

Global Market Strategy Research

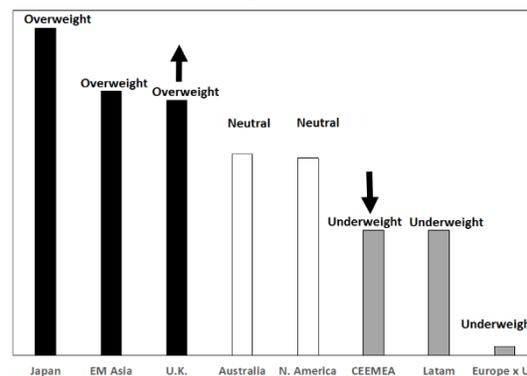
Regional and Sector Strategy: Monthly Update

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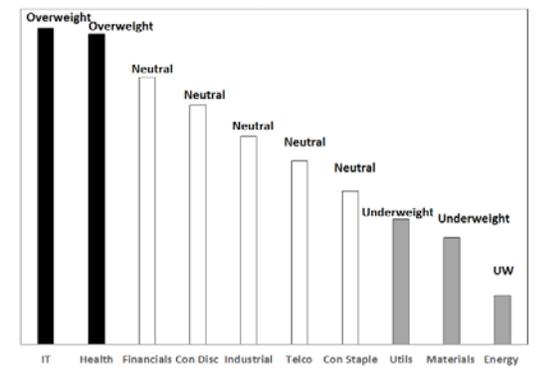
- **Still defensive** — We maintain our relatively defensive posture given pockets of economic weakness globally. We are Overweight Health Care in the U.K., North America and Europe ex U.K. We are Underweight or Neutral Energy, Materials and Utilities in the majority of regions
- **Regional strategy** — We upgrade the U.K. to Overweight from Neutral, in large part because the earnings outlook has improved materially. We downgrade CEEMEA to Underweight from Neutral. Last month's upgrade proved premature, as the earnings outlook for the region has deteriorated rapidly at the same time that relative valuations have become less attractive.
- **Sector strategy** — There are no changes to our sector strategy this month.

Figure 1: Regional Rankings
Arrows Indicate Change vs. Last Month



Source: Cornerstone Capital Inc.

Figure 2: Sector Rankings
Arrows Indicate Change vs. Last Month



Source: Cornerstone Capital Inc.

This month the only changes to our weightings are in the regional model. Our previous regional and sector recommendations were published in the September 2014 edition of the Cornerstone Capital [Regional and Sector Strategy: Monthly Update](#).

We upgrade the U.K. to Overweight from Neutral. Although relative valuations are unchanged, the earnings outlook has improved materially. Specifically, the U.K. was the only area to experience more upward than downward earnings estimate revisions last month, which coincided with a continued improvement in earnings momentum. Figure 3 lists the ten largest companies in the FTSE 100.

Figure 3: Ten Largest Companies in FTSE 100

Ticker	Name	% Index Weight
HSBA LN	HSBC Holdings PLC	7.3
RDSA LN	Royal Dutch Shell PLC	5.4
BP/ LN	BP PLC	4.9
GSK LN	GlaxoSmithKline PLC	4.2
BATS LN	British American Tobacco PLC	3.9
RDSB LN	Royal Dutch Shell PLC	3.5
AZN LN	AstraZeneca PLC	3.3
VOD LN	Vodafone Group PLC	3.3
DGE LN	Diageo PLC	2.7
LLOY LN	Lloyds Banking Group PLC	2.5

Source: Bloomberg

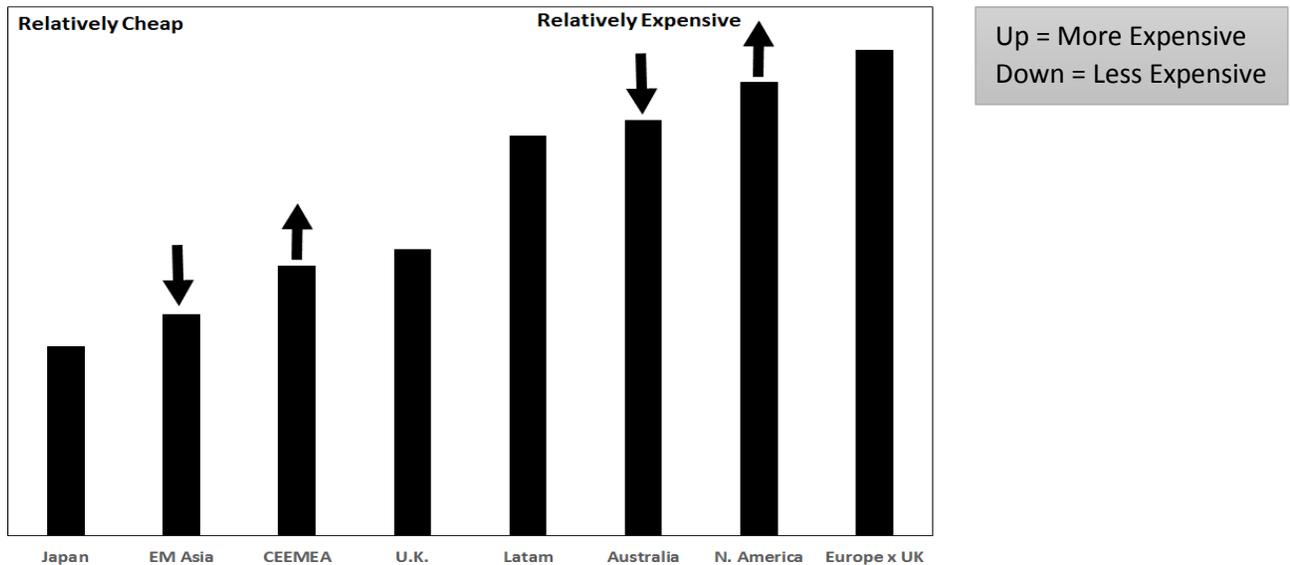
We downgrade the Central and Eastern Europe, Middle East and Africa (CEEMEA) region to Underweight from Neutral. As a reminder, the two largest countries in the region are South Africa (43%) and Russia (26%), both of which have heavy exposure to Materials and Energy, two of our three Underweight sectors (the third being Utilities). Last month's upgrade of CEEMEA to Neutral from Underweight proved premature — the earnings outlook for the region has deteriorated rapidly at the same time that relative valuations have become less attractive. Net earnings revisions (upward earnings estimate revisions minus downward revisions) were *by far the worst of any region* last month. Not surprisingly, earnings momentum in CEEMEA has continued to weaken.

Regional Strategy Update

We have updated the inputs to the Cornerstone Capital Regional Strategy Model in which we rank eight regions/major economies that are included in the MSCI All Country World Index (ACWI).

In terms of valuations, Figure 4 illustrates that the relative valuation of the CEEMEA region has become less attractive.

