FAMA Investimentos

Stewardship Report

2022

SUMMARY

Rua Olimpíadas, 134 | 4º andar | Cj.42 | 04551-000 | Vila Olímpia | São Paulo | SP | Brasil
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1. Who we are?

Pioneering Brazilian Asset Manager in ESG Integration

FAMA Investimentos is a Brazilian asset manager founded in 1993 by Fabio Alperowitch and Mauricio Levi with the aim of investing in responsible companies aligned with their personal values. Since its founding, it has incorporated an ethical and corporate responsibility stance into its DNA, which is reflected in its portfolio structure, ambitious commitments, robust engagement, advocacy, and transparency.

Over 30 years, FAMA managed a single product and a single strategy (FAMA FIC FIA) employing a fundamentalist bottom-up approach and ESG[1] incorporation in a concentrated portfolio of approximately 15 to 17 Brazilian listed companies, aiming to maximize returns for its investors, while promoting improvements on specific ESG issues with investees.

In 2023, FAMA Investimentos made a significant decision to transform itself into a Sustainable Investment Platform, which involves expanding its strategies and operations to encompass various asset classes and geographies. The primary objective behind this expansion is to generate a greater and more tangible positive impact and to redirect the flow of capital towards the most urgent and pressing challenges. Its motivation stems from the fact that there is a lack of concrete action within the financial market, and it is not acceptable to have any more delays in acting. The current strategy, focused on ESG integration, will remain the same.

Please be aware that this report is focused on the 2022 operations and results; therefore, it is exclusively related to the FAMA FIC FIA Fund (ESG Integration strategy).

For more details on the new strategic agenda of FAMA Investimentos, please access here.

FAMA Investimentos is a B Corp – certification granted to companies that meet high standards of social, environmental, governance, and transparency criteria for its stakeholders and it is headquartered in São Paulo, Brazil.

[1] ESG is an acronym for Environmental, Social and Governance

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2. Our philosophy

Our approach to responsible investing revolves around allocating capital to companies of exceptional quality that embrace ethical standards, uphold core values, foster sound corporate governance structures, and prioritize the interests of all stakeholders. These companies should also demonstrate a firm commitment to respecting human rights and environmental sustainability, generating value that extends beyond financial gains.

By incorporating ESG factors into the evaluation and oversight of companies, we can gain a comprehensive perspective on their primary risks, challenges, long-term competitive advantages, and opportunities for value creation and accelerated growth. In essence, this allows us to assess their genuine investment potential and fulfill our fiduciary responsibility by delivering exceptional, risk-adjusted returns while actively contributing to the UN Sustainable Development agenda.

Ethics lies at the heart of our principles.

While we recognize that companies may encounter evolving ESG challenges across various areas, when it comes to ethics, we have a zero-tolerance policy for any form or degree of deviation.

3. How do we do it?

The Investment Committee

FAMA's investment analysis and decision-making process is the responsibility of the Investment Committee, made up of four research analysts – one of them focused on transversally supporting the deepening of ESG analysis and engagement with companies, and two portfolio managers. All analyses and investment decisions are made within the committee.

Portfolio managers are responsible for allocation decisions, respecting the risk and liquidity parameters of each security and the entire portfolio (funds and managed accounts). They are also responsible for guaranteeing alignment with our philosophy, values, and policies.

All members of the Investment Committee are certified in ESG Investing by the CFA Institute.

Our Investment Process

Our approach to 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 within our investees.

