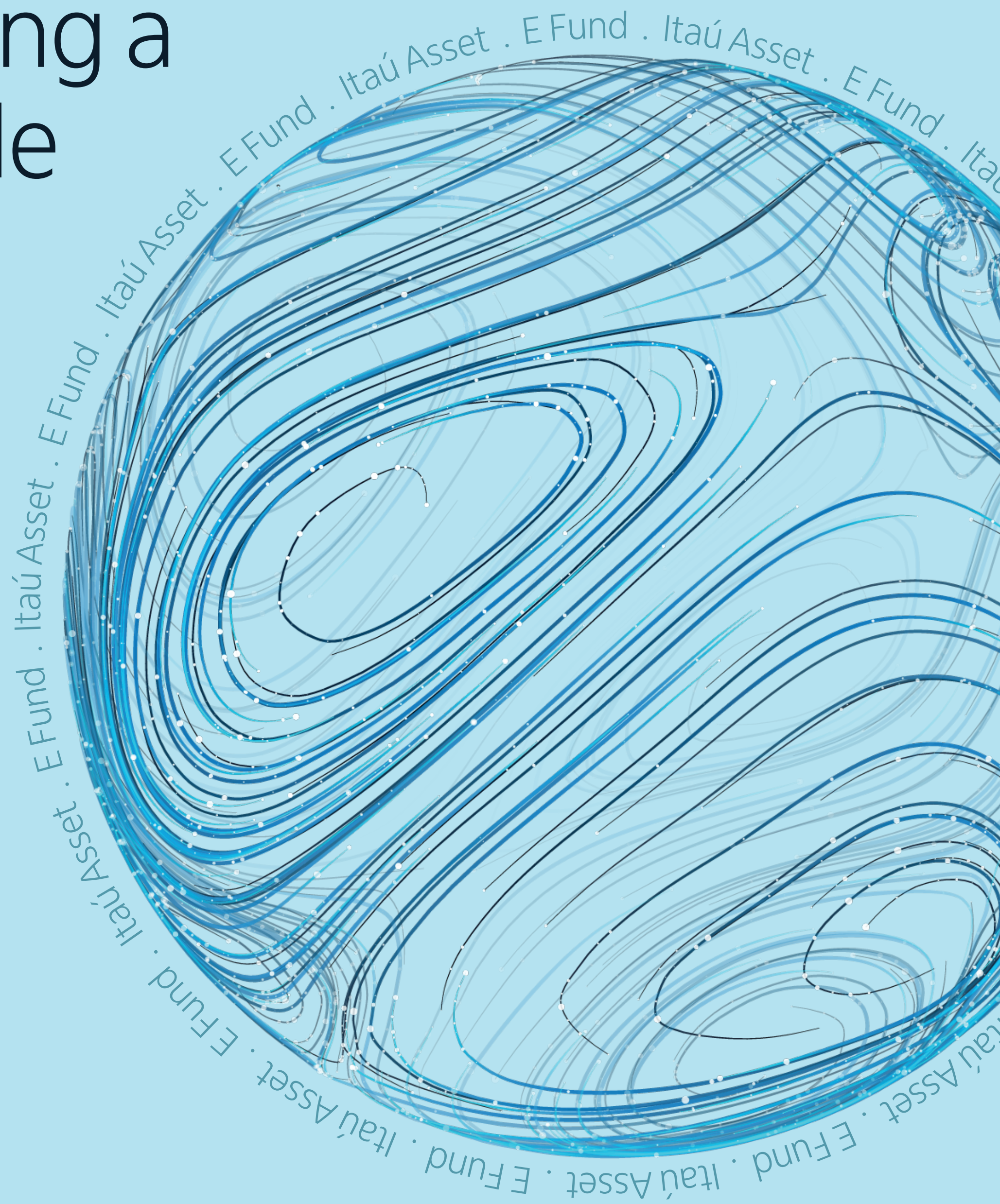
Responsible Investment in China & Brazil:

Empowering a Sustainable Future



Abstract: The growing importance of ESG Responsible Investment in Emerging Markets

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Abstract

Emerging markets play an increasingly pivotal role in the global transition toward sustainable development. These markets present unique sustainability challenges and innovative local practices that may not be readily apparent to international investors. This white paper offers an in-depth analysis of responsible investment practices in two major emerging economies: China and Brazil. It traces the evolution of responsible investing in both markets, utilizing Itaú Asset Management (hereafter called "Itaú Asset") in Brazil and E Fund Management (hereafter called "E Fund") in China as examples to illustrate how responsible investment strategies for asset managers are both influencing and being influenced by local and global capital markets.

By highlighting the approaches of leading asset managers, this paper aims to enhance global investors' understanding of the responsible investment landscape in emerging markets like China and Brazil. Ultimately, it aspires to contribute to more informed and adaptive responsible investment practices across the globe.

1. Responsible Investment in Brazil

1.1 Evolution

In Brazil, the development of Responsible Investment initially emerged in connection with philanthropic objectives, rather than as part of structured investment strategies. A key milestone came in 2005 with the launch of the Corporate Sustainability Index (ISE) by B3, the country's first sustainability-focused equity benchmark. The ISE brought together a portfolio of companies recognized for their commitment to and performance in corporate sustainability.

Over the following years, Brazil's Responsible Investment landscape evolved in parallel with international regulatory advances. In 2008, Brazilian investment managers began adhering to the Principles for Responsible Investment (PRI), signaling a voluntary commitment to sustainable finance practices. For financial institutions, a significant step occurred in 2014 when the Central Bank introduced Resolution CMN 4327, which mandated the implementation of Social and Environmental Responsibility Policies (PRSA). This measure established a direct link between sustainability, risk management, and prudential practices.

