Products	United States	6.2%
53	Rushydro	Utilities	Electric Utilities	Russia	6.2%
54	Skanska Ab	Capital Goods	Construction & Engineering	Sweden	6.2%
55	Bank Of Cyprus Pcl	Banks	Diversified Banks	Greece	6.2%
56	Alfa Laval Ab	Capital Goods	Industrial Machinery	Sweden	6.2%
57	E.Sun Financial Holding Co. Ltd.	Banks	Diversified Banks	Taiwan	6.1%
58	Cree Inc.	Semiconductors & Equipment	Semiconductors	United States	5.9%
59	Chaoda Modern Agriculture (Holdings) Ltd.	Food Beverage & Tobacco	Agricultural Products	China	5.8%
60	Royal Caribbean Cruises Ltd.	Consumer Services	Hotels, Resorts & Cruise Lines	United States	5.8%
61	Aker Solutions Asa	Energy	Oil & Gas Equipment & Services	Norway	5.8%
62	Electrolux Ab	Consumer Durables & Apparel	Household Appliances	Sweden	5.8%
63	Millicom International Cellular S.A.	Telecommunication Services	Wireless Telecommunication Services	Sweden	5.7%
64	Nordea Bank Ab	Banks	Diversified Banks	Sweden	5.7%
65	Getinge Ab	Health Care Equipment & Services	Health Care Equipment	Sweden	5.6%
66	Seoul Semiconductor Co. Ltd.	Semiconductors & Equipment	Semiconductors	Korea	5.5%
67	Mosaic Co.	Materials	Fertilizers & Agricultural Chemicals	United States	5.5%
68	J.M. Smucker Co.	Food Beverage & Tobacco	Packaged Foods & Meats	United States	5.4%
69	Cf Industries Holdings Inc.	Materials	Fertilizers & Agricultural Chemicals	United States	5.4%
70	Archer Daniels Midland Co.	Food Beverage & Tobacco	Agricultural Products	United States	5.4%
71	Swisscom Ag	Telecommunication Services	Integrated Telecommunication Services	Switzerland	5.4%
72	Roper Industries Inc.	Capital Goods	Electrical Components & Equipment	United States	5.4%
73	Safeway Inc.	Food & Staples Retailing	Food Retail	United States	5.4%
74	Incitec Pivot Ltd.	Materials	Fertilizers & Agricultural Chemicals	Australia	5.4%
75	Intercontinental Hotels Group Plc	Consumer Services	Hotels, Resorts & Cruise Lines	United Kingdom	5.4%
76	Ssab Ab	Materials	Steel	Sweden	5.3%
77	Orkla Asa	Capital Goods	Industrial Conglomerates	Norway	5.2%
78	Dun & Bradstreet Corp.	Commercial & Professional Services	Research & Consulting Services	United States	5.2%
79	International Game Technology	Consumer Services	Casinos & Gaming	United States	5.2%
80	Statoil Asa	Energy	Integrated Oil & Gas	Norway	5.2%
81	Boliden Ab	Materials	Diversified Metals & Mining	Sweden	5.2%
82	Dnb Nor Asa	Banks	Diversified Banks	Norway	5.1%
83	Benesse Holdings Inc.	Consumer Services	Education Services	Japan	5.1%
84	Volvo Ab	Capital Goods	Construction & Farm Machinery & Heavy Tr	Sweden	5.1%
85	Interpublic Group Of Cos.	Media	Advertising	United States	5.1%
86	Koninklijke Boskalis Westminster N.V.	Capital Goods	Construction & Engineering	Netherlands	4.9%
87	China Bluechemical Ltd.	Materials	Fertilizers & Agricultural Chemicals	China	4.9%
88	Svenska Cellulosa Ab	Materials	Paper Products	Sweden	4.9%
89	Raiffeisen Bank International Ag	Banks	Diversified Banks	Austria	4.9%
90	Husqvarna Ab	Consumer Durables & Apparel	Household Appliances	Sweden	4.9%
91	Koninklijke Vopak N.V.	Transportation	Marine Ports & Services	Netherlands	4.8%
92	Urs Corp.	Capital Goods	Construction & Engineering	United States	4.8%
93	Lindt & Sprungli Ag Ptg	Food Beverage & Tobacco	Packaged Foods & Meats	Switzerland	4.8%
94	Ericsson Lm Shs B	Technology Hardware & Equipment	Communications Equipment	Sweden	4.8%
95	Kesko Oyj	Food & Staples Retailing	Food Retail	Finland	4.8%
96	National Societe Generale Bank S.A.E.	Banks	Diversified Banks	Egypt	4.8%
97	Investment Ab Kinnevik	Diversified Financials	Multi-Sector Holdings	Sweden	4.7%
98	Gjensidige Forsikring Asa	Insurance	Multi-Line Insurance	Norway	4.6%
99	Snam Rete Gas S.P.A.	Utilities	Gas Utilities	Italy	4.6%
100	Lee & Man Paper Manufacturing Ltd.	Materials	Paper Products	China	4.4%

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

Most & least favoured sectors

Our analysis of the top 500 SRI funds allows us to analyse the reported percentage of market value of the various GICS3 sectors (industries) of the MSCI AC World Index. Overall, the top 500 funds represent 0.97% of the market value of the proportion of the MSCI AC held by mutual funds, with SRI market value ranging from a low of 0.20% (Tobacco) to a high of 14.53% (Water Utilities). There are also regional differences; for instance, SRI funds hold 1.7% of the market value of the MSCI Europe.

Table 2: % of SRI market value for GICS3 sectors

Sector (GICS3)	% of MV	Sector (GICS3)	% of MV	Sector (GICS3)	% of MV
AEROSPACE & DEFENSE	0.49%	ELECTRICAL EQUIPMENT	2.65%	METALS & MINING	0.47%
AIR FREIGHT & LOGISTICS	0.76%	ELECTRONIC EQPT INSTR.	0.53%	MULTI UTILITIES	1.30%
AIRLINES	0.43%	ENERGY EQUIPMENT & SERV.	0.92%	MULTILINE RETAIL	1.14%
AUTO COMPONENTS	1.18%	FOOD & STAPLES RETAILING	1.08%	OFFICE ELECTRONICS	0.86%
AUTOMOBILES	0.52%	FOOD PRODUCTS	1.60%	OIL, GAS & CONSUMABLE FUELS	0.70%
BEVERAGES	0.71%	GAS UTILITIES	2.17%	PAPER & FOREST PRODUCTS	1.86%
BIOTECHNOLOGY	0.57%	HEALTH CARE EQUIPMENT	1.38%	PERSONAL PRODUCTS	0.79%
BUILDING PRODUCTS	2.74%	HEALTH CARE PROVIDERS	0.69%	PHARMACEUTICALS	0.96%
CAPITAL MARKETS	0.95%	HEALTH CARE TECHNOLOGY	0.29%	PROFESSIONAL SERVICES	1.86%
CHEMICALS	1.77%	HOTELS RESTAURANTS & LEIS.	0.84%	REITS	0.27%
COMMERCIAL BANKS	0.92%	HOUSEHOLD DURABLES	1.71%	REAL ESTATE MANAGEMENT & DEV.	0.48%
COMMERCIAL SERVICES & SUPPLIES	1.80%	HOUSEHOLD PRODUCTS	1.43%	ROAD & RAIL	1.03%
COMMUNICATIONS EQUIPMENT	1.63%	INDEPENDENT POWER PROD.	2.31%	SEMICONDUCTORS & EQUIP.	0.90%
COMPUTERS & PERIPHERALS	0.70%	INDUSTRIAL CONGLOMERATES	1.09%	SOFTWARE	0.72%
CONSTRUCTION & ENGINEERING	1.39%	INSURANCE	0.81%	SPECIALTY RETAIL	1.15%
CONSTRUCTION MATERIALS	0.97%	INTERNET & CATALOG RETAIL	0.77%	TEXTILES, APPAREL & LUXURY	1.00%
CONSUMER FINANCE	0.61%	INTERNET SOFTWARE & SERV.	0.96%	THRIFTS & MORTGAGE FINANCE	0.85%
CONTAINERS & PACKAGING	0.80%	IT SERVICES	0.95%	TOBACCO	0.20%
DISTRIBUTORS	0.89%	LEISURE EQUIPMENT & PROD.	1.05%	TRADING COMPANIES & DIST.	0.94%
DIVERSIFIED CONSUMER SERVICES	2.80%	LIFE SCIENCES TOOLS & SERV.	1.23%	TRANSPORTATION INFRASTRUCTURE	0.87%
DIVERSIFIED FINANCIAL SERVICES	0.74%	MACHINERY	2.22%	WATER UTILITIES	14.53%
DIVERSIFIED TELECOM. SERVICES	0.93%	MARINE	1.15%	WIRELESS TELECOM. SERVICES	0.98%
ELECTRIC UTILITIES	1.01%	MEDIA	0.81%	METALS & MINING	0.47%
Grand Total					0.97%

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

Top 100 most widely held SRI stocks

Based on our analysis of the 500 largest global SRI funds by AUM – including negative screening, positive screening and long-term thematic funds – we have identified the following 100 companies as being the most held. We have also determined two SRI factors for each stock, which explain the SRI weighting:

- **SRI Weighting** is equal to the weight of SRI “money” compared to the relative MV. If SRI money weight 5% of a stock / sector where it only weights 1% in the benchmark, then the SRI weighting is $5\% / 1\% = 5x$.
- **SRI Macro Factor** is a combination of sector weightings taking into account geographical characteristics (see further below). For instance, in sector MV divided by the overall weight of SRI in the total index MV (e.g. $0.20 / 0.97 = 0.21$ for Tobacco and $14.53 / 0.97 = 14.97x$ for Water Utilities).
- **SRI Stock Factor** is derived from the % of MV in the stock divided by the SRI Macro Factor – akin to a SRI sector-geo-normalised factor. To put it in perspective, an SRI Stock Factor of 2.6x means that the company is 2.6x over-allocated compared with the sector average and the geo SRI allocation.

Table 2: Analytical view of the 100 most SRI invested stocks - ranked by SRI Stock Factor

Rank	Company Name	Sector (GICS2)	Sector (GICS4)	Country	% of MV	SRI Sector Weight	SRI Macro	SRI Stock Factor
1	ENERGEN CORP.	Energy	OIL & GAS EXPLORATION & PRODUCTION	United States	12.4%	12.83	0.94	13.66
2	MDU RESOURCES GROUP	Utilities	MULTI UTILITIES	United States	11.5%	11.91	0.99	12.09
3	ITT CORP.	Capital Goods	AEROSPACE & DEFENSE	United States	6.5%	6.75	0.58	11.73
4	KURITA WATER INDUSTRIES	Capital Goods	INDUSTRIAL MACHINERY	Japan	31.3%	32.34	2.82	11.48
5	CANARA BANK	Banks	DIVERSIFIED BANKS	India	7.2%	7.45	0.81	9.21
6	E.SUN FINANCIAL HOLDING	Banks	DIVERSIFIED BANKS	Taiwan	6.1%	6.35	0.81	7.85
7	SP SETIA BHD	Real Estate	REAL ESTATE DEVELOPMENT	Malaysia	3.0%	3.13	0.41	7.67
8	PLAINS E&P	Energy	OIL & GAS EXPLORATION & PRODUCTION	United States	6.8%	7.06	0.94	7.51
9	MOTECH INDUSTRIES INC.	Semiconductors & Equip.	SEMICONDUCTORS	Taiwan	6.8%	7.00	1.01	6.91
10	ACCIONA S.A.	Utilities	ELECTRIC UTILITIES	Spain	16.8%	17.32	2.61	6.63
11	SIMS METAL MANAGEMENT	Materials	STEEL	Australia	9.9%	10.18	1.63	6.25
12	VERBUND AG	Utilities	ELECTRIC UTILITIES	Austria	15.4%	15.88	2.61	6.08
13	MCCORMICK & CO. INC.	Food Beverage & Tobacco	PACKAGED FOODS & MEATS	United States	10.6%	10.91	1.80	6.08
14	INT'L GAME TECHNOLOGY	Consumer Services	CASINOS & GAMING	United States	5.2%	5.38	0.91	5.93
15	SEOUL SEMICONDUCTOR	Semiconductors & Equip.	SEMICONDUCTORS	Korea	5.5%	5.72	1.01	5.64
16	AYALA LAND INC.	Real Estate	DIVERSIFIED REAL ESTATE ACTIVITIES	Philippines	3.6%	3.67	0.71	5.16
17	BAT (MALAYSIA) BHD	Food Beverage & Tobacco	TOBACCO	Malaysia	0.7%	0.77	0.15	5.08
18	PEPCO HOLDINGS INC.	Utilities	ELECTRIC UTILITIES	United States	2.9%	2.98	0.60	4.95
19	GS YUASA CORP.	Capital Goods	ELECTRICAL COMPONENTS & EQUIPMENT	Japan	3.3%	3.38	0.69	4.91
20	STATOIL ASA	Energy	INTEGRATED OIL & GAS	Norway	5.2%	5.37	1.10	4.88
21	INDUSTRIVARDEN AB C	Diversified Financials	MULTI-SECTOR HOLDINGS	Sweden	17.4%	18.00	3.79	4.75
22	PENTAIR INC.	Capital Goods	INDUSTRIAL MACHINERY	United States	10.4%	10.75	2.26	4.75
23	SUEZ ENVIRONNEMENT S.A.	Utilities	MULTI UTILITIES	France	11.7%	12.05	2.60	4.63
24	WASHINGTON POST CO.	Media	PUBLISHING	United States	4.3%	4.45	0.96	4.63
25	BOLIDEN AB	Materials	DIVERSIFIED METALS & MINING	Sweden	5.2%	5.35	1.16	4.62
26	SEI INVESTMENTS CO.	Diversified Financials	ASSET MANAGEMENT & CUSTODY BANKS	United States	8.7%	9.03	1.97	4.58
27	CSR CORP. LTD.	Capital Goods	CONSTRUCTION & FARM MACHINERY	China	1.7%	1.73	0.39	4.45
28	CHINA HIGH SPEED TRANS.	Capital Goods	HEAVY ELECTRICAL EQUIPMENT	China	8.3%	8.57	1.93	4.44
29	RENEWABLE ENERGY CORP.	Semiconductors & Equip.	SEMICONDUCTOR EQUIPMENT	Norway	10.6%	10.90	2.47	4.42
30	NEXTERA ENERGY INC	Utilities	ELECTRIC UTILITIES	United States	1.7%	1.77	0.40	4.42
31	CREE INC.	Semiconductors & Equip.	SEMICONDUCTORS	United States	5.9%	6.12	1.43	4.29
32	AFLAC INC.	Insurance	LIFE & HEALTH INSURANCE	United States	2.6%	2.70	0.64	4.22
33	QUANTA SERVICES INC.	Capital Goods	CONSTRUCTION & ENGINEERING	United States	8.7%	8.99	2.14	4.20
34	HOSPIRA INC.	Pharmaceuticals, Bio.	PHARMACEUTICALS	United States	3.1%	3.24	0.78	4.15
35	JAPAN PETROLEUM EXP.	Energy	OIL & GAS EXPLORATION & PRODUCTION	Japan	0.9%	0.97	0.24	4.14
36	NATIONAL SG S.A.E.	Banks	DIVERSIFIED BANKS	Egypt	4.8%	4.92	1.19	4.12
37	SEMBCORP INDUSTRIES	Capital Goods	INDUSTRIAL CONGLOMERATES	Singapore	1.8%	1.88	0.46	4.06
38	MABUCHI MOTOR CO. LTD.	Capital Goods	ELECTRICAL COMPONENTS & EQUIPMENT	Japan	2.6%	2.73	0.69	3.96
39	BALOISE HOLDING AG	Insurance	MULTI-LINE INSURANCE	Switzerland	6.5%	6.73	1.71	3.93
40	NESTE OIL OYJ	Energy	OIL & GAS REFINING & MARKETING	Finland	4.1%	4.27	1.10	3.89
41	SHIMAMURA CO. LTD.	Retailing	APPAREL RETAIL	Japan	0.6%	0.66	0.17	3.88
42	NISHI-NIPPON CITY BANK	Banks	REGIONAL BANKS	Japan	1.2%	1.25	0.33	3.82
43	EDP RENOVAVEIS S/A	Utilities	INDEPENDENT POWER PRODUCERS	Portugal	37.7%	38.95	10.31	3.78
44	CHARLES SCHWAB CORP.	Diversified Financials	INVESTMENT BANKING & BROKERAGE	United States	1.9%	1.93	0.51	3.76
45	TRYG A/S	Insurance	PROPERTY & CASUALTY INSURANCE	Denmark	8.2%	8.48	2.27	3.74
46	J.M. SMUCKER CO.	Food Beverage & Tobacco	PACKAGED FOODS & MEATS	United States	5.4%	5.63	1.51	3.73
47	SSAB AB	Materials	STEEL	Sweden	5.3%	5.52	1.49	3.72
48	VIRGIN MEDIA INC.	Media	CABLE & SATELLITE	United States	1.6%	1.67	0.45	3.71
49	PAYCHEX INC.	Software & Services	DATA PROCESSING & OUTSOURCED	United States	4.0%	4.16	1.14	3.65
50	KOBE STEEL LTD.	Materials	STEEL	Japan	1.3%	1.34	0.37	3.58
51	SIAM CEMENT (F)	Materials	CONSTRUCTION MATERIALS	Thailand	3.2%	3.31	0.94	3.51
52	ROYAL CARIBBEAN CRUISES	Consumer Services	HOTELS, RESORTS & CRUISE LINES	United States	5.8%	5.98	1.70	3.51
53	LONMIN PLC	Materials	PRECIOUS METALS & MINERALS	UK	3.9%	4.00	1.17	3.41
54	HANSEN NATURAL CORP.	Food Beverage & Tobacco	SOFT DRINKS	United States	3.2%	3.26	0.96	3.40
55	DANAHER CORP.	Capital Goods	INDUSTRIAL CONGLOMERATES	United States	2.8%	2.90	0.86	3.36
56	FUJI ELECTRIC CO. LTD.	Capital Goods	ELECTRICAL COMPONENTS & EQUIPMENT	Japan	2.2%	2.31	0.69	3.36
57	ZIMMER HOLDINGS INC.	Health Care Equipment	HEALTH CARE EQUIPMENT	United States	4.2%	4.32	1.32	3.27
58	VEOLIA ENVIRONNEMENT	Utilities	MULTI UTILITIES	France	8.2%	8.49	2.60	3.26
59	STANLEY ELECTRIC CO.	Automobiles & Components	AUTO PARTS & EQUIPMENT	Japan	2.5%	2.63	0.81	3.26
60	JIANGSU EXPRESSWAY CO.	Transportation	HIGHWAYS & RAILTRACKS	China	1.6%	1.62	0.50	3.26