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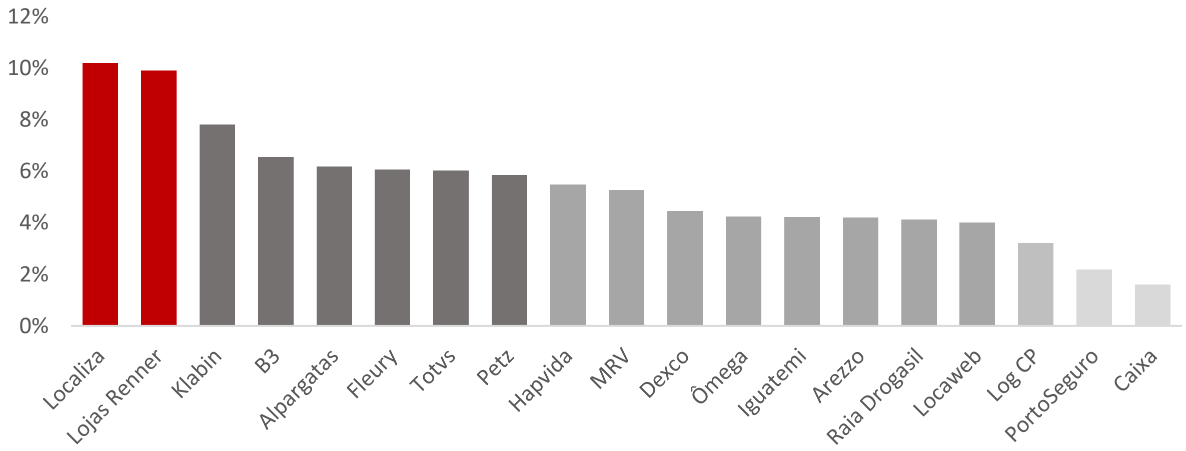
The process is established so that the entire investment team is aware of all aspects of any company in an integrated and non-segmented manner, ensuring richer and less biased debates and analyses. **ESG aspects, along with other qualitative and financial aspects, influence the analysis and decision-making of the investment team, including the selection, maintenance, and divestment of a company within the portfolio, as well as the stewardship efforts.**



Portfolio holdings FAMA FIC FIA by December/2022

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 companies 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.

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, which are crucial for our investing process. A brief illustration of the process is shown below:

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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

FAMA's investment process simplified

Once the company is part of our portfolio, we structure an ESG Engagement Plan based on a rigorous analysis of the company's ESG attributes, challenges, and progress (more details in the following section).

4. Stewardship at FAMA Investimentos

What does it mean Stewardship?

As stated in our Responsible Investment and Stewardship Policy, stewardship can be defined as the proactive and positive influence exerted by investors on investees, with the objective of maximizing sustainable value creation to all stakeholders.

Stewardship is implemented through individual and collaborative tools, including, but not limited to, engagement and voting practices, as described below. Some of the common practices include interactions with portfolio company representatives, voting in shareholder meetings, filing shareholder resolutions/proposals, assuming formal roles on boards, negotiating and monitoring stewardship actions over company supply-chains, engaging with policymakers and standards setters, contributing to public goods (e.g., research) and public discourse (e.g., media), and, if necessary, litigation.

- **Engagement:** interactions with current or potential investees, conducted with the aim of collecting or confirming information/data, demanding clarification on a certain controversy or doubt, or suggesting improvements in strategic ESG practices and processes. Based on

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the type of interaction, engagements can have different durations and make use of different resources.

- **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.

Brazilian Stewardship Code

Globally, stewardship codes were created after the 2008 global financial market crisis, triggered by heated discussions regarding how to effectively prevent events that could significantly disrupt the real economy. The Financial Reporting Council (FRC) issued the world’s first stewardship code in 2010, largely unchanged from a previous document dated from 1991 “The Responsibilities of Institutional Shareholders in the UK”; however, not backed up by the market.

The UK model has served as a blueprint for other jurisdictions worldwide, including Brazil, which in 2016, established its own Stewardship Code through the efforts of AMEC (Capital Market Association – from Portuguese).

In 2022, FAMA Investimentos made a conscious decision to embrace the code, recognizing its significance and the importance of fostering widespread institutional support for its principles. This decision reflects our previous efforts on engagement and underscores our commitment to encouraging other institutions to join in promoting and upholding the code's principles.

The seven principles of the Brazilian Stewardship Code are shown below and are followed by details on FAMA’s work around them.

