



ROBECOSAM 
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RobecoSAM Corporate Sustainability Assessment Latin America Progress Report 2018

In collaboration with: **CENTRO VINCULAR**



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Introduction

For nearly 20 years, S&P Dow Jones Indices, one of the world's main index providers, and RobecoSAM, a leading Sustainability Investing specialist, have developed the Dow Jones Sustainability Indices (DJSI). The Sustainability Index (DJSI World) was launched in 1999 as the first global index to track the leading sustainability-driven companies based on RobecoSAM's analysis of financially material environmental, social and governance (ESG) factors. RobecoSAM assesses the world's largest companies through its Corporate Sustainability Assessment (CSA), which uses a consistent, rules-based methodology to convert an average of 600 data points per company into one overall score. This score determines inclusion in any of the Dow Jones Sustainability Indices, which have included the Dow Jones Sustainability Chile Index since 2015 and the Dow Jones Sustainability MILA Pacific Alliance Index since 2017 (see the appendix for more information on this index and the 2018 results).

The aim of this report is to provide insights into the current level of sustainability management in Latin America and to highlight strengths and opportunities for improvement in Brazil, Chile, Colombia, Mexico and Peru.

In Latin America¹, 240 companies in Brazil, Chile, Colombia, Mexico and Peru were invited to take part in the 2018 CSA, and 38% of these companies actively participated in completing the assessment questionnaire. The highest level of active participation was in Colombia and Peru, with rates of 73% and 63%, respectively. It is important to bear in mind that the invited universe in Colombia and Peru is significantly smaller than in the other countries. Active participation reached 36% in Chile, 35% in Mexico and 33% in Brazil. The remaining assessed universe was evaluated on the basis of publicly available information.

To ensure Latin American companies are adequately represented in the annual CSA universe, RobecoSAM considers the market capitalization of the companies assessed.

Market capitalization of assessed and actively participating companies in the CSA 2018

	All assessed companies (% of market cap)	Actively participating companies (% of market cap)
Brazil	82	61
Chile	100	85
Colombia	100	72
Mexico	99	62
Peru	100	69

Source: RobecoSAM

Important methodology change in 2018

RobecoSAM updates the CSA methodology on an annual basis in order to continue raising the bar and to ensure that companies measure and report on current and emerging material ESG topics. In 2018, RobecoSAM introduced significant updates to the Media and Stakeholder Analysis (MSA) methodology. The MSA forms an integral part of the CSA and enables RobecoSAM to monitor companies' sustainability performance on an ongoing basis by assessing current controversies with potentially negative reputational or financial impacts. The objective of the updates to the scoring methodology is to remove the MSA's positive score contribution to companies with no controversies while ensuring that severe controversies are better reflected in final scores. This change affects the total score for all companies, with and without MSA cases. More details of the methodology change can be found in the MSA Methodology Guidebook.²

Given the impact of the methodology change, this report analyzes the 2018 CSA results in comparison with the 2017 results recalculated using the same MSA methodology as for 2018.

¹ Invited universe in each country – Brazil: 61; Chile: 81; Colombia: 15; Mexico: 75; Peru: 8

² <http://www.robecosam.com/images/methodology-guidebook-external-msa-2018-web.pdf>

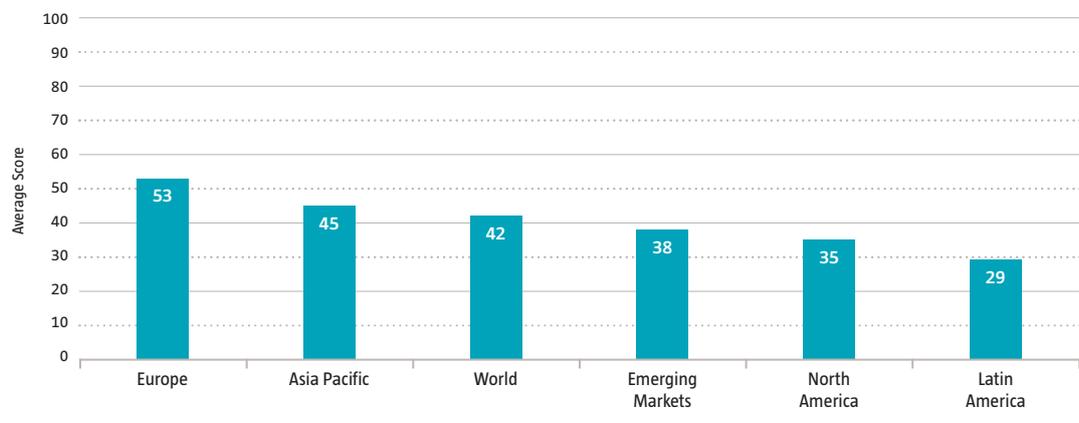
Overall results in Latin America

How do Latin American companies compare with other regions?

