

Modest sustainability progress amid continuing challenges

SAM Corporate Sustainability Assessment Latin America Progress Report 2019

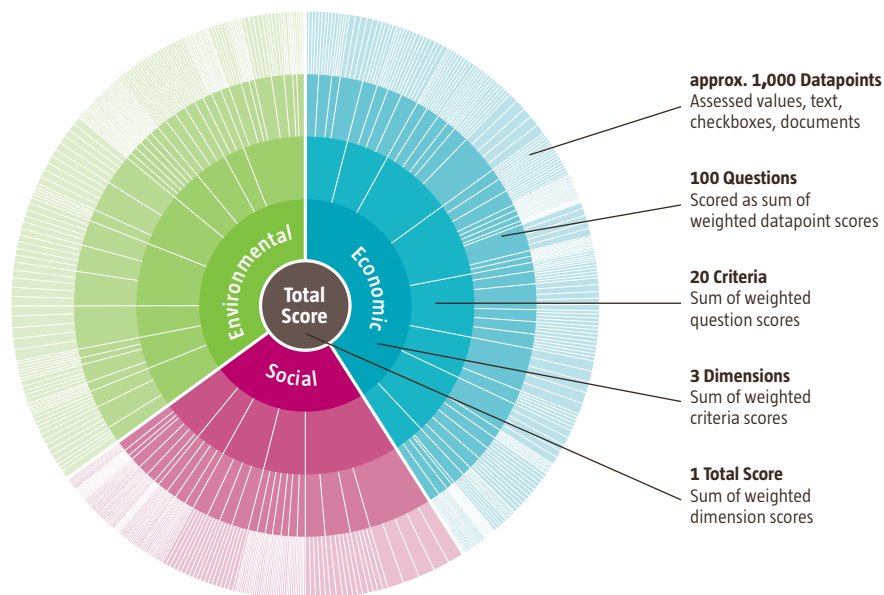
The SAM Corporate Sustainability Assessment (CSA)

Since 1999, RobecoSAM has been conducting the annual Corporate Sustainability Assessment (CSA), which serves as the framework for measuring corporate sustainability performance and forms the research backbone for the construction of the Dow Jones Sustainability Indices.

The world's 2,500 largest publicly traded companies are invited to participate in the CSA for possible inclusion in the DJSI World Index. Additional companies are invited to participate for the growing family of regional and country-specific sustainability indices.

Companies are evaluated on a range of financially-relevant sustainability criteria within three dimensions: economic, environmental, and social. Each company assessed receives a score between 0-100, and is ranked against other companies in their industry.

Illustration of the CSA process from approximately 1,000 datapoints per company, to one total score.



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Executive Summary

Raising the bar each and every year since 1999, the SAM Corporate Sustainability Assessment (CSA) is continuously enhanced to identify and measure under-researched and under-reported financially material ESG factors. As a result, it continues to detect those companies that are best-positioned to address future sustainability-driven challenges and opportunities.

The CSA results, combined with the robust index methodology from S&P Dow Jones Indices form the basis of the construction and maintenance of the entire Dow Jones Sustainability Indices (DJSI) series.

The participation rate in Latin America is higher than the global participation rate, a trend that indicates willingness amongst Latin American companies to address and improve their ESG performance.

This Latin America Progress Report 2019 presents results from the 2019 Corporate Sustainability Assessment, highlighting the most significant strengths and weaknesses in sustainability performance across the region as a whole and across each of the following five countries: Brazil, Chile, Colombia, Mexico and Peru. The results are focused primarily on the 124 companies that actively participated in the CSA by filling out the online questionnaire, with some further insights included, where relevant, from assessing additional companies on their sustainability performance.

The first chapter, Overall Results, presents the participation rate for Latin America which is above the global participation rate, for the third consecutive year. This is a trend that indicates willingness amongst Latin American companies to address and improve their ESG performance.

The average Total Sustainability Score ("score") of Latin America (52) is ahead of North America (51) for the second consecutive year demonstrating that developing economies are able to tackle sustainability issues equally as well, and potentially better, than developed countries. This report refers to "scores" and to "average scores" as terms which are used interchangeably to comment on regional and country level sustainability performance. In both cases this is a reference to the average score for

the region, and the average score for the country. It is only where companies' individual scores are mentioned where this means the absolute score, otherwise known as the Total Sustainability Score.

For scores in each country, only Peru had a year-on-year rise in average score. This comes after Peru has been the lowest scoring country in the region for the last two years. Comparatively low scores in many of the CSA criteria allowed Peruvian companies a greater chance to improve many aspects of their sustainability performance. The average scores for Brazil and Colombia dropped slightly, with Chile and Mexico stable.

Colombian companies outperforming those in other Latin American countries is a common theme throughout the report. Colombia has the highest average score in this region for the second consecutive year. It further stands out for its companies' sustainability performance on multiple criteria and for being home of the highest scoring company in the entire region.

Another common theme is the sustainability performance of companies located in Mexico and in Peru which is notably below those in Brazil, Chile and Colombia. Average scores from companies in Mexico and Peru often follow a similar pattern: frequently the lowest of all five countries.

Representation from companies in Latin America in the DJSI remains stable compared to last year, despite the average score for the region falling slightly year-on-year and in the context of its rising participation rate. A rise in participation can sometimes lead to a fall in scores as new companies adapt to the assessment requirements.

The second chapter dives into the three dimensions of the CSA: Economic, Environmental and Social. Within the Economic Dimension, it is the criterion of Corporate Governance - relevant to all CSA assessed companies - that shows for Latin America a substantially lower score compared to the global average score and for the second consecutive year, causing it to be the region with the lowest performance on this significant criterion. However, each country shows slight improvement year-on-year, and with Brazil, Chile and Colombia above the global average there are signs that Latin American companies are working towards improving in this key area of sustainability.

Within the Corporate Governance criterion, the questions on diversity provide a snapshot into an area of relative weakness for Latin America. The region is not a strong global performer for either Diversity Policy or Gender Diversity, the latter referring specifically to board level. There is indeed much opportunity for improving the gender ratio at the board level, as results show that on average companies across this region have only one female board member.

Moving to the questions on Executive Compensation, also here the region shows weaknesses compared to others with the score for Latin America far below the global average for the question on Disclosure of Median or Mean Compensation of all Employees & CEO Compensation. However this varies by country; Colombia stands out with a score higher than the averages for Asia, North America, and Europe.

The results are similar for questions on Executive Compensation Aligned with Long-Term Performance, and for Executive Compensation-Success Metrics, with Latin America below the global average, and Colombia the one country scoring above the global average. Both questions show that the region is behind in disclosing remuneration.

The region is not a strong global performer for either Diversity Policy or Gender Diversity, the latter referring specifically to board level. There is indeed much opportunity for improving the gender ratio at the board level, as results show that on average companies across this have only one female board member.

In the Environmental Dimension, the report focuses on Climate Strategy, a criterion of urgent importance for companies worldwide. For all 10 general questions within this criterion, Latin American companies score below the global average which strongly indicates this to

be a criterion where these companies must address sustainability concerns to start moving into line with companies around the world. Colombia again is the leader in the region, while Mexico and Peru are the lowest scoring countries. The pattern is very similar for the questions on Climate Change Strategy and Management Incentives for Climate Strategy; Peru is the lowest scoring country followed by Mexico, while Colombia again has the highest score.

In the Social Dimension, Latin America is keeping pace with the other regions for most criteria. For the criterion Labor Practice Indicators the region leads the way with a score above the global average for a second year and, unusually only Europe comes closest. The familiar pattern appears again as Colombia scores best followed by Chile, Brazil, Mexico and then Peru. At the question level within this criterion where the aspects of Diversity (in management), Equal Remuneration, and Freedom of Association are covered, Latin American companies scored above the global average.

