

June 16, 2021

# **PENSION FUND MANAGERS' USE OF ESG CRITERIA IN THE INVESTMENT DECISION-MAKING PROCESS**

RESULTS OF A SURVEY QUESTIONNAIRE ANSWERED BY BRAZILIAN PENSION FUNDS



# ESG REGULATORY DEVELOPMENT FOR PENSION FUND INVESTMENTS

➤ ESG guidelines have been in the regulation of Pension Funds since 2009. Previc has gradually induced the adoption of ESG by pension funds;

## ➤ Evolution of the regulation

- Resolution of the National Monetary Council nº 3.792/2009
  - Investment policies statements must address the adoption of principles of socioenvironmental responsibility
- Resolution of the National Monetary Council nº 4.661/2018
  - ESG aspects should be considered when analyzing investment risks, whenever possible
  - Regulation of the content of investment policies statements was delegated to Previc
- Normative Instruction nº 35/2020
  - The investment policy statements must contain guidelines for compliance with ESG principles, preferably, by sector of economic activity
- Normative Instruction nº 12/2019
  - The procedure for selecting third-party investment managers must verify adherence to self-regulatory codes and codes of ethics and conduct that encourage good market practices, transparency and ethical standards.
- Update of the Investment Best Practices Guide for pension funds
  - inclusion of specific section on ESG explaining how to comply with the regulation

# PENSION FUND MANAGERS' USE OF ESG CRITERIA IN THE INVESTMENT DECISION-MAKING PROCESS

Objectives and Methodology of the survey

## Objectives

- Evaluate the use of ESG aspects in pension fund investment decision-making processes.
- Assess whether the ESG regulatory framework is sufficient to induce the use of ESG criteria
- Guide future regulatory actions to address the issue

## Methodology

- non-mandatory participation
- benchmark [Environmental, Social and Governance Survey](#), 2017, by The CFA Institute
- questionnaire to be answered by the person responsible for the pension fund's investments or by a member of their team
- 20 questions to evaluate the procedures adopted in the pension fund;
- 15 statements to assess the personal perception of pension fund managers;

# PENSION FUND MANAGERS' USE OF ESG CRITERIA IN THE INVESTMENT DECISION-MAKING PROCESS

## Results

### Participation on the survey

- 93 of the 293 supervised pension funds (31,74%) participated in the survey
- Participating pension funds are responsible for managing 700 billion reais (70% of the total resources managed by brazilian pension funds)
- Previc segments supervised funds according to their systemic importance based on the volume of managed resources and number of participants, among other criteria, 13 of 17 systematically important (SI) pension funds responded to the survey

| Systemically important pension fund for supervision | n. Supervised Pension Funds | n. Participant Pension Funds | %      |
|---|-----------------------------|------------------------------|--------|
| Yes   | 17                          | 13                           | 76,47% |
| No  | 276                         | 80                           | 28,99% |
| Total   | 293                         | 93                           | 31,74% |

N "Total" = 93

Source: Previc ESG Survey 2021

# PENSION FUND MANAGERS' USE OF ESG CRITERIA IN THE INVESTMENT DECISION-MAKING PROCESS

Results

Does the pension fund use ESG criteria when analyzing investment risks?

| Do you use ESG? | n. | Systemic importance |       | Predominant Sponsorship |            |                   |
|-----------------|----|---------------------|-------|-------------------------|------------|-------------------|
|                 |    | n. Yes              | n. No | n. Public               | n. Private | n. No Sponsorship |
| YES             | 52 | 11                  | 41    | 23                      | 24         | 5                 |
| No              | 41 | 2                   | 39    | 13                      | 26         | 2                 |
| Total           | 93 | 13                  | 80    | 36                      | 50         | 7                 |

