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RESPONSIBLE INVESTMENT IN BRAZIL – MATERIALITY AND EVOLUTION OF ESG ISSUES IN THE INVESTMENT PROCESS

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1 ABSTRACT

The responsible investment industry presents significant growth over mainstream investment options over the last decade. In Brazil, the Sustainability & Responsible Investment (SRI) industry has evolved since the launching of the first sustainable investment product, by ABN AMRO Bank, in 2001, but it is still in the early stages of its development. This paper aims to identify the main criteria considered by investors in Brazil when analyzing investments through an ESG perspective. By interviewing asset owners, asset managers, financial services providers and important stakeholders in the SRI industry, this paper identified what is relevant for the investor when dealing with ESG issues, and how they are integrated in the investment process. The interviews point out that all sustainability practices and policies should be related to company's business strategies, clearly detaching these initiatives from philanthropy or private social investment practices. When discussing how to integrate ESG criteria in the investment process, the challenge is that SRI products are focused mainly on equity investment, with other asset classes not having the same depth of expertise and availability of indicators or even specific investment products. Also, the interviews show that sustainability is moving from a niche strategy to be integrated transversally into investment management.

2 INTRODUCTION

Environmental, Social and Governance (ESG) issues are increasingly considered by investors in their research and portfolio management activities. The Responsible Investment industry presents significant growth over mainstream investment options, in all asset classes, according to studies conducted in different countries and regions.

Brazilian investors are evolving in the discussion and implementation of investment strategies that consider both risks and opportunities that come from ESG matters. Working in a collaborative network, together with the United Nations Principles for Responsible Investment (UNPRI), they look at this subject as a potential competitive advantage for companies that are positioned as market leaders in adopting sustainability strategies and business practices.

Faltou fazer aquele parágrafo sobre a estrutura do texto….. Sabe? The introduction will discuss the different terms and definitions used to characterize responsible investment, and the different strategies associated with this type of investment. A brief overview of the global markets in responsible investment and the creation on global principles with precede a picture of the responsible investment market in Brazil.

2.1 Justification

This paper aims to identify the main criteria considered by investors in Brazil when analyzing investments through an ESG perspective. The SRI market in Brazil is still in the early stages of its development, although it has been increasing considerably in the past few years. There is no consistent data on how the industry has evolved along the years, since the current studies only look at retail market funds that consider ESG criteria on their investment decision. Other aspects of this trend, including guiding criteria for investment, best-practices and implementation have not been subject of study. A better understanding of this type of investment market in Brazil can aid decision-making and, by replicating it in time, give a more structured view of the evolution of this industry.

2.2 Literature Survey

2.2.1 Responsible Investment Definitions

Responsible Investment, or sustainability & responsible investment (SRI) is commonly defined as "an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis" (Social Investment Forum, 2010). While this definition points out that there are positive and negative aspects of investment to take into account and the need for rigorous financial analysis, other definitions can emphasize different aspects.

Business for Social Responsibility, for example, defines SRI as "the integration of social and environmental criteria into the traditional investment decision-making process to allow large institutions and individuals to make investments that are consistent with both their social and financial goals" (BSR, 2008). Haigh and Hazelton (2004) highlight the conciliation of financial return with other concerns, defining SRI as "the practice of directing investment funds in ways that combine investors' financial objectives with their commitment to social concerns such as social justice, economic development, peace or a healthy environment".

Sandberg et al (2008), when discussing heterogeneity of SRI, argue that "although different terms are often used, and academic commentators frequently talk of 'definitional ambiguities', there is actually, at least on a general level, a good deal of agreement amongst SRI proponents when it comes to *definitions* of the terms ethical or socially responsible investments". Common to all these definitions is the inclusion of environmental, social and governance (ESG) criteria on the investing process.

2.2.2 Strategies and Evolution

The evolution of SRI strategies is linked to diversification between specific strategies, also known as core SRI, and the wider integration of SRI concepts in the investment process, or broad SRI. The main three strategies are screening, shareholder advocacy and community investing.

