

QWAFEFW – NYC

Mainstream ESG Equity Allocations

The successful integration of ESG measures into the investment process

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What ESG is not

- Not about tree hugging
 - This is an individual's goal
 - Institutional investors have a wide range of beneficiaries
- Not about activist investments
 - This is single-company, even single-issue
- Not about niche themes
 - Focus on sustainability
 - Consider impacts on risk and return



The Flip Side of ESG -> CSR

- **Corporate Social Responsibility (CSR)**

- Manage new sources of operational risk
- Position firm for new opportunities
- Enhance overall image of company to clients, investors and recruits

- **Why CSR matters**

- CSR strategies as a factor in positive analyst recommendations

Ioannis Ioannou and George Serafeim “The Impact of CSR on Investment Recommendations” HBS Working Paper No. 1507874 Feb 2011

- Non-financial information becoming more important

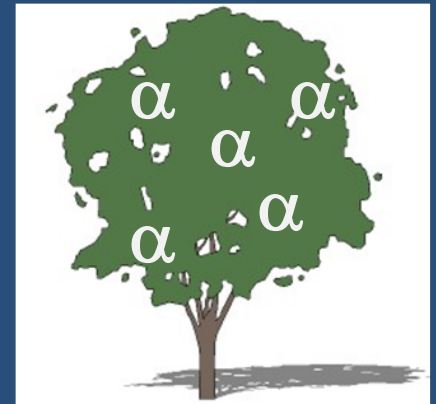
Robert Eccles, Michael Krzus and George Serafeim “Market Interest in Nonfinancial Information” HBS Working Paper No. 12-018 Sept 2011

- CSR has positive effects on credit ratings

Managing non-financial risks can help improve credit ratings according to S&P

The Nature of ESG Information

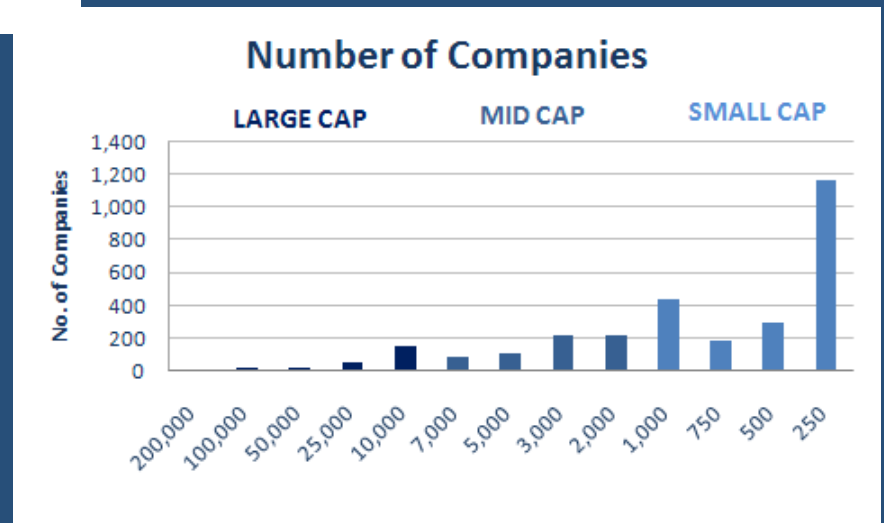
- ESG is simply a measure of CSR activities
 - Can differentiate one company from its peers
 - A source of alpha
- Is made up of many underlying factors
 - Key Performance Indicators
 - Elements material to environmental, social and governance areas
- Interesting to quants
 - Consistent across companies
 - Consistent through time
 - Wide coverage
- Voluntary and ad-hoc disclosures



