

Latin American corporates: ESG Investing where it matters

Alfredo Mordezki
Latin American Fixed Income
February 2022



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LatAm as an
ESG
Investment
Destination

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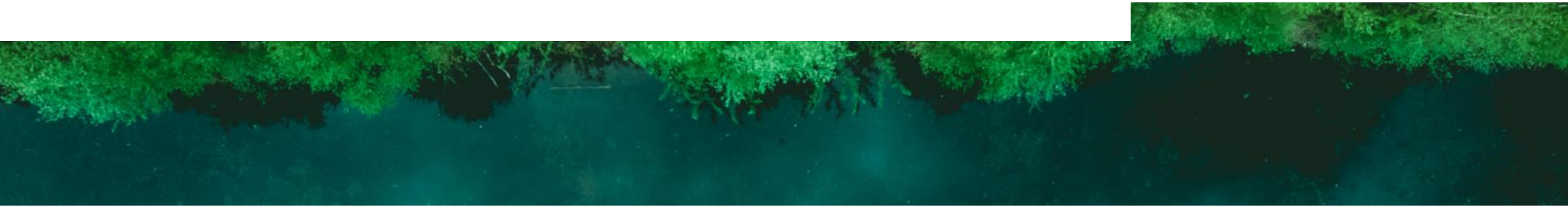
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Our Funds

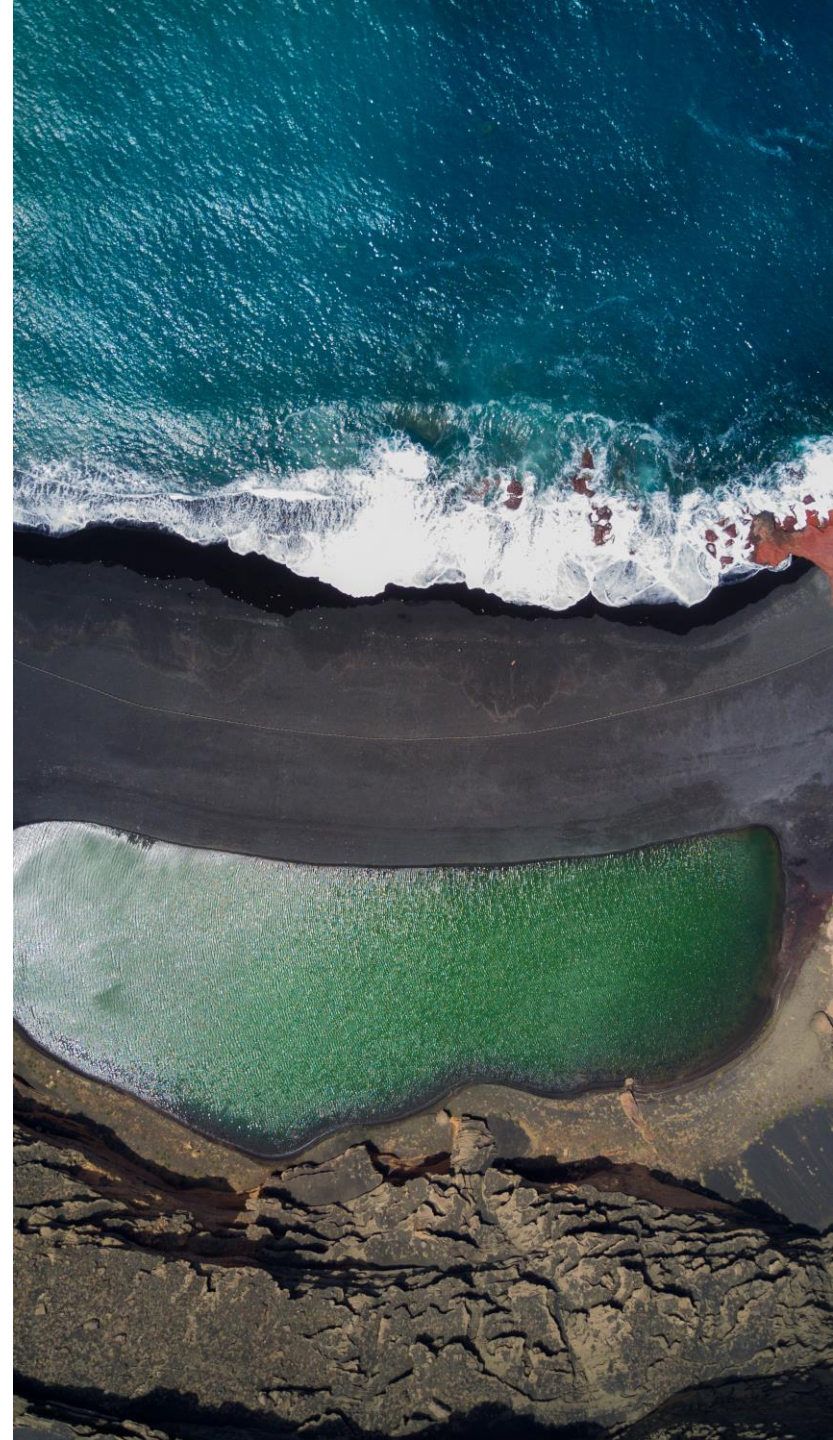
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The team



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LatAm as an ESG Investment Destination



Why ESG investing in LatAm?

A beneficial approach to investment

In a region with a substantial presence of extractive industries and natural resources management, ESG investing can make a **material impact** on how the region produces and how society benefits from it.

Covid-19 may give greater relevance to S and G pillars.



Benefits for the region

Better management of natural resources.
Energy mix improvement

Inequalities mitigation
Life conditions improvement

Corruption reduction
Improvement of company transparency

Benefits for the investor

More sustainable business.
Mitigation of energy transition risks.

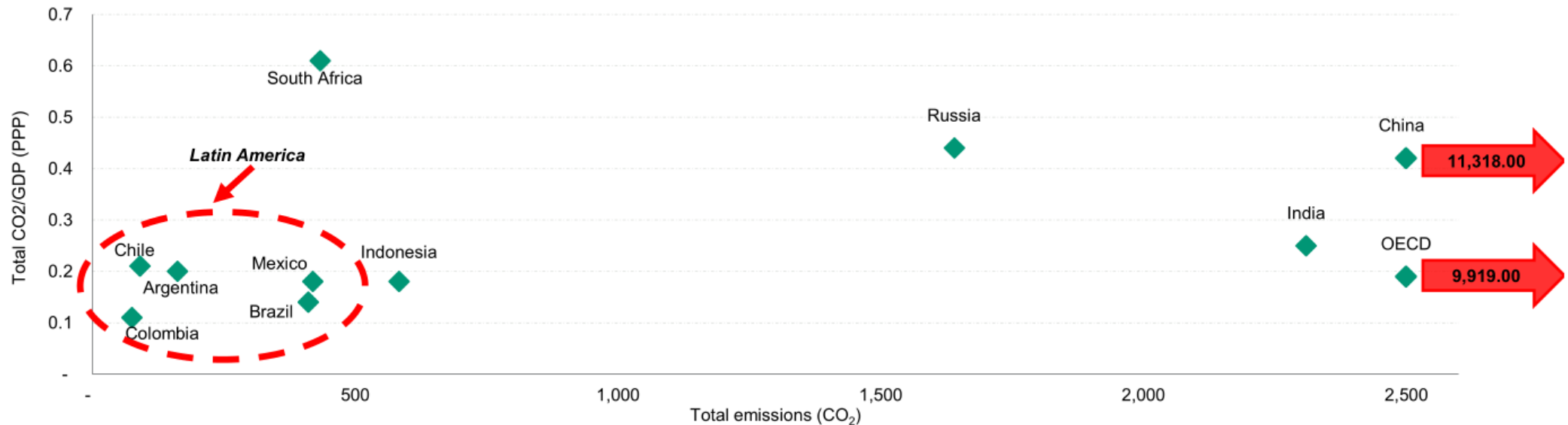
Less vulnerability to social unrest.
Controversy risk mitigation.

Material improvement in governance standards, compliance and reporting

Latin America contribution to global CO₂ emissions

Gross CO₂ emissions and CO₂ emissions per unit of economic output indicate that the large Latin American economies are relatively **low emitters**. Per unit of economic output, Latin America's emissions are also low, similar to those of the OECD countries, which are considerably richer.

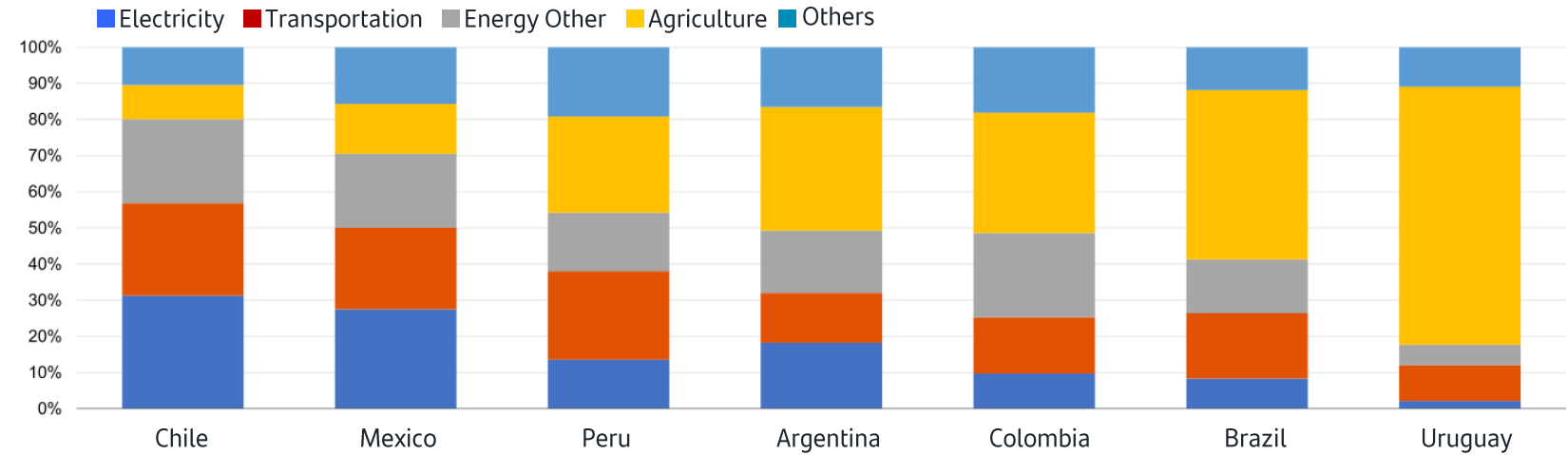
CO₂ emissions in metric tons of carbon dioxide equivalent



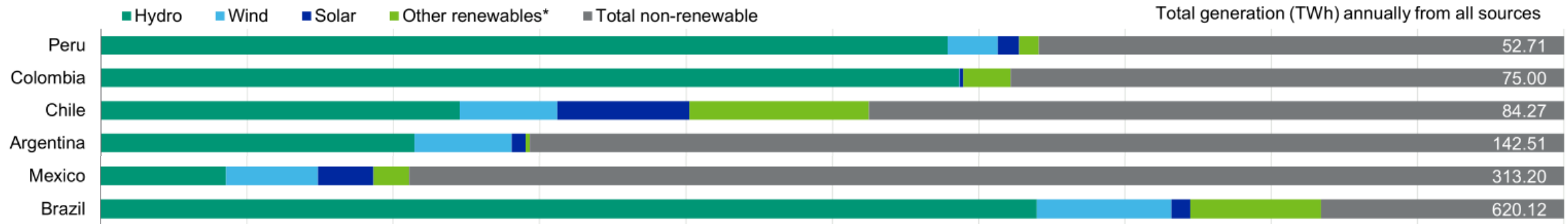
Latin America CO₂ emissions sources

The **power, industrial, transportation and agriculture** sectors account for the bulk of CO₂ emissions in Latin America.