Further progress followed in the asset management industry. In 2014, the Brazilian Securities and Exchange Commission (CVM) reinforced the importance of ESG risk disclosure through updates and guidance under Instruction CVM 555, which defined the responsibilities of fund administrators and managers in integrating sustainability-related risks.

1.2 Latest Developments

The above mentioned regulatory and market developments ultimately led to the creation of a comprehensive ESG fund classification framework in Brazil. In 2022, Anbima introduced the Responsible Investment regulation (Investimento Sustentável – IS), establishing two categories of ESG funds: IS Funds (Sustainable Investment Funds) and ESG Integration Funds. IS Funds are those whose primary investment objective is sustainability, while ESG Integration Funds incorporate ESG risks and opportunities into their investment process without sustainability being their explicit objective. Classification is based on documented policies, formal methodologies, ongoing monitoring, and clearly defined ESG objectives. This initiative aligned the Brazilian market more closely with international standards such as the EU's Sustainable Finance Disclosure Regulation (SFDR), while also promoting transparency and reducing the risk of greenwashing.

From the sovereign side, Brazil reached another level of development with the issuance of **sovereign sustainable bonds for the first time in 2023**. There was a second launch in 2024, also contributing to position Brazil as a regional leader in sustainable finance. These bonds are designed to finance projects with positive environmental and social impacts, such as renewable energy, biodiversity conservation, and social inclusion. The sovereign sustainable bond framework aligns with international standards, including the ICMA Green Bond Principles and the UN Sustainable Development Goals (SDGs), and demonstrates Brazil's commitment to integrating sustainability into public finance.

The first issuance in 2023 raised USD 2 billion, with proceeds earmarked for green and social projects. The second issuance in 2024 further expanded the scope, reinforcing Brazil's commitment and attracting global investors seeking exposure to emerging markets from a sustainable perspective. The sovereign sustainable bonds have set new standards for transparency and impact reporting. Proceeds are allocated to projects with measurable environmental and social benefits, including:

- **Climate Change Mitigation**: Funding for monitoring, reporting, and reducing greenhouse gas emissions, including support for the National Fund on Climate Change.
- **Renewable Energy**: Investments in solar, wind, hydropower (with strict carbon criteria), biomass, biogas, and energy storage technologies.
- **Clean Transportation**: Financing for zero/low-carbon public transport (metro, light rail, electric buses), infrastructure for electric vehicles, and fleet renewal.
- **Biodiversity and Land Use**: Protection of natural areas, fire management, and sustainable land use.
- **Social Inclusion**: Programs targeting poverty reduction, social transfers, and inclusive development.

Each category is subject to eligibility criteria and key performance indicators (KPIs), such as the number of climate information tools deployed, area protected, clean energy supply percentage, and fleet renewal rates. The bonds' framework and reporting practices have been externally verified, ensuring alignment with global best practices and investor expectations.

Following this on the sovereign side, the Brazilian government also made an advancement in August 2025 with the approval of the Sustainable Taxonomy. In essence, it is a system that classifies which economic activities are sustainable. The tool establishes criteria and indicators that enable the evaluation of an activity considering its ability to promote sustainability and transition for a green economy.

The role of a taxonomy as a strategic tool for mobilizing and redirecting capital flows to essential investments for the tackling of the climate crisis is an important advancement that assists investors in their investments analysis, reducing the risk related to greenwashing.

On the funds industry side, as of May 2025, Sustainable Investment Funds in Brazil had reached R$ 34 billion (~USD 6 billion) in assets under management (AuM), with 193 funds considered aligned with Responsible Investment practices according to a study by Itaú BBA. Among these, negative screening was the predominant strategy, adopted by 94% of IS funds. Common exclusions included sectors and practices such as defense, coal, forced labor, and corruption. Regulatory progress also continued: CVM's Resolution 175 (2023) required funds to clearly disclose their ESG objectives, strategies, and measurement frameworks.

As an investment manager, Itaú Asset Management closely follows the development of Responsible Investment both globally and in Brazil. Guided by its fiduciary duty, the firm is committed to investing client assets responsibly, with a thorough understanding of the opportunities and risks that sustainability considerations bring to the investment process.

2. Responsible Investment evolution in China

2.1 Evolution

2.1.1 Policy Level

China's ESG policy framework established "green finance" as the core starting point, paving the way for the subsequent more comprehensive ESG development covering social and governance dimensions. In 2016, the "Guiding Opinions on Building a Green Finance System" established the top-level design for China's green finance system, making China one of the first countries in the world to establish a systematic green finance policy framework.

Driven by policies, commercial banks and policy banks have become the main issuers of green financial instruments, directly supporting green industries through innovation in bond issuance. In January 2016, the first green financial bonds were issued in China; in 2017, the China Development Bank (CDB) pioneered a series of bond issuances under the themes of "Air Pollution Prevention and Control" and "Beijing-Tianjin-Hebei Coordinated Development," totaling 20 billion RMB (~2.8 billion USD).CDB also successfully issued China's first quasi-sovereign international green bond, supporting "the Belt and Road" projects in areas such as clean transportation and renewable energy.

