

## **Integrando os fatores ESG em uma Economia em Transformação**

**Local: BM&FBOVESPA - XV de Novembro, 275 - Centro - São Paulo - SP**

**Data: 5 de outubro de 2016**

### **9h00 - 9h15: Abertura**

- a. Brian Tomlinson, Associated Director Fiduciary Duty, UNEP FI e PRI
- b. Reginaldo Alexandre, Presidente, Apimec Nacional
- c. Ricardo Martins – Presidente, Apimec SP
- d. Sonia Favaretto, Diretora de Imprensa, Sustentabilidade e Comunicação, BM&FBOVESPA

### **09h15 – 11h15: Transição para uma economia de baixo carbono - diálogos entre governo, empresas e investidores**

- a. Denise Hills, *Superintendente de Sustentabilidade, Itaú-Unibanco*
- b. Élda Francioni, *Coordenadora do Sistema Financeiro, Secretaria de Política Econômica/Ministério da Fazenda*
- c. Fabio Cefaly, *Gerente de RI, Natura*
- d. José Guilherme da Rocha Cardoso, *Chefe do Departamento de Meio Ambiente, BNDES*
- e. Keyvan Macedo, *Gerente de Sustentabilidade, Natura*
- f. Ricardo Zibas, *Diretor - Climate Change and Sustainability Services, KPMG*
- g. Moderadora: Sonia Favaretto, *Diretora de Imprensa, Sustentabilidade e Comunicação, BM&FBOVESPA*

### **11h15 – 11h30: Coffee Break**

### **11h30 – 12h30: A transformação econômica necessária pela perspectiva do clima**

#### **KEYNOTE Speaker**

- a. Tasso Azevedo, *Coordenador, SEEG/ Observatório do Clima*

**12h30 – 13h30: Brunch**

**13h30 – 15h10: Continuando os Diálogos sobre Títulos Corporativos**

- a. Fernanda Zampieri, Brasil Program and Relationship Manager, Climate Bonds Initiative
- b. Marcelo Bacci, CFO, Suzano
- c. Mauricio Bassi, *Diretor Técnico*, Liberum Ratings
- d. Moacir Ferreira Teixeira, *Sócio*, Ecoagro
- e. Raquel Costa, *ESG analyst*, BRAM Asset Management
- f. Moderador: Gustavo Pimentel, *Managing Director*, Sitawi

**15h10 – 15h25: Coffee Break**

**15h25 – 17h05: Integrando ESG na Análise de Investimentos**

- a. Adeodato Neto, *Head de Mercado de Capitais*, Eleven Financial
- b. Brian Tomlinson, *Associated Director Fiduciary Duty*, UNEP FI e PRI
- c. Fabio Coelho, *Diretor de Assuntos Atuariais, Contábeis e Econômicos*, PREVIC
- d. Fabio Lacerda Carneiro, *Chefe Adjunto*, Banco Central do Brasil
- e. Luzia Hirata, *Equity Research Analyst*, Santander Asset Management
- f. Mauro Cunha, *Presidente*, AMEC
- g. Moderadora: Maria Eugênia Buosi, *Sócia*, RESULTANTE Consultoria Estratégica

**17h05 – 18h00: Dever Fiduciário – “Fácil de Falar, Difícil de Fazer”**

**KEYNOTE Speaker**

- a. Dr Raj Thamotheram, *CEO*, Preventable Surprises

**18h00: Encerramento**

- a. Tatiana Assali - *Head of Networks & Outreach*, PRI
- b. Reginaldo Alexandre – *Presidente*, Apimec Nacional
- c. Ricardo Martins – *Presidente*, Apimec SP



