AGBI
REAL ASSETS

Overview AGBI:
Environmental, Social and Governance (ESG)

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Navigation Summary

About us

AGBI is an independent asset management firm focused on investments in real assets in the Agribusiness and Real Estate sectors led by partners with extensive experience in managing investments in the target sectors.

Company Letter

Currently, much is said about the ESG principles, which bring an Environmental, Social and Governance look to business. At the 2021 World Economic Forum in Davos, there was talk of a transition from shareholder capitalism to stakeholder capitalism, in which the market should look at its broader role in society when it comes to making its decisions, considering not only investors and business owners, but also the entire society affected by the company's business. At AGBI, without the use of some of these terms and neologisms, we have been encamping these philosophies since our inception.

In addition to our values and commitments, we express this consideration in our past actions, from the development of our investment theses to the execution of operations. The strategy chosen for capital gain in agriculture in our investment vehicles, was based on the synergy that our values have with a strategy of transformation of degraded pastureland into cropland. In addition to contributing to non-deforestation, we help to show the potential of farmland use conversion as a means of dramatically increasing productivity and economic return for the entire region. We strongly believe that there is no reason to harm the environment not for moral nor economic reasons.

Our approach to responsible investments, reducing the environmental and social impact of our company, has gradually evolved into a sustainable investment approach, seeking to bring tangible benefits not only to our investors, but also to all our collaborators, suppliers and society. To this end, we have strived to establish this sustainable culture at all levels of the company, from partners to service providers.

Finally, and in our commitment to these topics, we publish this AGBI ESG Overview to do our part in raising market awareness of the importance, complexity and urgency of these topics. In the next pages we have set the sections by higher levels of complexity so that they can know and delve deeper into the concepts, legislation and opportunities and difficulties of carrying out an ESG strategy.

ESG Elements at AGBI

GREEN FUND

Certification awarded by second party opinion and independent audit based on the most prestigious and demanding taxonomies, including CBI* and article 9 of EU Regulation** due to our governances, policies and investment strategy.

TRANSPARENCY

Transparency as an essential rule for investor relations with other stakeholders involved in the investment process.

ENVIRONMENTAL IMPACT

Acquisition only of farms already in pasture and degraded, which do not need to be deforested for the development of grain agriculture. Encouraging the diversification and integration of production in a single area.

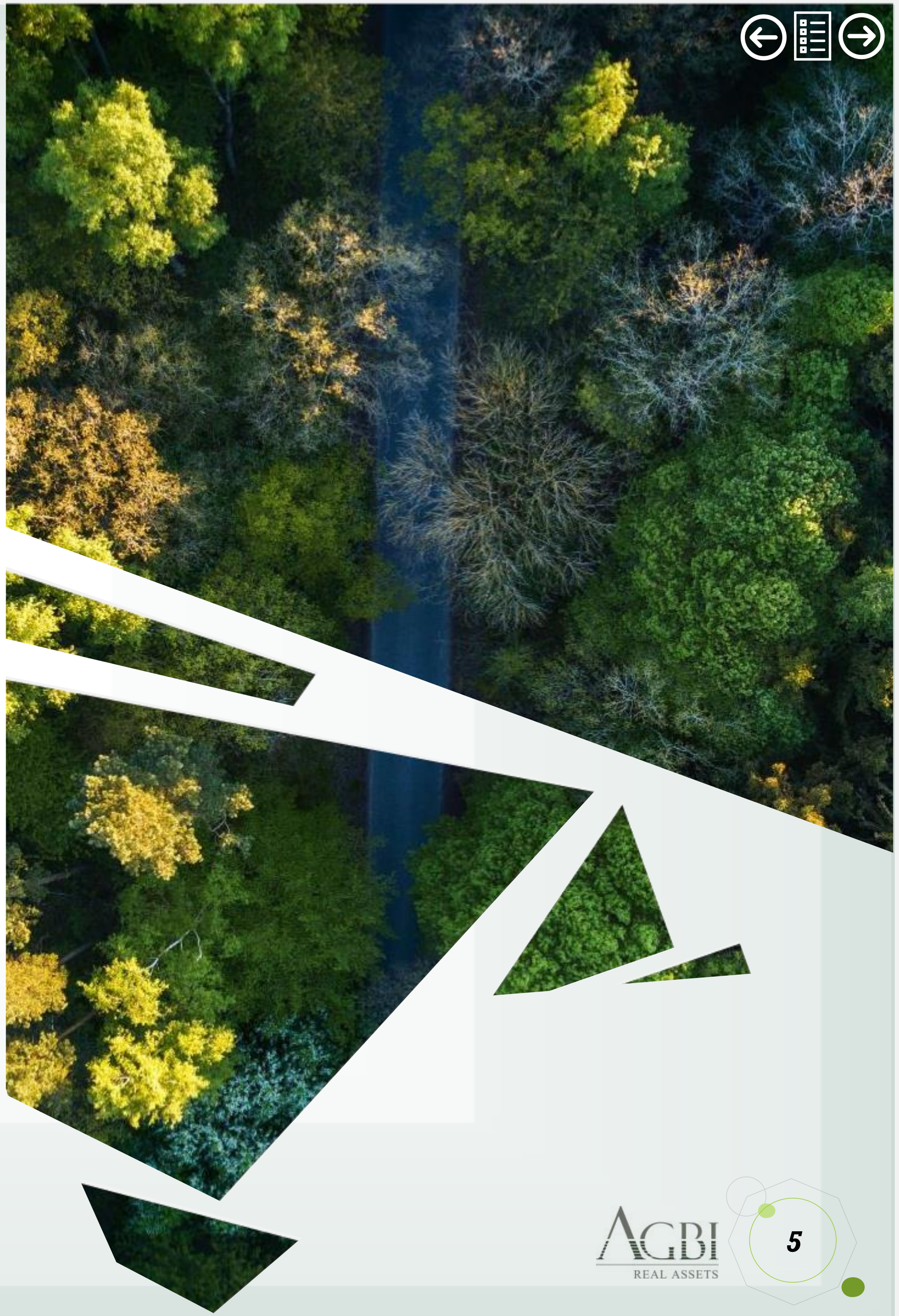
DEVELOPMENT SOCIOECONOMIC

Focus on developing regions of the country, helping to boost the region's and its local producers' development, by filling the credit gap for land acquisition by offering lease agreements aligned with production levels, enabling the performance of local producers and boosting local development

VALUE CREATION

Resilient business model with return based on value creation through production and asset transformation.

AGBI REAL ASSETS



*CBI – Climate Bonds Initiative.

**Defined as a Dark Green Fund, according to the Article 9(1) of EU Regulation 2019/2088.

Introduction to ESG

The share of social responsibility of companies with the ecosystem around them is increasing due to the world's needs in dealing with climate change, with the scarcity of natural resources, inequality, and other various socio-environmental criteria. The incorporation of social and environmental aspects to corporate governance strategies and practices (Environmental, Social and Governance – ESG) gains relevance and competitive advantage to organizations, as soon as their social function represents a critical issue to their long-term value creation and progressively catch the eyes of investors and other stakeholders.

Despite a sustainability and responsible investment agenda dating back to the 1971 meeting of the World Economic Forum and passing through the Rio 92 protocols, the acronym ESG was first used in December 2004 in the "Who Cares Wins" report, elaborated by the United Nations Global Compact, four years after the creation of the Sustainable Development Goals (SDG). The three letters represent a structural change in sustainability, with factors created to increase transparency and alignment between corporate objectives and society's long-term goals.

After the PRI, in 2006, more and more companies and investors have become aware of the agendas and seek adequacy to improve their performances, with responsibility, developing specific methodologies and frameworks, as we will analyze in section three of this AGBI Overview. Companies that follow these principles are often more resilient overall. Going forward, in 2019 CFA UK created the first broad-use ESG certification to empower professionals with this knowledge in order to improve asset, investment and business management through ESG. Thus, increased investors start acquiring assets with ESG characteristics to make up their portfolio, ensuring less volatile and more financially sustainable results.

Environmental

(Environmental)

Regarding environmental practices, this issue relates how companies strive to reduce environmental impact and how they care about issues related to global warming, carbon emissions, pollution, energy efficiency and biodiversity.

Social

(Social)

Allusive the letter S, social, goes into the list the way the company treats its stakeholders. Issues such as inclusion, diversity, labor rights, employee engagement, data protection and impacts on the community, make up some of the examples that shape social performance.

Governance

(Governance)

It is the policies, rules and processes that the company adopts for its management. Examples such as anti-corruption ethics, structure and diversity in the board, transparency, structure of audit and tax committees, communication, frames the governance factor.