Policy support for responsible investment in China accelerated as the country put forward the 'Dual Carbon Goals' in 2020, the commitment to striving to peak carbon dioxide emissions before 2030 and achieve carbon neutrality before 2060.' From 2020 to 2023, ESG policy and market development focused on the 'Dual Carbon' theme. Regulatory authorities constructed an action framework through a multi-level policy system. In 2021, the national '1+N' policy system for the Dual Carbon goals was established. Consecutive launches of policies clarified the timetable, roadmap, and implementation plan for carbon peaking and carbon neutrality. Subsequently, key high-emitting industries and each of the 31 provinces, autonomous regions, and municipalities formulated and issued their respective implementation plans

Driven by the 'Dual Carbon' goals, the market demand for various green financial instruments has surged. From 2021 to 2023, the balance of green credit grew at a rate exceeding 30% for three consecutive years, significantly higher than the 11% annual growth rate of total loan balances during the same period; driven by policy support and substantial green investment and financing demand, the Chinese green bond market developed rapidly: in 2021, nearly 110 billion USD of labeled green bonds were issued in China's domestic and foreign markets, of which 68.2 billion met the Climate Bonds Initiative's definition of green bonds. In 2022, China became the world's largest market for green bond issuance. (based on green bonds meeting the definition of CBI).[1]

1 Source: CBI, China Central Depository & Clearing Co., Ltd.

ESG is a key driver of high-quality development for listed companies

Since 2024, China's ESG development has advanced toward standardization

2.1.2 Enterprise Level

ESG is a key driver of high-quality development for listed companies. In recent years, Chinese regulators have launched policies that pushed enterprises to develop standardized measures for corporate governance, and integrate ESG concepts to their corporate culture and strategies:

- In 2020, the State Council pointed out ESG as a key area of responsibility for listed companies for the first time (issued "Opinions of the State Council on Further Improving the Quality of Listed Companies.")
- In 2021, the CSRC encouraged voluntary disclosure of environmental and social information (revised "Content and Format Guidelines No. 2 for Information Disclosure of Publicly Offered Securities—Content and Format of Annual Reports".)
- In 2022, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) required all central state-owned enterprises to publish ESG/ sustainability reports (issued "Work Plan for Improving the Quality of Central State-owned Enterprises' Controlled Listed Companies".)

In terms of carbon disclosure, the Ministry of Ecology and Environment for the first time included carbon emission information within the scope of mandatory disclosure in 2021. As a response, the CSRC revised the 'Administrative Measures for Information Disclosure of Listed Companies,' further requiring key emission units to disclose reduction measures in 2023. In response to the policy developments, enterprises have made significant progress:

- A-share listed companies disclosing greenhouse gas emission data increased by nearly 300 - the number of disclosed companies has rose from 373 in 2020 to 1,530 in 2024.
- Carbon management and reduction target-setting are widespread: 60% (3118) of A-share listed companies have formulated greenhouse gas emission reduction measures in 2024, while only 9% (359) disclosed their emission reduction measures in 2020.
- About 40% (2100+) of A-share listed companies have set greenhouse gas emission management policies, while only 7% (276) had the management policies in 2020.[2]

2.2 Latest Developments

Since 2024, China's ESG development has advanced toward standardization. Regulatory authorities have been making efforts to construct China's ESG policy standardization system by focusing on topics such as sustainable information disclosure, "dual-carbon", and stewardship. Meanwhile, Chinese asset managers are actively supporting the national sustainable development strategy through practical actions carried out from three dimensions: concept integration, research and investment, and active ownership. By tailoring global approach to sustainable development to the Chinese context, they have developed a holistic and systematic ESG investment framework that promotes deep integration of ESG concepts with the investment process.

2.2.1 Green and Low-Carbon Transition

In support of the "Dual Carbon" Goals, China has launched carbon reduction action plans in key industries such as cement, synthetic ammonia, oil refining, steel, and electrolytic aluminum. In the low-carbon energy sector, particularly in renewable energy, China focuses on orderly and healthy development. On the basis of the action plan for accelerating the construction of a new power system, the country has promoted the power grid's ability to accept, allocate and regulate clean energy by

2 Source: MioTech

introducing measures involving renewable energy consumption, promotion of new energy storage grid connection, and strengthening green power and green certificate consumption. At the same time, in recent years, China has consistently emphasized the role of finance in supporting the greener and low-carbon transformation of the real economy and clarified the future goals of financial support for green and low-carbon development, including increasing green credit investment, developing diversified green financial products, and improving the green finance classification directory.

2.2.2 Sustainable information disclosure

China's sustainable information disclosure system has continued to improve, and currently presents two clear lines:

- Firstly, the Ministry of Finance's top-level policy guidance has established the framework for sustainable disclosure standard. In 2024, the Ministry of Finance, together with multiple ministries and commissions, issued the 'Enterprise Sustainable Disclosure Standards — Basic Standards (Trial)', establishing for the first time a three-tier national system of "basic standards — specific standards — application guidelines"
- Secondly, under the guidance of the China Securities Regulatory Commission, the Shanghai, Shenzhen, and Beijing stock exchanges have issued sustainable development information disclosure guidelines, marking a milestone breakthrough in A-share sustainable information disclosure and the beginning of compulsory disclosure: the guidelines officially took effect in May 2024, mandatorily requiring constituents of major stock indices to publish sustainability/ESG reports and defining the framework and scope of the reports.

Driven by these policies, the disclosure rate of independent ESG reports by A-share companies has increased significantly, jumping from 28% in 2020 to 46% in 2024:

- Almost all large-cap companies have disclosed ESG reports, while the disclosure rate for small-cap companies has also grown considerably. In 2024, all 40 listed companies with a free float market capitalization over 100 billion yuan disclosed ESG reports, while 40% (1,848) of listed companies with a market capitalization below 10 billion yuan disclosed independent ESG reports, the number increased by 13% compared 2023.
- Central state-owned listed companies have better ESG information disclosure. In 2024, about 77% central state-owned or controlled listed companies disclosed their independent ESG reports significantly higher than non-central or state-owned listed companies (34%) and the average level of all listed companies (46%).