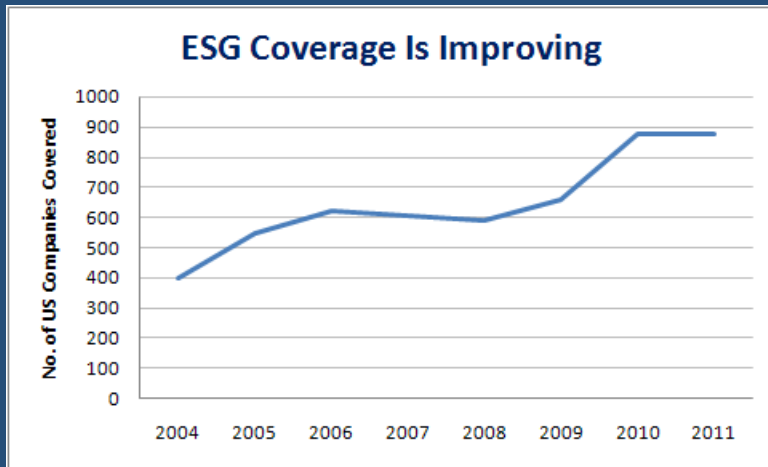
ESG Coverage Across US Market



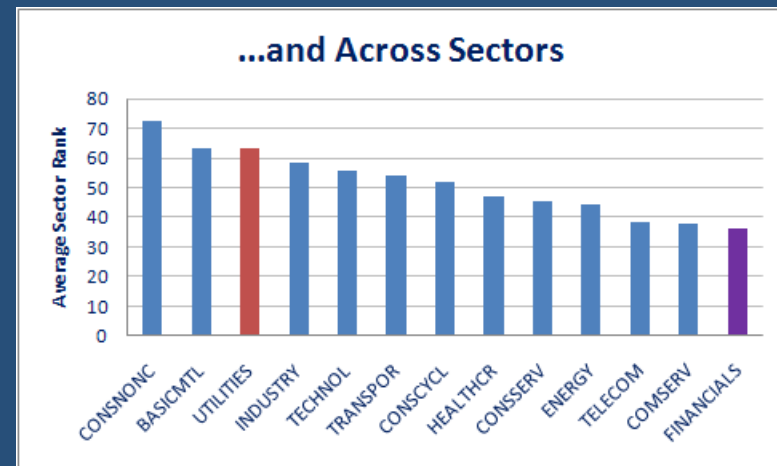
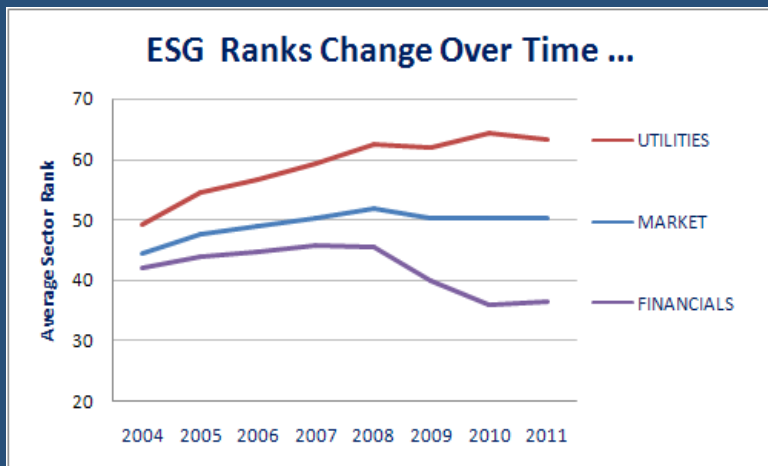
As of 12-31-2011



Characteristics of ESG Ranks



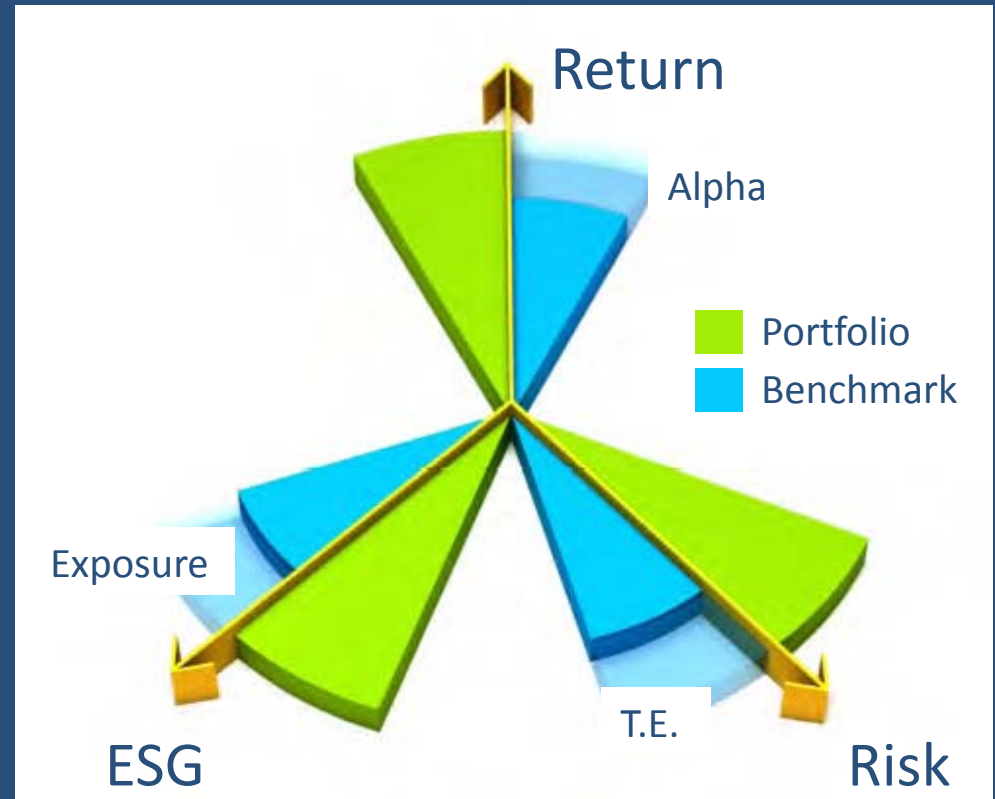
Rank retention from Dec 2010 to Dec 2011



