FAMA | Investimentos

RESPONSIBLE INVESTMENT AND STEWARDSHIP POLICY

Empresa B Certificada

SUMMARY

OUR APPROACH

FAMA Investimentos' Responsible Investment and Stewardship Policy seeks to establish internal practices and processes and serve as a reference for anyone interested in getting to know our stance, vision, philosophy, and practices in relation to responsible investments.

For us, investing responsibly means allocating capital to high quality companies that generate value for different stakeholders in an ethical manner, following good corporate governance practices and respecting human rights and the environment.

We understand that only by integrating these issues into the analysis and assessment of companies it is possible to have a holistic view of the main risks, threats, long-term competitive advantages, and opportunities to create value and accelerate growth – in a nutshell, to assess their true quality as investment opportunities.

By investing responsibly, we ensure that we fulfill our fiduciary duty to produce outstanding, risk-adjusted returns while contributing to the UN Sustainable Development agenda.

This policy applies to all assets under management by FAMA Investimentos.

INTRODUCTION

FAMA Investimentos is an independent asset management firm founded in 1993 by Fabio Alperowitch and Mauricio Levi, with high ethical and corporate responsibility DNA.

We employ a fundamentalist bottom-up approach, which transversally incorporates ESG aspects into our research and portfolio construction processes, being crucial to achieve outstanding risk-adjusted returns in the long-run.

The ESG incorporation process starts with an exclusion filter, followed by the integration of ESG factors into our analysis and decision-making process and complemented by stewardship which strongly values active engagement with our portfolio companies in addition to voting.

Ethics is core for us. We understand that companies can present evolving ESG issues on different matters; however, with regards to ethics, we do not tolerate deviations of any nature or magnitude.

Our investment process relies heavily on qualitative analysis and is supported by quantitative analysis and tools. For qualitative analysis, we collect information directly from the company, including interactions with employees from different business units, hierarchical levels, and areas, as well as with external stakeholders such as customers, suppliers, competitors, associations, communities, and others, in addition to public documents. All this information allows us to understand several intangible aspects of a company, such as management capabilities and quality, ethical behavior, and transparency.

FAMA Investimentos is a B Corp, a certification granted to companies that meet high standards of social, environmental, governance, and transparency criteria for its stakeholders[1].

[1] To learn more about the B Corp certification, access here.

DEFINITIONS

Some of the main concepts related to ESG Investment according to the PRI (Principles for Responsible Investment) – known as one of the world's strongest advocate of responsible investments[2] – are summarized below for reference.

- **ESG Incorporation:** consists in the assessment, review and inclusion of ESG factors into existing investment practices through a combination of three approaches: integration, screening and thematic investment. ESG incorporation generally works alongside - or in combination with - stewardship or active ownership.
- **Integration**: the process of including ESG factors into investment research, analysis, and decision-making to better manage risks and returns. It is often used in combination with screening and thematic investment.
- **Screening:** the application of filters to lists of potential portfolio companies based on an investor's preferences. Screenings can be of three types:
    - **Positive Screening/"best in class":** refers to investing in sectors, companies or projects selected for their positive ESG performance relative to industry peers.
    - **Negative screening/exclusions:** refers to excluding sectors, companies or projects on the basis of their low ESG performance relative to industry peers or based on specific ESG criteria (for example: avoiding certain products, services or business practices).
    - **Rules-based screening:** screening companies against minimum business practice standards based on international norms. Widely recognized frameworks for minimum standards of business practices include UN treaties and Security Council sanctions, the UN Global Compact, the Universal Declaration of Human Rights, and several OECD guidelines.
- **Stewardship:** the proactive influence exerted by investors in the quality of company shareholders, with the objective of maximizing long-term shareholder value, as well as economic, social, and environmental value, on which the returns and interests of clients and beneficiaries depend.