Table 2: Analytical view of the 100 most SRI invested stocks - ranked by SRI Stock Factor

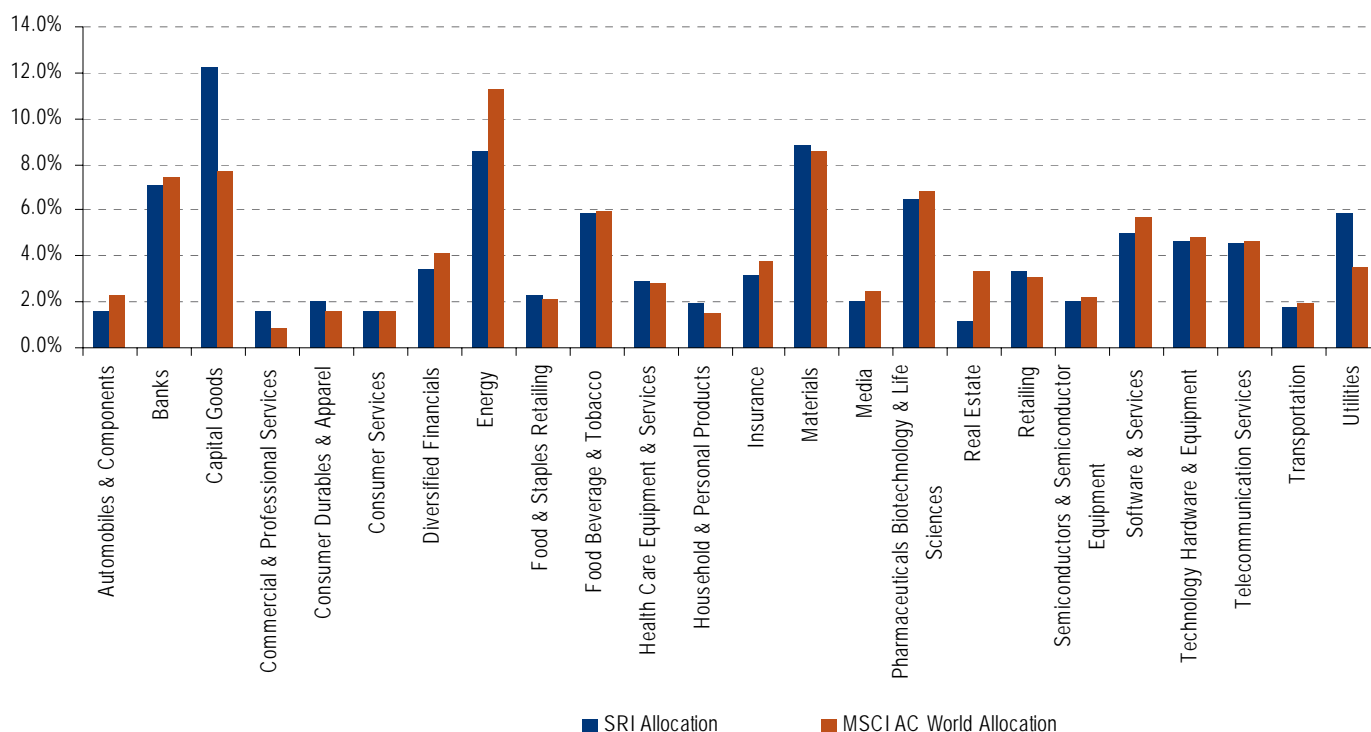
Rank	Company Name	Sector (GICS2)	Sector (GICS4)	Country	% of MV	SRI Sector Weight	SRI Macro	SRI Stock Factor
61	URBI DESARROLLOS URB.	Consumer Durables & Ap.	HOMEBUILDING	Mexico	2.3%	2.37	0.73	3.24
62	MAHINDRA & MAHINDRA	Automobiles & Components	AUTOMOBILE MANUFACTURERS	India	1.8%	1.84	0.58	3.17
63	BYD CO. LTD.	Automobiles & Components	AUTOMOBILE MANUFACTURERS	China	2.3%	2.39	0.77	3.11
64	WILLIS GROUP HOLDINGS	Insurance	INSURANCE BROKERS	United States	1.1%	1.12	0.36	3.10
65	TABCORP HOLDINGS LTD.	Consumer Services	CASINOS & GAMING	Australia	0.5%	0.55	0.18	3.09
66	PROGRESSIVE CORP.	Insurance	PROPERTY & CASUALTY INSURANCE	United States	1.8%	1.85	0.60	3.08
67	NORDSTROM INC.	Retailing	DEPARTMENT STORES	United States	4.3%	4.39	1.43	3.08
68	PALL CORP.	Capital Goods	INDUSTRIAL MACHINERY	United States	6.7%	6.95	2.26	3.07
69	CHINA AGRI-INDUSTRIES	Food Beverage & Tobacco	AGRICULTURAL PRODUCTS	China	13.4%	13.86	4.52	3.06
70	ADITYA BIRLA NUVO LTD.	Capital Goods	INDUSTRIAL CONGLOMERATES	India	1.7%	1.79	0.58	3.06
71	SPECTRA ENERGY CORP.	Energy	OIL & GAS STORAGE & TRANSPORTATION	United States	2.1%	2.12	0.70	3.04
72	ABC-MART INC.	Retailing	APPAREL RETAIL	Japan	0.5%	0.52	0.17	3.04
73	PANDORA A/S	Consumer Durables & Ap.	APPAREL, ACCESSORIES & LUXURY	Denmark	3.8%	3.90	1.30	2.99
74	MOSAIC CO.	Materials	FERTILIZERS & AGRICULTURAL CHEM.	United States	5.5%	5.71	1.91	2.99
75	KUNLUN ENERGY CO. LTD.	Energy	OIL & GAS EXPLORATION & PRODUCTION	China	1.3%	1.38	0.46	2.98
76	CHINA SHINEWAY PHARMA.	Pharmaceuticals Bio.	PHARMACEUTICALS	China	1.5%	1.54	0.52	2.98
77	CITY DEVELOPMENTS LTD.	Real Estate	DIVERSIFIED REAL ESTATE ACTIVITIES	Singapore	2.0%	2.12	0.71	2.97
78	AGCO CORP.	Capital Goods	CONSTRUCTION & FARM MACHINERY	United States	4.3%	4.39	1.49	2.96
79	CALTEX AUSTRALIA LTD.	Energy	OIL & GAS REFINING & MARKETING	Australia	0.5%	0.55	0.19	2.94
80	CF INDUSTRIES HOLDINGS	Materials	FERTILIZERS & AGRICULTURAL CHEM.	United States	5.4%	5.60	1.91	2.93
81	BG GROUP PLC	Energy	INTEGRATED OIL & GAS	UK	3.1%	3.17	1.10	2.89
82	YANGZIJANG SHIPBUILDING	Capital Goods	CONSTRUCTION & FARM MACHINERY	Singapore	1.1%	1.11	0.39	2.87
83	SAFEWAY INC.	Food & Staples Retailing	FOOD RETAIL	United States	5.4%	5.55	1.95	2.85
84	NORDEA BANK AB	Banks	DIVERSIFIED BANKS	Sweden	5.7%	5.84	2.05	2.85
85	OVERSEA-CHINESE BANK.	Banks	DIVERSIFIED BANKS	Singapore	1.7%	1.74	0.61	2.84
86	GUNMA BANK LTD.	Banks	REGIONAL BANKS	Japan	0.9%	0.92	0.33	2.83
87	NEWMONT MINING CORP.	Materials	GOLD	United States	0.3%	0.30	0.11	2.82
88	YASKAWA ELECTRIC CORP.	Technology Hardware	ELECTRONIC COMPONENTS	Japan	1.3%	1.39	0.49	2.81
89	NETFLIX INC.	Retailing	INTERNET RETAIL	United States	2.8%	2.91	1.04	2.81
90	SWISSCOM AG	Telecom. Services	INTEGRATED TELECOMMUNICATION SERV.	Switzerland	5.4%	5.58	2.00	2.80
91	SAMSUNG ELECTRONICS	Semiconductors & Equip.	SEMICONDUCTORS	Korea	2.1%	2.13	0.77	2.79
92	CAMERON INTERNATIONAL	Energy	OIL & GAS EQUIPMENT & SERVICES	United States	1.3%	1.35	0.49	2.78
93	HINO MOTORS LTD.	Capital Goods	CONSTRUCTION & FARM MACHINERY	Japan	1.5%	1.56	0.57	2.75
94	BECTON DICKINSON & CO.	Health Care Equipment	HEALTH CARE EQUIPMENT	United States	2.8%	2.87	1.05	2.74
95	TOYO SUISAN KAISHA LTD.	Food Beverage & Tobacco	PACKAGED FOODS & MEATS	Japan	1.0%	1.05	0.39	2.72
96	BANK OF CYPRUS PCL	Banks	DIVERSIFIED BANKS	Greece	6.2%	6.38	2.35	2.71
97	SANTOS LTD.	Energy	OIL & GAS EXPLORATION & PRODUCTION	Australia	1.2%	1.26	0.46	2.71
98	GILEAD SCIENCES INC.	Pharmaceuticals	BIOTECHNOLOGY	United States	1.1%	1.18	0.44	2.71
99	DOOSAN INFRACORE CO.	Capital Goods	INDUSTRIAL MACHINERY	Korea	0.1%	0.09	0.04	2.67
100	PLUM CREEK TIMBER	Real Estate	SPECIALIZED REITS	United States	0.8%	0.79	0.30	2.65

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

Top-down view: SRI matters for sector allocations

Analysing market value held by SRI mutual funds, data on stocks from the MSCI AC World Index and aggregating it at sector (GICS) level, we draw a very clear “map” of what SRI investors regard as “sustainable and investable” sectors. As we do not have access to historical data, we cannot say whether the SRI allocation is volatile, i.e. changes significantly every month, quarter or year. Intuitively speaking, given the long-term time horizon of many SRI investors, we believe it is reasonable to expect sector allocations to be fairly stable.

Chart 2: MSCI AC World sector allocation and BofAML SRI Consensus sector allocations



Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

GICS1 level, Utilities & Industrials dominate

Although there are some discrepancies between regions, the overall message from aggregated SRI money analysed at the GIC1 sector level is clear – SRI has a strong environmental focus with the most widely held sectors involved in eco-efficient products, technologies and solutions. Utilities are, on average, over-allocated by a factor of 1.67x, while Energy and Finance are under-allocated by factors of 0.76x and 0.79x, respectively.

Table 3: Sector (GICS1) allocation by SRI investors – market-cap weighting factors

Sector (GICS1)	AFRICA/MIDEAST	ASIA/PACIFIC EX JAPAN	EUROPE	JAPAN	LATIN AMERICA	NORTH AMERICA	Grand Total
Utilities		2.89	1.56	1.96	4.89	1.04	1.67
Industrials	0.76	0.82	1.47	1.40	1.79	1.43	1.49
Consumer Staples	4.23	1.06	0.71	1.17	0.93	1.32	1.06
Materials	0.21	0.95	1.14	1.03	0.24	0.90	1.03
Average	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Health Care	0.89	1.21	0.87	0.77	2.03	0.95	0.98

Table 3: Sector (GICS1) allocation by SRI investors – market-cap weighting factors

Sector (GICS1)	AFRICA/MIDEAST	ASIA/PACIFIC EX JAPAN	EUROPE	JAPAN	LATIN AMERICA	NORTH AMERICA	Grand Total
Telecommunication Services	0.24	1.41	0.95	0.66	0.52	0.60	0.97
Consumer Discretionary	0.96	0.99	0.83	0.92	1.09	1.15	0.96
Information Technology	0.10	0.96	1.15	0.98	0.42	1.14	0.92
Financials	0.77	0.90	0.89	0.70	0.87	0.70	0.79
Energy	2.53	0.76	0.88	0.57	0.17	0.67	0.76

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

GICS2 level, greater variation

At GICS2 level, the SRI allocation factor ranges from highs of 1.88x for Commercial & Professional Services and 1.67x for Utilities to lows of 0.35x for Real Estate and 0.72x for Auto.