Latin America's carbon emissions by sector



% of renewable energy in total energy generation, by type



Source: Moody's Investors Service, Sector In-Depth, October 19th 2021

Some COP 26 commitments and their impact in Latin America

COP26
Commitments



Deforestation

Maybe the most important piece for LatAm.

USA, Norway and Germany have already committed billions for the [rainforest conservation](#) to be deployed when Brazil starts showing further advances on its protection.



30% Reduction of CH₄ emissions in 2030

It will affect livestock and Oil & Gas sectors.

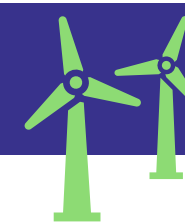
Oil & Gas companies already took significant steps in this direction before COP 26, signing the [Anti-flaring commitment](#) from the World Bank.



Water management and fishing

Water management is needed to preserve rivers from the pollution of industries, mining, or navigation.

Ecuador announced the declaration of a [non-fishing zone along Galapagos](#) and its expansion all the way to Costa Rica and Panama.



Agreement on a “just transition”

Ready to mobilize billions to developing countries.

In Latin America, coal is being aggressively phased out for [electricity generation](#) in Chile.



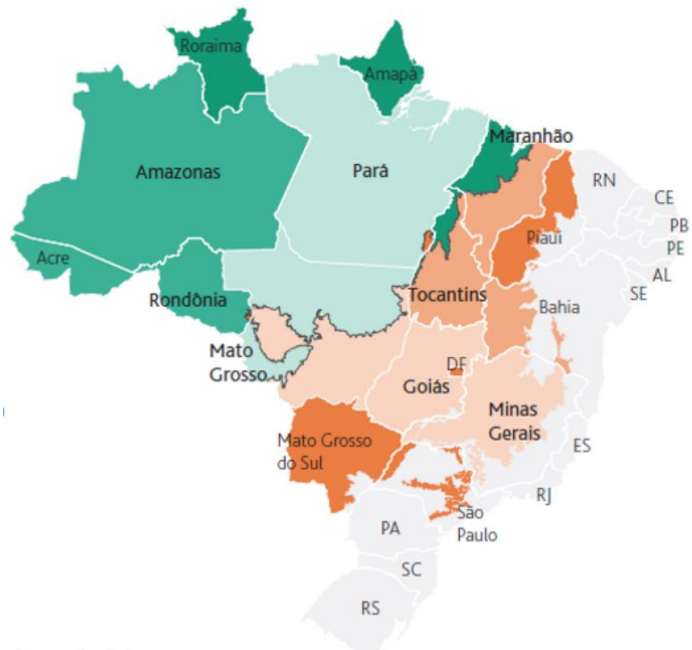
Deforestation: all eyes turned to Brazil

The main cause of deforestation in Brazil's Amazon and Cerrado biomes is conversion of forests for agriculture and protein production, while other suspicious sectors as sugar/ethanol, mining and paper have much smaller impact

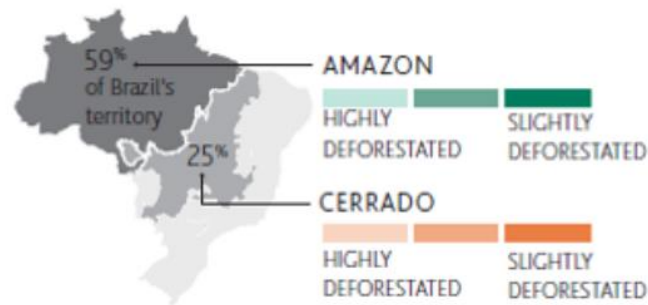
TOP 8 STATES	DEFORESTATION PER BIOME		PROTEIN		AGRICULTURE		PULP	MINING
	AMAZON	CERRADO	PASTURE (CATTLE)	SOYBEAN	CORN	SUGARCANE		
Pará	44.0%		17.0%	0.6%	0.3%		0.1%	0.1%
Mato Grosso	18.7%	16.1%	22.3%	12.0%	7.0%	0.2%	0.1%	0.1%
Rondônia	13.8%		36.8%	1.7%	1.0%			
Amazonas	11.3%		1.7%					
Maranhão	3.2%	13.5%	21.7%	3.0%	1.4%	0.1%	0.2%	
Tocantins		15.1%	6.4%	4.0%	1.1%	0.1%		
Goias		15.8%	37.6%	11.5%	5.6%	2.8%	0.3%	
Minas Gerais		15.6%	14.9%	3.2%	2.3%	1.4%	3.1%	0.1%
Matto Grosso do Sul		7.0%	31.0%	10.0%	6.0%	2.0%	2.0%	

Same x-axis range

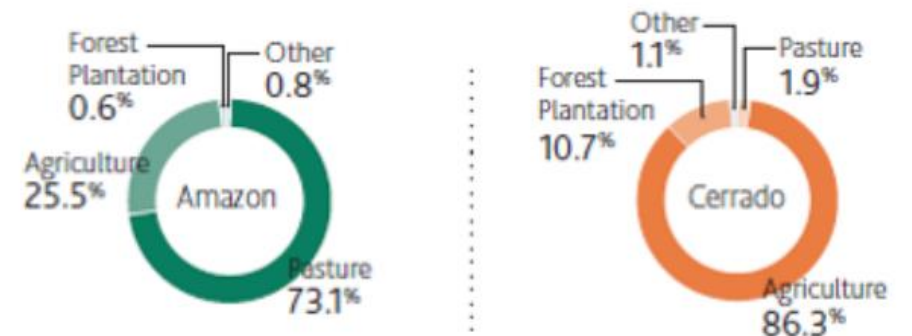
Area occupied by commodity as a proportion of the state