1971
- World Economic Forum

1992
- Rio 92 Protocols

1997
- Creation of GRI

2000
- Creation of the SDGs

2006
- Creation of the PRI

2012
- Rio +20 Protocols

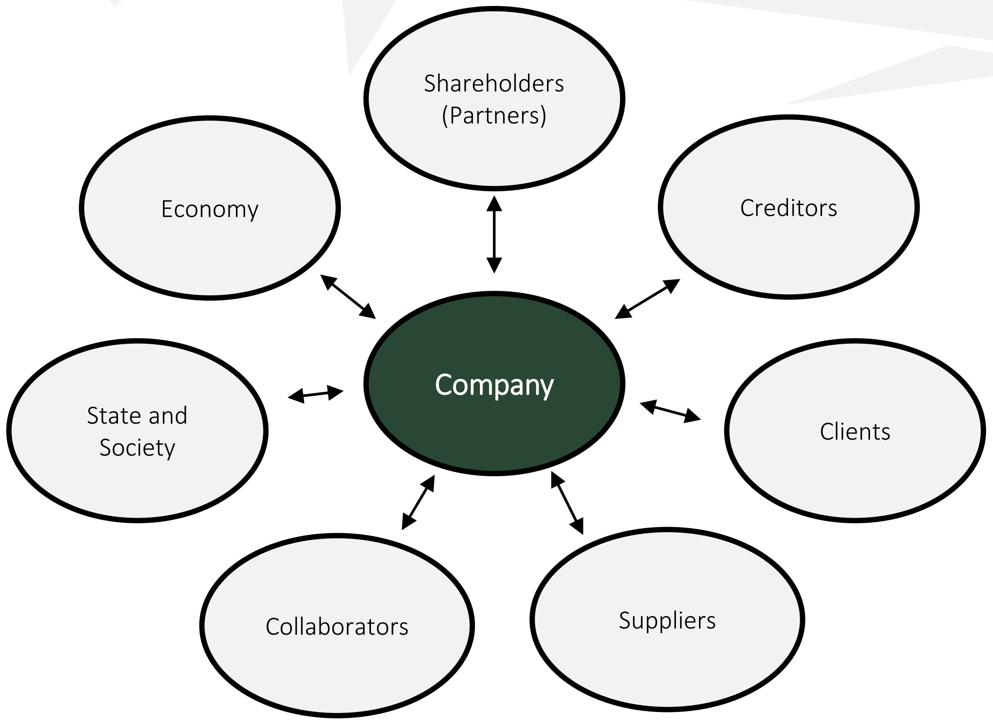
2015
- Agenda 2030 with SDGs

2019
- Creation of the CFA ESG UK

Stakeholder Capitalism & Responsible Investment

The search for companies that are focused on socioeconomic growth and that are responsible for the impacts of their actions to ecosystems they are in, determined the concept of "stakeholder capitalism". Unlike "shareholder capitalism", where profit predominates primarily, "stakeholder capitalism" evaluates each decision in order to mitigate damage to the environment or others. Increasingly, analysts are investigating a wide variety of non-financial factors to better understand their impacts on a company's valuation.

This overview prepared by AGBI aims to disseminate good ESG practice to companies and assist investment professionals to identify and accurately assess sustainable risks and opportunities in the market, highlighting the best way to move towards responsible investment. For this, the material "Measuring Stakeholder Capitalism" prepared by the World Economic Forum was used in the study. The project presented a set of 55 metrics (21 main and 34 complementary) based on four pillars ordered according to the SDGs (Sustainable Development Goals): Principles of Governance, Planet, People and Prosperity.



Source: Schwab, Modern Company Management in Mechanical Engineering, 1971 (Adapted).

Governance Principles

Related to transparency and ethics of a company according to its purpose. Risk management, anti-money laundering and corruption, whistleblower mechanisms and the business composition itself are evaluated.

People

It basically compared how the company treats its collaborators. Factors such as diversity, inclusion, wage gap and investment in the quality of life of collaborators support the main topics of the theme.

Planet

It assesses the company's ecological sensitivity, greenhouse gas (GHG) emissions and other factors such as waste management, aquifer consumption and energy sources.

Prosperity

It classifies the company according to its reflection on the well-being of society. Economic contribution, innovation in goods and services and other evaluation points of social prosperity related to the company are observed.

Each of these pillars has significant importance in the general maintenance of the sustainable value of the organization. The inclusion of prosperity as the fourth pillar takes the project beyond the acronym "ESG", highlighting the importance of prosperous societies and the role of companies in fostering economic growth, innovation, and shared wealth.

Performance in one pillar is highly independent of the other and each must be seen in isolation, so that the company can add value to everyone who is part of its ecosystem and deliver consistent results overall.

ESG in Brazil

After great worldwide repercussion, the theme ESG began to take root in Brazil. Despite its small and recent movement compared to other nations, the topic has gained great relevance in recent years and showed that it tends to stay.

Owner of the largest natural capital in the world, Brazil has the potential to lead ESG agenda. However, stakeholder capitalism has only been intensified in recent years. Before, it was difficult to think that investment managers would use ESG parameters with such relevance in their analyses. However, the scenario is changing, due to the consistent performances of companies and funds based on socio-environmental responsibility criteria.

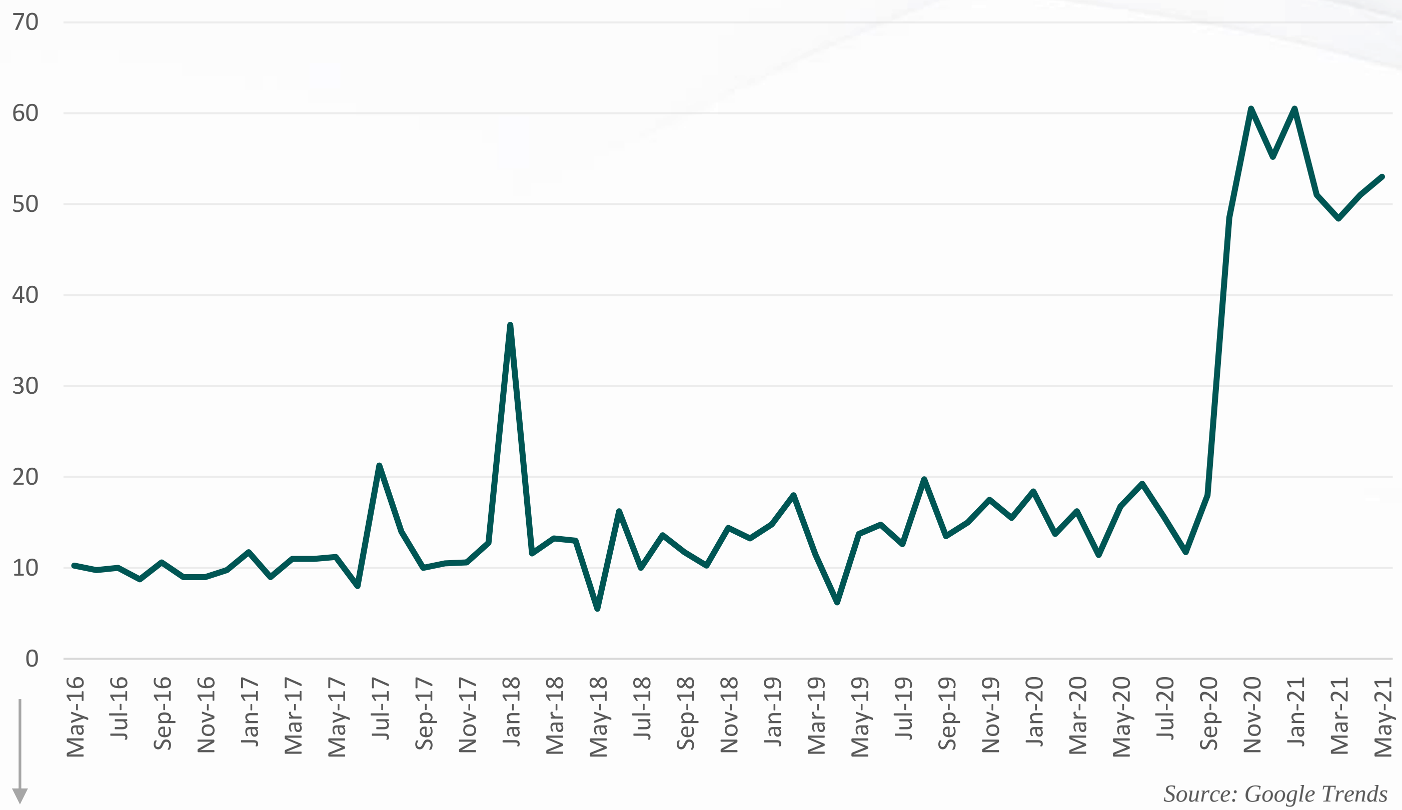
An analysis based on the number of times the acronym ESG was searched on Google showed that interest in the ESG agenda reached its peak in the last five years in Brazil. It is noteworthy that the COVID-19 pandemic contributed to the increase of this behavior, increasing the focus on socioeconomic and environmental issues in the performance and operations of companies. In the same period of crisis analyzed, there was an implementation of new sustainable funds that continued to grow, diversifying, and attracting attention from institutional investors. About 95% of these funds, in 2020, performed better than the indexes which do not adopt the ESG agenda, that is, companies that seek sustainability, are somehow more resilient than the other ones.

With the increase in results, an increase in popularity is identified in ESG performance-based debt instruments, called Sustainability Linked Bonds (SLB), the form of capture enables issuers, an allocation aligned with environmental, social and governance goals, with impact on the spread. In addition to this instrument, there has also been development by banks, which have developed emissions that allow sustainable resources to reach small and medium-sized enterprises through bank credit.

The Brazilian financial market seems to have understood that the adoption of sustainable practices not only generates alpha in the long term, but also reduces the risk of portfolios. On the other hand, the political instability, for the most part, has not yet correlated very well the results that can be obtained. The increase in forest fires and deforested areas recorded in recent years casts doubt on the effectiveness of Brazilian environmental legislation.

