ESG GUIDE

SEPTEMBER 2019

Page 3

Index

Page 5

1. Introduction

The Green Finance Advisory Council (CCFV), with the support from the UK Pact program of the British Embassy in Mexico, develops this document with the objective to offer investors and sector participants Mexican financial relevant information on topics environmental, social and corporate governance (**ESG** for its acronym in English). Because of this, three main issues for decision makers of the areas of analysis, touching such important aspects What:

1. The urgency of making investment decisions incorporating the assessment of climate risks, social and corporate governance.

The climate crisis is a phenomenon that will change permanently the conditions of the planet, from its temperature, even its geography. This will generate changes dramatic demographic and cultural impacts that will affect companies, and therefore to investment portfolios both in terms of the short as well as the long term.

2. Progress at the international level in the evaluation of environmental, social and corporate governance factors.

During the last years, the visibility of the topics social and environmental has increased dramatically, decreasing the tolerance of investors towards reputational risks in your investments. Because of this, large asset managers have adhered to different initiatives for **ESG** risk assessment both qualitative as well as quantitative, or have created their own methodology.

3. The standards and taxonomies applicable at the international for such analyzes, as well as the sources of information commonly used.

Generally, there have been few financial institutions that consider the social and environmental impact of their investments. Therefore, they tend to lack equipment own experts on these issues. This panorama has changed in recent years, thanks to alliances that these institutions have carried out with organizations more experienced in measurement and evaluation of values or non-financial indicators, developing standards and taxonomies for the sector that allow other investors replicate this analysis in your processes.

The dissemination of this information is in line with the objectives of the CCFV, which wishes to increase the resilience from the financial system to the challenges posed by change climate and sustainable development goals, through of the identification, evaluation and management of **ESG** risks and capacity building within organizations.

2. The financial system and the evidence climatic

to. Climate change as a threat to stability financial

The increase in the level of global gas emissions greenhouse effect (GHG) caused by activities human beings has caused an environmental imbalance that it may well lead to financial stress and even a crisis of considerable magnitude. [1]

The effects of climate change make assessment difficult of financial risks for companies, investors and the financial system in general. The Inadequate risk information can lead to incorrect valuation of asset prices and to a bad capital allocation. In turn, this creates more risks, as markets are vulnerable to corrections abrupt.

Different analyzes have faced a level significant uncertainty due to availability limited data, where all asset owners are exposed to financial risk related to the climate change Industries with a high emission of carbon found within portfolios of investment of pension funds and insurance companies represent between 20% and 25%, of which 5% to 10% These are companies whose main source of income is composed of activities related to fuels fossils, while sectors with a low environmental footprint they represent between 1% and 2%. [two]

b. Risks and opportunities

Financial risks arising from climate change are they estimate in trillions of dollars. However, its appearance It also implies the generation of new opportunities for investment in the financial market.

to. Financial risks associated with climate change

Climate change must be approached with a vision comprehensive, prioritizing the financial angle because affects the stability of investors' balance sheets. Physical and regulatory risks, technological disruptions, reputational conflict, compensation for damages and Losses, among others, affect the value of assets and, mainly, those linked to the economy fossil. [3]

According to the Carbon Tracker initiative, more of USD 1.1 billion of capital invested in

1 Godinot, Sebastien and Jan Vandermosten. (2017). WWF Climate Guide to Asset Owners: Aligning Investment Portfolios with the Paris Agreement.
2 Idem
3 Scott, Mike. (2019). Corporate World Weighs Up Trillions of Dollars of Climate Risks - and Opportunities.

Page 6

fossil fuels until 2025 will become stagnant assets [4] .In other words, they will be assets

as those "unable to recoup their cost of investment as planned, with a loss in value for that will lose their value in a world with restrictions of carbon. Regulation of climate change, risks transition and, in some cases, physical impacts, affect the value of a significant portion of these assets and this implies a great risk for the owners with portfolios exposed to fossil sectors.

On the other hand, it is important to note that the measure for risk assessment most used is value at risk (VaR). This indicates the size of the loss in which a portfolio may incur over a time horizon with a particular probability.

That is, the value at risk related to the change climate is the probability distribution of the value current market losses on financial assets due to climate change.

Some studies have aimed to quantify the climate-related value at risk. For example, The Economist found risks related to change climate, in terms of discounted present value, of USD $ 4.2 trillion US dollars, number equivalent to Japan's GDP. While the orders of magnitude vary significantly, it should be taken into account Note that even in the lowest cost estimates, impacts are in the billions of USD [5] .

b. Stagnant Assets

The cost associated with climate change and, above all, the energy transition from fossil fuels traditional (coal, oil and their derivatives, natural gas) towards renewable energies (wind, solar, hydroelectric) implies that a large part of fossil fuel reserves around the world shall remain unexploded [6] . It is important highlight that the stagnation of related assets with climate change it can materialize due to to different factors: regulatory, technological, change in consumer behavior / loss of demand, public perceptions (is i.e. stigmatization of a particular industry). The Coal is the main fossil fuel in decline; on United States since 2011 have closed more than 290 carbon [7] plants . The OECD (Organization for Cooperation and Economic Development) defines stagnant assets The investors." [8] In the context of fuels fossils, this means that those that do not burn remain stuck on the ground [9] . The risks that result from stagnant assets related to the climate change are more difficult to assess and manage compared to other financial risks. This is due to its unprecedented magnitude and breadth, the uncertain time in which they are expected to materialize and the uncertainty about how markets will emerge from these risks [10] .

However, it is important to understand that this is not it is only a “long-term” risk that can be discarded because of its level of difficulty. Assets stagnant are already a reality in the market of American coal mining industry, where the market value of the four largest companies it has fallen by more than 99% since 2010 [11] . In Europe, top 20 energy service companies recorded the loss of more than half of their value market, for 1 trillion euros [12] . In addition, others analysis indicates that approximately 2 trillion USD in fossil fuels is at risk of being stagnant, with 500 billion only in the sector Chinese electric [13] .

So far, most of the analyzes have focused on in financial assets related to extraction of fossil fuels traded on the stock exchanges of New York and London securities. However, the stagnant assets in intermediate and other sectors Stock markets may be even more important, although less known, for example: services public, agriculture, buildings, automobile, etc.

Finally, the risk of stagnant assets may be exacerbated by behavioral tendency documented by companies and investors to continue with activities that are not economically rational under a crisis scenario climatic [14] . Such behavior can be a barrier important in the early reactions of companies and investors to de-carbonization targets.

c. Opportunities for Investors

The financial system has functioned as an engine transcendental for the transition to an economy

4 The most frequently used term is stranded assets.
5 Economist Intelligence Unit. (2016). The cost of inaction: Recognizing the value at risk from climate change. United States: Aviva, KPMG.
6 Beyond Carbon. (2019). Get the Facts. Bloomberg Philanthropies. September 10, 2019. https://bit.ly/2WzMKmZ
7 Idem.
8 Baron, Richard and David Fischer. (2015). Divestment and Stranded Assets. September 10, 2019. https://bit.ly/2oYSOtj
9 Idem
10 Idem
11 World Wildlife Foundation. (2017). Risks and Opportunities in Financial Investments. September 5, WWF Website: https://bit.ly/2k4KPd5
12 Idem
13 Idem
14 Idem

sustainable and low-carbon, aimed at maintaining the limit of global warming below 2 degrees Celsius, having the necessary resources to meet investment needs [15] . However, for resources to be directed towards said climate goal, it is necessary to make changes drastic investment decisions, aligning strategies with the objectives of sustainable development

ESG risks and opportunities . This regulation is applicable to private pension funds, investment companies insurance, portfolio managers and investment advisers [20] .