**Figure 4: Regional Valuations (50% of Aggregate Weight)
Arrows Indicate Change vs. Last Month**



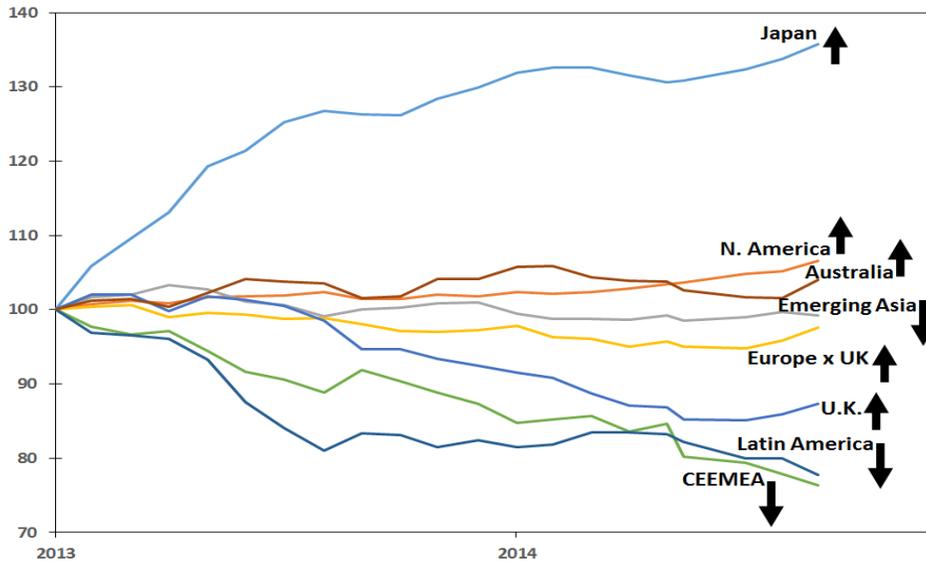
Source: Cornerstone Capital Inc.

None of the relative valuation shifts of the other regions — including the U.K. — were material.

Figure 5 illustrates that earnings momentum in the CEEMEA region continues to deteriorate, while Figure 6 illustrates that the earnings revisions trend in CEEMEA remains extremely negative i.e., downgrades by far exceed upgrades.

Figure 5: Earnings Momentum (33% of Earnings Weight)

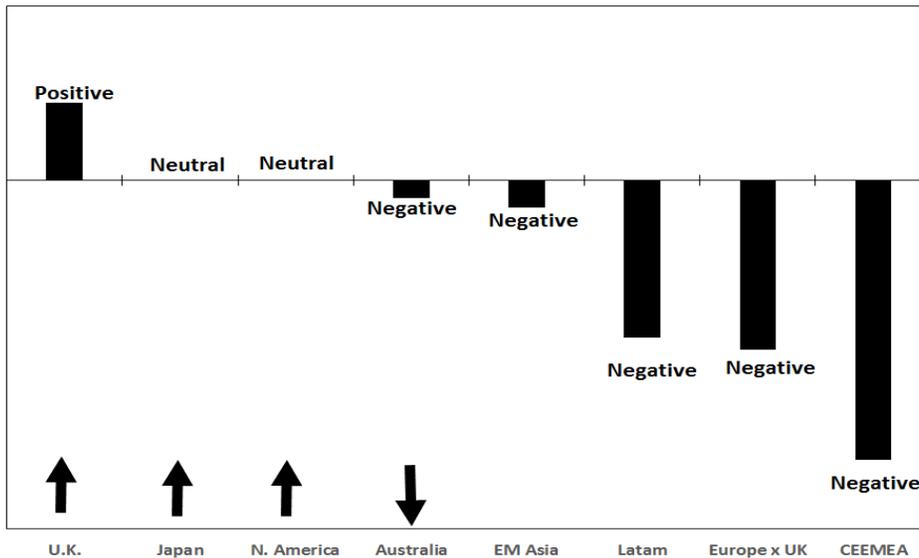
Arrows Indicate Change vs. Last Month



Source: Cornerstone Capital Inc.

Figure 6: Earnings Revisions (33% of Earnings Weight)

Arrows Indicate Change vs. Last Month

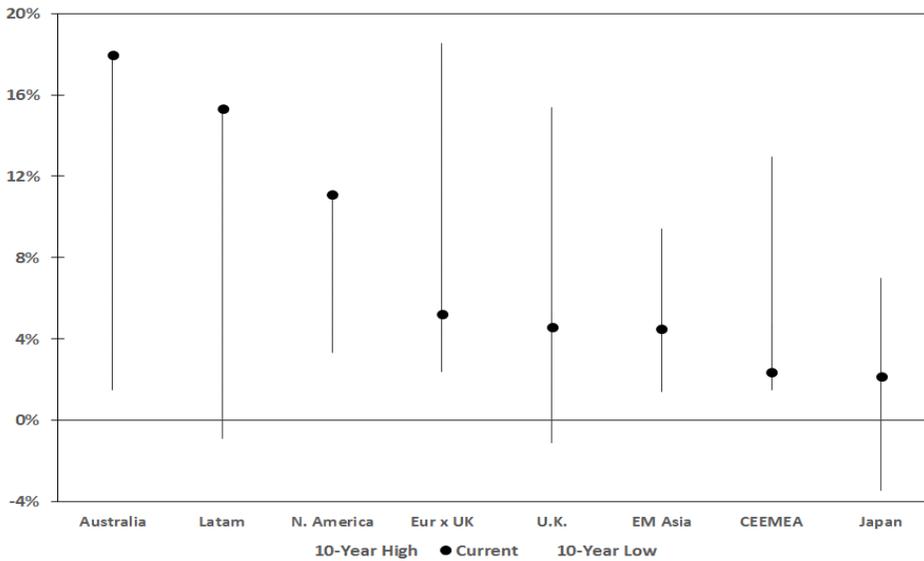


Source: Cornerstone Capital Inc.

By contrast, earnings momentum in the U.K. continued to improve, and the area was *the only one to experience more upward than downward earnings estimate revisions last month.*

Figure 7 illustrates that margins in CEEMEA are currently lower than in most other regions.

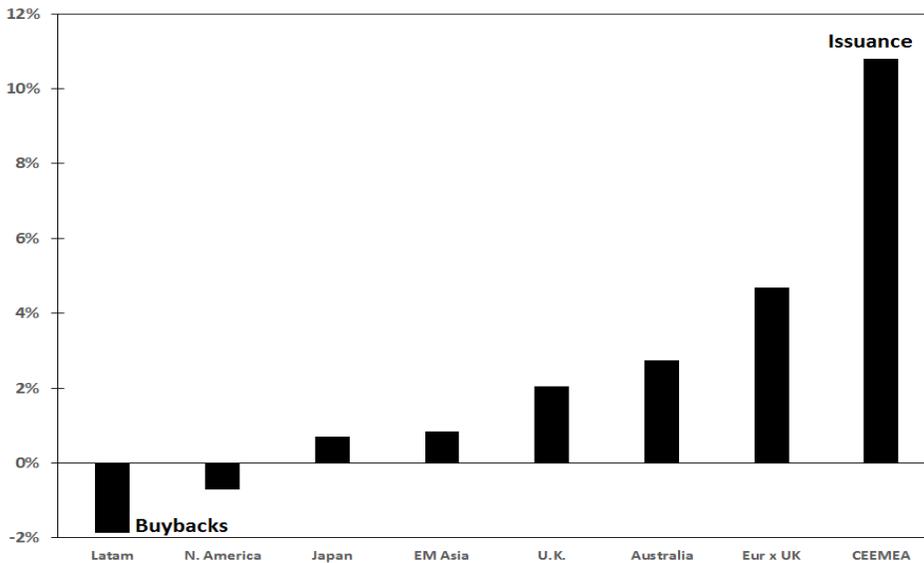
Figure 7: Margins (15-20% of Earnings Weight)



Source: Cornerstone Capital Inc.