In the environmental (E) dimension, the disclosure of basic quantitative indicators (such as pollutant emissions, waste management) is relatively sufficient; furthermore, the disclosure of environmental risk management framework has also become a key focus for listed companies. For example, 45% of A-Share companies disclosed information on biodiversity protection in 2024, representing a 45 percent increase compared to 2023.

In the social (S) dimension, A-shares listed companies have established a solid framework for basic information disclosure on employees and supply chains: in 2024, the disclosure rate for employee benefits and treatment is as high as over 90%, and the disclosure rate for supply chain safety management policies reaches 79%; additionally, in emerging key areas such as technology ethics and data security, companies have also made positive progress in their disclosure.

In the governance (G) dimension, the disclosure framework is being consolidated: the disclosure rate of anti-commercial bribery policies has reached 97%, and 47% for sustainability-related due diligence; qualitative disclosure implementation details is also steadily improving.

2.2.3 Active Ownership

In China, the driving forces for institutional investors to participate in corporate governance mainly come from three aspects:

- The encouragement from regulators, which drives institutional investors to engage in corporate governance through relevant policy guidance;
- The demand from asset owners, including voting and stewardship requirements from institutions like Global Pension Funds and China Social Security Funds;
- The globalization of China's capital market, where many international institutions establish local entities and brought their practices of engaging in corporate governance to the China market, creating peer-driven forces.

Chinese institutional investors have been expanding the width and depth of their engagement and stewardship activities:

- Institutional investors raised awareness to corporate governance, the minority shareholders increased participation in shareholder meetings (AGM/EGM), especially the EGM participation rates increased from 25.5% in 2022 to 29.0% in 2024.
- In terms of participation in voting decisions, minority shareholder (mostly institutional investors) have become more active in voting "against", with the number of proposals with high against rate (thresholds of 30%/20%/10%) are showing increases in recent years. In 2024H1, the number of proposals rejected by shareholders increased significantly compared to the previous two years. [5]

In 2025, the Asset Management Association of China released the "Administrative Rules for Mutual Fund Managers Participating in Listed Company Governance," which for the first time formally defines the role of funds as "active shareholders". The core objective of the policy is to standardize the behavior of fund management companies in exercising shareholders' rights and to reinforce their responsibilities as "active owners." Specifically, the policy focuses on two aspects: on one hand, requiring institutions to deepen their research capabilities and optimize their voting processes; and on the other hand, setting mandatory indicators and disclosure requirement, such as the requirement that institutions holding more than 5% of shares must participate in voting, which can effectively enhance institutions' motivation for engaging in corporate governance.

3. ESG at Itaú Asset Management

3.1 Itaú Asset Management Responsible Investment Journey

Itaú Asset Management began its journey in responsible investing in 2004 with the launch of Itaú Excelência Social, one of Brazil's first listed equity funds focused on companies with strong social and environmental performance. At the time, environmental, social, and governance (ESG) factors were not widely recognized as material to long-term return, but Itaú Asset understood that environmental, social and corporate governance (ESG) factors were key performance drivers in the long-term for its investees, whether due to the opportunities that arise or the prospective risk mitigation, delivering a better risk adjusted return for investors.

Starting in 2010, ESG factors were formally integrated into the investment decision-making process, through proprietary methodologies initially applied to listed equities and later extended to fixed income. Over the past decade, this commitment has steadily evolved. An ESG-dedicated unit was established, responsible for in-depth analysis, proxy voting, engagements, and ESG investment products development. The dedicated product platform expanded to include thematic funds and ETFs aligned with sustainability megatrends. A key milestone in this trajectory was the success of the Active Fix ESG fund, a fixed income fund which reached **R$2.9 billion (~0.5 billion USD) in assets under management in 2024**.

The institutional commitments are reinforced through Itaú Asset's leadership in regulatory and educational efforts across Brazil. The firm has played an active role in shaping ESG guidelines for the local market, such as contributing to the development of the AMEC Stewardship Code in Brazil and ANBIMA Sustainable Investing guidelines.