In particular, the document includes [21] :

- *Reference to the Sustainable Development Goals and the Paris climate goals:* linking

(ODS's), and generating an accurate measurement of the risks related to climate change, reflecting the results with transparency [16] .

A significant amount of the liquidity of the economies is in the hands of investors institutional, heterogeneous group that covers funds from pensions, insurers and sovereign funds; your model business associates savings from civil society with investments, seeking a return in the medium and long term [17] . Some analyzes have indicated that Asset owners are able to contribute to changes in the economy through targeted investments like green or sustainable bonds.

3. Regulation and Public Policy

Due to the effects that the climate crisis is already having on the financial system, different initiatives have emerged regulatory measures to mitigate impacts and respond to needs of the various participants in the sector. Especially those needs focused on availability of information and in closing the gaps in internal processes to interpret said data. The most relevant initiatives are presented below in international markets:

to. Europe

In March 2019, the Parliament and the Council of the Union European Union (EU) reached a political agreement to demand the integration of ESG factors in traditional analysis by share of financial market participants [18] .

The new regulation will give coherence in all states members of the EU by requiring investors to consider environmental, social and governance factors corporate as financially material elements in investment decision making [19] . Also establishes how financial actors should report to beneficiaries on compliance in integration explicit financial regulation with the global sustainability goals.

- *Use of the word "must":* the integration of **ESG** factors will be mandatory for the financial sector participants.
- *Use of the word opportunities:* The document contemplates both the risks to which they are exposed the investors, What the opportunities generated by filter investment **ESG** .
- *Requirements:* also includes how to disclose the impact of investments both positive and negative regarding **ESG** factors .

This is the first disclosure framework supported regulatory that has an impact on the activities of investment related to sustainability.

b. Asia

In China, regulatory bodies have begun to actively promote **ESG** analysis and its development to through international exchanges, training and the development of its own initiatives and regulation. For For example, the China Securities Regulatory Commission has provided that by 2020 all companies listed in the Exchanges in the country must disclose their environmental information [22] .

On the other hand, in the last four years, organizations financial institutions from six Asian countries (South Korea, Hong Kong, India, Malaysia, Singapore and Taiwan) have adopted ESG risk management codes [23] . For example, the National Pension Service of South Korea (NPS for its acronym in English) has become a signatory to UN PRI and the Taiwan Bureau of Labor Funds (BLF has reserved USD 2.4 billion for the mandate of the Global **ESG** Quality Fix initiative Equity Indexation.

15 Agha, Mahenau, Nick Robins and Simon Zadek. (2016). The Financial System We Need: From Momentum to Transformation. September 05, 2019, from UNEP Site web: https://bit.ly/2k4KNBZ
16 Idem
17 World Wildlife Foundation. (2017). Risks and Opportunities in Financial Investments. September 5, WWF Website: https://bit.ly/2k4KPd5
18 UNEP Finance Initiative. (2019). EU policy makers achieve political agreement on investor disclosures and ESG. August 30, 2019. https://bit.ly/2k0Z02Q
19 Idem
20 Idem
21 Idem
22 Maisonneuve, Virginie. (2016). Mainstreaming ESG Investing in Asia. Eastspring Investments. September 02, 2019. https://bit.ly/2lw6T0r
23 Idem

Both the Singapore Stock Exchange (SGX) and the Hong Kong Stock Exchange Kong (HKX) have recently requested that all listed companies submit sustainability reports or justify their reasons if they choose not to [24] . Affirming its pioneering role in sustainability, Taiwan introduced your stewardship code for investors in 2016, being a continuation of the reporting rules of sustainability that it stipulated in 2015. Both are focused on large companies and certain sectors declared a priority in **ESG** [25] .

c. USA

Public Registry of Securities Markets (RPMV) have the obligation to present its sustainability report. In addition, the regulator is in talks with the Stock Exchange de Valores de Lima to deepen the implementation of the **ESG** criteria in the Peruvian capital market, placing emphasis on corporate governance [32] .

and. Mexico

CONSAR (National Commission of the Savings System for Retirement) published in January 2018, in the Official Gazette of the Federation, a recommendation

ESG regulations vary from state to state, so which means that companies lack a mandate federal to disclose **ESG** [26] information .

Some American institutional investors, seeking to achieve greater uniformity on how the companies disclose their environmental, social and of corporate governance, have suffered a setback after that Congress rejected a measure to introduce European-style standards in state reporting States, (June 2019) [27] . The legislation would require the SEC US Securities and Exchange Commission write the rules **ESG** Disclosure . To date, the agency has done little by itself to advance the disclosure of information related to climate change, beyond a set of guidelines issued in 2010 on how the rules Existing risks can be applied to related risks [28] .

d. Latin America

On May 25, 2018, the National Monetary Council (CMN) of Brazil published Resolution CMN 4,661 / 2018, which revised the rule that governs the investments of pension funds [29] . The new standard requires that asset managers of pension funds consider environmental, social and governance risks (**ESG**) as part of your decision-making process [30] . Likewise, the Colombian supervisory authority is developing a guide on the due diligence process in the investment of pension funds that will include the **ESG** factor analysis [31] . Following the same line, the Superintendency of the Peruvian Securities Market has established that companies with securities registered in the

encouraging Afores to integrate **ESG** factors into the investment decision making [33] . This has been the only movement of part of the regulation on **ESG** since the Mexican Congress approved the Law General of Climate Change.

However, private initiative has advanced the issue of **ESG** despite the absence of regulation. The example clearer is the creation of the Sustainable Index from part of the Mexican Stock Exchange (BMV) in 2011, which includes those companies with the best performance on social / environmental issues [34] . The index fostered a best practice of **ESG** information disclosure in public companies during the beginning of that decade. Now Robeco SAM will be the new aspect evaluator ESG for companies listed on the BMV, being a more rigorous standard than the current one, with the intention of improve the performance of broadcasters.

