Itaú Asset Management

Factores ESG: Una mirada desde las Administradoras de Fondos

Seminario de Inversiones Responsables

Noviembre 2018

The evolution of SRI (Sustainable and Responsible Investment)

SRI -

SRI +

SRI Best

ESG

First Generation Decades 60 and 70	Second Generation Decades 80 and 90	Third Generation Decades 90 and 2000	Fourth Generation Begins in 2006
"Negative Screening" Exclusion of sectors or companies not in compliance with pre defined criteria (defense, tobacco, alcohol, and sectors considered heavy polluters)	**"Positive Screening"** Invests in sectors and companies that promote positive environmental and social externalities. (Eolic energy / solar recycling, biotechnology)	**"Best in class"** Invests in the best ESG performing companies of each sector / industry May be combined with negative and positive screening	**"ESG Integration"** Integration of ESG analysis into the investment process. Quantify ESG risks and opportunities in company valuations PRI Principles for Responsible Investment
Products			**Strategy**

Source: Itaú Asset Management.

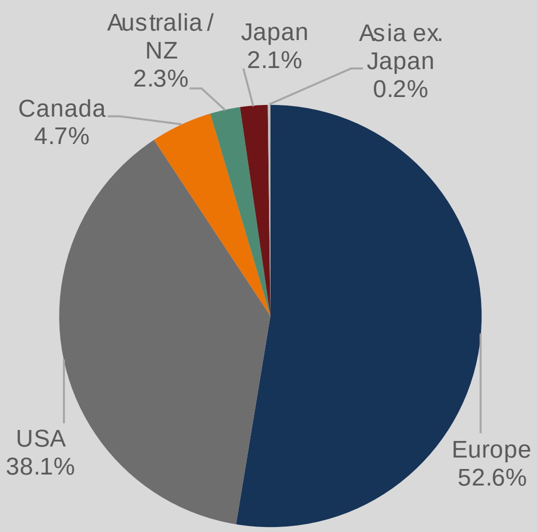
SRI across the Market

Global Panorama

SRI Investment strategies

Have been growing across all markets for Professionally managed Assets

Global proportion of SRI Assets per Region



Proportion of SRI Assets relative to Managed Assets

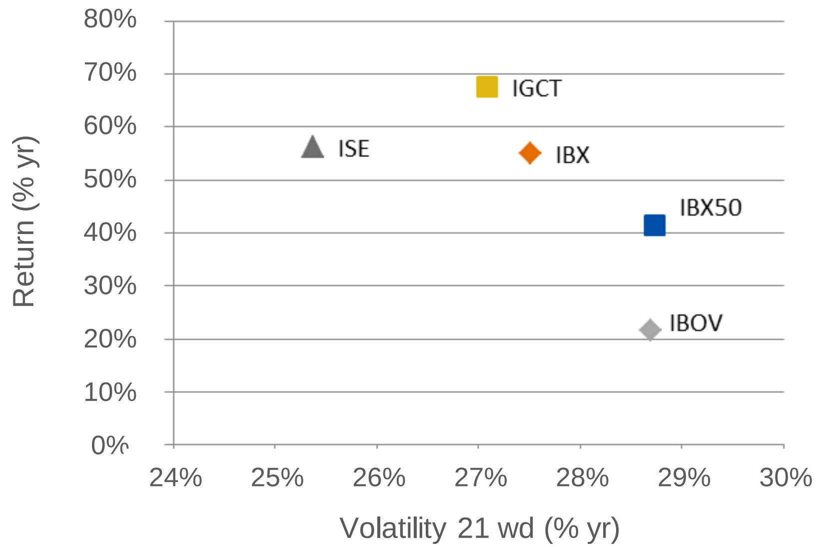
US$ Bi	2012	2016	Growth	CAGR
Europe	8,758	12,040	37%	8%
USA	3,740	8,723	133%	24%
Canada	589	1,086	84%	17%
Australia / NZ	134	516	285%	40%
Japan	40	52	30%	7%
Asia ex. Japan	-	474	-	
Total	**13,261**	**22,891**	**73%**	**15%**

Source: GSIA (Global Sustainable Investment Alliance), Dec/2016

Does ESG creates value?