Biomes deforestation as % of biome area by state



Drivers of deforestation

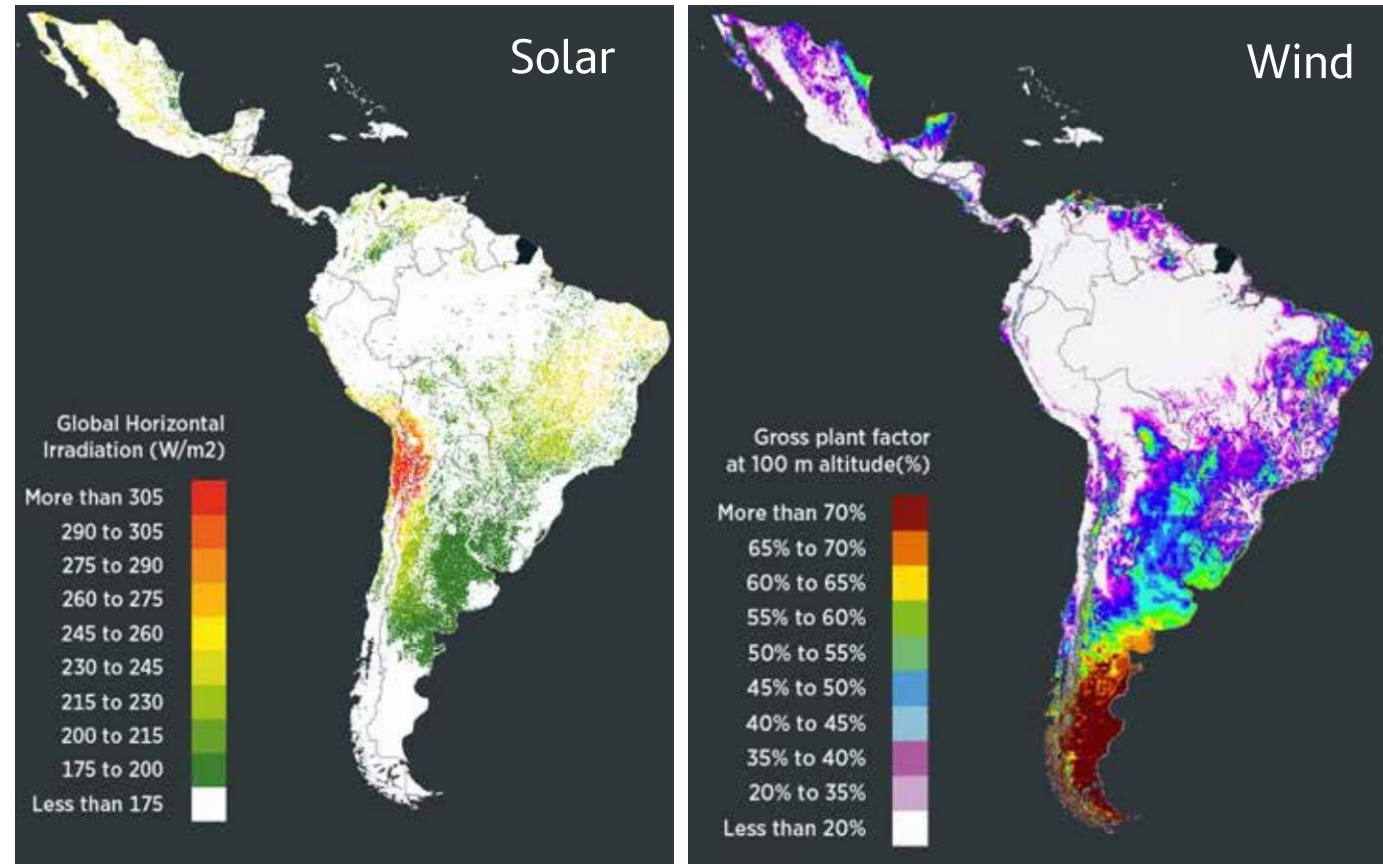


Latin America renewable energy potential



The region is a key supplier of the materials needed to slow global warming

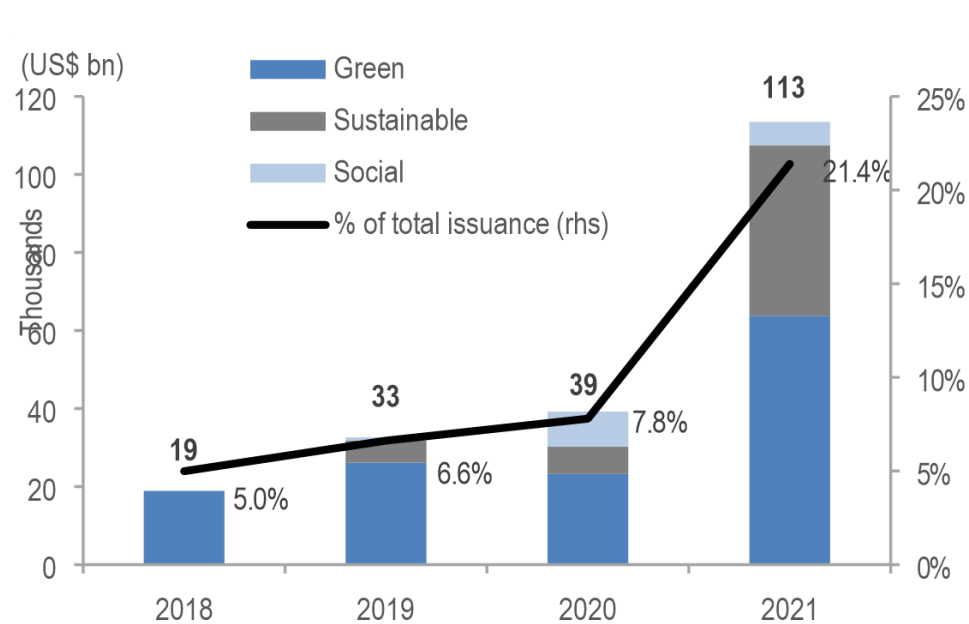
Latin America's Solar and Wind Energy Potential



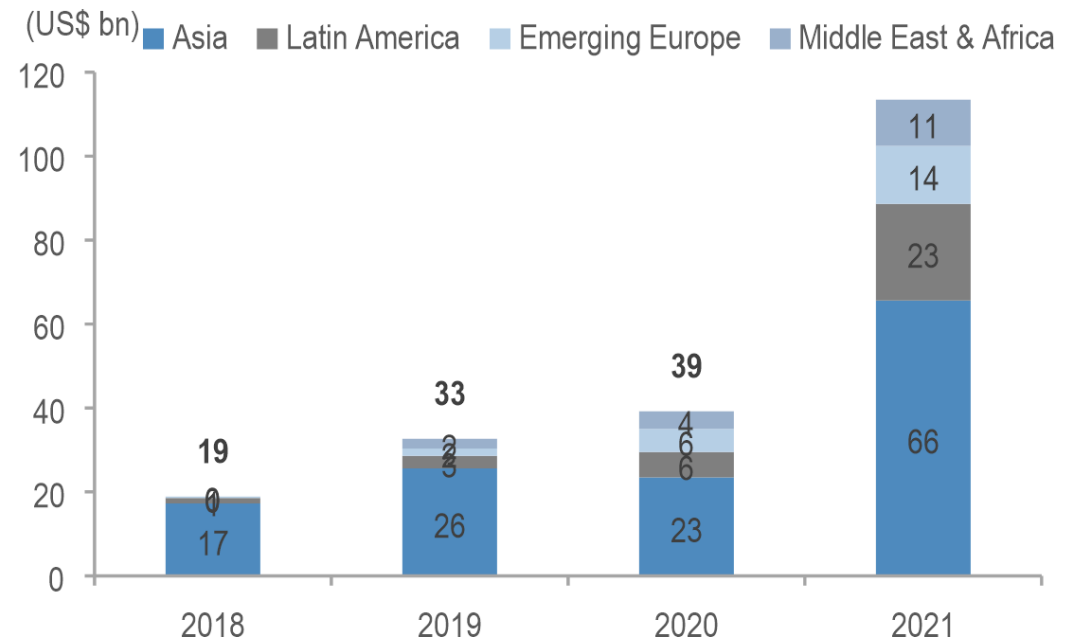
EM & Latin America Corporate ESG issuance

EM corporate ESG issuance has reached a record in 2021, accounting for more than 21% of total issuance. By regions, Latin America is the second region in issuance, just behind Asia.

Issuance of ESG bonds in EM



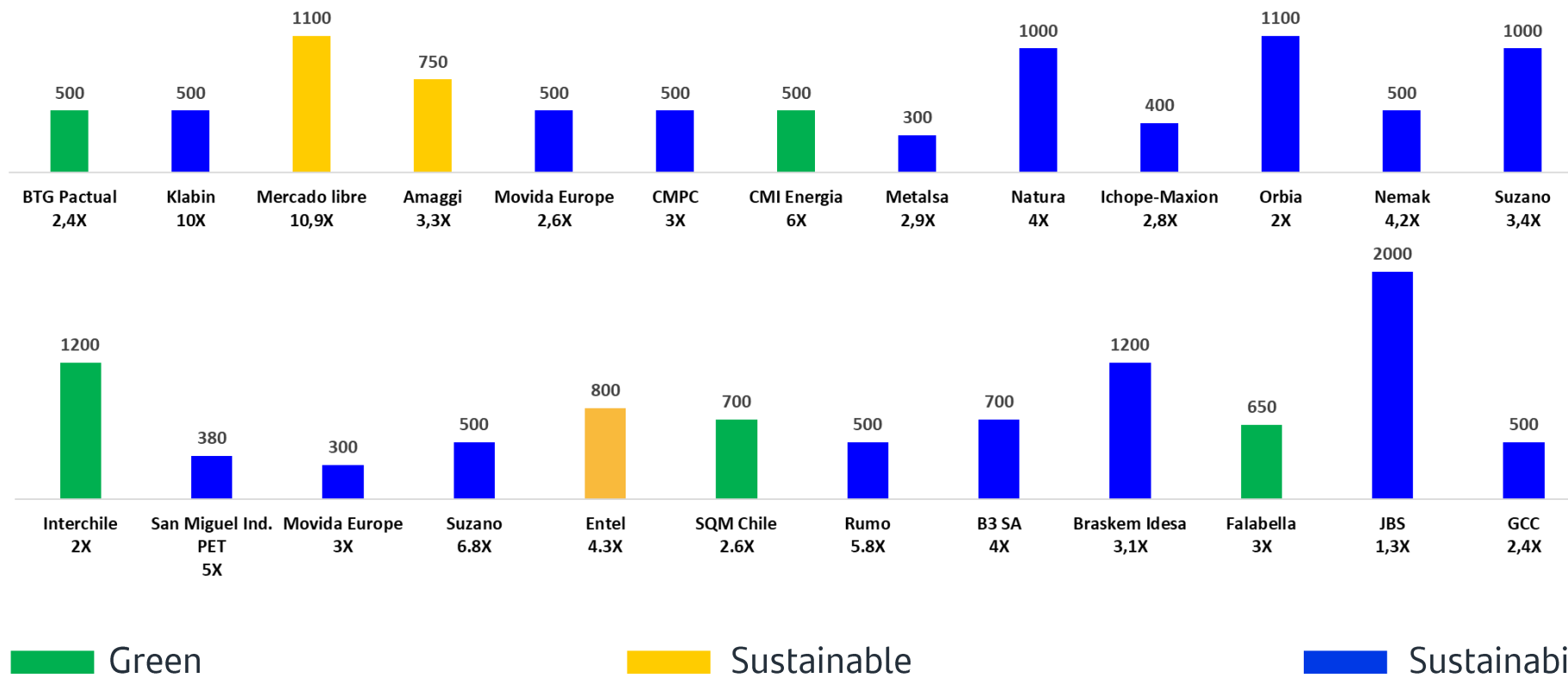
ESG bonds issuance by EM region



Latin America ESG issuance

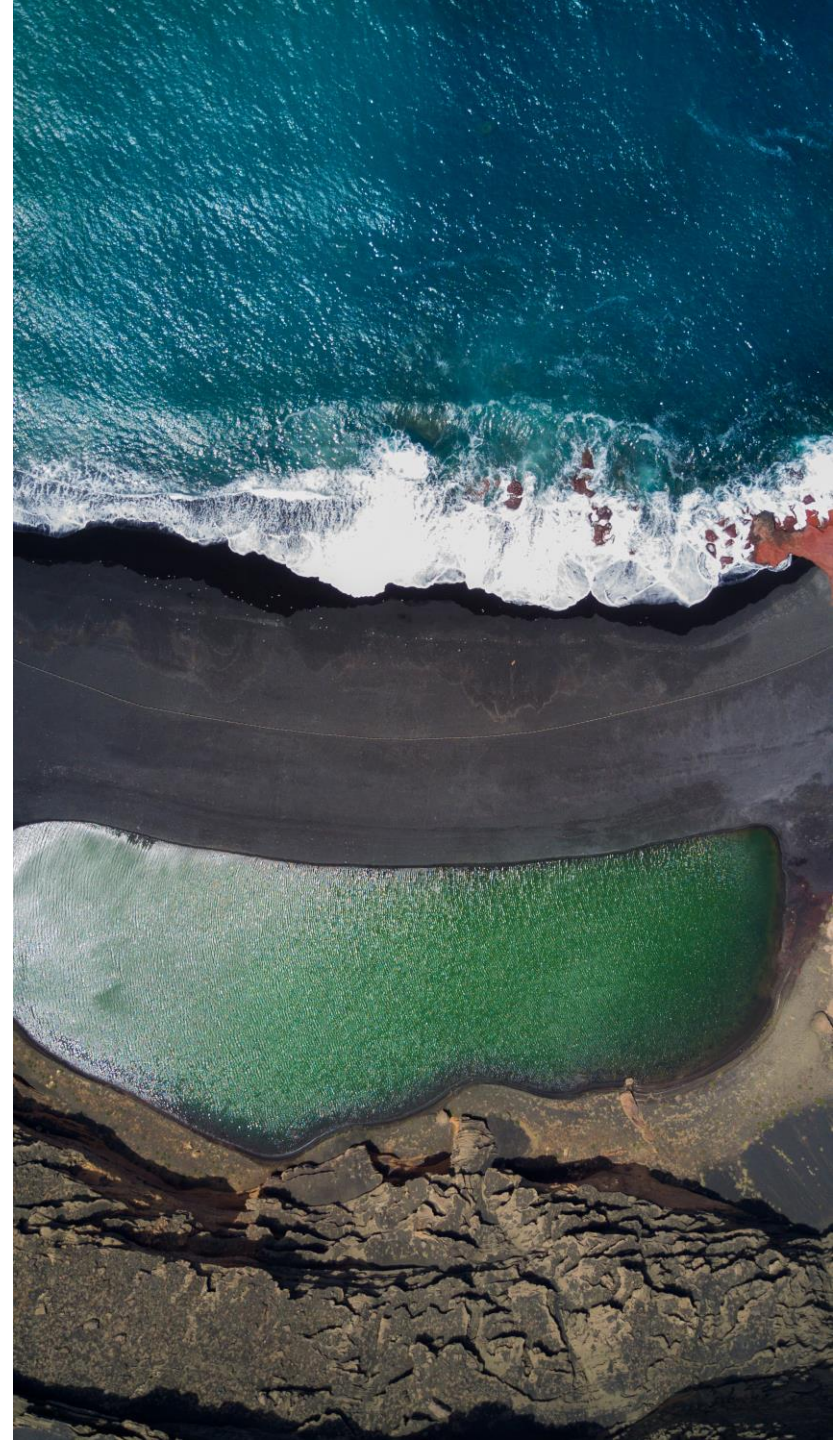
Sustainable and sustainable-linked new issues attracted significant demand, driving up oversubscription ratios.