In December 2018, 51 investors institutions that collectively handle 4.52 trillion MXN, declared in favor of the disclosure of information **ESG** in alliance with the CCFV, recognizing the relevance of such data as an important source for analysis risk. This statement states the following:

> *"[...] That we consider the risks and opportunities ESG as externalities that are not included in traditional financial analysis, but that increasingly influence the performance of various asset classes. That the ASG variables can affect cash flows and stability financial company so these elements should be evaluated and integrated in investment processes. That the barriers*

24 Idem
25 Idem
26 Stanley, Daniel. (2018). ESG Investing and Government Regulation. Seven Pillars Institute. September 02, 2019. https://bit.ly/2kohb2v
27 Jones, Gareth. (2019). US Congress rejects European-style ESG reporting standards. Fintech Collective. https://bit.ly/2kd5wDL
28 Idem
29 International Organization of Pension Supervisors (IOPS). (2019). Supervisory guidelines on the integration of ESG factors in the investment and risk management of pension funds. August 30, 2019. https://bit.ly/2ScJqAM
30 Idem
31 Responsible Investment Program (PRI). (2017). Responsible investment becomes relevant in Peru, August 30, 2019. https://bit.ly/2lQa9Uv
32 Idem
33 Government of Mexico. (2018). Changes in the financial regulation of the AFORES will stimulate greater investment in productive projects. National System Commission Savings for Retirement. September 10, 2019. https://bit.ly/2kdo86z
34 Idem

> *existing for the disclosure of ESG information are multisectoral, such as the lack of policies clear and consistent; the lack of standardization of relevant data; in addition to limitations in disclosure methodologies. That the lack or the difficult access to ESG data limits the ability of financial institutions and other participants of the market to analyze and manage your exposure to ESG risks. In addition, it hinders reallocation resource efficient by not identifying opportunities investment."* [35]

In 2015, NAFIN issued its first climate bond, becoming the first certified green bond in Latin America and the first Mexican issuer.

In turn, Mexico City, in 2016, placed its first green bond, becoming the first city

F. Network for Greening the Financial System (NGFS)

The Network of Central Banks and Regulators for Greening of the Financial System (NGFS for its acronym in English) is the only forum in the world that brings together central banks and supervisors committed to better understand and manage risks and opportunities financial results derived from climate change [36] . The network was launched in December 2017 during Summit One Planet in Paris, and brings together 36 members (as of June 2019) who participate in three lines of work: supervision, macro-finance and green finance integration [37] .

The objectives of the initiative are to exchange experiences, share best practices, contribute to the development of the management of environmental and climate risk in the sector financial system, and mobilize the financial system to support the transition to a sustainable economy. Its purpose is to define and promote best practices to be implemented inside and outside the NGFS [38] network .

Latin American in obtaining financing through this instrument. Shortly after, in 2017, Grupo Rotoplas placed two sustainable issues on the stock market, becoming the first company to issue this type instrument in Mexico As of September 2019, the tagged emissions of the Mexican market are distributed as follows:

Multilateral Initiatives

However, beyond national or regional cases, initiatives have emerged from organizations multilateral organizations, which, by identifying information gaps and the lack of local articulators, are working on coordinate the transition of financial institutions towards a more resilient system that allows facing social and climatic phenomena. Then it present some examples:

g. UNEP FI

The United Nations Environment Program Environment - Financial Initiative (UNEP FI for its acronym in English) is an alliance between the United Nations and the global financial institution created in the wake of the Earth Summit of 1992, with the mission of promoting sustainable finance [39] . More than 250 financial institutions, including banks, insurers and investors, work with UN Medio Environment to understand environmental challenges, governance, its relevance in the sector financial and how to actively participate to address them [40] .

UNEP FI's work also includes a strong focus in public policies, by facilitating dialogues at the level local among relevant actors of the financial sector, supervisors, regulators and policy makers, and, international level, by promoting the participation of the sector financial in processes such as climate negotiations global [41] .

h. Financial Centers for Sustainability (FC4S)

The FC4S Network is structured as an association between financial centers and the Program of United Nations for the Environment, which acts as coordinator and secretary. The goal of the network is exchange experiences and take common action on shared priorities to accelerate the expansion of green and sustainable finance [42] . The long-term vision of

35 Idem
36 Climate Action in Financial Institutions. (2019). Central Banks and Supervisors Network for Greening the Financial System (NGFS). Central Banks and Supervisors Network for greening the Financial System. September 10, 2019. https://www.mainstreamingclimate.org/ngfs/
37 Idem
38 Idem
39 UNEP - Finance Initiative (UNEP FI). (2019). About UNEP FI. September 02, 2019. https://www.unepfi.org/about/
40 Idem
41 Idem
42 Financial Centers For Sustainability (FC4S). (2019). About Us. UN Environment. September 02, 2019. https://www.fc4s.org/about-us

the FC4S Network is the fast growing global finance green and sustainable in all financial centers of the world, backed by international connectivity strengthened and a framework for common approaches [43] .

The FC4S Secretariat, based in Geneva, works with members of financial centers at the level worldwide, by providing research on emerging issues, best practice guidance, strategic advice and project development and support services, including through initiatives regional [44] .

4. Initiatives

Given the progress in the regulation agenda and relevance of environmental and social aspects, investors institutions have responded through different measures that denote their participation. Some The most relevant measures are the following:

to. Declarations

In Mexico, institutional investors signed a statement supporting greater transparency in the **ESG** information and an intention to grow the green stock market during 2017 and 2018, respectively. For example:

> *"To evaluate investment opportunities in bonds green so that they are compatible with our fiduciary duty we encourage the authorities of government and the sector to consider actions such such as those related to public policies, regulations, risk mitigation and / or adopt mechanisms to support market development of green bonds. "* [47]

In the United States, the CEOs of Business Roundtable, including Apple CEOs and JPMorgan Chase, met in August 2019, concluding that companies they must also invest in employees and generate value for all social actors, not only for the investors48.

Institutional investors have begun to show publicly its interest in promoting companies to generate more and better **ESG** information , to disclose their short and long-term strategies, as well as the transition actions towards a more responsible system in social and environmental terms. This they have done mainly through two tools:

1. Institutional releases

Global firms dedicated to the administration of assets are increasingly attentive to practices environmental and social activities carried out by the companies in which they invest, intervening publicly and private sector in managing these risks [45] . An example clear is the letter sent by Larry Fink, CEO of BlackRock, to the directors of the companies where invest, requesting that they articulate long-term plans term contemplated by the company's contributions to society, in addition to the return to shareholders.

2. Sectorial announcements

Another type of statement that is becoming every more and more common are sectoral statements [46] .

b. Active property

Shareholders who exercise active ownership are those who make use of their stock vote, discussing your environmental, social or governance concerns with the company in which they invest, to preserve long-term shareholder value [49] .
This dialogue can be very effective in influencing the behavior of companies, especially when cooperate with other shareholders.
Voting and long-term commitment are two tools that, when combined, can strengthen each other. A long-term relationship between the shareholder and the company, as a result of a multi-year engagement process, inspires confidence and voting becomes an important element, in a mutual exchange of views [50] .