***“A transformação econômica necessária pela perspectiva do clima”***

**Tasso Azevedo, SEEG/ Observatório do Clima**



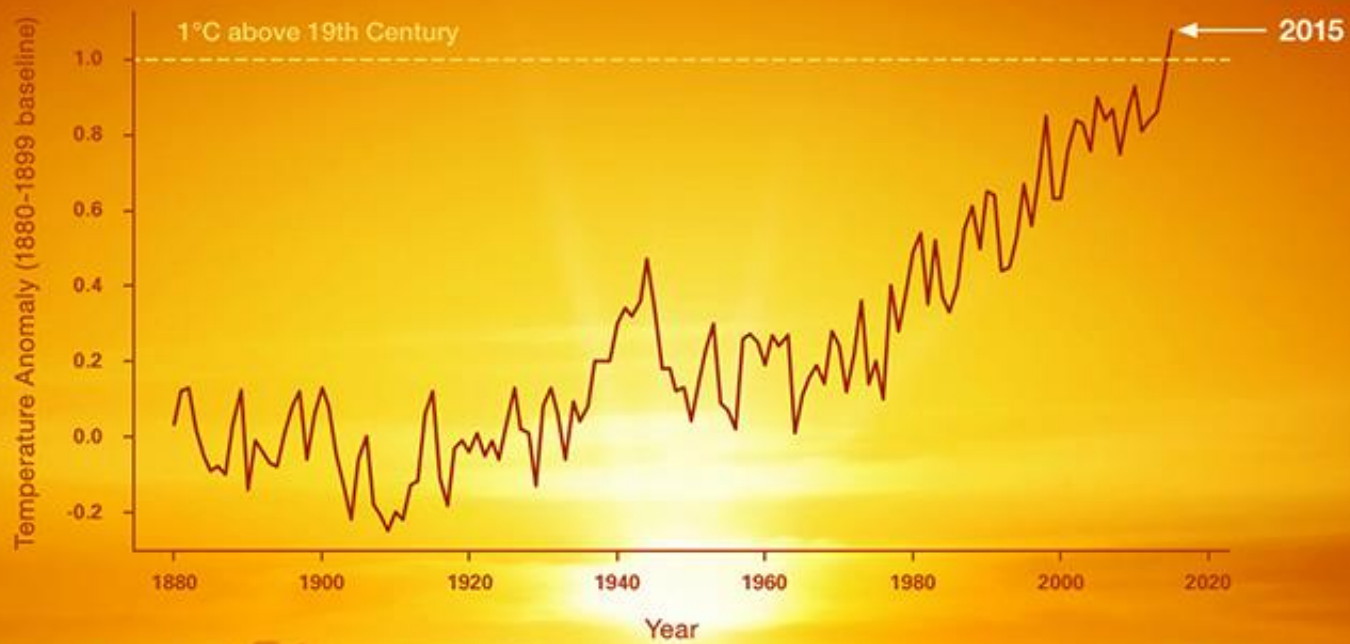


1,5°C



1,5°C

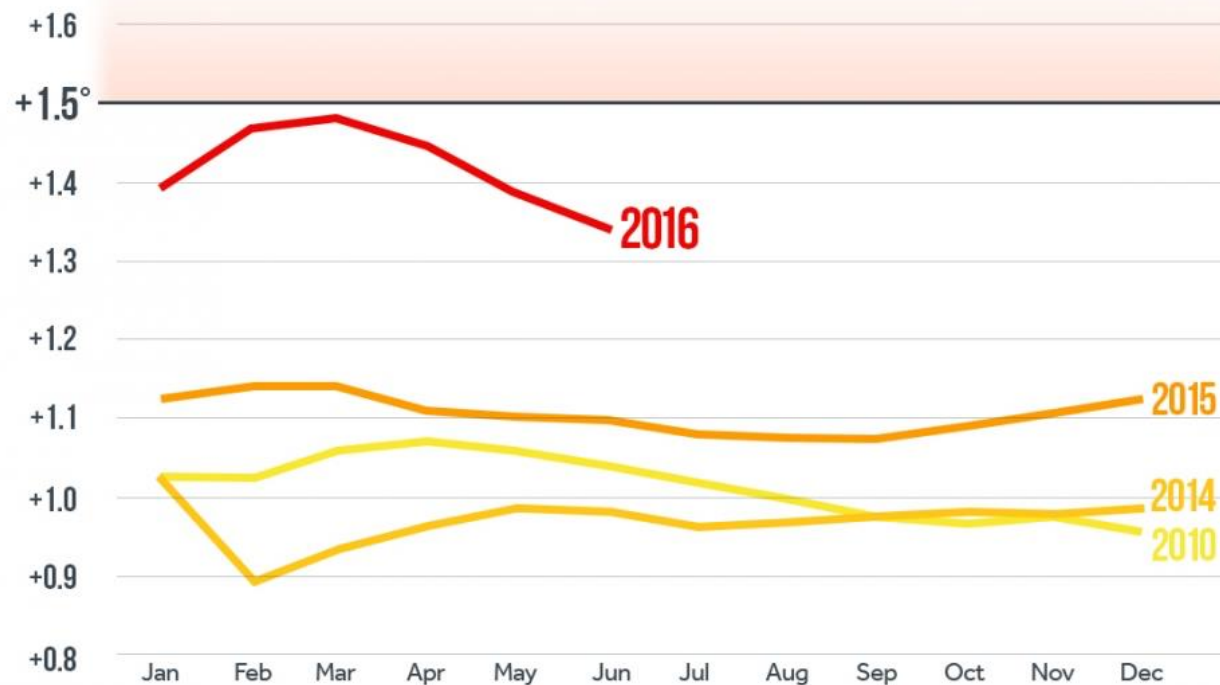






# Blowing Away Heat Records

Global year-to-date anomalies from 1881-1910 baseline



Source: NASA GISS and NOAA NCEI global temperature data averaged and adjusted to early industrial baseline (1881-1910). Data as of July 2016