The results of the CSA 2018 show that as a region, Latin America continues to lag behind when it comes to overall sustainability management. The average total score for Latin America was 29 points, the lowest of all regions. It is important to bear in mind that

companies may be invited to participate in more than one universe. In the case of Latin American companies, some are also invited to participate in the DJSI World and the DJSI Emerging Markets.³

Figure 1: Average scores of all assessed companies by DJSI Invited Universe



Source: RobecoSAM

In terms of inclusion in the Dow Jones Sustainability Indices, a total of 14 Latin American companies (7 companies from Brazil, 5 from Colombia and 2 from Chile)⁴ were selected for the DJSI World Index, representing 4.4% of its members. This is a good representation of Latin American companies as only 2.7% of the companies in the DJSI World invited universe were from Latin America. This shows that in Latin America, there are companies that can compete with the best in the world in terms of sustainability, but these remain a minority across the region.

At the Emerging Markets level, the inclusion is higher, with Latin American companies representing 27.7% of the DJSI Emerging Markets Index (10 companies from Brazil, 8 from Colombia, 5 from Chile and 3 from Mexico).⁵ However, the representation of Latin American companies in the DJSI Emerging Markets Invited Universe was even higher, with 31.9%. From the companies in Latin America that were invited for the DJSI World and DJSI Emerging Markets indices, a total of 21.5% and 20% are index members, respectively.

³ Emerging markets refer to: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, United Arab Emirates.

⁴ http://www.robecosam.com/images/DJSI2018_ComponentList_World.pdf

⁵ http://www.robecosam.com/images/DJSI2018_ComponentList_EmergingMarkets.pdf

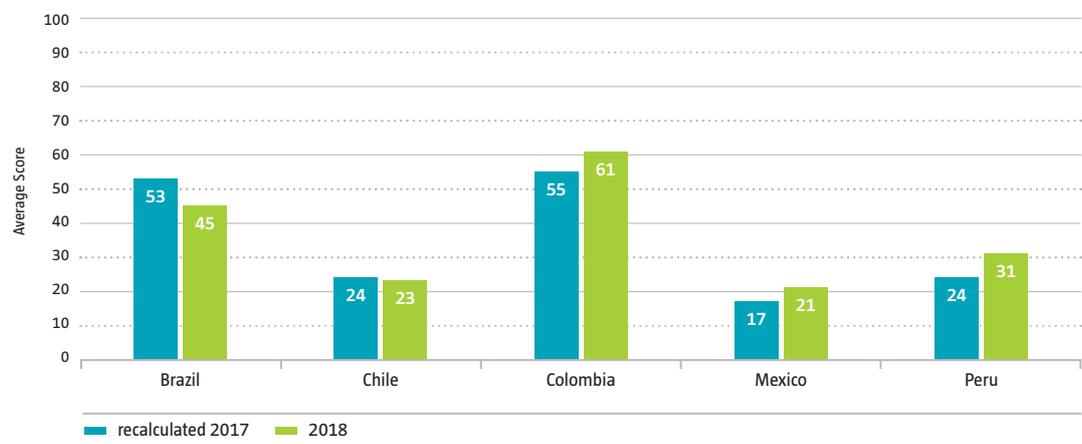
Are Latin American companies making progress on sustainability issues?

Total average sustainability scores

The results of the 2018 Corporate Sustainability Assessment in Latin America show mixed trends in overall performance. The average total score in Latin America increased slightly from 28 for the 2017 recalculated score to 29 in 2018. Colombia, Mexico and Peru show a positive trend with improvements of 6,

4 and 7 points, respectively, from 2017 to 2018. On the other hand, the average total score in Chile dropped 1 point, and results in Brazil showed the biggest drop, with 8 points. However, this country is still second in terms of the highest overall score, behind Colombia.

