

WDWW? Geographic Risk Screening for North America

A more objective, quantitative approach to ESG analysis

We believe investors increasingly recognise that ESG (environmental, social and governance) factors may influence long-term financial performance – and that they could benefit from more objective and quantitative approaches to ESG analysis. In this “*Who does what where*” (WDWW) report, we build on our work ([SRI & Sustainability, 07 March 2011](#)) to apply Quant SRI & Sustainability analysis across our Research coverage, with a specific focus on North America.

21 long shelf-life risks

We have identified 21 broad ESG themes which we believe are “long shelf-life” issues influencing long-term financial risk and performance: 1) *Environmental* (x6): climate change, energy efficiency, energy infrastructure needs, resource depletion & pollution, water infrastructure needs, and water scarcity; 2) *Social* (x11): demographics, economic inequality, education, food issues/needs, health issues/needs, human capital, human development, IT infrastructure needs, lifestyle risks, security, and transport infrastructure needs; and *Governance* (x4): business rights, corruption, democratic life, and political effectiveness.

Company geographic exposure to ESG risks

The 21 ESG themes in our WDWW product are built upon 126 macro indicators using publicly disclosed data from a number of international organisations. Using these macro indicators, we have scored and ranked 205 countries globally. We have then matched these country scores across our 21 ESG themes against the geographic breakdown of company sales and assets. This allows us to screen and correlate relationships between sales exposure and country risk for c. 2,700 stocks in our Global Research coverage universe (including over 1,000 North American stocks). The full methodology is outlined in an accompanying *WDWW Primer* report ([SRI & Sustainability, 07 March 2011](#)).

WDWW ESG risk screening

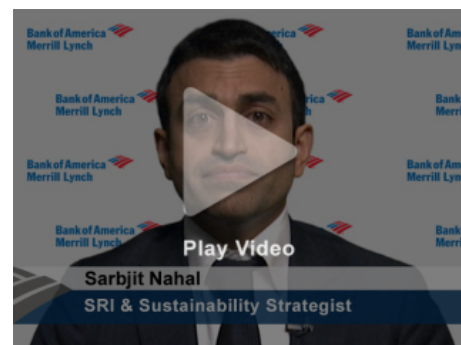
The WDWW can be used to screen portfolios on any combination of 21 ESG themes, 126 indicators, 205 countries, 19 regions, GICS2 or GICS3 sectors or against benchmark financial indices – across the c. 2,700 covered companies, according to various investment criteria, perspectives, styles, and risk appetites.

Our North American WDWW ESG Lists

In this report, we have created two sets of North American stock lists: 1) a Low ESG risk, high sales growth list intended to identify stocks with sales growth adjusted by ESG country risk (i.e., sector leaders according to BofAML CAGR 2010-2013e/WDWW ESG scorings; and 2) a Low ESG risk list intended to identify stocks with the lowest absolute ESG country risk exposure by sector. We intend to update these lists at quarterly intervals.

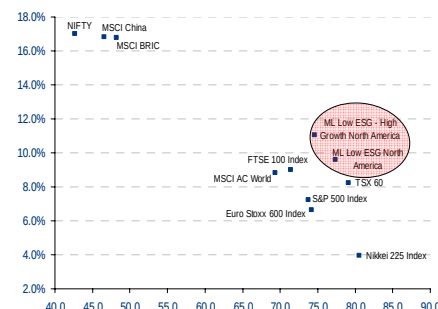
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Click the image above to watch the video

Chart 1: NAM. WDWW ESG Stock Lists & major stock indices (WDWW ESG score vs. 2010-2013 sales growth CAGR)



Source: Source: BofA Merrill Lynch Global Research. Vertical axis = sales growth CAGR 202010-2013e, Horizontal axis = WDWW ESG country risk for stock indices and NAM. WDWW Stock Lists.

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Refer to important disclosures on page 12 to 14. Analyst Certification on Page 11. Link to Definitions on page 11.

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The BofAML “Who does what where” (WDWW) geographic risk screening tool & North America

Important Note

This methodology is not designed to produce a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions.

Investors are looking for objective, quantitative ESG analysis

In our opinion, investors increasingly recognise that ESG (environment, social and governance) factors can influence long-term financial performance. We believe that, in addition to qualitative assessments, investors could benefit from more quantitative approaches to ESG analysis. In this “Who does what where” (WDWW) report, we build upon our pre-existing work to integrate a Quant SRI & Sustainability analysis across BofA Merrill Lynch Global Research’s coverage, by specifically focusing on North America.