Overall it can cautiously be said a picture of incremental improvement emerges across the region compared to 2018, but the areas where Latin American companies show better sustainability performance are counter-balanced and sometimes outweighed by some sustained weaknesses at both regional level and country level.

Introduction

This year is a two-decade milestone for the SAM Corporate Sustainability Assessment (CSA) which was established in 1999, and has now assessed a record number of publicly-listed companies around the world.

This report analyzes the sustainability performance based upon Environmental, Social, and Governance factors of the five Latin American countries from which companies were eligible for DJSI membership: Brazil, Chile, Colombia, Mexico, and Peru, with a comparison to 2018 performance. Unless otherwise stated, the report highlights results from the 124 companies which actively participated in the CSA across Latin American countries.

This year is a two-decade milestone for the SAM Corporate Sustainability Assessment (CSA) which was established in 1999.

Similar to last year, this report first provides context by outlining the invited universe and participation figures for each country as well as for the region. The score across Latin America is compared to other regions: Asia, Europe, and North America, followed by a comparison of the average score across each of the five Latin American countries.

Sustainability performance is shown versus the 2018 scores highlighting differences and commonalities existing amongst companies across the region on sustainability issues, as well as the countries' respective representation in the DJSI World, DJSI Emerging Markets and DJSI MILA.

The chapter on the Economic, Environmental, and Social Dimensions presents specific questions and data points selected for further explanation based on the topical nature and/or the diverging range of scores within these criteria. In the Economic Dimension under the criterion Corporate Governance the questions in focus relate to diversity and executive compensation. In the Environmental Dimension, the focus is on the highly globally relevant criterion of Climate Strategy.

In the Social Dimension, the focus is on the results for the criterion Labor Practice Indicators which addresses questions on the important topics of Diversity, Equal Remuneration, and Freedom of Association.

This "deep dive" into selected criteria and questions aids identification of where future opportunities and current challenges lie for companies in Latin America on critical sustainability issues.

Table 1: Participation rates rise in each country

	Number of invited companies	CSA Participation rate
Brazil	67 ↑	37% ↑
Chile	88 ↑	39% ↑
Colombia	14 –	80% ↑
Mexico	66 ↓	58% ↑
Peru	32 ↑	44% ↓
Latin America	267 ↑	46% ↑

The arrows ↓↑ indicate the year-on-year change between 2018 and 2019.

Source: RobecoSAM

Table 2: Market capitalization of assessed and actively participating companies in the CSA 2019

	All assessed companies (% of market cap)	Actively participating companies (% of market cap)
Brazil	82	55
Chile	100	54
Colombia	100	77
Mexico	99	82
Peru	100	55

Source: RobecoSAM

* Table 2 shows the percentage of each country's total market capitalization of the public listed companies in the DJSI invited universe that is covered by all assessed Latin American companies, and by actively participating Latin American companies.

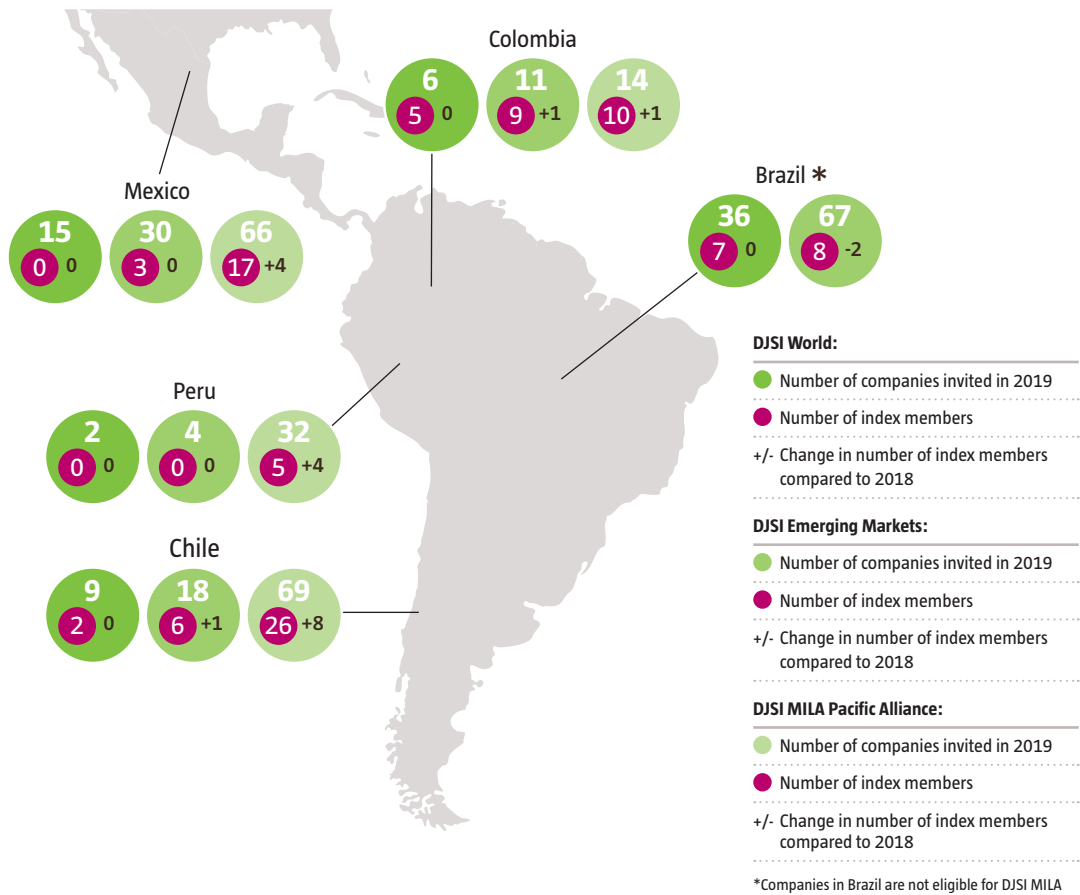
Overall Results – Latin America

Participation rate rises for Latin American companies and is above the global average for the second year

In 2019, the Latin America DJSI invited universe (based on the free-float market capitalization) increased to 267 companies from 241 in 2018, increasing the opportunity for companies in the region to have their sustainability performance evaluated. For each of the five countries, participation numbers increased

year-on-year which means more first time participants were assessed. Overall the participation rate for the region moved upwards from 38% in 2018 to 46%, this is higher than the average global participation rate for the third consecutive year.

Figure 1: Latin America’s DJSI representation mainly stable with some increases



Source: RobecoSAM

Below is a profile of each of the five Latin American countries, and the changes in their invited universe numbers and subsequent participation rates in 2017, 2018 and 2019.

Brazil

After a rise from 2017 to 2018, the invited universe in Brazil has again risen - from 61 in 2018 to 67 in 2019 meanwhile the percentage of companies actively participating in the CSA relative to the invited universe has remained stable at a rate of 37%. This is an indication of a core group of around 20 companies committed to addressing and improving their sustainability performance, but it also shows there is still a gap in terms of companies choosing to proactively address their sustainability performance through the CSA.

Chile

Similarly, the invited universe for Chile, which rose dramatically to 82 companies in 2018 from 62 in 2017, continued to increase to 88 in 2019. At the same time, the percentage of companies actively participating compared to the invited universe dropped slightly from 42% in 2017 down to 39% in 2019. Nevertheless, the number of companies accepting the invitation to participate in the assessment increased from 26 in 2017 to 34 in 2019. Similar to Brazil it suggests that Chilean companies familiar with the CSA continue their commitment to improving their sustainability performance, but the newly invited companies seem to be more reluctant in choosing to participate in the CSA.

Colombia

Colombia, out of all five countries, has the smallest invited universe decreasing from 17 companies in 2017 to 14 companies in 2018 and 2019. It does however have by far the highest participation rate compared to the other countries in the region in 2019, at 80%. This is in part due to the small number of companies invited to participate, but it also points towards a commitment amongst all the Colombian companies invited to be proactive in addressing their sustainability issues.