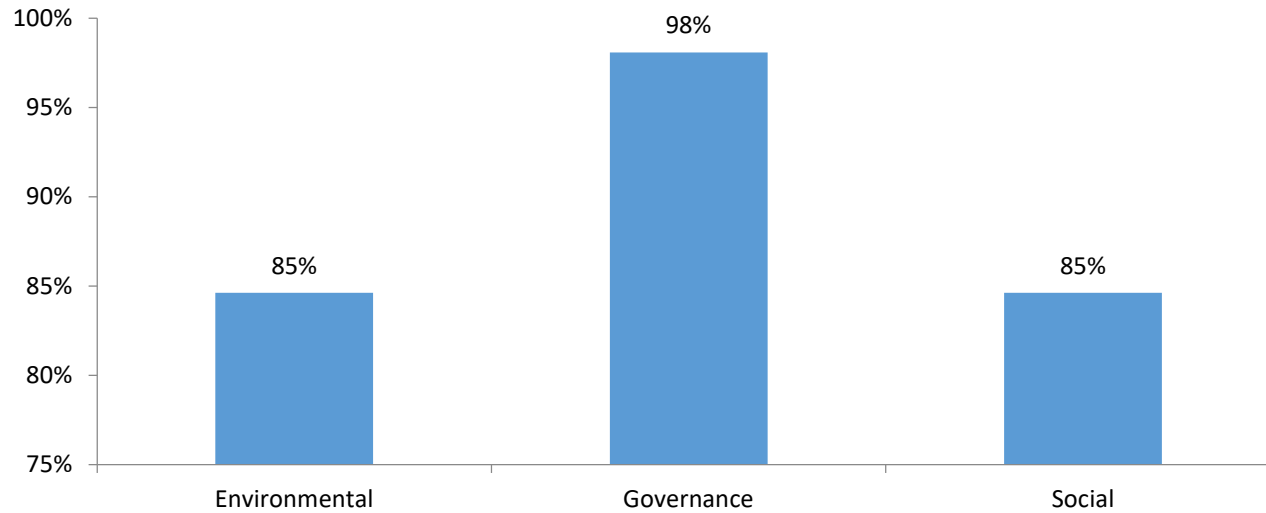
N "Total" = 93

Source: Previc ESG Survey 2021

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Results

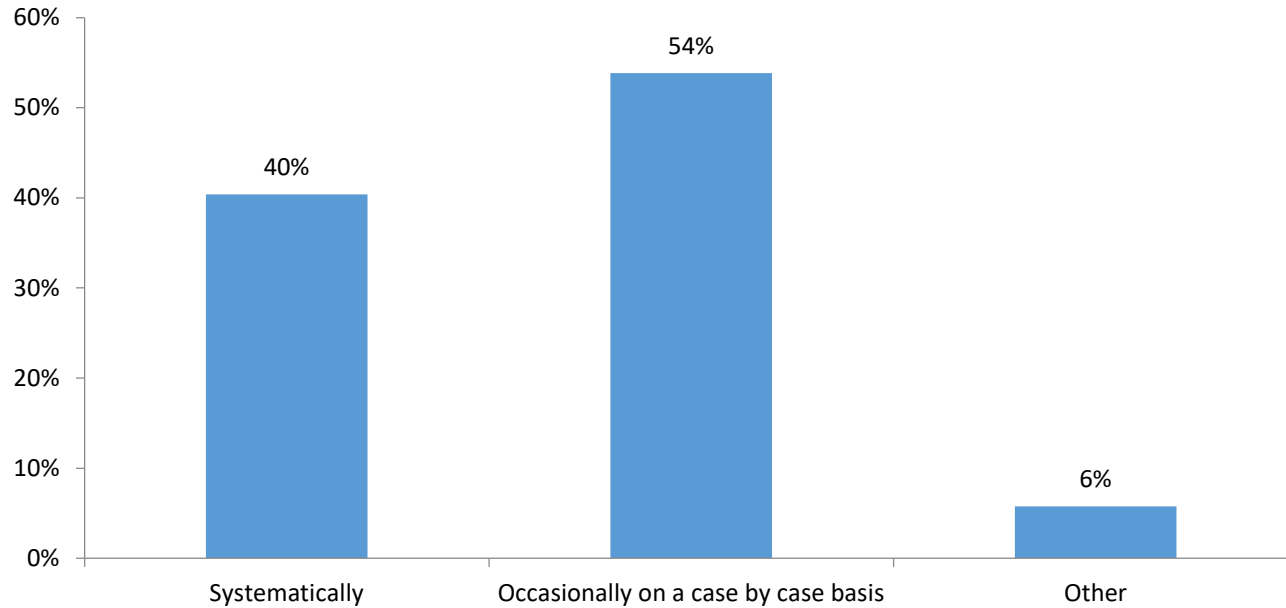
Which of the following ESG (environmental, social, Governance) issues do you take into account in your Investment analysis or decisions??