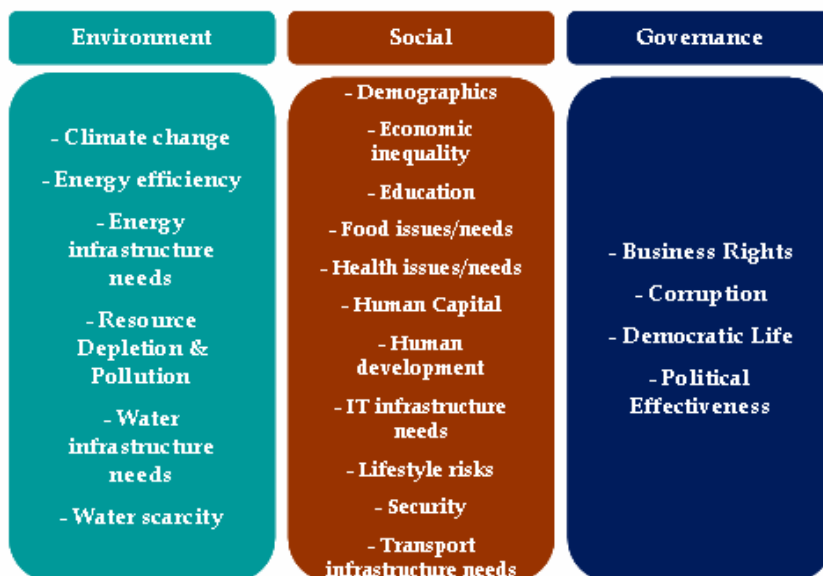
The full methodology, including WDWW ESG themes and indicators is outlined in an accompanying *WDWW Primer* report ([SRI & Sustainability, 07 March 2011](#)).

A *WDWW? Geographic Risk Screening tool* report also provides Global and European WDWW ESG Stock Lists ([SRI & Sustainability, 07 March 2011](#)) and a *WDWW Geographic Risk Screening for Asia-Pacific* report provides an Asia-Pacific WDWW ESG stock list ([SRI & Sustainability, 18 March 2011](#)).

21 long shelf-life ESG risks

We have identified 21 broad ESG themes: environmental (x6), social (x11) and governance (x4), which we believe are long shelf-life issues which can and will increasingly influence long-term financial risk and performance.

Chart 2: 21 WDWW ESG criteria



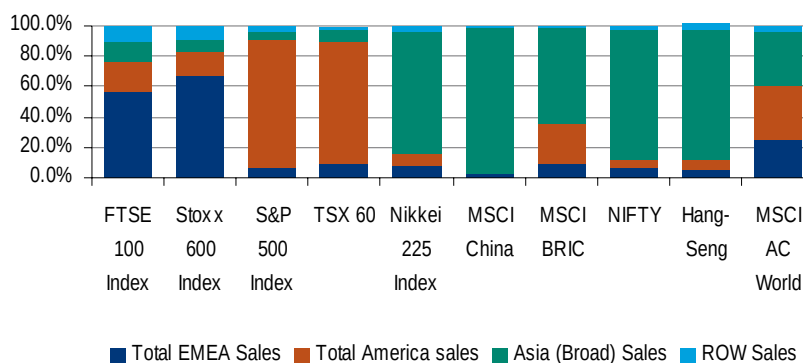
Source: BofA Merrill Lynch Global Research

WDWW, company geographic exposure to ESG risks

Our current 21 ESG themes are built upon 126 publicly disclosed macro indicators based to date on compilations from a number of international organisations including: Aquastat, the Food and Agriculture Organization (FAO), the International Labor Organization (ILO), the International Monetary Fund (IMF), the United Nations family, the World Bank and the World Health Organization (WHO). However, any and all interpretation and analysis of this data for the WDWW geographic screening model is entirely undertaken by BofA Merrill Lynch Global Research.

Using these 126 macro indicators, we have scored and ranked 205 countries globally. We have then matched these country scores across our 21 ESG themes against the geographic breakdown of company sales and assets. This allows us to screen and identify comparative ESG exposure for c.2,700 stocks in the BofAML coverage universe (including 1,000+ North American stocks) – across any one or combination of our 21 ESG themes or 126 indicators – or globally.