CLIMATE  CENTRAL

Orçamento de emissões até 2011 - 2100

1000 Gt CO<sub>2</sub>e

1,5 tCO<sub>2</sub>e / habitante /ano

66% de chance de limitar em 2°C o aumento da temperatura

Orçamento de emissões até 2011 - 2100  
2016

~~10000~~  
7500

Gt CO<sub>2</sub>

66% de chance de limitar em 2°C o aumento da temperatura

2050

Zero

Emissões POBREZA

DESMATAMENTO  
COMBUSTÍVEIS FÓSSEIS  
LIXO

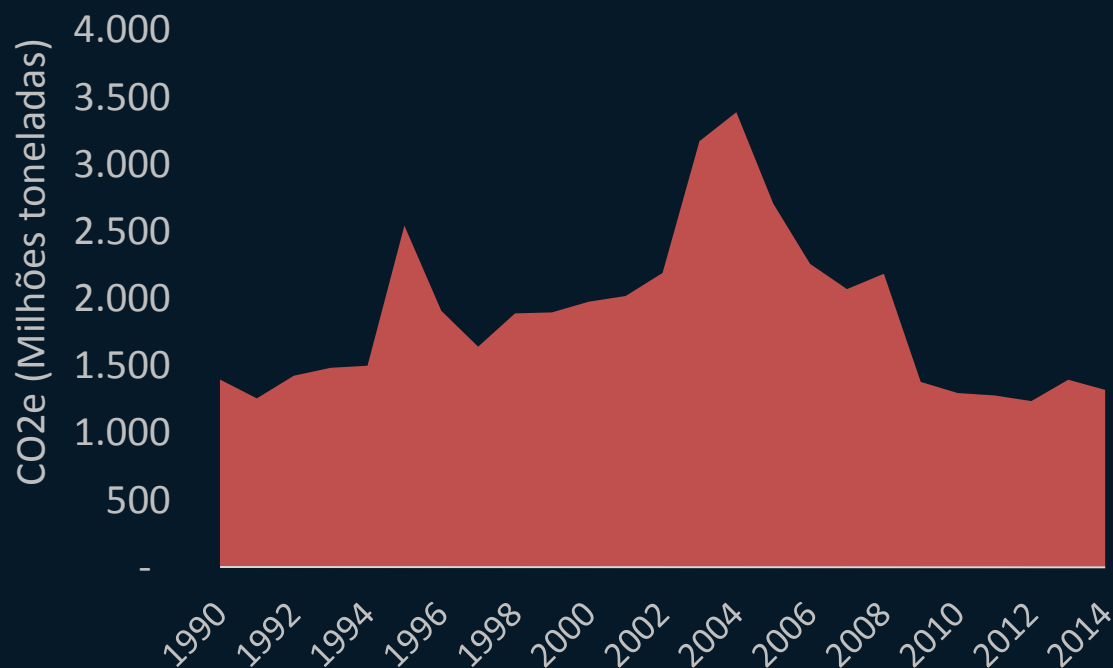
2050

VIOLÊNCIA  
DESIGUALDADE  
REFUGIADOS

# Brasil

Emissões  
caíram 50%  
2004-2009

7 CO<sub>2</sub>e / hab



# Brasil

Emissões  
caíram 50%  
2004-2009

7 CO<sub>2</sub>e / hab

Ainda um  
dos 10  
maiores  
emissores

2,5%

Impactos  
regime  
hídrico  
já  
percebidos  
Agricultura  
Energia  
Saúde

Fazer da transição para uma  
economia descarbonizada a nossa  
melhor oportunidade  
para o desenvolvimento



Acabar com  
desmatame  
nto

Reflores  
tar

Eletrificar +  
Eficiência  
Energética

Investir  
em  
energias  
renováveis

Elimina  
r o lixo  
e a  
poluiçã

Alimentos  
mais  
saudáveis e  
baixa  
emissão

## Keynote Presentation at PRI/APIMEC ESG 2016:

*Integrating ESG factors in an economy in transformation*

**Fiduciary Duty:  
Easy to say, harder to do!**

Dr Raj Thamotheram

*5<sup>th</sup> October 2016*

# The definition of fiduciary duty is contested



*"It shows what a genius [Trump] is.... And he would've been a fool not to take advantage of it. Not only that, he would've **probably breached his fiduciary duty to his investors, to his business.**"*

**Rudy Giuliani**, former Mayor, New York

# Investors enable corporate dysfunction



Critics have a “*fundamental illiteracy of capitalism*” and that “*If you look at those companies who have impeccable corporate governance and have ticked all the boxes, they are also those who are the most cumbersome*”