# PENSION FUND MANAGERS' USE OF ESG CRITERIA IN THE INVESTMENT DECISION-MAKING PROCESS

Results

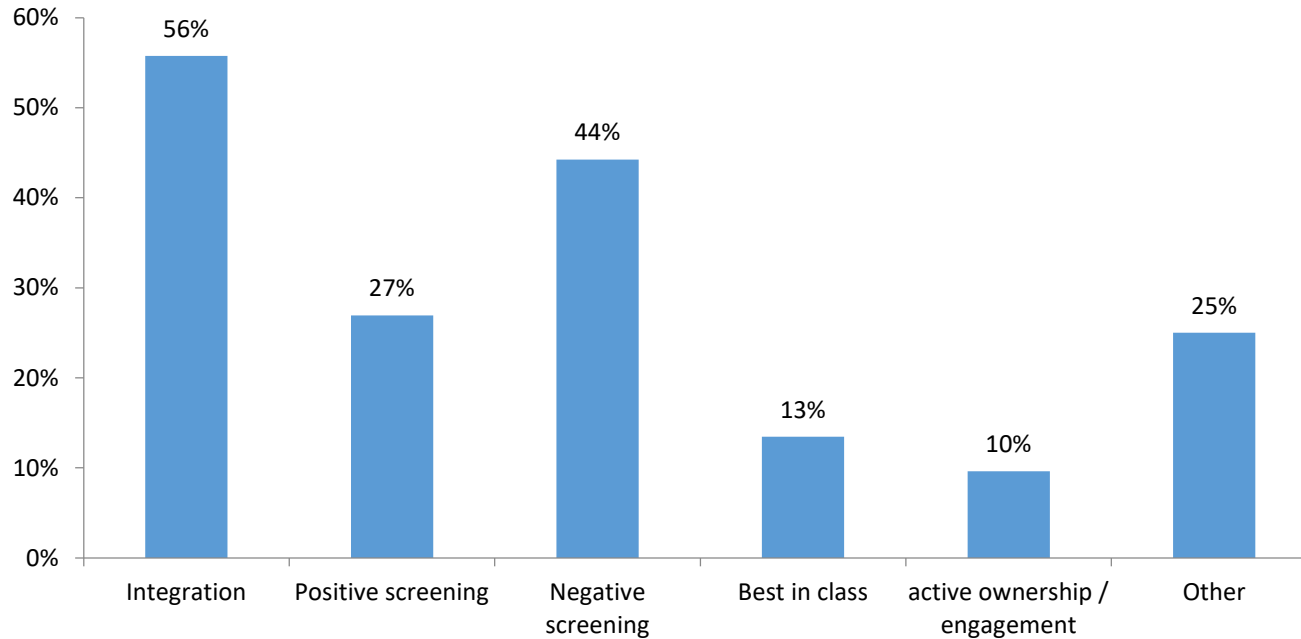
How regularly do you consider ESG issues within your investment analysis?



# PENSION FUND MANAGERS' USE OF ESG CRITERIA IN THE INVESTMENT DECISION-MAKING PROCESS

Results

How do you take ESG issues into consideration in your investment analysis/decisions?