As a possibility for national improvement in sustainability issues, the World Economic Forum program provides a good roadmap to analyze whether Brazilian companies follow the modern times. Thus, the better planning of the use of resources in line with the transparency of the public and private sectors, could raise the country to other levels.

Evolution of ESG Research in Brazil



Source: Google Trends

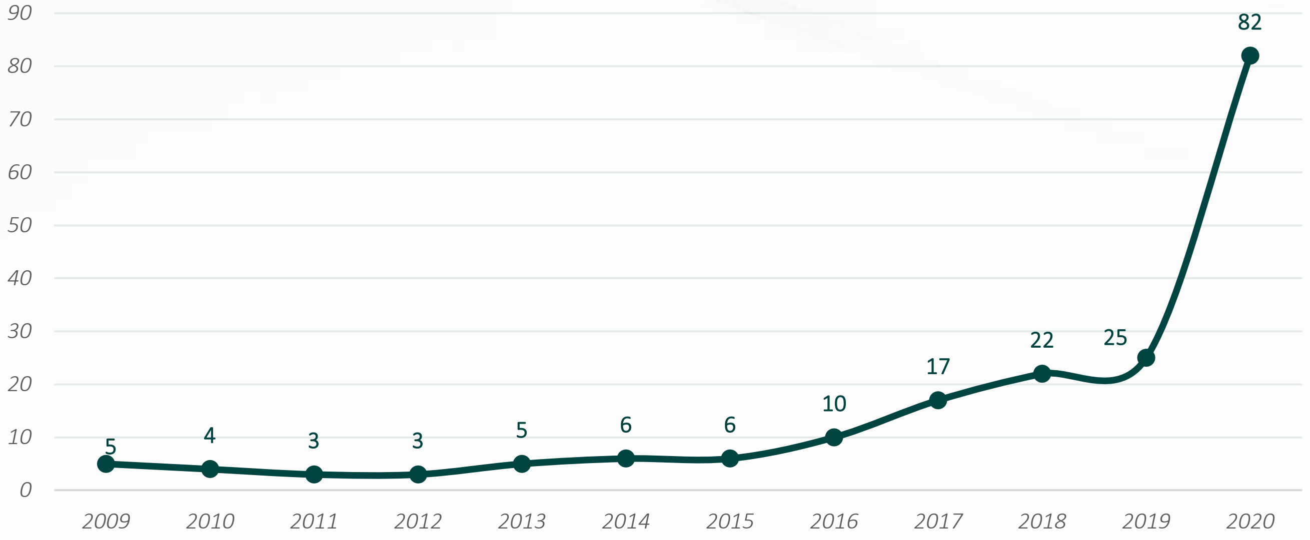
(Interest over time)

The numbers represent the search interest relative to the highest point on the chart for a given region and time. A value of 100 is the peak of popularity of the term. A value of 50 means that the term has half the popularity. A score of 0 means that there was not enough data for this term.

ESG in the Capital Markets

As has been highlighted previously, the capital market plays a significant role in improving the results of ESG engagement. Since the investor chooses to involve such practices in the investment process, companies that are not yet adept to their standards feel threatened, and in turn, pressured to meet the criteria imposed. Concomitantly with this movement, the same happens in the issue of new sustainable funds that are entering into the market. Companies seeking to gain access to this capital, need to implement actions that address environmental, social and governance issues.

ESG fund assets

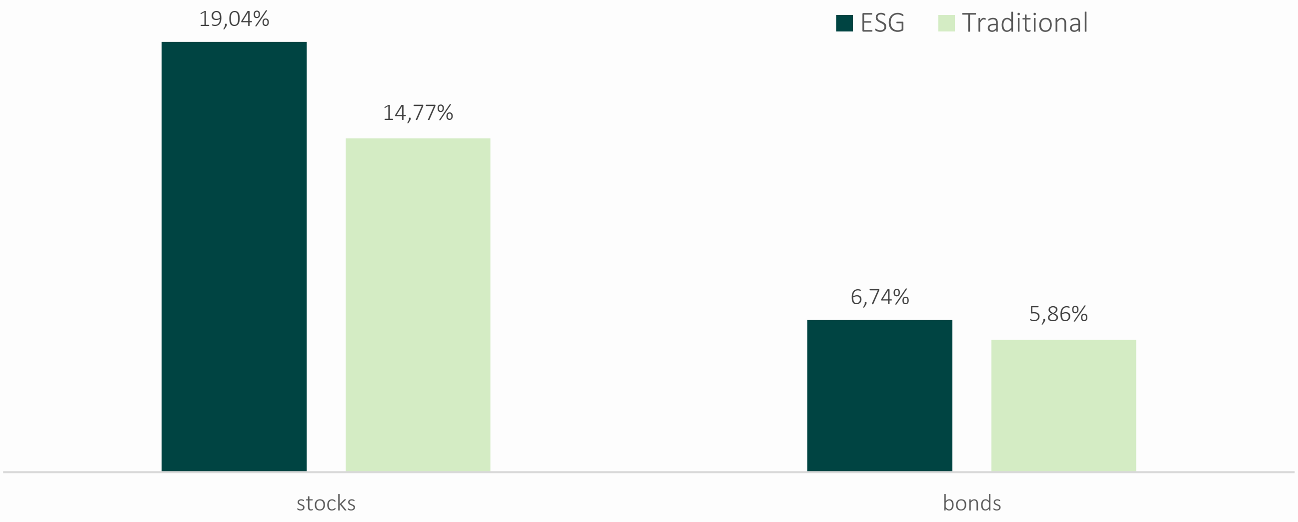


Source: etfgi.com - Ativos dos fundos ESG (ETF e ETP) em bilhões de dólares

This pressure exerted on the capital market is observed in charts of results in recent years. There is a growing implementation of the ESG aspects, even after the 2020 crisis, where investors sought resilience in their portfolios. The good results acquired by sustainable investments reinforce the value of this type of application and, consequently, demystify that investors who include sustainability considerations in their portfolios face financial compensation.

According to the Institute for Sustainable Investment study, associated with Morgan Stanley, sustainable funds, both in stocks and bonds, have endured the crisis better than traditional portfolios. An analysis of more than 3,000 U.S. exchange-traded funds (ETFs) was elaborated, and it was observed that sustainable equity funds outperformed traditional funds by an average return of approximately 4.3 percentage points in 2020. In the same period, ESG fixed income bond funds outnumbered those that are conventional by a median return of 0.9%.

Median total returns for 2020



Source: Institute for Sustainable Investments

The great potential of this advance made in recent years is that the ESG agenda is showing the world that, in fact, improvement can bring significant gains and that, in the medium and long term, ideas can contribute to the development of a resilient and responsible economy.

ESG in Agribusiness

The agribusiness has been the driving force of the national economy. The constant improvement of agricultural activity positions the country as one of the world's leaders in the industry and classifies it as one of the largest producers and exporters of various products. In 2020, agribusiness represented 26.6% of the national GDP according to CEPEA (Center for Advanced Studies in Applied Economics), adding approximately R$ 2 trillion that reflected in a support to the Brazilian economy within a period of pandemic crisis.

Agribusiness GDP share in the last 20 years

Year	GDP Brazil (in R$ million)	AGRIBUSINESS GDP (in R$ million)	Total Agribusiness
2000	1.199.092	365.411	30,5%
2001	1.315.755	395.196	30,0%
2002	1.488.787	448.823	30,1%
2003	1.717.950	523.607	30,5%
2004	1.957.751	536.436	27,4%
2005	2.170.585	529.142	24,4%
2006	2.409.450	561.712	23,3%
2007	2.720.263	616.584	22,7%
2008	3.109.803	702.798	22,6%
2009	3.333.039	712.410	21,4%
2010	3.885.847	833.541	21,5%
2011	4.376.382	908.092	20,7%
2012	4.814.760	921.473	19,1%
2013	5.331.619	1.004.411	18,8%
2014	5.778.953	1.078.952	18,7%
2015	5.995.787	1.207.049	20,1%
2016	6.269.328	1.397.912	22,3%
2017	6.585.479	1.366.714	20,8%
2018	7.004.141	1.408.231	20,1%
2019	7.407.024	1.518.936	20,5%
2020	7.447.858	1.978.894	26,6%

Table I - Importance of agribusiness contribution in the national economy
Source: Centro de Estudos Avançados em Economia Aplicada (CEPEA)

Within this atypical panorama, the search for quality, effective food production and sustainability has been one of the most discussed issues in the field. To align these themes with profitability and the constant evolution of the sector in the economy, agribusiness is gradually absorbing and internalizing ESG practices.

The concept of sustainable governance is directly related to the charges made by civil society. The continuous need to increase food production remains paired with the way agribusiness is preparing, suiting and responding to different issues, such as climate change, valuing the safety and working conditions of its employees and third parties, how they are facing the scarcity of natural resources and how engaged they are with ethical values and transparency.

Development of producing regions

Socioeconomic inclusion of regional agriculture and traditional populations with generation of social value for agricultural producing communities.

- Expand the participation of local farmers in Brazil's agricultural production
- Increase access to credit for local producers
- Conduct actions to disseminate information related to good agricultural practices in producing communities

Agricultural production sustainable

Expansion and increase of the efficiency of agricultural production to meet the global demand for food ensuring the conservation of native vegetation and replacement of liabilities.