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PRINCIPLES OF AMEC'S STEWARDSHIP CODE

1 TO IMPLEMENT A STEWARDSHIP PROGRAM

2 TO HAVE APPROPRIATE MECHANISMS FOR MANAGING POTENTIAL CONFLICTS OF INTEREST

3 TO INTEGRATE ESG ASPECTS IN THE INVESTMENT PROCESS AND STEWARDSHIP ACTIVITIES

4 TO MONITOR SECURITIES ISSUERS

5 TO BE ACTIVE AND DILIGENT IN THE EXERCISE OF VOTING RIGHTS

6 TO DEFINE COLLECTIVE ENGAGEMENT CRITERIA

7 TO BE TRANSPARENT ABOUT THE STEWARDSHIP ACTIVITIES

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ESG is about process, not product

ESG serves as a powerful tool for us in managing risks and identifying opportunities. It enables us to conduct a comprehensive assessment of companies by encompassing various aspects such as economic, financial, ethical, social, environmental, and governance. We firmly grasp that **integrating ESG aspects into the investment process and decision-making goes beyond being merely morally correct; it represents the most effective way to fulfill our fiduciary duty towards our investors.**

By recognizing the uniqueness of each company in terms of its history, values, sector, location, processes, strategy, culture, and technology, **we believe that the most effective way to incorporate ESG aspects lies in understanding the corporate culture and assessing whether the decision-making processes prioritize the interests of the company's multiple stakeholders**. Therefore, we maintain that ESG integration is highly supported by quantitative and qualitative analysis, rather than a narrow and exclusive examination of quantitative indicators.

Engagement

That uniqueness means each of them are in different stages in their sustainability journey and consequently, demand for specific stewardship actions that allows us to support them in advancing their sustainability objectives and addressing their most material issues. **We firmly believe that stewardship, when properly done, maximizes overall value to our investees, to our portfolio and to our clients.**

Recalling what was mentioned in the previous chapter, stewardship is the proactive and positive influence exerted by investors on investees, and although we value the importance of voting and activism, **we consider engagement to be the most comprehensive and impactful approach.**

In 2022, we decided to make our engagement process (already imbued in our routine) more robust, structured, and focused without losing the proximity and flexibility we have built over time with our investees. Following on that, **all our investees must have a tailormade engagement plan** containing between three to five SMART[2] objectives, a specific timeline and escalation methods to be triggered if the engagement is not successful under previously established conditions, as follows (not necessarily in this order):

- Holding a meeting with board and/or c-level members to raise concerns and set up a clear plan.
- Collaboratively engaging the entity with other investors.

[2] SMART: Acronym for Specific, Mensurable, Achievable, Relevant and Time-bound

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- Publicly engaging the entity (e.g., open letter).
- Filling, co-filling or submitting a shareholder resolution or proposal.
- Voting against the board directors, chair, or annual reports.
- Divesting or implementing an exit strategy.

Our expectations are focused on finding the main topics to engage, respecting, and pursuing three elemental criteria, materiality, action perspective, and impact in value creation, as explained below:

1. **Materiality:** the topic needs to be relevant in terms of impact, whether in mitigating risk or addressing opportunities. We will only engage on topics that are relevant for the company.
2. **Action perspective:** the topic needs to be subject to concrete improvement actions, either because the company has a clear gap to fill, or because there are tools available to substantially improve current processes. We will not discuss matters that do not add value, either because they are already being well addressed or because there are no feasible solutions within our reach.
3. **Impact on value creation: engagements** must have a clear effect on value creation and/or risk mitigation. We are clear about our role as an investor and our ESG engagements need to focus on this.

Plans are essential for the efficient use of resources towards concrete results and allow for detailed monitoring, also acting as inputs in the iterative investment analysis and decision-making process. All of them are structured based on a proprietary assessment of the company's most material topics, specific progress, and challenges ahead. It is noteworthy that these material topics could vary from those established by the company.

The stewardship program, including its strategy, construction, monitoring, and transparency is the responsibility of the ESG analyst. All engagements and voting processes are conducted internally.

After the initial assessment is completed by the ESG analyst, a potential engagement plan is discussed and validated within the investment team. After the investment team reaches a consensus, it is time to collect impressions of the targeted company which eventually can dictate some modifications (if properly justified) to the initial engagement plan. It is important to emphasize that the lack of willingness to address the issues raised could lead directly to some of the escalation methods mentioned above.

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Climate change is a transversal engagement topic that applies to all our investees, regardless of their specific characteristics.