Average Sector rank as of Dec 31, 2011

Measurement and Reporting

- 3 Dimensions
 - Return
 - Risk
 - ESG
- 2 Benchmarks
 - Major Market Index
 - ESG index
- 1 Portfolio
 - Not an optimization problem
 - Maybe long “bad” stocks



Making the Case for ESG Integration

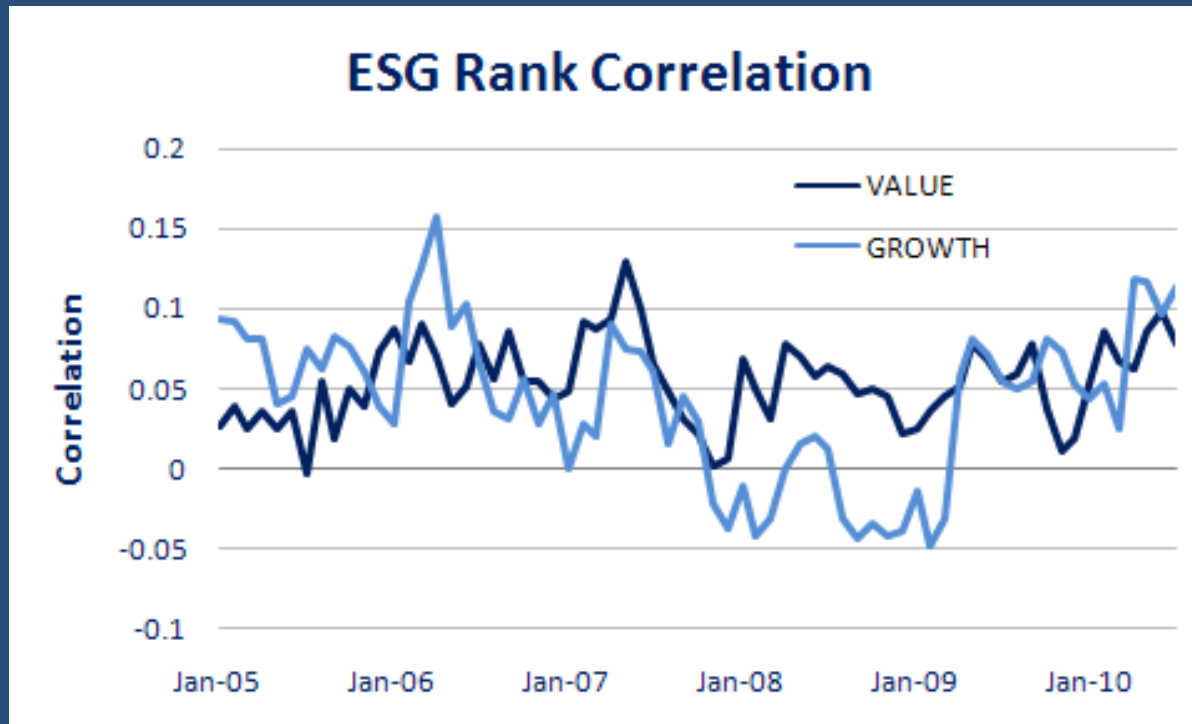
- Data gives complimentary insights into companies
- Not broadly recognized as a source of valuation
- Associated with risk and return factors

Our approach:

Multi-factor valuation



What Style is ESG ?