In Brazil, ISE and IGCT indexes present over performance with lower volatility compared to mainstream indexes in 10 years.

Risk x Return | Brazilian Indexes
July.2007 a July.2017



Source: Bloomberg | Dados de 01/08/2007 a 31/07/2017

Company Benefits

1. New business **opportunities**
2. Anticipate **legal liabilities**
3. Reduction in **production costs**
4. **Talent** attraction and retention
5. Access to **capital markets**
6. **Risk** mitigation
7. **Positive** reputation

Source: *The Reference Compendium on Business and Sustainability*, University of Cambridge Programme for Industry, 2004 (interpretação e adaptação Fundação Brasileira para o Desenvolvimento Sustentável) | Extraído do Guia Novo Valor -Sustentabilidade nas Empresas da BM&FBovespa Sep 09, 2016

SRI at Itaú Asset Management

Capabilities and timeline

Coverage

- 100% of Ibovespa, IBrX-100 and ISE Indexes
- 85% of Fixed Income Corporate Issuers Portfolio

Team

- SRI Equities PM;
- SRI/ESG Analyst.
- External Consultants

Activities

- Engagement with analyzed companies
- Company visits
- Active Ownership

2004
Itaú Asset Management Launches Itaú Social Excellence Fund (FIES)

2008
Signatory
PRI Principles for Responsible Investment

2009
ESG integrated in Proxy Voting policy

2010
ESG integration model in Listed Equities

2013
White Paper on ESG integration in Listed Equities

2014
White Paper on ESG integration in Fixed Income Corporate Issuers

2015
Internal study on ESG impact in Brazilian Sovereign Bonds

2016
US Bonds ESG coverage

Itaú Asset Management ESG Integration Model

Overview

1ª stage

Research

- Cross-sector dimensions
- +
- Sector-specific value drivers
- +
- Company performance

2ª stage

Quantification

- Revenues
- Costs
- Expenses
- Provisions
- Capex
- Cost of capital

3ª stage

Valuation

- Calculation of ESG issues NPV
- Company fair price adjustment

Source: Itaú Asset Management.

Itaú Asset Management ESG Integration Model

Cross Industry Dimensions | Associated Risks and Opportunities

Operational

- Productivity
- Costs
- Expenses
- Capex

Legal / Regulatory

- Fines and penalties
- Capex
- Business interruption

Market

- Premium pricing
- Access to new markets

Reputational

- Revenues
- Cost of capital

Source: Itaú Asset Management.

Itaú Asset Management ESG Integration Model

Cross Industry Dimensions | Associated Risks and Opportunities

Oil & Gas	▪ Large spills (-) ▪ Minor spills (-)
Mining	▪ Mining Dams (-) ▪ Water contamination (-) ▪ Iron ore dry beneficiation (+)
Retail	▪ Ugly Food trend (+) ▪ Recycling (+) ▪ Reverse Logistics (-)
Pulp and Paper	▪ Odor (-) ▪ Effluents (-) ▪ Reverse Logistics (-)
Electric Utilities	▪ Particulate emissions (-) ▪ Capex for filters (-)

Source: Itaú Asset Management.

Consideraciones Finales

- 60-80% del valor de una compañía es por lo que ocurre después del año 10.

- En un contexto en el que la ciudadanía demanda más transparencia de información y mejor uso de los recursos, las administradoras de fondos mutuos y de pensiones debemos preocuparnos de conocer cada vez con mayor profundidad los riesgos de invertir en una empresa.
  - La incorporación de criterios ESG no son la “bala de plata” para evitar defaults o retornos negativos en el futuro, pero sí son una fuente adicional de conocimiento de los riesgos de invertir en una empresa, y por tanto han de ser considerados tanto como los estados financieros.

- Invitamos a las empresas a entregar al mercado más información relacionada con los criterios ESG, no sólo para mejorar su relación con el mercado, sino también porque la reflexión de estos criterios promueven mejores prácticas dentro de la propia organización.