2021 & January 2022 relevant ESG Issuance



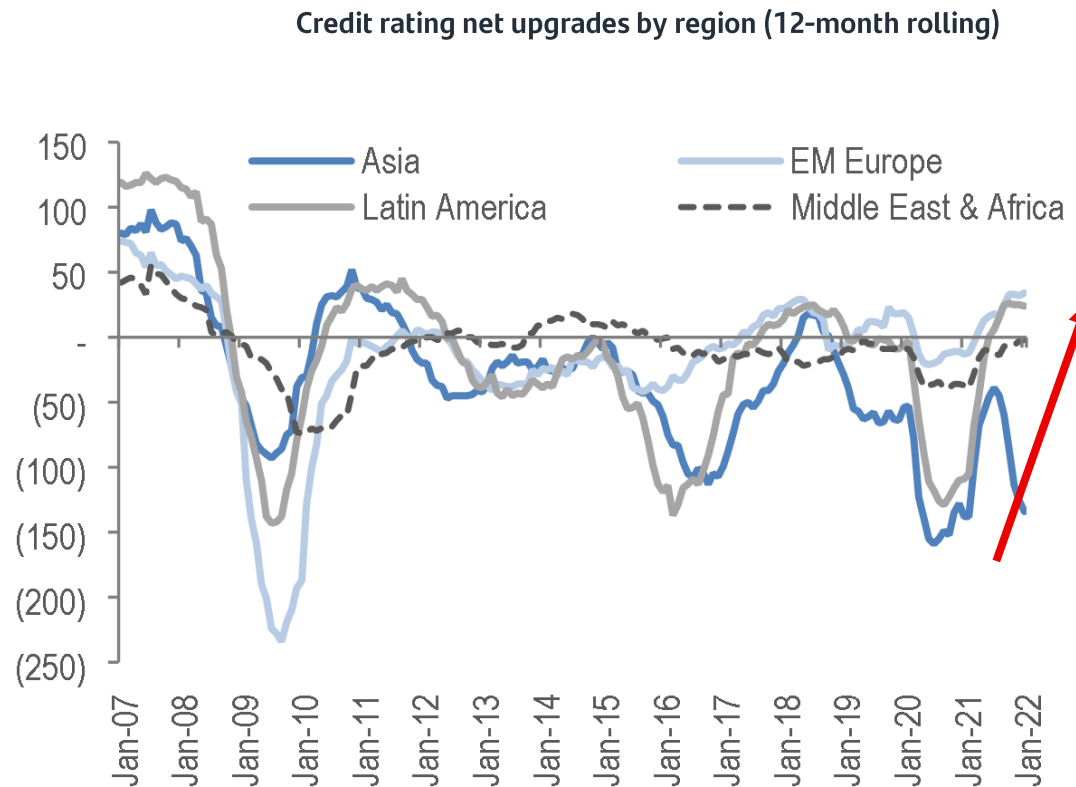
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But are Fundamentals Sound Enough?



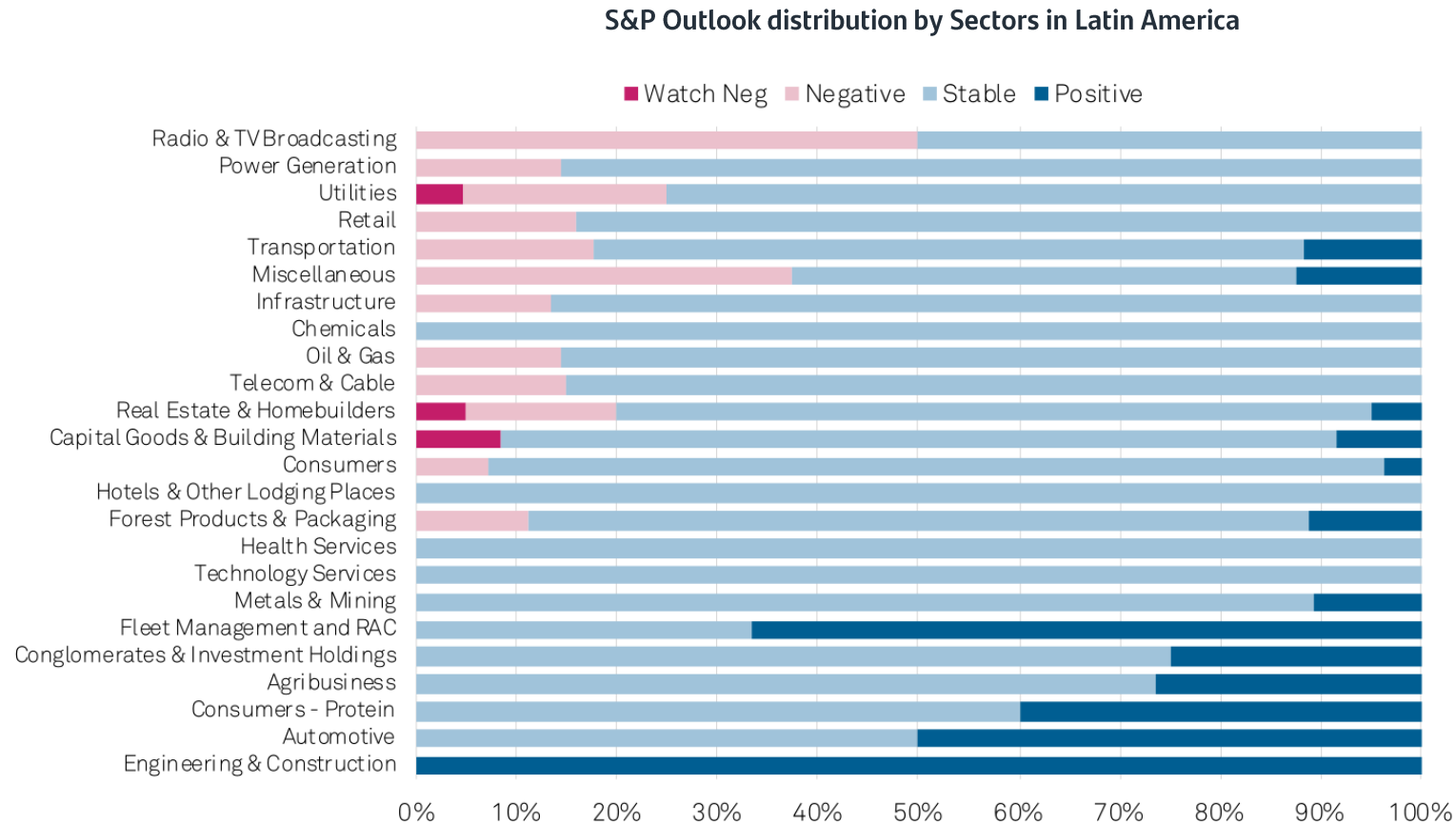
Corporates Fundamentals. Rating trends improve in Latin America

In the first half of 2021 sovereigns pushed for corporate downgrades, but strong fundamentals pulled for upgrades in the second half.



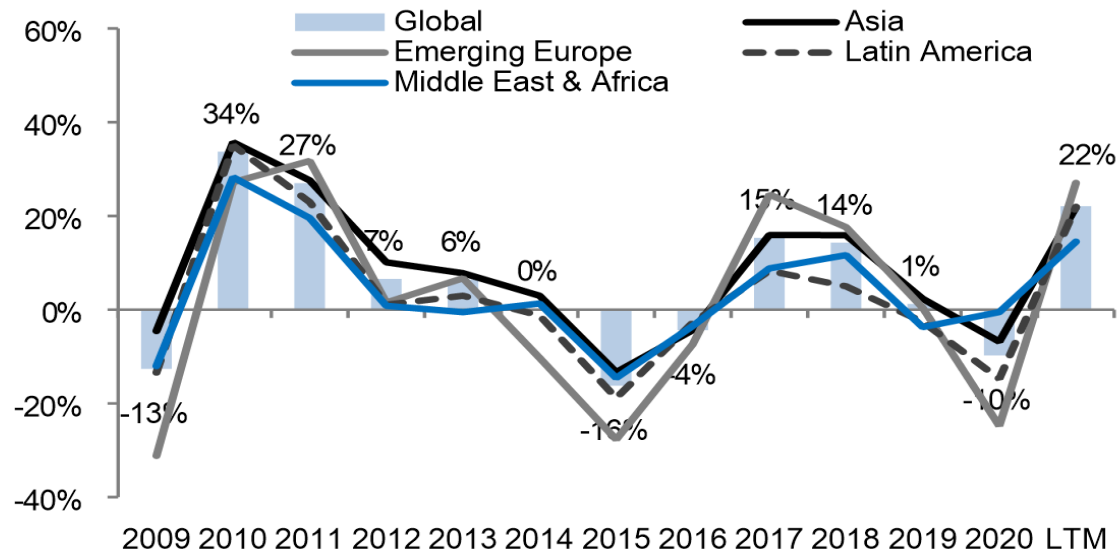
Corporates Fundamentals. Rating trends improve in Latin America

Most of the sectors carry now a stable outlook with a good potential on Cyclical.