Chart 3: Geographic Breakdown of Sales – Major stock indices



Source: BofA Merrill Lynch Global Research

Our North America ESG Stock Lists

The WDWW can be used to screen portfolios on any combination of the 21 ESG themes, indicators, countries, regions or sectors across the c.2,700 covered companies (including 1,000+ in North America) – according to any number of investment criteria, perspectives, styles and risk appetites. In this report, we have added to the work that we have already done on Global, European and Asia-Pacific stocks lists and created two sets of North America stock lists:

A) Low ESG Risk, High Sales Growth List

This list is intended to identify stocks with sales growth adjusted by ESG country risk.

B) Low ESG Risk List

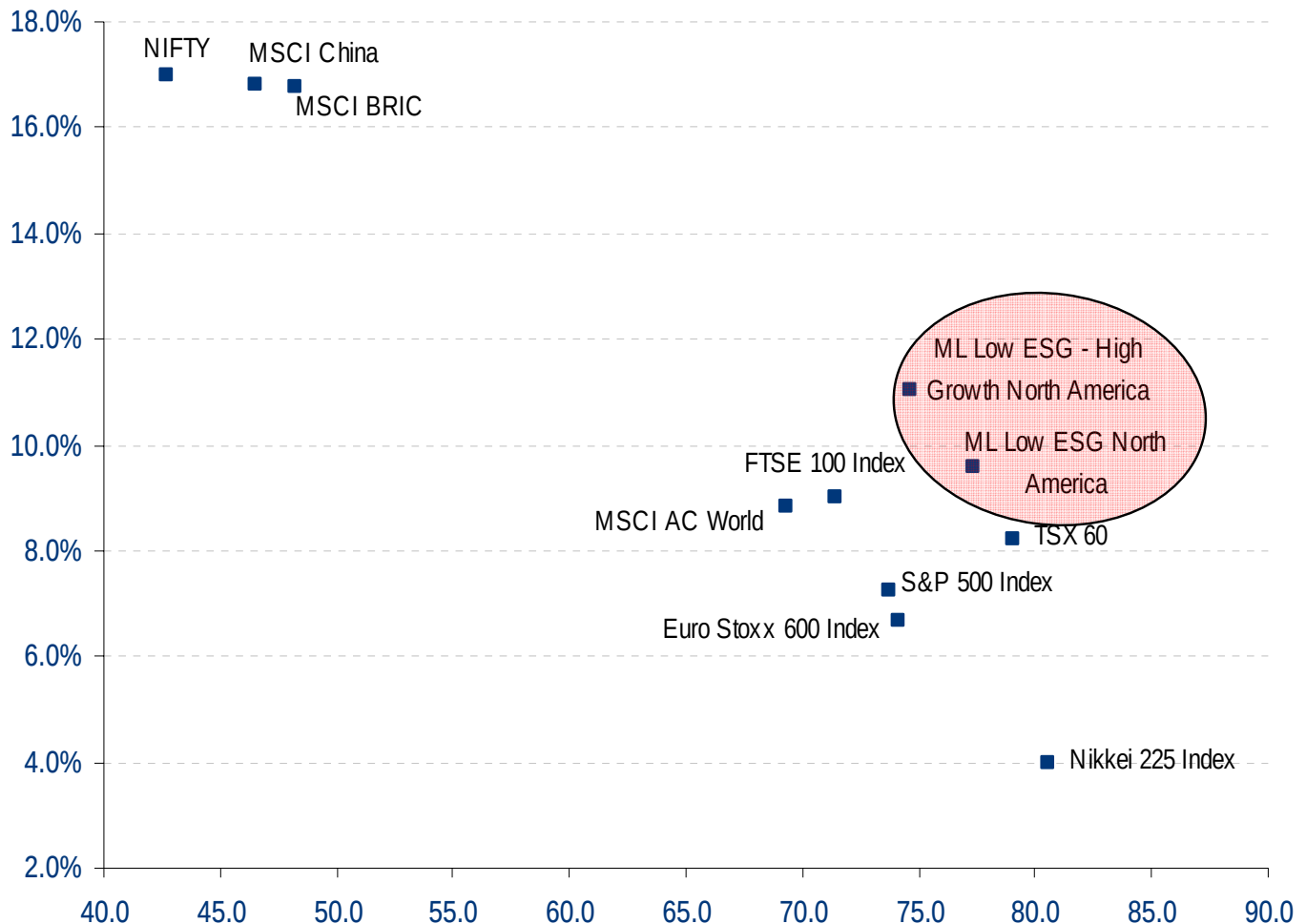
This list is intended to identify stocks with the lowest absolute ESG country risk by sector.