- Expand grain production area from degraded pasture areas
- Reducing deforestation
- Compliance with 100% of environmental regularization obligations and forest code
- Ensure the preservation of areas of native vegetation and permanent protection
- Stimulate diversification and integration of production as an alternative to monoculture
- Stimulate integrated property planning, soil and water conservation, integrated pest management, no-tillage and livestock crop integration

Corporate governance

Governance principles that ensure value creation for all stakeholders and shareholders.

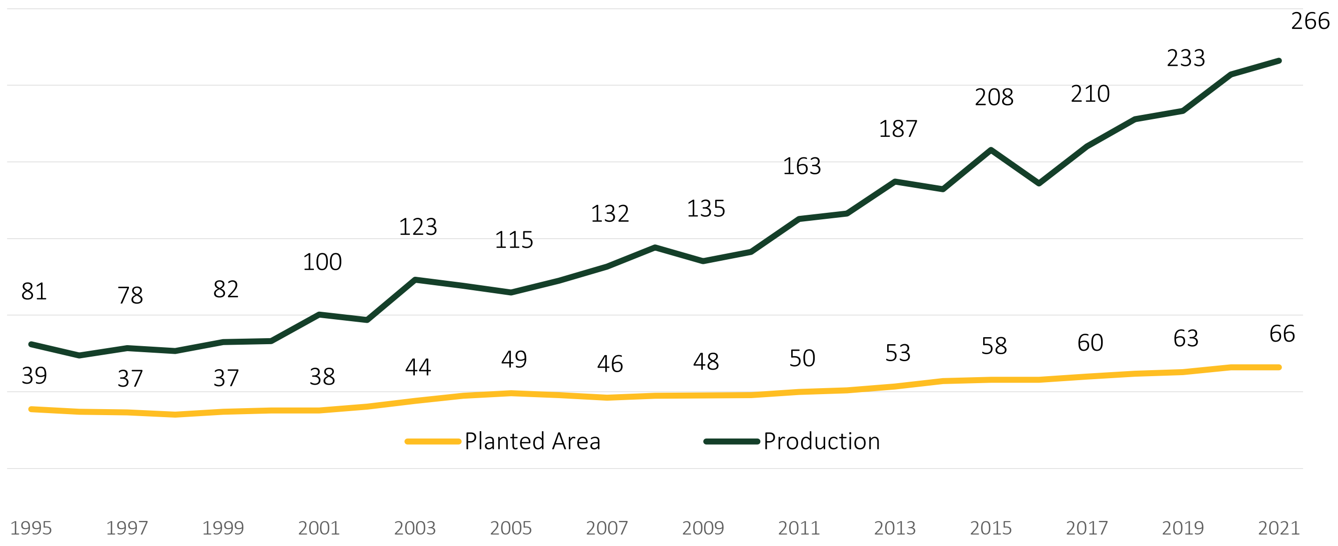
- Diversity in the team in the company
- Policies and procedures that ensure the ethical conduct of the company
- Robust risk management processes encompassing environmental and social risks in addition to economic risks
- Training of the team in ethical, anti-corruption and sustainability issues for the development of competencies related to the themes
- Transparent communication on the socioeconomic and environmental impacts, negative or positive generated by the company

ESG in Agribusiness

A report prepared by the secretariat of the UN Framework Convention (UNFCCC) made public, for worldwide knowledge, the importance of Brazilian agribusiness for the global reduction of climate impacts. The report highlights the performance of Brazilian productivity, which increased by 386% and the agricultural area only 83%, which means a preservation of about 120 million hectares of forest. Therefore, environmental preservation positively influences the removal of CO_2 that human activities emit into the atmosphere, reducing climate impacts.

The article indicates that "the key to this responsible evolution was Brazil's investment in relevant public policies and scientific-based technology", evidencing agriculture based on technological innovation, adaptations to climate change and the conservation of natural resources.

Evidence of the evolution of production in the area of planting



Source: Conab
(Planted Area and Grain Yield - at 1000 ha and 1000 t respectively)

Currently, agribusiness companies that perform the best practices of ESG tend to differentiate themselves in the market, creating bases that strengthen their growth and perpetuity. According to PwC's 2021 Annual Global Survey of CEOs, 47% of Brazilian agribusiness respondents believe their companies need to do more to publicize their environmental impact, versus 39% of the overall result. In the Global Report of the World Economic Forum, all five major long-term risks listed are related to environmental issues.

The efforts of companies that value ESG are reflected in three ways: green bond issuance, participation in sustainability indices and implementation of ESG policies. In the issuance of green bonds, the importance of carbon capture is emphasized, which are linked to the emission and capture of carbon in the operations of a given company, along the entire chain or “inside the fence". Carbon markets and platforms, such as Moss Earth, are emerging and making the mechanism increasingly liquid. In the participation in sustainability indices, such as the ICO2 B3 and ISE BR indexes of BOVESPA, a robust corporate governance system is required, which makes only larger companies can fit into these indexes. The implementation of ESG Policies is a first step that can be adopted by companies and producers of all sizes.

The credibility of an ESG organization enhances new access to sources of financing linked to social and governance goals, which adds value to shareholders in the long term and, thinking macroeconomically, can generate a capital mobilization capable of transforming Brazil into a global leader in sustainable agriculture. It also improves the management of companies, mitigating risks, in addition to naturally bringing a long-term and sympathetic vision to greater governance and introduction of new technologies in production.

Having a company focused on agribusiness tied to an ESG agenda can soon be considered a necessity. Adopting practices consistent with the agenda often requires a cultural change of the organization in a sector that lives with a very varied population, from a deeply technological and modern international avant-garde to individual or family producers who are now having first contact with some concepts of sustainability. However, only those companies that take responsibility and seek to deliver value to the market will be qualified to compete at the same level, deliver consistent results or access international markets, whether in raising funds to finance production, or in the search for new industries.

ESG in the real estate market

Since the notoriety of ESG issues has brought a considerable movement of capital directed at responsible investments, there has been a venerable growth in the supply of real estate funds that seek to adapt to the principles of sustainability. With the trend consolidating, experts analyze that managers who are not willing to do so will miss opportunities.

Nowadays, most real estate projects start their works adopting certain ESG practices, prioritizing, for example, issues of energy efficiency, accessibility, and reuse of natural resources. The alignment of architecture with technology, sustainability and social engagement practices aggregates in the property in the long term, in the resources of the property and in the own pocket of managers. The goal is to improve people's lives with modern and efficient projects, while involving new investors and strengthening the economy.

Looking at this side, real estate funds are directing their investments in LEED-certified works, developments or projects encompassed in the green economy (wind, solar and other). The acronym LEED in English represents Leadership in Energy and Environmental Design. It is a system that certifies buildings according to environmental guidelines and aims to encourage projects and works with ecological bias. The minimum score to receive certification is 40 points and the maximum 110. Depending on the number of points achieved in the sustainable strategy analyses, the project can gain different LEED classification levels.