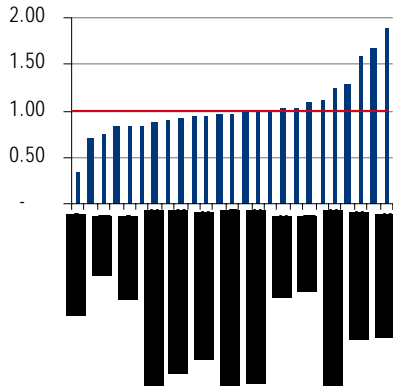
Table 4: Industry Group (GICS2) allocation by SRI investors – market-cap weighting factors

Sector (GICS2)	AFRICA/MIDEAST	ASIA/PACIFIC EX JAPAN	EUROPE	JAPAN	LATIN AMERICA	NORTH AMERICA	Grand Total
Commercial & Professional Services			1.66	1.15	0.90	2.50	1.88
Utilities			2.89	1.56	1.96	4.89	1.67
Capital Goods	0.73		0.74	1.60	1.41	0.66	1.45
Household & Personal Products			1.47	0.83	1.26	1.94	1.72
Consumer Durables & Apparel	0.35		4.32	0.77	1.26	0.55	1.66
Food & Staples Retailing	3.83		0.73	1.08	1.55	0.28	1.20
Retailing	2.51		0.82	1.40	0.52	1.94	1.18
Health Care Equipment & Services	0.15		1.66	1.36	0.59	2.03	1.09
Materials	0.21		0.95	1.14	1.03	0.24	0.90
Average	1.00		1.00	1.00	1.00	1.00	1.00
Consumer Services			0.28	0.92	4.59	1.32	1.27
Food Beverage & Tobacco	5.08		1.15	0.62	0.95	0.93	1.23
Telecommunication Services	0.24		1.41	0.95	0.66	0.52	0.60
Technology Hardware & Equipment			0.51	1.77	1.17		1.10
Pharmaceuticals Biotechnology & Life Sciences	1.11		1.00	0.80	0.82		0.86
Banks	1.10		1.02	1.05	0.64	0.80	0.65
Semiconductors & Semiconductor Equipment			1.32	0.91	0.57		1.25
Transportation	1.03		0.94	0.87	1.51	2.16	1.00
Software & Services	0.10		0.86	0.73	0.49	0.42	1.15
Diversified Financials	0.27		0.43	0.77	0.55	0.66	0.99
Insurance	0.32		1.13	0.81	1.25	0.23	0.59
Media	0.20		0.63	0.92	0.94	0.00	0.84
Energy	2.53		0.76	0.88	0.57	0.17	0.67
Automobiles & Components			0.89	0.46	0.83		1.27
Real Estate	0.00		0.62	0.36	0.55	1.72	0.36

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

Three climate change and energy-efficiency exposed sectors lag

Chart 3: SRI Sector factor (GICS2)



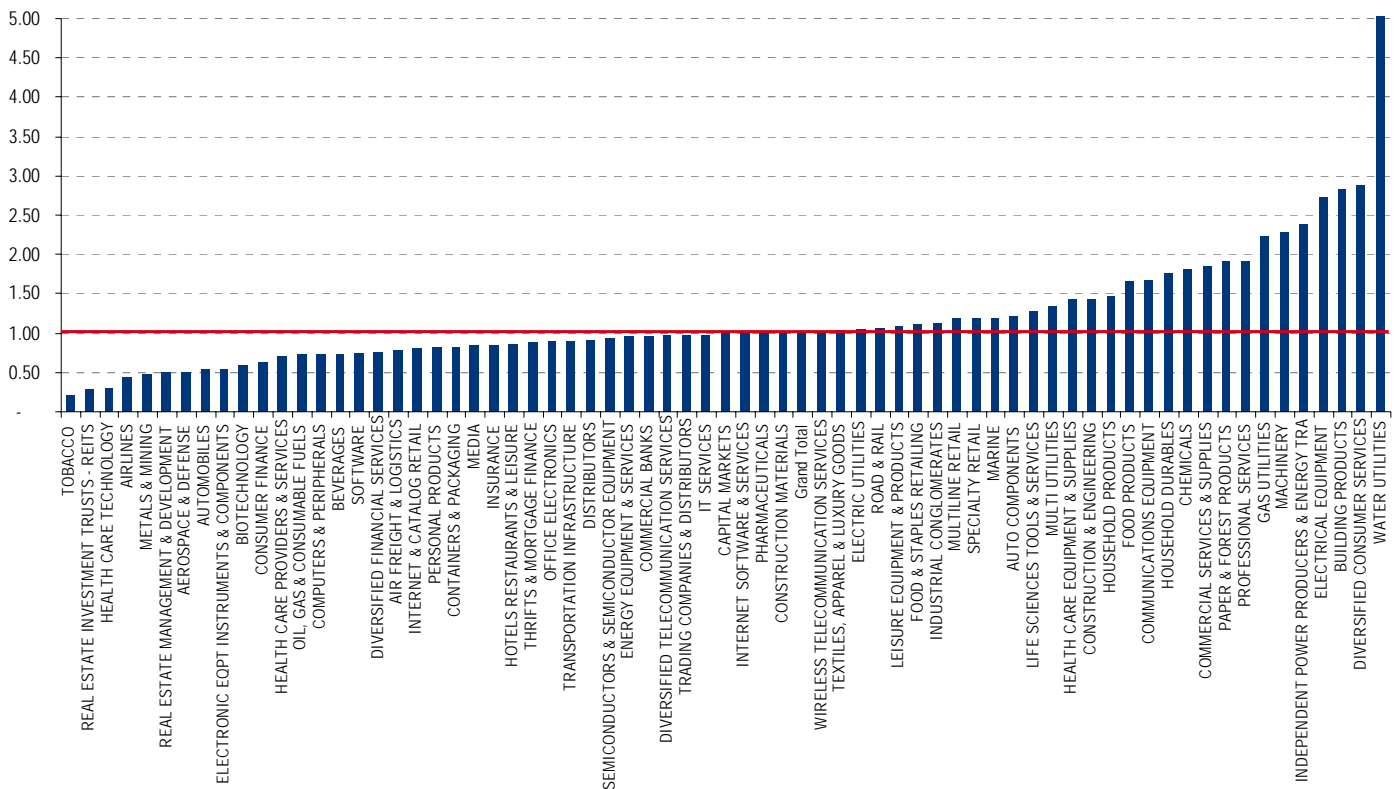
Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

We note that at GICS2 level, three sectors with a major role in the struggle to arrest/reverse climate change and the development of greater energy efficiency are clearly lagging in terms of aggregated sector allocations by SRI investors: Energy (SRI Weighting Factor of 0.76x), Automobile & Components (0.72x) and Real Estate (0.35x). Combining SRI sector allocation factors and the weight of sectors in traditional benchmarks, the picture is slightly different, with two sectors taking the lion's share of the reallocation (Cap Goods and Utilities) to the detriment of the Energy sector.

GICS3 & GICS4 level, even greater variation

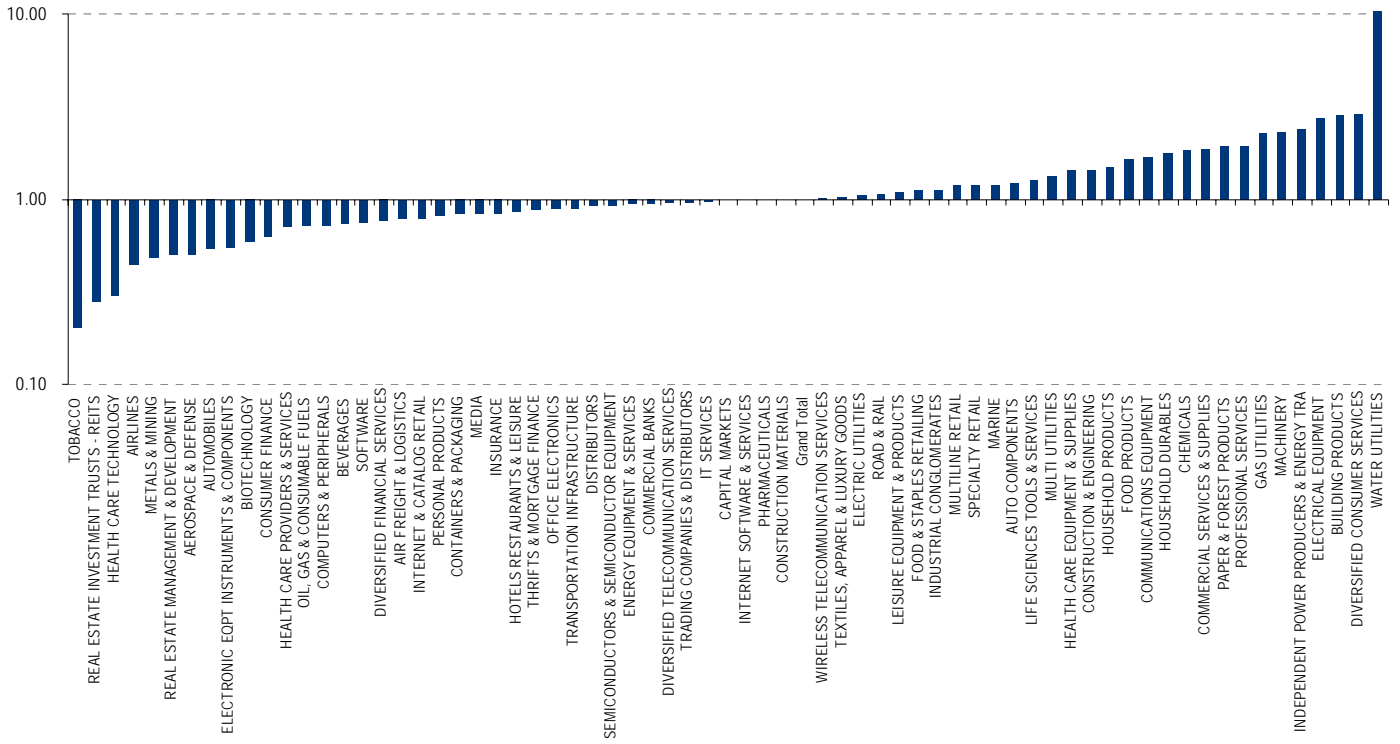
Deeper drilling of the data both at industry and sub-industry levels shows greater variations, gaps and intra-sector differences. Tobacco ends up at the bottom of the heap, with its capital allocation divided by 5x approximately. Water Utilities drives the Utilities positive allocation, with an impressive SRI Factor of 13x. For the Automotive sector, there is a clear preference for equipment suppliers (auto components at 1.2x) with car manufacturers being underweighted by a factor of 0.54x.

Chart 4: Industry group (GICS3) allocation by SRI investors – market-cap weighting factors



Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

Chart 5: Industry Group (GICS3) Allocation by SRI Investors – market-cap weighting factors – logarithmic scale



Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

SRI allocation & sector performance, it doesn't hurt

To analyse whether SRI sector allocations are positive from the perspective of long-term sector performance, we have looked at sectoral performance for every cluster of GICS3 industry groups, over three time periods (-1Y, -3Y, and -5Y). Overall, the correlation is low, though there is no negative correlation. With only one set of SRI data to analyse, it is not possible to characterise the evolution of the SRI allocation.

Chart 6: Sector (GICS3) – Perf -1Y & SRI Factor

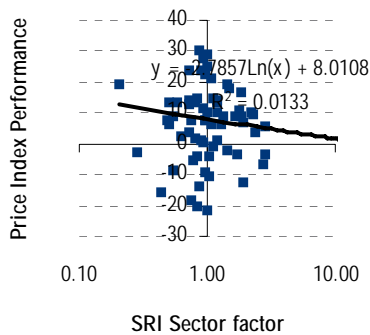


Chart 7: Sector (GICS3) – Perf -3Y & SRI Factor

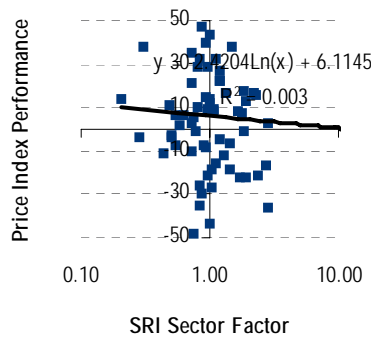
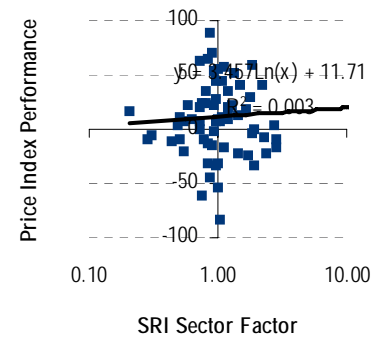


Chart 8: Sector (GICS3) – Perf -5Y & SRI Factor



Source: BofA Merrill Lynch Global Research, Datastream (8/09/2011)

Source: BofA Merrill Lynch Global Research, Datastream (8/09/2011)

Source: BofA Merrill Lynch Global Research, Datastream (8/09/2011)

Table 5: SRI top/least preferred GICS and sector performance

	SRI Factor	PERF -1Y	PERF -3Y	PERF -5Y
TOBACCO	0.20	19.0	13.8	17.3
REITS	0.28	-3.0	-3.6	-9.8
HEALTH CARE TECH.	0.30	68.8	37.6	-5.5
AIRLINES	0.44	-15.7	-11.4	-11.7
METALS & MINING	0.48	7.8	11.3	4.2
REAL ESTATE	0.50	13.3	-4.0	-10.0
AEROSPACE & DEF.	0.50	6.1	-2.9	10.6
AUTOMOBILES	0.54	8.7	6.9	8.2
ELECTRONIC EQPT	0.54	-8.8	-7.4	-20.6
BIOTECHNOLOGY	0.59	13.7	1.9	22.4
CHEMICALS	1.82	16.8	17.5	59.2
COM. SERVICES	1.86	9.2	-1.3	-4.4
PAPER & FOREST	1.91	-12.5	-22.4	-32.8
GAS UTILITIES	2.24	10.0	16.9	41.6
MACHINERY	2.29	9.7	15.6	-6.7
INDEP. POWER	2.38	3.8	-21.4	-23.0
ELECT. EQUIPMENT	2.73	-7.0	-16.8	3.8
BUILDING PRODUCTS	2.82	5.7	2.5	-9.8
DIV. CONSUMER	2.89	-3.3	-35.8	-16.5
WATER UTILITIES	14.98	10.8	19.1	41.3

Source: BofA Merrill Lynch Global Research

SRI capital flows are significant for “liked” and “disliked” sectors

Stock appreciation does not only depend on a company's performance, but also on money coming into the stock. Appealing to SRI investors might attract an additional capital allocation for a whole sector or stocks.