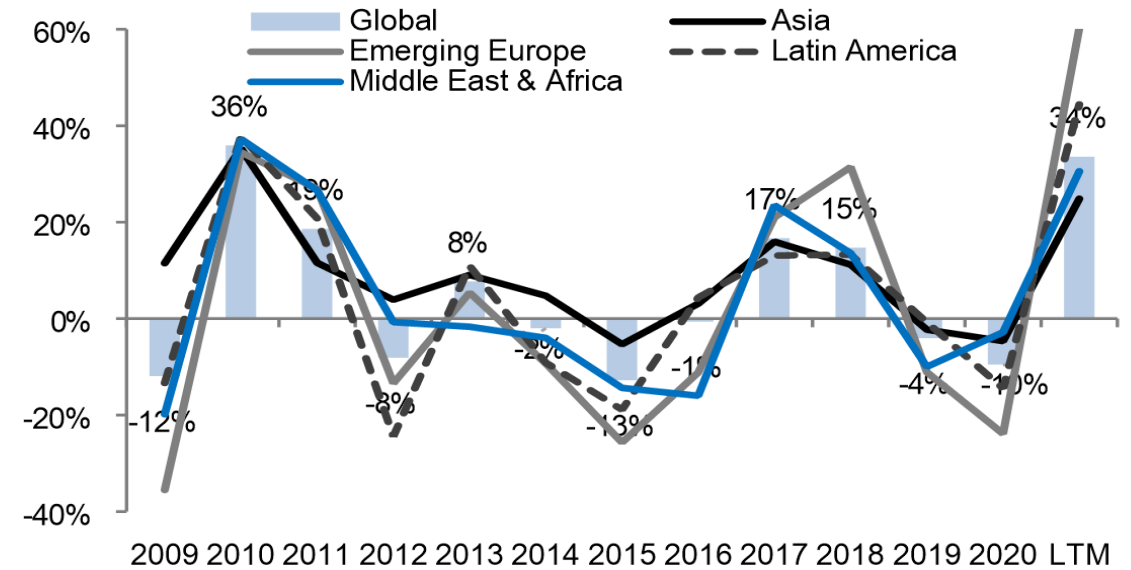


Corporates Fundamentals. Strong recovery of Revenues & EBITDAs

Revenue growth by EM region



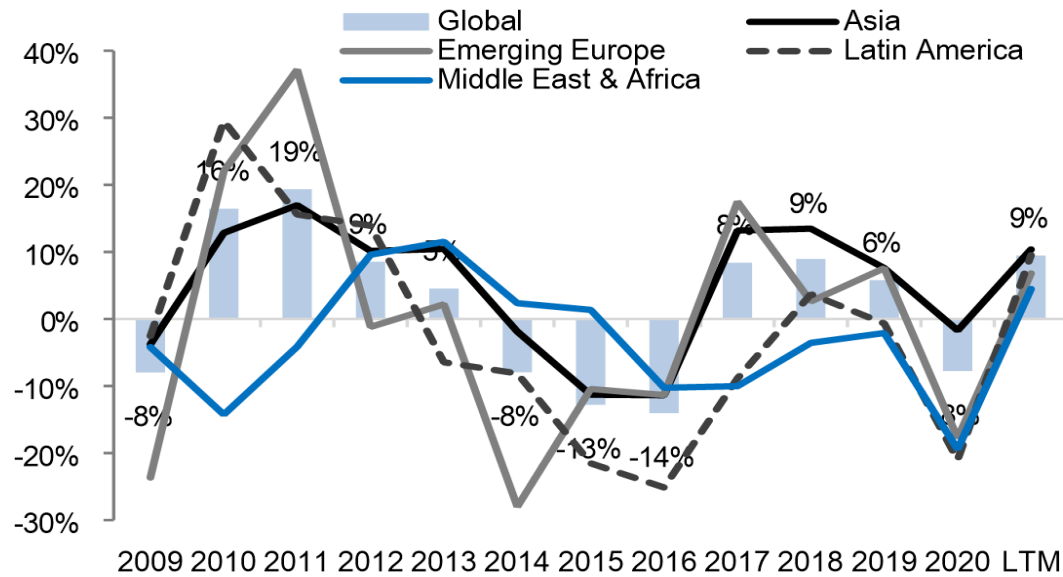
EBITDA growth by EM region



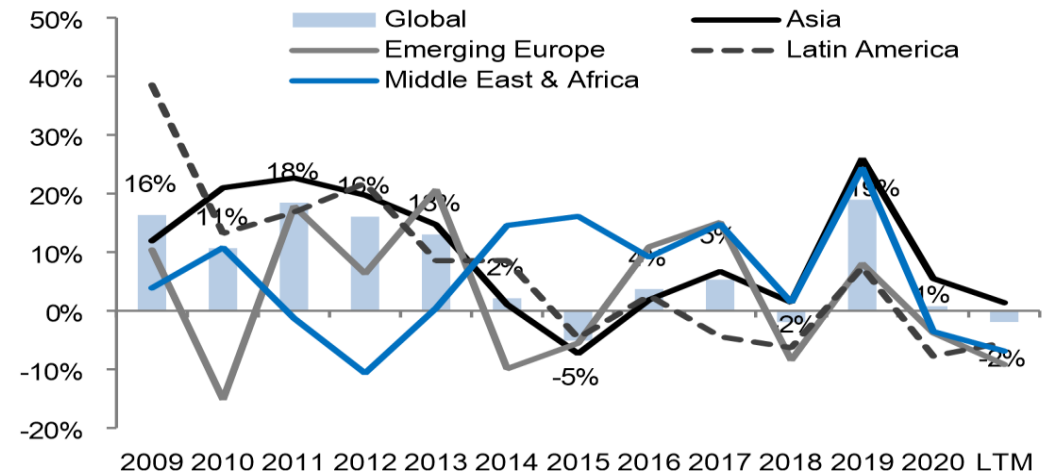
Source: J.P. Morgan EM Corporate Fundamentals Checkup, January 27th 2022. LTM as of 3Q21 based on tracking of ~360 EM corporates, utilizes latest quarterly reporting company data and lags less frequent reporters.

Corporates Fundamentals. A bounce in Capex after years of low investment levels, does not affect the deleveraging trend.

Capex growth by EM region



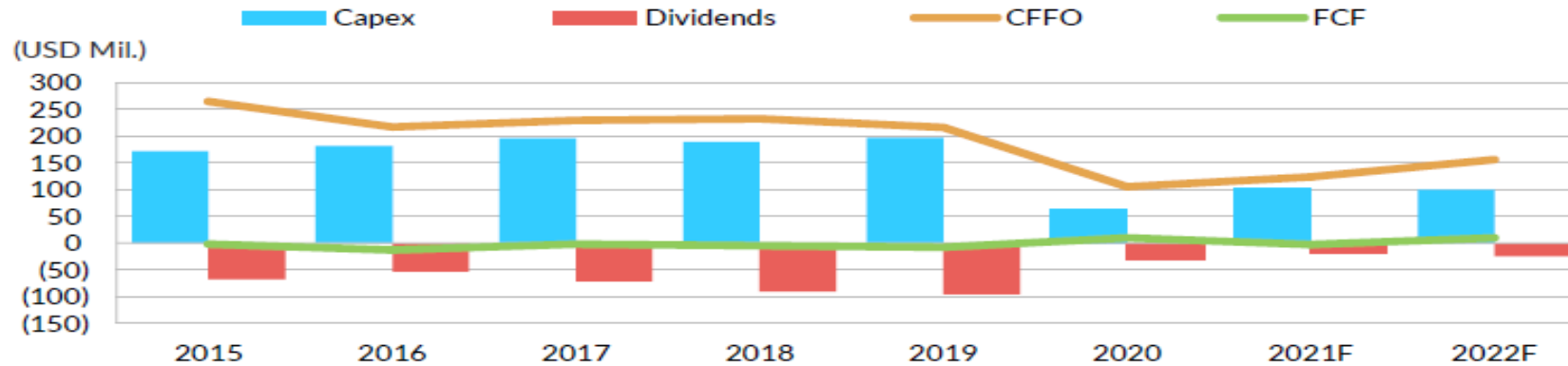
Net debt growth by EM region



Source: J.P. Morgan EM Corporate Fundamentals Checkup, January 27th 2022. LTM as of 3Q21 based on tracking of ~360 EM corporates, utilizes latest quarterly reporting company data and lags less frequent reporters.

LatAm Corporates Fundamentals. Positive view from Rating Agencies

Fitch LatAm Corporates Median Cash Flow Trends CFFO



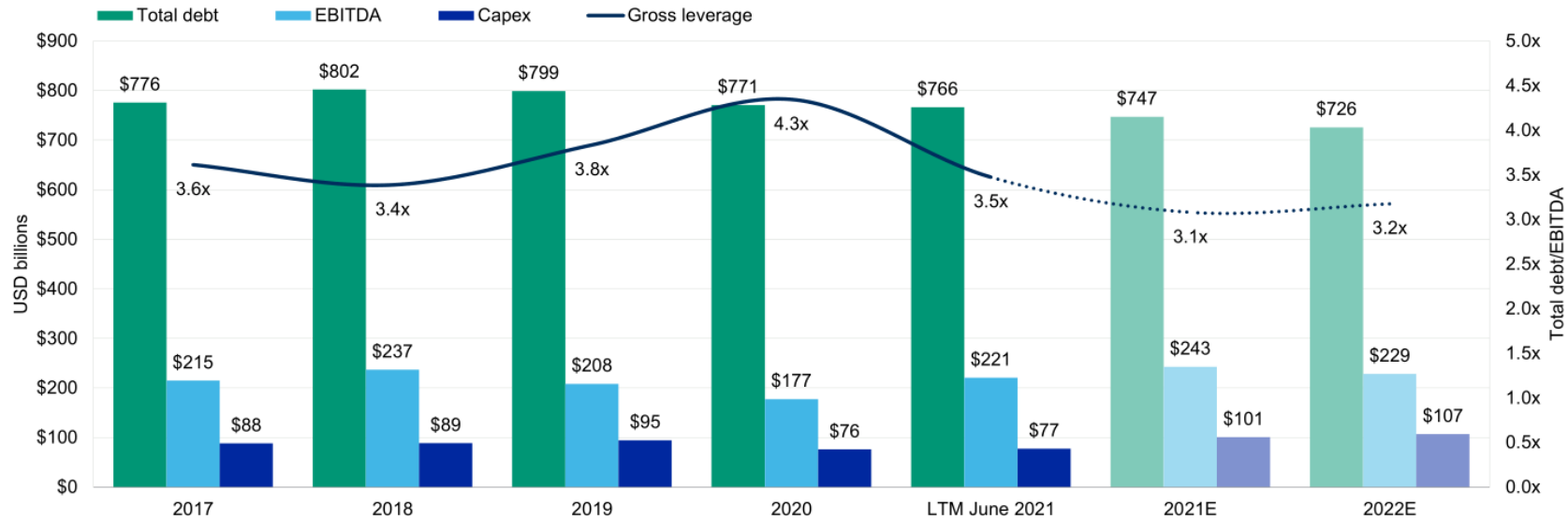
- ↓ Fitch expects Macroeconomic challenges and political volatility in the region to carry through to 2022.
- ↓ Regional economic growth would be sluggish in 2022, with GDP of 2.8% following a rebound of 5.4% in 2021 from pandemic levels of negative 7.8% in 2020

- ↑ Net leverage will decline slightly in 2021 and reach 2.1x in 2022.
- ↑ FCF to increase and turn positive in 2022 following a slightly negative median in 2021 as corporates' operations continue to recover across the region and median capex remains similar to 2021 levels.
- ↑ Median liquidity continues to be strong for cross-border corporate issuers across Latin America, with median cash/short-term debt coverage forecast at 3.1x in 2021 and 2.6x in 2022.