3.2. Proprietary ESG Integration Methodology (Fixed Income & Listed Equities)

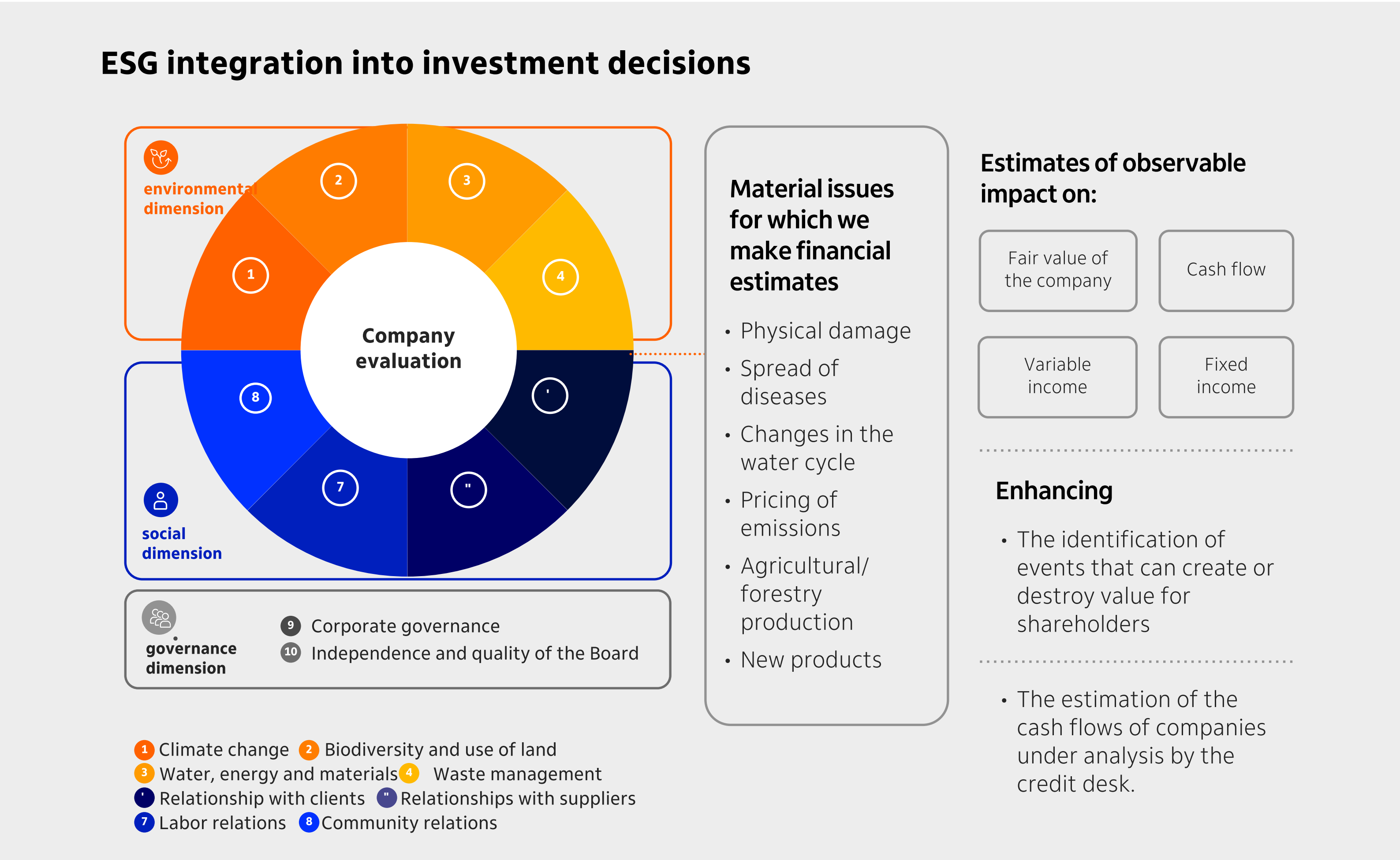
Itaú Asset has developed its own ESG integration framework, designed to integrate environmental, social, and governance considerations into the firm's traditional financial valuation and fixed income models. The methodology is consistently applied across both listed equities and fixed income assets, with sector-specific adaptations considering materiality of the matter.

The integration process unfolds in three main phases:

- The first involves comprehensive ESG research guided by **eight cross-sector dimensions**, including: climate change, biodiversity, water and energy use, waste management, and stakeholder relationships. These dimensions are evaluated considering materiality for the sector, ensuring that analysts are looking into the most relevant issues for each case.
- The second phase focuses on quantification. Analysts translate qualitative ESG information into measurable financial impacts on cash flow projections, cost of capital, solvency indicators, and residual value. These impacts are assessed by likelihood and time horizon, and both recurring and one-off events are considered. This process transforms qualitative ESG factors into tangible financial variables that can be integrated into the firm's investment models by the portfolio managers and analysts.
- The final phase involves how to apply it all on listed equities and fixed income analysis. For listed equities, ESG impacts are factored into **Discounted Cash Flow (DCF)** models to derive adjusted fair values. In fixed income, ESG variables feed into **internal credit models**, allowing portfolio managers to shape their decisions related to guarantees, terms, rates, and exposure limits according to them—especially in primary issuances and private placements.

This approach generates better informed investment decisions, contributing to enhanced risk adjusted returns for investors.

Figure 1 : Itaú Asset ESG Integration Process



3.3. Stewardship Practices and Corporate Engagement

Itaú Asset's stewardship practices reflect a long-term, active approach to responsible investment. Voting at shareholder meetings is one of the central pillars of these practices. Guided by a public Proxy Voting Policy, Itaú Asset participates in general meetings, voting aligned with the best environmental, social and governance practices in the market. As a further step on the transparency pillar, Itaú Asset makes all its votes on general meetings public in its website.

Corporate engagement plays an equally strategic role. The ESG unit engages with investee companies, aiming to promote the best ESG practices and deepen analyses of material ESG risks and opportunities. In 2024, Itaú Asset had 181 individual engagements with invested companies across various sectors, addressing topics such as sustainability controversies, stakeholders' relationships, biodiversity, human rights, and data privacy. These engagements are prioritized based on materiality assessments and aligned with the firm's fiduciary responsibilities

Below, we describe the main factors of the environmental, social, and governance dimensions observed during the assessment and monitoring process, which can trigger an engagement process:

Figure 2 : Itaú Asset ESG Integration Process

	Topic	Description	
Environmental and climate	1 **Climate change**	• Carbon pricing • Physical damage to company assets • Changes in hydrological cycles	• Impacts on agricultural and forestry production • New products linked to a low-carbon economy
	2 **Biodiversity and use of land**	• Impacts on biodiversity • Bio-invasion • Contamination of soil and water resources	• Animal welfare • Conversion of native vegetation
	3 **Water, energy and materials**	• Water scarcity • Use of sustainable inputs • Eco-efficiency initiatives	• Renewable energy • Charging for water use
	4 **Waste management**	• Waste and effluent management • Pollutant emissions • Reverse logistics	• Waste reuse • Revenue from recycling
Social	' **Relationship with clients**	• Information security • Quality and safety of products and services • Sustainable products	• Misleading advertising • Abusive or unwarranted charges
	" **Relationship with suppliers**	• Human rights • Working conditions • Outsourcing	• Deforestation • Sustainable inputs
	7 **Labor relations**	• Human rights • Health and safety • Strikes and work stoppages	• Talent turnover and retention • Occupational health
	8 **Community Relations**	• Conflicts with communities • Land issues • Stakeholder management	• Construction in irregular areas • Community safety
Governance	9 **Independence and quality of the Board**	• CEO duality (when the CEO and the chairman are the same person)	• Independent members • Non-executive members
	10 **Corporate governance**	• Board Diversity • Remuneration	• Technical committees

