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QUARTERLY REPORT

Fama LatAm Climate Turnaround fund

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Content

Letter from the CIO

The need to rethink our agricultural practices has become increasingly urgent.

Conventional agriculture, characterized by the intensive use of chemical fertilizers, pesticides, and monocultures, has been associated with soil degradation, water contamination, and loss of biodiversity. These problems are exacerbated by climate change, which intensifies the challenges faced by farmers.

In contrast, regenerative agriculture emerges as a promising alternative, utilizing bio-inputs, precision agriculture, cover crops, and other practices that not only promote environmental sustainability but also offer tangible financial advantages.

Similarly, the Integrated Crop-Livestock-Forest system offers several significant advantages for sustainable agriculture.

This integrated system maximizes land use by combining agricultural crops, livestock, and forests, promoting a symbiotic relationship between these activities. It helps improve soil fertility and control erosion, also contributing to climate change mitigation by increasing carbon capture in the soil and plants.

Bio-inputs, such as biofertilizers and biopesticides, are natural products that promote soil and plant health, reducing the need for synthetic chemical inputs. They help increase soil fertility, promote biodiversity, and reduce greenhouse gas emissions.

Precision agriculture, on the other hand, utilizes advanced technologies, such as sensors, drones, and GPS, to monitor and manage the specific needs of crops more efficiently. This allows for more precise application of inputs, reducing waste and increasing productivity.

Cover crops are also a fundamental element in regenerative agriculture. They are grown between main crops and help protect the soil from erosion, improve soil structure, increase organic matter, and provide additional nutrients. Cover crops also help suppress weeds, reduce the need for herbicides, and increase soil resilience to climate change.

Healthier soils are more capable of storing carbon, helping to combat climate change. Additionally, the greater biodiversity in regenerative farms creates more balanced and resilient ecosystems, better able to withstand environmental pressures.

From a financial perspective, the transition to regenerative agricultural practices can also be highly beneficial. While there might be initial costs associated with adopting these practices, they may be outweighed by the long-term benefits. **Studies have shown that regenerative agriculture can increase crop productivity and reduce costs.** For example, a study by the Rodale Institute found that regenerative agricultural systems can be more productive and profitable than conventional systems in the long term. A BCG Report points in the same direction, indicating that in addition to socio-environmental benefits, the return on invested capital is high not only for farmers but also for the entire value chain.

Another crucial aspect of regenerative agriculture is the valuation of natural capital. **Natural capital refers to the natural resources that provide essential ecosystem services that support life on Earth**, including fertile soils, clean water, pure air, biodiversity, forests, and oceans.

Unfortunately, these services are not yet valued by the financial market and are not included in company valuations or used as collateral in loans. However, this is changing. **As awareness of the importance of natural capital grows, more companies and investors will recognize its value. Valuing natural capital can lead to greater financial resilience and better environmental performance, and companies that invest in building natural capital are better positioned to face future challenges and seize market opportunities.**

Integrating natural capital considerations into company valuation can transform the way we value and manage our natural resources and, therefore, represents a significant opportunity for investors. The trend of recognizing and valuing natural capital is irreversible and should, over time, reward companies that are protecting and enhancing the natural capital, as well as penalize those that are degrading it.

> At fama re.capital we are committed to help the market understand and recognize the value of natural capital, as we believe this is a disruptive approach to generating value for our investors across all our products.

Fabio Alperowitch, CFA – founder of fama re.capital

The problem with excluding "brown" assets from portfolios is that it only perpetuates the problem, since polluting companies will likely continue to receive investments from alternative sources. If all responsible investors divest from major GHG emitters, who will invest in their transition? Chances are, without the engagement of responsible investors, GHG emissions will continue to increase.

Moreover, these market actors have focused primarily on investments to eliminate fossil fuels and promote energy transition, overlooking the fact that the world feeds on and consumes products derived from raw materials linked to GHG emissions from the Global South. In Latin America, AFOLU (Agriculture, Forestry, and Other Land Use) emissions are particularly relevant, with Brazil's agricultural activities and land use accounting for 74% of total emissions (SEEG - Greenhouse Gas Emissions Estimation System). Brazil's case is emblematic, as the country is the seventh-largest historical emitter of GHGs globally and one of the world's main commodity suppliers. Therefore, it is correct to say that Brazilian GHG emissions are highly significant in the global challenge to overcome the climate crisis.