LatAm Corporates Fundamentals. Positive view from Rating Agencies

Gross Leverage is expected to have reached 3.1x in 2021 (Moody's) and Net Leverage stabilize around 2.1x (Fitch)

Moody's Aggregate credit metrics for Latin American non-financial companies, 2017-22E

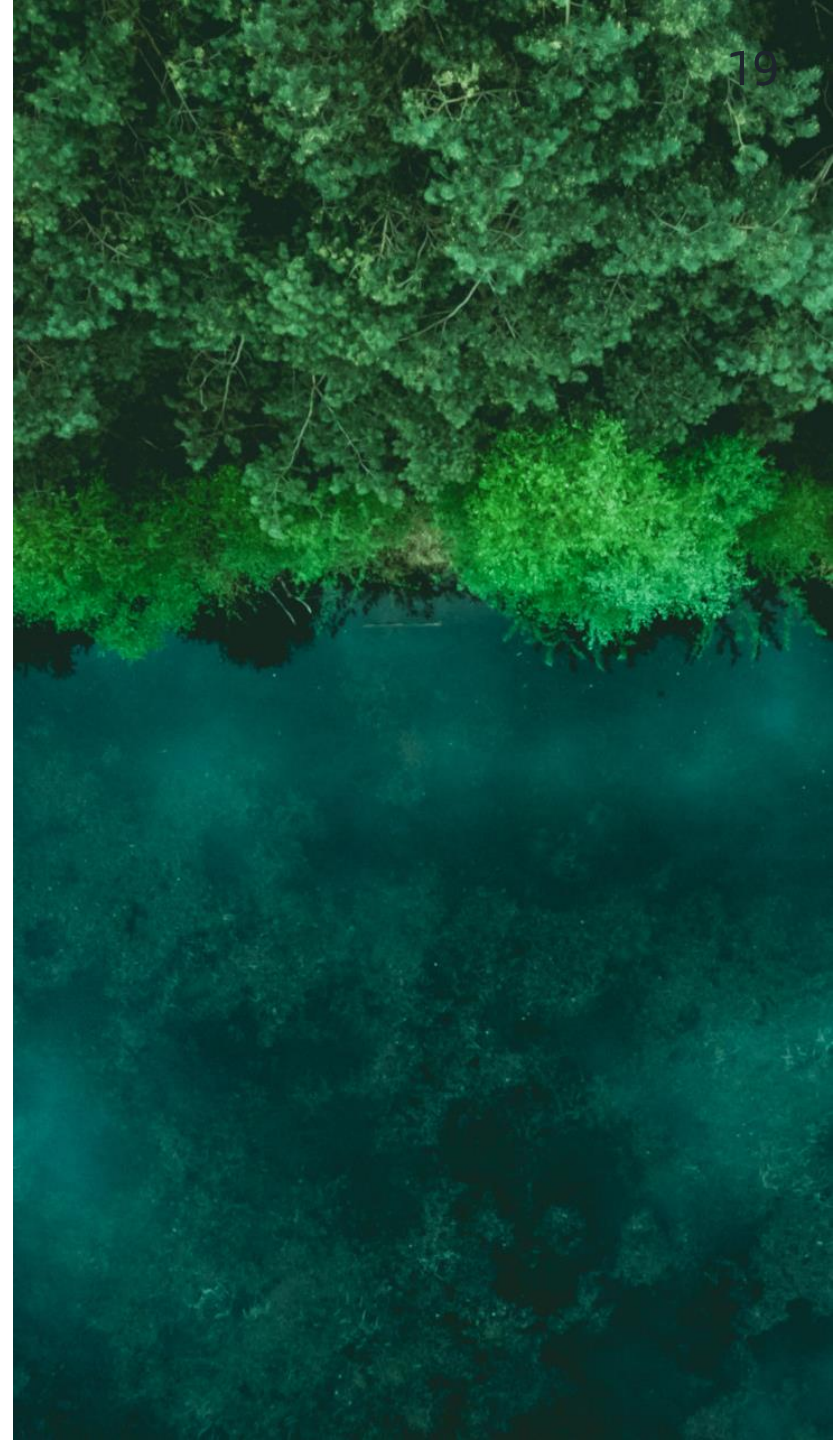


↑ Total Debt is already below pre-pandemic levels.

↑ An increase in Capex does not imply higher gross leverage.

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Our Funds



Santander AM Latin American Investment Grade ESG Bond



Asset class

Latin American credits issued in USD



Credit quality

Investment grade issues

Majority of the portfolio invested in issues with at least two ratings BBB- or above.



ESG investment

ESG criteria exclusions

Norm-based screening

Best-in-class approach

ESG integration in the investment process

Engagement with companies.



Class I - USD

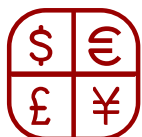
LU2208607957

Class A - USD

LU2208607791

Class AD - USD

LU2208607874



Currency

USD as main currency. Possibility to hedge the strategy in other currencies.



Benchmark

J.P. Morgan CEMBI Broad Diversified Latin America IG (JBCDLAIG Index)



SFDR Reporting

The fund reports under [Sustainable Finance Disclosure Regulation Article 8](#): applies "... where a financial product promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices."

Santander AM Latin American Investment Grade ESG Bond

Summary

% Invested	95,3%	YTW	3,68%
% Corporates	95,3%	G-Spread	206
% Sovereigns	0,0%	Duration	6,97
% Cash	4,7%	Average Rating	BBB-
Number of Issues	57	AUM (USD Mio)	31,46

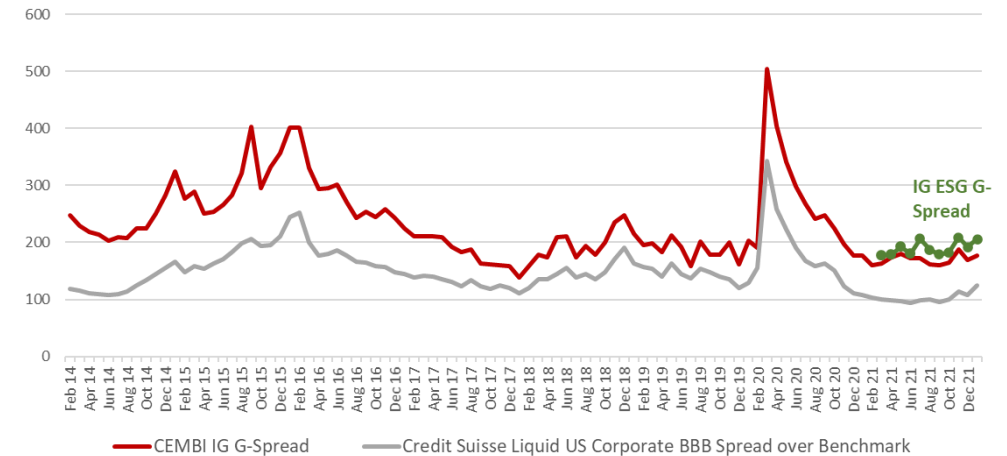
Top ten holdings

10 largest holdings	Weight	YTW	Rating	G-Spread	Duration
CONDA 4 1/2 01/30/30	3,08%	4,10%	BB+	242	5,21
BNSCN 4 1/2 12/13/27	2,90%	2,44%	BBB	174	0,83
BBVASM 5.35 11/12/29	2,82%	4,26%	BB+	292	2,53
PROMIG 3 3/4 10/16/29	2,79%	4,28%	BBB-	253	6,52
BBVASM 5 7/8 09/13/34	2,76%	4,83%	BB+	308	6,01
IENOVA 4 7/8 01/14/48	2,63%	5,08%	BBB-	295	14,43
BCAPS 3.9 04/27/31	2,59%	5,32%	BB+	355	7,46
ALPEKA 4 1/4 09/18/29	2,50%	3,66%	BBB-	191	6,21
SUZANO 5 01/15/30	2,38%	3,98%	BBB-	223	6,39
ENRSIS 4 10/25/26	2,37%	2,68%	BBB	113	4,05
Total	26,81%				

Returns as of January 31st 2022

	MTD	Since Inception
Fund	-2,30%	-1,82%
Index	-2,27%	-1,71%
Difference	-0,03%	-0,11%

A good pick up over US IG and no yield sacrifice per ESG reasons



Source: Santander Asset Management, JP Morgan. Fund, index compositions as of January 31st 2022. Benchmark: J.P. Morgan CEMBI Broad Diversified Latin America IG. Returns of the Institutional class of the fund, whose inception date is February 22nd 2021. Data produced by Investment Team, not audited.