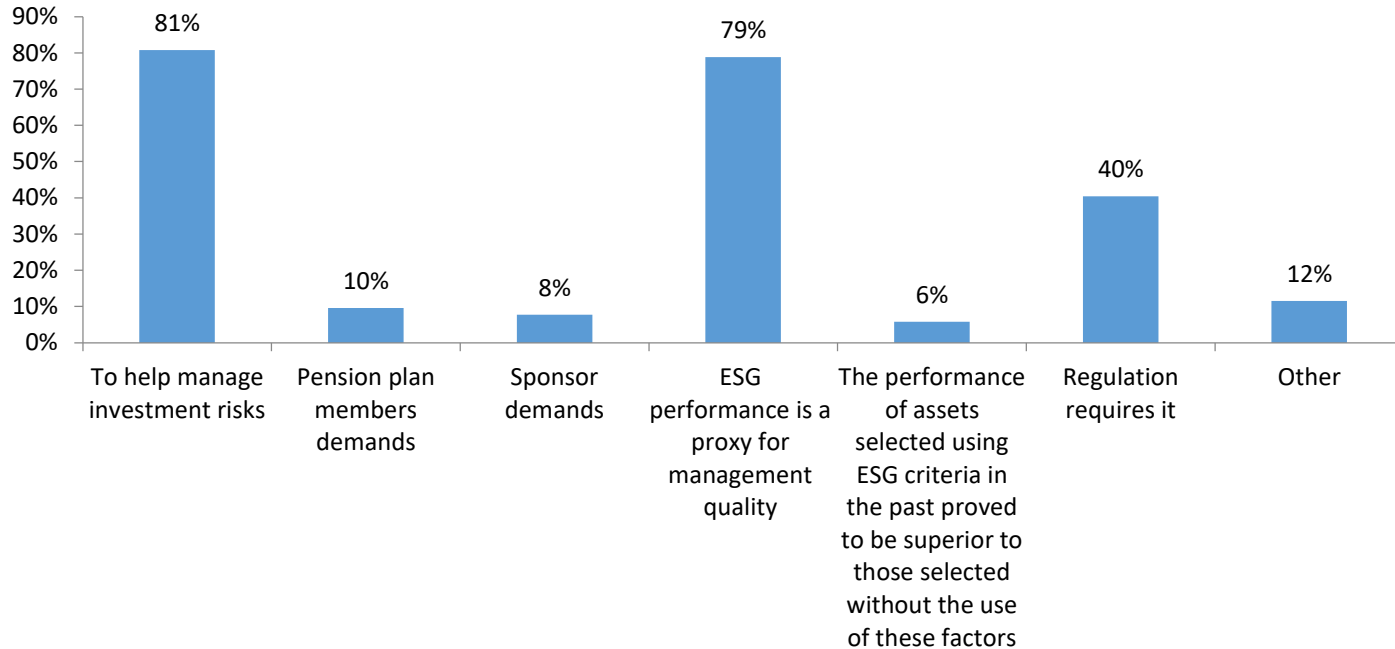




# PENSION FUND MANAGERS' USE OF ESG CRITERIA IN THE INVESTMENT DECISION-MAKING PROCESS

Results

Why do you take ESG issues into consideration in your investment analysis/decisions?