Mexico

The invited universe for Mexico dropped from 2017 to 2018 and then again in 2019, from 78 to 66 companies. Second only to Colombia, the participation rate has risen significantly to a rate of 58% in 2019 with 39 Mexican companies actively participating in this latest assessment.

Peru

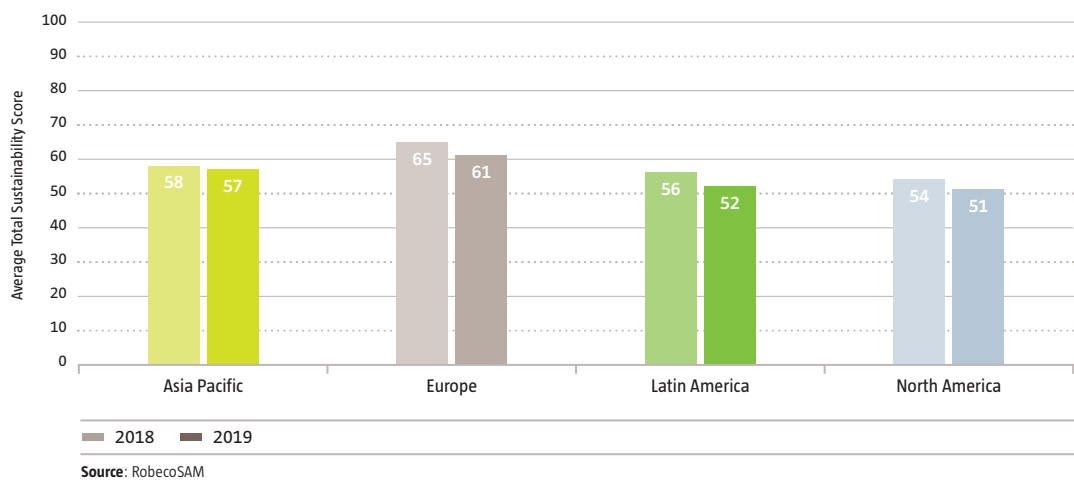
Peru is similar to Colombia in historically having a smaller invited universe, however the invited universe has risen dramatically, quadrupling from eight companies in 2018 to 32 in 2019. At the same time however, the participation rate has fallen from 58% to 44% with five companies participating in 2018 and 14 companies participating in the 2019 CSA. This suggests the steep hike in companies eligible to participate means they may have been less well prepared and thus not ready to participate.

Regional and country comparisons of actively participating companies' Total Sustainability Scores

It is typical that an increase in the invited universe combined with a higher participation rate can lead to lower average scores for a country and/or a region. This is to some extent attributable to those companies participating in the CSA for the first time being less familiar with the extent of the sustainability topics to be addressed.

The average score did fall in Latin America year-on-year from 56 to 52. However, in every other region the average score also dropped, which means the global average also fell. This is attributable to the record 17.6% increase in participation globally for the 2019 CSA in which an additional 200 companies addressed the sustainability themes of the CSA for the first time.

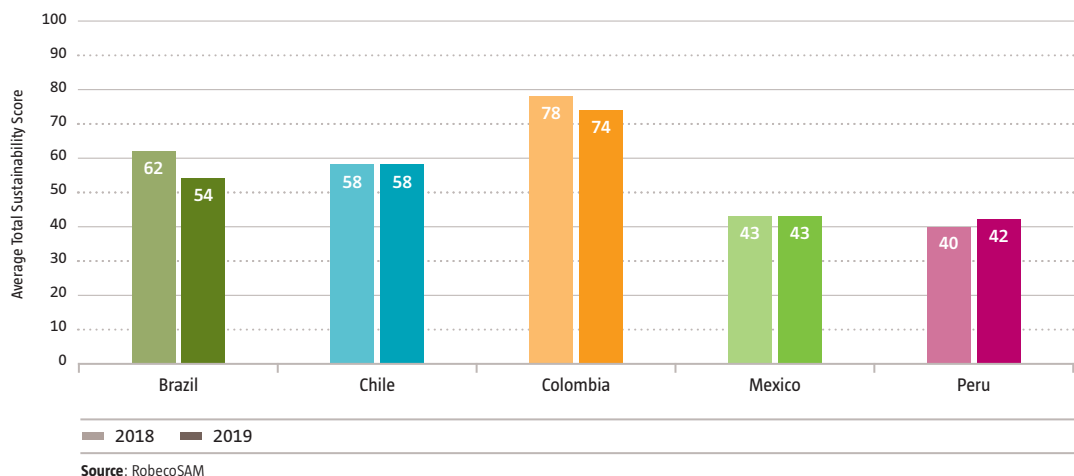
Figure 2: Latin American sustainability performance on a par with North America



Notably four of the Latin American countries - Brazil, Chile, Colombia, and Peru - are classified (by S&P Dow Jones Indices) as emerging markets yet along with Mexico, the score for the region overall level with the developed countries of North America which consists

of the United States and Canada. This is positive progress following last year's report which noted that Latin America "continues to lag behind when it comes to overall sustainability management".

Figure 3: Colombian companies show best overall sustainability performance



Furthermore, comparing the scores across the five countries overall paints a positive picture, but with mixed trends. Colombia stands out with the highest average score of 74 in 2019. This indicates that Colombia's small invited universe with high participation rate is very engaged in their understanding of both the sustainability issues being assessed and in their efforts to address these issues.

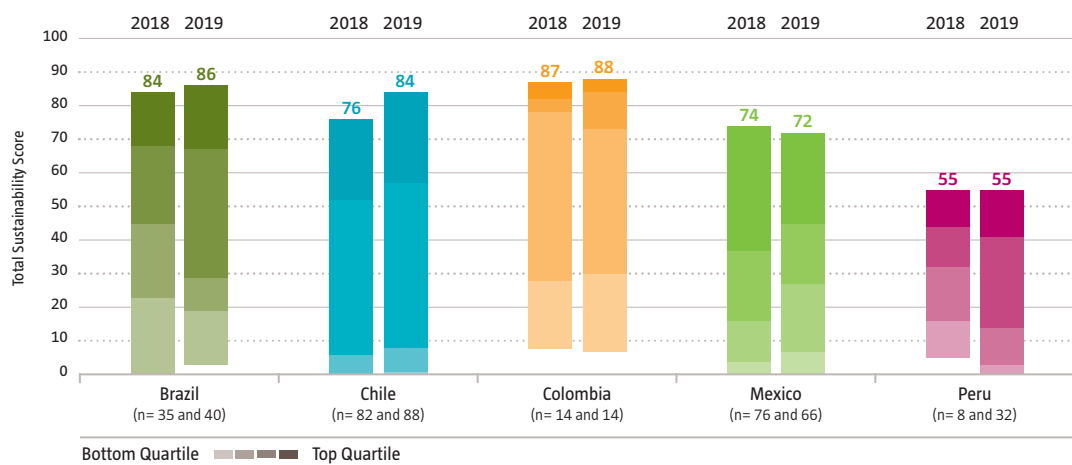
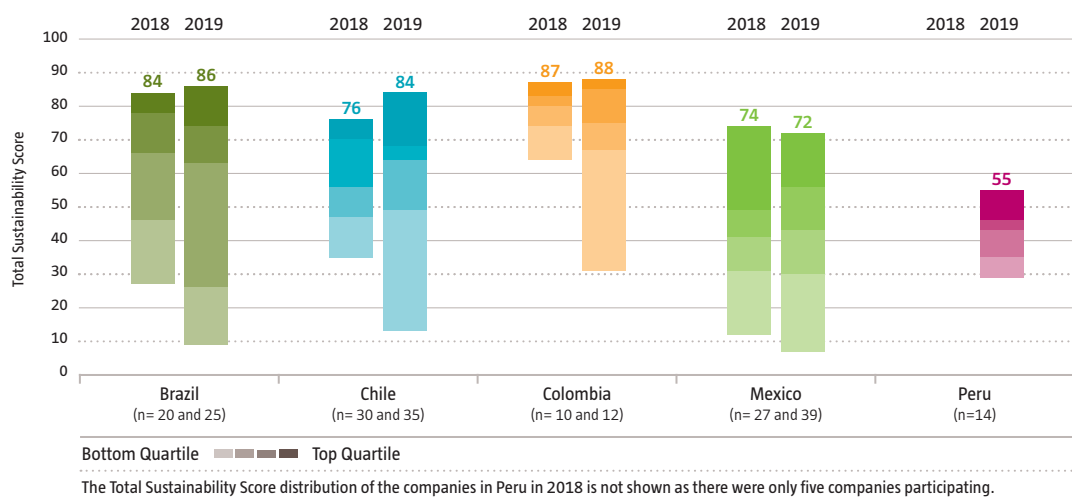
The next closest country is Chile with an average score of 58. Although significantly lower than Colombia, the score in Chile has been stable since 2017. In 2018 Brazil had the second highest score after Colombia, but this dropped by 8 points in 2019 placing it below Chile.