Figure 2: Average total score by country



Source: RobecoSAM

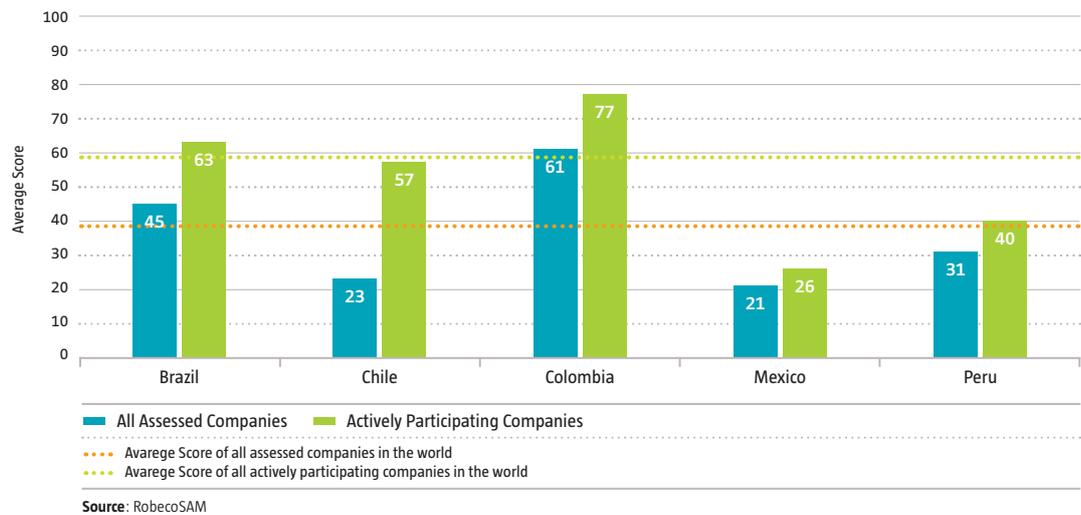
Leaders vs. laggards

As mentioned previously, of the invited universe of Latin American companies, 38% actively participated in the CSA and answered the questionnaire, whereas the rest of the assessed companies were evaluated based on publicly available information. The difference between the results of actively participating companies (the leaders) and other companies (the laggards) is clearly demonstrated in Figures 3 and 4.

In terms of actively participating companies, Colombia and Brazil are the only countries with average score results above the average world score (59 points). Actively participating companies in Chile are slightly below the world average, with 57 points. This shows that leading companies in these three countries are at least on a par with, or outperform, many other companies around the world.

However, when comparing the scores of all assessed companies, the averages across all five countries decrease, with the most dramatic drop occurring in Chile. The world average score drops 21 points to 38 and Chile's average drops from 57 to 23 points.

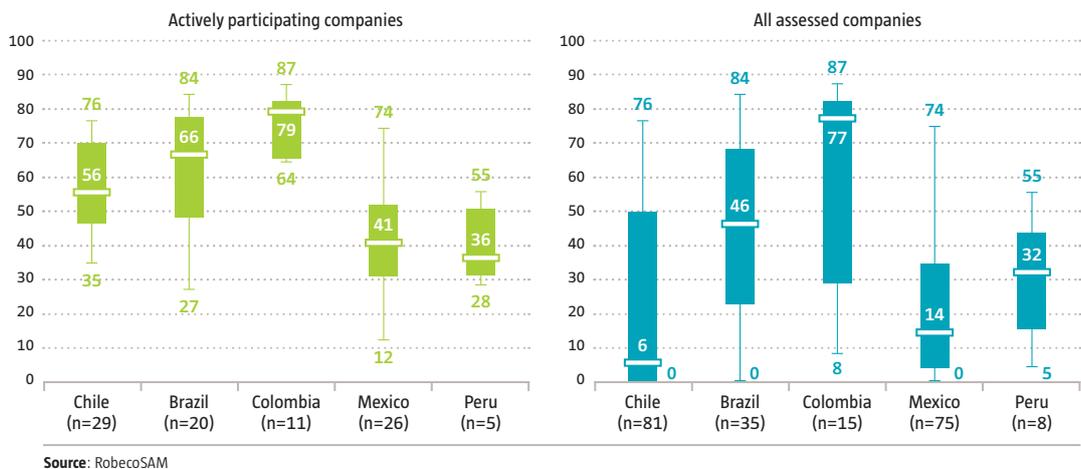
Figure 3: Average country scores of actively participating companies vs. all assessed companies



Chile and Mexico represent nearly 75% of the universe of Latin American companies, and it is in these two markets that we see the biggest difference between leaders and laggards. In Chile, the median score decreases from 56 to 6 and the lowest score to zero. In the case of Mexico, the median score decreases from 41 to 14, also with a lowest score of zero. This clearly demonstrates that in these large markets, there are examples of leading companies that are integrating sustainability into their businesses. However, there is

also a large group of companies that are doing little to progress from a business-as-usual approach to a more sustainability-oriented one, or at least lack transparency on these issues. Given that many investors rely on publicly available information to make their investment decisions, these companies – not only in Chile and Mexico but across the region – need to be the focus in the short term if Latin America is to compete with other regions when it comes to sustainable investments.

Figure 4: Impact of non-actively participating companies on country level results