  Stewardship is implemented through the individual and collaborative use of tools, including, but not limited to, engagement with portfolio company representatives, voting in shareholder meetings, filing shareholder resolutions/proposals, formal roles on boards of directors and on board committees, negotiation and monitoring of stewardship actions over company supply-chains,

[2] For more details and other definitions click here.

engagement with policymakers, engagement with standards setters, contributions to public goods (such as research) and public discourse (such as the media) that support the goals of managers, and, when necessary, litigation.

- **Engagement:** interactions with current or potential portfolio companies, conducted with the aim of improving their ESG practices, changing their sustainability results or improving their transparency and disclosure. Engagements can also be made with other stakeholders, such as those who define policies and standards.
- **Voting:** exercising the right to vote in management and/or shareholder resolutions to formally express approval (or disapproval) on relevant matters. In practice, this includes taking responsibility for how votes are cast on matters raised by management, as well as submitting shareholder resolutions for other shareholders to vote (in jurisdictions where this is possible). Voting can be done in person or by proxy.

GOVERNANCE

FAMA's investment process is the responsibility of an investment committee, which is composed of research analysts and portfolio managers. All analysis and investment decisions are made within the committee.

Research analysts are responsible for covering certain companies, which includes constant monitoring and performing stewardship activities. Aside from our research analysts, we have an ESG-focused analyst who transversally supports the deepening of ESG analysis and engagement with companies.

Portfolio managers are responsible for the decision to buy and sell stocks and for the sizing of each position, while respecting risk and liquidity parameters for each asset and the entire portfolio (funds and managed accounts).

The process is established so that the entire investment team is aware of all aspects of any company in an integrated and non-segmented manner, ensuring richer and less biased debates and analyses. ESG aspects, along with other qualitative and financial aspects, influence the selection of an asset and the prioritization of engagements.

Portfolio managers seek to ensure that the entire analysis and decision-making process, as well as stewardship actions, are consistent and in compliance with our policies.

Human Capital

We understand that people are our most important resource, and that is why we continually invest in training, work environment and organizational climate assessment, leading to an extremely low employee turnover rate over the years.

Every six months we carry out performance reviews for all employees which allows us to understand how each of them is perceived by themselves and their peers. At the end of the process, we provide feedback to continuously improve performance and organizational climate.

We encourage and support employees taking courses in their areas of interest. Likewise, we periodically bring professionals from different areas for internal lectures to amplify knowledge on different topics.

INCORPORATION OF ESG

We incorporate ESG primarily through three angles: negative filter, ESG integration, and stewardship.

Negative Filter

We apply exclusion filters since our foundation. Through these filters, we exclude companies that are part of industries that do not represent our values and beliefs. For example, we do not invest in:

- Companies that we have previously placed in our restricted list for ethical and ESG deviations identified by our team,
- Companies that produce and/or sell firearms, cigarettes or asbestos-based products,
- Highly regulated sectors,
- State-owned companies,
- Companies in which we can't perform our research to its full extent.

ESG Integration

Companies that are approved in our screening undergo a thorough analysis that includes economic, financial, socio-environmental, integrity, and ethical aspects, giving us a holistic understanding of the company, its main risks, and opportunities.

We perform an initial SWOT analysis (acronym that stands for Strengths, Weaknesses, Opportunities and Threats) that is constantly improved as our understanding of the company evolves, giving us a visual snapshot of the main characteristics to bear in mind for each company.

It is important to point out that this SWOT analysis includes ESG issues as they are intrinsic to the company's operations, strategies, and results; therefore, it allows us to broaden our understanding of the company and, consequently, improve our financial forecasts. Among various aspects, the SWOT analysis is complementary to the analysis of the company's materiality matrix, its governance structure and stakeholder management, its risk management policies, goal setting and monitoring, as well as its contribution to the Sustainable Development Goals (SDGs).

We have developed a unique process over the years, using a model that involves the construction and deconstruction of investment theses. On the side of the thesis construction the objective is to encourage the rigorous analysis of the cases to reach a high level of conviction in the decision-making process,

whereas, on the side of thesis deconstruction, we seek to constantly challenge our initial premises, working as a way of mitigating risk and bringing an impartial viewpoint in the assessment of the proposed theses.