Major investor speaking anonymously, 2015

# Not an academic debate!





# What is fiduciary duty?

- An obligation to act in the best interests of end beneficiaries
- Interpreted in two opposing ways:
  - A. Maximise share price growth over short term because the long term is just a collection of short terms
  - B. Take a long-term approach considering ESG drivers of growth; consider systemic risks; act as stewards with an explicit inter-generational focus
- To-date the debate has focused on active vs index

## The debate today

*Mirror, mirror on the wall,  
who's the ~~fairest~~ of them all  
most fiduciary*

# Active investors on indexing

“A disaster” (Saker Nusseibeh, CEO, Hermes, US \$33.7bn)

“Passive investment is worse for society than Marxism” (Bernstein Investment Research)

*Core criticism:* Misallocate capital on way up & down



# Indexers on active approaches

Only a very small minority of active managers beat their benchmark (16%, BoAML)

*Core criticism:* (much) higher fees for worse performance

# A rather old debate!



# HBS research on ESG investors

- Selection criterion: Material Sustainability Drivers
- Data: 2,300 US stocks, 1991-2012, SASB/KLD research

Portfolio Construction	Highest-Score Portfolios	Lowest-Score Portfolios	Differences
Quartiles	2.9%	-0.2%	3.1%
Quintiles	3.4%	-1.6%	5.0%
Deciles	5.6%	-3.3%	8.9%

Source: “Corporate Sustainability: First Evidence of Materiality”, HBS Working Paper

# Inconsistency on risk disclosure

- 60% of investors who voted *for* 2°C stress test resolutions at non-US companies (BP, Shell, Statoil, Suncor) voted *against* or *abstained* on similar resolutions at US companies
- Why? US management advised voting against; non-US managers advised a vote in favour
- Where's the independence of mind in that?!