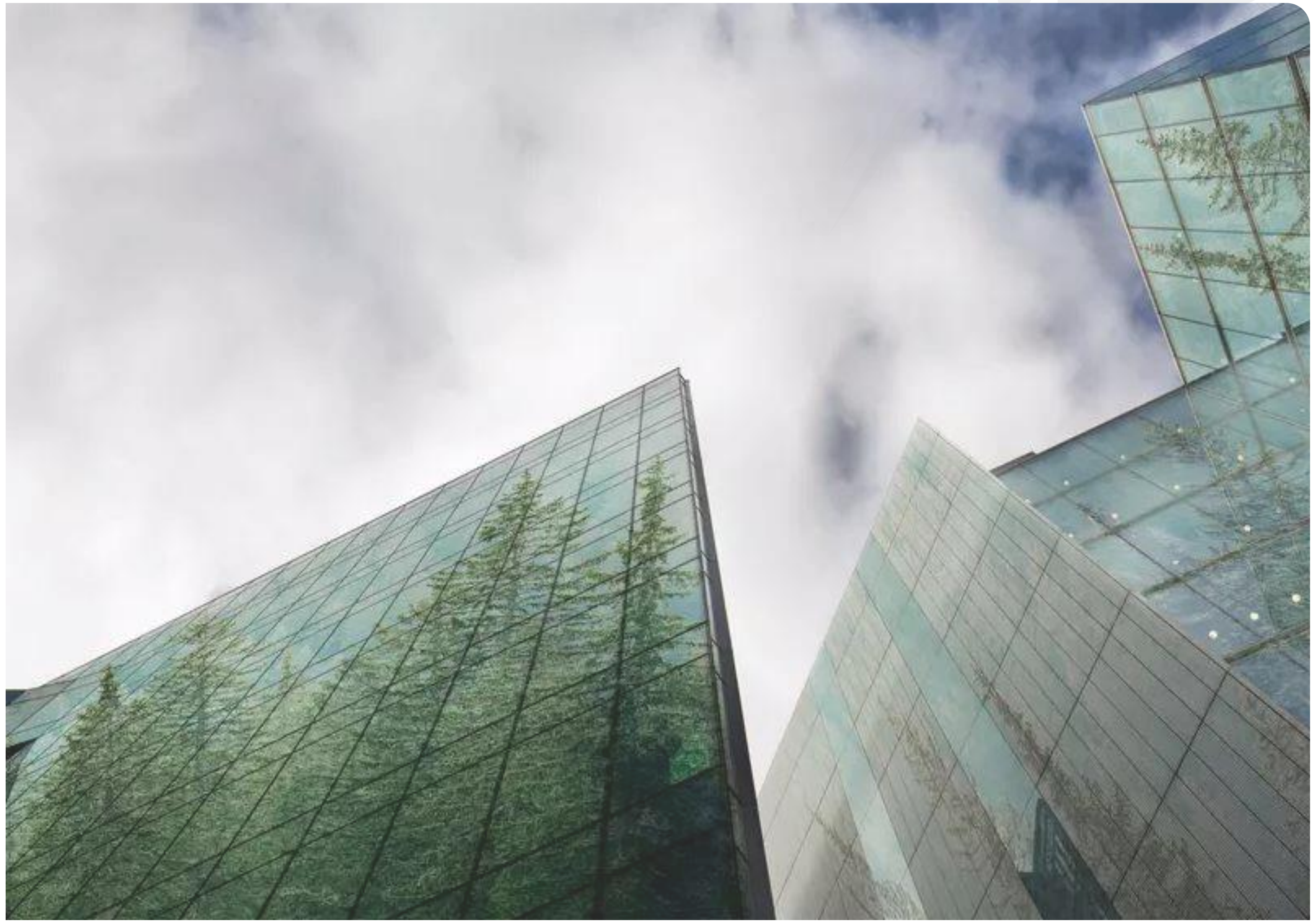
40-49 | 50-59 | 60-79 | 80+

Implementation of selective collection, use of public transport to reduce CO_2 emissions, recycling, and capture of rainwater, are simple practices that include real estate funds in the environmental sphere. FII's assets that adapt to the environmental metric according to their capacity can obtain economic advantages, ranging from the reduction of operating costs to the appreciation of the property for resale or rent. In addition, aspects that value concern with work safety, workers' health, inclusion, training, and other strategies that bring social benefits to the general context of the enterprise are considered.

ESG in the real estate market

Finally, compliance with governance enable progress related to the management of the teams and employees, harmonious relationship with investors and tenants, and ethics that value respect in relation to investors. The search for equal remuneration regarding gender, reduction of employee turnover, integration of minorities, fight against corruption and fraud, are good practices that govern the fund within the parameters of governance bringing transparency to those involved in the investment.

When evaluating the parameters that managers are adjusting to, it is noted that ESG has a very interesting combination with the real estate market. Investing in works in this context requires a certain effort to avoid failures in the way of managing these criteria, however, the benefits obtained in general attract new looks and thus, it is believed that the real estate products of this branch will continue in constant evolution and growth in Brazil. The relationship of the investor with the manager who incorporates the social and environmental aspects to corporate governance strategies and practices is more advantageous, since the investor will always have possession of the most relevant information of the fund, with objectivity and confidence in the movements of those responsible, bringing more tranquility in their allocation of resources.



Methodologies and Frameworks

A Framework is a set of principles and guides to "how" a report is structured and reported for each ESG topic, as well as "who" monitors and conferences this information. Reports are composed of standards that are specific, replicable and detailed enough to be compared between companies and can also coordinate changes in markets or sectors towards their goals. In a statement, they are the point of confluence between information producers and users of information related to ESG, according to the illustration of this slide.

Information Producers

ESG Managers

ESG managers collect, validate, establish internal controls and procedures to collect, disseminate and publish ESG reports

Software Providers

Software providers and disclosure platforms enhance the collection and dissemination of information, as well as helping Framework managers build taxonomy

Auditors

Auditors use the standards created as evaluation criteria against which they provide warranties and other associated services

Framework Managers

Conceptualize objectives, processes and standards, as well as empower ESG Managers and establish parameters for reporting

Information providers

Information providers aggregate previous information and make it available through technologies to users

Comparation Platforms

Comparison platforms provide advanced rankings and analysis on information

End users

Investors and other stakeholders such as civil society, executives, employees, customers, suppliers and governments consume the information and analysis produced

Regulators

Regulators are increasingly interested in sustainability information, with some moving towards creating specific legislation or encouraging the adoption of Frameworks

Information Users

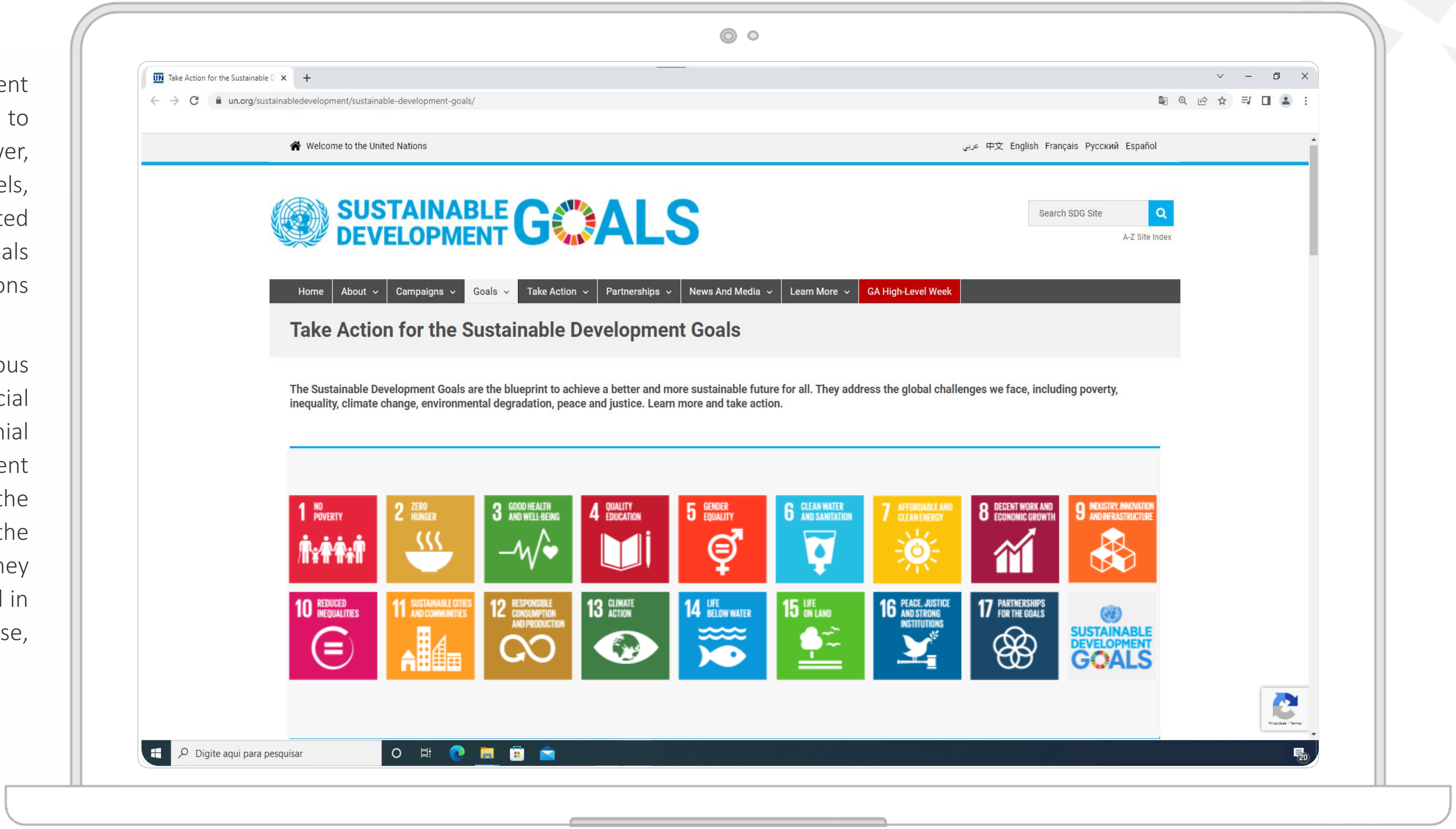
In addition to processes, the second essential thing for a Framework is its governance framework. Like any methodology, it is necessary to training, monitoring and eventual course adjustments in the standards and procedures. Who does this monitoring is one or more central governance bodies, which besides resolving doubts and setting standards, disseminates, raises awareness, and enables more companies and people to implement ESG policies. In general, as in the case of all mentioned below, except for MSCI, they are composed of a Council or Committee elected by the participants that has the function of ensuring the smoothness and continuous improvement of the Framework.

Entities, whether companies, investors, or States, opt for one or more Frameworks, formalize their adherence, and begin to follow their standards and procedures. However, the framework you choose can change how the ESG subject is managed in the entity. It would be impossible to detail all the methodologies used in this Overview, by the variety and diversity of them, so the largest and most traditional ones were indexed.

SDG - A view of the Government

To cope with the demand of different sectors, different paths were taken by the Government and Civil Society to establish ESG Frameworks. In the context of the Public Power, the discussion, in addition to being in-depth at national levels, especially those who led the debate, was taken in the United Nations. In this matter, the Sustainable Development Goals (SDGs) have been developed under the United Nations General Assembly in the 2030 Agenda.

In all, seventeen SDGs were agreed, dealing with various themes and areas, both related to environmental and social sustainability and governance, with the latter being perennial in the principles of the SDS about monitoring, measurement and the methodology of the framework itself. Then, the objectives were detailed, and it was up to each of the participating Nations to develop specific goals so that they could be charged and monitored. As far as ESG is concerned in the public sector, we are in this step. But in private enterprise, things move faster.