Dimension and criteria results

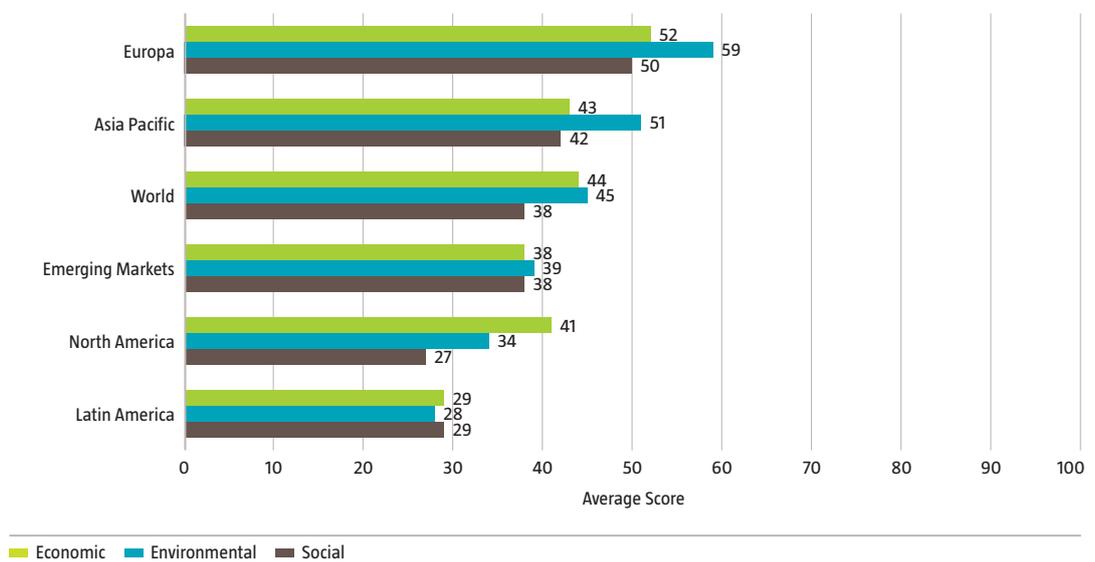
What are Latin America's strengths and weaknesses across different sustainability issues?

Economic, environmental and social dimension scores

Apart from the general regional results, it is important to analyze specific details at the dimension and criteria level in order to identify strengths and weaknesses in companies' sustainability integration and management.

In line with the total score for Latin America, the average scores in 2018 in the economic, environmental and social dimensions are consistently below the scores of the different invited universes around the world.

Figure 5: Average dimension scores by Invited Universe



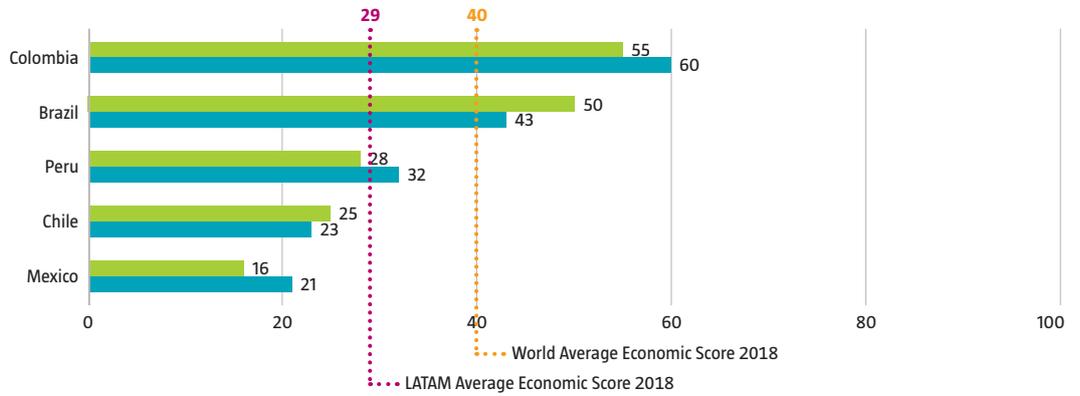
Source: RobecoSAM

On an individual country basis, a comparison of the 2017 recalculated scores and the 2018 scores shows mixed results across the region for the economic, environmental and social dimensions (Figure 6). Colombia, Peru and Mexico show an upward trend in performance across all three dimensions, whereas scores in Brazil and Chile declined across all three dimensions. Although scores in Brazil decreased in 2018, it is the only country besides Colombia to have achieved results above the regional and world averages across all three dimensions. In the economic

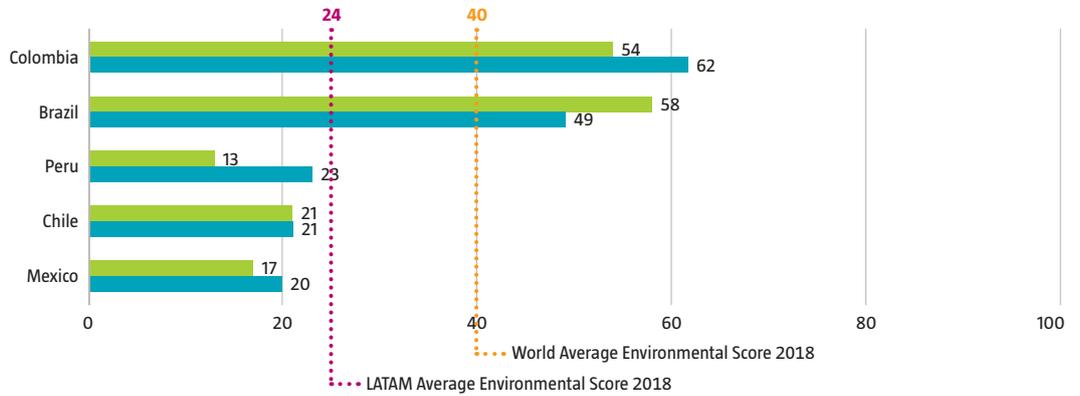
dimension, Peru showed results slightly above the regional average score, and in the social dimension the country even exceeded the world average score. Chile and Mexico, on the other hand, achieved results below the regional and world average scores across all three dimensions. Again, this is partly due to the large assessed universe in Chile and Mexico in comparison with the other countries, as well as the large number of companies that report little or no information on their environmental, social and governance management and performance.