This decision is based on the premise that Climate Change poses serious risks to the social, environmental, and financial stability, and goes in line with our commitment, as founding members of the Net Zero Asset Managers' Initiative to achieve 100% of our investees with established and verified science-based targets by 2040 (base year 2019) and net zero emissions by 2050. For some companies, especially the most carbon intensive ones, it may be the case that Climate Change also encompasses their specific engagement plan.

Unplanned engagements are expected when and if there are significant and unexpected ESG-related events or changes, and in cases where we are looking for specific information or data.

Our engagements are prioritized primarily based on factors such as the representativeness and stability of the company within the portfolio, and the materiality of potential issues to be addressed, which, in turn, reflect the probability of impacting the company's operational and/or financial performance, as well as the potential ability 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 to make efficient use of time, knowledge, and other resources. Nonetheless, in most cases we prefer individual and direct engagement with our investees given the proximity and, generally, long relationship we have with them.

Main progress and results

We are working to have a completed and validated ESG engagement plan for all our investees. By 2022, 37% (by invested value) of our investees had an established ESG engagement plan.

In 2022, **we led the CDP "Non-Disclosure Campaign", a collaborative engagement aimed to encourage companies to disclose information related to climate, water, and forest management through the CDP platform.** We led this engagement on behalf of other interested investors who are also signatories of CDP targeting 11 companies from our portfolio who were considered for the 2022 CDP Campaign, representing 55% by invested value by 2022 (fiscal year).

The campaign lasted approximately four months, starting in April, and extending until September. Targeted companies had the option to disclose before July 27th if they wanted to be scored by CDP or by September 28th if they did not. They also had the option to be scored, but to maintain their scores private if they were reporting for the first time.

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Of all engaged companies, 82% responded to our contact. Of these, 44% responded to the questionnaires by July 27th (scoring deadline), another 44% commented that they are preparing to disclose next year and the remaining 12% commented that they will review the requested topics in their next materiality analysis.

Also in 2022, and for the third time, **we supported the CDP SBTi Campaign which calls on the world's biggest emitting companies to commit to climate action in line with 1.5°C and a net-zero future by setting science-based targets.**

In total, 318 financial institutions and multinational firms with US$37 trillion in assets and spending power (+25% compared to previous campaign in number of supporting signatories and assets/spending power committed) backed the campaign calling over 1.060 of the world's highest-impact businesses to set emissions reduction goals in line with the Paris agreement. Those companies targeted representing US$25 trillion in market cap and 22% of global scope 1 and 2 GHG emissions.

Although none of these companies are currently part of our investment portfolio, we understand it is imperative to join forces to tackle climate change and that we as investors must mobilize capital towards a low-carbon economy. According to CDP, 96% of the companies surveyed said that general investor pressure influenced their decision to join the SBTi.

Besides our collective engagements, **in 2022 we conducted eleven engagements with eight investee companies, representing 46% of invested value**, three of those in-person and the remaining by videocall. Four of those engagements included exchange of information via e-mail (e-mails for setting the meeting details are not considered).

Three meetings were held with C-level and the Board of Directors, and the rest of them were mainly held with the Sustainability team and Investor Relations team. Four meetings were held with the support of an external consultant to address specifically material topics.

Four of the engagements were related to The Engagement Plan for three companies. Specifically, those plans address issues such as: climate agenda, environmental and health and safety certifications, governance, including issues such as board composition (independence members, diversity in a broad spectrum), conflict of interest, ESG-related goals and remuneration, transparency, chemical management, forest management, water management and B Corp certification.

In total, between individual and collective engagements, in 2022 we engaged with fourteen investee companies, representing 75% of our portfolio by invested value.

