Responsible Investment in times of **COVID-19**

2020

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Responsible investment is an approach that seeks to understand how environmental, social, and corporate governance issues affect the business and results of companies. And in return, how companies respond to these challenges.

Itaú Asset Management

Itaú

Public Information

We at Itaú Asset Management have always considered responsible investment and ESG integration to be strategic and essential if we are to contribute positively to the development of a more efficient and sustainable capital market. We began our ESG journey in 2004 with the creation of the Itaú Social Excellence Fund. In 2008 we took an important step towards adherence to the United Nations Principles for Responsible Investment (UN PRI). We have been constantly improving the integration of ESG issues in all our investment decisions and not just in certain products or strategies.

We have developed our ESG models for business valuation starting in 2010. The pragmatic approach of these models aims to estimate the financial impact of material ESG issues for each invested company. In 2013 and 2014 we wrote and made public the white papers containing our ESG integration models for fixed income and equity. In 2016 we adhered to the AMEC Stewardship Code. We have integrated ESG issues in the assessment of companies for fixed income and equity, in the voting processes at meetings of invested companies (proxy voting) and in the individual and collective engagements we make with invested companies.

We seek to contribute to the theme by conducting and disclosing studies on relevant and contemporary topics. In 2017 we wrote our white paper on the impacts of climate change in Brazil, and in 2018 we wrote on ODS and our ESG models.

All these publications are available for consultation at www.itauasset.com.br.

We have added to our library this new document, which is designed to contribute to the debate on the impacts of COVID-19 and the possible implications for the responsible investment agenda in Brazil and the world.

Enjoy the reading!

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Introduction

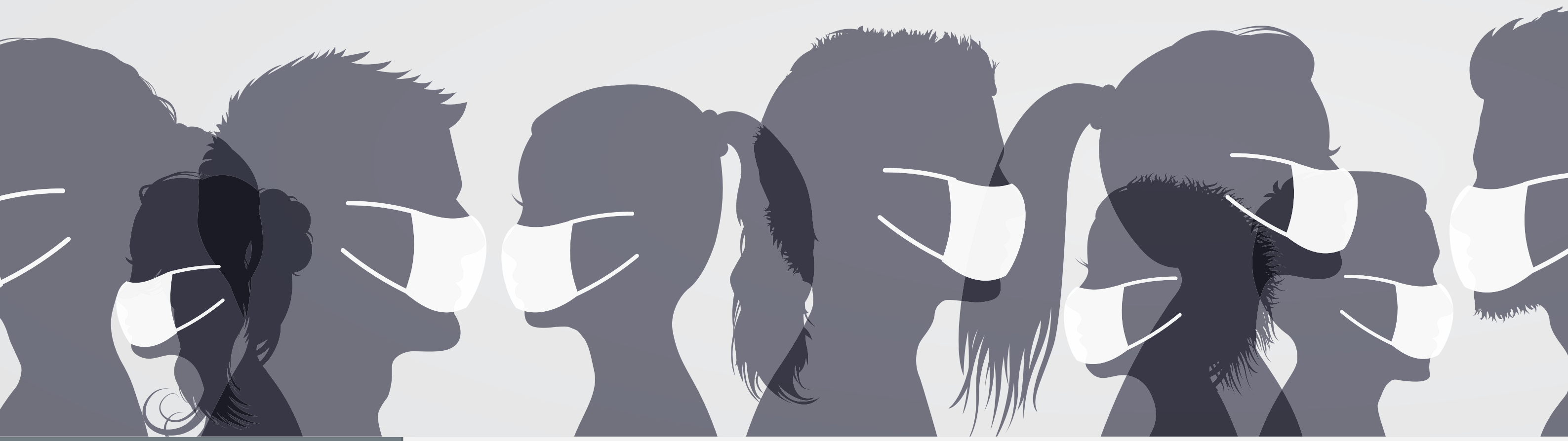
As our client's resource managers, we understand that it is part of our fiduciary duty to fully understand the short- and long-term consequences brought about by COVID-19, as well as its implications for responsible investment.

The corona virus pandemic, or COVID-19, has brought great economic and social transformations into modern society. The rapid expansion of the number of contaminated people and the consequent escalation of fatalities required timely and extraordinary measures such as the social isolation adopted in several countries.

Putting into historical perspective, it is no exaggeration to say that COVID-19 is one of the most disruptive events of the last 125 years, a period that includes two world wars, the great depression and the global financial crisis of 2008.

The responses brought by the public and private sectors to combat the virus and its consequences are impacting the way people live, the way companies operate, as well as the perception of their role in the societies to which they belong.