Figure 6: Average dimension score by country

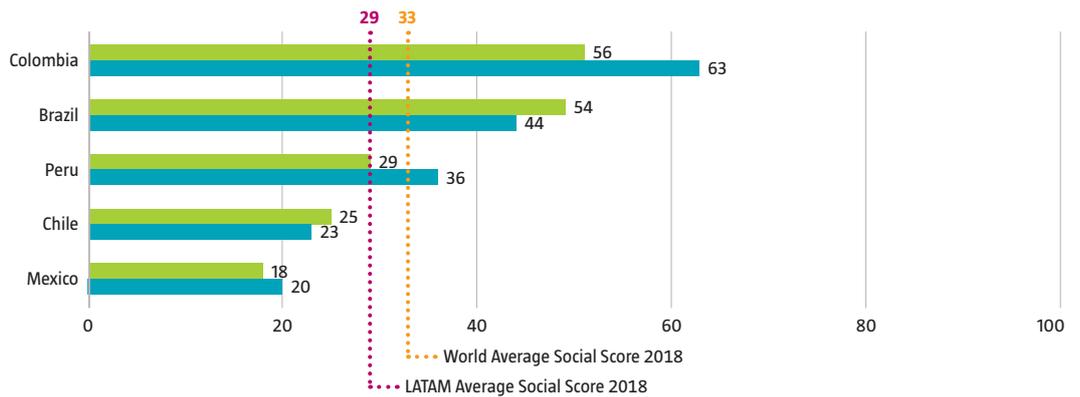
Economic dimension



Environmental dimension



Social dimension



2017 Recalculated Average Score 2018 Average Score

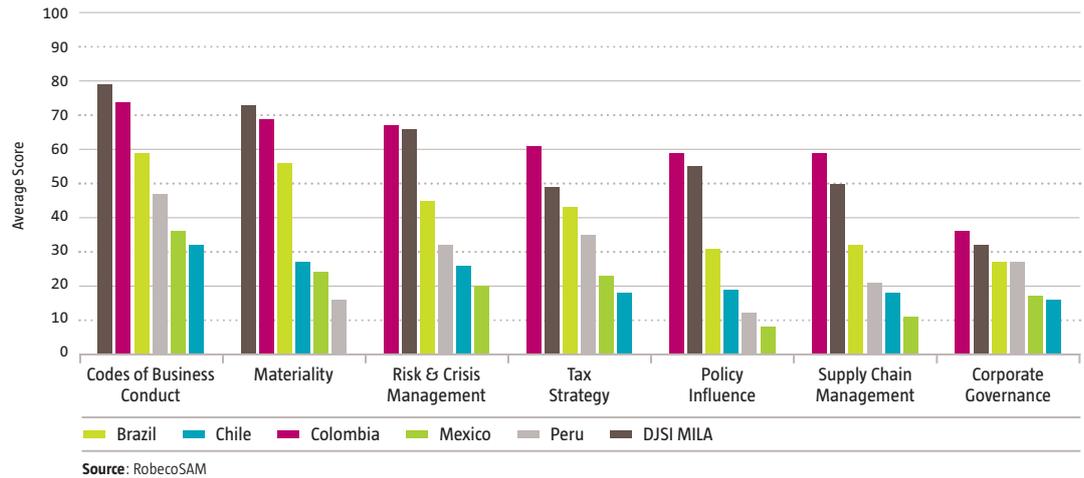
Source: RobecoSAM

Specific criteria scores

One of the strengths of the RobecoSAM CSA is the focus on cross-cutting, financially material topics that apply to all 60 industries analyzed, as well as industry-specific material issues. The following figures highlight the average scores by country and for the companies

that qualified to be members of the DJSI MILA Pacific Alliance (best in the region), for the most critical cross-cutting material topics in the economic, environmental and social dimensions.