Another negative for CEEMEA is that share issuance remains very high — Figure 8. Given that corporate earnings are reported on a per share basis, a large amount of *net* share issuance is a drag on earnings per share growth in a region.

Figure 8: Net Share Issuance (15-20% of Earnings Weight)



Source: Cornerstone Capital Inc.

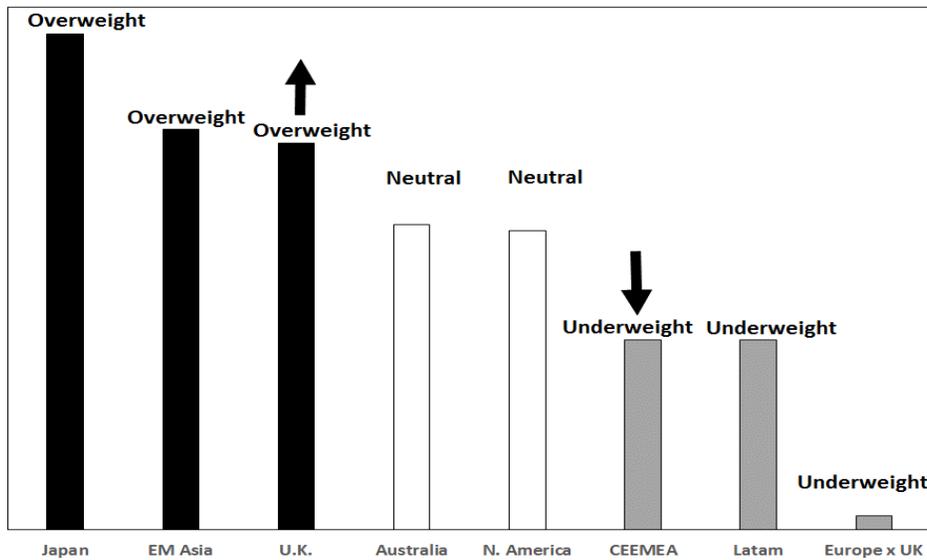
Figure 9 summarizes the current regional recommendations and Figure 10 illustrates the dispersion of the regional scores.

Figure 9: Regional Recommendations

Region / Major Economy	Recommendation	Valuation (Relative)	Governance (Relative)	Earnings Momentum	Earnings Revisions	Margins (Relative)	Share Buybacks
Japan	Overweight	Positive	Neutral	Neutral	Neutral	Negative	Negative
EM Asia	Overweight	Positive	Negative	Neutral	Negative	Negative	Negative
U.K.	Overweight	Neutral	Positive	Neutral	Positive	Neutral	Negative
Australia	Neutral	Negative	Positive	Neutral	Negative	Neutral	Negative
North America	Neutral	Negative	Positive	Positive	Neutral	Positive	Positive
CEEMEA	Underweight	Positive	Negative	Negative	Negative	Positive	Negative
Latin America	Underweight	Neutral	Negative	Negative	Negative	Positive	Positive
Europe x U.K.	Underweight	Negative	Neutral	Neutral	Negative	Negative	Negative

Source: Cornerstone Capital Inc.

**Figure 10: Ranking Regions by Weighting Valuation, Earnings and Governance Scores
Arrows Indicate Change vs. Last Month**



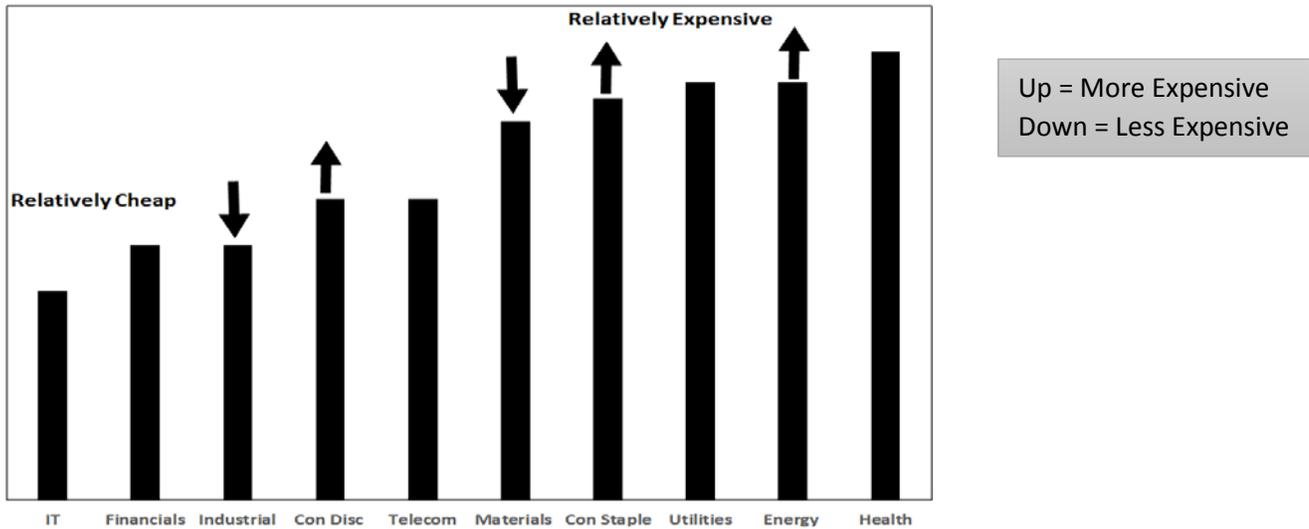
Source: Cornerstone Capital Inc.

Sector Strategy Update

We have updated the inputs to the Cornerstone Capital Sector Strategy Model in which we rank the ten GICs in the MSCI ACWI.

In terms of valuations, Figure 11 illustrates that the Health Care sector is currently the most expensive, followed by two of our three Underweights: Energy and Utilities.