In view of this scenario, the objective of this work is to discuss, from the point of view of responsible investments, what are the main challenges and opportunities in environmental, social and corporate governance terms to be posed for companies during and after the pandemic, and what issues are gaining relevance in the investors' agenda. If on the one hand this new scenario brings the challenge of companies to adapt to changes in consumer behavior, new work models and restrictions in their production chain, on the other hand, companies have the opportunity to reinforce the engagement and action method in their societies, with their consumers, employees and other stakeholders.



Responsible Investment in Times of **COVID-19**

Impacts of COVID-19 on the responsible investment agenda

The COVID-19 pandemic brings challenges, opportunities and thus a new angle for responsible investors. In a crisis on a global scale, companies are acting as agents in combating and mitigating the social and economic impacts resulting from this event. We can observe this positioning through several proactive actions adopted by companies all over the world, placing social issues also as protagonists in the ESG approach (Environmental, Social and Governance.)

In this section we will discuss what changes in the responsible investment agenda in this context, what issues should gain more visibility in investment decisions and how we address these issues in our ESG integration process and engagement with companies.

The "S" in ESG

WORKERS

Workers are gaining special attention within this crisis context. The most obvious impact is the mass adoption of remote work by companies as a way to keep workers at home while respecting social isolation. According to a study by the Institute for Technology Entrepreneurship Culture, remote work in Brazil will increase up to 30% after the pandemic, showing the permanent aspect of this change [1]. The Provisional Measure 927 of 2020 brought flexibility to facilitate remote work in the current context [2].

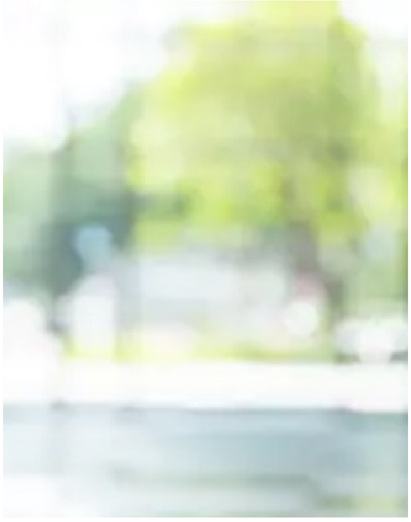
[1 and 2] Check on the reference page

CHALLENGE

In addition, it is important to emphasize that the remote work model brings relevant changes in the employee and employer relationship. The absence of a face-to-face control generates the challenge for companies to adopt effective mechanisms of control over hours worked, which can be replaced by a productivity control. Moreover, in many cases we must observe a greater flexibility of the working day, with workers setting up their own shift hours and replacing the traditional model from 9am to 6pm.

Remote work can bring difficulties to the implementation and monitoring of ergonomic conditions, foreseen in Regulatory Standard 17 . Companies will need to find ways to help employees with their adaptations to the home office model.

[2]Regulatory standards (NR) regulate and provide guidance on health and safety at work. These are provided for in Chapter V of the Consolidation of Labor Laws (CLT). NR 17 regulates ergonomics at work and applies to those activities that involve office work, repetitive movements or long periods sitting.



Companies that have succeeded in taking alternative measures to mass layoffs can emerge from the pandemic with its stronger image

Such transformations can impact companies through increased costs in the transition to the home office, in addition to potential impacts on employee productivity during this period.

For jobs where the home office model is not adaptable, such as more manual and field work, companies will also have to adapt. In the short term, standards of conduct such as availability of personal protection equipment, better hygiene protocols and in-company isolation measures are important to ensure the health and safety of employees, especially for sectors considered essential. In our analyses, this change is reflected through potential increases in provision and litigation for companies that fail to provide adequate health conditions for their employees in the context of COVID-19.

A topic that should gain importance are benefits and remuneration arrangements. COVID-19 highlighted the vulnerability of employees who are not covered by benefit packages such as paid leave and health plans. Therefore, we expect that remuneration models where benefits are more relevant may become a trend to minimize the impact of disruptive events.

Finally, companies that manage to adopt alternative measures to mass layoffs can come out of the pandemic with a stronger image. Firstly, due to the positive signal to the market, in the sense that they are engaged in combating the social effects of the pandemic, acting with purpose and collaborating with the society in which they are inserted [3 and 4].

In addition, the post-COVID human resources costs for these companies may be lower. Gallup statistics show that the cost of replacing an employee can be as much as twice their annual salary. New employees may be less efficient and take up to two years to reach maximum productivity [5]. It is understandable that reductions in the workforce may be unavoidable for some companies due to cash reductions. On the other hand, actions to mitigate this effect should have great importance and visibility during this period before society.