When adopting the strategy of screening, investors analyze a company's taking into account social and/or environmental criteria. Screening may be positive or negative. Positive screening looks for companies that show good performance in those criteria, or that are committed to responsible business practices, or even that produce positive products/services. Generally speaking, investors seek companies that make a positive contribution to society. Negative screening, on the other hand, single out companies or industries (and even countries) that are considered to have a negative, harmful, impact on society. The negative impact can be due to bad business practices, like disrespect for labor rights or poor environmental performance. Some industries can also be targeted, like weapons, tobacco or alcohol. These two strategies take in to consideration ESG criteria before the decision to invest. In Europe some countries have actually enacted regulations prohibiting investment in some sectors (Eurosif, 2010, mentions that in Belgium for example, there is a law that forbids the direct or indirect financing of the manufacture, use and possession of antipersonnel mines and sub munitions).

But after the decision to invest was made, investor can use their position to influence the company. Shareholder advocacy involves the active participation of the shareholder directed to the improvement of company's policies and practices to achieve good corporate governance. The engagement of the investors can be through dialogue with management as well as by shareholders resolutions (Haigh and Hazelton, 2004). Community investing involves the direct investment in communities that have no access to traditional financial services. In this investment option, Haigh and Hazelton (2004) explain that "the funds, and sometimes the interest revenues flowing from deposited funds, are on-lent to underprivileged or needy countries and organizations".

Robeco and Booz&Co maintain that these three strategies can be used in combination, but the order they are presented here represent in some way the evolution of the SRI strategies. Screening strategies represent a more basic strategy, arising with the increased concern among society with social and environmental issues in the 1960s and 70s (Sparks and Cowton, 2004). Throughout the 1980s social issues, like boycotts on companies that were in business with apartheid South Africa, and environment disaster like the Exxon Valdez oil spill and Chernobyl, advanced the need for investor to take those concerns into account, adopting negative screening based on values and moral principles.

This movement of evolution of SRI strategies marks the change from these thematic investments, like funds focused on environmental investments or avoidance of sectors motivated by values and morals, to a transversal integration of ESG criteria in all of the investment processes. The strategy of shareholder activism mentioned above is a mean for investors to exert a more active role, applying pressure for the inclusion of these aspects in the decision-making, making this a more complex approach with the potential to reform companies and industries. In a final stage of integration, all classes of assets are being valued and managed considering ESG variables, complementing traditional variables.

This trend is coupled with the recent goal of attributing financial value to corporate sustainability strategies, showing that it may positively impact performance on the long run, thus conciliating moral values with the objective of attractive financial returns. Willard (2002) investigates impacts of sustainability strategies over different aspects of financial management, potentially reverting on impact over asset valuation. The author shows that investors are starting to understand better these impacts and explores effects of sustainability practices over hiring and retention of talents, increase in productivity, reduction of operational costs and commercial expenses, increase in revenue and market share, and also risk reduction and facilitation of financing.

An investigation of different academic studies compiled by the United Nations Environment Programme's financial initiative (UNEP FI) and Mercer (2007) found that the majority of the studies reviewed showed a positive relationship between ESG factors and portfolio performance. In spite of this encouraging result, they argue that there is still some disagreement on the operation definition of SRI (as a style on its own) and sometimes methodological limitations, like short sample periods.

2.2.3 Global Markets

Reports like the one prepared by the Social Investment Forum demonstrate that, in the United States market the management of responsible investments grow significantly above traditional markets (Social Investment Forum, 2010). According to the same report, the total assets that take into account one or more of the strategies defined above in the United States have reached U$3.07 trillion. This amount represents a 380% growth in SRI funds between 1995 and 2010, compared to 260% growth in the traditional managed funds. The Social Investment Forum credits this growth in ESG investment in the United States to a number of factors (Social Investment Forum, 2010):

- managers and institutions are incorporating ESG factors in their investment analysis and decision-making. This can be due to client demand (in case of managers) but also because of legislative mandates (in case of institutions like public funds);

- specific events, like an increase in investment on the part of institutions and money managers in crisis-torn countries like Sudan, a tendency that is part of a more general growth in community investment in general
- new SRI products development, including the perception that SRI can be used as a tool to manage environmental risks.