For Mexico year-on-year in 2019 the average score is stable and is just above Peru's average score of 42. For Peru this was a slight year-on-year rise, although it is once again the country with the lowest average score.

In summary, although the region overall had a lower average score compared to 2018, the decreases are only across two countries – Brazil and Colombia. However, Colombian companies still show a strong performance with the highest scoring companies meanwhile the Brazilian companies new to the assessment caused the average score for the country to drop.

The following two box-plot charts give further insight into scores for each country both in 2018 and 2019. Each bar of the chart shows the distribution of scores within the respective country, with the darkest box being the top 25% of scores, the lightest box being the bottom 25% of scores, and the middle line is the average score. The numbers at top and bottom therefore show the highest scoring and the lowest scoring companies per country in each year. The first chart shows spread of scores for only actively participating companies, while the second chart shows how the spread of scores changes when companies assessed only on publicly available information are included.

Figure 4: Combining participating and non-participating companies widens score distribution



Source: RobecoSAM

Looking first at actively participating companies shows that as in 2018, the highest scoring companies are again located in Brazil, Chile, and Colombia. Colombia is home to the highest scoring company, and also has the largest spread of scores within its bottom quartile. Mexico and Peru are the countries with the lowest top quartile scores but both have a relatively even distribution of scores with those from Peru being very close together, compared to the companies of Mexico which have scores less close together. Mexico has the lowest scoring company of all five countries. Brazil has a wide score distribution with the second highest scoring company and also the second lowest scoring company.

When the companies assessed based on publicly available information are added to the mix in the second of these box-plot charts, the highest scoring companies are still from Brazil, Chile, and Colombia and the lowest scores are Mexico and also Brazil. However, the addition of non-participating companies also means that the lowest score per country is lower than for the participating companies – clearly indicating that non-participating companies sustainability management is below that of active participants. This is also particularly notable for Colombia and Peru where the wider distribution of scores is due to more lower scoring companies.

DJSI membership – increased number of companies eligible for DJSI MILA

The DJSI World Index in 2019 consists of 318 components from 27 countries across 58 industries. The number of Latin American members of the DJSI World remained stable in 2019 compared to the previous two years and these are located in Brazil, Chile and Colombia as with the previous two years. The number of companies from each of these three countries for the DJSI World was also stable, totalling 14 (see Figure 1).

For the DJSI Emerging Markets membership, numbers are similarly consistent while Peru is the only country that has no membership in this index. The DJSI Emerging Markets Index in 2019 consists of 98 components, from 14 countries across 40 industries.

The DJSI MILA¹ includes only companies from Chile, Colombia, Mexico, and Peru and in 2019 consists of 58 components across 26 industries. The differences in membership are therefore more noticeable due to this small range of composite countries. Chile has by far the largest number of DJSI MILA member companies in 2017, 2018 and 2019, and also has had a significant rise in members from 18 companies in 2018 to 26 companies in 2019. Membership from Mexico also rose to 17 from 13 member companies in 2018. Peru which has in the past been a relatively “poor performer” for membership of all indices, increased DJSI MILA members from only one company in both 2017 and 2018 to five in 2019.

The number of Latin American members of the DJSI World remained stable in 2019 compared to the previous two years.

¹ In 2017, S&P Dow Jones Indices (S&P DJSI), International Finance Corporation (IFC), RobecoSAM and the Exchanges of the Mercado Integrado Latinoamericano (MILA) launched DJSI MILA Pacific Alliance.

Economic, Environmental, and Social Dimensions

Progress across Latin American companies on key sustainability issues – where are the strengths and weaknesses?

This chapter looks at performance across Latin America compared to other regions, and per country in each of the three dimensions addressed by the CSA: Economic, Environmental and Social. In these three dimensions there is a spotlight on particularly topical criteria,

where the results for companies in this region are of note and where there has been an improvement, or an opportunity for companies to overcome challenges and to catch up with peers in other countries and other regions.

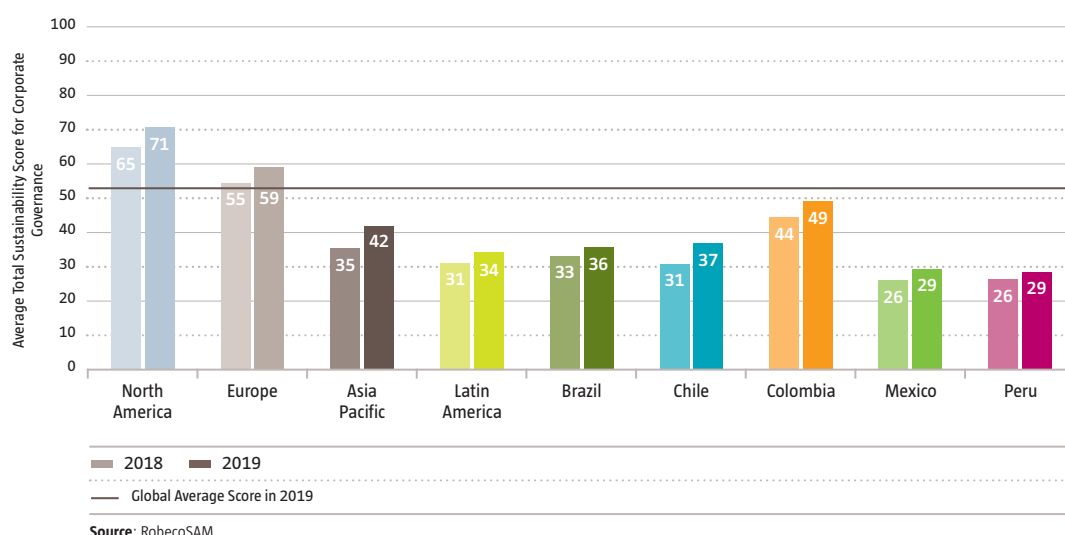
Economic Dimension

Within the Economic Dimension of the CSA, companies in the region perform better than the global average for the criteria of Codes of Business Conduct, Materiality, and Anti-crime Policy and Measures. However their

performance for Risk & Crisis Management, Information Security/Cybersecurity, Policy Influence, and Tax Strategy is weaker. The most significant performance gap compared to other regions is with **Corporate Governance**, as it was in 2018.

Companies in the region perform better than the global average for the criteria of Codes of Business Conduct, Materiality, and Anti-crime Policy and Measures.

Figure 5: Latin American companies score lowest worldwide on Corporate Governance



Corporate Governance Criterion

From a country perspective, it is positive that companies in all countries have improved their year-on-year performance for Corporate Governance by at least three points. The companies that are most challenged on this criterion are from Mexico and Peru, which have the lowest average scores for the second consecutive year. Given that Mexico has a large invited universe of 78 companies relative to Peru's small invited universe of 12 companies, it is clear that the number of participating companies is not related to its poor performance for Corporate Governance.