Itaú Asset also participates in collective engagements with other investors to promote ESG best practice in the capital markets. One example is the Investors' Policy Dialogue on Deforestation (IPDD), a collaborative initiative among investors that promotes dialogue with public agencies and industry associations on preventing deforestation.

Itaú Asset also participates in Spring, a PRI stewardship initiative for nature, addressing the systemic risks of biodiversity loss to protect the long-term interests of investors. Through this, the initiative aims to contribute to the global goal of halting and reversing biodiversity loss by 2030.

3.4. Positive Externalities

As a next step on the Responsible Investment journey, Itaú Asset Management recently developed strategies that actively seek to generate positive externalities for society and the environment, with an alignment to the United Nations Sustainable Development Goals (SDGs).

Two funds recently launched by Itaú Asset follow this investment strategy: the Itaú Active Fix ESG and Itaú Active Fix ESG Horizonte funds. Both are classified as Sustainable Investment (IS) funds under ANBIMA's guidelines.

3.4.1. Case: Active Fix ESG

The fund delivers above market rate returns while addressing social and environmental challenges, Itaú Active Fix ESG is a thematic corporate credit fund focused on companies whose core activities (over 50% of revenue) are directly tied to the generation of positive socio-environmental externalities. Eligible sectors include healthcare, education, sanitation, renewable energy, low-income housing, and waste management.

According to an independent opinion issued by ERM, 29% of the fund's AuM (excluding cash) is allocated to assets that meet the criteria for sustainable investment, while an additional 56% promotes environmental or social characteristics. Combined, this means that 85% of the fund's assets are aligned with ESG purposes. Sector-level allocations reflect this impact, with the following highlights:

- SDG 3 (Good Health and Well-being): pharmaceutical companies, hospitals, and health plans.
- SDG 4 (Quality Education): education institutions, student loans and related management systems.
- SDG 6 (Clean Water and Sanitation): sewage treatment and clean water distribution.
- SDG 7 (Affordable and Clean Energy): renewable energy generation, transmission and distribution.
- SDG 11 (Sustainable Cities): waste management, social housing and clean transportation.
- SLBs and Green Bonds: sustainability linked bonds, green and blue bonds

The fund also invests in green bonds and sustainability-linked bonds (SLBs), as long as the use of proceeds is demonstrably aligned with generating positive externalities. Asset selection relies on sector eligibility, reputation analysis, and pre-investment engagement by a dedicated ESG unit with veto power over non-aligned assets with the fund investment strategy.

According to ERM's SPO, the Itaú Active Fix ESG fund is compliant with the SFDR's Article 8, CVM Resolution 175, and ANBIMA's sustainable investment classification. Its governance model, led by a qualified ESG team and supported by a formal sustainability policy, ensures full consistency between investment thesis, asset selection, portfolio management, and transparent outcome communication.

3.4.2. Case: Active Fix ESG Horizonte

The Active Fix ESG Horizonte fund is an evolution of Active Fix ESG fund with an additional commitment: at least 10% of its assets under management must be allocated to companies operating in the Brazilian Legal Amazon.

This approach aims to promote a halt to illegal deforestation and support biodiversity conservation by fostering a more responsible development of the region.

In addition to its geographical focus on the 10%, the fund maintains the eligibility rules of the Active Fix ESG fund: issuers must derive more than 50% of their revenues from sustainable activities and must not be involved in significant ESG controversies. The methodology includes ongoing monitoring, public reporting, and systematic engagement with issuers, including one-on-one meetings and follow-ups.

Both funds are directly aligned with multiple UN SDGs and report their allocations through annual reporting under ANBIMA's Sustainable Investing funds´ framework.

3.5. Education, Thought Leadership, and Industry Recognition

Itaú Asset Management's responsible investment practices go beyond portfolio management and corporate engagement, extending to the production of content, active participation in strategic forums, and recognition for best practices in sustainability and governance.

Education and Knowledge Dissemination

As part of its commitment to developing the market, Itaú Asset actively promotes investor education and training. This mission is reinforced through the publication of white papers and thematic materials focused on ESG integration fundamentals—demonstrating how environmental, social, and governance factors influence asset valuation and investment decision-making.

Key publications include

- ESG Integration in Company Analysis
- Climate Change and Its Impacts
- ESG Integration in Fixed Income
- Responsible Investing through the Lens of the SDGs
- Integration of Climate Scenarios in Itaú Asset Investments
- Biodiversity, Land Use, and Investment
- Responsible Investing in the Time of COVID-19

These publications are actively shared, supporting the firm's commitment to investor education, transparency, and promotion of the best ESG practices on the Brazilian market.

Among Itaú Asset highlights is the white paper "20 Years of Responsible Investing at Itaú Asset", released in 2024. The document celebrates two decades of the firm's ESG journey while reflecting on key milestones, lessons learned, and insights for the future of responsible investing in Brazil.