GRI and SASB - Business Vision (Managers)

In the private sector, the work was more varied, arising spontaneously and led by several specific entities and organizations, in addition to large companies. As mentioned earlier, some sectors adhered more quickly or deeper to these principles, including ESG policies, responsible investment policy and frameworks or other proprietary mechanisms for measurement and evaluation. There were so many innovative ideas that it would be impossible for this AGBI Overview to cover every one of them, but here we mention some that deserve to be highlighted for their depth or number of subscribers.

The oldest and most used framework in the world is GRI, established in 1997. It is a collaborative work among companies, suppliers, customers, and their collaborators, under the stakeholder philosophy mentioned in Stakeholder Capitalism & Responsible Investment, and has a particularly holistic view, trying to understand in his reports all the direct and indirect impacts of companies on their business and the world around them. Its focus is mainly on the elements of public interest present in any business, with less relevance in financial and accounting aspects.

To fill this ESG vacuum more focused on financial, risk, and accounting issues, in 2011 the Sustainability Accounting Standards Board – SASB was created and in 2018 published ESG standards for 77 sectors, each with a set of topics with associated metrics. Since then, because of its size in the U.S. and more than 750 companies that use its Framework worldwide, it has become a relevant and reference framework when the goal is to understand the financial material impact of environmental, social or governance risks. As a differential, care was taken to build a governance structure of the Framework with two levels of control, including an independent audit team that verifies the compliance of the processes in the associates and in the SASB itself.

PRI and MSCI - Investment Vision (Investors)

Under the investment companies' side, there are two frameworks that deserve to be highlighted. The first, unfolding of the work of the UN, has a more holistic view and the second, originating in the market, brings with it sector elements to help investors differentiate potential investments.

The PRI, the United Nations, fostered initiatives such as **the Principles for Responsible Investment (PRI)** aimed at mobilizing civil society or private initiative to adhere, at least in principle, with Responsible Investment and dissemination of them. In the case of PRI, the following 6 principles have been established:

I. Incorporate ESG into investment analysis and decision-making processes

II. Be active managers/owners and developers in ESG subjects

III. Seek proper disclosure of ESG issues in the invested companies

IV. Promote acceptance and implementation of these principles within the investment industry

V. Work together to increase the effectiveness of implementing these principles

VI. Report activities and progress towards implementing these principles

The PRI methodology involves the voluntary subscription of Investors, managers and administrators, committing to the above principles. The companies do the control themselves, through disclosure of the companies themselves in annual reports sent to the PRI. These reports touch on various ESG themes, explain goals set by the companies themselves and can generate exclusion from the program after 24 months without course corrections.

The second framework, developed by **Morgan Stanley Capital International – MSCI**, values long-term resilience to ESG principles and is widely used by institutional investors. Another particularly crucial point of this approach is its sectoral view, normalizing the results of a scoring system between sectors to generate a CCC scale to ESG adequacy AAA in an analogous way to the risk analysis of rating agencies. In this way, investors can measure the performance of companies with other companies in the same segment.

In this model, it is important to mention that each sector has the relevance of ESG elements weighted by its importance for the index. For example, the water treatment of a mining company has much more relevant weight than in a financial company, while the second has a greater weight in data security indexes. More than 1000 data points are used to analyze risk exposure in 80 sectors and locations.

PRI Principles for Responsible Investment

MSCI

Future of ESG: Integration

Unbeknownst to it, the variety of Frameworks sometimes blur the ability of companies and countries to adapt and slows down efforts to promote ESG. There are some major initiatives for standardizing the frameworks and integrating methodologies.

This integration process dates to 2017, when a collaboration agreement was signed between GRI and PRI, opening discussions on the integration of two of the main ESG Frameworks of the Investment vision (information users) and managers (information producers). This agreement includes increased subscribers and does work to review the common points of the main current frameworks. In 2020, SASB, GRI and 4 other Framework governances signed a cooperation agreement in order to integrate their methodologies. They understand that we are at a crucial time for the development and dissemination of ESG in the world and, to this end, are beginning to make efforts to align vision, information to be disseminated, ESG education and more.

But the most comprehensive initiatives are the latest. The *European Green Deal* comes from the *European Commission* through the package of measures published in April 2021 that includes the *EU Taxonomy Climate Delegated Act*, the *Corporate Sustainability Reporting Directive (CSRD)* and amendments to delegated acts. The framework aims to be a model that serves various sectors and sizes of companies, with standards for large corporations and *SMEs* to facilitate the comparison of sustainability for investors. Furthermore, it explains the mandatory suitability for sustainable growth, requires the inclusion of risk mapping in the business and its consideration in the design of new financial products.

The next steps, to be conducted by 31 October 2022, are the publications of delegated acts on sustainability reporting standards and national adequacies of these initiatives. Among public and private initiatives, it is expected that soon the search for a standard framework or easily usable by investors and companies will become something simpler in the coming years.

In this sense, in September 2021, *the International Business Council* associated with the World Economic Forum, launched in collaboration with EY, KPMG, Deloitte and PwC the white paper *"Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation"*, which underscores the “big four" approach to global accounting to standardize existing ESG metrics.

In the same month, at the UN General Assembly, the *CFO Principles* was launched to better align business policies with the SDGs. The document was prepared by the CFO Taskforce, composed of 58 CFOs and executives from the world's largest companies, representing 22 industries and $USD 1.6 trillion of market value. The aim is to give clear indications of a framework that relies on both public supports, through alignment with the SDGs, and with the commitment of large companies, represented by the *CFO Taskforce*. Further reducing ESG measurement disparities and facilitating convergence to a consolidated and consistent framework shortly.

Frameworks and Standards in Brazil

As treated in the **ESG section in Brazil**, the discussion on the subject has followed the rest of the world. But the discussion of frameworks has been greater advance in the private sector, where many companies seek international frameworks, such as those mentioned, including being subscribers of some of the consolidation processes dealt with in this AGBI Overview. On the other hand, it is worth noting that Law 6.404/76 - Law of S.A.s since its creation already mentioned the concept of "stakeholder capitalism", when talking about the social function of the company. Other legislation also reinforces responsibility with sustainability, but green financial products have been the one that has underpinned ESG the most in Brazil.

Laws such as the Agrobusiness Law or Decree 10.387/20 that encourages debentures to encompass projects that provide relevant environmental or social benefits, brought with them important tools to reduce bureaucracy and foster economic development without disregarding sustainability. Financial instruments were created such as The Producer and Rural Financial Notes – (CPR-F in Portuguese), which allow the financing aimed at the preservation of forests, the Certificate of Educational Receivable - CRE, which allows education financing, among others.

To rationalize the standards, the Brazilian Federation of Banks (FEBRABAN) in partnership with the Business Council for Sustainable Development created the Guide for The Issuance of Green Securities in Brazil and since 2018 B3 began to identify green securities on its platform, through the Corporate Sustainability Index (ISE BR). In 2020, B3 created the Efficient Carbon Index (ICO2 B3) and to further expand the ESG bond offering, B3 announced on September 8, 2020, the launch, in partnership with S&P Dow Jones, of the "S&P/B3 Brazil ESG, with companies that follow ESG criteria and are listed on B3 beyond, S&P Brazil BMI. In order to be listed in these indices, companies must join the Global Compact for the development of the UN SDDS.

In addition, the Brazilian Institute of Corporate Governance, IBGC, created the Positive Governance Agenda. This initiative seeks to broaden the spectrum of Governance to more inclusive leadership that also looks at social and environmental aspects. The project has six pillars and 15 measures. Pillars include: (1) ethics and integrity; (2) diversity and inclusion; (3) environmental and social; (4) innovation and transformation; (5) transparency and accountability; and (6) advice from the future. According to IBGC itself, the pillars of diversity and inclusion and environmental and social seek (2) to provide a corporate culture based on equal opportunities for all, with respect to diversity and (3) the commitment of leaders to incorporate environmental and social impacts into the business and integrate the organization into society. Among the outstanding measures on the subject are the identification and dissemination of measures and indicators for the adoption of ESG actions, bringing case studies, contributing to the development of laws and regulations with best Practices ESG, stimulating the market of sustainable goods and services, among others.

Implementation Benefits and Challenges

What are the main problems and risks?

The financial market is a great cradle of creators or users of jargon. One of these jargons is the FOMO, "Fear of missing out", which is the fear of not being up-to-date or taking advantage of a trend of the moment. ESG is a subject on the agenda of fund managers and large companies worldwide. And this, although particularly good, creates some challenges. Companies and Asset Management firms with FOMO are trying to adapt to ESG criteria and are, in part, skipping important steps in the process to become a genuine ESG company. Or what is worse, they're selling a false image of what they're not. Thus, some points of caution arise about the subject such as the speed of implementation, convergence with company culture and leadership mentality, and the discussion of the adoption of ESG practices by belief and affinity or by necessity.

The ESG hype makes managers and executives strive to accelerate the process of adapting their institutions to the acronym so as not to lose the "timing“. The acceleration of this adaptation is very welcome, but it brings many risks to the process. First, since behavioral and structural changes within organizations are time consuming. The company's culture is formed by the set of beliefs and values represented in the actions and attitudes of its employees. To change the behavior of a group takes time, until the participating agents absorb the information, understand, agree, and support, to then disseminate the new culture. For companies seeking a more heterogeneous social, ethnic, racial and gender composition, diversity requires a structural transformation that can take months or years, or even a strategic decision that some of the ESG flags are difficult to apply to reality. Therefore, the speed of implementation and maturation of ESG proposals within companies may present particularities, and it is of paramount importance to evaluate on a case-by-case basis, company by company, to enhance small steps taken by small players that mean a herculean change in the internal spectrum.