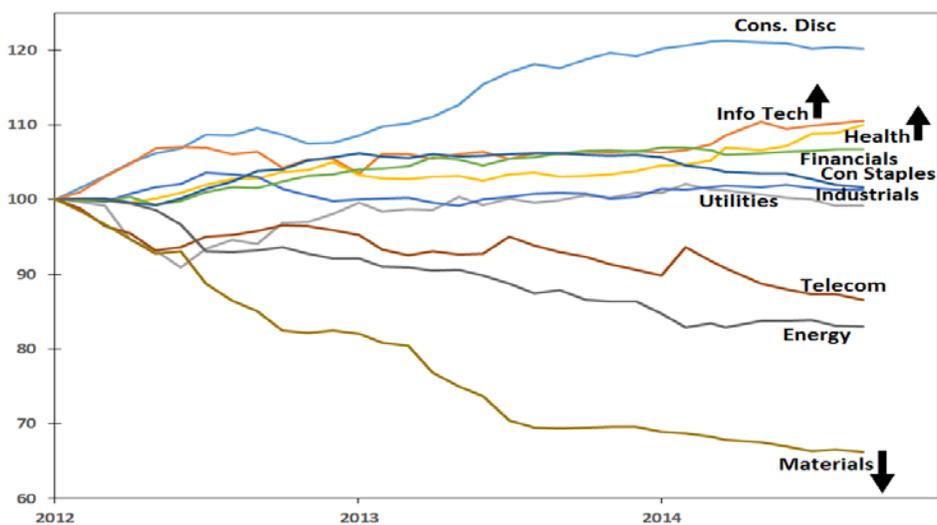
Figure 11: Sector Valuations (25% of Aggregate Weight)
Arrows Indicate Change vs. Last Month



Source: Cornerstone Capital Inc.

Figure 12 illustrates that earnings momentum in both the Information Technology and Health Care sectors — our two Overweights — improved last month. Earnings momentum in the Materials sector weakened, while momentum in the Energy and Utilities sectors was unchanged.

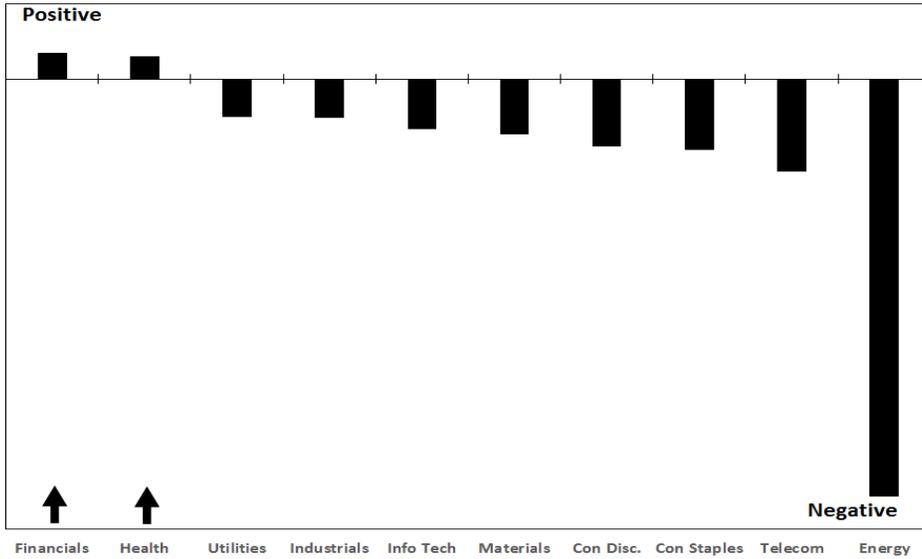
Figure 12: Earnings Momentum (33% of Earnings Weight)
Arrows Indicate Change vs. Last Month



Source: Cornerstone Capital Inc.

Figure 13 shows that Health Care was one of only two sectors experiencing more upward than downward earnings estimate revisions last month.

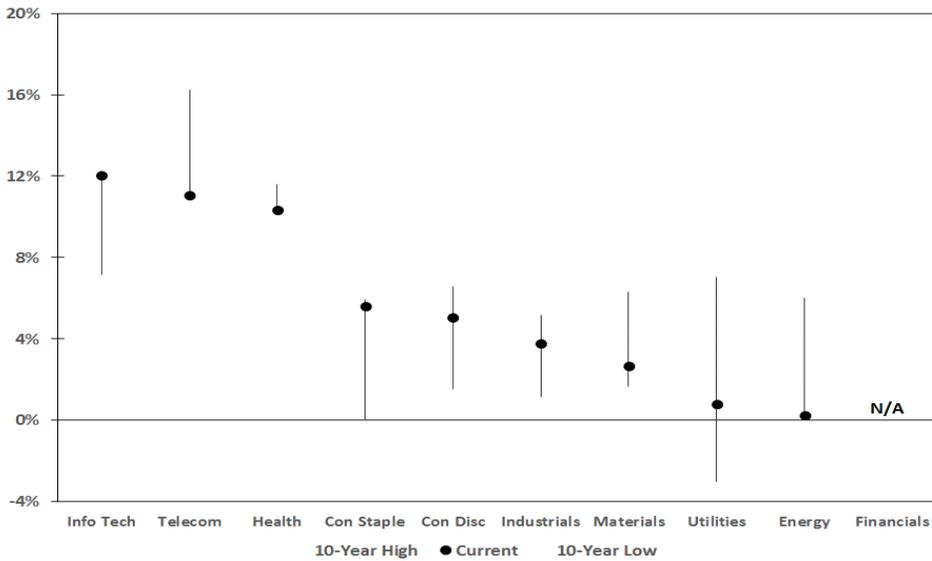
Figure 13: Earnings Revisions (25% of Earnings Weight)
Arrows Indicate Change vs. Last Month



Source: Cornerstone Capital Inc.

Margins in Information Technology and Health Care are materially higher than in most other sectors (Figure 14).

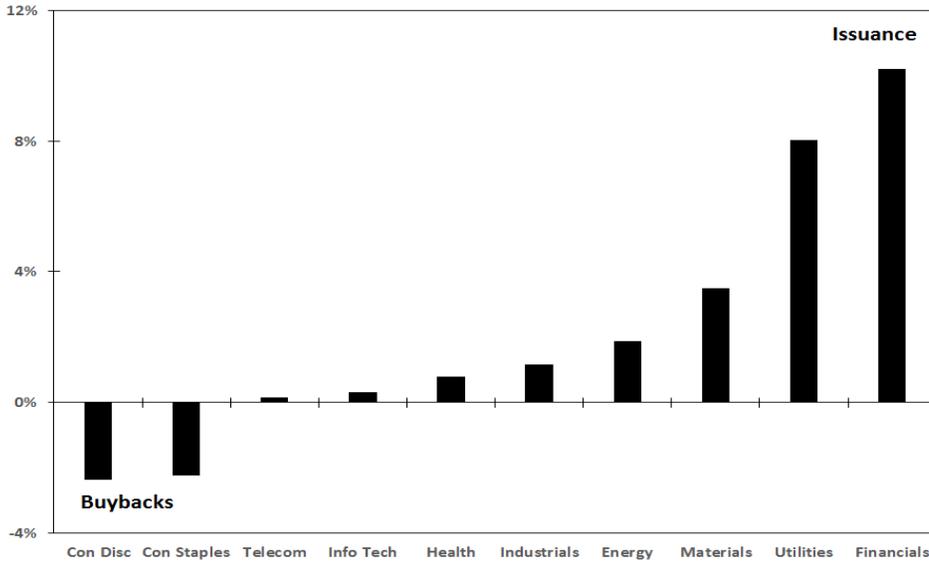
Figure 14: Margins (25% of Earnings Weight)



Source: Cornerstone Capital Inc.