[3, 4 and 5] Check on the reference page

SUPPLIERS

In the short term, companies that collaborate to ensure the continuity of their supply chains through advance payments and credit, especially for small suppliers, can benefit doubly: 1) by contributing to the continuity of their operations, reducing the challenges of logistics and quality of their inputs in the future and facilitating a return to the pre-crisis state; 2) by generating reputational benefits due to contribution to the continuity of jobs and business. Several companies in Brazil and around the world have adopted this stance. In our models, we believe that these practices can mitigate the risk of production bottlenecks and increase the company's reputation value.

Over the long term, we can expect a permanent change in the way supply and production chains are organized. There must be growing concern to ensure that key products such as food and pharmaceuticals can be produced in the countries where they will be consumed [6]. This dynamic, in addition to strengthening local chains, should also have the impact of reducing companies' indirect greenhouse gas emissions .[3]

[6] Check on the reference page

[3] Greenhouse gas emissions can occur in three different scopes: Scope 1 are the company's direct responsibility and control emissions, such as emissions from fuel combustion at fixed sources; scope 2 are the indirect emissions related to the generation of electricity purchased and consumed by the company; scope 3 are all other indirect emissions that are a consequence of the organization's activities, but that occur at sources not controlled by the organization. As examples we can name emissions derived from the transportation of employees and inputs and waste treatment.

COMMUNITIES

Companies' initiatives to combat the virus directly have been growing with the escalation of the crisis, and should be a point of attention for responsible investors, by means of different actions:

Companies that have the purpose of generating value for society, through, for example, the above-mentioned actions, should come out of the pandemic better positioned from the point of view of brand value.

1) Direct contribution: companies that have been offering medications, masks, and respirators to hospitals and/or communities;

2) Change in production: companies that have been directing their production process to the manufacture of medical equipment and/or virus prevention;

3) Guarantee of basic services: companies that have been adapting their business model to ensure that basic services are maintained, such as e-learning, delivery services, among others [4].

Companies that have the purpose of generating value for society, through, for example, the above-mentioned actions, should come out of the pandemic better positioned from the point of view of brand value. In our analyses, we consider that companies that have been using new features and innovative business models to overcome the challenges of COVID-19 will, at the same time, broaden their customer base and contribute to long-term loyalty thus increasing the value of their brand.

[4] Check on the reference page

Table 1

Main topics from the social point of view

ESG Theme	COVID -19 Impacts	Integration into IAM models
Workers	Increased home office and change in working relationships	- Support for adaptation of employees to the home office - Gains from employees' emotional support
	Salubrious conditions	- Labor liabilities for occupational health issues
	Social protection for low-income workers	- Costs with labor benefits
	Restructuring the workforce	- Turnover costs - Reputational gain for companies looking for alternatives to layoffs
Suppliers	Bottlenecks of small and medium-sized companies	- Bottlenecks in production, increased cost of inputs and potential verticalization - Operational and reputational gains for companies that support their suppliers
	Geographical reorganization of production chains	- Increased input costs - Gain of market share and customer loyalty by ensuring access to basic goods
Communities	Access to products and services	- Gain of market share and customer loyalty by ensuring access to basic goods
	Health impacts	- Strengthening the brand of companies that can connect their activity to a social purpose

Impacts on environmental and climate issues

The reduction of short-term economic activity as a response to the spread of COVID-19 has brought immediate positive impacts from the environmental point of view. On the other hand, this dynamic should also stimulate behavior changes even in a post-COVID-19 world.

Short-and long-term environmental impacts

• The reduction in international air travel has raised questions about where to get fresh produce . This, in turn, can stimulate the growth of local production of products such as vegetables and seafood, ensuring greater security in the supply chain and reducing greenhouse gas emissions of scope 3, linked to the production chain of companies [6 and 7].

• The increased use of calls and videoconferencing should reduce face-to-face meetings in the future, reducing the ecological impact of travel and travel costs.

• A reduction in the number of cars on the streets can be positive from the point of view of emissions and pollution in the short term. In the long term, the spread of remote working models can mitigate today's urban mobility challenges and change the dynamics of the real estate sector, reducing demand for properties located near major shopping centers and increasing demand for property in more remote regions.

• Statistics already point to sharp growth in food delivery services. The lower commuting of people for shopping should bring a reduction in emissions, as these purchases tend to be larger and occur less often. However, on the other hand, the use of packaging and boxes should increase due to these deliveries.