Santander AM Latin American Investment Grade ESG Bond

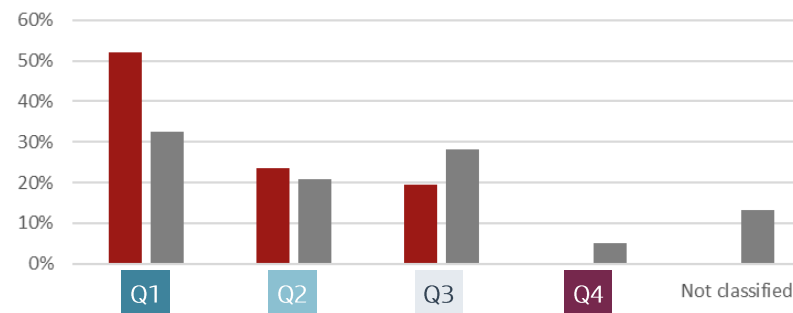
Portfolio and index ESG scores and coverage

ESG score	IG_ESG	CEMBI IG
% invested	95,30%	100,00%
% coverage	95,30%	86,73%
ESG score (norm.)	58,63	54,01
ESG score	55,87	46,84
E score (norm.)	62,31	59,59
S score (norm.)	56,37	51,29
G score (norm.)	59,97	55,03

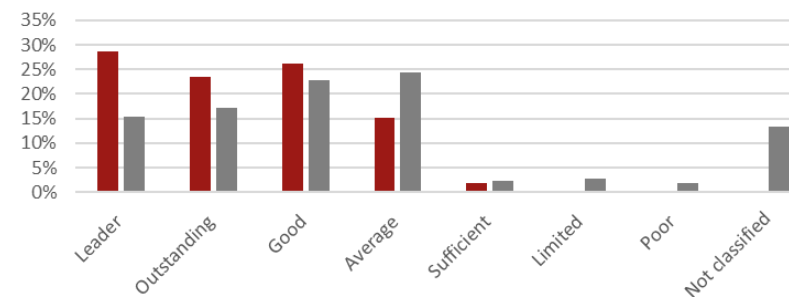
Rating statistics

IG Ratings	IG_ESG	CEMBI IG
Two	77,55%	99,40%
One	17,75%	0,60%
None	0,00%	0,00%
Total	95,30%	100,00%

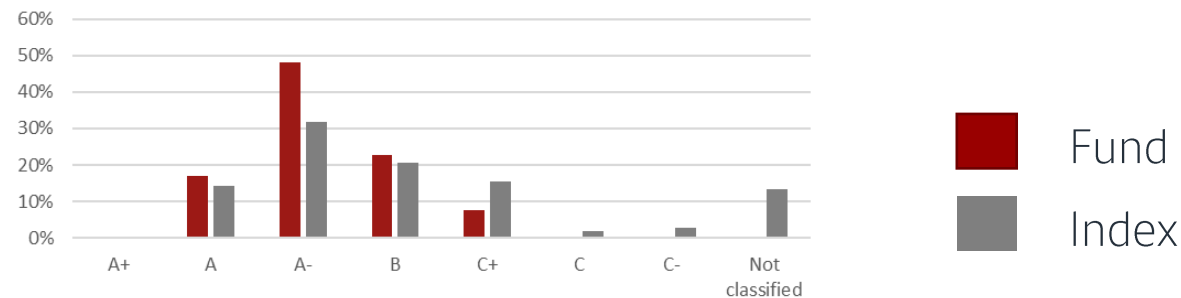
Portfolio and benchmark distribution by ESG quartile



ESG rating distribution

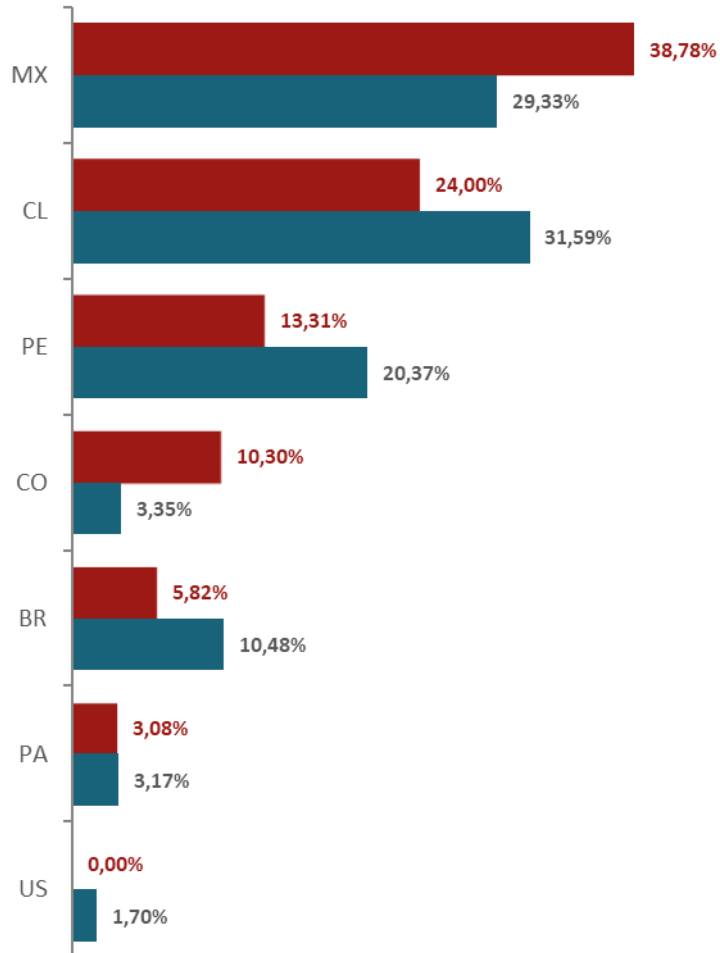


Sustainability rating distribution

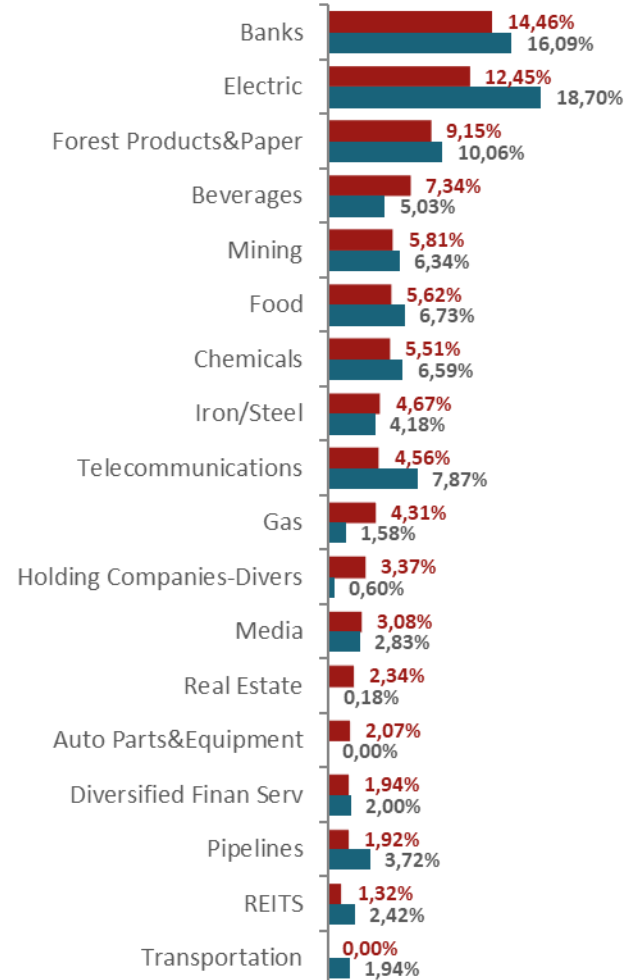


Santander AM Latin American Investment Grade ESG Bond

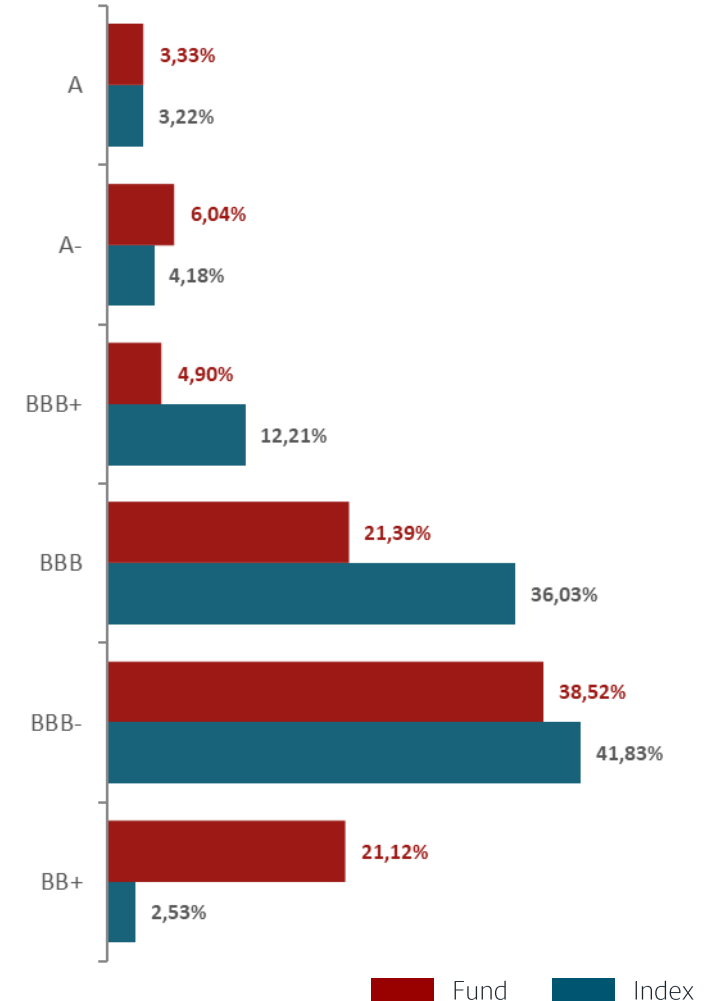
Country positioning



Sector positioning



Rating positioning



Source: Santander Asset Management, JP Morgan. Fund, index compositions as of January 31st 2022. Benchmark: J.P. Morgan CEMBI Broad Diversified Latin America IG. Data produced by Investment Team, not audited.

Santander AM Latin American Corporate Bond



Asset class

Latin American corporate credits issued in USD, with the ability to invest in public debt



Credit quality

Invests across the whole rating spectrum. Average credit quality of the portfolio ~ BB

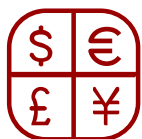


Class A – USD
LU0047567978

Class AD – USD
LU0574803515

Class I – USD
LU0363170191

Class ID – USD
LU2080538338



Currency

USD as main currency. Possibility to invest in other currencies.