This methodology is not designed to produce a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions.

Observations on WDWW stock lists

In the chart below we observe the positioning of our two North America WDWW stock lists (Low ESG Risk, High Sales and Low ESG Risk) against a series of major financial indices. On the horizontal axis, we have the level of WDWW ESG country risk (arithmetic average for all constituents). On the vertical axis, we have the sales growth 2010-2013 CAGRe (equally weighted for all constituents).

Chart 4: North America WDWW ESG Stock Lists & major stock indices (WDWW ESG score vs. 2010-2013 sales growth CAGRe)



Source: BofA Merrill Lynch Global Research. Vertical axis = sales growth CAGR 2010-2013e, Horizontal axis = WDWW ESG country risk for stock indices and WDWW Stock Lists.

Company geographic exposure to ESG risks

In this paper, we follow up on our discussion of Global and European stocks ([SRI & Sustainability, 07 March 2011](#)) and address the theme of geographic exposure and ESG risks for North American stocks.

Example: The national level of CO2 emissions of a country, coupled with its reduction commitments, will impact current and future regulations in terms of allowances, energy mix, cleantech drivers and emission costs in that country – with different impacts on sales for different sectors and companies.

21 ESG long shelf-life ESG risks for investors

We have identified 21 ESG themes – from climate change to human capital to country governance – which we believe are the central issues that will be important for years to come, and which we believe may influence long-term financial performance.

WDWW used 21 ESG themes & 126 indicators

Our 21 ESG themes are built upon 126 macro indicators which are matched with the geographic breakdown of company sales and assets. A full break-down of the WDWW ESG themes and indicators can be found in the accompanying *WDWW Primer* report.

Table 1: 21 WDWW ESG criteria

Environment	Social	Governance
Climate Change	Demographics	Business Rights
Energy Infrastructure Needs	Economic Inequality	Corruption
Energy Efficiency	Education	Democratic Life
Resource Depletion & Pollution	Food Issues/Needs	Political Effectiveness
Water Infrastructure Needs	Health issues/Needs	
Water Scarcity	Lifestyle Risks	
	Human Capital	
	Human Development	
	Security	
	IT Infrastructure Needs	
	Transport Infrastructure Needs	

Source: BofA Merrill Lynch Global Research

The full methodology, including WDWW ESG themes and indicators is outlined in an accompanying *WDWW Primer* report.

A 3-step WDWW scoring model

We have reviewed c. 2,700 stocks in the BofA Merrill Lynch Global Research universe including 1,000+ North American stocks – by theme and globally on the following basis:

- 1) **Country data compilation on ESG themes** – We identify, collect and assign publicly available data available from compilations provided by various international organisations (including the IMF, UN and World Bank) on a country by country basis for 205 countries. We have selected 126 indicators across 21 Environment, Social and Governance themes.
- 2) **Country and region scoring** – Once collected, all of the country ESG data is normalised on a common scale ([0 – 100]) before being aggregated per criteria. Average scorings are also calculated for 20 major geographic areas (i.e. North America, EMEA, Asia Pacific etc.).
- 3) **Matching country and regional scores with companies' geographic sales and assets breakdown** – The final step involves matching country and region scores across our 21 ESG themes with sales and assets geographic segments as reported by the companies. We assign a relevant geographic scoring per theme and a final thematic score is

calculated, on both an asset and sales-weighted basis.

Table 2: Illustrative example of BofAML WDW ESG scoring of a company

Category	21 WDW ESG themes	Company Score	Sector		
			Max.	Min.	Med.
Environment	Climate Change	43	79	43	32
	Resource depletion & pollution	52	65	53	21
	Energy infrastructure needs	62	83	58	23
	Energy Efficiency	52	85	52	17
	Water infrastructure needs	67	78	68	32
Social	Water scarcity	52	84	52	9
	Human capital	65	72	61	34
	Education	69	100	72	40
	Demographics	67	81	67	31
	Economic inequality	51	57	51	36
	Food issues & needs	57	100	56	26
	Health issues & needs	78	97	81	27
	Human development	86	94	87	18
	IT infrastructure needs	67	81	67	16
	Transport infrastructure needs	67	77	66	27
Governance	Security	63	99	64	32
	Lifestyle Risks	49	71	51	21
	Democratic Life	70	96	72	11
	Political Effectiveness	86	99	85	5
	Corruption	81	100	84	2
ESG	Business rights	53	73	53	30
	ENVIRONMENT	55	67	55	42
	SOCIAL	65	74	67	35
	GOVERNANCE	73	90	75	21
OVERALL	E+S+G	64	75	66	37