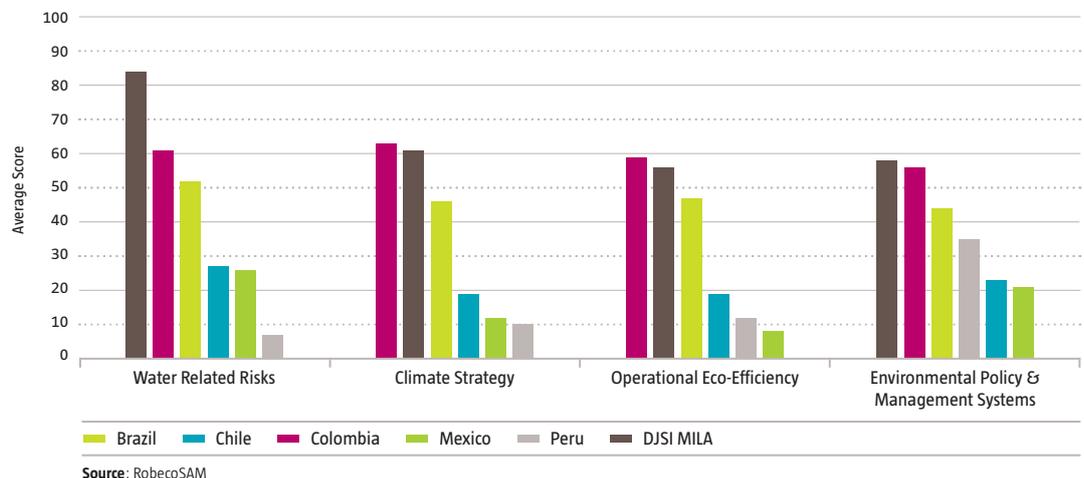
Figure 7: Economic criteria



Colombia is a clear leader in the region with regard to the economic criteria evaluated. On average, the country score is 16 points above the next country (Brazil) and in the case of Supply Chain Management and Policy Influence, the difference is 27 and 24 points, respectively.

The weakest criterion across all countries was “Corporate Governance,” which evaluates the structure and oversight activities of the board of directors. This was evaluated in the Spanish version of the 2017 Sustainability Yearbook⁶, yet we see no improvement on these important aspects even though they are among the first considerations of international investors in making investment decisions.

Figure 8: Environmental criteria

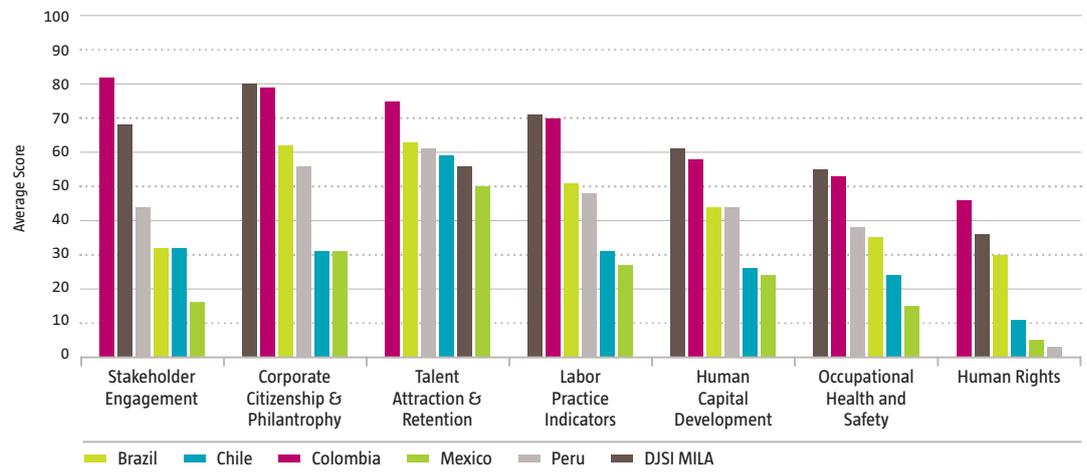


⁶Download the Spanish version of the Sustainability Yearbook 2017 at www.vincular.cl

Environmental performance is becoming a material issue across all industries, yet Latin American companies generally show the weakest performance in this dimension. An adequate environmental management system that includes the organizational structure, planning and resources for implementation and monitoring is essential to improve environmental performance in a cost-effective way. Additionally, it also reduces the risk of incurring fines or penalties for non-compliance with environmental legislation. Yet, the Environmental Policy & Management Systems criterion produced the lowest scoring across all countries.

From a climate change perspective, the low scores on the Climate Strategy criterion are particularly worrying. This shows that Latin America is not preparing itself for climate change impacts and risks, nor for possible opportunities that a changing climate may bring to certain industries.

Figure 9: Social criteria



Source: RobecoSAM

Social performance is an aspect directly linked to a company's reputation and brand value. Latin American companies across all countries showed the strongest performance in the Talent Attraction & Retention criterion, highlighting the importance of this issue across all industries and geographies.

The weakest category is Human Rights, which continues to be seen as an emerging issue that only a few leading companies are actively managing, mainly in Colombia and Brazil. Companies in Chile, Mexico and Peru show substantial shortcomings on this issue, which could lead to significant operational, regulatory and reputational risks, depending on the industry and geographical context.

Conclusion

This report provides an overview of how publicly listed companies in five Latin American countries are performing on environmental, social and governance issues, based on their participation in RobecoSAM's annual Corporate Sustainability Assessment.

Overall results show that Latin American companies are lagging behind on sustainability performance when compared with other world regions. This is also evident in the low percentage of Latin American companies achieving the necessary results to be included in the Dow Jones Sustainability Indices, especially the DJSI World Index.