Industry Recognition and Sector Influence

Itaú Asset's role on Responsible Investment in Brasil has been widely recognized by independent institutions and market organizations. One of the achievements is the Itaú Asset five consecutive times recognition by ALAS 20 Awards, which honors excellence and consistency in ESG disclosure, engagement, and sustainable portfolio management.

Also, its products, such as the Active Fix ESG fund, have undergone independent verification by advisory firms like ERM, which confirmed their alignment with international best practices, including Articles 8 of the European SFDR regulation.

Additionally, Itaú Asset plays a relevant public role through its participation in initiatives such as the Investors Policy Dialogue on Deforestation (IPDD). These contributions position the firm as a transformational agent in addressing structural challenges in Brazil, including energy transition, biodiversity conservation, and sustainable development in the Legal Amazon region.

4. ESG at E Fund Management

4.1. Top-down ESG governance structure

As a pioneer of responsible investment in China's asset management industry, E Fund has systematically integrated responsible investment principles into its operations since becoming a PRI signatory in 2017

E Fund has established a comprehensive, top-down responsible investment governance structure to ensure systematic ESG integration across its operations. The Investment Management Committee oversees this framework and provides strategic direction for responsible investment practices across key functional areas including investment research, product development, risk management, sales and marketing

4.2. ESG Integration Approach

E Fund systematically embeds ESG considerations throughout the investment lifecycle.

During the pre-investment analysis, E Fund identifies and evaluates material ESG factors using proprietary assessment tools and AI-enhanced platforms. In the portfolio construction stage, these insights inform investment decisions while continuous monitoring tracks ESG-related performance impacts. Post-investment activities include active engagement with portfolio companies on material sustainability issues and proxy voting aligned with long-term value creation.

ESG analysts have developed the foundational framework for ESG research, and conduct thematic analysis on critical areas such as climate transition and governance practices. Through close collaborations between ESG and industry analysts, all security evaluations seamlessly integrate sector-specific knowledge with ESG factors. Portfolio managers then apply this combined analysis in investment decisions, while providing practical feedback to refine ESG methodologies—creating an iterative process that maintains both analytical rigor and investment relevance.

4.3. Multidimensional ESG Risk Management Framework

E Fund has established a multidimensional risk management framework that systematically integrates ESG risks into the investment process.

The monitoring process features real-time tracking of material ESG incidents, enabling prompt identification and assessment of emerging risks. Portfolio managers regularly evaluate ESG risk concentrations and implement necessary adjustments, supported by periodic performance reviews against established benchmarks. Overtime, the framework continues to evolve and incorporate additional material ESG issues in response to emerging sustainability challenges and regulatory developments.

4.3.1. Case: E Fund Biodiversity Risk Management Framework

E Fund has become a pioneer among Chinese asset managers in incorporating biodiversity risk into its investment process through an innovative quantitative evaluation system. Leveraging external databases (such as ENCORE and the IIGF Green and Brown Revenue Database), the system rigorously assesses biodiversity risk across all A-share stocks and portfolios.

At the stock level, it profiles biodiversity impact across eight key metrics (e.g., atmosphere, habitat, species), assessing both physical and transition risks. Each stock receives a 0-100 score, AAA-C rating, and industry ranking, with low-scoring companies facing reduced portfolio weight.

At the fund level, E Fund evaluates both risk exposure (concentration across the eight metrics) and risk management capabilities, using 34 indicators across seven categories (e.g., strategy, governance, climate response, information disclosure).

This framework for assessing operational biodiversity risk has garnered significant attention from regulators, NGOs, and industry participants, raising awareness and sparking interest in responsible investment.

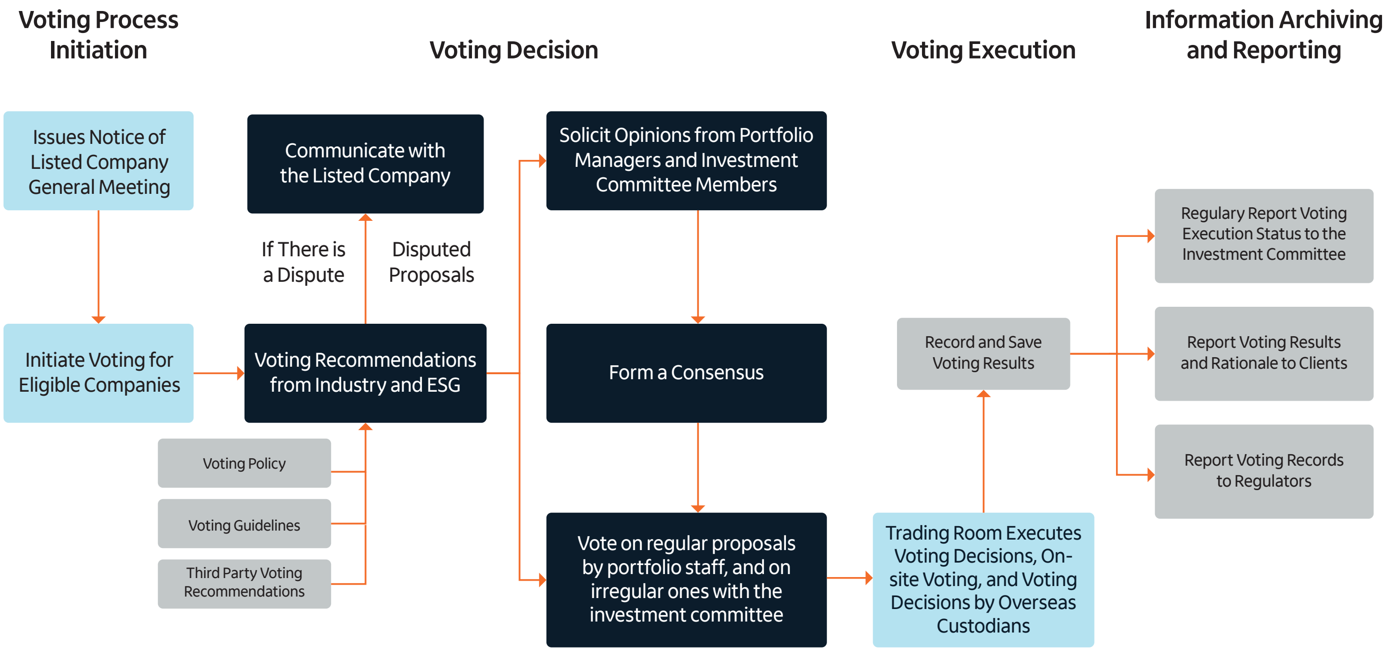
4.4. Stewardship Process and Corporate Engagements