Up to +1.86% to -0.77% of gains & losses in capital allocation

As SRI fund holdings account for only 0.97% of the market value of the proportion of the MSCI AC World Index held by mutual funds, an SRI Sector Factor of 15.0x means that SRI funds weights $15.0 * 0.97 = 14.5\%$ of the market cap in the considered sector. In other words, it is 13.5% of additional market value (14.5% – 1%) to the considered sector. However, the SRI sector allocation is still quite close to the benchmark and losses or gains in capital allocation vary from -0.77% (Tobacco) to +1.86% (Diversified Consumer Services).

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Table 6: SRI weighting factors at GICS3 and GICS4 levels

Sector (GICS3)	GICS3	Sector (GICS4)	GICS4
TOBACCO	0.20	TOBACCO	0.20
REAL ESTATE INVESTMENT TRUSTS - REITS	0.28	RESIDENTIAL REITS	0.18
		SPECIALIZED REITS	0.21
		OFFICE REITS	0.23
		REAL ESTATE INVESTMENT TRUSTS - REITS	0.28
		RETAIL REITS	0.28
		INDUSTRIAL REITS	0.35
		DIVERSIFIED REITS	0.38
		MORTGAGE REITS	1.02
HEALTH CARE TECHNOLOGY	0.30	HEALTH CARE TECHNOLOGY	0.30
AIRLINES	0.44	AIRLINES	0.44
METALS & MINING	0.48	GOLD	0.14
		PRECIOUS METALS & MINERALS	0.30
		METALS & MINING	0.48
		STEEL	0.53
		DIVERSIFIED METALS & MINING	0.63
		ALUMINUM	2.37
REAL ESTATE MANAGEMENT & DEVELOPMENT	0.50	REAL ESTATE DEVELOPMENT	0.26
		REAL ESTATE OPERATING COMPANIES	0.39
		DIVERSIFIED REAL ESTATE ACTIVITIES	0.48
		REAL ESTATE MANAGEMENT & DEVELOPMENT	0.50
		REAL ESTATE SERVICES	3.90
AEROSPACE & DEFENSE	0.50	AEROSPACE & DEFENSE	0.50
AUTOMOBILES	0.54	AUTOMOBILE MANUFACTURERS	0.52
		AUTOMOBILES	0.54
		MOTORCYCLE MANUFACTURERS	0.80
ELECTRONIC EQPT INSTRUMENTS & COMPONENTS	0.54	ELECTRONIC MANUFACTURING SERVICES	0.23
		TECHNOLOGY DISTRIBUTORS	0.28
		ELECTRONIC COMPONENTS	0.54
		ELECTRONIC EQPT INSTRUMENTS & COMPONENTS	0.54
		ELECTRONIC EQUIPMENT & INSTRUMENTS	0.88
BIOTECHNOLOGY	0.59	BIOTECHNOLOGY	0.59
CONSUMER FINANCE	0.63	CONSUMER FINANCE	0.63
HEALTH CARE PROVIDERS & SERVICES	0.71	HEALTH CARE FACILITIES	0.47
		HEALTH CARE DISTRIBUTORS	0.62
		MANAGED HEALTH CARE	0.65
		HEALTH CARE PROVIDERS & SERVICES	0.71
		HEALTH CARE SERVICES	0.86
OIL, GAS & CONSUMABLE FUELS	0.73	COAL & CONSUMABLE FUELS	0.32
		OIL & GAS REFINING & MARKETING	0.37
		OIL & GAS EXPLORATION & PRODUCTION	0.65
		OIL, GAS & CONSUMABLE FUELS	0.73
		OIL & GAS STORAGE & TRANSPORTATION	0.73
		INTEGRATED OIL & GAS	0.82
COMPUTERS & PERIPHERALS	0.73	COMPUTER HARDWARE	0.70
		COMPUTERS & PERIPHERALS	0.73
		COMPUTER STORAGE & PERIPHERALS	0.82
BEVERAGES	0.73	DISTILLERS & VINTNERS	0.58
		BREWERS	0.71
		BEVERAGES	0.73
		SOFT DRINKS	0.80
SOFTWARE	0.75	HOME ENTERTAINMENT SOFTWARE	0.17
		SYSTEMS SOFTWARE	0.58
		SOFTWARE	0.75
SOFTWARE	0.75	APPLICATION SOFTWARE	1.24
DIVERSIFIED FINANCIAL SERVICES	0.76	SPECIALISED FINANCE	0.54
		OTHER DIVERSIFIED FINANCIAL SERVICES	0.69
		DIVERSIFIED FINANCIAL SERVICES	0.76
		MULTI-SECTOR HOLDINGS	1.71
AIR FREIGHT & LOGISTICS	0.79	AIR FREIGHT & LOGISTICS	0.79

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Table 6: SRI weighting factors at GICS3 and GICS4 levels

Sector (GICS3)	GICS3	Sector (GICS4)	GICS4
INTERNET & CATALOG RETAIL	0.79	CATALOG RETAIL	0.13
		INTERNET & CATALOG RETAIL	0.79
		INTERNET RETAIL	0.84
PERSONAL PRODUCTS	0.81	PERSONAL PRODUCTS	0.81
CONTAINERS & PACKAGING	0.83	PAPER PACKAGING	0.43
		CONTAINERS & PACKAGING	0.83
		METAL & GLASS CONTAINERS	1.13
MEDIA	0.83	MOVIES & ENTERTAINMENT	0.45
		CABLE & SATELLITE	0.48
		MEDIA	0.83
		BROADCASTING	1.14
		ADVERTISING	1.78
		PUBLISHING	1.89
INSURANCE	0.83	INSURANCE BROKERS	0.30
		LIFE & HEALTH INSURANCE	0.70
		PROPERTY & CASUALTY INSURANCE	0.71
		INSURANCE	0.83
		REINSURANCE	1.01
		MULTI-LINE INSURANCE	1.16
HOTELS RESTAURANTS & LEISURE	0.86	CASINOS & GAMING	0.41
		HOTELS RESTAURANTS & LEISURE	0.86
		RESTAURANTS	0.91
		LEISURE FACILITIES	0.93
		HOTELS, RESORTS & CRUISE LINES	1.36
THRIFTS & MORTGAGE FINANCE	0.87	THRIFTS & MORTGAGE FINANCE	0.87
OFFICE ELECTRONICS	0.89	OFFICE ELECTRONICS	0.89
TRANSPORTATION INFRASTRUCTURE	0.90	AIRPORT SERVICES	0.51
		HIGHWAYS & RAIL TRACKS	0.73
		TRANSPORTATION INFRASTRUCTURE	0.90
		MARINE PORTS & SERVICES	1.55
DISTRIBUTORS	0.92	DISTRIBUTORS	0.92
SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT	0.93	SEMICONDUCTORS	0.89
		SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT	0.93
		SEMICONDUCTOR EQUIPMENT	1.26
ENERGY EQUIPMENT & SERVICES	0.95	OIL & GAS EQUIPMENT & SERVICES	0.91
		ENERGY EQUIPMENT & SERVICES	0.95
		OIL & GAS DRILLING	1.11
COMMERCIAL BANKS	0.95	REGIONAL BANKS	0.61
		COMMERCIAL BANKS	0.95
		DIVERSIFIED BANKS	0.97
PHARMACEUTICALS Total	0.95	PHARMACEUTICALS	0.99
LIFE SCIENCES TOOLS & SERVICES Total	0.95	LIFE SCIENCES TOOLS & SERVICES	1.27
DIVERSIFIED TELECOMMUNICATION SERVICES	0.96	INTEGRATED TELECOMMUNICATION SERVICES	0.96
		DIVERSIFIED TELECOMMUNICATION SERVICES	0.96
		ALTERNATIVE CARRIERS	1.29
TRADING COMPANIES & DISTRIBUTORS	0.97	TRADING COMPANIES & DISTRIBUTORS	0.97
IT SERVICES	0.98	DATA PROCESSING & OUTSOURCED SERVICES	0.89
		IT SERVICES	0.98
		IT CONSULTING & OTHER SERVICES	1.04
CAPITAL MARKETS	0.98	INVESTMENT BANKING & BROKERAGE	0.47
		CAPITAL MARKETS	0.98
		DIVERSIFIED CAPITAL MARKETS	1.01
		ASSET MANAGEMENT & CUSTODY BANKS	1.34
INTERNET SOFTWARE & SERVICES	0.99	INTERNET SOFTWARE & SERVICES	0.99
PHARMACEUTICALS	0.99	PHARMACEUTICALS	0.99
CONSTRUCTION MATERIALS	1.00	CONSTRUCTION MATERIALS	1.00
Grand Total	1.00	Grand Total	1.00
WIRELESS TELECOMMUNICATION SERVICES	1.01	WIRELESS TELECOMMUNICATION SERVICES	1.01
TEXTILES, APPAREL & LUXURY GOODS	1.03	TEXTILES	0.22
		APPAREL, ACCESSORIES & LUXURY GOODS	0.90
		TEXTILES, APPAREL & LUXURY GOODS	1.03
		FOOTWEAR	1.68

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Table 6: SRI weighting factors at GICS3 and GICS4 levels

Sector (GICS3)	GICS3	Sector (GICS4)	GICS4
ELECTRIC UTILITIES	1.04	ELECTRIC UTILITIES	1.04
ROAD & RAIL	1.06	RAILROADS	1.03
		ROAD & RAIL	1.06
		TRUCKING	1.36
LEISURE EQUIPMENT & PRODUCTS	1.08	PHOTOGRAPHIC PRODUCTS	0.24
		LEISURE EQUIPMENT & PRODUCTS	1.08
		LEISURE PRODUCTS	1.22
FOOD & STAPLES RETAILING	1.11	HYPERMARKETS & SUPER CENTERS	0.79
		DRUG RETAIL	0.97
		FOOD & STAPLES RETAILING	1.11
		FOOD DISTRIBUTORS	1.36
		FOOD RETAIL	1.45
INDUSTRIAL CONGLOMERATES	1.13	INDUSTRIAL CONGLOMERATES	1.13
MULTILINE RETAIL	1.18	DEPARTMENT STORES	1.02
		MULTILINE RETAIL	1.18
		GENERAL MERCHANDISE STORES	1.45
SPECIALTY RETAIL	1.18	HOME FURNISHING RETAIL	0.48
		HOME IMPROVEMENT RETAIL	0.71
		AUTOMOTIVE RETAIL	0.71
		COMPUTER & ELECTRONICS RETAIL	0.75
		SPECIALTY RETAIL	1.18
		SPECIALTY STORES	1.33
		APPAREL RETAIL	1.68
MARINE	1.19	MARINE	1.19
AUTO COMPONENTS	1.21	TIRES & RUBBER	1.21
		AUTO COMPONENTS	1.21
		AUTO PARTS & EQUIPMENT	1.22
MULTI UTILITIES	1.34	MULTI UTILITIES	1.34
HEALTH CARE EQUIPMENT & SUPPLIES	1.42	HEALTH CARE EQUIPMENT	1.33
		HEALTH CARE EQUIPMENT & SUPPLIES	1.42
		HEALTH CARE SUPPLIES	2.35
CONSTRUCTION & ENGINEERING	1.43	CONSTRUCTION & ENGINEERING	1.43
HOUSEHOLD PRODUCTS	1.47	HOUSEHOLD PRODUCTS	1.47
BUILDING PRODUCTS Total	1.60	BUILDING PRODUCTS	2.82
FOOD PRODUCTS	1.65	PACKAGED FOODS & MEATS	1.36
		FOOD PRODUCTS	1.65
		AGRICULTURAL PRODUCTS	4.53
COMMUNICATIONS EQUIPMENT	1.69	COMMUNICATIONS EQUIPMENT	1.69
HOUSEHOLD DURABLES	1.76	CONSUMER ELECTRONICS	0.67
		Homebuilding	0.72
		HOUSEHOLD DURABLES	1.76
		HOUSEWARES & SPECIALTIES	1.76
		HOME FURNISHINGS	3.23
		HOUSEHOLD APPLIANCES	4.66
CHEMICALS	1.82	COMMODITY CHEMICALS	0.46
		DIVERSIFIED CHEMICALS	0.90
		INDUSTRIAL GASES	1.67
		CHEMICALS	1.82
		FERTILIZERS & AGRICULTURAL CHEMICALS	2.46
		SPECIALTY CHEMICALS	3.01
COMMERCIAL SERVICES & SUPPLIES	1.86	COMMERCIAL PRINTING	0.91
		OFFICE SERVICES & SUPPLIES	1.02
		SECURITY & ALARM SERVICES	1.16
		DIVERSIFIED SUPPORT SERVICES	1.19
		COMMERCIAL SERVICES & SUPPLIES	1.86
		ENVIRONMENTAL & FACILITIES SERVICES	3.18
PAPER & FOREST PRODUCTS	1.91	FOREST PRODUCTS	0.31
		PAPER & FOREST PRODUCTS	1.91
		PAPER PRODUCTS	2.05
PROFESSIONAL SERVICES	1.91	HUMAN RESOURCE & EMPLOYMENT SERVICES	1.01
		PROFESSIONAL SERVICES	1.91
		RESEARCH & CONSULTING SERVICES	2.43

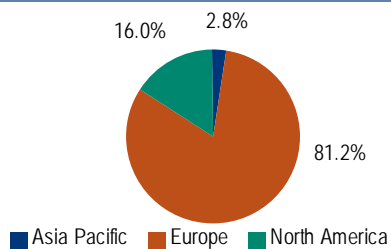
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Table 6: SRI weighting factors at GICS3 and GICS4 levels

Sector (GICS3)	GICS3	Sector (GICS4)	GICS4
GAS UTILITIES	2.24	GAS UTILITIES	2.24
MACHINERY	2.29	CONSTRUCTION & FARM MACHINERY & HEAVY TR MACHINERY	1.62 2.29
		INDUSTRIAL MACHINERY	2.76
INDEPENDENT POWER PRODUCERS & ENERGY TRA	2.38	INDEPENDENT POWER PRODUCERS & ENERGY TRA	2.38
ELECTRICAL EQUIPMENT	2.73	ELECTRICAL COMPONENTS & EQUIPMENT	2.36
		ELECTRICAL EQUIPMENT	2.73
		HEAVY ELECTRICAL EQUIPMENT	3.46
DIVERSIFIED CONSUMER SERVICES	2.89	SPECIALIZED CONSUMER SERVICES	0.21
		DIVERSIFIED CONSUMER SERVICES	2.89
		EDUCATION SERVICES	3.93
WATER UTILITIES	14.98	WATER UTILITIES	14.98

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

Chart 9: Proportion of SRI Disclosing Funds



Source: BofA Merrill Lynch Global Research.

Appendix 1: the top 500 SRI funds

Our starting point was to identify the greatest number of funds that could be reasonably perceived as SRI-oriented. This is not as easy as it sounds as there is:

- no “official” definition of SRI or SRI funds;
- no international register for SRI funds, despite the fact that SRI asset managers largely adhere to the United Nations’ Principles for Responsible Investment (PRI), but signatures are at corporate rather than fund level; and
- no legal framework – global, regional or local – enabling third parties to identify SRI funds.