This constant exercise allows us to distance ourselves from companies that seem charming at first sight and provides us with excellent reflections and considerations on them.

Brainstorm	Preliminary Analysis	Due Diligence	Investment Committee	Valuation	Final Investment Committee	Investment Decision	Monitoring and Engagement
ESG and filters applied	Business and sector qualitative analysis Identification of key risks	Deep analysis of selected companies Intensive fieldwork: Site visits, suppliers, competitors, meetings with management, ESG analysis	Mauricio Levi acts as a theses "challenger" Not biased by previous update discussions	Financial projections Definition of 3 scenarios and reverse valuation. Risk analysis (micro factors)	Discussion of all issues raised Presentation of the Valuation Assumptions test	Both PMs are responsible for the final decision (mutual agreement) Sizing is based on execution risk, liquidity and valuation	Continuous Due Diligence Start of ESG Engagement Plan
Objective: Investment universe definition	**Objective:** Investment universe reduction Prioritization	**Objective:** Comprehension of business model as a whole, risks and opportunities	**Objective:** Identify weaknesses, risks, etc.	**Objective:** Understand companies` value creation opportunities.	**Objective:** To have sufficient foundation for decision making	**Objective:** Buy, sell and sizing final decisions	**Objective:** Monitor the investment thesis Update return expectation ESG Engagement
Fabio & Analysts			Investment Team			Fabio & Mauricio	Fabio & Analysts

Analysis

1. Brainstorm

- Filters are applied and discussions are focused on qualitative aspects, including ESG

  Objective: investment universe definition

2. Preliminary Analysis

- Business and sector qualitative analysis
- Identification of material issues, including ESG
- Identification of main risks and threats, as well as growth perspectives

  Objective: Investment universe reduction

3. Due Diligence

- Deep analysis of selected companies

  Intensive fieldwork and stakeholder interaction

Objective: comprehensive understanding of the business model

Investment

4. Investment Committee

- Theses deconstruction
- Unbiased opinion about previous discussions

Objective: Identify weaknesses, risks, gaps in the investment process, conservative assumptions and other aspects

5. Valuation

- Financial projections
- Reverse valuation: due to our skepticism about the ability to assertively project companies in the long term, we focus on companies that we believe can positively surprise us and not on those that are discounted

Objective: understand companies' value creation opportunities.

6. Final investment committee

- Discussion of all issues raised
- Presentation of the valuation
- Assumption's test

Objective: to have fundamentals for decision making

Portfolio Management

7. Investment Decision

- Both PMs are responsible for the final decision (mutual agreement)
- Sizing is based on execution risk, liquidity, and valuation

8. Monitoring and Engagement

- Continuous due diligence
- Start point for ESG engagement plan

Objective: thesis monitoring, expectations update, ESG engagement agenda

Stewardship: Engagement and Voting

Based on the analysis performed, we build an ESG engagement plan to focus, manage and monitor discussions on various topics we believe should be better addressed and/or disseminated by the company (unplanned engagements are also expected when and if there are significant and unexpected ESG-related events or changes).

The prioritization of ESG engagement is based on several criteria, such as the materiality of each ESG factor, progress, or gaps in relation to it, probability of impacting the company´s operational and/or financial performance, as well as its potential capacity to affect other companies, sectors, markets and/or the economy.

We consider collective engagement a central element of responsible investing, as it allows us to engage companies in matters of common interest and that deliver positive results in the real world, making better use of our time, knowledge, and resources.

In addition to engagement, voting at shareholder meetings on relevant matters allows us to formally express approval or disapproval on various matters; however, we find it more effective to go beyond shareholder votes, in part because most Brazilian companies have controlling shareholders and, therefore, shareholder activism is limited.

We seek to be active and diligent in exercising our voting rights. All relevant voting matters, including ESG topics, are discussed in advance at weekly investment committee meetings and all discussions as well as votes taken are properly recorded in internal tools and communicated publicly.