In European countries the same tendency can be seen. A European SRI (Eurosif, 2010) study states that the period since 2008 has showed a significant growth in SRI in the region. Eurosif (2010) states that the total SRI assets under management in region amount to € 5 trillion (as of December, 2009), including core (23%) and broad SRI (77%). This represents about 87% growth in a period of two years, despite the impact of the 2008 financial crisis. This growth, according to Eurosif sustains that SRI in Europe has demonstrated resilience.

The report also presents the result of a survey with investors where they were asked about elements they considered to be the drivers of future SRI demand. The main driver for future SRI was considered the demand from institutional investors, but other elements like "international initiatives, external pressure from NGOs or media, as well as demand from retail investors" were also mentioned (Eurosif, 2010).

2.2.4 The Principles for Responsible Investment: Purpose and Evolution

SRI is not restricted to the northern countries. The emergence of the United Nations Principles for Responsible Investments (UNPRI) has largely contributed to advance SRI strategies in many regions. The agreement, first signed by 18 pension funds and launched in April 2006, attests the rising concern of investors with the impact of ESG variables in the long-term return over their investments. Signatories of the UNPRI commit to six voluntary and aspirational principles that are to be transversally implemented into their investment process. The principles are:

1) We will incorporate ESG issues into investment analysis and decision-making processes.
2) We will be active owners and incorporate ESG issues into our ownership policies and practices.
3) We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4) We will promote acceptance and implementation of the Principles within the investment industry.
5) We will work together to enhance our effectiveness in implementing the Principles.
6) We will each report on our activities and progress towards implementing the Principles.

The Principles were the result of a process that brought together 20 of the largest institutional investors, with the support of many specialists. The objective was to create a "tool-kit" to integrate ESG issues into mainstream investment, respecting the fiduciary duty of the investors. At the same time, the PRI also functions as a collaborative network og global investors and a discussion forum. To aid and coordinate signatories, as well as to provide assistance and resources on new practices regarding ESG issues, the PRI has a permanent Secretariat.

As of April 2012, the PRI brings together over 1000 signatories institutions, amounting to approximately U$30 trillion in assets under management (www.unpri.org, consulted on May 2nd, 2012). Among these signatories, 19% are service providers, 28% are asset owners and 53% are investment managers. These institutions are mostly located in Europe (46%), followed by North America (19%), Oceania (17%), Latin America and Asia (with 6% each) and Africa (4%). The residual 1% accounts for institutions from multiple regions (UNPRI, 2010).

2.2.5 Responsible Investment in Brazil

ESG issues appeared in the radar of Brazilian investors in 2001. Differentiated corporate governance levels were introduced by the Brazilian Stock Exchange with Novo Mercado listint segment, the same year ABN AMRO Asset Management launched the Ethical Fund, first SRI product in the country (KUMAR & SIDDY, 2009). In 2004, Itau launched its first SRI fund, Itaú Excelência Social.

Investors and stakeholders demanded a benchmark for sustainable investment in Brazil, and in 2005 the Corporate Sustainability Index (ISE) was lauched by the Brazilian Stock Exchange. This important initiative was key to the development of the Responsible Investment industry in Brazil, allowing asset owners and asset managers to create investment products and strategies based on the criteria and portfolio of the index. After the ISE was launched, several retail banks included an SRI in their product portfolio.

In 2007, PREVI hosted an event for the Brazilian signatories of the United Nations Principles for Responsible Investment (UNPRI). The discussions brought the need of a local professional to help investors dealing with the countries' specific issues and regulation. A focal point was hired to deal with Brazilian investors, and the first country network of UNPRI signatories was created.