Figure 15 illustrates that all three of our Underweights — Utilities, Materials and Energy — have experienced a significant amount of share issuance over the last twelve months.

Figure 15: Net Share Issuance = 15-20% of Earnings Weight



Source: Cornerstone Capital Inc.

Figure 16 summarizes the current sector recommendations.

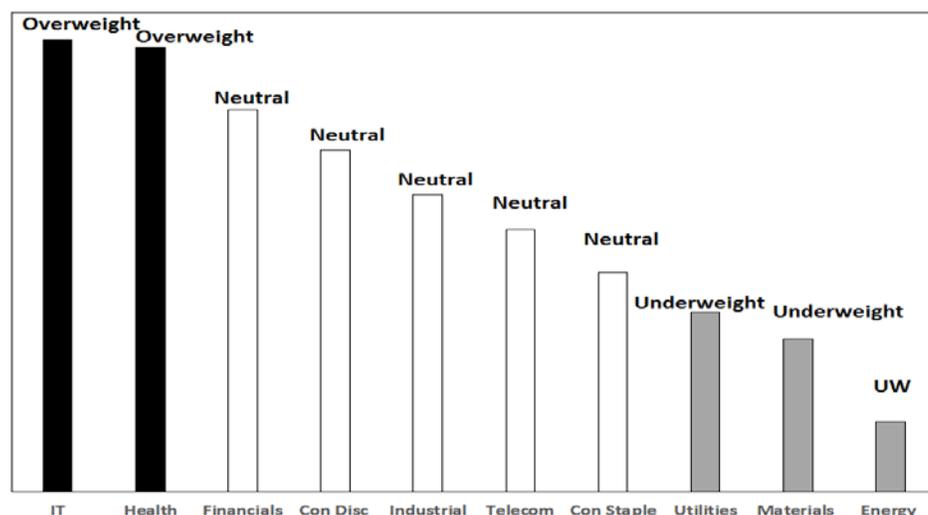
Figure 16: Sector Recommendations

Sector	Recommendation	Valuation (Relative)	ESG (Relative)	Earnings Momentum	Earnings Revisions	Margins (Relative)	Share Buybacks
Info Tech	Overweight	Positive	Positive	Positive	Negative	Positive	Negative
Health Care	Overweight	Negative	Negative	Positive	Positive	Positive	Negative
Financials	Neutral	Positive	Neutral	Neutral	Positive	Neutral	Negative
Cons Disc	Neutral	Neutral	Negative	Positive	Negative	Neutral	Positive
Industrials	Neutral	Positive	Positive	Neutral	Negative	Negative	Negative
Telecom	Neutral	Neutral	Positive	Negative	Negative	Positive	Negative
Cons Staples	Neutral	Neutral	Neutral	Neutral	Negative	Neutral	Positive
Utilities	Underweight	Negative	Neutral	Neutral	Negative	Negative	Negative
Materials	Underweight	Neutral	Neutral	Negative	Negative	Neutral	Negative
Energy	Underweight	Negative	Negative	Negative	Negative	Negative	Negative

Source: Cornerstone Capital Inc.

Figure 17 illustrates the dispersion of the sector scores.

Figure 17: Ranking Sectors by Weighting Valuation, Earnings and ESG Scores
Arrows Indicate Change vs. Last Month



Source: Cornerstone Capital Inc.

Combining the Regional and Sector Models

Combining our sector and regional models, Figure 18 illustrates sector Over- and Under-weights by region.

- We are Overweight *Information Technology* in Japan, Emerging Asia and North America.
- We are Overweight *Health Care* in the U.K., North America and Europe ex U.K.
- We are Underweight or Neutral *Energy, Materials* and *Utilities* in the majority of regions.

Figure 18: Combining the Regional and Sector Models

	Japan	EM Asia	U.K.	Australia	North America	CEEMEA	Latin America	Europe x U.K.
Info Tech	Overweight	Overweight	NMF	NMF	Overweight	NMF	NMF	Neutral
Health Care	Neutral	NMF	Overweight	Neutral	Overweight	NMF	NMF	Overweight
Financials	Underweight	Neutral	Underweight	Overweight	Underweight	Overweight	Overweight	Neutral
Cons Disc	Overweight	Neutral	Underweight	Underweight	Overweight	Overweight	Underweight	Neutral
Industrials	Overweight	Neutral	Neutral	Underweight	Overweight	NMF	Underweight	Overweight
Telecom	Neutral	Overweight	Neutral	Underweight	Underweight	Overweight	Overweight	Underweight
Cons Staples	Underweight	Underweight	Overweight	Neutral	Neutral	Underweight	Overweight	Overweight
Utilities	NMF	NMF	Overweight	Neutral	Neutral	NMF	Underweight	Underweight
Materials	Underweight	Underweight	Overweight	Overweight	Underweight	Neutral	Underweight	Neutral
Energy	NMF	Neutral	Overweight	Underweight	Neutral	Underweight	Underweight	Underweight

Source: Cornerstone Capital Inc.

Appendix 1: Summary Statistics

Figure 19: Global Equity Markets Data

10/3/2014	Weight in MSCI ACWI	% chg 1 Month (\$)	% chg YTD (\$)	P/E Ratio Trailing	P/E Ratio 20-yr Avg	2014 EPS Growth (e)
MSCI AC World	100%	-5.0%	0.7%	16.8	20.1	11%
North America:	54%	-2.3%	6.1%	18.2	19.3	11%
----U.S.	50%	-1.8%	6.3%	18.3	19.5	11%
----Canada	4%	-8.4%	3.1%	18.2	19.1	8%
Europe x UK:	15%	-7.3%	-7.5%	20.8	17.1	11%
----France	3%	-8.0%	-9.6%	27.2	29.8	11%
----Switzerland	3%	-6.6%	-3.2%	19.1	24.9	9%
----Germany	3%	-7.8%	-14.2%	17.1	24.5	10%
----Spain	1%	-7.4%	-0.7%	18.7	16.3	14%
----Sweden	1%	-5.7%	-9.7%	14.4	49.3	7%
----Netherlands	1%	-5.1%	-7.3%	20.0	32.4	11%
----Italy	1%	-7.4%	-2.1%	NA	39.3	16%
U.K.	7%	-7.9%	-6.9%	16.3	25.4	9%
Japan	8%	-5.6%	-6.5%	15.4	19.6	9%
Australia	3%	-12.5%	-3.3%	17.3	18.9	8%
Emerging Asia:	7%	-7.1%	2.6%	12.1	16.0	9%
----China	3%	2.4%	6.0%	12.3	17.4	16%
----South Korea	2%	-9.4%	-7.7%	16.6	15.2	NA
----Taiwan	1%	-6.1%	7.0%	15.6	28.0	7%
----India	1%	-3.8%	23.0%	18.6	17.2	13%
Latin America:	2%	-15.5%	-2.2%	16.9	13.7	14%
----Brazil	1%	-21.3%	-3.5%	14.7	13.3	14%
----Mexico	1%	-6.1%	1.6%	23.0	15.6	16%
CEEMEA:	2%	-10.6%	-9.2%	10.8	16.4	11%
----South Africa	1%	-11.9%	-0.2%	17.4	14.1	12%
----Russia	1%	-11.6%	-24.0%	4.9	7.0	6%
----Turkey	0%	-14.6%	2.9%	9.6	10.1	16%
----Poland	0%	-6.8%	-7.0%	20.7	21.8	9%