It is common and seen as good practice, even if not mandatory, for us to communicate to the company privately and directly our voting intentions or decisions when they go against management proposals; likewise, it is important to ensure that the vote is properly registered at the meetings in which we participate. It is acceptable to use the remote voting form at meetings where such instrument is available.

We have a Voting Policy that addresses the general principles that regulate the exercise of voting rights and the resolution of potential conflicts of interest, which is available on FAMA Investimentos' website[3]. The information contained in this Responsible Investment and Stewardship Policy may be viewed as complementary to our Voting Policy.

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[3] http://www.famainvestimentos.com.br/compliance

The ultimate objective of both documents is to improve the ESG performance of the portfolio companies, minimizing risks and thus seizing opportunities, maximizing overall return and value for our clients and society.

All our stewardship activities are conducted in-house.

Transparency

All engagements are properly recorded in internal tools and monitored frequently to verify progress. We produce a quarterly report that consolidates the stewardship activities carried out and the details of the engagement methodology used, the participants involved and the main results, as well as voting statistics. This report also compiles information on our public commitments, collective engagements, internal initiatives, and advocacy efforts undertaken.

We share some engagement information in our quarterly Management Report, which is open to all audiences and is available on our website[4]. All votes are duly registered in internal tools and published annually on our website.

In accordance with best practices, our internal policies are public and available on the website[5] as well as the portfolio composition which is available on the website of the Brazilian Securities and Exchange Commission (CVM).

Escalation Methods

In cases where we are not successful with any of the goals defined for our portfolio companies during the established time, even after implementing several stewardship efforts, we use one or several escalation strategies such as:

- Engaging the company in collaboration with other investors,
- Submitting a resolution or shareholder proposal,
- Engaging with the company publicly (e.g., via an open letter),
- Voting against the re-election of one or more board members,
- Voting against the chairman of the board of directors,

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[4] http://www.famainvestimentos.com.br/publicacoes
[5] http://www.famainvestimentos.com.br/compliance

- Voting against the annual financial statements,
- Divesting or implementing a way-out strategy.

ADVOCACY

Over the last few years, Responsible Investments have gained strength in Brazil and with it many opportunities and risks are present. The lack of minimum transparency and reporting standards, as well as the indiscriminate use of different terminology, for instance, makes room for "greenwashing" practices that are extremely harmful to the maturity and strength of the market.

FAMA Investimentos recognizes the capacity of public policies to affect sustainable development and, therefore, understands that its fiduciary duty as an asset manager also extends to the involvement with these issues, taking an official and public stand on various initiatives.

Our positions are published on our website[6], in the content section.

Specifically in relation to initiatives organized by third parties and involving different market players, support for open letters and positions addressed to public authorities, public consultations, among others, we prioritize those in which we believe we can contribute and consider to be very well structured. We believe it is important to support engagements that in one way or another touch on the following points:

- Initiatives that directly or indirectly impact our portfolio,
- Initiatives with the potential to positively impact the development of the responsible investment market,
- Initiatives with the potential to contribute to the development of the UN's sustainable agenda.

[6] www.famainvestimentos.com.br

CLIMATE CHANGE

"Climate change" is defined as the global phenomenon of climate transformation caused mainly by human activities. The imbalance on Earth's climate threatens the sustainability of the planet's ecosystems, as well as the stability of the global economy, along with political and social relationships.

Although we do not invest in companies in carbon-intensive industries, we believe that all companies in one way or another will be impacted or are already being impacted by climate change. In line with our fiduciary duty to deliver outstanding risk-adjusted returns, we share our concern on the topic with our portfolio companies and with the public in general, warning them not only about the direct and indirect physical risks, but also about the transition and systemic risks, as well as the opportunities that a low-carbon economy may present.

We demand from our portfolio companies a better management of their greenhouse gas emissions, starting with the correct measurement and transparency, and we reinforce the importance of establishing emission reduction targets based on science and compensating only those emissions that are not plausibly reduceable.