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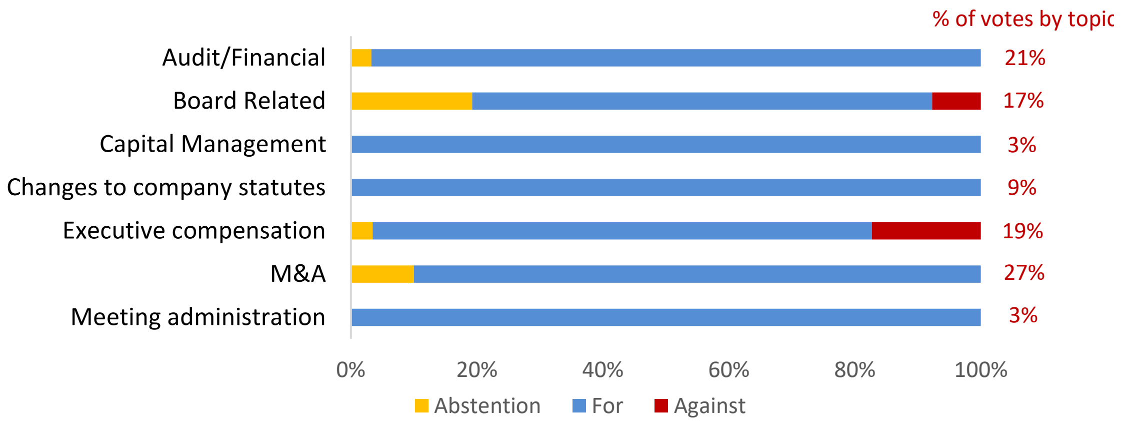
Voting

In addition to engagement, voting at shareholder meetings allows us to formally express approval or disapproval on various matters; however, we find it hard to advance on ESG issues via voting in part because most Brazilian companies have controlling shareholders, therefore, limiting shareholder activism.

During the year of 2022, we voted in 100% of the AGM/EGM (Annual General Meetings/Extraordinary General Meetings) we were entitled to vote for, totaling twenty-eight (39) meetings and two hundred and twenty-two proposals (294). Of these proposals, sixteen (16) were written and yes/no votes and are not counted in the statistics below.

For the remaining two hundred and seventy-eight (278) proposals, one hundred and forty-nine (149) were classified as relevant (votes on material issues), of which we abstained from voting on 7.38% of them, voted against 4.70% and in favor of 87.92% of the proposals.

Voting Activity per Topic



Most of the proposals voted were related to “M&A” aspects representing 27% of the relevant votes, followed by “Audit/Financial” representing 21% of the votes, “Executive Compensation” representing 19% of the votes, “Board Related” representing 17% of the votes, “Changes to company statutes” representing 9%, and “Capital Management” and “Meeting Administration” representing each 3% of the votes.

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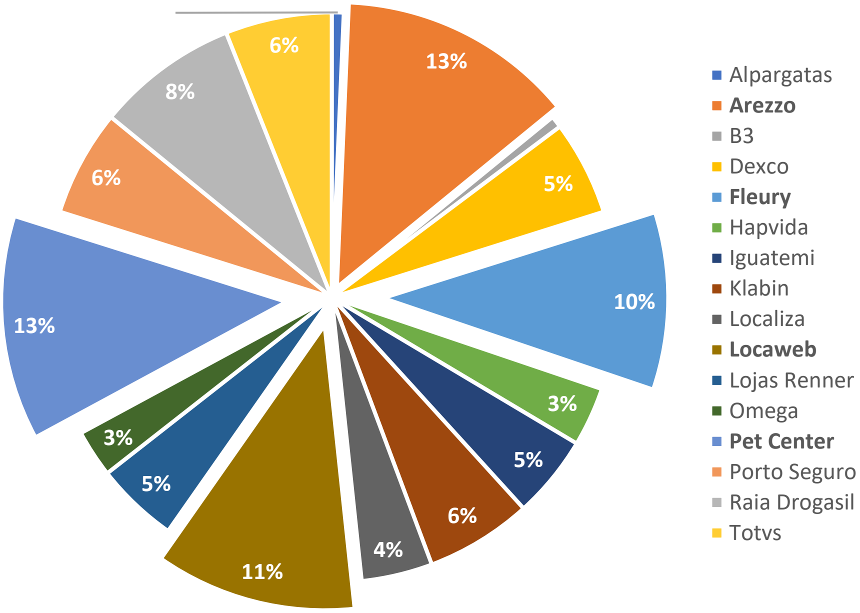
Proposals voted by company



Most of the proposals voted over the year were related to Arezzo (13%), Fleury (10%), Locaweb (11%) and Petz (13%).

Before the meetings, when we voted against or abstained from voting, we privately communicated the rationale behind our decision to the companies in 44% of the relevant votes.