	Weight in MSCI ACWI	% chg 1 Month (\$)	% chg YTD (\$)	P/E Ratio Trailing	P/E Ratio 20-yr Avg	2014 EPS Growth (e)
MSCI AC World	100%	-5.0%	0.7%	16.8	20.1	11%
Consumer Discretionary	11%	-5.1%	-4.2%	17.4	25.4	15%
Consumer Staples	10%	-3.5%	0.3%	20.0	20.2	9%
Energy	9%	-10.6%	-2.7%	13.4	15.2	8%
Financials	22%	-5.4%	-1.0%	13.7	25.3	12%
Health Care	11%	-0.6%	12.8%	22.8	22.5	11%
Industrials	11%	-5.1%	-4.0%	17.5	21.1	11%
Information Technology	13%	-2.4%	8.7%	18.9	34.0	8%
Materials	6%	-9.8%	-6.8%	18.6	19.9	15%
Telecom	4%	-4.5%	-2.7%	14.4	50.8	8%
Utilities	3%	-4.2%	6.5%	19.2	16.4	5%

Source: Cornerstone Capital Inc., Bloomberg

Appendix 2: MSCI ACWI Weights

Figure 20: MSCI ACWI Weights of Sectors in Regions
As of August 29, 2014

	Japan	EM Asia	U.K.	Australia	North America	CEEMEA	Latin America	Europe ex. U.K.
Information Technology	11%	26%	1%	1%	18%	0%	2%	4%
Health Care	6%	2%	10%	5%	13%	3%	1%	15%
Financials	19%	25%	22%	52%	17%	33%	30%	23%
Consumer Discretionary	21%	9%	8%	2%	12%	12%	7%	11%
Industrials	20%	7%	7%	6%	10%	3%	6%	13%
Telecom	6%	7%	5%	2%	2%	11%	7%	5%
Consumer Staples	7%	6%	16%	9%	9%	6%	17%	12%
Utilities	2%	3%	4%	2%	3%	3%	5%	4%
Materials	6%	7%	9%	17%	4%	9%	15%	7%
Energy	1%	7%	17%	6%	12%	21%	12%	6%

Source: MSCI, Cornerstone Capital Inc.

Appendix 3: The Conceptual Framework

The Cornerstone Capital *Regional Equity Strategy Model*

The Cornerstone Capital regional equity strategy model employs a quantitative multi-factor methodology to generate regional recommendations based on proprietary measures of valuation and earnings. The Cornerstone Capital model also takes into account national governance metrics by region.

This is a dynamic model, with factors and factor weightings reviewed on a regular basis for relevance. The key measures of valuation and earnings are updated monthly; they can be updated more frequently (e.g., weekly) although a risk here is short-term “noise” in the data that does not persist for a longer period of time. (The national governance metrics currently employed — discussed below — are updated annually.) A variation of this model has been in use for a number of years, and has added value in the investment decision process.

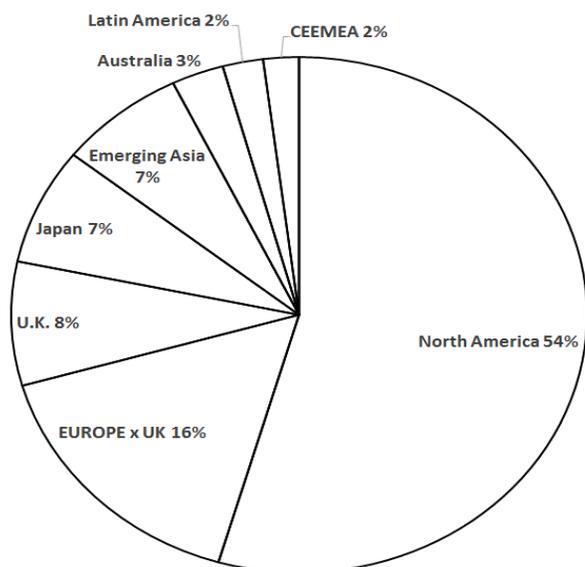
The Key Fundamental Variables: Earnings and P/E

We start with the assumption that only two things ultimately determine the fair value of equities: earnings and P/E. In the short term, other factors may play a role – e.g., sentiment (“fear” or “greed”), politics (including geopolitical issues), macroeconomic variables (e.g., Central Bank tightening or easing) etc. — but, in the long run, we believe it all comes down to earnings and the valuation of those earnings. A number of factors drive valuation multiples at any point in time, including perceptions of corporate governance.

Eight Regions / Major Economies

We focus on eight regions / major economies that are included in the MSCI All Country World Index (ACWI) — see Figure 21.

Figure 21: Weighting of MSCI ACWI: August 29, 2014



Source: MSCI and Cornerstone Capital Inc.

We consider valuation and earnings factors to determine the relative attractiveness of regions. Valuation and earnings are given *equal weighting* in the regional model.

Region Valuation Factors

In terms of the *valuation* of a region, several factors are measured in order to come up with numerical values, which we label “positive,” “neutral,” or “negative” in summary tables. These factors include:

- (i) P/E relative to other regions.
- (ii) P/E relative to the historical average for the region.
- (iii) P/E on a “normalized” basis i.e., excluding cyclical peaks and troughs.
- (iv) The potential for P/E expansion or contraction.

The first three factors are self-explanatory, while the fourth factor is based on a number of momentum indicators.

Region Earnings Factors

Turning to the *earnings* of a region, the model aggregates a number of measures under four broad headings:

- *Earnings Momentum (33% of Earnings Weight)*. Relative to the MSCI ACWI, we calculate if the earnings momentum of a region has been accelerating, stable or decelerating. We then look at the earnings momentum of one region relative to another. The resulting numerical values are labeled in summary tables as “positive” (accelerating momentum), “neutral” (stable momentum) or “negative” (decelerating momentum).
- *Earnings Revisions (33% of Earnings Weight)*. For each of the companies in a region, we look at the recent trend in earnings revisions by calculating the difference between the number of *upward* and *downward* estimate revisions. The data are aggregated, and the resulting numerical values are summarized. A high ratio of *upward*-to-*downward* revisions is considered “positive” for a region; conversely a high ratio of *downward*-to-*upward* revisions is considered “negative.”
- *Margins (15-20% of Earnings Weight)*. We look at the margins — both actual and estimated — of all of the companies in a region and aggregate the data. We assume that relatively high and sustainable margins are “positive” in that they should support earnings growth, while volatile margins are a “negative.”
- *Share Buybacks (15-20% of Earnings Weight)*. Given that corporate earnings are reported on a per share basis, we take into account the amount of *net* share buybacks that have occurred over the past twelve months in each region. Once again, we aggregate data from the company level. A large amount of *net* share buybacks is “positive” for earnings per share growth in a region, while the opposite (i.e., share issuance) is “negative.”