The example that best reflects how to exercise ownership active comes from Climate Action 100+, an initiative of investors to ensure that corporate greenhouse gas emitters take the Necessary measures on climate change [51] . Within Climate Action 100+, representatives of AustralianSuper, the California Public Employees Retirement System

43 Idem
44 Idem
45 Krouse, Sarah. (2018). BlackRock CEO to Companies: Pay Attention To 'Societal Impact'. The Wall Street Journal: Markets. September 02, 2019. https: //on.wsj. com / 2riVWSj
46 Benoit, David. (2019). Move Over, Shareholders: Top CEOs Say Companies Have Obligations to Society. The Wall Street Journal: Markets. 02 September 2019. https://on.wsj.com/2YZztu2
47 Idem
48 Idem
49 RobecoSAM. (2019). Sustainable Investing Glossary: Active ownership. August 30, 2019. https://bit.ly/2jXqYfI
50 Idem
51 Idem

(CalPERS), HSBC Global Asset Management, Ircantec and Manulife Asset Management have helped lead the implementation of financial sector commitments, established for the first time in the Global Declaration of Investor on Climate Change [52] .

Large institutional funds, whose participation in the voting they were considered atypical, now they are entering into this practice. The Retirement System of California Public Employees (CalPERS) pioneered in this strategy by pressuring companies in which invest to adhere to government regulations corporate international during 2014 [53] . And like that CalPERS, AP2 and the Sovereign Fund of the Government of Norway, among others, recently approved a list of governance guidelines that emphasized the principles of “good” governance as a necessary condition for companies that receive investment from you [54] .

c. Mandates

Investors can go even further by modifying your investment mandate to take into account the factors **ESG** as a fundamental part of your decision making. Some examples of modifications that different investors have made their investment mandates are the following:

“The Corporate Voting and Participation team

“Corporate Governance and Board: At BlackRock we are vocal advocates for the adoption of solid corporate governance policies that include Board leadership, management practices prudent and transparent towards all actors, implementing said framework through a set of principles, guidelines and practices that support sustainable financial performance and long-term value creation for society. " [56]

“ AustralianSuper will ensure that the factors ***ESG*** *are considered as the starting point when evaluating an investment and continue as long as the Let's conserve, whether we're investing directly to ourselves or through external managers. "* [57]

Likewise, UNPRI [58] provides its signatories with declarations more general information on what kind of modifications can be make to investment mandates or thesis to contemplate **ESG** factors within traditional processes. For example:

“The Investment Manager will report annually about the staff and other resources you have for the implementation of its commitments responsible investment and for the analysis of ESG issues, how your structures align

will vote systematically at the Meetings of the General Assembly of companies in which Amundi has more than 0.05% of the capital. Politics voting will help influence the orientations and objectives of the companies, ensuring consistency in areas of progress selected. In our analysis and dialogue with companies, we want to give special importance to two themes in 2019:

- *The climate, in particular the decarbonisation of our economies*
- *The control of the wage balance within the framework of compensation policies.* [55] *"*

compensation with the objectives of the mandate, and how your responsible investment and activities related to **ESG** *(research of investment and decision making, ownership active, political commitment) have affected the value underlying and portfolio strategy. "* [59]

5. ESG Integration Techniques

to. Fundamental Strategies

Investors Using Fundamental Strategies recognize existing opportunities to invest using the public data of the stations with the objective of making assumptions about future performance [60] .

52 Idem
53 Ponomareva, Yuliya. (2018). Shareholder Activism Is On The Rise: Caution Required. ESADE Business & Law School. Forbes. September 02, 2019. https: // bit. ly / 2jWV4jz
54 Idem
55 Amundi. (2019). Responsible Investment Policy 2019. ESG Analysis. September 10, 2019.
56 BlackRock. (2019). BlackRock Mission Statement on Sustainability. September 10, 2019. https://bit.ly/2ksVZbS
57 AustralianSuper. (2019). Environmental, Social, and Governance. September 10, 2019. https://bit.ly/2lJicCy
58 The UNPRI initiative brings together experts from the investment sector, intergovernmental organizations and civil society (NGO), in order to foster collaboration and peer learning about the implications of ESG (Environmental, Social and Governance) issues in financial and investment activity. The objective is the incorporation of these elements in financial decision making, this program is carried out in collaboration with the Finance Initiative of the United Nations Environment (UNEP FI) and the United Nations Global Compact.
59 Principles of Responsible Investment. (2018). Sample investment mandate clauses. September 10, 2019, from UNPRI Website: https://www.unpri.org/asset-owners/ sample-investment-mandate-clauses / 289.article
60 Responsible Investment Program (PRI) (2016). A Practical Guide to ESG Integration for Equity Investing. UNEP FI. September 02, 2019. https: //www.unpri. org / download? ac = 10

These assumptions are born through qualitative analysis and quantitative of economic trends, the potential for market for a company's products and services, the competitive environment, and operational management.

Now, the financial data come from various sources, being grouped by the analysis teams. [61] A From these data, valuation models are built of the company to determine the intrinsic value perceived, consequently, compare this value with the price current of your actions. In this way, the companies that are overvalued and undervalued by the market [62] .

On the other hand, some administrators who use these fundamental strategies use the valuation approach relative: they compare the financial ratios of a company (such as price / earnings and return on equity invested with peers and / or the industry average) to assess whether the company is valued correctly [63] .

By integrating **ESG** factors into investment analysis, they examine these along with other valuation factors. Ha been more common to process **ESG** factors through qualitative analysis, but investors are also increasingly quantifying and integrating **ESG** factors in the financial forecasting and valuation models of companies, aligned with other financial factors [64] .

b. Quantitative Strategies

Quantitative strategies use data, models mathematical and statistical techniques to overcome the point reference or benchmark. Administrators who use quantitative strategies define models and rules who make portfolio weighting recommendations quantitative use valuation techniques to identify assets that are misvalued by the market.

2. Model building and back-testing

The administrators quantitative develop algorithms, which form the basis of your models. The back-testing demonstrates how they work using historical data, to indicate whether it is likely that generate superior returns.

3. Implementing the strategy

If the back-testing is deemed successful, the quantitative administrators will implement the model. Changes in the market have the potential to make statistical approaches disappear and may cause administrators to restart the complete process.

Generally, **ESG** integration has only been associated with fundamental strategies, but this perception has gradually changed since several administrators using quantitative strategies have begun to integrate **ESG** factors into their valuation models and investment decisions [67] . As **ESG** data become more available, statistically accurate and comparable, more administrators are likely use other statistical strategies to identify correlations between **ESG** factors and movement prices, which can generate profitability higher than the market and / or reduce risk [68] .

c. Smart BETA Strategies

and / or investment [65] . Administrators do, for example, predictions about future price movements of the assets and / or fundamentals of the company, based on technical and / or fundamental data, both historical and forecast.

The investment process is divided into the following stages [66] :

1. Data analysis and statistical tests

Some administrators they use strategies quantitative to identify relationships between sets of data in different investment landscapes and seek patterns, correlations and / or factors that move asset prices. Other administrators

Smart BETA investing uses two types of disciplines investment: passive and active. Said type of investment weights the components of a capitalization index market by factors other than capitalization -and be it value, performance, momentum, growth, quality or volatility - to outperform the index, reduce risk or increase dividend yield [69] . Some smart BETA strategies use this type of data, however, others use mathematical schemas weighting that can result in exposures Similar.