E Fund is one of the first asset management firms in China to adopt a stewardship approach. The firm aims to practice active ownership through proxy voting and shareholder engagement to foster dialogue and mutual understanding with its portfolio companies. This, in turn, helps those companies achieve long-term value, protects investors' interests, and fulfills its fiduciary duties.

4.4.1. Proxy Voting

Engaging in proxy voting is aligned with E Fund's core value of prioritizing client interests. Since 2018, E Fund has systematically improved its voting process, continuously updating its policies and systems, and has incorporated responsible investing principles into its voting guidelines.

Figure 3. E Fund's Process for Proxy Voting



Source: E Fund

In 2024, E Fund's took a much more active role in stewardship activities: it updated its voting policy to increase coverage of its holdings, expanded its voting scope with a 20% increase in shareholder meeting participations compared to 2023, and proactively communicated with investee companies to provide suggestions on controversial proposals.

4.4.2. Case: Votes on equity incentive-related issues to encourage companies to align the interests of management and shareholders.

Current stock incentive plans (such as employee stock ownership plans) typically allow participants to purchase company shares at a discount below the market price, which incurs additional costs for both the company and its shareholders. When evaluating these proposals, E Fund comprehensively assesses both the incentive costs and the performance targets. And expects these plans to ensure the alignment of management and shareholder interests.

During the 2024 annual general meeting proxy season, E Fund cast votes against several unreasonable equity incentive proposals for the following key reasons:

- The need for additional incentives was questionable.
- The plans lacked clear performance targets.
- The compensation committee lacked adequate independence.
- Past equity incentive plans had performed poorly, and the new proposals showed no signs of improvement.

These dissenting votes played a significant role in helping listed companies better understand investor concerns.

4.4.3. Shareholder Engagement

Institutional shareholders should actively engage with listed companies and collaborate with a range of stakeholders, including other institutional investors, academic institutions, and NGOs. This can improve the sustainability and management of portfolio companies and drive them to make positive changes over time.

During these engagements, E Fund primarily relies on its internal ESG analysis framework to identify and assess the ESG performance of both potential and existing portfolio companies. If the evaluation reveals a gap between a portfolio company's environmental, social, and governance strategies and market best practices, E Fund activates its shareholder engagement mechanism. This guides the company toward better practices and helps enhance its investment value.

Figure 4 E Fund's Shareholder Engagement Process

Source: E Fund

E Fund's investment and research team, with the full support of the ESG team, engages with the shareholders of their portfolio companies. Members of the investment and research team communicate with senior management of these companies on key ESG issues. When necessary, they also engage with the companies through collaborative engagement activities. The outcomes of these communications can influence financial analysis, valuation model construction, and even the formulation of investment recommendations and decisions.

4.4.4. Case: Positive corporate response from leading a collaborative engagement.

Company A is one of China's leading international mining enterprises. After researching the climate and biodiversity risks facing mining companies, E Fund developed a shareholder engagement strategy for Company A and led a collaborative engagement with other investors.

Through on-site visits and direct communication with Company A's management, E Fund made several targeted recommendations:

- Enhance the granularity of carbon emissions accounting.
- Create more specific plans for biodiversity protection at mine sites.
- Explore opportunities for sustainable and green financing.
- Provide more detailed disclosures on progress in the ESG report.

The collaborative working group also brought in a professional carbon accounting expert to share industry expertise and solutions regarding carbon accounting methodologies

This collaborative engagement received a positive response from Company A's management, which is expected to help the company implement globally leading practices in climate and biodiversity risk management.

5. Conclusion

While emerging markets have become important actors in the global sustainable development, there is a significant barrier between their unique practices and global understanding. This whitepaper aims to provide insights of the dynamic nature of sustainable finance in emerging economies by examining responsible investment practices within two of the most influential emerging economies, China and Brazil, tracing the development of their sustainable finance frameworks and highlighting the pivotal role played by leading asset managers.

Itaú Asset and E Fund share a belief that environmental, social, and governance factors are key financial performance drivers, and promote responsible investment through long-term value creation. Each institution has built comprehensive, proprietary frameworks that fully considers geographic and regulatory differences.

Responsible investment is not a one-size-fits-all approach. Rather, it is contextual, adaptive, and increasingly driven by emerging market leaders who balance unique societal needs with global sustainability developments. Both experiences from Itaú Asset and E Fund demonstrate how profound commitments to ESG integration can yield strategies that are both locally and globally relevant. Together, Itaú Asset and E Fund believe that responsible investment is not only a duty to clients and society, but also a path for building a more efficient and transparent capital market—one that rewards long-term thinking, systemic risk mitigation, and delivers enhanced risk-adjusted returns.

itaú Asset

E Fund