Colombian companies are the clear leaders in terms of overall sustainability performance in the region, followed by companies in Brazil. Chile, Mexico and Peru show a much lower average overall performance, between 30 and 40 points behind Colombia. This trend is repeated at the dimension and criteria levels. It is important to note that the invited universe of companies in Colombia is substantially smaller than that of markets such as Chile and Mexico, where the larger universe of companies can have an influence on average results.

This report clearly shows that there is a large gap between companies that actively participate in the CSA and those that choose not to participate and are assessed solely on the basis of publicly available information. The actively participating companies tend to be more mature in terms of integrating sustainability criteria into their decision-making and management structures. The statistics in this report show that the average and median results by country drop significantly when comparing actively participating companies with the total assessed universe. This decrease is especially noticeable in the larger universes, such as Chile, where the average of actively participating companies is basically on par with the world average. However, there are a significant number of companies that have little or no transparency on their environmental, social and governance performance and this results in a 60% decrease in the average score of the complete universe.

Companies are expected to be increasingly transparent on how they manage their businesses, especially with regard to their negative social and environmental impacts, and need to go beyond solely reporting financial information. Many different stakeholders rely on publicly available information as part of meaningful engagement with companies. In the specific case of investors, this information is essential to making responsible investment decisions. The companies that are lagging behind and are failing to manage and report on their sustainability performance need to improve their stakeholder engagement in order to compete with other regions when it comes to sustainable investments.

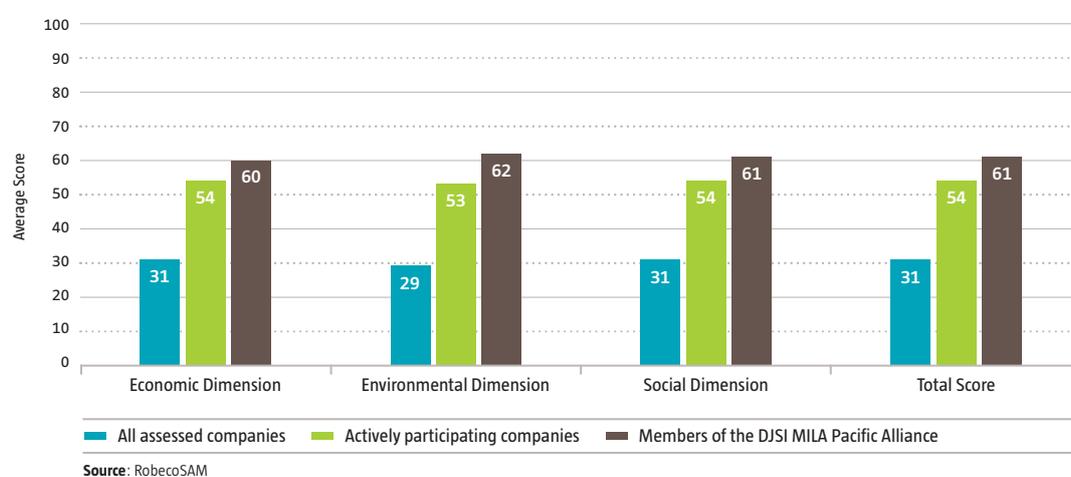
The major challenge that Latin America faces is to scale up the integration of sustainability criteria within companies, especially those that are less mature and less transparent with regard to non-financial topics. In the case of countries with a large universe of companies, such as Chile and Mexico, the focus needs to be on improving the average performance of companies lagging behind and ensuring adequate transparency on key sustainability issues. And in countries with smaller markets, such as Peru and Colombia, the aim is to provide exposure to investors, although the companies have a smaller market capitalization. There are clear leaders in the region, but the gap between these companies and the majority of companies is significant. Closing this gap will require a concerted multi-stakeholder effort between the companies themselves, local stock exchanges and investors.

Appendix: Dow Jones Sustainability MILA Pacific Alliance Index

In 2017, S&P Dow Jones Indices (S&P DJI), International Finance Corporation (IFC), RobecoSAM and the Exchanges of the Mercado Integrado Latinoamericano (MILA) launched the Dow Jones Sustainability MILA Pacific Alliance Index (DJSI MILA Pacific Alliance).⁷ The index tracks the performance of companies with the highest RobecoSAM sustainability scores in the Pacific Alliance

region – including Chile, Colombia, Mexico and Peru – providing investors with an objective benchmark for managing a sustainability investment portfolio for the region. The index includes 42 companies, selected according to the results of the annual RobecoSAM Corporate Sustainability Assessment.