The LatAm Climate Turnaround fund was created in response to this context.

The LatAm Climate Turnaround fund invests in companies with high greenhouse gas emissions. As a shareholder, the fund aims to be a positive influence, accelerating these companies' climate transition through collaborative engagement and scientific approaches. By doing so, it seeks to create economic value, enhance the valuation of the investees, and achieve attractive financial returns for investors.

Its mandate is to invest in 5 to 6 companies in sectors with high levels of direct emissions, with a particular focus on value chain-related emissions. By adopting a comprehensive approach to the entire value chain, the fund contributes to the decarbonization of the real economy.

Integrated Crop-Livestock-Forestry System

Our investment thesis

The financial impact of climate change is tangible and continues to increase at an alarming rate. According to a study by Dartmouth College, total global financial losses attributed to greenhouse gas emissions by five of the largest emitters (the United States, China, Russia, India, and Brazil) amounted to approximately US$6 trillion between 1990 and 2014. In 2022 alone, according to the Lancet Countdown report, economic losses due to extreme weather events totaled about US$264 billion, considering events such as storms, floods, and droughts exacerbated by climate change. In 2023, the Gallagher Re Natural Catastrophe and Climate Report found that natural disasters exacerbated by climate change caused a total of US$380 billion in economic losses. Looking ahead, a 2023 World Economic Forum study estimates global annual losses due to extreme weather events to be between US$1.7 trillion and US$3.1 trillion per year by 2050, including damages to infrastructure, properties, agriculture, and human health.

In Brazil, the recent floods in Rio Grande do Sul in May 2024 show that climate change related financial losses are also a reality. In addition to over 420,000 displaced people, 182 lives tragically lost, and 90% of the state affected, local governments now face the immense challenge of relocating the impacted population to safer areas while simultaneously rebuilding cities to be more resilient. The entire state, an agricultural powerhouse responsible for about 6.5% of Brazil's GDP, has been economically devastated. Initial investment estimates for the recovery of Rio Grande do Sul reached nearly R$100 billion, not considering the need to rebuild more climate resilient infrastructure, which will require additional investments.

Climate change is a threat to global economic stability, and decarbonization is a necessary path to avoid this devastating scenario.

Although investors, consumers, and society in general are increasingly aware of this issue and are demanding companies to adopt more sustainable practices, most business models still rely on highly GHG-emitting activities. Governments, laws, and the judiciary have been slow to foster change. Without the appropriate mandates or incentives, companies are unlikely to adopt the necessary decarbonization measures at the required pace according to science.

Currently, financial market actors who actively engage with this agenda are only focused on their direct emissions and those of their portfolios, and typically exclude companies that are significant sources of GHG emissions or environmental pollution (known as "brown companies"). Even fewer investors have a supply chain view and ignore the impact of lifecycle emissions on their investments.

Beyond generating a positive climate impact, the fund's thesis upholds that mitigating the climate risks of invested companies also contributes to maximizing their financial return. This can occur through:

1. A reduction in costs and expenses due to efficiency measures and risk reduction;
2. A reduction in the cost of capital due to a perceived reduction in companies' risks, leading to an increase in their valuation;
3. An increase in revenue streams resulting from new business lines and/or repricing of current products;
4. Improved investor perception, leading to higher multiples and/or the company's removal from potential exclusion lists.

Relevant risks include an increase in climate-related physical risks due to more frequent climate events, and transition risks, which encompass demands to comply with new regulations, carbon emission pricing, litigation, and potential trade barriers – issues that have already been observed in Brazil. On the other hand, there are also tangible and intangible opportunities, such as enhancing brand equity and attracting and retaining talent.

Therefore, the fund has a dual purpose:

- To deliver financial returns for investors; and
- To generate positive impact and economic value for the company.