SRI fund selection criteria

Despite the lack of clear, objective, well-accepted definitions and delineations, we believe that it is possible to select funds under the SRI rubric on the following basis:

- The fund is self-marketed by the asset manager as SRI or SRI-friendly;
- Fund name contains some objective “clues” of an SRI orientation, mainly via the usage of “buzzwords” typical of SRI interests/concerns such as:
 1. Responsible, ethical, sustainable, citizenship, stewardship, solidarity, etc.
 2. ESG (environmental, social or governance), green, ecology, planet, human, industries of the future etc.
 3. Agriculture, bottom of the pyramid, climate change, demographics, education, energy efficiency, renewables, safety, waste and water.

Started with 1,344 SRI-oriented funds globally

Using this approach and various databases including Bloomberg, Lipper/Morningstar and Factset, we came up with an initial list of 1,344 clearly identified funds, that we think could reasonably qualify as SRI-oriented (see table below).

Table 7: SRI funds – access to data

Regions (investors)	Country	# of SRI Funds			% of SRI Funds		
		Disclosing	Non-Disclosing	Grand Total	% Disclosing	% Non Disclosing	Total
Asia Pacific	Australia	8		8	0.6%	0.0%	0.6%
	Japan	14	93	107	1.0%	6.9%	8.0%
Asia Pacific Total		22	93	115	1.6%	6.9%	8.6%
Europe	Austria	22	14	36	1.6%	1.0%	2.7%
	Belgium	18	132	150	1.3%	9.8%	11.2%
	Czech Republic	1		1	0.1%	0.0%	0.1%
	Denmark	30	2	32	2.2%	0.1%	2.4%
	Finland	34	10	44	2.5%	0.7%	3.3%
	France	87	142	229	6.5%	10.6%	17.0%
	Germany	29	8	37	2.2%	0.6%	2.8%
	Ireland	14	3	17	1.0%	0.2%	1.3%
	Italy	9	6	15	0.7%	0.4%	1.1%
	Liechtenstein	8	4	12	0.6%	0.3%	0.9%
	Luxembourg	170	70	240	12.6%	5.2%	17.9%

Table 7: SRI funds – access to data

Regions (investors)	Country	# of SRI Funds			% of SRI Funds		
		Disclosing	Non-Disclosing	Grand Total	% Disclosing	% Non Disclosing	Total
	Netherlands	7	1	8	0.5%	0.1%	0.6%
	Norway	34	24	58	2.5%	1.8%	4.3%
	Spain	17	3	20	1.3%	0.2%	1.5%
	Sweden	63	5	68	4.7%	0.4%	5.1%
	Switzerland	31	11	42	2.3%	0.8%	3.1%
	United Kingdom	64	17	81	4.8%	1.3%	6.0%
	Portugal		3	3	0.0%	0.2%	0.2%
Europe Total		638	455	1093	47.5%	33.9%	81.3%
North America	Canada	1		1	0.1%	0.0%	0.1%
	United States	125	10	135	9.3%	0.7%	10.0%
North America Total		126	10	136	9.4%	0.7%	10.1%
Grand Total		786	558	1344	58.5%	41.5%	100.0%

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Facset

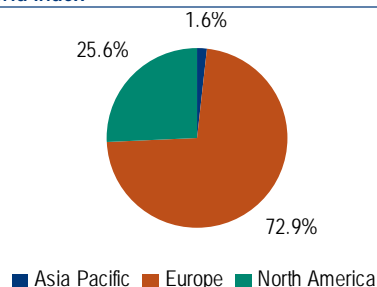
Narrowed to 786 funds disclosing stock components

Of these 1,344 funds, we have been able to identify 786 (58.5%) that give access to the detailed list of their stock components, with at least some equity components. We largely excluded all funds invested only in bonds, monetary or non-equity securities. We note that three countries have more non-disclosing than disclosing funds: France (229 vs. 142), Belgium (132 vs. 18) and Japan (93 vs. 14). These cases aside, the proportion is usually around 80% of disclosure of equity exposure.

SRI funds, US\$126bn of the MSCI All-Countries World Index

Looking at equity assets under management, the AUM figures for the 786 SRI identified funds are approximately US\$126bn of the MSCI AC World Index.

Chart 10: % of SRI assets disclosed in MSCI AC World Index



Source: BofAML Global Research, Bloomberg, Lipper/MorningStar, Facset

Table 8: SRI AUM in MSCI AC World Index

Regions (investors)	Country	Assets under Management	% of total SRI Assets
Asia Pacific	Australia	1,556,272,435	1.2%
	Japan	454,124,415	0.4%
Asia Pacific Total		2,010,396,850	1.6%
Europe	Austria	851,167,608	0.7%
	Belgium	1,775,009,561	1.4%
	Czech Republic	3,823,036	0.0%
	Denmark	6,656,275,140	5.3%
	Finland	3,881,394,131	3.1%
	France	10,682,185,973	8.4%
	Germany	1,396,549,296	1.1%
	Ireland	968,144,988	0.8%
	Italy	453,366,969	0.4%
	Liechtenstein	119,646,350	0.1%
	Luxembourg	27,350,505,414	21.6%
	Netherlands	1,368,544,912	1.1%
	Norway	7,711,384,871	6.1%
	Spain	89,486,123	0.1%
	Sweden	12,421,829,048	9.8%
	Switzerland	3,874,750,910	3.1%
	United Kingdom	12,711,283,087	10.0%
Europe Total		92,315,347,417	72.9%
North America	Canada	22,132,720	0.0%
	United States	32,357,133,752	25.5%
North America Total		32,379,266,472	25.6%
Grand Total		126,705,010,739	100.0%

Source: BofAML Global Research, Bloomberg, Lipper/MorningStar, Facset

Table 9: Proportion of disclosing SRI funds

Regions (investors)	Country	%
Asia Pacific	Australia	1.02%
	Japan	1.78%
Asia Pacific Total		2.80%
Europe	Austria	2.80%
	Belgium	2.29%
	Czech Republic	0.13%
	Denmark	3.82%
	Finland	4.33%
	France	11.07%
	Germany	3.69%
	Ireland	1.78%
	Italy	1.15%
	Liechtenstein	1.02%
	Luxembourg	21.63%
	Netherlands	0.89%
	Norway	4.33%
	Spain	2.16%
	Sweden	8.02%
	Switzerland	3.94%
United Kingdom	8.14%	
Europe Total		81.17%
North America	Canada	0.13%
	United States	15.90%
North America Total		16.03%
Grand Total		100.00%

Source: BofAML Global Research, Bloomberg, Lipper/MorningStar, Factset

European accounts for 73% of the AUM

Clearly the global SRI universe is massively Europe-g geared, with European assets weighing 72.9% of total SRI AUM (81.2% of funds), North America weighing “only” 25.5% AUM (15.9% of funds) and Asia-Pac limited to a very modest 1.6% of AUM (2.8% of funds). We note that European SRI funds tend to be smaller than their counterparts, more numerous and better disclosing (in terms of components).

Top 500 SRI disclosing funds for SRI Consensus

We ultimately restricted our focus to a universe of 500 “representative” funds. By “representative”, we mean any SRI disclosing fund that is large enough in terms of AUM to invest in a large number of stocks and to send a robust signal to companies. We did not select a minimum size or threshold of equity assets as the current economic climate gives little evidence that such a threshold could be stable and the number of funds above such a threshold could vary significantly even in a short period, softening the reliability and stability of the findings.

In that vein, we opted to build our SRI Consensus on the SRI disclosed AUM for the largest 500 funds in our coverage. Statistically, we believe that this number of funds is robust and captures the quintessential nature of SRI assets, investors’ preferences, and geographic specificities. To measure the representativeness of our top 500 funds compared with the total list of SRI disclosing funds, we have calculated the % of assets gathered by the largest 100, 300 and 500 funds, as well as the by all funds above US\$50mn invested in equity (see table below).

With the 100 largest SRI funds, we cover 62.4% of the total SRI disclosed assets, which is already noticeable. The 300 largest would achieve approximately 90% (89.7%). An extra 200 funds adds 7.9% of disclosed assets, up to 97.6%. In other words, the remaining 286 funds account for just 2.4%.

Table 10: % of SRI disclosed assets

Regions (investors)	Country	Top 100 funds	Top 300 funds	Top 500 funds	>US\$50mn funds	Grand total
Asia Pacific	Australia	0.8%	1.1%	1.2%	1.2%	1.2%
	Japan	0.0%	0.2%	0.3%	0.2%	0.4%
Asia Pacific Total		0.8%	1.4%	1.5%	1.4%	1.6%
Europe	Austria	0.0%	0.3%	0.6%	0.5%	0.7%
	Belgium	0.3%	0.9%	1.4%	1.2%	1.4%
	Czech Republic	0.0%	0.0%	0.0%	0.0%	0.0%
	Denmark	3.1%	5.0%	5.2%	5.1%	5.3%
	Finland	0.3%	2.6%	3.0%	2.8%	3.1%
	France	5.0%	7.4%	8.0%	7.8%	8.4%
	Germany	0.0%	0.5%	1.0%	0.8%	1.1%
	Ireland	0.3%	0.6%	0.7%	0.6%	0.8%
	Italy	0.0%	0.3%	0.3%	0.3%	0.4%
	Liechtenstein	0.0%	0.0%	0.1%	0.0%	0.1%
	Luxembourg	13.9%	18.9%	20.9%	20.2%	21.6%
	Netherlands	0.4%	1.0%	1.0%	1.0%	1.1%
	Norway	4.1%	5.6%	6.0%	5.9%	6.1%
	Spain	0.0%	0.0%	0.0%	0.0%	0.1%
	Sweden	5.6%	8.8%	9.7%	9.3%	9.8%
	Switzerland	1.7%	2.6%	3.0%	2.8%	3.1%
United Kingdom	6.1%	9.5%	9.9%	9.7%	10.0%	
Europe Total		40.7%	64.1%	70.8%	68.1%	72.9%
North America	Canada	0.0%	0.0%	0.0%	0.0%	0.0%
	United States	20.9%	24.2%	25.3%	24.8%	25.5%
North America Total		20.9%	24.2%	25.3%	24.8%	25.6%
Grand Total		62.4%	89.7%	97.6%	94.4%	100.0%

Source: BofAML Global Research, Bloomberg, Lipper/MorningStar, Factset

Knowing that the 786 disclosing funds represent 58.5% of the initial 1,344 funds identified by us as SRI, and assuming that the non-disclosing funds are likely to be the same size as the disclosing ones, we'd like our sample to cover at least 50% of the total SRI assets. In that case, taking only the top 100 largest funds would mean taking $62.4\% \times 58.5\% =$ only 36.04%. Only with 300 funds and above have we a reasonable chance of being above the 50% threshold of representativeness.

Table 11: % of SRI money by size of funds

Regions (investors)	Country	Top100 funds	Top300 funds	Top500 funds	>US\$M funds	Grand Total
Asia Pacific	Australia	1.2%	1.3%	1.2%	1.3%	1.2%
	Japan	0.0%	0.2%	0.3%	0.2%	0.4%
Asia Pacific Total		1.2%	1.5%	1.5%	1.5%	1.6%
Europe	Austria	0.0%	0.4%	0.6%	0.5%	0.7%
	Belgium	0.4%	1.0%	1.4%	1.3%	1.4%
	Czech Republic	0.0%	0.0%	0.0%	0.0%	0.0%
	Denmark	5.0%	5.6%	5.3%	5.4%	5.3%
	Finland	0.4%	2.9%	3.0%	3.0%	3.1%
	France	8.1%	8.2%	8.2%	8.3%	8.4%
	Germany	0.0%	0.6%	1.0%	0.8%	1.1%
	Ireland	0.4%	0.7%	0.7%	0.7%	0.8%
	Italy	0.0%	0.3%	0.3%	0.3%	0.4%
	Liechtenstein	0.0%	0.0%	0.1%	0.0%	0.1%
	Luxembourg	22.4%	21.1%	21.5%	21.4%	21.6%
	Netherlands	0.7%	1.1%	1.1%	1.1%	1.1%
	Norway	6.5%	6.3%	6.2%	6.3%	6.1%
	Spain	0.0%	0.0%	0.0%	0.0%	0.1%
	Sweden	8.9%	9.9%	9.9%	9.9%	9.8%
	Switzerland	2.7%	2.9%	3.1%	2.9%	3.1%
United Kingdom	9.8%	10.6%	10.1%	10.3%	10.0%	
Europe Total		65.3%	71.5%	72.5%	72.2%	72.9%
North America	Canada	0.0%	0.0%	0.0%	0.0%	0.0%
	United States	33.5%	27.0%	25.9%	26.3%	25.5%
North America Total		33.5%	27.0%	25.9%	26.3%	25.6%
Grand Total		100.0%	100.0%	100.0%	100.0%	100.0%

Source: BofAML Global Research, Bloomberg, Lipper/MorningStar, Factset

Table 12: Standard deviation for top 500 funds

	standard deviation	ratio
Top100 funds	1.94%	x16
Top300 funds	0.42%	x3.5
Top500 funds	0.12%	x1
Grand Total	0.00%	

Source: BofAML Global Research, Bloomberg, Lipper/MorningStar, Factset

Calculating the gap between the country exposures for the various selections of funds (100, 300, and 500) vs. the full universe of disclosing funds, the standard deviation comes very narrow for the 500 largest funds, at only 0.12%, or 3.5x less than for the largest 300. Opting for the 500 largest funds limits the over-exposure to US funds (by 8.0% for the top 100, 1.5% for the top 300) detrimental to European and Asian funds. For these reasons, we stand by our decision to firmly establish our SRI Consensus based on the top 500 funds

Table 13: Market Cap held by All Disclosing SRI funds and relative weights

Continent	Country	Total	%
Asia	Denmark	895,413,430	0.7%
	Finland	348,741,040	0.3%
	Ireland	7,831,749	0.0%
	Japan	252,860,429	0.2%
	Luxembourg	40,890,197	0.0%
Asia Total		1,545,736,845	1.2%
Europe	Austria	851,167,608	0.7%
	Belgium	1,775,009,561	1.4%
	Czech Republic	3,823,036	0.0%

Table 13: Market Cap held by All Disclosing SRI funds and relative weights

Continent	Country	Total	%
	Denmark	5,186,363,911	4.1%
	Finland	3,271,762,553	2.6%
	France	10,682,185,973	8.4%
	Germany	1,396,549,296	1.1%
	Ireland	916,716,622	0.7%
	Italy	453,366,969	0.4%
	Japan	201,263,986	0.2%
	Liechtenstein	119,646,350	0.1%
	Luxembourg	26,918,737,560	21.2%
	Netherlands	1,368,544,912	1.1%
	Norway	7,711,384,871	6.1%
	Spain	89,486,123	0.1%
	Sweden	12,421,829,048	9.8%
	Switzerland	3,874,750,910	3.1%
	United Kingdom	12,711,283,087	10.0%
	United States	939,618,585	0.7%
Europe Total		90,893,490,961	71.7%
North America	Canada	22,132,720	0.0%
	Denmark	574,497,799	0.5%
	Finland	260,890,538	0.2%
	Ireland	19,023,152	0.0%
	Luxembourg	390,877,657	0.3%
	United States	31,417,515,167	24.8%
North America Total		32,684,937,033	25.8%
Pacific	Australia	1,556,272,435	1.2%
	Ireland	24,573,465	0.0%
Pacific Total		1,580,845,900	1.2%
Grand Total		126,705,010,739	100.0%

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

The different approaches to SRI

The funds analysed by the SRI Consensus take a variety of complementary approaches on ESG issues:

- **Exclusion/negative screening:** exclude companies or sectors that are involved with products, services or activities seen as “controversial” (i.e. alcohol, gaming, pornography, tobacco, weapons).
- **Best in class/positive screening:** select overweight or underweight stocks within sectors based on an analysis of ESG policies, practices, management structures and systems and key performance indicators.
- **Long-term thematic:** invest in long-term “sustainable” growth themes such as agriculture, bottom of the pyramid, demographics, education, energy efficiency, renewables, safety, waste and water.

