Investing Driven by ESG

Hola, as you all know, Investing driven by ESG (environmental, social and governance) criteria has become increasingly important in the current environment, especially in Europe. In view of this, we recommend all companies include their ESG initiatives in their corporate presentation, develop and publish objective ESG metrics to the extent possible, and highlight new ESG developments in quarterly calls and press releases.

How important is ESG? According to McKinsey, investments in companies with ESG initiatives have increased more than 17 percent annually in recent years and more than a quarter of global managed assets - approximately US$20 trillion - are invested under ESG metrics.

https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/from-why-to-why-not-sustainable-investing-as-the-new-normal.

As the other reports in the links below and those attached make clear, Investors approach ESG in different ways. Some funds only invest in companies that meet specific positive ESG criteria and metrics, and are verified accordingly. Other funds avoid companies with negative ESG criteria. Other funds use ESG criteria as a supplement to financial criteria. And so on. But in one form or another, ESG and, in general, non-financial information, plays a fundamental part in the investment decisions of many funds, is becoming objectified (hence, ESG metrics and ESG external ratings) and its thus vital companies and IR departments are on top of this issue.

That said, it is also true there is much nonsense and time wasted on ESG, so some skepticism is also warranted. Complicating the issue, there is, as one academic paper put it, “no standardization of WHAT to measure (scope) and HOW to measure it (measurement)”. And, if you ask a consultant or academic or fund manager dedicated to ESG how important ESG is, you are hardly likely to get an objective answer.

Of the 1000s of reports out there, we recommend the six Primers below.

https://www.msci.com/what-is-esg

https://personal.vanguard.com/pdf/ISGESG.pdf

http://www.capitaladvisors.com/wp-content/uploads/2019/06/Demystifying-ESG-Investing-Considerations-for-Institutional-Cash-Investors.pdf

https://docs.wbcsd.org/2018/10/WBCSD_Enhancing_Credibility_Report.pdf

WBCSD y PwC

https://poseidon01.ssrn.com/delivery.php?ID=899085122013085083102028000084073065042017091058019089127004087028072000100005014071010022102032058043026093064102094092064127060002071073047093064031029028004072108022038031085110091089097085116089066094088095085026022031023003104108090090111112083082&EXT=pdf

damian.fraser@miranda-partners.com
martin.lara@miranda-gr.com
Phone +52 (55) 5282 2992
Mobile +52 (55) 6413 8563

Montes Escandinavos #305
Lomas de Chapultepec
11000, Mexico City

f. /mirandapartnersmx
t. @mirandapartners
in. Miranda Partners

We also attach with this email two further studies in pdf on ESG investing, from Schroders (How Asset Managers approach ESG) and Deutsche Bank (Big Data and ESG).

https://www.schroders.com/en/us/institutional/thought-leadership/sustainability/esg-best-practice/

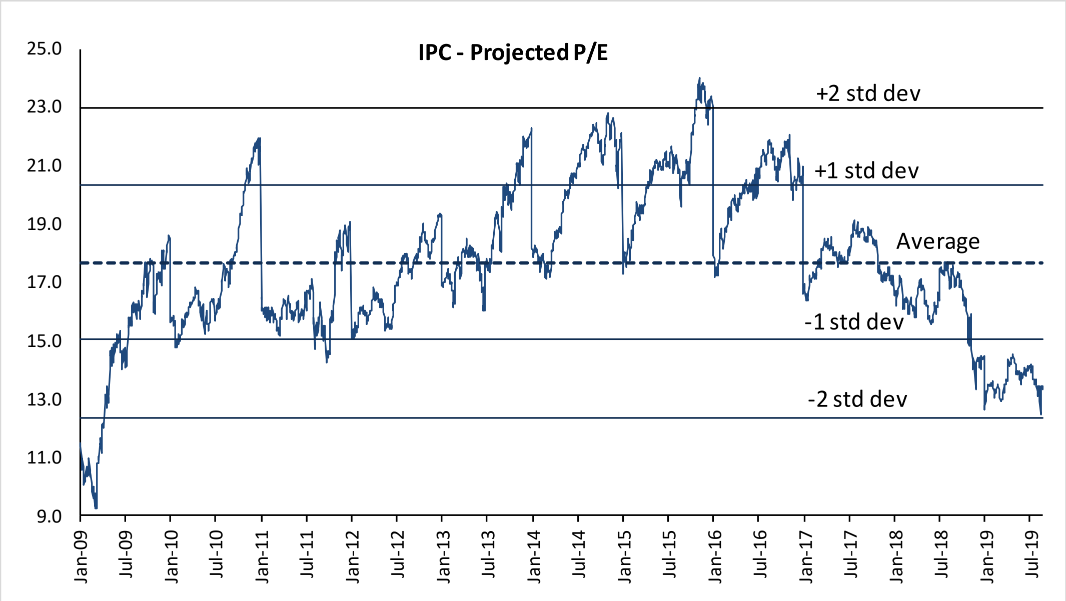
https://www.dbresearch.com/PROD/RPS_EN-PROD/PROD0000000000478852/Big_data_shakes_up_ESG_investing.PDF

Damian Fraser.