Research analysts are responsible for identifying and assessing companies' climate risks and opportunities, as well as monitoring their progress. These issues are incorporated into the SWOT analysis that is carried out early in the process and constantly monitored and updated.

We have monitored the carbon footprint of our portfolio over the past years and in 2020 we published our first Carbon Footprint report, the first of its kind in Brazil. This report is public and can be found on FAMA Investimentos' website[7].

[7] http://www.famainvestimentos.com.br/esg

SUSTAINABLE DEVELOPMENT

Sustainable Development is defined as the ability to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. In this context, we, as asset managers, have a duty to ensure that our investments consider current as well as future needs, delivering long-term value in ethical, financial, and socio-environmental terms.

The seventeen Sustainable Development Goals (SDGs), established in 2015 by the UN, seek to face some of the greatest challenges of our times, such as inequality, poverty, and climate change, through the collective effort of countries, companies, institutions, and civil society.

For us, it is very important to understand how this global agenda fits into each company's strategy and how we can help them make a real contribution to the challenges they face.

We publicly support several initiatives, agendas and reporting standards, which we highlight here:

- Paris Agreement,
- Sustainable Development Goals,
- GRI (Global Reporting Initiative),
- TCFD (Taskforce on Climate-related Financial Disclosures),
- TNFD (Taskforce on Nature-related Financial Disclosures),
- CDP,
- PRI (Principles for Responsible Investment),
- B Lab (issuers of B Corp certificates),
- PCAF (Partnership for Carbon Accounting Financials).

In addition, we monitor the exposure of our investments to the main SDGs and publish a quarterly summary in our reports.

CONFLICTS OF INTEREST

We understand that conflicts of interest may exist between various individuals and entities, including FAMA employees, customers, current and/or future investors. Any failure to properly identify or resolve a conflict of interest can have serious negative repercussion in some cases and improper handling of a conflict can result in litigation and/or disciplinary action.

We see the following scenarios as potential conflicts of interest:

- Immediate family members (up to third degree) of employees working in a financial services company other than FAMA,
- Immediate family members of employees acting as general partners or managing members of pooled investment vehicles related to our portfolio companies,
- Employee or any immediate family member of the employee serving as trustee, agent or in a similar capacity for any of our clients,
- Employee or any immediate family member of the employee who has any other business relationship with any of our clients.

FAMA's policies and procedures, such as (i) Voting Policy, (ii) Personal Investment Policy, (iii) Allocation and Division of Orders Policy, (iv) Compliance and Internal Controls Policy, (v) Performance in the Distribution of Investment Fund Quotas Policy and the (vi) Compliance, Ethics and Corporate Conduct Manual were prepared to identify and disclose, mitigate and/or eliminate applicable conflicts of interest.

However, we understand that potential conflicts of interest may not be covered in these documents and therefore it is necessary for everyone to use common sense to identify and appropriately respond to actual or apparent conflicts. Conflicts of interest involving FAMA and/or its employees, on one hand, and clients on the other hand, must be fully resolved and/or disclosed. If an employee believes that a conflict of interest has not been identified or properly addressed, he or she must immediately bring the matter to the attention of the CEO/CCO.

FAMA's Voting Policy, for example, deals with possible conflicts of interest in attending assemblies due to the contact of analysts and portfolio managers with the issuers of assets that make up the portfolios, as well as with their shareholders, administrators, employees, customers, suppliers, creditors, or debtors. The policy also establishes that in cases of potential conflict, the vote may only be exercised if the shareholders are informed of the content and a justification for the vote to be cast, provided that

such justification considers the interests of the shareholders and the continuous appreciation of the assets that integrate the portfolios.

CONTACT

This policy is available at FAMA Investimentos' website[8].

Any queries or questions may be addressed to FAMA Investimentos, at Rua Olimpíadas, 134, Conjunto 42, São Paulo, SP, CEP 04551-000 or by email at fama@famainvestimentos.com.br.

[8] http://www.famainvestimentos.com.br/compliance