In smart BETA strategies, factors and **ESG** scores can be used as a weighting in building the portfolio to create tight returns

61 Idem
62 Idem
63 Idem
64 Idem
65 Idem
66 Idem
67 Idem
68 Idem
69 Idem

to excess risk, to reduce the risk and / or to improve the **ESG** risk profile of portfolios [70] .

d. Passive Strategies

Passive investments seek to match the return of a market or a section of a market following the Performance of a Capitalization-Weighted Index [71] .

There are a variety of methods that investments use passives to replicate an index [72] :

- Full replication methodology: requires buy all the components of an index.

- Partial replication methodology: makes the investment manager invests in a sample components of an index and adjust their weights so that the background matches the characteristics of the index such as the capitalization of market and industry weights. East focus is used when the index consists of many stocks and / or stocks with low securitization.

Enhanced Passive Strategies

Just as the objective of passive investments is to equalize the performance of a capitalization-weighted index, the goal of enhanced passive investments is to reduce the downside risk relative to an index weighted by capitalization or outperforming [73] .

On the other hand, passive strategies can incorporate **ESG** factors . One approach is to reduce the risk profile **ESG** or exposure to a particular **ESG** factor through of tracking an index that adjusts the weight of the Components of a Principal Index [74] . The funds that use a partial replication approach can also exclude companies with high or low **ESG** risk **ESG** rating . Often these points of benchmark use portfolio optimization techniques to minimize tracking error [75] .

risk modeling and make more comprehensive decisions, and As the sector has grown, so has the number of dating agencies. Next, we mention some of them [77] :

1. MSCI ESG Research

MSCI is positioning itself to be one of the leaders in equity research and analysis ESG a world level. Today, MSCI provides ratings ESG for 6,500 companies, 13,000 income issuers equities and fixed income, including subsidiaries and more than 590,000 equity and fixed income securities at the level world. The MSCI ESG rating scale ranges from AAA to AA for "leaders", to BBB, BB and A for companies average and CCC and B for “laggards”.

2. Bloomberg

Bloomberg collects massive amounts of **ESG** data based on public information from different companies and integrates both narratives and data on the platforms Equity, Intelligence and Fixed Income of the business. Bloomberg distributes **ESG** data from more than 11,000 public companies and their ratings have more than 700 document **ESG** indicators taken into account audiences from different companies as well as their own information and that of third parties.

3. Thomson Reuters

Known for posting news and financial data, Thomson Reuters offers an analytics platform financial called Eikon. The company allocates its **ESG** scores to more than 7,000 global companies, using more than 400 metrics. The data you use Thomson Reuters come from public sources. Thomson Reuters provides ratings on a scale from A + to D-, in ten subjects. Your analysis environmental analysis analyzes resource use, emissions and innovations. “Governance” encompasses management, shareholders and the social responsibility strategy

6. Availability of ESG Information

Investors often don't find the kind of ESG information they require for decision making, their first response is to turn to third parties [76]. This has generated a market of ESG information providers that allows institutional investors to refine their

70 Idem
71 Idem
72 Idem
73 Idem
74 Idem
75 Idem
76 DFIN Solutions. (2019). The Future of ESG and Sustainability Reporting: What Issuers Need to Know Right Now. September 02, 2019. https://bit.ly/2lSwKzO
77 Idem

business (CSR). Finally, the "social" part analyzes the workforce, human rights, community and product liability.

4. Sustainalytics

Sustainalytics specializes in research and analysis of **ESG** . The company's focus is to help investor clients to integrate **ESG** analysis into their existing valuation models. Through more than

170 internal analysts conducting investigations independent to 11,000 companies of all main global indices. Sustainalytics designates a numerical rating to the company and positions it relative to groups of comparable companies.

5. Vigeo Eiris

Vigeo Eiris offers **ESG** research to more than 4,000 broadcasters - including companies, regions and states - to more than 300 clients, partners, investors, managers of active, non-governmental organizations (NGOs) and international institutions. Vigeo Eiris offers a sustainability ratings database corporate and a generic model that can be customize to fit the **ESG** criteria of any investor.

6. RepRisk

Based in Zurich, Switzerland, RepRisk specializes in **ESG** analysis as well as behavioral risks business, for example violations of rights humans, environmental degradation, corruption and fraud, covering more than 95,000 listed companies and not listed and 20,000 projects in 34 sectors at the global, including private companies, and markets emerging and border. [78 79]

7. Financial Instruments aimed at IS G

to. Indices

Indexing makes markets more accessible, credible and structured for investors. The uses The main indexes are [80] :

- Provide benchmarks for the performance of the market
- Provide an underlying to investment funds liabilities, such as ETFs
- Serve as reference points to the policy of investment for asset managers,

ESG also define those universes that meet with specific environmental, social and / or safety criteria governance, for use by administrators of assets, and **ESG** standards to compare with the rest of the market [81] .

Indices based on **ESG** values are the main users of the vast amounts of data and research on the subject, helping to define the market structure around sustainable investment [82] . As a result, the investment solutions they seek replicating certain indexes can provide alternatives standardized and profitable to what has been considered the rule. Currently, **ESG** indices are becoming in essential components of assets for both institutional investors and patrimonial [83] .

b. Investment funds

Investment products focused on the environment environmental, social and corporate governance have started to record equal or higher returns to funds created exclusively to generate a risk-weighted return, a trend that goes against the notion that taking factors into account ESG means leaving money on the table [84] .

Sustainable investment has become an industry total of $ 22.8 trillion USD, and the amount of funds sustainable investment increased almost 50% in the last year, gathering a total of 351 funds with total assets of $ 161 billion USD at the end of 2018, according to a new Morningstar document [85] .

An example of how investment criteria have been applied responsible for financial instruments is the ETF ESML from BlackRock: After the Parkland High School Shooting, BlackRock launched an ETF optimized to provide small-cap investors a choice of passive gun-free investment [86] . ESML launched in April of 2018 and currently has $ 19.6 million in assets.

Another example is the Vanguard ETF (Vanguard **ESG** US Stock ETF), whose investment criteria is not to include non-renewable energy companies, products addictives and weapons [87] .

- like pension funds

In addition to these traditional applications, the indexes

In general, the construction of funds with **ESG** criteria revolves around the following methodologies [88] :

78 RepRisk. (2019). About Us, ESG data science and quantitative solutions. September 02, 2019. https://www.reprisk.com/about-reprisk
79 Ethisphere. (2019). About RepRisk. September 02, 2019. https://insights.ethisphere.com/partner/reprisk/
80 Institutional Investor. (2018). ESG Indexing is Evolving as You Read This. iShares by BlackRock. September 02, 2019. https://bit.ly/2lRlMdP
81 Idem
82 Kjellberg, Sarah, Tanvi Pradhan, and Thomas Kuh. (2018). An Evolution in ESG Investing. iShares Funds by BlackRock. https://bit.ly/2lYfTMb
83 Idem
84 Eccles, Robert G., and Svetlana Klimenko. (2019). The Investor Revolution. Financial Markets. https://bit.ly/2GnQ8LA
85 Idem
86 Idem
87 Idem
88 Szala, Ginger. (2019). ESG Funds Outperform in Growth and Returns in 2018: Morningstar. News. September 10, 2019. https://bit.ly/2kEZlZ7

1. ESG Consideration: It is a fund that uses **ESG** information to help inform your decisions investment, and that it has formalized the inclusion of such factors when described in the fund's prospectus.