To achieve this, the LatAm Climate Turnaround fund Invests in companies that meet the following criteria:

Companies that are high-quality businesses, well-managed , with competitive advantages, high returns on invested capital, and good governance standards.

Major greenhouse gas emitters (more than 1 million tons of CO2e/year - including scopes 1, 2, and 3 emissions), capable of promoting their decarbonization and that of their value chains.

Companies for which the fund can find financially feasible decarbonization pathways.

Companies that have demonstrated willingness to engage with the fund's team.

The fund's engagement approach is collaborative and begins in the pre-investment phase. The investment team seeks to establish a partnership and mutual trust relationship with the company and provide effective and viable decarbonization recommendations through a detailed Action Plan.

The guidelines and recommendations seek a balance between the best available science and alternatives that have operational and financial feasibility.

In summary, the objective of the LatAm Climate Turnaround fund is to prove that companies that decarbonize are good businesses and good investments, simultaneously generating positive climate impact and attractive financial returns.

Our first investment: why are we invested in SLC Agrícola?

The fund's strategy of investing in major emitters in Latin America requires a close focus on companies in the agribusiness and land use sectors, including their supply chains. Therefore, our first investment in SLC Agrícola is quite emblematic.

Founded in 1977 in the state of Rio Grande do Sul, Brazil, SLC Agrícola has evolved over the past five decades from a company with a few regional properties to one of the largest agricultural groups in the world, with activities including soybean, corn, and cotton production. Currently, the company manages almost 700,000 hectares of planted land across 22 properties in seven Brazilian states, covering various biomes.

In a country like Brazil, where agricultural and land use activities account for nearly 74% of GHG emissions, agribusiness is often labeled a "villain." However, a growing generation of farmers and scientists is finding ways to sequester carbon in the soil while improving crop practices and productivity. Thus, agriculture can become an essential tool in combating climate change, as noted out in a Nature article, sustainably feeding billions of people, even considering the high population growth the UN estimates by 2050. SLC exemplifies this potential, consistently recording productivity above the national average and showing openness to incorporating technologies and practices to mitigate climate impacts, including regenerative agriculture.

In this context, it is noteworthy that EMBRAPA (Brazilian Agricultural Research Corporation), with its mandate to develop technologies for agriculture in tropical climate, has played a crucial role in this agenda in Brazil. Between 1975 and 2019, the institution contributed to a 510% increase in grain production and an 858% increase in meat production. In 2019, each hectare produced three times more grains than in 1975, an impressive feat, especially considering the limitations in expanding agricultural frontiers. This progress highlights the importance of technological innovation and Brazil's role in sustainability and efficiency in agricultural production.

Cotton harvest at SLC Agrícola farm

EMBRAPA has been pivotal in developing and refining sustainable agricultural practices, and SLC has stood out as a reference in large-scale implementation. In 2023, only two farms, covering an area of 36,000 hectares, adopted regenerative practices. In 2024, these practices are being expanded to four other properties, totaling an area of 190,000 hectares.

This demonstrates the company's ongoing commitment to sustainability and innovation in the agricultural sector.

Systematically, the company's sustainable agriculture program includes:

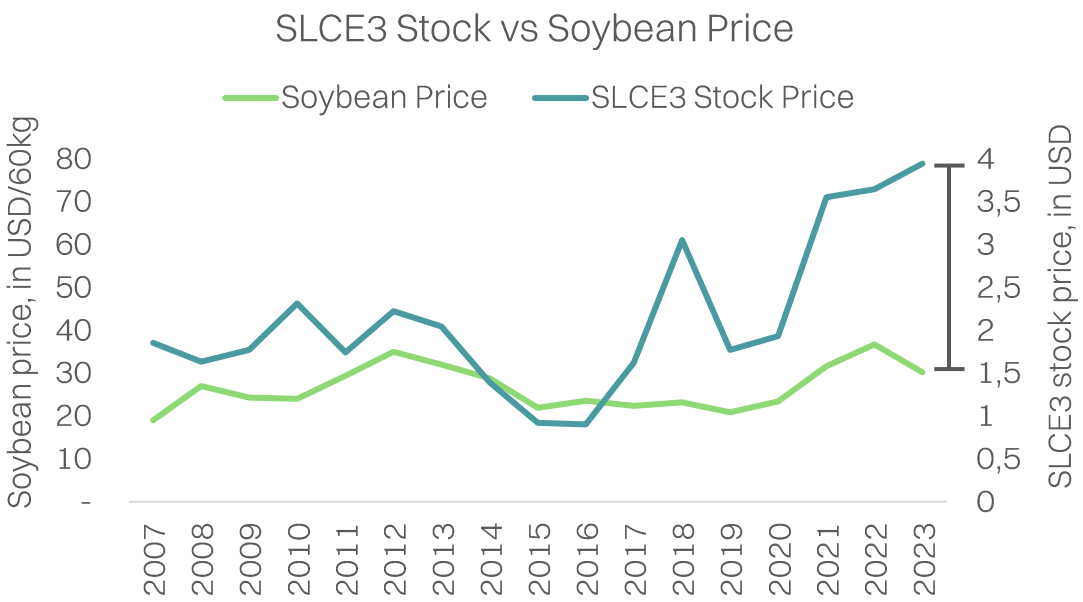
- No-till farming, which reduces the need to plow the soil, preserving its organic structure and helping to retain carbon
- Cover crops, which contribute to water and nutrient retention and reduce soil erosion
- Crop rotation, which helps improve soil biodiversity
- Integrated crop-livestock-forestry system, which helps enrich the soil with organic matter. Additionally, the company uses precision technology, allowing localized input application, and advances in the development and use of bio-inputs.

The evolution of regenerative agricultural practices results in greater resilience to climate variations and contributes to productivity gains. In the 23/24 cotton and corn crop season, for example, the company estimates productivity to be 8.3% and 37.6% higher than the national average of CONAB (National Supply Company), respectively, even with some states affected by changes in rainfall patterns due to *El Niño*.

The company has demonstrated great efficiency in capturing productivity on its properties, yet there is still room for improvement as the regenerative agriculture program expands. Moreover, SLC has excelled in converting pasture into agricultural production areas, thereby avoiding new openings of native vegetation. Although the business model is consolidated as *asset-light*, the company is well-positioned to opportunistically acquire new lands, replicating the best agricultural practices to optimize productivity.

Overall, we believe that the systematic adoption of regenerative agricultural practices can contribute to the continuous capture of value, not yet fully recognized by the market. The chart below illustrates that as the company improves the implementation of these practices, the stock price "decouples" from the price of soybeans in the international market, suggesting a positively adjusted perception of the company's property value, potentially due to a market supply and demand dynamic, but it may also reflect greater soil maturity managed by SLC compared to the rest of the market. In any case, we are confident that the expansion of sustainable agricultural practices will bring even greater

productivity gains and high resilience indicators, contributing to the improvement of future operational results and market perception of SLC's properties, thereby generating positive financial returns for investors.



In addition to increasing agricultural productivity, the implementation of regenerative practices increases the soil's carbon storage capacity, contributing to CO2 sequestration from the atmosphere through plants. While discussions arround carbon valuation remain unconclusive, we understand that this, and other forms of natural capital, have intrinsic value that should not be overlooked.

The investment in SLC is emblematic as it is the first made by the LatAm Climate Turnaround fund and involves the sector most responsible for GHG emissions in Brazil. Our direct engagement strategy aims to help the company scale its sustainable agricultural practices, create a natural capital valuation strategy, and ensure excellence in transparency and sustainability governance through a Decarbonization Action Plan, already endorsed by the company's ESG Committee.

Indirectly, we aim to extend these practices to the agricultural sector, reducing emissions systemically and positioning SLC as a global benchmark for low-carbon agriculture.

The importance of nature-based solutions for decarbonizing the Brazilian economy

Whether from the perspective of mitigation or adaptation to climate change, the best solutions for the resilience of the Brazilian economy involve nature.