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, properly recorded in internal tools and communicated publicly.

We deem as a good practice, even if not mandatory, to communicate privately and directly our voting intentions to the company 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 this option 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 at FAMA Investimentos' website (www.famainvestimentos.com.br/sobre/documentos/).

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Conflict of interest

We understand that conflicts of interest may exist between various individuals and entities, including FAMA employees, customers, current and/or future investors as well as investee companies. Any failure to properly identify or resolve a conflict of interest can have serious negative repercussions 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 investee companies,
- Immediate family members of employees working in any of our investee 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 or investee companies 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.

Advocacy

Although we recognize the importance of engaging with policy makers and regulators to ensure adequate policies and structures that support and enable responsible investment, we are cautious about when and how we should do it.

Despite we do not exercise political influence directly, there are several ways we do it indirectly, including by supporting and signing public statements, by contributing to private and public debates on ESG issues, be it through interviews, webinars, conferences, and others, as well as through third-party organizations that we support or are members of, which are listed below:

- Principles for Responsible Investment (PRI)
- CDP
- United Nations Global Compact
- Task Force on Climate-related Financial Disclosures (TCFD)
- Task Force on Nature-related Financial Disclosures (TNFD)
- Net Zero Asset Manager Initiative
- Partnership for Carbon Accounting Financials (PCAF)
- AMEC Stewardship Code

These initiatives and institutions facilitate collaborative engagement with companies and policy makers on material ESG issues and play a crucial role in fostering dialogue as well as knowledge-sharing in the market. They also incentivize the development of best practices, ultimately contributing to the advancement of the ESG landscape.

We thoroughly evaluate each opportunity to engage with policymakers on a case-by-case basis, taking into consideration several factors, among them, the institution leading the initiative (it could be another institution not mentioned in the list above), the governance structure it has deployed for the implementation, the primary objective of the initiative – including the alignment with FAMA's own principles and strategies, our core responsibilities and the potential for generating positive outcomes with our participation. This previous assessment is aimed at making informed decisions and to ensure we can maximize the impact and to meaningfully contribute to the desired outcomes.

Similar criteria are applied when it comes to proprietary statements and participating in events. We look to share our opinion with interested stakeholders with regards to a variety of topics such as climate change, and human rights, and recognize the importance of taking a stand in critical situations, whether they arise within private organizations or in the public sphere. For us it is important to demonstrate our commitment by voicing our position and advocating for responsible practices.

In 2022, we supported the following statements and initiatives:

- **Moratorium on Deep Seabed Mining:** we backed the call for a temporary halt on deep seabed mining activities. This initiative aims to address the potential environmental risks associated with this form of mining and promote further research and sustainable practices.
- **Open letter from Brazilian organizations to US President Joe Biden and Congresspersons in support of the trust fund against deforestation:** we joined Brazilian organizations in signing an open letter addressed to US President Joe Biden and members of Congress. The letter expressed support for establishing a trust fund to combat deforestation and protect the Amazon rainforest, highlighting the significance of international collaboration in addressing this critical issue.
- **Global Investor Statement to Governments on the Climate Crisis:** we continued our support for the Global Investor Statement to Governments on the Climate Crisis. This statement, endorsed by a coalition of investors, emphasized the urgent need for government action to address climate change, mitigate risks, and transition to a low-carbon economy. Our endorsement for the third consecutive year demonstrates our ongoing commitment to supporting a just transition to a low-carbon economy.

Transparency

All engagements are diligently recorded in internal tools and frequently monitored to verify progress and to determine whether any adjustments or refinements are required. In this way we can foster transparency, accountability and continuous improvement based on the evolving needs of our investee companies and own objectives.

We produce a quarterly report that consolidates the stewardship activities carried out, including collective engagements, our public commitments and other advocacy efforts, which is publicly available on our website. Due to confidentiality, this public report only has statistical data for engagements. The details, including the objective of engagement, the participants and main outcomes are only available to our clients.

Both reports, the public and private version, include statistical data on our voting. All the details, including the proposals and votes are publicly available in our website and updated on a yearly basis.

For more information, please visit www.famainvestimentos.com.br

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