2. ESG integration: They are the most common funds, broadly integrating **ESG** criteria throughout your investment processes, not including them in the prospectus From the bottom.

3. Impact: Investment funds carried out in companies, organizations and others funds with the intention of generating a social impact and environmental along with a financial return.

4. Sustainable sector: These are funds that focus on in 'green economy' industries such as energy renewable, energy efficiency, environmental services, water infrastructure and green real estate. These funds can be volatile, due to their high exposure to specific industries.

8. Types of ESG Reports

Over the past decade, responsible investing has evolved, ceasing to be a niche strategy, since that investors are using **ESG** data as a filter to understand long-term strategy and value of a company, its corporate purpose and the quality of management throughout the value chain.

However, as of today, the information provided it has not yet reached the necessary quality; only the 30% of investors consider that the information **ESG** provided by companies is sufficient to help them evaluate the materiality of the business of a company, increasingly turning to third parties.

Emerging **ESG** frameworks promise more consistency of data, while providing a better sheet route for companies. The making of a corporate **ESG** strategy that is useful for making decisions, starts with an analyst expert and / or head of sustainability and a committed board of directors. These key people can identify risks and opportunities short and long term and inform investors in qualitative and quantitative terms [89] .

Here are some reporting initiatives that have been adopted by both investors and broadcasters to implement sustainability strategies and increase the disclosure of risk information

SASB

The mission of the Accounting Standards Board of Sustainability (SASB) is establishing industry-specific disclosure standards on environmental, social and corporate governance issues that facilitate communication between companies and investors with material and useful financial information for taking decisions. Such information must be relevant, reliable and comparable between companies worldwide.

SASB starts from the principle of generating understanding shared sustainability performance of the companies, which allows companies and investors make informed decisions that lead to better sustainability results and, therefore, to a better long-term value creation.

SASB standards are intended to capture sustainability factors that are materially financial, that is, they have a material impact on performance or financial condition. The establishment of standards is achieved through a rigorous process that includes evidence-based research and a broad and balanced stakeholder participation.

SASB also provides trainings and other resources that promote the use and understanding of their standards [90] .

PRI

The PRI (Principles for Responsible Investment) is the main spokesperson for responsible investment at the worldwide, working to understand the impact of investments in environmental, social and governance (**ESG**) and support its international network of signatory investors in the incorporation of these factors in your investment decisions. The PRI acts in interest of its signatories, financial markets and the economies in which they operate and, ultimately, the environment and society as a whole.
The PRI is independent, encouraging investors to use responsible investments to improve returns and better manage risks; it's related with global policymakers, but it is not associated with any government; is supported by, but is not part of, the United Nations.

PRI Reporting is the largest global reporting project on responsible investment. It was developed with investors, for investors. The signatories must report annually on your investment activities materials and non-materials with respect to environmental factors and social.

responsable. This guarantees:

89 DFIN Solutions. (2019). The Future of ESG and Sustainability Reporting: What Issuers Need to Know Right Now
90 Sustainability Accounting Standards Board (SASB). (2019). About; Mission and Governance.

- Responsibility of the PRI and its signatories.
- A standardized transparency tool for the signatories' reports.
- Feedback for the signers of which learn and develop. [91]

TCFD

The TCFD (Task Force on Climate - Related Financial Disclosures) works on the development of guides for voluntary and consistent disclosure of risks financial resources related to climate change, to that companies use them when providing information to investors, banks, insurance companies and other interested parties.

In turn, the TCFD has a global network of 32 members selected by the Stability Board Financial (FSB), which come from from various organizations, including banks, insurance, asset managers, pension funds, nonfinancial companies, consultancies, and agencies credit rating. In its work, the TCFD used the members' experience, to develop a framework accessible for financial disclosure related to climatic risks.

The TCFD developed four recommendations on financial disclosure related to climate risks that are applicable to organizations in all sectors. It is important to note that the TCFD recommendations are designed to be used by organizations within the financial sector, including banks, insurance companies, asset managers and asset owners. The great asset managers are in the top of the investment chain and therefore have an important role to play in influencing in the organizations in which they invest and to generate better financial disclosure related to topics environmental [92] .

9. Conclusions

Incorporating **ESG** factors into decision making investment is a risk management tool that will take more and more relevance, becoming a mega trend as the effects begin to materialize most severe of climate change. Financial costs more superficial have already been reflected in certain investment portfolios, but the numbers estimated by the academic sector indicate that the most severe effects they have not yet been reflected in the portfolios. The future profitability of the portfolios managed by the asset managers will depend on how they are identify, evaluate and manage new risks. Those investors who can more accurately visualize which companies will be the most vulnerable to risks environmental or mismanagement of social factors due to poor corporate governance, they will be able to ensure better returns in the medium and long term.

In Mexico, financial investment practices responsible have not yet reached the current level of progress in Europe or the United States, finding hardly in early stages and beginning to develop the skills needed to meet this challenge. Without However, there have been serious displays of interest and articulators in the ESG market are currently working to support the financial sector to quantify its risks and adopt the best international practices of investment [93] . The starting point is complex, however, some institutional investors have been pioneers, beginning to ask the broadcasters for more information, adhering to responsible investment strategies, and creating **ESG** analysis teams ; in order to better value their portfolios and adequately manage risks, at the couple to implement scenario analysis in the process investment.

Mexico is in time to be a pioneer in Latin America in best investment practices. However, for this happens, it is necessary for the stations to be able to generate more accurate and standardized **ESG** information than enable a more investment decision-making process efficient and drive greater transparency of the impact that large corporations are having in society and the environment.

To accelerate the process of adopting these practices a regulatory framework will be necessary, in such a way that the market (companies, banks and investors) look obliged to respond to the risks you will face in environmental and social matters in the coming years, such as It has happened in Europe and some Asian countries. Therefore, the public sector will have to work with the private sector to increase the resilience of the system national financial.

91 Responsible Investment Program (PRI). (2015). Reporting for Signatories.
92 Task Force on Climate-related Financial Disclosures (TCFD). (2019).
93 By ESG market articulators we mean ESG data providers, taxonomy developers, second opinion providers, and verifying agents.