Beyond carbon sequestration, nature provides essential ecosystem services, such as water availability, agricultural crop pollination, and climate regulation. Water production is critical for crop irrigation and urban supply, pollination is vital for the productivity of crops like fruits and coffee, and climate regulation helps maintain stable conditions for agricultural productivity and urban life.

Recognizing the economic value of natural resources and ecosystem services requires integrating natural capital into traditional economic systems. This involves measuring and reporting the economic value of natural assets such as forests, mangroves, and fertile soils, and incorporating these values in productivity and economic sustainability calculations.

Unfortunately, natural capital is not yet adequately quantified, priced, or accounted for by the market.

As a result, mechanisms that create the incentives for those who directly benefit from such ecosystem services are still at early development stages. For example, Payment for Environmental Services (PES) programs is a tool aimed at remunerating those who conserve or restore ecosystems that provide essential services, thereby promoting sustainability and economic resilience. PES programs can help reduce the risks associated with environmental degradation, such as climate change and resource depletion, which can affect the stability of financial markets and the long-term viability of investments.

PES can include financial compensation for landowners who preserve riparian forests, protect river springs, or adopt sustainable agricultural practices that contribute to maintaining ecosystem services. Several PES projects have been launched in Brazil, and successful PES policy cases have been registered in countries like Costa Rica, which implemented a system that pays landowners for conservation actions, such as forest protection and sustainable

management. This system helped reduce deforestation and conserve biodiversity in the country.

Brazil has a National Policy for Payment for Environmental Services (Federal Law No. 14,119/2021), which creates a National Registry of Payment for Environmental Services (CNPSA) and the Federal Payment for Environmental Services Program (PFPSA), but it still depends on regulation to be operationalized.

Some countries have begun incorporating natural capital and the flow of ecosystem services into national economic metrics, using concepts like Gross Ecosystem Product ("Green GDP"). Since 2017, Brazil has been reporting Environmental Economic Accounts (CEA).

Some initiatives have been launched by the private sector to measure natural capital, such as the Integrated Valuation of Ecosystem Services and Tradeoffs (InVEST), developed in collaboration with Stanford University. Additionally, the Natural Capital Protocol, created by the Natural Capital Coalition, offers a standardized nine-step process for organizations to identify, measure, and evaluate their impacts and dependencies on natural capital. The Economics of Ecosystems and Biodiversity (TEEB) initiative has also been influential in promoting the economic and business case for valuing natural capital. Companies like Puma, Nestlé, Danone, and Kering have implemented financial valuation approaches to quantify the impacts of natural capital in monetary terms. These initiatives seek to encourage companies to integrate natural capital into their strategies, which can increase sustainability and resilience while aligning with financial performance metrics.

The Taskforce on Nature-related Financial Disclosures (TNFD) is also an important initiative that consolidates a base protocol for disclosure about the impacts, risks, and dependencies associated with natural capital in corporate financial information.

Although there are already several tools and methodologies for measuring and reporting the value of natural capital, there are still many challenges, including the complexity of measurement, the choice and standardization of valuation methods (e.g., avoided cost, willingness to pay, benefit analysis), and the lack of robust and standardized data. However, above all, there is a lack of recognition and widespread acceptance of the economic value of natural capital by the market and policymakers. The market has difficulty adequately translating the loss of these assets into risk and direct returns to companies.

The LatAm Climate Turnaround fund is also tasked with translating these concepts into actionable frameworks, improving and incorporating them to develop policies that value natural capital. This approach aims to create economic value while simultaneously decarbonizing investments and the real economy.

The information contained in this material is for informational purposes only. It is essential to read the fund regulations before making any investment decisions. Past performance is not indicative of future results. The disclosed returns are not net of taxes. No fund has a guarantee from the managing institution, the manager, or the Credit Guarantee Fund - FGC. To obtain the Regulations, Performance History, Prospectus, and any additional information, please contact fama re.capital or the Fund Administrator. For evaluating the performance of investment funds, it is recommended to analyze a period of at least 12 months.

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