The Brazilian Network of UNPRI signatories was so successful it became a model for other countries, including the United States, Germany, Australia, Korea, Japan and others that now have a local network to collaborate in implementing and disseminating the Principles within the investment industry. In Brazil, the network is organized in four working groups, divided by the main activities related to the implementation of the Principles:

- Increasing the number of signatories: through meetings with potential signatories, participation in events and intensive work with players of the investment industry, this group encourages investors and service providers to sign up to the Principles and work together in the implementation of ESG practices in the investment process.
- Engagement: signatories conduct several engagement initiatives with invested companies, specially directed to the Brazilian equity market. In 2009, the group lead the first engagement initiative started in Emerging Market countries and supported by investors from different countries through the global UNPRI network, about eradication of slave or degrading labor in Brazil. This working group also conducted engagement initiatives on ESG disclosure, supporting the Global Reporting Initiative (GRI) as a solid and international standard for ESG reporting.
- Investments: through the analysis of ESG metrics and methodologies available, signatories work on integrating these issues into their investment decision process. This working group also organized an important initiative for investors to encourage sell-side brokers to adopt ESG criteria in research reports, by increasing operations with brokers that include these issues into their analysis.
- Investment Policies: formed exclusively by asset owners, this group helps signatories implementing ESG criteria in investment policies. Specific regulations for the Brazilian pension funds are considered, and investors adapt existing ESG strategies to their investment approach in different asset classes.

The strength of the Brazilian Network of UNPRI Signatories lies in the collaborative work of peers, suppliers and clients of the investment industry, helping investors understand and increase the relevance of ESG issues in the Brazilian capital market. Today, the Brazilian network counts on over 50 signatories, and its asset owners Assets under Management (AuM) correspond to 60% of the countries' total volume in closed pension funds.

3 MATERIAL AND METHODS

By interviewing UNPRI signatories and important players in the Brazilian SRI industry, we intended to identify the most relevant criteria for investors when dealing with ESG issues and their integration to the investment process.

We conducted standardized, open-ended interviews, aiming at getting both the professional and institutional views of the respondents. The script was divided into four distinguished parts:

1. Strategy: the questions in this session relate to how the Responsible Investment agenda appeared in the Institution, and how the leaders are involved in the debate.
2. ESG Criteria: aims at identifying essential and intolerable ESG issues for the investment decision.
3. Integration to the Investment Process: investigates how investors and financial service providers integrate these issues into their investment process, products or services.
4. Conclusion: this session gets the respondents' opinion on market trends, voluntary and regulatory initiatives regarding the Responsible Investment agenda.

Eight interviews were conducted with UNPRI signatories and key stakeholders to the Brazilian responsible investment industry, listed below. The interview scripts can be found in the Appendix of this study.

- Caixa de Previdência dos Funcionários do Banco do Brasil (PREVI) – Rafael Castro
- Infraprev – Carlos Frederico Duque
- Santander Asset Management – Hugo Penteado e Fabio Guido
- Asset Manager – Institution did not authorize disclosure in this paper
- Fator Corretora – Lika Takahashi

- BM&FBOVESPA – Sonia Favaretto
- Global Reporting Initiative – Glaucia Terreo
- Principles for Responsible Investment – Marcela Zonis

4 Results and Discussion

The interviews show that the understanding of ESG issues and their impact on financial performance has increased significantly over the past few years. Mostly motivated by the demand of clients from the domestic and international investment industry, players in the Brazilian capital markets start paying attention to the risks and opportunities that come from considering ESG indicators as part of the investment decision.

But, in spite of the evolution in the understanding of these issues, there is still a long way to the implementation of ESG criteria in the portfolio analysis and asset allocation processes. Standardized metrics, stronger regulation, a better education of investors and other stakeholders are some of the challenges raised by the respondents of this study.

We will look into the most significant issues raised by the respondents, according to the questions distribution of the interview scripts.

4.1 Evolution and Strategies

The first movements towards integrating ESG issues to the investment process started in the 90's, when asset owners that participated of the privatization of Brazilian public companies started to play an important role in the Advisory Boards of invested companies, and started implementing corporate governance practices into their portfolio management strategies.