Timing

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Culture & Leadership

For companies seeking a more heterogeneous social, ethnic, racial and gender composition, diversity requires a structural transformation that can be time-consuming. Responsible investment practices must be rooted in the company's culture, reflected in the decision-making of its leaders so that the ESG action plan is not only in the role and marketing department.

Implementation Benefits and Challenges

What are the main problems and risks?

Another obstacle includes the power of leaders in the implementation of environmental, social and governance metrics within companies. In the book Conscious Capitalism, John Mackey, co-CEO of Whole Foods, and Raj Sisodia, described four principles for conscious capitalism, and the first is the principle of greater purpose. Briefly, purpose-made companies sell for the "why" they do and not "what" they do. The purpose engages stakeholders, brings a base of loyal customers, creditors who finance the cause and employees who work motivated in a common goal. And who dictates the tone of "why" or "what" is the leadership and culture of the company. That is, a leadership committed and dedicated in a greater purpose will delight its employees, who will be spontaneous promoters of the brand or entity they work for. By sellers it means not only the sale of the product but the advertisement to friends and relatives, organic marketing outside the work environment and the confidence to be doing something greater than themselves. Unlike, a weak culture stemming from uncommitted leadership or too many words and few action does not captivate your team. In short, responsible investment practices should be rooted in the company's culture, reflected in the decision-making of its leaders so that the ESG action plan is not only on paper and in the marketing department.

Regarding the adoption of ESG policies by belief or need, it is essential to identify the types of profiles and how they relate to the theme. It is well known that a portion of companies will not be able to adapt to an ESG policy. The trend is that such companies have more difficulty adapting to new market requirements.

Belief or Need

There is a group of companies that since its conception have already defined their goals permeated in Environmental, Social and Governance. There is also a group formed by a range of companies that have neglected the importance of the subject in the past, and now that it is in vogue, want to make up for lost time. While the former practices the ESG by belief the second does so out of necessity.

Greenwashing

The term "Greenwashing" meaning is tied to the practice of giving a "green" layer on the façade of the company, that is, allying the terms "sustainable", eco-friendly, to its assets, products or name while not in fact socially and environmentally responsible.

Implementation Benefits and Challenges

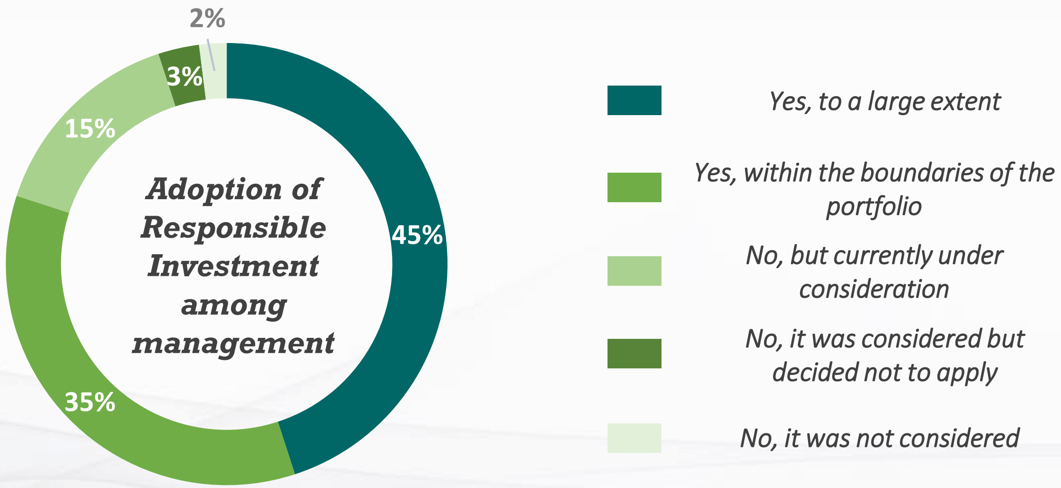
There is also another group that since its conception already define its goals permeated in Environmental, Social and Governance. The third group is formed by a range of companies that have neglected the importance of the subject in the past, and now that it is in vogue, want to make up for lost time.

In a 2020 report, Morgan Stanley[1] interviewed 110 fund managers' partners and revealed that 80% of respondents included sustainable investments on the agenda of their managers:

a) Due to increased demand.

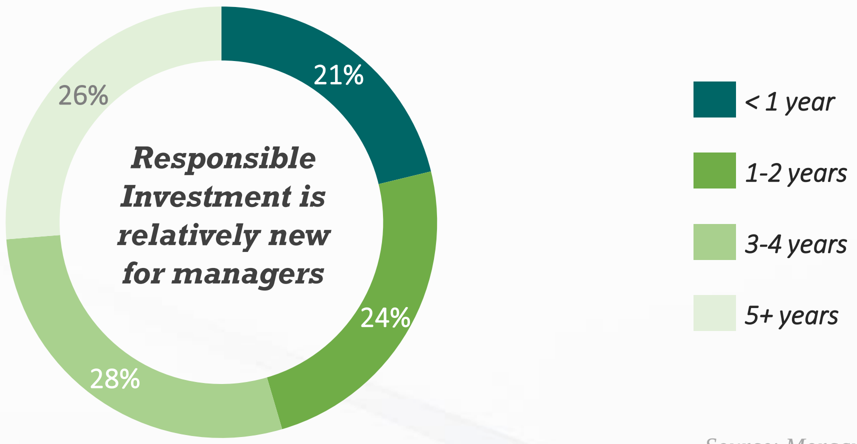
b) Because they see above-average performance potential.

c) Stricter regulation that leads to greater control of environmental, social and governance issues.



Source: Morgan Stanley (Adapted)

Among the 110 partners, 45% of respondents are willing to considerably increase the capital under management invested in responsible initiatives, while 35% are doing so in proportions according to the limits of their portfolio, 15% of managers are evaluating the possibility of starting investments aligned with ESG practices, and only the remaining 5% do not consider in the short term to adapt their portfolios with more responsible investments. This is a very relevant fact given that up to three years ago responsible investment was a new issue for 74% of managers.



Source: Morgan Stanley (Adapted)

Based on the reasons evidenced in the report, we identify a group that can be separated into at least two sub profiles: the first that are those that have understood the importance of ESG in the current world conjuncture and need to be monitored and supported on the path towards behavioral, structural and social changes. The second subgroup demands great attention, as it is composed of companies that claim to be ESG in presentations and product names, but in practice do not meet the requirements to consider themselves as such. They are recognized for practicing *Greenwashing*.

What is "Greenwashing"? How to identify fraudulent ESG?

Its meaning is tied to the practice of giving a "green" layer on the façade of the company, that is, allying the terms "sustainable", eco-friendly, to its assets, products, or name while not in fact socially and environmentally responsible. That is, deliberately pass a false image of compliance with ESG to attract more investors.

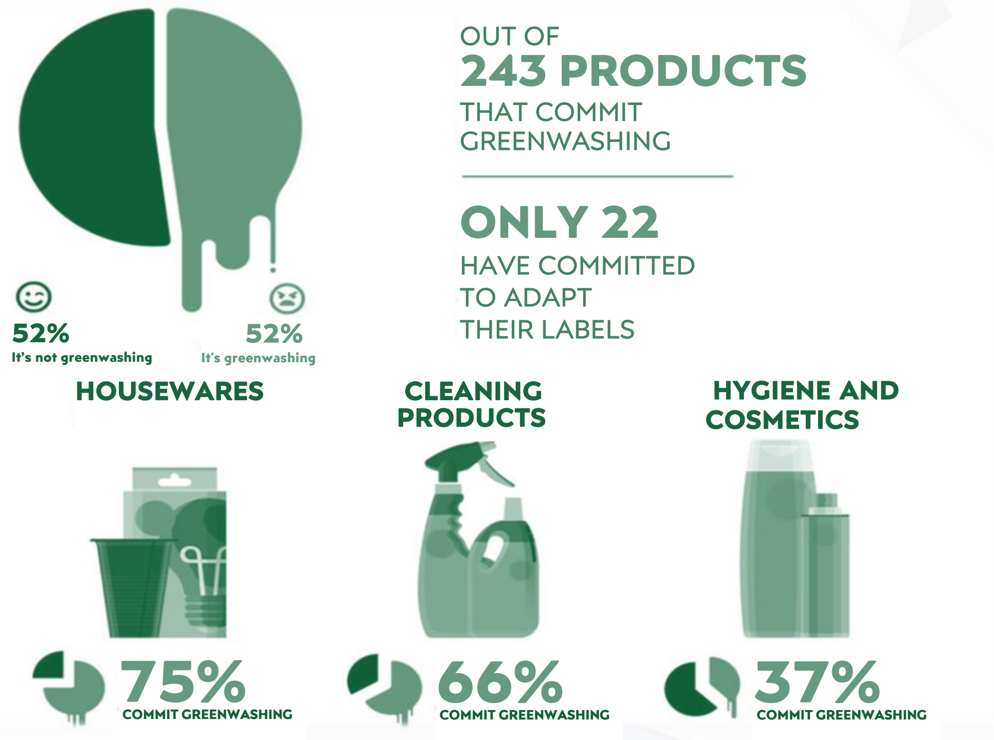
The discussion began in the 1990s, in the United States, when companies began to use terms related to brands that gave a connotation of sustainability and defense to the environment, such as "sustainable product", "nature-friendly", "politically correct", "environmentally correct" etc., while in fact practical efforts in search of environmental and social responsibility were minimal. To combat this wave of false sustainable commitment emerged the "green guides", a manual for the use of the terms ESG aimed at the marketing of companies.