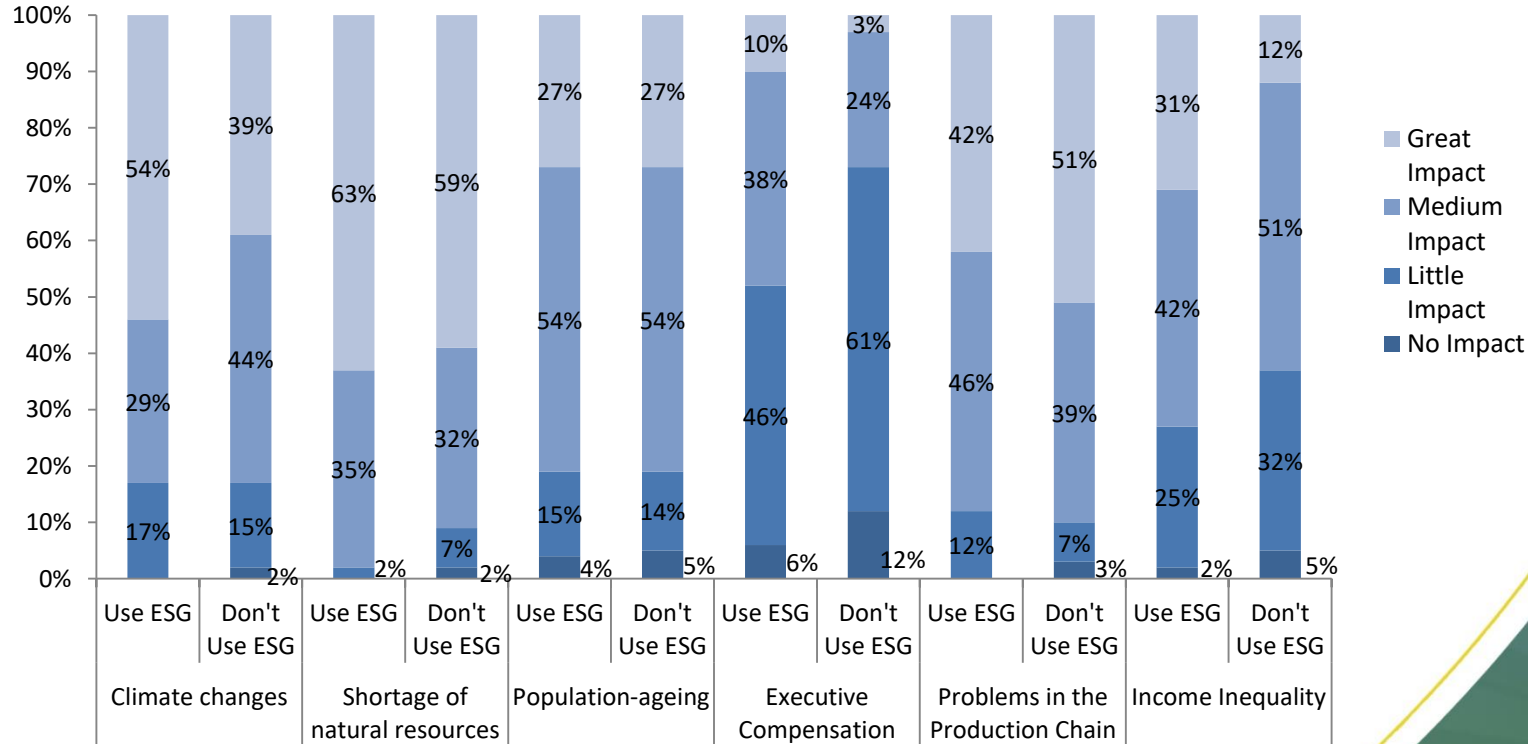


# PENSION FUND MANAGERS' USE OF ESG CRITERIA IN THE INVESTMENT DECISION-MAKING PROCESS

## Results



Assess the following ESG risks in relation to their impacts on financial markets

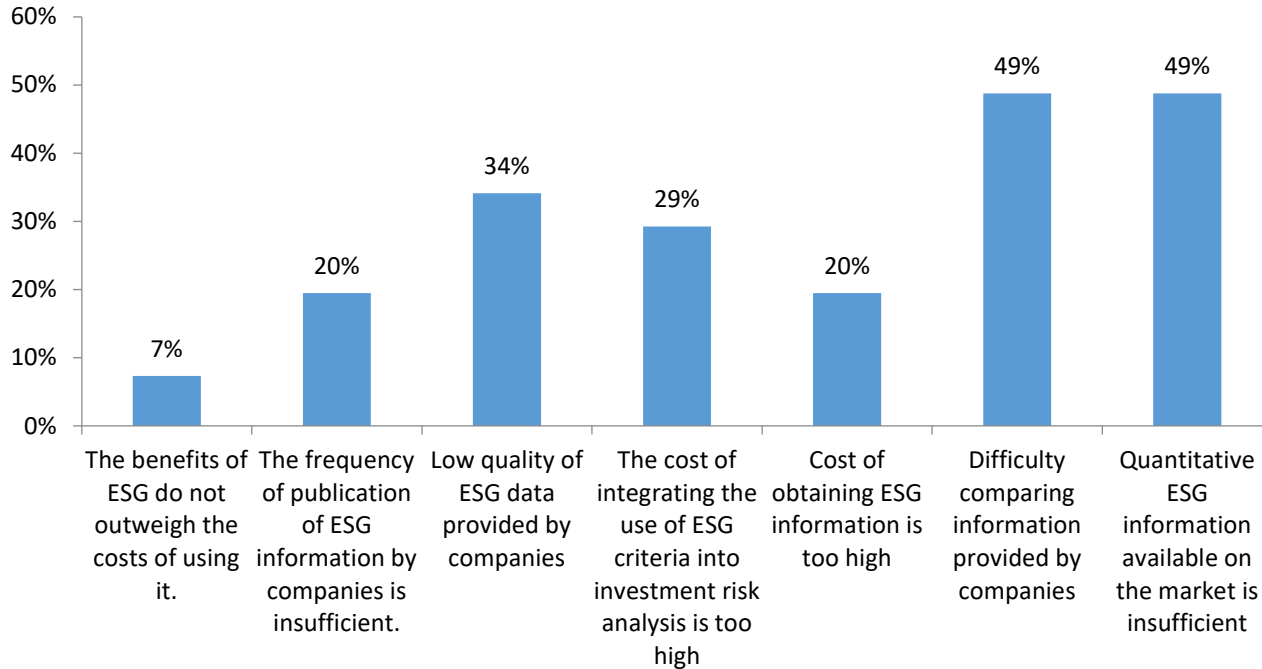


N "Total" = 93 / N "Use ESG" = 52 / N "Don't Use ESG" = 41  
Source: Previc ESG Survey 2021