Page 18

10. Bibliography

- Agha, Mahenau, Nick Robins and Simon Zadek. (2016). The Financial System We Need: From Momentum to Transformation. 05 of September 2019, from UNEP Website: https://bit.ly/2k4KNBZ
- Amundi. (2019). Responsible Investment Policy 2019. ESG Analysis. September 10, 2019.
- AustralianSuper. (2019). Environmental, Social, and Governance. 10 September 2019. https://bit.ly/2lJicCy
- Baron, Richard and David Fischer. (2015). Divestment and Stranded Assets. September 10, 2019. https://bit.ly/2oYSOtj
- BlackRock. (2019). BlackRock Mission Statement on Sustainability. 10 September 2019. https://bit.ly/2ksVZbS
- Benoit, David. (2019). Move Over, Shareholders: Top CEOs Say Companies Have Obligations to Society. The Wall Street Journal: Markets. September 02, 2019. https://on.wsj.com/2YZztu2
- Beyond Carbon. (2019). Get the Facts. Bloomberg Philanthropies. 10 September 2019. https://bit.ly/2WzMKmZ
- Climate Action in Financial Institutions. (2019). Central Banks and Supervisors Network for Greening the Financial System (NGFS). Central Banks and Supervisors Network for greening the Financial System. September 10, 2019. https: //www.mainstreamingclimate. org / ngfs /
- United Nations Framework Convention on Climate Change (UNFCCC). (2015). Historic agreement on climate change in Paris. August 30, 2019. https://unfccc.int/es/news/final-cop21
- DFIN Solutions. (2019). The Future of ESG and Sustainability Reporting: What Issuers Need to Know Right Now. September 02 2019. https://bit.ly/2lSwKzO
- Eccles, Robert G., and Svetlana Klimenko. (2019). The Investor Revolution. Financial Markets. https://bit.ly/2GnQ8LA
- Ethisphere. (2019). About RepRisk. September 02, 2019. https: // insights.ethisphere.com/partner/reprisk/
- Financial Centers For Sustainability (FC4S). (2019). About Us. A Environment. September 02, 2019. https://www.fc4s.org/about-us
- Government of Mexico. (2018). Changes in the financial regulation of the AFORES will stimulate greater investment in productive projects. National Commission of the Retirement Savings System. 10 of September 2019. https://bit.ly/2kdo86z
- Godinot, Sebastien and Jan Vandermosten. (2017). WWF Climate Guide to Asset Owners: Aligning Investment Portfolios with the Paris Agreement. Belgium: WWF. September 02, 2019. https: // bit. ly / 2lyJ87S
- Monex Financial Group. (2018). What is an investment socially responsable? August 30, 2019. https://bit.ly/2ZCIchj
- Institutional Investor. (2018). ESG Indexing is Evolving as You Read Este. iShares by BlackRock. September 02, 2019. https: // bit. ly / 2lRlMdP
- International Organization of Pension Supervisors (IOPS). (2019). Supervisory guidelines on the integration of ESG factors in the investment and risk management of pension funds. August 30 2019. https://bit.ly/2ScJqAM
- Jones, Gareth. (2019). US Congress rejects European-style ESG reporting standards. Fintech Collective. https://bit.ly/2kd5wDL
- Kjellberg, Sarah, Tanvi Pradhan, and Thomas Kuh. (2018). An Evolution in ESG Investing. iShares Funds by BlackRock. https://bit.ly/2lYfTMb
- Krouse, Sarah. (2018). BlackRock CEO to Companies: Pay Attention To 'Societal Impact'. The Wall Street Journal: Markets. 02 of September 2019. https://on.wsj.com/2riVWSj
- Maisonneuve, Virginie. (2016). Mainstreaming ESG Investing in Asia. Eastspring Investments. September 02, 2019. https: // bit. ly / 2lw6T0r
- Intergovernmental Panel on Climate Change (IPCC). (2001). Annexed B: glossary of terms. August 30, 2019. https://bit.ly/2kqQJFl
- Responsible Investment Program (PRI) (2016). A Practical Guide to ESG Integration for Equity Investing. UNEP FI. September 02 2019. https://www.unpri.org/download?ac=10
- Responsible Investment Program (PRI). (2017). The investment responsible becomes relevant in Peru, August 30, 2019. https://bit.ly/2lQa9Uv
- Responsible Investment Program (PRI). (2015). Reporting for Signatories. September 03, 2019. https://bit.ly/2Hm9DrM
- United Nations Development Program (UNDP). (2019). Sustainable development goals. August 30, 2019. https: // bit. ly / 2JwXQnx
- Ponomareva, Yuliya. (2018). Shareholder Activism Is On The Rise: Caution Required. ESADE Business & Law School. Forbes. 02 of September 2019. https://bit.ly/2jWV4jz
- RepRisk. (2019). About Us, ESG data science and quantitative solutions. September 02, 2019. https://www.reprisk.com/about-reprisk
- RobecoSAM. (2019). Sustainable Investing Glossary: Active ownership. August 30, 2019. https://bit.ly/2jXqYfI
- RobecoSAM. (2019). Sustainable Investing Glossary: ESG definition. August 30, 2019. https://bit.ly/2HA7yX4
- Scott, Mike. (2019). Corporate World Weighs Up Trillions of Dollars of Climate Risks - and Opportunities. Forbes: https://bit.ly/2keOftX
- Schroders. (2019). 50 terms every sustainable investor should understand. Sustainable Investment Team. 03 September 2019. https://bit.ly/2lYgFJb
- Stanley, Daniel. (2018). ESG Investing and Government Regulation. Seven Pillars Institute. September 02, 2019. https: // bit. ly / 2kohb2v
- Szala, Ginger. (2019). ESG Funds Outperform in Growth and Returns in 2018: Morningstar. News. September 10, 2019. https: // bit. ly / 2kEZlZ7
- Sustainability Accounting Standards Board (SASB). (2019). About; Mission and Governance. September 02, 2019. https: // www. sasb.org/governance/
- Task Force on Climate-related Financial Disclosures (TCFD). (2019). About the Hub. September 03, 2019. https://www.tcfdhub.org/ about
- UNEP - Finance Initiative. (2019). EU policy makers achieve political agreement on investor disclosures and ESG. August 30, 2019. https://bit.ly/2k0Z02Q
- UNEP - Finance Initiative (UNEP FI). (2019). About UNEP FI. 02 of September 2019. https://www.unepfi.org/about/
- World Wildlife Foundation. (2017). Risks and Opportunities in Financial investments. September 5, WWF Website: https: // bit.ly/2k4KPd5
- Economist Intelligence Unit. (2016). The cost of inaction: Recognising the value at risk from climate change. United States: Aviva, KPMG.

Page 19

11. Annex 1: Key Definitions

To facilitate the understanding of this document, we put the following definitions are available to the reader established by Schroders and adopted by the CCFV to this resource:

Over-boarding: when a board member assumes too many roles in such a way that their ability to properly allocate your time and fulfill your responsibilities effectively.

Shareholder activism: a public form of commitment by which investors use their participations to promote change in a company, generally at a transformative level. It tends to be a more adversarial approach to achieving change.

Stagnant assets *:* Fossil fuel assets that run the risk of becoming "stuck" or not viable in a lower demand scenario created, for example, by guidelines or regulation of emissions more strict.