• Greater use of disposable plastics should raise waste production. Single use packaging not only generates more waste but can also bring a setback on the road to a circular economy.

• Reduction in industry emissions and pollution. Despite being a relevant and visible impact in the short term, we believe that the observed reduction tends to be temporary [6].

[4] One of the impacts of COVID-19 was the reduction in air cargo transport, which is responsible for much of the global supply of fresh products such as fruit.

[6 and 7] Check on the reference page

The climate issues

The current pandemic bears similarities with future climate threats. Firstly, climate and pandemic threats seem intangible and remote. Both have disproportionate consequences for different countries, with greater impact on regions and populations lacking basic infrastructure.

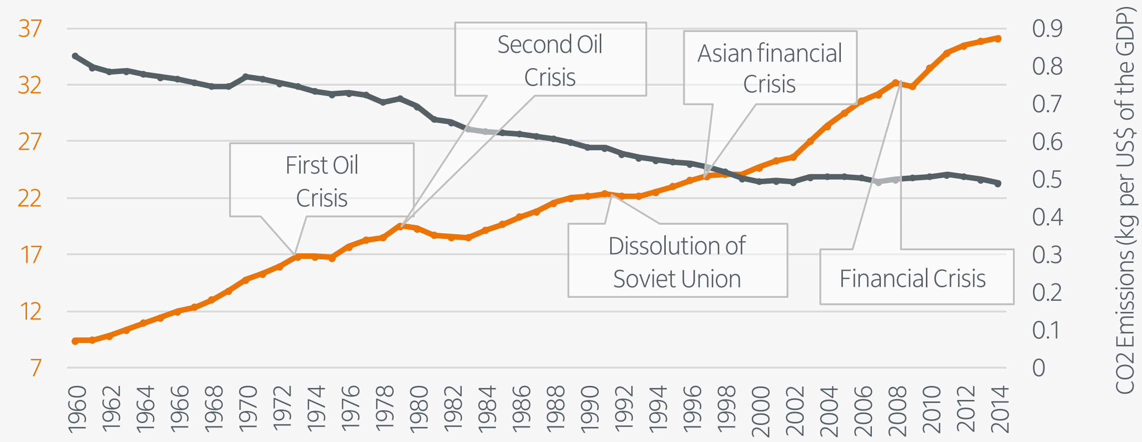
According to researchers at Stanford University, climate change may contribute to the risk of pandemic spread. The increase in temperature can create favorable conditions for the spread of diseases transmitted by insects such as mosquitoes [8].

COVID-19 is expected to cause the largest known reduction in greenhouse gas emissions. Despite the existing uncertainties, the current crisis is changing the debate on the climate issue.

According to recent data, an expected reduction in economic activity of 2.5% of global GDP in 2020 should result in a reduction of around 5.4% in carbon dioxide emissions. This is because the most affected activities are also the most carbon intensive, such as transport and industry.

We understand that the climate issue is secular, and considering the resumption in the post-COVID period, evidence shows that economies tend to become more carbon-efficient after economic crises [9]. This argument is reinforced for example by the economic recovery plan based on sustainable investments. The European Union's Green Pact foresees investments of around 1 trillion Euros over the next decade, which will focus on the transition to a green, low-carbon and digital economy, accelerating a transformation that has already been taking place [10].

Global CO2 (gt) Emissions and Intensity



Preparation: Itaú Asset Management, based on Carbon Disclosure Project and World Bank.
(https://data.worldbank.org/indicator/EN.ATM.CO2E.KD.GD e https://data.worldbank.org/indicator/EN.ATM.CO2E.KT)

[8, 9 and 10] Check on the reference page

In recent years, we have seen a growing number of shareholder resolutions related to climate change abroad. Our understanding is that climate change will continue the agenda of investors and companies to address this challenge. The growing engagement of investors in climate issues should continue [9].

As a cultural consequence of the crisis, we can expect greater coordination and collaboration between countries and governments to address systemic challenges such as climate change. In addition, we can expect a greater awareness of the importance of maintaining entities focused on the study, prevention, and confrontation of these impacts.