Sector & stock allocation factors are the key

We have not been able to identify clearly the approach adopted by every fund in our initial universe. We do not believe this to be a limitation given that: i) some funds may adopt two or even three of the approaches listed above, making it difficult to avoid double counting; ii) we do not focus on the consequences for asset managers but on the consequences for companies and their stocks, and for the signal sent to the equity markets; and iii) the different approaches (and sub-approaches) can be summed up in a more mainstream top-down dichotomy – sector allocation and stock selection.

SRI analysed as a top-down process
modifying sector and stock relative
weights

Notwithstanding or minimizing the importance of ESG methodological considerations with regard to SRI funds, our view is that any approach may have two consequences on the composition of a fund:

1. Increasing/decreasing the weight of a sector/sub-sector (allocation effect); and
2. Increasing/decreasing the relative weight of a stock within a sector/subsector.

Of course, decreasing/increasing the weight of one of more stocks – if not compensated within a sector – has an effect in the sector allocation as well. However, it just means that the investor assumes also preference/reluctance for the sector. For instance, dividing by 2 the weight of the stocks of Auto manufacturers has two effects in one: a stock-picking effect vs. the auto component makers; and a sector-allocation effect by reducing the overall weight of the Auto sector.

Our belief is that by applying their priorities and preferences in all imaginable ways, SRI investors tend to modify a benchmark, proposing both a different sector allocation and a different stock selection. Whether this is more sustainable or has a significant effect on companies or not, or whether the SRI funds are consistent is not what matters here. The key point is to understand SRI in all its forms and, broadly speaking, to analyse it objectively as a top-down process modifying sector and stock relative weights (by a certain coefficient to be determined).

Table 14: Effect of SRI main approaches on investment process

	Sector-allocation effect		Stock-picking effect	
	Up	Down	Up	Down
Exclusion / negative screening	NO	YES: exclusion of sectors or sub-sectors	No YES: selection / overweighting of companies for ESG reasons	YES: exclusion within sectors YES: deletion / underweighting of companies for ESG reasons
Best-in-class / positive screening	NO	NO YES: deletion / underweighting of sectors / subsectors without such exposure	YES: selection / overweighting of sectors with such exposure	YES: deletion / underweighting of sectors / subsectors without such exposure
Long-term thematic	YES: selection / overweighting of sectors with such exposure	YES: deletion / underweighting of sectors / subsectors without such exposure	YES: selection / overweighting of sectors with such exposure	YES: deletion / underweighting of sectors / subsectors without such exposure

Source: BofA Merrill Lynch Global Research

We believe that an SRI Consensus makes sense from a company standpoint, asking the question: what is the aggregated effect of all those interactions with the investment process? However, we need to be clear that the SRI Consensus may not eventually be the view of any SRI investor in particular, nor even the view of a majority of SRI investors.

Appendix 2: Quality of data & assumptions

Technically, we have based our calculations on the components as disclosed by the funds at the last available date, provided that the date is not older than 6 months. The data gathered for each fund are number of shares held in each equity security.

SRI money across MSCI AC World Index

Ultimately, cumulating all the amounts held by SRI investors in every stock, we gather a clear view of the percentage held at different aggregated levels. According to our data, the 500 largest SRI funds held almost 1% (0.968%) of the proportion of market value of the MSCI AC World Index held by Mutual Funds. We stress that point since this is different from total market value or even free-float market value. But we believe that we need to compare SRI Mutual funds to Mutual funds in general, in order to be fair. For indicative purposes, our data suggest that in average mutual funds represent a minimum of 35% of Floated Market Value and 28% of market value (non-floated)

Table 15: Market value held by the top 500 largest SRI (disclosing) funds

Sector (GICS1)	AFRICA/MIDEAST	ASIA/PACIFIC EX JAPAN	EUROPE	JAPAN	LATIN AMERICA	NORTH AMERICA	Grand Total
Consumer Discretionary	0.43%	0.51%	1.42%	0.62%	0.43%	0.88%	0.93%
Consumer Staples	1.910%	0.549%	1.217%	0.790%	0.364%	1.007%	1.025%
Energy	1.141%	0.395%	1.496%	0.385%	0.067%	0.514%	0.737%
Financials	0.349%	0.465%	1.516%	0.473%	0.340%	0.534%	0.769%
Health Care	0.403%	0.625%	1.479%	0.525%	0.794%	0.723%	0.945%
Industrials	0.345%	0.424%	2.515%	0.946%	0.701%	1.096%	1.442%
Information Technology	0.045%	0.500%	1.966%	0.666%	0.166%	0.875%	0.893%
Materials	0.095%	0.495%	1.949%	0.697%	0.092%	0.688%	0.997%
Telecommunication Services	0.107%	0.732%	1.617%	0.448%	0.202%	0.457%	0.942%
Utilities		1.497%	2.661%	1.330%	1.916%	0.795%	1.615%
Grand Total	0.452%	0.519%	1.709%	0.677%	0.392%	0.764%	0.968%

Source: BofAML Global Research, Bloomberg, Lipper/MorningStar, Factset

European stocks are more SRI owned

European stocks are clearly more "owned" by SRI investors (1.7% of the Market value held by Mutual Funds), while North American stocks come second (0.76%) and below the global average. Interestingly, SRI money is invested everywhere in the world, and across all sectors (except in Utilities for Africa/Middle East). For all sectors, the European average is above 1%. Globally, only three sectors stand out above 1% of SRI shareholding: Consumer Staples (1.02%), Industrials (1.44%) and Utilities (1.61%). Healthcare does not seem particularly more owned (0.945%), while Financials and Energy are the least "SRI owned" at only 0.77% and 0.74%, respectively.

Limitations and assumptions of the model

Missing funds

Not all SRI funds disclose their components; despite our best efforts, some important SRI flows might therefore be missing. However, limiting ourselves to the top 500 SRI funds which do disclose holdings, and applying a geographic and sector screening allows us to avoid any major skew or bias, at least at stock level. So if the total amount of SRI disclosed assets is obviously below the total amount of all SRI-oriented funds (perhaps by a factor of 2x or more), we can reasonably expect that the relative preferences of SRI investors for companies and sectors are well estimated.

Date of disclosure

SRI components are not all disclosed at the same time. This could lead to an over- or underestimation of the market value for some funds, coupled with outdated information if the components have changed in the meantime. However, we expect that comparing our SRI assets vs. the six-month average market value for the benchmark considerably reduces the risk of over- or underestimation. We suppose that the information disclosed will always lag current day-to-day data, in the meantime – even important factors used to build up financial benchmarks are revised sometimes only on a quarterly or half-year basis (free-float factors for instance).

“Dissensus” inside the consensus

As SRI investors may have different areas of focus and interests, the image captured through the SRI Consensus might obliterate such divergent views and interests, at the sector or company level. Some divergent views could even be self-neutralized. To that point, we would reply that a) investors using financial consensus on estimates face the same situation, and b) it is very likely, based on our experiences, that the bulk of SRI investors will share some common beliefs at least on activities and sectors; for eg, the need for urgent action against climate change (then a push towards alternative energies and eco-efficiency, the need to speak out against low labour and human rights standards, or a preference for high levels of disclosure on corporate governance practices and standards).

Engagement not measured

If the two previous limitations are purely technical, this one is more about the core of what SRI stands for. So far, we have supposed that any SRI fund “votes with its feet”. In other words, we assume that a preference/dislike for a sector or a company translates into an over-/under-allocation of market capital. However, we reckon there is an alternative and complimentary way of addressing ESG issues, which is engagement. By engagement, we mean all voting processes, active and critical dialogue with companies that an investor is able to carry out. Theoretically, it is possible for an SRI investor to track a whole index without any change in allocation but still advocating some ESG causes to management. We think that shareholder activism can continue in tandem with holding the stocks in the same proportion as an index; for instance, an investor advocating against the development of tar sand exploitation but holding the stock of an oil & gas company. However, in the long run we think investors will vote with their feet, if their concerns appear to be falling on deaf ears. If the company really does not take onboard investors’ remarks or criticism, it is likely that the SRI investor will sell its stocks in the long run. Any idea that that an investor seeking to actively engage with a company might take a (very) significant proportion of the shares is unlikely, we think, in view of the size of those included in such a major financial index as the MSCI AC World Index. In many cases, the actively engaging SRI investor would have the same weighting as the index or less.

Appendix 3: SRI Factors

Purpose of SRI Factors: fair comparison

To make sure that things were comparable, we strive to analyse the % of market value held by top 500 SRI funds in 2 complementary directions:

- The SRI Macro Factor, is explained by: 1) Geography (how much SRI money is allocated to companies from an area); 2) Size (how much SRI money is allocated to this size of company, taking in account the geographic perspective); and 3) Sector (knowing geography and size, how much SRI money is allocated to the specific sector in which the company operates)
- The SRI Stock Factor, specific to the stock, which calculated very simply as resulting from the general SRI weighting divided by the SRI Macro Factor

$$[\text{SRI Stock}] \text{ Factor} = [\text{SRI Weighting}] \text{ Factor} / [\text{SRI Macro}] \text{ factor}$$

SRI Factors explained by examples

For instance let's take companies A and B.

- Company A has 10.4% of its market value held by the top 500 SRI funds.
- For Company B, the percentage is 5.2%.

In order to compare them on a fair basis, we have calculated their SRI Weighting Factor, which is SRI % of their own market value divided by the SRI % of the market value of the index (to date 0.97%). In other words, the SRI Weighting Factor is how much a stock is over/under weighted by SRI investors compared with the average.

Mechanically, Company A has a SRI Weighting Factor of 10.75x and Company B a SRI Weighting Factor of 5.37x.

Now taking into account the respective size, geography and sub-industry group, we can calculate the respective SRI Macro Factor:

For Company A it is 2.24x

- $0.92 \text{ (Geo/Size Factor)} \times 2.42 \text{ (Sub-Industry Factor)} = 2.24$

For Company B it is 1.09x.

- $1.32 \text{ (Geo/Size Factor)} \times 0.82 \text{ (Sub-Industry Factor)} = 1.09$

In the case of Company A, the overweighting of 10.75x is explained by macro factors equivalent to 2.24x. For Company B the Macro Factor would have driven south to some neutral weighting (1.09x).

Finally, as explained earlier, we can calculate the SRI Stock Factor:

- For Company A it is: $10.75 / 2.24 = 4.81x$
- For Company B it is: $5.37 / 1.09 = 4.97x$

Company A and Company B initially seemed to be on two different SRI planets, but when fairly treated they both benefit from the same attention of SRI investors, in their own categories, with an SRI Stock factor very positive almost equal to 5x (meaning 5 times more allocated by SRI factors than any equivalent company).

Size and geographic factors not forgotten

The sector-allocation effect, coupled with the geographic allocation and size allocation, must be taken in account to avoid any skew not relevant at stock level.

As previous data showed, SRI capital is not homogeneously distributed between regions, but furthermore SRI funds themselves are not equally distributed from a geographic standpoint. And even if they were, we should still question how much those funds are internationally open. Many funds may be restricted to investments in specific areas (for instance, UK only, US only or Eurozone only), that might put some stocks at a disadvantage. Major US companies might not be investable at all by European SRI funds because of such restrictions, hence at a disadvantage vs. their European competitors.

We see this disadvantage as unfair from an intra-sector standpoint, which is why we propose splitting the analysis into two steps: first, measuring the macro allocation, second deducing the investor preference at stock level.

Size factors also taken in account

Some may fear that size might interfere with SRI investors' preferences. By experience, we are always fearful of such a size bias, and in a recent study we underlined a strong case that may affect small and mid caps ([European Asset Management, 11 February 2011](#)), in the "SRI – going mainstream" section.

To examine the question, we have split the MSCI AC World Index in four subsets: one with stocks below US\$1bn of market value; one with stocks of US\$1bn to US\$5bn, one with stocks between US\$5bn and US\$10bn, and lastly for all above the US\$10bn market value threshold.

We have found no strong evidence to support the view that SRI funds have subsequently had a detrimental view on small and mid caps – and it could even be the opposite.

Table 16: Size and SRI investors' preferences – geographic areas

Size	AFRICA/MIDEAST	ASIA/PACIFIC EX JAPAN	EUROPE	JAPAN	LATIN AMERICA	NORTH AMERICA	Grand Total
1. X < 1MM	0.76	1.57	1.18	1.26	1.60	0.78	1.03
2. 1MM < X < 5MM	1.22	0.90	1.23	1.04	1.28	1.32	1.16
3. 5MM < X < 10MM	1.12	0.82	1.19	0.57	0.25	1.01	1.02
4. X > 10MM	0.26	0.83	0.81	0.99	0.13	0.86	0.89
Grand Total	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

The Large Caps and Very Large Caps are slightly underinvested (0.83x overall, with 0.81x for European stocks and 0.89x for American ones). However, a specific view on the type of industries may drive the conclusion that this is a consequence of industry choices than a deliberate decision by industry sectors.

The underweighting of (major) Oil & Gas companies, Banks, Insurers, Food & Beverage & Tobacco companies, coupled with a large overweighting of small caps in Utilities, is behind the underinvestment in Large Caps. Our belief is that sector choice comes first and is deliberate, when there is no real choice of market cap (except for tracking error purposes).

Final formula to calculate the Stock SRI factor

The final formula comes very simply as:

$$\text{SRI Factor Stock } i = (\text{SRI Weight Stock } I / \text{Index Weight Stock } i) / (\text{SRI Factor Geo } ik \times \text{SRI Factor Industry } ijk)$$

Where

- SRI Factor_{Stock i} is the SRI Factor to be calculated for Stock I
- SRI Weight_{Stock I} is the weight of Stock I in SRI universe of the top 500 largest SRI disclosing funds

Index Weight_{Stock i} is the weight of Stock I in the relevant financial benchmark, e.g. the MSCI AC World Index

Is the SRI Factor of the relevant to the k-Geographic area to which belongs Stock I

SRI Factor_{Industry ijk} Is the SRI Factor relevant to the jk-(GICS3 level) geo/industry to which belongs Stock I.

Of course, as seen previously,

- $\text{SRI Factor}_{\text{Geo } k} = \text{SRI Weight}_{\text{Area } k} / \text{Index Weight}_{\text{Area } k}$
- $\text{SRI Factor}_{\text{Industry } jk} = \text{SRI Weight}_{\text{Industry } jk} / \text{Index Weight}_{\text{Industry } jk}$

In other words, the SRI Factor proper to any stock is equal to its under/over weighting in the SRI Universe, adjusted by the over/under weighting of its relative industry and geographic area.