Average scores for the DJSI MILA Pacific Alliance



Number of companies in the DJSI MILA Pacific Alliance Index

	Chile	Colombia	Mexico	Peru
2017	17	11	12	2
2018	18	10	13	1

Source: RobecoSAM

⁷ http://www.robecosam.com/images/DJSI2018_ComponentList_MILA.pdf

Dow Jones Sustainability MILA Pacific Alliance Index

Effective as of 24 September 2018

Company	Country	Comment
Almacenes Exito	Colombia	
Alsea SA	Mexico	Addition
Avianca Holdings S.A. Pref.	Colombia	
Axtel SA de CV CPO	Mexico	
BanColombia SA Prf	Colombia	
Banco Davivienda SA Pref	Colombia	
Banco Santander Chile	Chile	
Banco de Credito e Inversiones	Chile	
CAP - Cia Aceros del Pacifico	Chile	
COLBUN SA	Chile	
Celsia S.A. E.S.P.	Colombia	Addition
Cementos Argos SA	Colombia	
Cemex SA CPO	Mexico	
Cencosud SA	Chile	
Coca-Cola Femsa SAB de CV L	Mexico	
Embotelladora Andina SA B	Chile	
Empresa Nacional de Telecomunicaciones S.A. (ENTEL)	Chile	
Empresas CMPC SA	Chile	
Empresas COPEC SA	Chile	
Enel Americas S.A.	Chile	Addition
Enel Chile S.A.	Chile	Addition
Ferreycorp S.A.A.	Peru	
Fibra Uno Administracion S.A. de C.V.	Mexico	
Fomento Economico Mexicano S.A.B. de C.V.	Mexico	
Grupo Aeroportuario del Centro Norte, S.A.B. de C.V.	Mexico	
Grupo Argos S.A.	Colombia	
Grupo Financiero Banorte O	Mexico	
Grupo Mexico SAB de CV B	Mexico	
Grupo Nutresa S.A.	Colombia	
Grupo Rotoplas S.A.B. de C.V.	Mexico	
Grupo Televisa SAB CPO	Mexico	
Grupo de Inversiones Suramericana SA	Colombia	
Interconexion Electrica SA ESP	Colombia	
Inversiones La Construccion S.A.	Chile	Addition
LATAM Airlines Group S.A.	Chile	
Parque Arauco SA	Chile	
Prologis Property Mexico S.A. de C.V.	Mexico	
Qualitas Controladora S.A.B de C.V.	Mexico	
SACI Falabella	Chile	
Sociedad Matriz SAAM	Chile	Addition
Sonda	Chile	
Vina Concha y Toro SA	Chile	

Source: RobecoSAM

About RobecoSAM

Founded in 1995, RobecoSAM is an investment specialist focused exclusively on Sustainability Investing. It offers asset management, indices, impact analysis and investing, sustainability assessments, and benchmarking services. The company's asset management capabilities cater to institutional asset owners and financial intermediaries and cover a range of ESG-integrated investments, featuring a strong track record in resource efficiency-themed strategies. Together with S&P Dow Jones Indices, RobecoSAM publishes the globally recognized Dow Jones Sustainability Indices (DJSI) as well as the S&P ESG Factor Weighted Index series, the first index family to treat ESG as a standalone performance factor using the RobecoSAM Smart ESG methodology. Based on its Corporate Sustainability Assessment (CSA), an annual ESG analysis of approximately 4,500 listed companies, RobecoSAM has compiled one of the world's most comprehensive databases of financially material sustainability information. The CSA data is also included in USD 119 billion of assets under management at Robeco.

RobecoSAM is a sister company of Robeco, the Dutch investment management firm founded in 1929. Both entities are subsidiaries of ORIX Corporation Europe N.V., the center of asset management expertise for ORIX Corporation. As a reflection of its own commitment to advancing sustainable investment practices, RobecoSAM is a signatory of the PRI, UN Global Compact and Climate Action 100+, a supporter of the Task Force on Climate-related Financial Disclosure (TCFD), as well as a member of Eurosif, Swiss Sustainable Finance, Carbon Disclosure Project (CDP), and Portfolio Decarbonization Coalition (PDC). As of June 30, 2018, RobecoSAM had client assets under management, advice and/or license of approximately USD 21.5 billion.

About Centro Vincular, PUCV

Centro Vincular, part of the School of Business and Economy in the Faculty of Economic and Administrative Sciences of the Pontifical Catholic University of Valparaiso (PUCV), is the first Chilean university centre specialising in the development of methodologies and the integration of sustainability in the management of public and private organizations. Centro Vincular's focus areas include expert consultancy, applied research, executive training programs and the development of public policies to promote sustainability.

Centro Vincular is a reference point in the region based on its vast experience in the integration of sustainability models and strategies in the management of multinational companies, economic groups, SME's, industry associations, as well as government institutions.

Centro Vincular has actively participated in important international standardization processes related to sustainability, such as the ISO 26000 Social Responsibility Standard and various working groups in the Global Reporting Initiative (GRI) and the United Nations Global Compact.

Centro Vincular has an established, multidisciplinary team, as well as a network of associated consultants and researchers, along with institutional partners in 13 countries in Latin America. Centro Vincular is also part of the Council of Social Responsibility for Sustainable Development in the Ministry of Economy, and participates in working groups of the Inter-ministerial Commission for the Integration of Agenda 2030, led by the Chilean Ministry of Foreign Affairs.

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