Source: BofA Merrill Lynch Global Research

WDWW screens

WDWW can be used to screen portfolios across c. 2,700 covered companies in the BofA Merrill Lynch Global research universe – according to any number of investment criteria, perspectives, styles and risk appetites, for instance by:

- 21 WDW ESG themes
- 126 WDW ESG indicators
- 205 countries rated by WDW
- 20 regions rated by WDW
- Tailored screens.

North America WDW ESG Lists

In this piece, we have identified a number of North American companies by sector in terms of their sales growth rates adjusted by ESG country risk and on lowest absolute exposure to ESG country risk by sector.

We intend to update these lists at quarterly intervals to reflect periodic changes in underlying ESG data and in BofAML 3-year sales growth forecasts.

WDWW North America Lists

We have created two North American Lists:

- **Low ESG risk, high sales growth list** - intended to identify stocks by sector with ESG country risk adjusted by sales growth: BofA Merrill Lynch Global Research CAGR 2010-2013e divided by WDWW ESG scorings; and
- **Low ESG risk list** intended to identify stocks with the lowest absolute ESG country risk by sector.

In isolating the universe of companies we have used to create these lists, we have also used two additional criteria: i) a US\$1bn market cap or above threshold; and ii) a maximum of 90% of sales in one single country/ region

North America WDWW - Low ESG risk, High Sales Growth List

The North America Low ESG Risk, High Sales Growth List is intended to identify stocks with sales growth adjusted by ESG country risk – and the selection is based on selecting the NAm. global sector leader (GICS-3) according to BofAML CAGR 2010-2013e divided by WDWW ESG scorings.

Table 3: North America Low ESG Risk, High Sales Growth List

Industry (GICS 2)	Sector (GICS 3)	Company	BofA ML Ticker	Country of Origin	BofAML CAGRe 2010-2013	Overall WDWW ESG Score
Automobiles & Components	Automobiles	Ford Motor Co	F	USA	10.1%	77.96
	Auto Components	Gentex Corp	GNTX	USA	22.4%	80.96
Banks	Commercial Banks	Toronto-Dominion Bank	YTD	CANADA	8.6%	88.12
Capital Goods	Industrial Conglomerates	Alfa	ALFF	MEXICO	9.1%	60.27
	Aerospace & Defense	Goodrich Corp.	GR	USA	11.1%	74.07
	Construction & Engineering	Jacobs Engineering Group	JEC	USA	11.1%	76.97
	Building Products	Owens Corning	OC	USA	7.8%	73.14
	Machinery	PACCAR Inc	PCAR	USA	28.2%	75.41
	Electrical Equipment	Rockwell Automation	ROK	USA	12.6%	70.04
	Trading Companies & Distributors	Finning International Inc.	YFTT	CANADA	11.0%	80.67
	Commercial Services & Supplies	Stericycle Inc	SRCL	USA	9.8%	75.51
Commercial & Professional Services	Professional Services	Towers Watson	TW	USA	13.1%	78.06
	Textiles, Apparel & Luxury Goods	Coach Inc.	COH	USA	10.7%	76.45
Consumer Durables & Apparel	Household Durables	Tupperware Brands Corp.	TUP	USA	7.4%	68.96
	Hotels, Restaurants & Leisure	McDonald's Corporation	MCD	USA	5.0%	70.73
Consumer Services	Diversified Consumer Services	Weight Watchers Int.	WTW	USA	10.4%	76.26
	Consumer Finance	American Express	AXP	USA	7.9%	73.38
Diversified Financials	Capital Markets	Lazard Ltd	LAZ	USA	10.1%	77.69
	Diversified Financial Services	MSCI Inc-A	MSCI	USA	19.8%	70.25
	Energy Equipment & Services	FMC Technologies, Inc.	FTI	USA	16.5%	87.23
Energy	Oil, Gas & Consumable Fuels	World Fuel Services Corp.	INT	USA	12.0%	77.02
	Food & Staples Retailing	Costco Wholesale Corp.	COST	USA	8.7%	76.74
Food & Staples Retailing	Food Products	Diamond Foods, Inc	DMND	USA	17.8%	75.52
	Beverages	The Coca-Cola Company	KO	USA	13.5%	62.91
Health Care Equipment & Services	Tobacco	Philip Morris International	PM	USA	6.5%	66.79
	Health Care Equipment & Supplies	Edwards Lifesciences Corp.	EW	USA	15.8%	77.38
Household & Personal Products	Household Products	Colgate-Palmolive Co	CL	USA	5.3%	64.68
	Personal Products	Estee Lauder	EL	USA	8.8%	68.91
Insurance	Insurance	Aon Corp	AON	USA	16.0%	71.43
Materials	Containers & Packaging	Crown Holdings Inc.	CCK	USA	5.7%	77.95
	Construction Materials	Cemex	CX	MEXICO	6.1%	64.39
	Paper & Forest Products	International Paper Co.	IP	USA	1.9%	74.57
	Chemicals	Kraton Performance Poly.	KRA	USA	8.7%	73.94
	Metals & Mining	New Gold Inc.	YNGD	CANADA	24.3%	69.67