Table 17: Size and SRI investors' preferences – industries

Sector (GICS2)	1. X < 1MM	2. 1MM < X < 5MM	3. 5MM < X < 10MM	4. X > 10MM	Grand Total
Automobiles & Components	0.37	0.80	0.89	0.57	0.72
Banks	0.82	0.59	1.46	0.85	0.95
Capital Goods	1.18	2.17	1.48	1.18	1.60
Commercial & Professional Services	0.53	1.74	3.84		1.88
Consumer Durables & Apparel	1.59	1.19	1.21	1.24	1.25
Consumer Services	0.66	1.36	0.73	0.83	0.98
Diversified Financials	1.10	0.85	0.98	0.76	0.84
Energy	0.41	0.91	0.76	0.73	0.76
Food & Staples Retailing	1.00	1.41	0.88	1.03	1.11
Food Beverage & Tobacco	1.28	1.52	1.02	0.77	0.98
Health Care Equipment & Services	1.34	1.35	1.00	0.68	1.04
Household & Personal Products	1.46	1.50	0.91	1.36	1.30
Insurance	1.17	0.81	0.83	0.82	0.83
Materials	0.68	1.22	1.48	0.78	1.03
Media	1.30	1.15	1.38	0.39	0.83
Pharmaceuticals Biotechnology & Life Sciences	0.57	0.88	0.88	0.97	0.95
Real Estate	0.31	0.46	0.21	0.33	0.35
Retailing	0.39	1.02	0.90	1.38	1.09
Semiconductors & Semiconductor Equipment	1.81	0.86	1.02	0.89	0.93
Software & Services	0.65	0.76	0.79	0.94	0.88
Technology Hardware & Equipment	0.45	0.62	0.65	1.19	0.97
Telecommunication Services	0.36	0.86	1.12	0.98	0.97
Transportation	0.71	1.08	0.77	0.87	0.90
Utilities	4.34	1.98	0.99	1.00	1.67
Grand Total	1.03	1.16	1.02	0.89	1.00

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

Of course a pure, rigorous approach would have consisted of comparing SRI fund categories separately: global portfolios altogether; European funds on their side; and Japanese funds in a specific pocket. But still, this solution would have been less elegant and still biased, as SRI money is not equally distributed across the globe. For example, if 70% of global SRI funds are Europe-based, their preferences may very well be driven by a European bias. Or conversely, if European SRI funds invested in Japanese stocks differ in their approach from Japanese funds, why should Japanese stocks held by European SRI investors be seen as less “socially responsible investments” than other Japanese stocks held by SRI Japanese investors? Anyway, at the end of the process, instead of coming to a clear, single view of SRI preferences, we would end up with a series of local SRI preferences.

Splitting the SRI money by regions is neutral and respectful of investors’ choice.

From a company standpoint, the key is to attract investors’ money, wherever they come from and whatever the available amount. Companies know that they have to compete for SRI funds according to SRI investors’ approach, which is still mainly top/down and geographic, in order to attract their money. This view is then fair, until data suggest that SRI money is homogeneously distributed across the globe.

Appendix 4: Sectors in-depth GICS1 level, no real change

We produce the following table of under/over weighting factors, by comparing the top 500 SRI capital allocations with their respective MSCI AC World Index counterparts.

Table 18: SRI over /under allocation factors – GICS1

Sector (GICS1)	AFRICA/MIDEAST	ASIA/PACIFIC EX JAPAN	EUROPE	JAPAN	LATIN AMERICA	NORTH AMERICA	Grand Total
Consumer Discretionary	0.96	0.99	0.83	0.92	1.09	1.15	0.96
Consumer Staples	4.23	1.06	0.71	1.17	0.93	1.32	1.06
Energy	2.53	0.76	0.88	0.57	0.17	0.67	0.76
Financials	0.77	0.90	0.89	0.70	0.87	0.70	0.79
Health Care	0.89	1.21	0.87	0.77	2.03	0.95	0.98
Industrials	0.76	0.82	1.47	1.40	1.79	1.43	1.49
Information Technology	0.10	0.96	1.15	0.98	0.42	1.14	0.92
Materials	0.21	0.95	1.14	1.03	0.24	0.90	1.03
Telecommunication Services	0.24	1.41	0.95	0.66	0.52	0.60	0.97
Utilities		2.89	1.56	1.96	4.89	1.04	1.67
Grand Total	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

Highest variations: Lam Utilities & Africa/ME IT

The biggest variations can be seen for Utilities in Latin America (4.89x) and Information Technology (0.10x) in Africa/Middle East. Our opinion at this stage is that those sectors are over- or under-allocated in capital mainly for thematic investment reasons, with the belief that Utilities in Latin America is a major need and can be achieved using a high proportion of hydro-electricity, while IT in Africa might not be able to completely strongly with global companies. The same kind of Latin America/Africa opposition appears again with the Energy sector (strongly allocated in Africa/Middle East and under-allocated in Latin America).

Consistent under-allocations: Global Financials

Some sectors are consistently under-allocated, like Financials (0.79x on a global basis – ranging from 0.70x to 0.90x across the continents). The Consumer Discretionary sector is strongly under-allocated in Europe (0.83x), while solidly over-allocated in North America (1.15x).

Consistent over-allocations: Developed market Industrials

The Industrials sector is strongly over-allocated in Europe, Japan and North America, but not in emerging countries. As the industrial shift from developed countries to emerging markets has already happened, there are different interpretations of such a discrepancy:

- SRI investors strongly believe that Industrials hold the key to a better, more eco-efficient world.
- Yet, outsourcing towards emerging countries raises a number of social, governance and environmental issues.
- Protecting industrial employment in developed markets is key to the balance and stability of the global economy.

Utilities stands out from all other sectors, especially in emerging areas but also in Europe (1.56x), Japan (1.96x – perhaps a post-Fukushima effect) and North America to a less degree (1.04x – maybe still affected by a high coal and oil profile).

GICS2 level: 0.35x under-allocation to 1.67x over-allocation

Analysis at the GICS2 level shows a diversity of preferences from SRI investors. Utilities clearly benefit from their appetite (1.67x), while Energy suffers from a general disaffection (except in the Middle East and Africa).

Auto is clearly under-allocated

Some industrial sectors are clearly under-allocated, such as Automobiles & Components (0.72x in general, with an astonishing 0.46x in Europe), but with a surprising over-allocation for US companies (1.27x). Knowing that European regulations for this sector are the toughest in the world and that European carmakers are the most advanced in terms of gCO₂/km emissions (see [European Automobiles, 22 November 2010](#)), this is a real paradox. One hypothesis might be a certain reluctance from European investors to invest in a sector seen as “unsustainable per se”, at least until the development of substantial alternatives such as car leasing, car sharing and electrified vehicles.

Table 19: SRI over/under-allocation factors – GICS2

Sector (GICS2)	AFRICA/MIDEAST	ASIA/PACIFIC EX JAPAN	EUROPE	JAPAN	LATIN AMERICA	NORTH AMERICA	Grand Total
Automobiles & Components		0.89	0.46	0.83		1.27	0.72
Banks	1.10	1.02	1.05	0.64	0.80	0.65	0.95
Capital Goods	0.73	0.74	1.60	1.41	0.66	1.45	1.60
Commercial & Professional Services		1.66	1.15	0.90		2.50	1.88
Consumer Durables & Apparel	0.35	4.32	0.77	1.26	0.55	1.66	1.25
Consumer Services		0.28	0.92	4.59	1.32	1.27	0.98
Diversified Financials	0.27	0.43	0.77	0.55	0.66	0.99	0.84
Energy	2.53	0.76	0.88	0.57	0.17	0.67	0.76
Food & Staples Retailing	3.83	0.73	1.08	1.55	0.28	1.20	1.11
Food Beverage & Tobacco	5.08	1.15	0.62	0.95	0.93	1.23	0.98
Health Care Equipment & Services	0.15	1.66	1.36	0.59	2.03	1.09	1.04
Household & Personal Products		1.47	0.83	1.26	1.94	1.72	1.30
Insurance	0.32	1.13	0.81	1.25	0.23	0.59	0.83
Materials	0.21	0.95	1.14	1.03	0.24	0.90	1.03
Media	0.20	0.63	0.92	0.94	0.00	0.84	0.83
Pharmaceuticals Biotechnology & Life Sciences	1.11	1.00	0.80	0.82		0.86	0.95
Real Estate	0.00	0.62	0.36	0.55	1.72	0.36	0.35
Retailing	2.51	0.82	1.40	0.52	1.94	1.18	1.09
Semiconductors & Semiconductor Equipment		1.32	0.91	0.57		1.25	0.93
Software & Services	0.10	0.86	0.73	0.49	0.42	1.15	0.88
Technology Hardware & Equipment		0.51	1.77	1.17		1.10	0.97
Telecommunication Services	0.24	1.41	0.95	0.66	0.52	0.60	0.97
Transportation	1.03	0.94	0.87	1.51	2.16	1.00	0.90
Utilities		2.89	1.56	1.96	4.89	1.04	1.67
Grand Total	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

Unappealing: Financials, Real Estate, Insurance

Banks appear not to appear to suffer from SRI under-allocation (0.95x) – Europe is at one end of the scale Europe (x1.05) and Japan (0.64x) and North America at the other (0.65x). Real estate does not appeal at all to SRI investors (a factor of only 0.35x), save only in Latin America (1.94x). Insurance (0.83x) suffers more than banks. Two exceptions are Japan (1.25x) and Asia (1.13x), driven perhaps by the immaturity of certain local insurance markets, as Asia still has to catch up with other continents.

Pharma is neutral

Pharmaceuticals, perceived a long time ago as one of the most sustainability-friendly sectors (the “care effect”), is rather neutrally affected in terms of allocation (slightly under-allocated at 0.95x), with only African/Middle Eastern stocks benefiting from some sort of interest (1.25x).

Cap goods is strongly over-allocated

Capital goods (1.60x), as a main industrial sector, is strongly over-allocated by SRI investors, especially in European (1.60x), Japanese (1.41x) and North American (1.45x) stocks.

GICS3 level analysis: sector allocation signals

GICS3 is the ultimate level at which we believe the sector-allocation effect must be calculated (69 industries and five geographic areas for 2,400+ stocks). The results are very stretched, sometimes with big discrepancies in the same GICS3 sector.

1) Most liked sectors

The most liked sectors have exposure to solutions for environmental and social challenges.

Utilities: SRI strongly favours Water, Gas & Renewables

For Utilities (1.67x), there is a very strong appetite for Water Utilities (14.99x) and for Gas Utilities (2.24x), while demand for Electric Utilities is more muted (1.04x). All industries directly linked to electric/energy efficiency or alternative powers (pure players in Renewables, Wind, Solar) are strongly over-weighted at 2.74x (electric equipment) and 2.38x, respectively. In the same vein, Household Durables are well supported by SRI investors.

A surprise, Chemicals are well liked

Chemicals' strong position may surprise some given that they are a potential source of toxic releases, major spills and a prevailing symbol of our over-dependency on oil. Regulations such as REACH might also have been thought to put off some investors. But our data show the opposite to be true with SRI investors clearly regarding chemicals as a solution for many sustainability challenges. The overall SRI factor for the industry is largely positive, at 1.82x, with similar figures for European, Japanese and North American stocks as well.

Professional Services are gaining momentum

Professional Services gain momentum, as there is a well-assumed need for better auditing/control services (part of the broad Safety theme), as well as for Education/Human Resources Management companies. The sector is not very big, but the overweighting is strong for European stocks (1.28x) and North American (1.66x).

2) Least liked sectors

It comes as little surprise that the majority of least liked sectors are in "sin stock" areas, traditionally excluded by SRI investors.

Tobacco in last place

For Tobacco: the SRI factor is 0.20x – with record lows of 0.05x for North American stocks and 0.02x for Japanese stocks. European stocks are also very strongly affected with an SRI factor of 0.25x. Only Latin American stocks benefit from a highly surprising (but we are not sure how statistically robust the figures are) 4.70x over-allocation.

Not a lot of thirst for Beverages

Beverages (manufacturers and sellers of alcohol, or soft-drinks producers frequently criticized for compounding the problems of obesity) are under-weighted by SRI investors, at 0.73x, with a much lower weighting in Europe (more alcohol-linked stocks at 0.41x). Only Japan saves its beverage stocks. In the meantime, Food is highly appreciated except for European stocks only at 0.89x. The global SRI factor is at 1.65x, with an outstanding 7.67x for African/Middle East stocks.

Water Utilities is not just over weighted,
but super-sized over-weighted

Aerospace & Defence do not appeal to SRI investors

Aerospace & Defense stocks (weapons and armament manufacturers included) do not appeal to SRI investors. The global SRI factor is only 0.50x, with a record low at 0.36x for European stocks. Beyond exposure to armament and some specific highly controversial weapons (landmines, cluster bombs, etc), this sector might also pay the price for controversial governance practices, due to many connections to governments with a risk of a - highly perceived - level of corruption (see our WDW report on ESG risks [SRI & Sustainability, 07 March 2011](#)).

3) Other “controversial” sectors

Metals & mining, governance concerns

Metals & Mining is likely impacted by some of the same “governance” issues affecting Aerospace & Defence. These companies’ strong presence in controversial countries (see again our WDW report), coupled with a lack of disclosure on ESG practices, and a poor reputation for safety, deter SRI investors. The oligopolistic structure of the sector and its value chain might also undermine the willingness of SRI investors to invest in what is perceived to be a “dirty industry” as the margins of manoeuvre for changing habits may appear limited.

Oil & Gas, poor ESG track record

In many respects, the Oil & Gas sector faces the same sort of hurdles as M&M, with a sustainability track record tarnished by some major spills, pollution cases and accidents (Macondo, Erika, Toulouse/AZF, Exxon Valdez, TCR, pipelines at risk, see our last year report [SRI & Sustainability, 02 December 2010](#)). The SRI factor is going south (except for African/Middle Eastern stocks), at only 0.73x. If Energy seems a major focus for most SRI investors, data suggest that they are not convinced by oil & gas producers, with issues like peak oil prices and risks associated to unconventional oil maybe still to be factored in. Energy Equipment and Services stocks are in a slightly better position, the overall SRI factor being up at 0.95x, with European stocks much more convincing (1.26x).

Financials, REITs & Insurance - SRI investors expecting more

SRI investors appear to expect more of Banks, Insurance and Real Estate. Real Estate Investment Trusts face an astonishing lack of interest, with an overall SRI factor of only 0.28x. Real Estate Management & Development fares only marginally better (0.50x).

Environmental challenges impact perceptions

Industries perceived as potentially hastening climate change are also negatively impacted, while equipment suppliers – holders of the key technologies to mitigate relevant risks – tend to be beneficiaries.

Airlines are strongly underweighted

Airlines are strongly underweighted (SRI factor at 0.44x and negative across the board for all geographic areas). Even though air transport represents only 2% of manmade GHG emissions, the current growth is seen by stakeholders as alarming. This, coupled with limited near-term technological improvement potential, structurally low EBITDA margins and a highly cyclical profile does not help convince SRI investors of the sustainability of the sector, in current conditions at least.

Auto, European & N. American OEMs are under-weighted

With Auto, the story seems a bit different. While the sector is globally under-weighted, the situation is more complex at the GICS3 than GICS2 level. Overall, car manufacturers are strongly under-weighted (0.53x), but the Asian ex Japan car manufacturers seem to have convinced SRI investors of their achievements (SRI factor at 1.04x). Meanwhile, their European and American counterparts have left SRI investors unconvinced (0.36x and 0.39x, respectively, despite strong gaps in terms of CO2 track record). Japanese carmakers are at 0.69x (the “Prius effect”).