And why does "Greenwashing" work?

A survey conducted by Avaaz on COVID-19 revealed that seven out of ten Brazilians believe in at least one "fake news" of the pandemic. This news is a notable example of why greenwashing works. It works because of the difficulty in many times if measuring the real impact of policies implemented by organizations and the credibility of brands towards society.

While social measures are easier to identify, there is now a difficulty faced by the public, be they individual investors or consumers in general, in measuring and monitoring how each company involved in its ecosystem is dealing with socio-environmental issues. In addition, companies that have credibility before the public, because they are already consolidated brands in the market, are more descriptive and enjoy greater confidence from their consumers, customers, and admirers.

Recently the newspaper O Globo published a survey by Blendoor, a startup specialized in creating ESG ratings and assisting customers in contraction in diverse groups, in which it was found that the technology companies that publicly supported the "#BlackLivesMatter" campaign employed on average 20% less black than those who did not speak. This work has made the differences between acting and talking about responsible investment.



Source: Instituto Brasileiro de Defesa ao Consumidor

To escape the façade ESG, check whether the advertisement made by the brand is consistent with the mission, vision and values shared by the company or if the marketing campaign is "too good to be true". Nothing against advertising, since they are reliably representing companies. Consider whether green labels converge with the company's position in the market on environmental and social issues. A simple Google search can already help the reader in a quick initial filter, but the search should be done diligently while there is no single methodology and framework, because the same company may have different grades depending on the methodology.

Importance of Governance and ESG

Although social and environmental aspects are at the center of the spotlight, historically it has not always been so. In the not-so-distant past, the "environmental" and "social" did not have the relevance they have today. A Morgan Stanley regression study found that about 50% of ESG's 2,645 most critical factors were linked to corporate governance.

Why the substantial focus on the "G"?

According to IBGC, corporate governance is "the system by which companies and other organizations are directed, monitored and encouraged, involving the relationship between partners, board of directors, board of directors, supervisory and control bodies and other stakeholders." Recently, IBGC created an initiative called positive governance agenda, which aims to extend the principles of governance to environmental and social issues. The project has six pillars of governance. They are Ethics and Integrity, Diversity and Inclusion, Environmental and Social, Innovation and Transformation, Transparency and Accountability, and Council of the Future. This agenda is being proposed to the leaders of all organizations, regardless of size or sector. The initiative proposes that the decisions taken by the leaders of organizations be guided in their purpose, and that they integrate the pillars, with governance a key role in the implementation of such measures.

This said, a well-defined and established governance policy, paves the way and facilitates the implementation of environmental and social policies within the company. The main functions of corporate governance in a company are: appointing the executive board, executive and employee compensation, ensuring ethics within the company, making strategic decisions for resource allocation, among others. A board more aligned with the theme of sustainability will make more easily feasible, policies and allocation of funds for environmental and social causes. For example, the approval of wage policies aimed at reducing the gender pay gap, environmentally exposed companies by separating CAPEX for disaster prevention, which impact the company's bottom-line (G), but avoid environmental tragedies (E).

Source: IBGC

How to generate value with ESG?

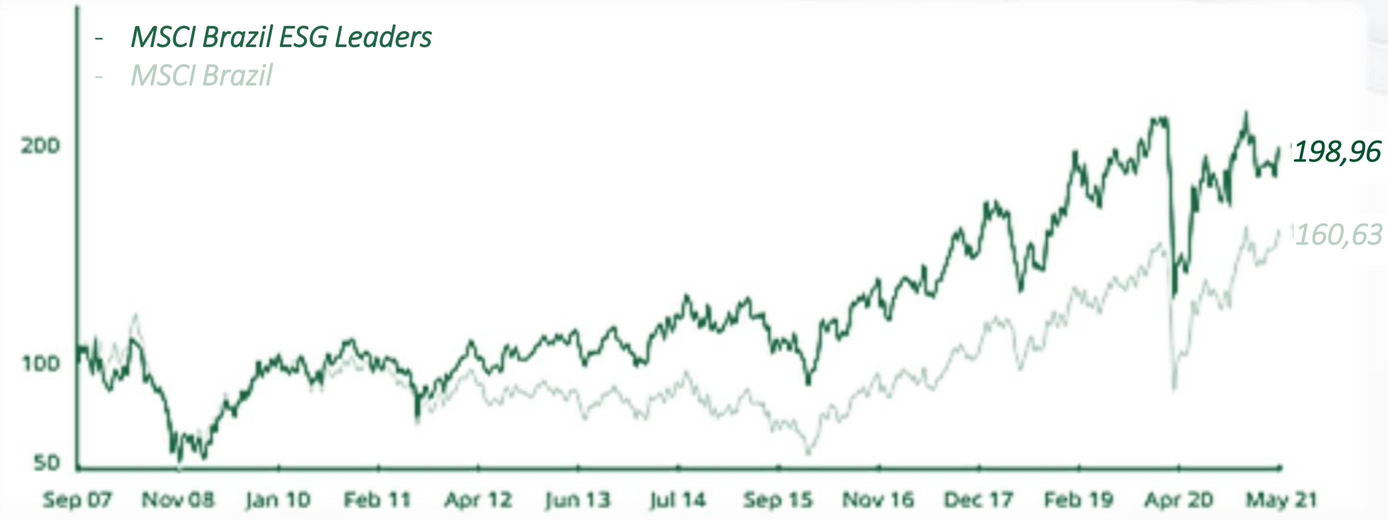
The main goal of portfolio management is to maximize returns given the risk profile of each investor. Nowadays, there has been some resistance to adopting ESG practices due to the lack of identification of financial value generated or even because it is believed not to be profitable. However, ESG investments have proven profitability, outperforming traditional portfolios. In a free translation of a phrase from State Street Global Advisors CEO Cyrus Taraporevala, "to implement ESG is to invest in values to generate value for the company."

It is possible to separate the positive impact of investment in values, in tangible (financial) and intangible (social) value.

The financial value is made explicit in commencing between ESG indices with traditional indices. Since its conception, the MSCI Brazil ESG Leaders index, composed by large and mid-caps leaders in its industries in alignment with ESG practices, has a performance 25% higher than its peers, which makes up MSCI Brazil. In addition, the ESG index showed lower volatility, downside risk and drawdown.

Another factor to be considered is that to perpetuate the business companies need to pay attention to the consumption profile of generation Y and Z. Forbes released an international amnesty survey of more than 10,000 people between 18 and 25 years of 22 countries that revealed that 41% of respondents cite global warming as the biggest problem to be faced in the world, followed by social, ethnic, racial and income inequality. Thus, it can be predicted that for an organization to sustain itself in the long term it will need to connect with the problems of its consumers, developing solutions to such demands, and the implementation of ESG policies offers a response with immense potential to generate future value for companies and in line with the expectations of their stakeholders.

CUMULATIVE INDEX PERFORMANCE - PRICE RETURNS (BRL) (SET 2007 – MAY 2021)



Comparison between the MSCI Brazil Leaders ESG and MSCI Brazil indices. Source: MSCI

On the immaterial side, we have the value generated indirectly in the bottom-line of companies through social and environmental practices. For example, industries recycling and reselling their own waste, optimizing utilities spending, reducing and/or reusing natural resources, companies with well-established policies to value their collaborators that are reducing turnover, resulting in lower cost with hiring and training, and more engaged collaborators delivering more results. Although these factors are not clearly measurable, they positively impact both the financial result and their image and reputation before society.

There is no perfect or standard metric. One cannot predict or project the real (or total) impact on a valuation, as the qualitative gain is often not measurable. Thus, it is necessary to combine the economically measurable analysis with a more humanistic evaluation in the non-numerical scope to see the real value that the ESG brings to its stakeholders.

Conclusion

Therefore, as we have covered throughout this AGBI Overview, the ESG issue requires depth and diligence from companies, but it is certainly a tendency to be pursued, if not by awareness, for risk mitigation or alpha generation reasons. However, the choice of methodology and the creation of an ESG culture is something that needs to be done with care and attention. The implementation is gradual, and one should pay close attention when the adoption of frameworks that, despite being in consolidation, continues to change. However, the benefits of the adoption of an ESG policy are clear, not only from the financial and operational point of view, but also morally.

As has already been put in the discussion on frameworks of this AGBI Overview, the constant change of ESG indicators and metrics, as well as the myriad of patterns and views make the values and principles essential in the implementation of an ESG policy. Despite the difficulties, often, as is our case at AGBI Real Assets, the culture of sustainability can already permeate the business. Especially in these cases, it is vital to know how to report ESG so as not to miss the opportunity to clarify for all stakeholders the positive impact of the company.

In any case, continuous improvement is essential in an area as full of novelties as sustainability. In our case, we are always attentive to new management technologies, financial products or construction and planting techniques that can create investment possibilities or new sustainable businesses. Therefore, we invite all readers to reflect with us: what are the possibilities to increase the sustainable character of your business and what is the most appropriate methodology for your company?

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