Paris Agreement: at COP21 in Paris, in December of 2015, the parties within the Framework Convention of the United Nations on Climate Change signed an agreement that establishes measures for the reduction of greenhouse gas (GHG) emissions a through mitigation, adaptation and resilience to change climate.

Administration: an ongoing and purposeful dialogue between shareholders and the meetings that aims to guarantee that the long-term strategy and day-to-day management of a company are effective and aligned with the interests of the shareholders. It includes monitoring practices and performance of a company, get involved in areas of concern and vote on the actions you have to ensure that management acts in the best interest of long term of its shareholders. Good administration should help to enhance and protect the value of investments.

Green bond *:* a bond in which the proceeds are used to finance new and existing projects with benefits environmental, such as renewable energy projects and energy efficiency.

ESG Fund Ratings - A rating of a third party that analyzes the underlying holdings of a fund and tries to quantify your overall ESG credentials based on some specific metrics. Choosing the metrics and therefore the resulting score can differ between different rating providers IS G.

Climate Change: variation of the state of the climate identifiable in the variations of the mean value and / or in the variability of its properties, which persists during long periods of time, usually decades or longer periods.

Administration codes: A set of rules that help set management expectations for asset managers and property owners assets. These codes are set by regulators local.

Fossil fuels - a natural energy source, such as coal, oil and gas. It is widely believed that the gases released by burning these fuels (such as carbon dioxide) are the main cause of climate change.

Voting rights: Capital investors often have the right to vote in the annual general assemblies and extraordinary (AGM and EGM) in matters such as the appointment of an individual director, remuneration or mergers and acquisitions (depending on the framework legal status of each country).

Divestment: the sale of any related investment with controversial activities for social purposes or politicians. For example, investors divested themselves of South African assets during the apartheid era in protest against the regime.

Detection: an investment approach used to filter companies based on predefined criteria before the investment. As an investor, you can use a display negative (in which it deliberately excludes certain companies due to their participation in activities or unwanted sectors) or a positive display (on the that selects companies based on their practices sustainability). In lingo, this can also be a “best-in-class investment”, where you only invest in companies that lead their peer groups in terms of sustainability and performance practices.

Renewable energy: energy collected from resources that are replenished naturally, such as sunlight, wind, water and geothermal heat.

Modern slavery: although there is no definition standard, modern slavery can be considered in general terms such as exploitation of people who are forced into an activity by someone who "controls" them, often violently. It can take many forms,

including forced or bonded labor, early or forced marriage or human trafficking and organs.

Values-Based Investing: Investing That Prioritizes to an investor's ethical goals, rather than being limited to maximize financial profitability.

ESG: Environmental, Social and Governance Criteria (ESG) are a set of standards that measure sustainability and ethical impact of an investment in a company or business.

Environmental factors: this is the "E" of the term "ESG" (environmental, social and governance) and refers to issues related to the use of resources, pollution, climate change, energy use, waste management and other physical environmental challenges and opportunities.

Governance Factors: This is the "G" in "ESG" and it is it tries to assess how well a business is run. See the definition of "corporate governance" more above for more information.

Social factors: problems related to the way that a company interacts with the communities in which that operates, its suppliers, employees and customers. These include, for example, labor standards, health and safety, supply chain management and nutrition and obesity.

Greenwashing: misreporting benefits environmental aspects of a product, service or organization to make a business look greener than it really is.

Carbon footprint: a measure of the total emissions of greenhouse gases (GHG) of a group, individual or company.

ESG Indices: Indices traditionally track the performance of a basket of bonds or stocks, such as the FTSE 100. A growing number of indices track investments by ruling out certain industries or, more recently, when evaluating which companies rank based on ESG measures.

Integrated reports *: company* reports that articulate the relationship between strategy, governance and performance of a company, and how this creates value for a variety of interested parties. The International Integrated Reporting Council is widely recognized as the standard central in this area.

ESG integration: an investment approach that takes into account for a number of related risks and opportunities with sustainability and ESG, in addition to financial analysis traditional.

Impact investing *:* investments made with the main goal of achieving positive social benefits specific and, at the same time, generate a performance financial. Impact investing creates a bond direct between portfolio investing and activities socially beneficial, and historically most of the activity has occurred in unlisted assets.

Ethical investing *:* an investment strategy in which invests in accordance with its ethical principles and excludes companies that you consider unethical.

Socially Responsible Investment: incorporation of practices of social and environmental responsibility to the process investment.

Sustainable investment: An investment approach in the that a company's sustainability practices are fundamental for the investment decision and in which the ESG analysis is a cornerstone of the investment.

Thematic investment: Invest in companies that can be classified on a specific investment topic, such as renewable energy, waste and water management, education or healthcare innovation.

2 ° C limit *:* limit the rise in temperatures temperatures less than 2 ° C above the levels preindustrial by the end of this century can help to avoid the worst natural disasters associated with global warming. Although there is some disagreement on whether this limit is sufficient or even possible, the idea to limit global warming to an increase of less 2 ° C has been around for decades.

Sustainable Development Goals (SDG): set of 17 goals set by the United Nations in 2016, aimed at generating sustainable global development. Includes poverty reduction objectives, improvements in education, climate and environmental actions, access to health and water, ecosystem protection and strengthening institutional and peace.

Carbon prices: the cost of emitting CO2 into the atmosphere, either in the form of a fee per ton of CO2 emitted, or an incentive that is offered for emitting less. Set an economic cost in emissions is broadly regarded as the most efficient way to encourage pollutants reduce what they release into the atmosphere.

Page 21

United Nations Investment Principles Responsible (PRI): A set of voluntary principles, endorsed by the United Nations, under the which the signatories undertake to integrate the ESG factors in your investment decisions.

Active ownership: actively exercise your rights to shareholder and interact with participating companies to promote responsible corporate behavior and improve long-term shareholder value.

Corporate responsibility: the responsibility of a company to operate its business in a way that does not harm the environment or society in general.

Transition risk *:* The financial risks that could result of the important political, legal changes, technology and market as we carry out the transition to a global economy with low emissions of carbon and a future resistant to climate change.

Stewardship: An ongoing and intentional dialogue between shareholders and the boards of directors it has as an objective to ensure that the long-term strategy and the daily management of the company are effective and aligned with the interests of the shareholders. It includes monitoring the practices and performance of a company, participation in areas of interest and voting of the actions that are carried out to ensure that the management acts in the best long-term interest of its shareholders.

Clean technology: a range of products, services and processes that reduce the use of natural resources, reduce or eliminate emissions and waste. I know considered a niche investment area two ago decades, but has become a focus for most of large companies. Electric vehicles are a example.

Carbon Value at Risk (VaR): A Model Developed to measure how carbon prices will affect earnings of a company.

Notice

This document was funded by the British Government UK PACT program.

This document was prepared by the Green Finance Advisory Council.

Author: Cecilia Latapi and Sofia Quintanilla, with revision by Alba Aguilar and Eduardo Piquero.