# PENSION FUND MANAGERS' USE OF ESG CRITERIA IN THE INVESTMENT DECISION-MAKING PROCESS

Results

## Why don't you take ESG issues into consideration in your investment analysis/decisions?



# PENSION FUND MANAGERS' USE OF ESG CRITERIA IN THE INVESTMENT DECISION-MAKING PROCESS

## Results

### Participants were asked to rate 15 statements related to ESG

| Statement  | 1 - Totally disagree | 2 - Partially disagree | 3 - Neutral or indifferent | 4 - Partially agree | 5 - Totally agree |
|--|----------------------|------------------------|----------------------------|---------------------|-------------------|
| The use of ASG criteria in risk analysis improves investment performance.  | 0%                   | 1%                     | 19%                        | 54%                 | 26%               |
| The participants and beneficiaries of my pension fund consider the use of ESG criteria relevant to the analysis of investment risks. | 6%                   | 10%                    | 50%                        | 23%                 | 11%               |
| The sponsors of pension plans consider ESG criteria to be relevant in the context of private pension.                                | 3%                   | 4%                     | 30%                        | 38%                 | 25%               |
| The use of ESG criteria in investment analysis can negatively impact portfolio profitability.  | 19%                  | 34%                    | 21%                        | 23%                 | 3%                |
| The current regulation of pension funds is strong enough to induce the use of ESG criteria in the analysis of investment risks.      | 5%                   | 17%                    | 28%                        | 35%                 | 15%               |

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|--|----------------------|------------------------|----------------------------|---------------------|-------------------|
| The regulation should induce pension funds to use ESG criteria in the analysis of investment risks.  | 9%                   | 13%                    | 26%                        | 36%                 | 16%               |
| The regulation should oblige pension funds to use ESG criteria in the analysis of investment risks.  | 37%                  | 35%                    | 15%                        | 13%                 | 0%                |
| Currently there are options enough of ESG investments available on the market.   | 24%                  | 47%                    | 14%                        | 12%                 | 3%                |
| Companies engaged in good ESG practices show better results and lower levels of volatility when compared to the indicators of other publicly traded companies. | 1%                   | 11%                    | 39%                        | 41%                 | 8%                |
| The COVID-19 pandemic has enhanced interest in ESG.  | 3%                   | 8%                     | 31%                        | 35%                 | 23%               |

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|---|----------------------|------------------------|----------------------------|---------------------|-------------------|
| The lack of standardization of both reports and methodologies used by companies to disclose ESG actions is a problem for using that as an analysis criterion. | 0%                   | 1%                     | 10%                        | 39%                 | 50%               |
| There is a demand for the creation of ESG investment profiles.  | 34%                  | 11%                    | 37%                        | 14%                 | 4%                |
| It is necessary to differentiate companies that embed ESG criteria in their actions from those that use them as a mere marketing strategy.                    | 1%                   | 2%                     | 7%                         | 27%                 | 63%               |
| Any regulatory obligation to use ESG criteria in risk analysis for the acquisition of any type of financial asset would be positive for pension funds.        | 32%                  | 22%                    | 24%                        | 16%                 | 6%                |
| The adoption of ESG criteria reduces the investment options available to pension funds.   | 5%                   | 5%                     | 16%                        | 42%                 | 32%               |

# PENSION FUND MANAGERS' USE OF ESG CRITERIA IN THE INVESTMENT DECISION-MAKING PROCESS


## ➤ Preliminary conclusions of the complete study:

- The ESG is mostly used by pension funds to select outsourced managers, especially when it comes to smaller funds.
- There seems to be little demand for the use of ESG criteria by participants, beneficiaries and sponsors.
- The current regulatory framework seems to be sufficient to induce the use of ESG criteria.
- The lack of information and lack of standardization complicates the analysis of risks on investments from an ESG perspective. The results of the research seem to indicate that the expansion of the use of ESG depends on standardization and improvement of the quality of the information provided by the companies. Therefore, initiatives to standardize the information disclosed and the taxonomy used can contribute to addressing this issue.

**THANK YOU**





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- [Link to Summary report of the survey in Portuguese](#)