Table 2

Main topics from the environmental and climate perspective

ESG theme	COVID-19 Impacts	Integration into IAM models
Water, energy and materials	Reduction in corporate travel using video conferencing;	- Reduction in fuel consumption and emission scope 3 of companies; - Reduced travel costs; - Productivity gain with less commuting;
	Reduction in commuting with remote work;	- Lower pollution levels in the short term; - Changes in the dynamics of the real estate sector (pursuit for larger and more distant homes)
Waste management	Increase in packaging consumption by delivery and e-commerce	- Increased speed of replacement of plastic packaging for paper in the consumer goods sector; - Opportunity for reverse logistics actions by the packaging sector;
	Reduction of atmospheric emissions in industry	- Increased need for investments to reduce pollution in the long term;
Climate change	Reduction in CO_2 emissions	- Lower impact for companies in carbon pricing scenarios; - Increased investments in clean technologies as a long-term response;

[9] Check on the reference page

Good corporate governance practices

Participation in invested company meetings (proxy voting)

The general objectives of the annual meetings of public companies are to approve the financial statements, elect the members of the Board of Directors and establish the executive remuneration plans. Best practices in meeting participation and voting are known as stewardship practices and aim to promote better corporate governance and alignment in the interests of investors and invested companies. In this context, resource managers can exercise their right to vote, contributing to an improvement in the environmental, social, and corporate governance performance of companies.

The context of COVID-19 brought a major challenge in terms of mobility, impacting companies' general meetings in different ways. The great concentration of these in April and May brought the concern that investors might not be able to exercise their right to vote.

According to Institutional Shareholder Services, approximately 557 meetings were cancelled due to the pandemic by April 31st around the world. In 2019 the number was 286, showing an increase of 95% [11].

In Brazil, 47 meetings were cancelled by June 2020. The biggest impact for the Brazilian meeting season occurred in April, when 41 meetings were cancelled or postponed, and a 15% drop compared to April 2019. The peak in the number of meetings not held in April resulted in a 20% increase in the number of meetings held in May and a 133% increase in the number of meetings in June [12].

[11 and 12] Check on the reference page

Map of the shareholders' meetings cancelled in 2020

Source: Institutional Shareholder Services, March 31, 2020, Itaú Asset Management, "Brazil Meetings", March 31, 2020.

In recent years, the practice of electronic voting at meetings has increased, as not all shareholders can physically attend. We understand that a relevant legacy of this pandemic will be the acceleration of this process and an increasing stimulus for companies to adopt this practice, with a potential positive impact on increasing shareholder participation.

Moreover, in the current context of COVID-19, the following topics are expected to gain space in company meetings, especially by responsible investors: responsible employee management; board participation in crisis management; executive remuneration; payment of dividends and share buybacks.

[13] Check on the reference page

Management Board participation

It is natural that the top management of companies is focused on dealing with short-term effects, such as employee management, cash flow control and decisions on continuity of operations. In this sense, it is important that the board of directors have a role in supporting the management of the company. An analysis carried out points out some lines of action that could be adopted by directors at this time:

- Decentralize decision making to Board and Management to deal with short-term actions. This decentralization should start from the Council to the Board of Directors and thus permeate other hierarchical levels.
- Increase the capacity of senior management through interaction with stakeholders such as governments, regulators, creditors, employees, and key customers. In this regard, it is important to take advantage of the directors' background to be able to lead this interaction and give more flexibility to the executives.
- Every crisis has its end, and to that end, it is important that the board plays an active role in planning the reconstruction of the company. The company's top management should be focused on pursuing the sustainability of its business, while directors will have the role of understanding and designing the organization in the future, as well as possible changes in the business model as a consequence of COVID-19 [14].

[14] Check on the reference page

Engagement and transparency

Engagement with invested companies is a way to expand knowledge about companies and their externalities. The objective is to establish a constructive dialogue and deepen the understanding of how certain ESG issues can impact their market value.

Investors can encourage the adoption of best management practices and corporate governance to reduce risks and protect shareholders' interests. Considering the potential impact of the pandemic on companies, their employees and suppliers, engagement initiatives may be reviewed or reprioritized.

Capital market regulators have been guiding companies to disclose transparent information on the impacts of the crisis and their action plans, indicating that investors will make better investment decisions based on this information.

Additionally, understanding how companies are protecting their employees and suppliers, the estimated impacts and mitigation plans are important factors that can influence the value and reputation of companies. If this information is not being adequately disclosed by the companies, investors have the possibility to engage with the company and encourage greater transparency [15].

The new normal: Mainstreaming the responsible investment

With the economic changes observed over the last few years, combined with the increase in life expectancy worldwide, the topic of financial planning gains relevance and thus we have an important change in the investment horizon. With these new elements, we are increasingly leaving the short term behind and worrying about the medium and long term when thinking about our investments.