S&P / BMV IPC Valuation

After briefly touching the second negative standard deviation during last week's sell-off, the Mexican S&P / BMV IPC Index is currently trading at a projected P/E of 13.4x, as can bee seen in the following graph. However, the forward EV/EBITDA stands at 7.9x, above the first standard deviation.

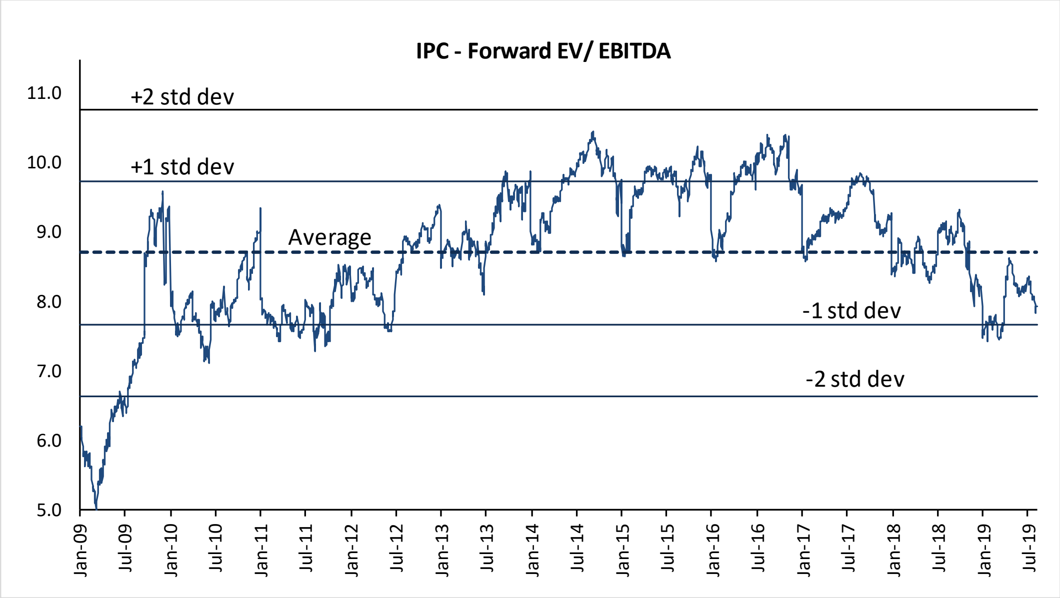
Our recommendation for long-term investors is to take advantage of such valuation levels. The main triggers that we see are the likely renegotiation of the gas pipeline contacts, the stabilization of PEMEX's production levels, the 2020 Economic Package (provided that it includes sound fiscal policies as we expect) and the signing of the USMCA. On a global basis, we believe that a less aggressive stance in the US-China trade war would also help. The main risks of the Mexican stock market is a further weakening of the domestic economy, a reduction of PEMEX's production levels or the downgrade of the country's credit rating. On a international basis, we see the potential of a global recession, the inversion of the US yield curve and the negative returns of US$16 billion in sovereign bonds as the main issues. **Martin Lara.**



damian.fraser@miranda-partners.com
martin.lara@miranda-gr.com
Phone +52 (55) 5282 2992
Mobile +52 (55) 6413 8563

Montes Escandinavos #305
Lomas de Chapultepec
11000, Mexico City

f. /mirandapartnersmx
t. @mirandapartners
in. Miranda Partners



damian.fraser@miranda-partners.com
martin.lara@miranda-gr.com
Phone +52 (55) 5282 2992
Mobile +52 (55) 6413 8563

Montes Escandinavos #305
Lomas de Chapultepec
11000, Mexico City

f. /mirandapartnersmx
t. @mirandapartners
in. Miranda Partners

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damian.fraser@miranda-partners.com
martin.lara@miranda-gr.com
Phone +52 (55) 5282 2992
Mobile +52 (55) 6413 8563

Montes Escandinavos #305
Lomas de Chapultepec
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f. /mirandapartnersmx
t. @mirandapartners
in. Miranda Partners