There are specific aspects of this criterion where the gap between Latin America and the global average

widens to show a lower performance. The most noteworthy of these are **Diversity Policy, Gender Diversity, and Executive Compensation**.

Conversely, Latin America's average score is closest to the global average on the questions for **Dual Class Shares, Family Ownership, and Government Ownership**.

Latin American companies also perform generally lower in relative and absolute terms on **Management Ownership**-related topics as well as the abovementioned Executive Compensation and Diversity-related topics.

Diversity Policy

For the question which asks if companies have a formal publicly available Diversity Policy that clearly requires diversity factors in the board nomination process and to indicate where this information is available in public reporting, the global average score is 51, compared to Latin America where the average score is 14, rising from 10 points in 2018. Asia is the region with an average score closest to Latin America, but significantly higher at 43.

At the country level in Latin America, there was a mix of scores on this topic with Peru the lowest performer scoring zero. Brazil and Chile were close behind with average scores of 16 and 18 respectively. Colombian companies emerge as leaders for Diversity Policy, with an average score of 32.

Here the requirements of the CSA are particularly relevant in that companies are required to have publicly

available diversity policies. The aim of including public disclosure as a required aspect for this question is to encourage greater transparency from companies, an area which has significant room for improvement in Latin America.

In particular the question on Diversity Policy, asks if four clearly defined diversity factors are included in the company's board nomination process: Gender, Nationality, Country of origin or cultural background, Race or Ethnicity. Companies from Chile have best addressed each of these specific factors in their board nomination process. It is also clear that for all countries gender is by far the factor addressed by the most companies which is unsurprising given the very high profile nature of gender diversity at the board level for companies worldwide.

Table 3: Number of times diversity factors are addressed by the 124 participating companies

	Number of Times Covered in Companies' Board Nomination Policy
Gender	19
Nationality, country of origin or cultural background	12
Race or Ethnicity	11

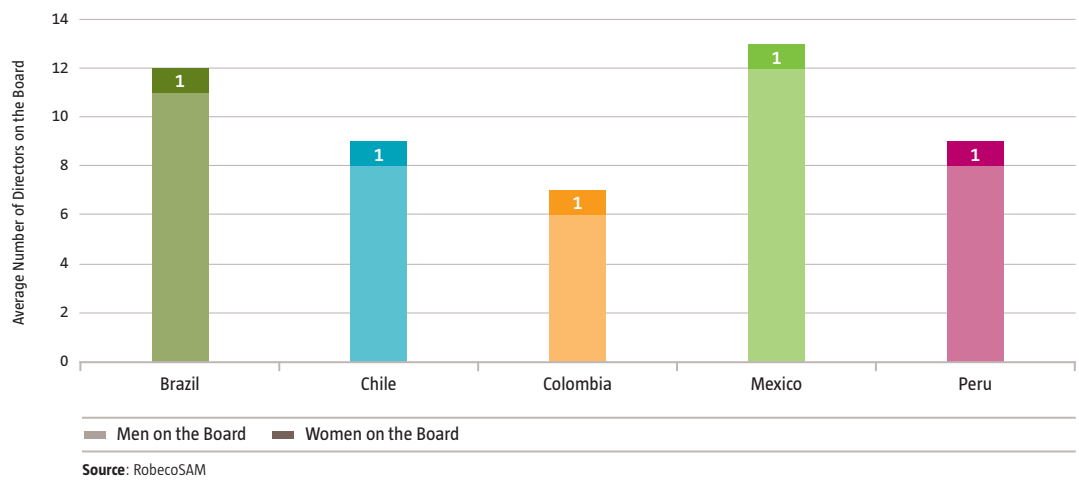
Source: RobecoSAM

Gender Diversity

The question on **Gender Diversity** which asks companies to indicate the number of women on the company's board of directors/supervisory board and specify where this information is available in public reporting or on the corporate website is designed to assess whether the board reflects the diversity of the workforce and marketplace, thereby ensuring that a variety of viewpoints are heard and factored into corporate decision-making.

The question appears to challenge companies worldwide, with the global average score at only 42 but still, Latin American companies are performing significantly lower, with an average score of 13 in 2019. At the country level for Gender Diversity, there are once again big differences: from Mexico with an average score of 7, to Colombia where the average score is 28.

Figure 6: On average Latin American companies only have one female director on their board



A positive for Gender Diversity is that there were 13 companies across Latin America scoring higher than the global average – spread across all five countries. Also, a minority 47 out of the total 124 companies that participated in the CSA in the region have men-only

boards. This indicates the start of increased female presence on the majority of boards across Latin American countries, but to be comparable with other regions the ratio of women to men must improve in line with evidence which shows that companies with more gender balanced boards do better financially.

Gender Diversity appears to challenge companies worldwide, but still, Latin American companies are performing significantly lower than the global average.

Executive Compensation

In the aftermath of the global financial crisis, many countries implemented reforms regarding the transparency of executive compensation. Transparency is vital to restore trust among shareholders, employees, customers and other stakeholders, and hence to improve corporate reputation. Companies that are taking a proactive approach to align their reporting with this global trend and improve disclosure about executive compensation will be in a better position. Moreover, transparent reporting on CEO compensation and the mean or median compensation of other employees provides a basis for understanding the “pay gap” and addresses concerns from investors and stakeholders about whether or not executive compensation is justified.

In requesting **Disclosure of Median or Mean Compensation** of all Employees & CEO Compensation, the CSA is designed to assess whether companies are able to disclose this information. This is in line with the US 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub.L. 111-203, H.R. 4173) which requires US companies to disclose to shareholders annual CEO compensation and the median of the annual total compensation of all employees of the issuer, as well as the ratio.

More than half of the 124 companies were unable to disclose the ratio of average employee compensation to CEO compensation.

Executive Compensation – Aligned with Long-Term Performance of the company is interesting in that the global average score is 28, suggesting companies around the world are challenged by the requirements of this question which is assessed by deferred bonuses, time-vesting, and the performance period for CEO compensation. In Latin America the average score is far below the global average at 9. Asia also scores low with an average of 15 while Europe and North America score 41 and 42 respectively. Again, many Latin

Overall, Latin American companies are challenged by this question on Executive Compensation compared to companies in other regions: the global average score is 50, while for Latin America it is 26. A highlight is Colombia’s performance with an average score of 59. This is unlikely to be attributable to a small number of participating companies, as Peru also with a small(er) number of participating companies is the lowest performing of the five countries with an average score of 17. Colombian companies stand out further in that the country’s average score is higher than that of Asia (58), North America (43), and Europe (53).

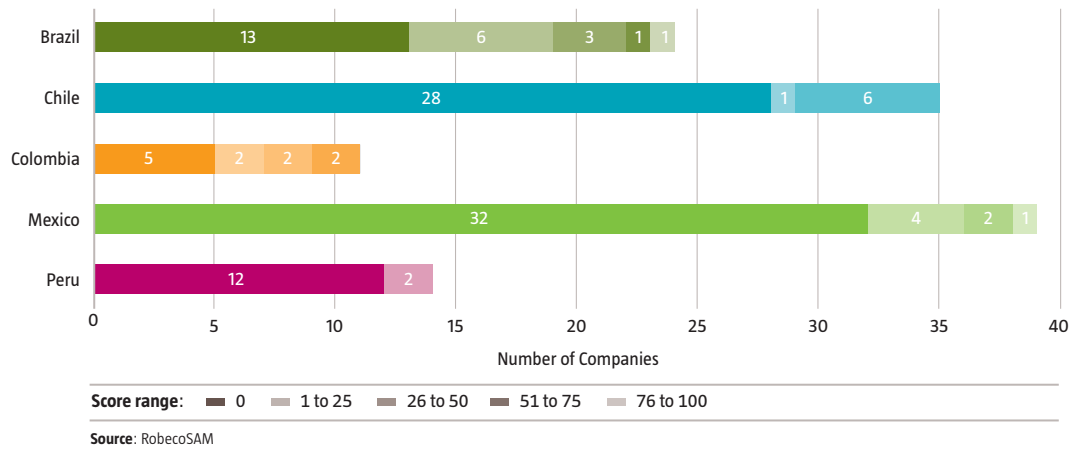
Of the 124 companies actively participating in the entire region of Latin America, 75 scored zero, which is significant as a score of zero is attributed to companies unable to supply the mandatory publicly disclosed information on this criterion.