Month-end rank correlations between ESG and typical Value and Growth factors

One Way to Analyze ESG

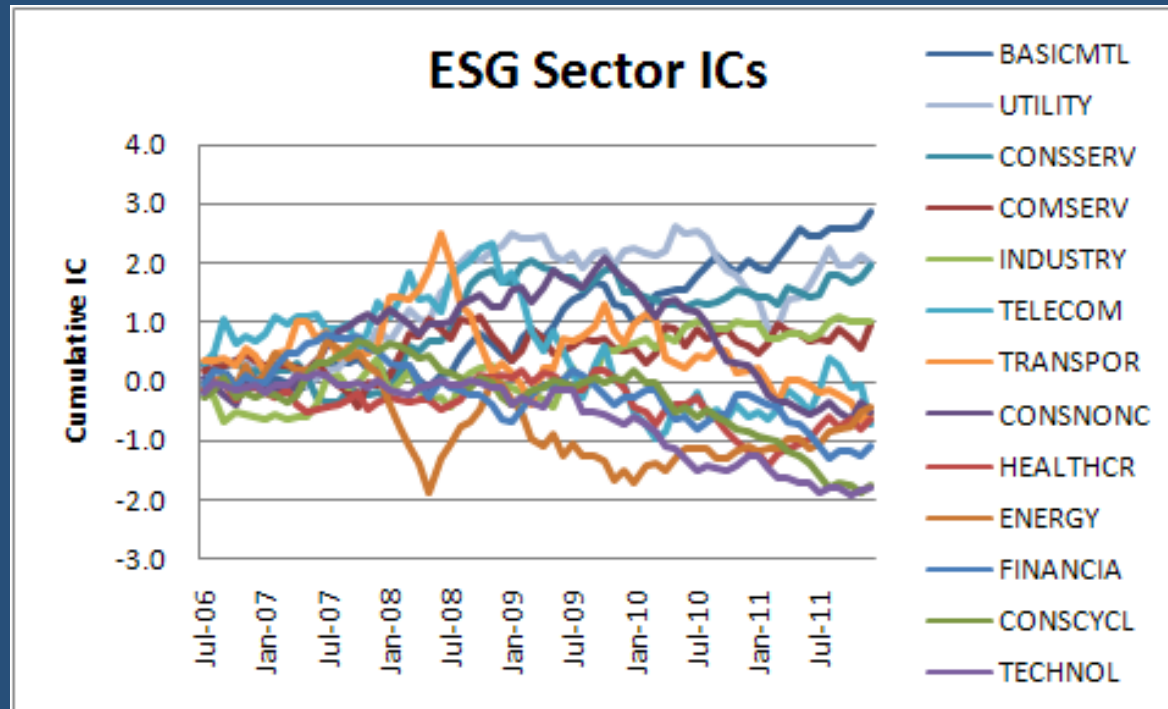
- Assume market is homogeneous in response
- Assume all rational investors are long term focused



Academic Review: Margolis, J, H. Elfenbein and J. Walsh “Does it Pay to be Good ?”
Stakeholder.bu.edu July 2007

Practitioner Review: AP7 Study “The Performance of Socially Responsible Investments “ October 2011
presented at the PRI webinar on Feb 14, 2012.

How ESG works across the Market



- Impact varies by sector
- And also through time

ESG Heat Map

- ESG correlations vary with factor type

	Value			Momentum				Growth			
	<i>CashF/P</i>	<i>Earn/P</i>	<i>PredE/P</i>	<i>Est Rev</i>	<i>EP Link</i>	<i>Res Rev</i>	<i>Prc Mom</i>	<i>Sucf</i>	<i>Earn Mom</i>	<i>Yield + ROE</i>	<i>Peg</i>
ESG	0.26	0.38	0.22	-0.07	-0.10	-0.05	-0.34	-0.06	0.28	0.43	0.00
Environ	0.25	0.50	0.24	-0.15	-0.19	-0.06	-0.38	-0.07	0.34	0.56	-0.02
Social	0.27	0.58	0.25	-0.16	-0.21	-0.09	-0.41	-0.08	0.36	0.67	0.03
Govern	0.17	0.36	0.22	-0.09	-0.12	-0.08	-0.32	-0.10	0.35	0.45	0.01

- ESG components retain some correlation

	<i>ESG</i>	<i>Env</i>	<i>Soc</i>	<i>Gov</i>
ESG				
Environ	0.85			
Social	0.86	0.90		
Govern	0.81	0.81	0.77	