# Investors who are primarily index

- Voting FOR 2°C stress test resolutions
  - State Street (SSGA)
  - Florida State Pension Board
  - HSBC Global Asset Management
  - Legal & General Investment Managers
- Voting AGAINST
  - Blackrock
  - Vanguard

# Investors who are primarily active

- Voting FOR 2°C stress test resolutions
  - Alliance Bernstein
  - Canadian Pension Plan Investment Board
  - TD Asset Management
  - T Rowe Price
- Voting AGAINST/ABSTAINED
  - Aberdeen
  - Fidelity (abstained)
  - Capital
  - Templeton

*Data from FundsVote & ProxyMonitor*

# If active vs. index is not the core difference, what is?

- How important asset gathering is versus other organisational objectives
- Do investors understand the importance of resource productivity and hence the importance of sustainability drivers
- Have they organised themselves accordingly:
  - Staff with the right skills & training
  - Remuneration aligned for the long-term
  - Good management of conflicts of interests
  - Leadership support and good governance internally (eg whistleblowing)

# Awareness is spreading....



Carney paints an optimistic scenario in which investment in low-carbon technology could simultaneously address many of the world's most stubborn economic challenges whilst also mitigating the likely rise in global temperatures

<http://www.bankofengland.co.uk/publications/Documents/speeches/2016/speech923.pdf>



But the immunity to change is strong

# Professional Pensions

**Climate change is ‘overblown nonsense’ and not a material risk, says industry**

Over 50% of sample thought climate change was an exaggerated threat

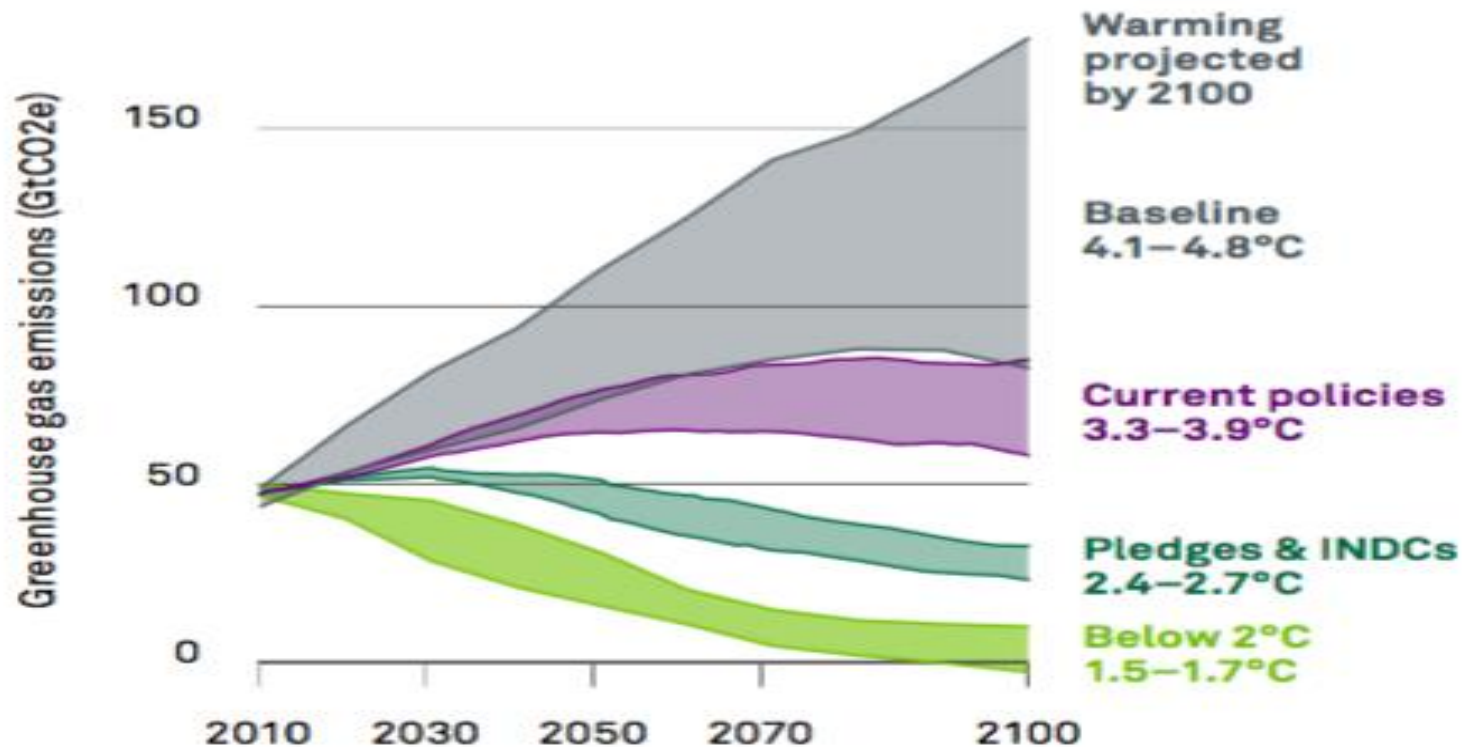
# Who can change fastest?