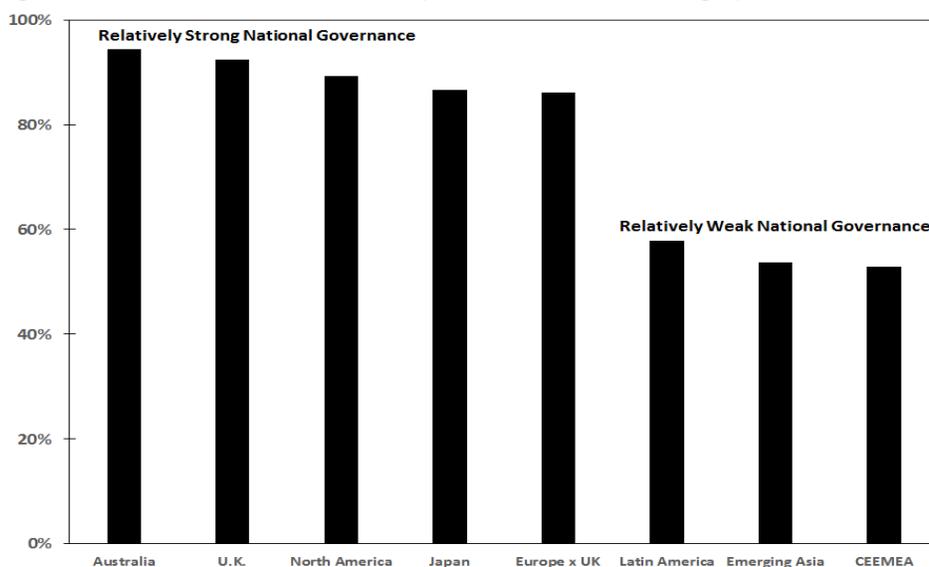
Region National Governance Metrics

We derive a national governance score for the regions by utilizing four surveys:

- The World Economic Forum’s *Corporate Governance* score.
- The World Bank’s *Ease of Doing Business* Index.
- Transparency International’s *Corruption Perceptions Index*.
- The World Bank’s *Worldwide Governance Indicators*.

We take a weighted average of the four macro governance measures to derive a composite national governance score — see Figure 22. Relatively strong national governance is considered a “positive” and relatively weak governance a “negative.” These national governance metrics, which represent 15-20% of the valuation weight, are only updated annually.

Figure 22: National Governance Score (15-20% of Valuation Weight)



Source: Cornerstone Capital Inc.

In future research, we will study the significance of social and environmental factors for regional allocations.

Ranking Regions by Weighting Valuation, Earnings and National Governance Scores

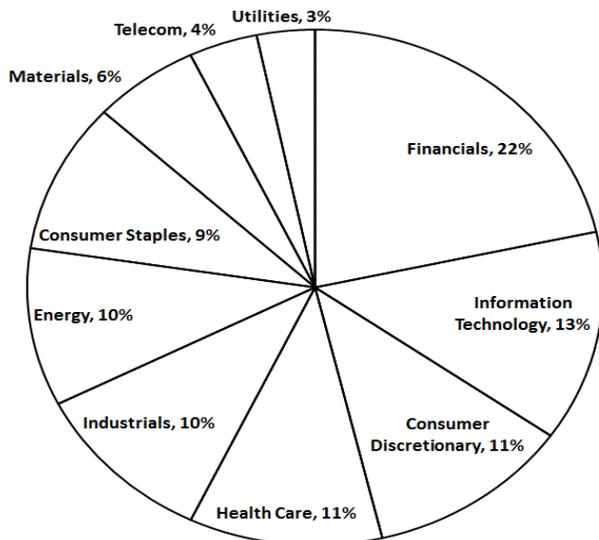
The values derived from the various measures of valuation, earnings and national governance are weighted, and the regions are then ranked on the basis of their total “score.” Regions that are at the very top or very bottom of the distribution are typically ranked “overweight” or “underweight” respectively, while regions that fall in the middle are typically ranked “neutral.”

Given the quantitative underpinnings of the model, we can look at the *dispersion* of the “scores” in order to decide on the relative weightings. In other words, a region’s score might be so high relative to the others in a given month that it is the sole overweight while, in another month, the scores of a number of regions are closely clustered and they are all assigned the same weighting (e.g., “neutral”).

The Cornerstone Capital Sector Equity Strategy Model

Using a similar methodology to the one outlined above, the sector model ranks the 10 GICS in the MSCI ACWI Index — see Figure 23.

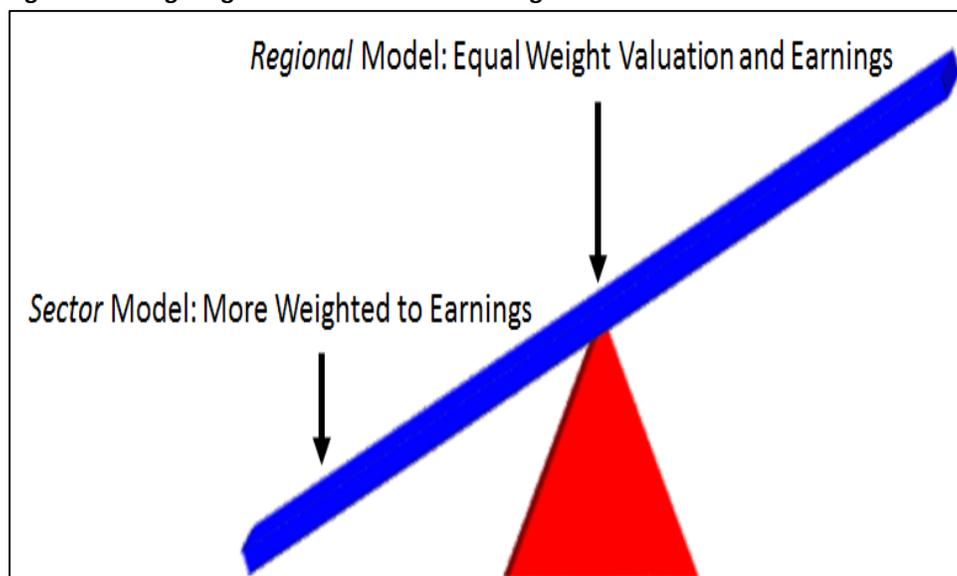
Figure 23: Weighting of MSCI ACWI
as of August 29, 2014



Source: MSCI and Cornerstone Capital Inc.

The primary difference between the regional and sector models is the weights assigned to the valuation and earnings factors. The *sector model* gives a heavier weighting to earnings (75%) while, in the regional model, valuation and earnings are equally weighted — see Figure 24.

Figure 24: Weighting of the Sector Model vs. Regional Model



Source: Cornerstone Capital Inc.

The reason for this is that, in our experience, investors consider that “sectors are global; regions are diverse.” In other words, many of the same supply and demand trends will influence, for example, the earnings of the Energy sector in different regions. However, *a variety of unique factors* can influence the valuations of a given country or region, including perceptions of national governance. The national governance metrics currently employed represent 15-20% of the *valuation* weight (which is itself equally weighted with earnings in the regional model).