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Table 3: North America Low ESG Risk, High Sales Growth List

Industry (GICS 2)	Sector (GICS 3)	Company	BofA ML Ticker	Country of Origin	BofAML CAGRe 2010-2013	Overall WDW ESG Score
Media	Media	Liberty Global, Inc.	LBTYA	USA	6.0%	81.65
Pharma, Biotech & Life Sciences	Pharmaceuticals	Allergan Inc.	AGN	USA	7.4%	72.53
	Biotechnology	Alexion	ALXN	USA	33.8%	75.52
Real Estate	Real Estate Management & Dev.	CB Richard Ellis Group Inc	CBG	USA	14.6%	76.41
	Real Estate Investment Trusts (REITs)	ProLogis	PLD	USA	12.5%	72.98
Retailing	Internet & Catalog Retail	priceline.com	PCLN	USA	22.1%	77.42
	Specialty Retail	Tiffany & Co.	TIF	USA	9.7%	78.20
Semiconductors & Semi. Equipment	Semiconductors & Semi. Equipment	First Solar, Inc.	FSLR	USA	45.7%	83.64
Software & Services	Software	Salesforce.com, Inc	CRM	USA	22.8%	73.12
	Internet Software & Services	Google Inc	GOOG	USA	18.5%	76.90
Technology Hardware & Equipment	IT Services	Global Payments Inc	GPN	USA	10.6%	77.03
	Computers & Peripherals	Apple Inc	AAPL	USA	25.7%	74.13
	Communications Equipment	CIENA Corp	CIEN	USA	26.7%	76.59
	Electronic Equipment, Instruments & Components	IPG Photonics	IPGP	USA	24.9%	76.57
Telecommunication Services	Wireless Telecommunication Services	American Tower Corp	AMT	USA	13.1%	72.91
Transportation	Airlines	AMR Corporation	AMR	USA	7.8%	70.06

Source: BofA Merrill Lynch Global Research

North America WDW - Low ESG Risk List

The North America Low ESG List is intended to identify stocks with the lowest absolute ESG country risk exposure – and the selection is based on selecting the global sector leader (GICS-3) according to their best WDW ESG scores.