It was a general observation that investors are the leaders of this movement, motivating the creation of NGO's and voluntary initiatives to integrate this issue to the basis of the financial market, both in Brazil and internationally.

Brazil today plays an important role in the international SRI scene, with two representatives in the Board of the United Nations Principles for Responsible Investment (PREVI and Santander Brasil Asset Management), and a strong collaborative network of investors and service providers to enhance the understanding and implementation of these issues to investor's business practices.

The involvement of CEO's, CIO's, portfolio managers and research analysts in this discussion, instead of leaving these issues to separated areas or professionals in the Organizations, is considered to be a crucial differential to the effectiveness of ESG integration. In all Institutions interviewed, the participation of the leaders was decisive to the dissemination of these issues within the Organization itself and its stakeholders.

SRI strategies have evolved, specially through the collaborative discussions within the Brazilian Network of UNPRI Signatories. The first best-in-class and negative screening approaches are being expanded to engagement initiatives and transversal integration of ESG indicators to the investment decision, for all asset classes. There are still challenges involved, and most respondents highlighted that the changes happen very slowly, with still too much resistance from the mainstream investment industry.

Educating investors, clients and beneficiaries in the importance of ESG issues to our social and economic relations is the top priority, according to all the respondents. Including concepts and metrics in the financial education of peers, suppliers and clients is essential for increasing the demand for information from research analysts, portfolio managers and regulators.

4.2 ESG Issues: What is Material for Brazilian Investors?

All respondents emphasized the importance of considering environmental, social and corporate governance criteria according to companies' most material issues. A sectorial approach, with specific indicators and metrics, is already being studied by all the participant investors, and is considered the next step in analyzing ESG risks and business opportunities.

4.2.1 Corporate Governance

Corporate Governance issues are already in the mindset of mainstream investors, without much discussion about whether it generates value to shareholders and other stakeholders. Its metrics, though, are still subjective, as the value generated is essentially intangible.

Respondents consider some corporate governance practices to be essential, mostly incorporated to the differentiated listing levels in the Brazilian Stock Exchange:

- Independent of the Advisory Board: presence of independent and highly qualified Board Members, with a clear process of election and transparency on how each member should contribute to the construction of the company's strategy;
- Existence of an Audit and Fiscal Committee;
- Tag along in merger and acquisition operations;
- Succession plan and separation of CEO and Chairman positions;
- Transparent communication of results and guidances.

4.2.2 Environmental Practices

The approach to environmental issues, according to our respondents, is still based on risk measurement and mitigation. Intolerable issues are mostly related to regulation compliance, and high-risk exposure.

Although the materiality of environmental issues vary largely according to each company's activities, the minimum agenda for all sectors include:

- Efficient management of natural resources: practices of efficient use of energy, water and raw material is essential not only for decreasing the pressure over the planet's natural reserves, but it also has positive impacts on operating costs and mitigates environmental regulatory risks;
- Waste management: use of less impacting materials in packing, waste reduction and adequate disposal of dangerous material;
- Exposure to climate change: consideration of climate change issues in the business strategy, measurement and reduction of GHG emissions;
- Biodiversity impact: measurement and reduction of impacts over biodiversity.

4.2.3 Social Responsibility

The relevance of social indicators to the investment decision was also highlighted as subject to the company's activity and its surroundings. In this dimension, managing internal and stakeholders is crucial, according to our respondents. The most significant issues regarding social practices involve:

- Health and Safety practices: policies and practices to protect employees in their work environment are to be applied inside the company and to its suppliers;
- Human rights preservation: contract clauses and initiatives to prevent slave or child labor;
- Communities' relations: measurement and mitigation of social impacts in the surrounding areas of the company, or communities that are impacted by its activities;

- Responsible management of the supply chain: hiring of local suppliers when possible, education of suppliers in ESG issues, inclusion of ESG criteria in the purchase process.