Equipment companies fare better

Times are tough but blue skies may be returning for Auto Component markets with a positive SRI factor of 1.21x – a strong 2.05x for North American stocks and a solid 1.29x for Japanese companies. Once again, SRI investors tend to hard on their European counterparts – auto component makers are slightly under weighted at 0.91x (still 3x higher than the carmakers). This confirms to us that equipment suppliers tend to be preferred over the end-users.

Road & Rail, public transport fares well

Other forms of “public” transportation, perceived as eco-efficient, stand out with robust SRI factors: Marine is at 1.26x, and Road & rail is finally at 1.06x, and with positive factors all across the geographic board.

Containers & Packaging are underweighted

Containers & packaging, seen as partially depending on the CO2-emitting need for packaging of a high-consuming world, is eventually underweighted, with the SRI factor topping at 0.83x. But European stocks tend to be seen as more SRI-friendly (positive weighting 1.64x).

Paper & Forests, growing interest

Paper & Forest Products are becoming more popular on the back of interest in forests as carbon sinks. This has helped the industry gain some momentum regarding its SRI/Sustainability credentials. The SRI factor is largely positive (1.91x overall), even though some strong regional discrepancies appear: European players are 2.19x over-allocated, and Asian (ex-Japan) stocks benefit hugely from the emerging trend (with a 5.87x factor). However, stocks of the same industry in other regions have not convinced SRI sectors: 0.54x in North America, 0.42x in Japan, 0.42x in Latin America and only 0.03x for African/Middle East. Regarding the last two areas, data suggest some fear over the destruction of primary forests (especially tropical). But in that case, we could question the very positive outlook for Asian (ex Japan) stocks

Building Products & Construction, benefit from energy efficiency

SRI investors appear convinced that Building Products (2.82x) and Construction & Engineering (1.43x) are necessary to fight GHG emissions, improve energy efficiency, develop infrastructure and improve quality of life. Yet, the Construction Materials industry does not seem to benefit from this mood, with a neutral 1.0x. Concerns about the production of such materials, the availability of resources as well as the lasting local consequences of such production (quarries) may have affected perception of this industry.

Limited appetite for techno-related stocks and Pharma & Healthcare

We recollect one investor stating at the end of the 1990s that SRI was dead and that Internet and Techno stocks were the “real sustainable economy”. History might have since proved him wrong. SRI investors seem perplexed over techno-related stocks, according to our data.

Negative or neutral on tech

Only one industry seems to benefit – Communications Equipment (SRI factor at 1.69x overall, 2.19x for European stocks). Apart from that, data suggest some sort of neutrality (Internet Software & services at 0.99x, IT services at 0.98x, Diversified Telecom Services at 0.96x, Semi-conductors at 0.93x), or even a grudging respect (Internet & Catalogue Retail at 0.79x, Software at 0.75x, Computer & Peripherals at 0.73x, Electronic Equipment ending up at 0.54x!)

Pharma, surprisingly negative

While biotechnology stocks are underweighted (0.51x, too risky, too high-tech?), pharmaceuticals companies only received positive SRI support in Africa/Middle East (1.11x). Everywhere else, data suggest SRI investors are rather unconvinced (0.99x), by the business model, the therapeutic priorities, emerging generic drugs, rising and hard-to-bear social security and health costs, and patent issues (TRIPS/access to medicines). Healthcare Providers are not in a better position (0.71x), except in Latin America. Only Healthcare Equipment & Supplies are over-weighted (1.42x), except in Japan.

Neutral sectors/industries

As always, there are winners and losers, while some industries are not really affected in their weightings. In the brackets of [0.80x ; 1.20x] factors, SRI investors put many service industries (retail, food & staple retail, trading companies, distributors, mortgage finance, hotels restaurant & leisure, and media).

Table 20: SRI over/under-allocation factors – GICS1/2/3

Sector (GICS1)	Sector (GICS2)	Sector (GICS3)	AFRICA/MID EAST	ASIA/PACIFIC EX JAPAN	EUROPE	JAPAN	LATIN AMERICA	NORTH AMERICA	Grand Total
Consumer Discretionary	Automobiles & Components	AUTO COMPONENTS		0.30	0.91	1.29		2.05	1.21
		AUTOMOBILES		1.04	0.36	0.69		0.39	0.53
	Automobiles & Components Total			0.89	0.46	0.83		1.27	0.72
	Consumer Durables & Apparel	HOUSEHOLD DURABLES	0.35	8.31	3.17	1.09	0.54	2.53	1.76
		LEISURE EQUIPMENT & PRODUCTS		4.03		1.55		1.30	1.08
		TEXTILES, APPAREL & LUXURY GOODS		0.59	0.58	1.09		1.40	1.03
	Consumer Durables & Apparel Total		0.35	4.32	0.77	1.26	0.54	1.66	1.24
	Consumer Services	DIVERSIFIED CONSUMER SERVICES				7.49	1.29	4.19	2.89
		HOTELS RESTAURANTS & LEISURE		0.28	0.92	1.05		1.09	0.86
	Consumer Services Total			0.28	0.92	4.59	1.29	1.27	0.98
	Media	MEDIA	0.20	0.63	0.92	0.94	0.00	0.84	0.83
	Media Total		0.20	0.63	0.92	0.94	0.00	0.84	0.83
	Retailing	DISTRIBUTORS	0.41	0.86				2.56	0.92
		INTERNET & CATALOG RETAIL				0.30	0.08	1.05	0.79
		MULTILINE RETAIL	0.26	0.77	0.62	0.22	2.88	1.76	1.18
		SPECIALTY RETAIL	3.72	0.84	1.69	0.64	0.14	0.99	1.18
	Retailing Total		2.51	0.82	1.39	0.52	1.89	1.18	1.09
Consumer Discretionary Total			0.96	0.99	0.83	0.92	1.07	1.15	0.96
	Food & Staples Retailing	FOOD & STAPLES RETAILING	3.83	0.73	1.07	1.55	0.27	1.20	1.11
	Food & Staples Retailing Total		3.83	0.73	1.07	1.55	0.27	1.20	1.11
		BEVERAGES	2.97	0.62	0.41	2.67	0.16	0.97	0.73
		FOOD PRODUCTS	7.67	1.87	0.89	0.77	0.45	2.56	1.65
		TOBACCO		0.11	0.25	0.02	4.70	0.05	0.20
			5.08	1.15	0.62	0.95	0.91	1.23	0.98
	Household & Personal Products	HOUSEHOLD PRODUCTS		1.87	1.04	1.61	0.57	1.82	1.47
		PERSONAL PRODUCTS		1.04	0.49	1.14	2.27	1.05	0.81
	Household & Personal Products Total			1.47	0.82	1.26	1.89	1.72	1.30
Consumer Staples Total			4.23	1.06	0.71	1.17	0.91	1.32	1.06
Energy	Energy	ENERGY EQUIPMENT & SERVICES		0.83	1.26			0.73	0.95
		OIL, GAS & CONSUMABLE FUELS	2.53	0.76	0.81	0.57	0.17	0.66	0.73
	Energy Total		2.53	0.76	0.87	0.57	0.17	0.67	0.76
Energy Total			2.53	0.76	0.87	0.57	0.17	0.67	0.76
Financials		COMMERCIAL BANKS	1.10	0.97	1.05	0.64	0.74	0.65	0.95
		THRIFTS & MORTGAGE FINANCE		1.90				0.70	0.87
	Banks Total		1.10	1.02	1.05	0.64	0.74	0.65	0.95
	Diversified Financials	CAPITAL MARKETS	0.29	0.38	0.59	0.43	0.11	1.34	0.98
		CONSUMER FINANCE		0.42		0.26	5.33	0.81	0.63
		DIVERSIFIED FINANCIAL SERVICES	0.26	0.45	1.13	0.82	0.28	0.80	0.76
	Diversified Financials Total		0.27	0.43	0.77	0.55	0.64	0.99	0.84
	Insurance	INSURANCE	0.32	1.13	0.81	1.25	0.22	0.59	0.83
	Insurance Total		0.32	1.13	0.81	1.25	0.22	0.59	0.83
	Real Estate	REAL ESTATE INVESTMENT TRUSTS - REITS	0.00	0.31	0.37	0.07		0.29	0.28
		REAL ESTATE MANAGEMENT & DEVELOPMENT	0.00	0.78	0.15	0.77	1.68	1.09	0.50

Table 20: SRI over/under-allocation factors – GICS1/2/3

Sector (GICS1)	Sector (GICS2)	Sector (GICS3)	AFRICA/MID EAST	ASIA/PACIFIC EX JAPAN	EUROPE	JAPAN	LATIN AMERICA	NORTH AMERICA	Grand Total
	Real estate Total		0.00	0.62	0.36	0.55	1.68	0.36	0.35
Financials Total			0.77	0.90	0.89	0.70	0.82	0.70	0.79
Health Care		HEALTH CARE EQUIPMENT & SUPPLIES		1.80	1.78	0.60		1.43	1.42
		HEALTH CARE PROVIDERS & SERVICES	0.15	1.53	0.69	0.55	1.98	0.84	0.71
		HEALTH CARE TECHNOLOGY						0.38	0.30
	Health Care Equipment & Services Total		0.15	1.66	1.36	0.59	1.98	1.09	1.04
	Pharmaceuticals Biotechnology & Life Sciences	BIOTECHNOLOGY		1.79	0.90			0.69	0.59
		LIFE SCIENCES TOOLS & SERVICES			0.97			1.56	1.27
		PHARMACEUTICALS	1.11	0.59	0.80	0.82		0.83	0.99
	Pharmaceuticals Biotechnology & Life Sciences Total		1.11	1.00	0.80	0.82		0.86	0.95
Health Care Total			0.89	1.21	0.86	0.77	1.98	0.95	0.97
Industrials	Capital Goods	AEROSPACE & DEFENSE	0.00	0.00	0.36		0.73	0.61	0.50
		BUILDING PRODUCTS		0.33	2.12	1.22		0.37	2.82
		CONSTRUCTION & ENGINEERING	0.72	0.41	1.17	0.72		2.28	1.43
		ELECTRICAL EQUIPMENT		2.20	2.00	1.04		3.08	2.73
		INDUSTRIAL CONGLOMERATES	0.77	0.67	0.96		0.62	1.37	1.13
		MACHINERY		0.41	2.22	2.10		1.99	2.29
		TRADING COMPANIES & DISTRIBUTORS	0.63	1.42	1.04	0.71		2.15	0.97
	Capital Goods Total		0.73	0.74	1.59	1.41	0.64	1.45	1.59
	Commercial & Professional Services	COMMERCIAL SERVICES & SUPPLIES		1.66	0.95	0.90		2.85	1.86
		PROFESSIONAL SERVICES			1.28			1.66	1.91
	Commercial & Professional Services Total			1.66	1.15	0.90		2.50	1.88
		AIR FREIGHT & LOGISTICS		0.44	0.33	0.61		1.08	0.79
		AIRLINES	0.00	0.64	0.60	0.43	0.15	0.23	0.44
		MARINE		0.35	0.86	1.26			1.19
		ROAD & RAIL		3.43	2.58	1.81	5.12	1.08	1.06
		TRANSPORTATION INFRASTRUCTURE	2.52	0.56	1.17	0.25	0.81		0.90
	Transportation Total		1.03	0.94	0.87	1.51	2.11	1.00	0.90
Industrials Total			0.76	0.82	1.47	1.40	1.75	1.43	1.49
Information Technology	Semiconductors & Semiconductor Equipment	SEMICONDUCTORS & SEMICONDUCTOR EQUIPMENT		1.32	0.91	0.57		1.25	0.93
	Semiconductors & Semiconductor Equipment Total			1.32	0.91	0.57		1.25	0.93
	Software & Services	INTERNET SOFTWARE & SERVICES		0.44	0.08	0.85		1.45	0.99
		IT SERVICES		1.22	0.74	0.47	0.24	1.34	0.98
		SOFTWARE	0.10	0.34	0.75	0.30	1.42	0.86	0.75
	Software & Services Total		0.10	0.86	0.73	0.49	0.41	1.15	0.88
	Technology Hardware & Equipment	COMMUNICATIONS EQUIPMENT		0.50	2.01			1.64	1.69
		COMPUTERS & PERIPHERALS		0.56		0.74		0.96	0.73
		ELECTRONIC EQPT INSTRUMENTS & COMPONENTS		0.48	0.92	1.06		0.50	0.54
		OFFICE ELECTRONICS			0.18	1.46		0.79	0.89

Table 20: SRI over/under-allocation factors – GICS1/2/3

Sector (GICS1)	Sector (GICS2)	Sector (GICS3)	AFRICA/MID EAST	ASIA/PACIFIC EX JAPAN	EUROPE	JAPAN	LATIN AMERICA	NORTH AMERICA	Grand Total
	Technology Hardware & Equipment Total			0.51	1.77	1.17		1.10	0.97
Information Technology Total			0.10	0.96	1.15	0.98	0.41	1.14	0.92
Materials	Materials	CHEMICALS	0.49	1.55	1.69	1.16	0.57	1.72	1.82
		CONSTRUCTION MATERIALS	0.66	1.36	0.85		0.32	0.27	1.00
		CONTAINERS & PACKAGING		0.66	1.64	1.06	0.35	0.73	0.83
		METALS & MINING	0.17	0.62	0.64	0.79	0.21	0.28	0.48
		PAPER & FOREST PRODUCTS	0.03	5.87	2.19	0.41	0.42	0.54	1.91
	Materials Total		0.21	0.95	1.14	1.03	0.25	0.90	1.04
Materials Total			0.21	0.95	1.14	1.03	0.25	0.90	1.04
Telecommunication Services	Telecommunication Services	DIVERSIFIED TELECOMMUNICATION SERVICES	0.38	0.91	0.91	0.76	0.43	0.55	0.96
		WIRELESS TELECOMMUNICATION SERVICES	0.21	1.95	1.10	0.63	0.53	0.75	1.01
	Telecommunication Services Total		0.24	1.41	0.97	0.66	0.50	0.60	0.98
Telecommunication Services Total			0.24	1.41	0.97	0.66	0.50	0.60	0.98
Utilities	Utilities	ELECTRIC UTILITIES		0.43	1.17	0.73	2.90	0.54	1.04
		GAS UTILITIES		2.55	1.63	4.25		3.54	2.24
		INDEPENDENT POWER PRODUCERS & ENERGY TRADING		4.41	4.61	1.50	2.75	0.67	2.38
		MULTI UTILITIES		1.82	1.19			0.88	1.34
		WATER UTILITIES		43.58	7.40		37.44	20.11	14.99
	Utilities Total			2.89	1.55	1.96	4.78	1.04	1.67
Utilities Total				2.89	1.55	1.96	4.78	1.04	1.67
Grand Total			1.00	1.00	1.00	1.00	1.00	1.00	1.00

Source: BofA Merrill Lynch Global Research, Bloomberg, Lipper/Morningstar, Factset

Link to Definitions

Industrials

Click [here](#) for definitions of commonly used terms.

Macro

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