Within each country of Latin America, there are partially-public companies e.g. utilities companies, which have a smaller ratio of average employee compensation to CEO compensation - equating to a smaller pay gap. At the same time, other industries such as banking and retail have a higher pay gap, either because CEO compensation is particularly high or employee compensation is rather low. All in all, there are high and low ratios of compensation across each country of Latin America.

American companies scored zero. One-fifth confirmed they either cannot answer, or they do not have such a performance-based variable compensation system.

Despite companies’ challenges on this issue, economic alignment of management with the long term performance of the company is an essential component of executive compensation. It can be achieved in several ways using both financial and non-financial metrics, which are assessed in the CSA.

Figure 7: Most Latin American companies score zero for Executive Compensation Aligned with Long-Term Performance



From a country perspective on this question, it is Colombia that stands out with the highest average score of 22, not too far below the global average. Following a familiar pattern, Mexico and Peru score lowest at five and two points respectively.

Executive Compensation – Success Metrics results show Latin America with an average score of 11 which is significantly below the global average score of 39. However, this is not uniform across the region: Colombia again performs well on this with an average score of 41, above the global average.

Most Latin American companies do not address the requirements with respect to both absolute and relative financial returns metrics very well.

This question is assessed with respect to both absolute Financial Returns Metrics (shown in figure 8) such as return on assets, return on equity, etc. and Relative Financial Metrics (shown in figure 9), which means comparison to peers using metrics such as total shareholder return.

The following charts indicate that overall most Latin American companies do not address these requirements well, and are weaker on the aspect of Relative Financial Metrics. As a question added only in 2018, the low scores here suggest that participating companies need to adjust to this new requirement. This is an example of where the CSA's importance is not only in assessing current performance of companies, but it is also constantly evolving to include emerging sustainability themes to increase companies' awareness of which aspects of sustainability are financially-material for long-term value.

Figure 8: Over 50% of Colombian companies have financial returns metrics for CEO variable compensation

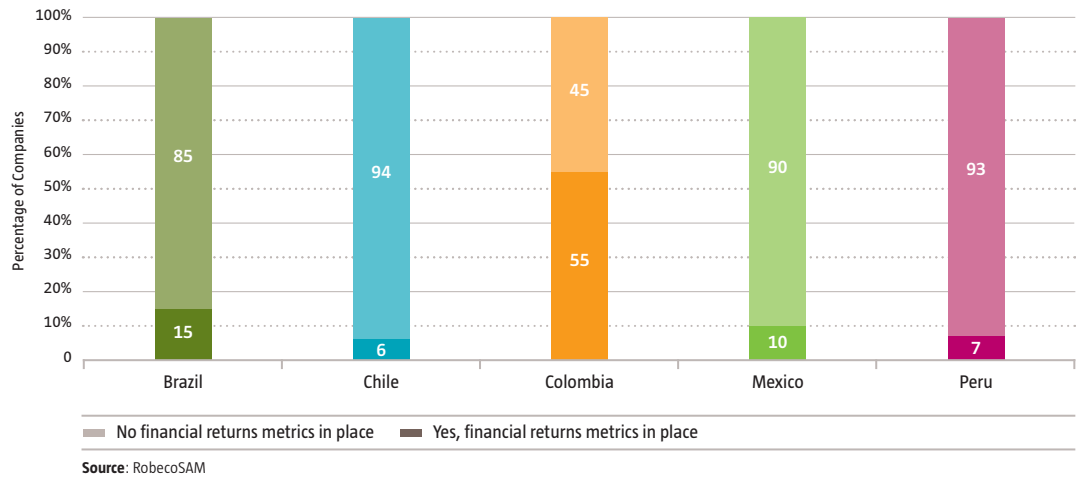
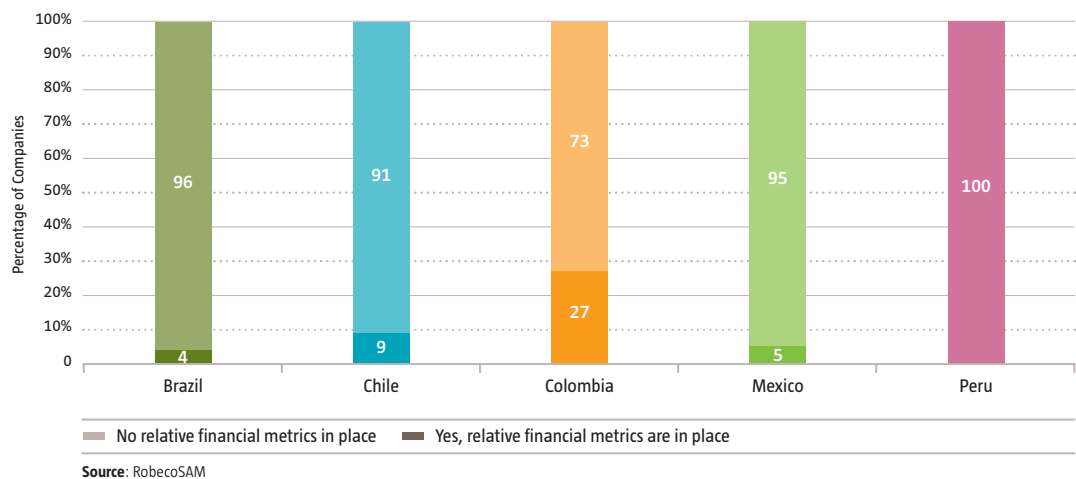


Figure 9: Few Latin American companies have relative financial metrics for CEO variable compensation



In summary, the challenge for companies with regards to Executive Compensation in general may be that this is a relatively new element of the CSA. The upside of this is that for the invited universe of companies,

continuing to participate in the CSA in future will enable the opportunity for improvement in this aspect over time, for Latin America to catch up with companies across other regions.

Environmental Dimension

Now turning to the Environmental Dimension of the CSA, there are seven criteria relevant to most industries covered by the 124 participating Latin American companies; these are Environmental Reporting; Water-Related Risks, Environmental Policy & Management

Systems; Climate Strategy; Operational Eco-Efficiency; Product Stewardship; and Biodiversity. Overall, the companies in this region are performing lower than the global average for six out of these seven criteria. The exception is Biodiversity.