Sector Valuation Factors

In terms of the valuation of a sector, several factors are measured in order to come up with numerical values, which we label “positive,” “neutral,” or “negative.” These factors include:

- (i) P/E relative to other sectors.
- (ii) P/E relative to the historical average for the sector.
- (iii) P/E on a “normalized” basis i.e., excluding cyclical peaks and troughs.
- (iv) The potential for P/E expansion or contraction.

The first three factors are self-explanatory, while the fourth factor is based on a number of momentum indicators.

Sector Earnings Factors

Turning to the earnings of a sector, the model aggregates a number of measures under four broad headings:

- *Earnings Momentum (33% of Earnings Weight)*. Relative to the MSCI ACWI, we calculate if the earnings momentum of a sector has been accelerating, stable or decelerating. We then look at the earnings momentum of one sector relative to another. The resulting numerical values are labeled as “positive” (accelerating momentum), “neutral” (stable momentum) or “negative” (decelerating momentum).
- *Earnings Revisions (25% of Earnings Weight)*. For each of the companies in a sector, we look at the recent trend in earnings revisions by calculating the difference between the number of *upward* and *downward* estimate revisions. The data are aggregated, and the resulting numerical values are summarized. A high ratio of *upward*-to-*downward* revisions is considered “positive” for a sector; conversely a high ratio of *downward*-to-*upward* revisions is considered “negative.”
- *Margins (25% of Earnings Weight)*. We look at the margins — both actual and estimated — of all of the companies in a sector and aggregate the data. We assume that relatively high and *sustainable* margins are “positive” in that they should support earnings growth, while volatile margins are a “negative.” In recent years, margins in the (knowledge-intensive) Information Technology and Telecom sectors have been consistently high, while margins in the Utilities sector have been quite volatile. Consequently, Information Technology and Telecom get a higher score for Margins than Utilities.
- *Share Buybacks (15-20% of Earnings Weight)*. Given that corporate earnings are reported on a per share basis, we take into account the amount of *net* share buybacks that have occurred over the past twelve months in each sector. Once again, we aggregate data from the company level. A large amount of *net* share buybacks is “positive” for earnings per share growth in a sector, while the opposite (i.e., share issuance) is “negative.”

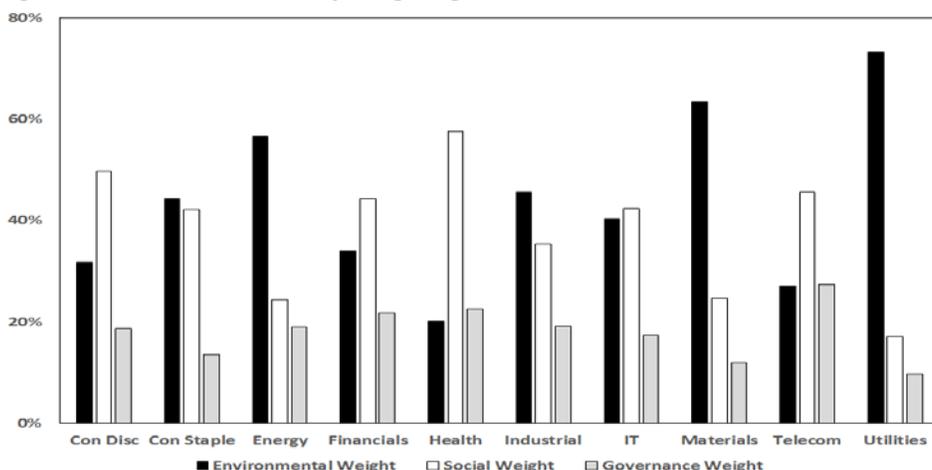
Sector ESG Metrics

The sector model also takes into account environmental, social and governance (ESG) metrics. In this *first iteration* of the sector equity strategy model, we utilize ESG metrics calculated by MSCI. MSCI ESG Intangible

Value Assessment (IVA) provides analysis of over 5,000 global companies' financially material risks and opportunities arising from environmental, social, and governance factors. At a security level, an Environment Score, Social Score and Governance score are calculated on a 0-10 scale, with 10 being the best in terms of companies' opportunity or risk exposure and ability to manage that exposure.

Figure 25 illustrates that, according to a Deutsche Bank analysis,¹ Environmental factors are particularly important in the Utilities and Materials sectors, Social factors are particularly important in the Health Care sector, and Governance factors are relatively important in the Telecom and Financials sectors.

Figure 25: Sector ESG Scores by Weighting



Source: Deutsche Bank

To arrive at a final rating — see Figure 26² — the weighted averages of the scores are aggregated and companies' scores are normalized by their industries.

Figure 26: MSCI Sector ESG Scores (Highest is Best)

Consumer Discretionary	4.8
Consumer Staples	5.2
Energy	4.7
Financials	5.3
Health Care	4.8
Industrials	6.3
Information Technology	6.5
Materials	5.7
Telecommunication Services	5.9
Utilities	5.4

Source: MSCI

In future research, we will conduct our own study of *the significance of environmental, social and governance factors for sector allocations.*

Ranking Sectors by Weighting Valuation, Earnings and ESG Scores

The values derived from the various measures of valuation, earnings and ESG are weighted, and the sectors are then ranked on the basis of their total “score.” Sectors that are at the very top or very bottom of the distribution

¹ *The Socially Responsible Quant*, Deutsche Bank Markets Research, April 24, 2013

² *A Clear View of Risk and Return*, MSCI ESG Research, March 30, 2014

are typically ranked “overweight” or “underweight” respectively, while sectors that fall in the middle are typically ranked “neutral.”

Given the quantitative underpinnings of the model, we can look at the *dispersion* of the “scores” in order to decide on the relative weightings. In other words, a sector’s score might be so high relative to the others in a given month that it is the sole overweight while, in another month, the scores of a number of sectors are closely clustered and they are all assigned the same weighting (e.g., “neutral”).

Combining the Regional and Sector Models

Figure 27 illustrates the matrix that can be produced by combining the regional and sector recommendations.

Figure 27: Regional and Sector Overview

	<i>Japan</i>	<i>EM Asia</i>	<i>U.K.</i>	<i>Australia</i>	<i>North America</i>	<i>CEEMEA</i>	<i>Latin America</i>	<i>Europe x U.K.</i>
<i>Info Tech</i>	X	X	X	X	X	X	X	X
<i>Health Care</i>	X	X	X	X	X	X	X	X
<i>Financials</i>	X	X	X	X	X	X	X	X
<i>Cons Disc</i>	X	X	X	X	X	X	X	X
<i>Industrials</i>	X	X	X	X	X	X	X	X
<i>Telecom</i>	X	X	X	X	X	X	X	X
<i>Cons Staples</i>	X	X	X	X	X	X	X	X
<i>Utilities</i>	X	X	X	X	X	X	X	X
<i>Materials</i>	X	X	X	X	X	X	X	X
<i>Energy</i>	X	X	X	X	X	X	X	X

Source: Cornerstone Capital Inc.

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