4.3 Integration to the Investment Process

Integrating ESG issues to the investment decision is a process that involves the choosing of adequate indicators, metrics and a solid methodology to incorporate the results of ESG analysis to the stock picking and asset allocation process. This should change according to the Institution's investment characteristics, policies and asset classes to which they are applicable.

Respondents highlighted the lack of adequate metrics to ESG variables as their biggest challenge in integrating these issues to the mainstream investment strategies. Sustainability reports list practices and initiatives, but there is no standard in the data collection process and reporting format. Because of that, external auditors cannot assure the information, and investors find it difficult to include these reports objectively in their decision process.

Because of the existence of a benchmark, the stock market was considered easier to be analyzed through an ESG perspective. The investment in private bonds, private equity funds and real estate are also listed as asset classes that started including these issues as a filter to the investment decision. The Global Reporting Initiative and the Corporate Sustainability Index are the most important tools to investors when analyzing ESG risks and opportunities in invested companies.

It was also highlighted that the lack of demand for products and information from investors also make it difficult for managers and service providers to demand more information from companies, and launching new products and services that implicate in higher costs and the need of qualified professionals.

4.4 Tendencies

The Responsible Investment in Brazil may continue to grow, with the participation of more relevant players to this market and the influence of international investors. After the first movement of bringing investors to the table, the strategy is to deepen discussions and enhance the understanding and implementation of these issues in the Brazilian investment industry.

The evolution in the discussions toward integrating sustainability and financial reports should be of great importance to this debate. The work of the International Integrated Reporting Committee is considered to be essential to disseminate these issues in the financial system. It is the opinion of our respondents that this movement should remain essentially voluntary, with slow advance in domestic regulation. The predominant approach to ESG strategies should be through risk mitigation, more than the increase of revenues or positive impacts from business opportunities.

The decrease in domestic interest rates and positive economic agenda in Brazil may lead to a natural portfolio diversification that will increase exposure to the equity market, private credit and other asset classes. ESG issues are considered to be a path to mitigate risks in this scenario, and tend to be increasingly considered by asset owners, asset managers and capital market professionals, as they are better understood and integrated to standard financial reports.

5 CONCLUSIONS

It is clear that the Responsible Investment agenda has evolved in Brazil over the past decade. Investors and stakeholders of this industry are paying more attention to the impact of ESG issues in the financial performance, and this appears to be a permanent path. Investors and companies will increasingly have to consider ESG criteria in their decision-making processes, since they will be part of their daily routine.

Although regulation account for some of the progress made, most of the initiatives are voluntary, and the collaboration among investors strengthens discussion and understanding of how these issues should be incorporated into the investment decision. The changes in the relationship between companies, society and the economy demand the adoption of practices that go beyond the fulfillment of legal requirements.

The Brazilian market leaders are moving from niche SRI products to the transversal implementation of ESG issues in research, portfolio management and brokerage. They understand that consideration should lie beyond the operations of a specific industry, involving the complete value chain, managing public interest related to its activities, through a systemic approach to sustainability.

Materiality has become key when dealing with sustainability and investments, and Institutions increasingly understand and consider indicators and metrics that are applicable to specific asset classes and sectors. Investors see these issues as important source of comparative advantage in companies and perceive their potential to generate value in the long-run. A company's commitment to sustainability be reflected in its business strategy, with the insertion of this issue in research and development programs, as well as the investment made in professional education.

The Brazilian market has advanced in the voluntary adoption of the Principles of Responsible Investment and has gained strength by working together with investors, service providers and specialist in the capital market and issues related to ESG.