- Active investors need to:
  - Shift to concentrated portfolios
  - Integrate material ESG drivers of value
  - Align remuneration with long-term
  - AND up-skill to do strategic stewardship
- Index investors need to:
  - Appoint stewardship team internally or partner with an engagement overlay provider
- Both need to
  - Manage conflicts of interest
  - Hold controlling shareholders accountable

# Doing 'our best' isn't good enough

## Warming paths

Scenarios for global temperatures, 2010-2100



# GFC: Here we go again...



*I feel as if I'm watching as we fly in slow motion on a collision course toward a giant mountain.*

– **Hank Paulson**, former CEO/President, Goldman Sachs, former US Treasury Secretary

....climate change will threaten financial resilience and longer-term prosperity. While there is still time to act, the window of opportunity is finite and shrinking

– **Mark Carney**, Governor, Bank of England



We are playing Russian roulette with five bullets in the barrel.

– **Henri de Castries**, CEO/President of AXA

# Investors hold the key to rapid change

Institutional investors  
(e.g. pension fund  
trustees) have a legal  
**fiduciary duty** of  
loyalty and care to  
beneficiaries to  
preserve their  
intergenerational  
equity

*and*

Climate change is  
causing  
portfolio-wide  
**quantifiable  
systemic risk**  
that cannot be  
hedged or sold. It  
can only be resolved  
by reducing and  
eliminating carbon  
emissions

*instead*

**90%** of investors  
≈ centivise executives  
to focus on **short-  
term profit  
maximisation**  
and  
**60% back  
sector laggards**  
at AGMs on  
climate risk  
Disclosure  
resolutions

# Fiduciary capitalism

“A system of investment decisions based on intergenerational equity, in which negative externalities are minimized and positive ones maximized to benefit beneficiaries”

**- John Rogers former President, CFA Institute**



“There is nothing so practical as a good theory” - **Kurt Lewin (1946)**

# The investor stool needs a 3<sup>rd</sup> leg!

## Leg 1

Divest/Invest movement  
(SAA, carbon bonds/green funds)

## Leg 2

Decarbonisation

## Leg 3

Forceful  
Stewardship

- Companies
- Govts/Regulators



# What is Forceful Stewardship

Focus on the **strategic governance lever**, rather than the traditional investment one

Investors **engage assertively** with boards and sponsor **shareholder resolutions** to guide corporate purpose and strategy

Investors act together to influence **legislators & regulators**

- but in parallel act in their sphere of control
- removes “blame game” argument and enhances credibility

Important role for **investment leaders & trade associations**  
(eg AMEC)





*"Yes, the planet got destroyed, but for a beautiful moment in time we created a lot of value for shareholders."*