Benchmark

J.P. Morgan CEMBI Broad Diversified Latin America (JBCDLA Index)

Class RKP – GBP
Unhedged
LU1395522615

Class AE – EUR
Unhedged
LU1963708620

Class AEH – EUR
Hedged
LU1963709198

Santander AM Latin American Corporate Bond

Summary

% Invested	95,27%	YTW	6,11%
% Corporates	95,27%	G-Spread	462
% Sovereigns	0,00%	Duration	5,02
% Cash	4,73%	Average Rating	BB
Number of Issues	77	AUM (USD Mio)	326,3

Top ten holdings

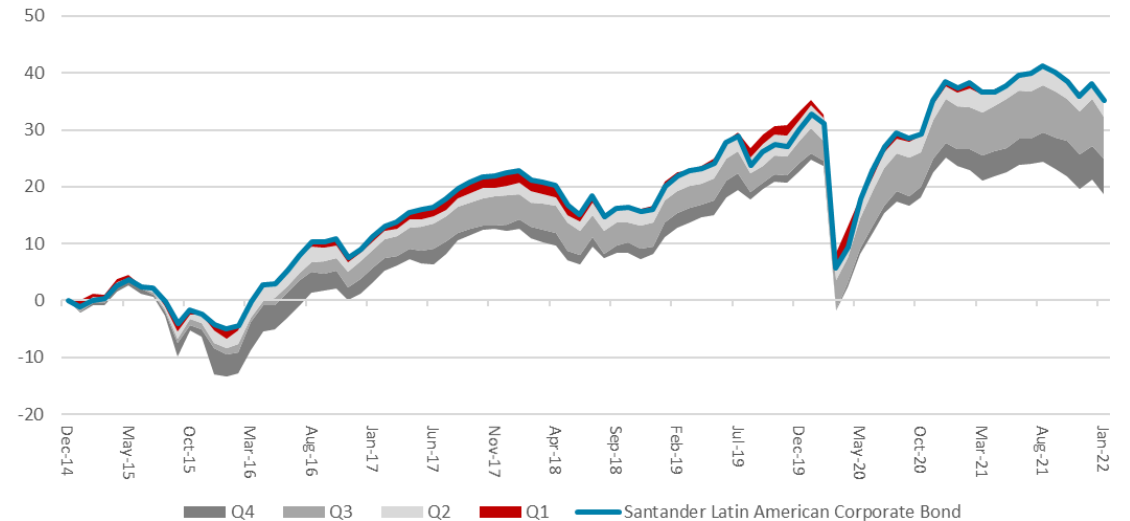
10 largest holdings	Weight	YTW	Rating	G-	Duration
BANORT 7 5/8 PERP	2,58%	7,20%	BB-	559	4,73
BBVASM 5 1/8 01/18/33	2,52%	4,98%	BB	331	5,07
METLSA 3 3/4 05/04/31	2,51%	4,65%	BB+	287	7,59
CYDSA 6 1/4 10/04/27	2,50%	5,98%	BB	452	3,17
BCAPS 3.9 04/27/31	2,41%	5,32%	BB+	355	7,46
INRSHM 5 3/4 04/03/28	2,36%	4,92%	BB	341	3,61
TCDPSA 5 7/8 04/15/27	2,16%	3,16%	BB+	300	0,20
VOTORA 7 1/4 04/05/41	2,14%	5,02%	BBB-	287	11,14
ECOPET 5 7/8 05/28/45	1,93%	6,89%	BB+	475	11,78
PRUPAR 7 1/2 12/31/31	1,92%	6,16%	BB	486	4,62
Total	23,04%				

Returns versus Benchmark (as at January 31st 2022)

	MTD	YTD	1Y	3Y
Fund	-2,12%	-2,12%	-1,60%	12,63%
Index	-1,75%	-1,75%	0,01%	17,51%
Difference	-0,37%	-0,37%	-1,61%	-4,88%

Fund returns	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Calendar year	-2,47%	6,33%	-4,33%	13,90%	12,32%	-5,28%	12,11%	6,54%	-0,23%	-2,12%
1Y rolling	12,01%	-3,65%	5,53%	-3,88%	17,11%	10,43%	-2,31%	10,61%	3,47%	-1,60%

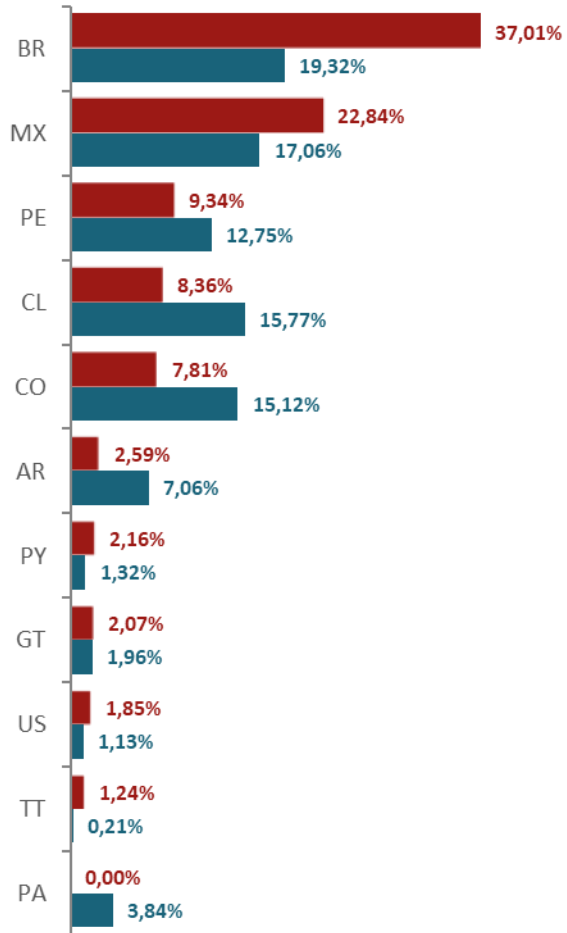
Peer group ranking chart



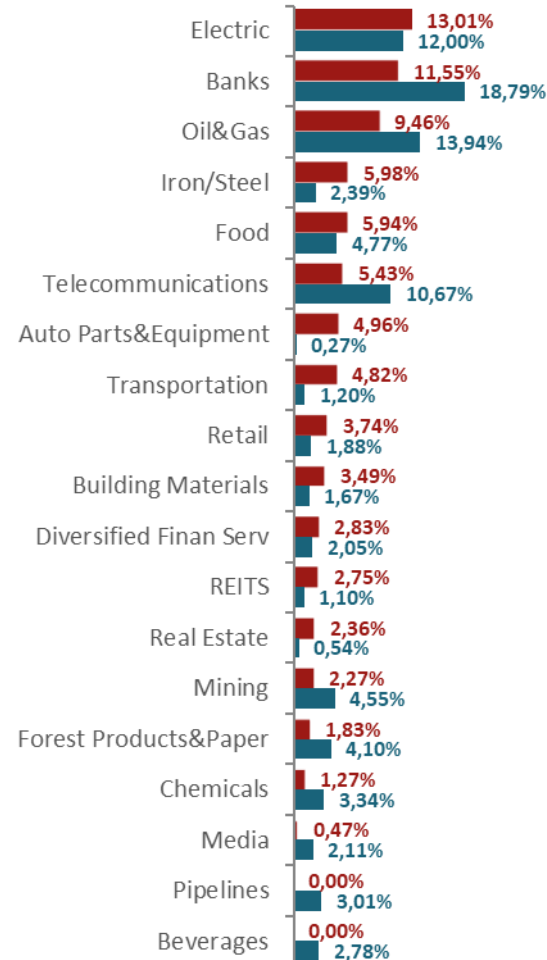
Source: Santander Asset Management, JP Morgan. Fund, index compositions as of January 31st 2022. Benchmark: JPM CEMBI Broad Diversified LatAm. Cumulative performance from December 31st 2014 to January 31st 2022. Data produced by Investment Team, not audited.

Santander AM Latin American Corporate Bond

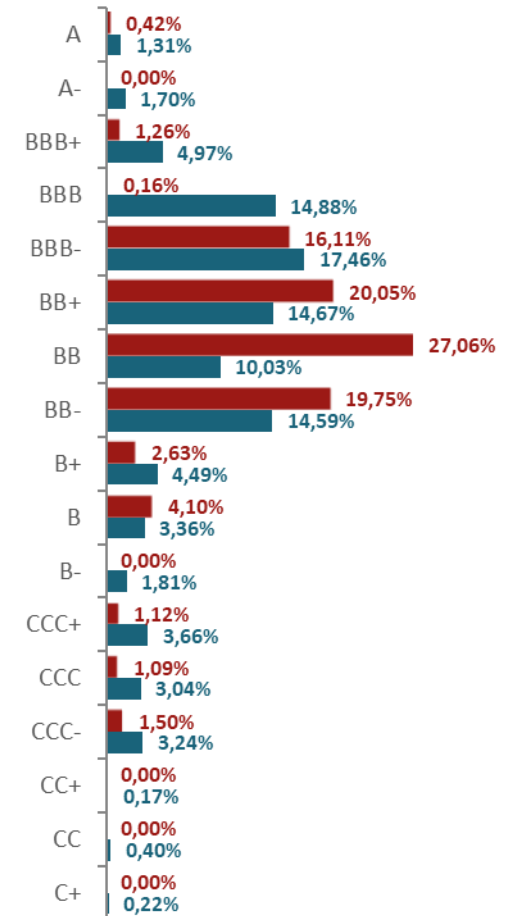
Country positioning



Sector positioning



Rating positioning



4

The Team



LATAM Fixed Income Team



Alfredo Mordezki
 Global Head Latam Fixed Income
 London
 Joined Team in 2010
 Sectors: Oil&Gas, Supranational



María Aramoni
 Corporate Credit
 PM / Credit Analyst
 Mexico
 Joined Team in 2012
 Sectors: Food, Retail, Industrials, Utilities



Marcelo Peixoto
 Corporate Credit
 PM / Credit Analyst
 Chile
 Joined Team in 2013
 Sectors: Financials, Metals & Mining



John Montgomery
 Corporate Credit
 PM / Credit Analyst
 London
 Joined Team in 2011
 Sectors: Pulp&Paper, Telecoms, Airlines



Teresa Martínez
 ESG Integration
 PM / Quantitative Analyst
 Madrid
 Joined Team in 2013



México
 Local support
 1 Macro Strategist
 Local portfolio managers



Brazil
 Local support
 5 Equity Analysts
 2 Macro Strategists
 Local portfolio managers



Chile
 Local support
 5 Equity Analysts
 Local portfolio managers



Argentina
 Local support
 Local portfolio managers

Co-advisors in



Latin American Green Bond Fund

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