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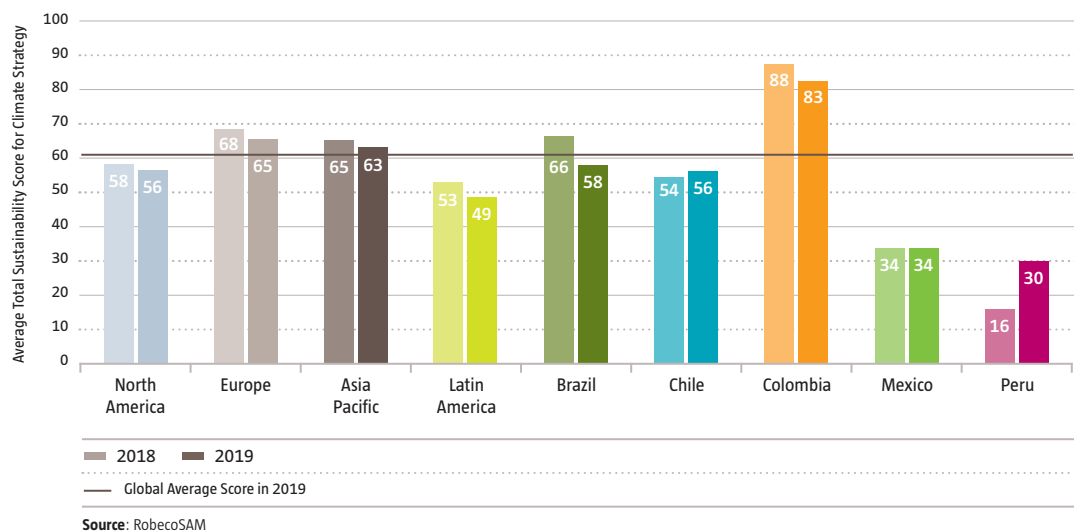
Climate Strategy Criterion

Climate change is a topic recognized worldwide as being a high priority for all businesses, yet the criterion **Climate Strategy** has the most significant gap between the average score for Latin America and the global average score. Although the global average score fell slightly from 63 in 2018 to 61 in 2019 and for each region the average scores dropped slightly, Latin America is still the lowest performing region on this critical issue. However, at the same time highlights for Latin America are that the average score in Peru

almost doubled from 2018, and Colombia has a particularly high average score of 83 compared to the other countries in the region, and far above the global average.

These highlights indicate the potential for companies in this region to improve their performance and once again that a small number of invited companies is not correlated with poor performance.

Figure 10: In Latin America, only Colombia is above the global average for Climate Strategy



Climate Change Strategy

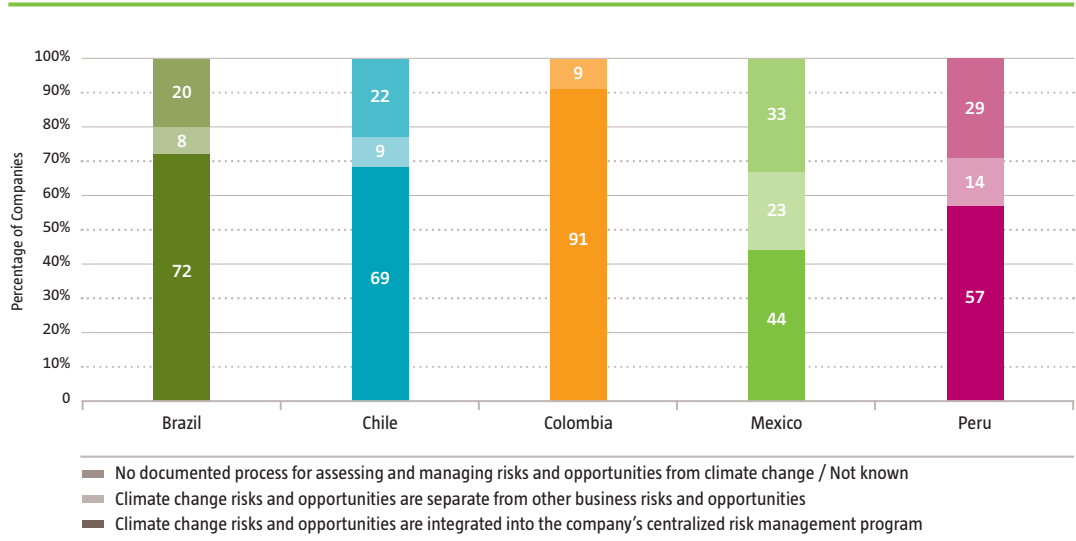
For all 10 questions on Climate Strategy, Latin American companies score below the global average but more positively, they are closest to the global average for the question **Climate Change Strategy** which requires disclosure of processes for identifying, assessing, and managing climate-related issues. Comparing all five countries for Climate Change Strategy, scores are diverse with a now-familiar pattern emerging with the lowest scoring countries of Mexico and Peru averaging 55 and 58 respectively while with a score of 91 which also exceeds the average score of other regions, Colombia's companies demonstrate a strong performance. Chile and Brazil are close to each other with average scores of 73 and 74 respectively.

More than half of the region's participating companies received a full score for this question, indicating that companies are addressing it well compared to some

other questions. However around one-quarter received a score of zero, which could well be applicable to the trend towards lack of transparency in public disclosure for many Latin American companies that is evident from the results of other questions.

The question asks companies if, and if yes, how the organization's processes for identifying, assessing, and managing climate-related issues are integrated in the company's overall risk management. Except for Mexico, more than half of the Latin American companies provided supporting evidence to confirm that climate change risks and opportunities are integrated into the company's centralized risk management program. Additional companies responded that there is a specific climate change risk management process in place.

Figure 11: For most Latin American companies, climate change risks & opportunities are within their risk management programs



Source: RobecoSAM

More than half of the Latin American companies provided supporting evidence to confirm that climate change risks and opportunities are integrated into the company's centralized risk management program.

Management Incentives

Exploring further the topic of Climate Strategy there is a question on **Management Incentives for the management of climate change issues**, where the five countries show a range similar to the question on Climate Change Strategy: Peru has a low score of 15, and Colombia with the highest average score at 77 exceeds the global average score of 51. Chile and Brazil are very close at 44 and 46 respectively, while Mexico is at the lower end of the scale, with an average score of 34.

From a regional perspective, interesting for this question is that North America with an average score of 48 is also below the global average. Furthermore, Latin America's average score of 41 is relatively close to North America's score – a less significant divergence between emerging and developed economies.

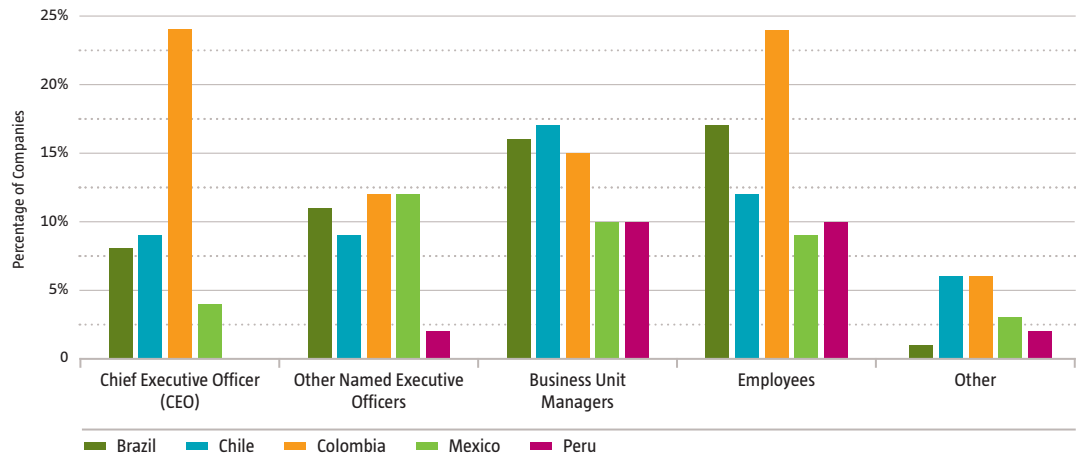
With regard to which job functions are incentivized, Colombia also stands out for responses to the

requirement to disclose climate change-related incentives starting from the highest management level, as the chart shows it is the one country demonstrating the highest level of incentivization for employees at all levels.

Where it might be expected that the CEO or other board level executives would be the focus of incentives for climate change issues, the responses show the role of those incentivized are most likely to be the Business Unit Manager and not the CEO or other senior named executives.

Companies are also asked for details on which climate change incentives are provided for the management of climate change issues. Perhaps unsurprisingly, most companies have indicated that monetary incentives are provided. Few offer other types of incentives, such as recognition.