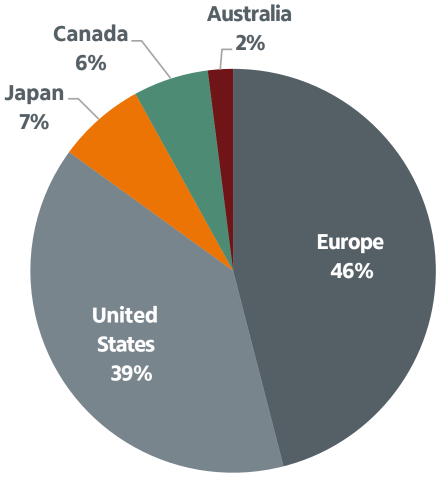
In this sense, the search for and targeting of companies that are concerned with the permanence and sustainability of their business becomes more relevant. Companies that pay attention to ESG issues are better prepared to deal with changes in production and consumption patterns, using natural resources more efficiently and mitigating the negative impacts of their products and services on the environment.

In the same way that our investments are increasingly being directed towards the medium and long term, we have observed important initiatives from countries, companies and civil society being structured to bring efficient solutions in terms of sustainability and positive impact on the environment and society in these horizons.

Sustainable investments continue to gain market share and attract resources from sovereign, institutional and individual investors. According to the Global Sustainable Investment Alliance's latest bi-annual report, worldwide the volume of professionally managed resources considering ESG criteria reached a record US$ 30.68 trillion, an increase of 34% over 2016 [16]. This growth has been observed in several regions of the world, especially in Japan, the United States, Canada, and Australia.

[16] Check on the reference page

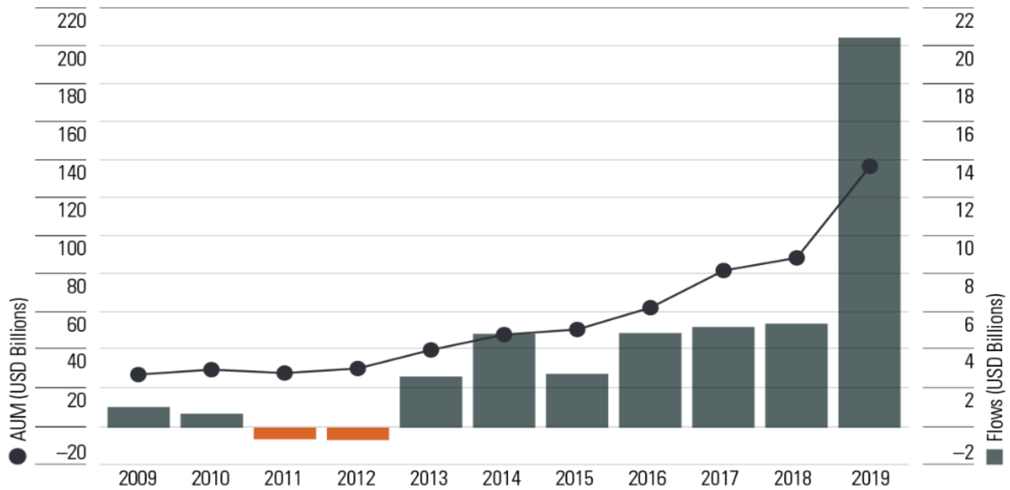
MARKET TOTAL IN 2018 PER REGION



Growth 2016-18 (%)	
Europe	11%
United States	38%
Canada	42%
Australia/NZ	46%
Japan	307%
Total	**34%**

> In 2019, the number of funds that include ESG criteria in their investment decision had a boom in the United States, with a positive net inflow of $20.6 billion. This growth represents about four times the growth in 2018.

Sustainable Funds Estimated Annual Flows



Source: Morningstar Direct. Data Base: 12/31/2019

The record net inflow of ESG products in the United States in 2019 positively surprised the investment industry and showed that ESG investments have significant growth potential. In view of the growing number of self-owned ESG funds in the United States, the SEC - Securities and Exchanges Commission - has sought to deepen its understanding of how different managers have considered these issues in their ESG funds [17].

[16] Check on the reference page

In the European case, during the first quarter of 2020 alone, there was a net inflow of US$ 33 billion, even in view of the impacts of COVID-19. In the same period, US$ 165 billion were withdrawn from the fund industry, which shows that investors see ESG funds as a long-term alternative [18].

In Brazil, the funds classified as sustainability by Anbima, totaled R$ 427 million (US$ 82 million in shareholders' equity in April 2020. Compared to markets like the United States and Europe, it is still a low number. The growth in the resources allocated to responsible investments in Brazil involves educating investors on the importance of considering ESG aspects when assessing investments [19].

Responsible and sustainable investment performance

In this section we dedicate space to consider the performance of responsible investment strategies in financial crises, stressing that portfolios in this strategy stood out positively when compared to traditional investments, reinforcing the resilience of the group of companies selected with this bias.