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7 Appendices

APPENDIX I – Interview Script: UNPRI Signatories

STRATEGY (Asked to all respondents)

1. How did the Responsible Investment discussion start at your Institution?
    a. Which area brought the discussion up?
    b. Did the subject come from the executive leaders, investment department or supporting areas?
    c. Did it appear in an internal debate or from a stakeholder's demand?
2. How are the Organization's leaders involved with the Responsible Investment agenda?
    a. What is the position of the responsible for these issues in the Institution?
3. How are ESG issues communicated to clients and other stakeholders?
    a. Is the Responsible Investment strategy communicated to clients?
    b. Does clients or participants demand information on this subject?
    c. Which stakeholders demand the Institution for ESG information?
    d. What is the best way, in your opinion, to inform clients on Responsible Investment matters?
4. How does the Institution treat these issues with regulators and policy makers?
    a. Does it participate on technical commissions regarding ESG issues?
    b. How has regulation on this topic evolved and what is its status in the Brazilian market today?
5. How do you see your Institution against its peers in the domestic and international market, regarding Responsible Investment issues?

ESG CRITERIA (Asked to all respondents)

6. Corporate Governance
    a. What is the importance of Corporate Governance practices in a company's management?
    b. How can Corporate Governance impact the financial performance of an asset in the short and long term?
    c. Which are the most important practices in Corporate Governance, in your opinion?
    d. Which are the Corporate Governance practices that a company must not have?
    e. What are the main indicators that a company adopts best Corporate Governance practices?
7. Environment
    a. What is the importance of environmental practices in a company's management?
    b. Which are the most important environmental practices a company should adopt?
    c. Which practices are unacceptable regarding environmental issues?
    d. How can environmental issues impact the financial performance of an asset in the short and long term?
    e. What are the main indicators that a company adopts best Corporate Governance practices?
8. Social
    a. What is the importance of environmental practices in a company's management?

b. Which are the most important environmental practices a company should adopt?
c. Which practices are unacceptable regarding environmental issues?
d. How can environmental issues impact the financial performance of an asset in the short and long term?
e. What are the main indicators that a company adopts best Corporate Governance practices?

9. Value Chain (in case it was not mentioned in the previous questions)
    a. What is the relevance in monitoring sustainability practices and initiatives in companies’ value chain?
    b. Which are the most important stakeholders to be monitored in companies’ value chain?

INTEGRATION TO THE INVESTMENT PROCESS

Research and Portfolio Management (Asked to Asset Owners and Asset Managers)

10. How does the Institution believe ESG issues can impact its portfolio financial performance?
11. How do ESG issues integrate with research and portfolio management activities?
    a. Research
        i. Are there ESG criteria in the research process for any asset classes? What are these criteria?
        ii. For which asset classes the Institution believe to be easier to incorporate ESG criteria to the research activities?
        iii. What are the biggest challenges in this process?
    b. Portfolio Management

i. Does the Institution adopt ESG criteria in the investment decision process?

ii. Are these issues included in the asset allocation process?

iii. For which asset classes does the Institution believe to be easier to incorporate ESG criteria in the portfolio management process?

iv. What are the biggest challenges in this process?

12. Does the Institution adopt Responsible Investment criteria in the selection of third party managers and brokers?

   a. If so:

      i. What are the main criteria adopted?

      ii. What is the implementation stage of these criteria?

      iii. To which asset classes is this process applied?

   b. If not:

      i. Are there plans to include ESG issues in the hiring and management of financial service providers?

      ii. What are the main problems in including ESG criteria in this process?

Financial Services Providing (Asked to Service Providers)

10. How does the Organization includes ESG criteria into your products and services provided to investors?

   a. Which are the criteria adopted in product development and service provided?

   b. Are these metrics inserted in specific SRI products or transversally in all the Institution’s products and services?

   c. What are the main challenges in implementing an ESG strategy in financial services?

11. For which asset classes does the Company incorporate ESG criteria in its products and services?
    a. Are there plans to implement these criteria into other asset classes?
    b. What are the mains challenges in integrating ESG issues to all asset classes?

CONCLUSION (Asked to all respondents)

13. How do you believe the Responsible Investment industry is going to evolve in the upcoming years?
    a. What should be the most significant evolution in the industry’s regulation?
    b. Which should be the most important tools used by investors in the ESG performance evaluation of companies?
14. Is there another issue that was not covered in this interview, and should be mentioned in this study?