Based on daily correlations between factor ICs from Jan 1, 2010 to Dec 31, 2011

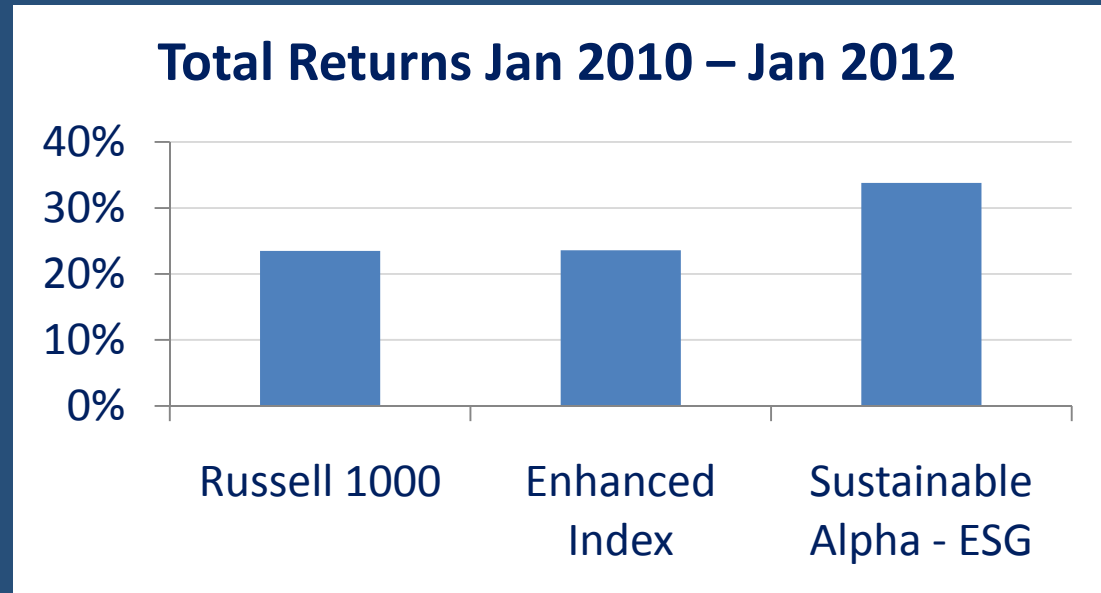
Another Way to Analyze ESG

- Look at market and/or data components
- Need to consider ESG alongside other measures

Positive Impacts 	Negative Impacts 
Basic Materials Utilities	Technology Financials

Based on IC's for the period Jan 2008 to Dec 2011. Equal weighted & monthly rebalanced for ESG integrated with Value and Growth factors

Where is the Evidence ?



Period is Jan 1, 2010 to Jan 31, 2012. Gross of fees performance

- Good question! Our experience so far is for strong ESG performance.
- Good news ? Could this be the elusive alpha in the large cap space ?
- Not widely recognized and many academic papers ambivalent

ESG Ready for Prime Time

- Strong economic foundation
 - Good data availability
 - Conversation is centering on Sustainability
 - To see the forest, it helps to be a quant
-
- Data has historical issues - typical
 - Data not easy to use - typical
 - Models are hard to build - typical



Disclosures

**QUOTIENT INVESTORS, LLC
QUOTIENT SUSTAINABLE ALPHA COMPOSITE
ANNUAL DISCLOSURE PRESENTATION**

Year End	Total Firm Assets millions	Annual Performance Results					
		USD millions	Number of Accounts	Composite			Composite Dispersion
				Gross	Net	R1000	
2010*	\$149	10	Five or Fewer	19.66%	19.08%	16.10%	N.A.

*Quotient Sustainable Alpha Composite was launched on January 1, 2010.

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Quotient Sustainable Alpha Composite seeks to outperform a large cap benchmark such as the Russell 1000, but still maintain similar portfolio characteristics to the index. For our Sustainable Alpha Product our targets are 1.5% annualized excess return net of all fees and expenses above the S&P 500, Russell 1000 or other client selected diversified large cap benchmark with approximately 3.0% annualized tracking error. The portfolio typically holds 100-150 stocks. 100% of the composite is composed of a carve-out managed with its own cash balance for the periods January 1, 2010 through April 30, 2011. On May 1, 2011 the carve-out was closed and returns now reflect the performance and investment activity of a separately managed account that was added on May 1, 2011.

Quotient Investors, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Quotient Investors, LLC is a registered investment adviser. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are currently not included in this composite. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using the annual management fee of 0.50%. Additional information regarding policies for calculating and reporting returns is available upon request.

The management fee schedule is as follows: First \$100 Million is 0.50%; and above \$100 Million is negotiable. Actual investment advisory fee incurred by clients may vary.

The **Quotient Sustainable Alpha Composite** was created January 1, 2010. Quotient Investors compliance with the GIPS standards has been verified for the period March 1, 2008 through June 30, 2011 by Ashland Partners & Company LLP. In addition, a performance examination was conducted on the **Quotient Sustainable Alpha Composite** beginning January 1, 2010. A copy of the verification report is available upon request.