A recently released study shows that ESG criteria can create value in companies' cash flow in five ways: (1 helping revenue growth, (2 reducing costs, (3 minimizing regulatory and legal interventions, (4 increasing employee productivity, and (5 optimizing investments in capital goods [20]. Still, we may face adverse scenarios such as the one we are facing due to the emergence of COVID-19 and its impact on the economy, reflected by the financial and capital markets.

The performance of ESG indexes and strategies in times of crisis was recently analyzed in a study that attempts to assess the degree of resilience of this type of strategy in the first four months of 2020. The results show that portfolios and ESG indexes in their great majority presented a better performance in this period [21].

[20 and 21] Check on the reference page

The study also analyzes other periods of high volatilities such as 2015-2016 and 2018, highlighting that the results presented by the ESG strategies were also superior.

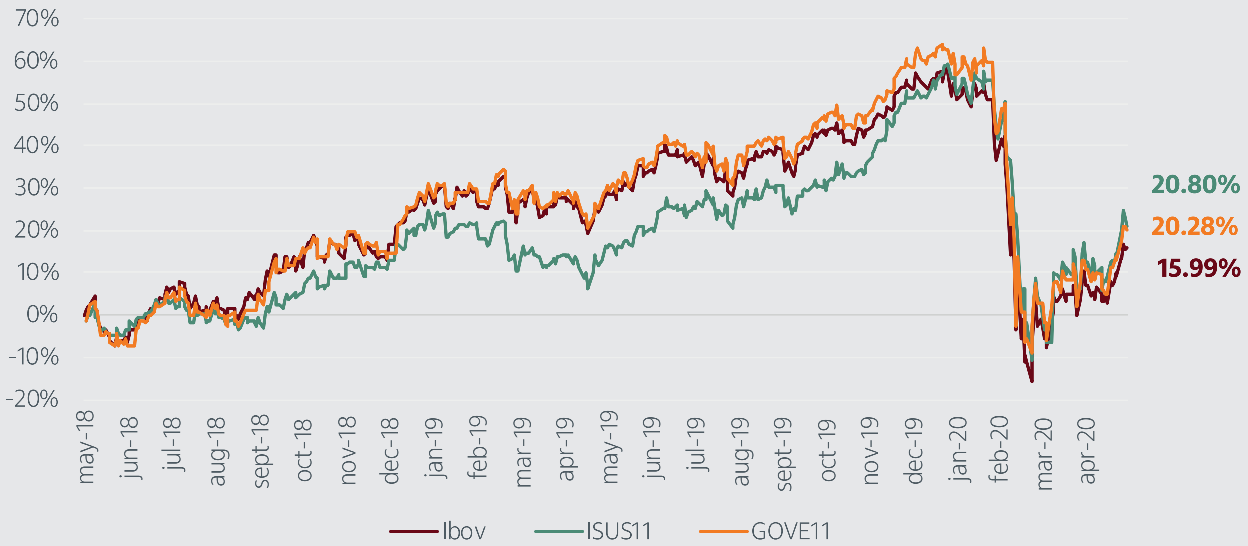
In another analysis conducted with ETFs dedicated to the ESG theme and carried out in the first two months of 2020, there was a better return compared to the traditional benchmarks in the Global, Europe and U.S. high capitalization categories [22].

Another recent study, focusing on emerging markets, revealed that while companies tend to have lower ESG ratings than their global peers, on average the ESG characteristics contributed positively to overall performance.

It was also revealed that emerging market companies with higher ratings showed higher profitability, lower idiosyncratic risk, and a positive differential return during the study period from June 2013 to July 2019 [23].

When looking at the Brazilian market and comparing, for example, the performance of traditional portfolios indexed to the broad Ibovespa index versus two portfolios focused on responsible investing - one indexed to the IGCT corporate governance index and the other to the ISE Corporate Sustainability Index - we observed that ESG portfolios performed better in several time windows, including the acute period of the recent crisis.

Performance



ISUS11 (ETF of Itaú Asset linked to the ISE) **GOVE11** (ETF of Itaú Asset linked to the IGCT)

	Ibovespa	ISUS11	ISE	GOVE11	IGCT
may/20	8.57%	7.18%	8.61%	8.66%	8.33%
YTD	-24.42%	-20.29%	-19.08%	-24.11%	-24.06%
12 Months	-9.92%	3.62%	4.12%	-7.16%	-7.34%
24 Months	13.87%	20.85%	21.31%	20.09%	21.02%

Preparation: Itaú Asset Management - Data base: May/2020

[22 e 23] Check on the reference page

[5] ISE is a theoretical portfolio composed of shares of companies with recognized commitment to social responsibility and corporate sustainability. IGC is a theoretical asset portfolio composed of the companies listed on the New Market or Levels 1 and 2 of corporate governance of B3. In other words, it is an index that seeks to capture companies with better governance practices on the stock exchange.