Table 4: North America Low ESG Risk List

Industry (GICS 2)	Sector (GICS 3)	Company	BofA ML Ticker	Country of Origin	BofAML CAGRe 2010-2013	Overall WDW ESG Score
Automobiles & Components	Automobiles	Ford Motor Co	F	USA	10.1%	77.96
	Auto Components	Gentex Corp	GNTX	USA	22.4%	80.96
Banks	Commercial Banks	Bank of Montreal	YBMO	CANADA	7.6%	89.05
Capital Goods	Machinery	Actuant Corporation	ATU	USA	14.8%	78.50
	Industrial Conglomerates	General Electric Co	GE	USA	3.5%	69.74
	Aerospace & Defense	Hexcel Corporation	HXL	USA	8.2%	78.51
	Construction & Engineering	Jacobs Engineering Group	JEC	USA	11.1%	76.97
	Building Products	Owens Corning	OC	USA	7.8%	73.14
	Electrical Equipment	Thomas & Betts	TNB	USA	8.7%	77.32
	Trading Companies & Distributors	Finning International Inc.	YFTT	CANADA	11.0%	80.67
	Commercial Services & Supplies	Stericycle Inc	SRCL	USA	9.8%	75.51
Commercial & Professional Services	Professional Services	Towers Watson	TW	USA	13.1%	78.06
	Textiles, Apparel & Luxury Goods	Coach Inc.	COH	USA	10.7%	76.45
Consumer Durables & Apparel	Household Durables	Fortune Brands	FO	USA	4.6%	77.28
	Hotels, Restaurants & Leisure	McDonald's Corporation	MCD	USA	5.0%	70.73
Consumer Services		Weight Watchers				
	Diversified Consumer Services	International, Inc.	WTW	USA	10.4%	76.26
	Consumer Finance	American Express	AXP	USA	7.9%	73.38
	Diversified Financial Services	J.P. Morgan Chase & Co	JPM	USA	-1.2%	73.23
Energy	Capital Markets	Lazard Ltd	LAZ	USA	10.1%	77.69
	Energy Equipment & Services	FMC Technologies, Inc.	FTI	USA	16.5%	87.23
		World Fuel Services				
	Oil, Gas & Consumable Fuels	Corporation	INT	USA	12.0%	77.02
Food & Staples Retailing		Costco Wholesale				
	Food & Staples Retailing	Corporation	COST	USA	8.7%	76.74
Food Beverage & Tobacco	Food Products	Dole Foods	DOLE	USA	3.8%	80.23
	Tobacco	Philip Morris International	PM	USA	6.5%	66.79
	Beverages	Molson Coors Brewing	TAP	USA	4.3%	82.63

18 March 2011

Table 4: North America Low ESG Risk List

Industry (GICS 2)	Sector (GICS 3)	Company	BofA ML Ticker	Country of Origin	BofAML CAGRe 2010-2013	Overall WDW ESG Score
Health Care Equipment & Services	Health Care Equipment & Supplies	Sirona Dental Systems Inc	SIRO	USA	8.3%	79.52
Household & Personal Products	Personal Products	Alberto-Culver	ACV	USA	6.3%	76.41
	Household Products	Kimberly-Clark Corp	KMB	USA	2.6%	76.09
Insurance	Insurance	Sun Life Financial Inc.	YSLF	CANADA	-8.1%	83.11
Materials	Containers & Packaging	Crown Holdings Inc.	CCK	USA	5.7%	77.95
	Chemicals	CF Industries Holdings Inc	CF	USA	0.5%	77.19
	Construction Materials	Cemex	CX	MEXICO	6.1%	64.39
	Paper & Forest Products	Domtar Corp.	UFS	USA	-3.3%	84.13
	Metals & Mining	Lundin Mining Corporation	YLUN	CANADA	11.0%	79.22
Media	Media	Liberty Global, Inc.	LBTYA	USA	6.0%	81.65
Pharma, Biotech & Life Sciences	Pharmaceuticals	Abbott Laboratories	ABT	USA	5.9%	77.91
	Biotechnology	Gilead Sciences Inc	GILD	USA	7.3%	77.44
Real Estate	Real Estate Investment Trusts (REITs)	AMB Property Corporation	AMB	USA	2.3%	76.01
	Real Estate Management & Dev.	CB Richard Ellis Group Inc	CBG	USA	14.6%	76.41
Retailing	Internet & Catalog Retail	priceline.com	PCLN	USA	22.1%	77.42
	Specialty Retail	Tiffany & Co.	TIF	USA	9.7%	78.20
Semiconductors & Semi. Equipment	Semiconductors & Semi. Equipment	First Solar, Inc.	FSLR	USA	45.7%	83.64
Software & Services	Internet Software & Services	eBay	EBAY	USA	12.3%	78.48
	IT Services	Intl Business Machines, Inc.	IBM	USA	4.9%	77.75
	Software	Oracle Corp	ORCL	USA	14.7%	78.56
Technology Hardware & Equipment	Communications Equipment	CIENA Corp	CIEN	USA	26.7%	76.59
	Electronic Equipment, Instruments	IPG Photonics	IPGP	USA	24.9%	76.57
	Computers & Peripherals	Seagate Technology	STX	USA	6.0%	78.25
Telecommunication Services	Wireless Telecommunication Services	American Tower Corp	AMT	USA	13.1%	72.91
Transportation	Airlines	United Continental Hold.	UAL	USA	6.2%	71.25

Source: BofA Merrill Lynch Global Research

Link to Definitions

Macro

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

Analyst Certification

I, Sarbjit Nahal, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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