Figure 12: Business Unit Managers, not CEOs, are most likely to be incentivized to manage climate change issues



Source: RobecoSAM

Of the ten Climate Strategy questions ranked by global average score, Management Incentives for climate change issues comes third lowest indicating it is a challenge to companies around the world, an important observation in placing the performance of companies across Latin America into greater context.

Both Climate Change Strategy and Management Incentives have been part of the CSA for only two years. Particularly for Management Incentives, Latin America is not as far out of line with the rest of the world, which indicates that this is an area that companies are not yet so familiar with in the CSA.

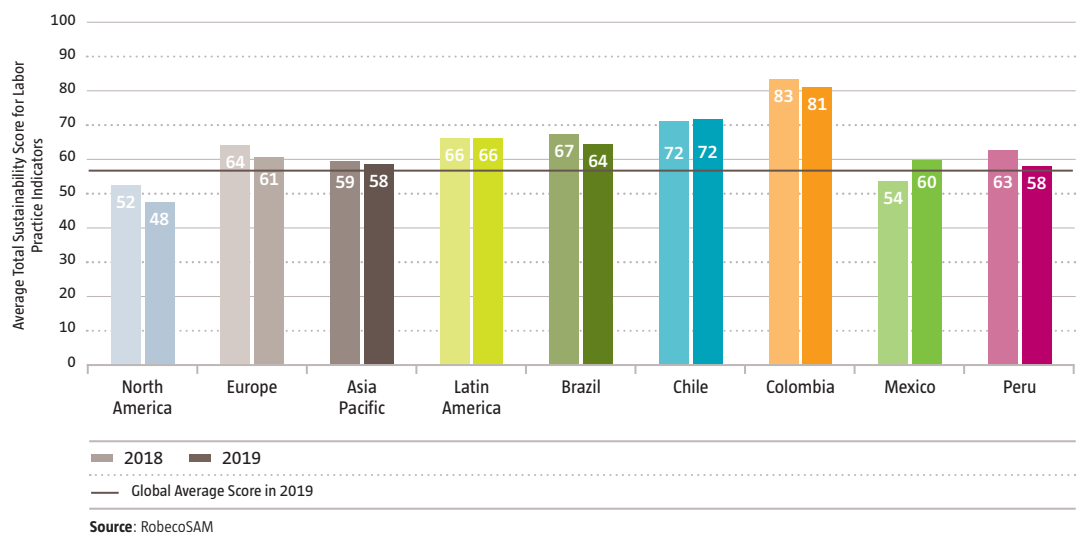
Social Dimension

Across the Social Dimension there are some clear positive signs from this region. Latin American companies are performing on average the same as companies in other regions. Where the performance differs is for the questions on Labor Practice Indicators

and on Human Rights. For Labor Practice Indicators Latin America's score of 66 is far better than the global average of 57, and for Human Rights Latin America's performance is lacking with a score of 29 compared to the global average of 35.

Latin American companies are performing on average the same as companies in other regions on Social Dimension criteria.

Figure 13: Latin American companies score highest worldwide on Labor Practice Indicators



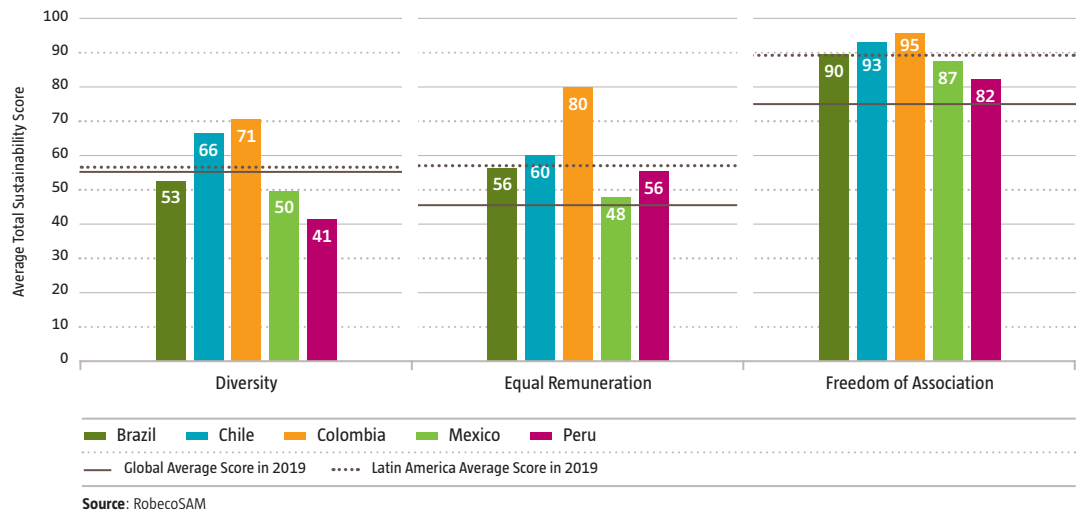
Labor Practice Indicators

Looking more closely at the region's leading position on **Labor Practice Indicators**, Latin America also had a better average score than all other regions in 2018. Notably on this criterion, it is Europe that comes closest to Latin America with an average score of 61.

Comparing the five countries, all performed above the global average. Colombian companies are ahead with an average country score of 81 followed by Chile (72), Brazil (64), Mexico (60), and Peru (58).

At the question level which is focused on the aspects of **Diversity (in the workforce), Equal Remuneration, and Freedom of Association**, Latin American companies scored above the global average for each. For Diversity notably, the region scores higher than North America and Asia Pacific. At a country level, companies in Chile and Colombia perform above the global average for Diversity.

Figure 14: In 2019 the average score for each of the Latin American countries is higher than the global average for Diversity, Equal Remuneration, and Freedom of Association



For **Equal Remuneration** at the regional level, the average score in Latin America dropped from 71 in 2017 to a stable 57 in 2018 and 2019, however it is North America that is the lowest performer on this question. For each country in Latin America, the average score is still above the global average of 46.

For **Freedom of Association**, the average score in Latin America also fell year-on-year, however it remained strong from 94 in 2018 to 90 in 2019. Each of the five countries scored well above the global average of 75 with the lowest score from Peru at 82 and the highest score of 95 from Colombia.

Brazilian, Chilean, and Colombian companies' Labor Practice Indicators are above average, scoring better than North America, and Europe.

Conclusion

Overall compared to 2018 Latin America continues to lag behind other regions. However this is to a lesser extent as shown by both the rising participation rate and the improving performance on selected aspects of sustainability, particularly within the Social Dimension and partially the Economic Dimension. In addition DJSI representation remaining stable year-on-year is another sign of companies starting to give greater attention to sustainability issues.

Consistent with last year's report is Colombia's leading performance across many of the criteria and questions. Different this year is that Chile shows signs of better performance in all three dimensions. This indicates that the size of the invited universe is not highly correlated to the scores as Colombia has a small number of participating companies, while Chile has a much larger number. Similarly Mexico and Peru have varying numbers of companies, but are similar in their relative weaker overall sustainability performance across many of the CSA criteria.

Interestingly, although companies in this region continue to be behind others around the world, for several criteria it is clear that disclosure of the CSA requirements has influenced companies' scores in many cases throughout Latin America. Related to this is also the apparent inability for some companies to swiftly address some of the newer requirements of the assessment with some participants admitting they have not yet adjusted to the high standards of disclosure required by the CSA.

The impact of disclosure requirements on company scores also reflects the sustained importance placed on transparency in the CSA, as mentioned in last year's Latin America Progress Report.

In a year where more Latin American companies were eligible for assessment and more chose to participate this is not an unexpected scenario. It may take some time for these firms to improve towards the high standard of sustainability performance required by the CSA which seeks to continually raise the bar in advancing corporate sustainability performance worldwide.

Contact

For more information go to:

www.robecosam.com/csa

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