Thematic investments as an alternative: **corona bonds**

As seen before, our investments are increasingly being directed towards the medium and long term, horizons in which efficient solutions in terms of sustainability and positive impact are being developed.

Countries and companies affected by the crisis have been looking for innovative ways to deal with the challenges that arise. Cash shortages and the need to self-finance amid an uncertain scenario have led companies and governments to issue bonds and financial instruments whose resources will be used to directly address the challenges of COVID-19.

Corona bonds or social bonds are thematic investments aimed at directly addressing the challenges of COVID-19. Resources for post-COVID-19 economic recovery will be needed for different topics such as obtaining medical-hospital resources, support for small and medium entrepreneurs and even for the wider economic recovery.

To help structure the parameters of this market, ICMA - International Capital Market Association and IFC - International Finance Corporation, published case studies that help to make tangible the possible uses of the proceeds, so that they are directed to those affected by the impacts of the virus [24].

In this context, it is important to observe the U.S$ 8 billion issue made by the World Bank, the largest being made by a multilateral entity, aligned with the guidelines published by ICMA and IFC [25]. The resources will help in plans to support member countries in their efforts to address the human and economic impacts of COVID-19. Other multilateral institutions issued, between March and April 2020, around US$20 billion in corona bonds aligned with ICMA guidelines [26].

These financial instruments appear as a category of social bonds and are beginning to play a leading role at a time when so-called green bonds have already emerged as a practical solution to addressing environmental and climate issues. Thus, we believe that COVID-19 can act as the trigger for the beginning of a relevant growth trend of Social Bonds.

Conclusions and lessons learned

As we have seen throughout the document, the economic changes observed over the last few years and the topic of financial planning have been gaining relevance, and thus we have an important change in the investment horizon. With these new elements, we are increasingly leaving the short term behind and worrying about the medium and long term when thinking about our investments.

Companies that are concerned with the permanence and sustainability of their business and pay attention to ESG issues are better prepared to deal with changes in production and consumption patterns, using natural resources more efficiently and mitigating the negative impacts of their products and services on the environment.

The current pandemic is significantly changing various aspects of daily and corporate life, which impacts company results and investment decisions. The use of a responsible investment lens in our models and analysis has helped us to identify companies that have been mitigating risk, anticipating trends, and achieving more lasting results. Among the potential consequences identified by COVID-19 for responsible investment, we can highlight:

Greater attention to the social impacts of companies, both inside and outside

On the one hand, organizations can generate mutual benefit by accelerating remote work trends and ensuring good sanitary conditions for employees and outsourced workers. On the other hand, the current situation brings the opportunity for responsible companies to leverage the social value of the brand through direct contributions to address the crisis and guarantee basic products and services to the population.

Continuity in the secular trend of combating CO2 emissions

Empirical data show us that disruptive economic and social events lead to a reduction in emissions in the short term, followed by a more structural change in the long term, reducing the intensity of emissions in the economy. In the context of COVID-19, there is also the possibility of local production chains gaining more space, which would reduce companies' indirect emissions.

This transition is aligned with the efforts of several countries to promote an economic recovery on a green and sustainable basis, following the example of the Green Pact, worth 1 trillion Euros, announced by the European Union for the next decade.

Increased investor engagement to advance companies' socio-environmental agendas

Considering Covid's impacts on various stakeholders, investors can use engagement as a more effective tool to stimulate companies to push their socio-environmental agendas forward. This occurs in parallel with the increase in the number of virtual general meetings of companies, which can increase investor participation. The Principles for Responsible Investment (PRI have been bringing recommendations in the context of COVID for responsible investors to engage in issues such as transparency, worker safety and risks in the production chain.

In view of the aforementioned, we understand that several ESG trends that were already advancing may accelerate as a practical response to the pandemic. In this context, our role as asset managers is to understand how these dynamics can affect companies and our investment decisions in order to obtain a more risk-adjusted return.

On the other hand, we understand that companies and investors have an important role in overcoming the impacts of the COVID-19 and building a new, more sustainable normal. Companies, seeking to link their operations and businesses more and more to a social purpose, and investors, when allocating their resources taking into consideration the environmental and social impacts that can be generated through them.

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