fama re.capital

investing for change

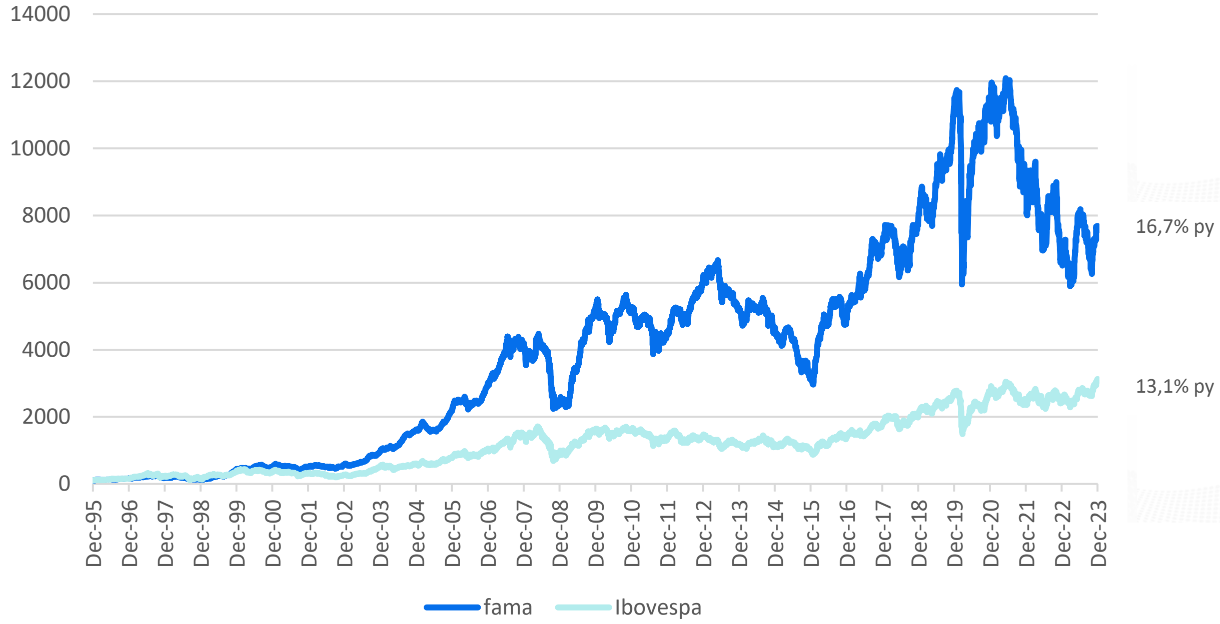
QUARTERLY REPORT

4th quarter 2023

PERFORMANCE

%	4Q23	2023	2022	2021	2020	2019	2018	2017	2016	1 year	5 years	10 years*	Inception*
FAMA	9,1	9,0	-21,2	-22,3	2,5	41,6	10,0	45,0	55,2	9,0	-3,2	45,7	7.562
Ibovespa	15,1	22,3	4,7	-11,9	2,9	31,6	15,0	26,9	38,9	22,3	52,7	160,5	3.025

* FAMA strategy; since Dec 29, 1995



MESSAGE FROM THE CIO

The growth of sustainable businesses and the transition to a green economy in Brazil represent promising areas of development, in line with global demands for environmental sustainability, social equity, and economic prosperity. This trend is particularly relevant considering the Conference of the Parties (COP30), which will be hosted by Brazil in Belém next year. This event definitively puts the country on the radar of international investors, who are increasingly inclined to allocate resources to local assets committed to the sustainable agenda.

The concept of sustainable businesses and the green economy has gained prominence as an essential strategy to address socio-environmental challenges such as climate change, loss of biodiversity, ecosystem degradation, and social inequality, while simultaneously promoting economic growth and social inclusion. In Brazil, a country with vast biodiversity and natural resources, the potential to develop such businesses is significant, but the transition faces challenges, including investment needs, technological development, and political and regulatory changes. Brazil's position of being both relevant to the green agenda and having a series of challenges presents many opportunities for responsible companies aligned with the theme.

As an emerging economy and a global leader in biodiversity, Brazil has a solid foundation for developing a green economy. The country is already one of the largest producers of renewable energy and has the capacity to significantly expand its green infrastructure. Additionally, Brazil plays a crucial role in agricultural production that can be more sustainable and in forest management, with the potential to lead global markets in bioeconomy and low-carbon products.

The hosting of COP in Brazil should intensify the focus on its environmental policies and practices, creating a favorable environment to attract investments in sustainable projects. International investors, especially those focused on corporate social responsibility, are likely to seek opportunities that align financial returns with positive environmental and social impacts.

The event also offers a unique opportunity for Brazil to showcase leadership in addressing climate and sustainability issues, establishing a favorable scenario for policy reforms and incentives that promote the green economy, which should bring very favorable conditions to companies that are already advanced in the agenda, including some in which we invest. This is expected to include regulations favoring sustainable business practices and the strengthening of legal frameworks for environmental protection.

Collaboration between the public, private, and civil society sectors will be crucial to seize this moment, promoting innovation, facilitating access to green financing, and developing the necessary infrastructure for a sustainable economy.

Despite the Conference taking place only in 2025, the path to the event can serve as a catalyst to accelerate this transition, positioning the country as a global leader in sustainability and contributing significantly to efforts to mitigate climate change.

Therefore, the growth of sustainable businesses and the transition to a green economy in Brazil over the next decade are strongly influenced by the country's ability to overcome structural challenges and leverage its natural and technological advantages.

Fabio Alperowitch, CFA – founder of fama re.capital

Performance Commentary

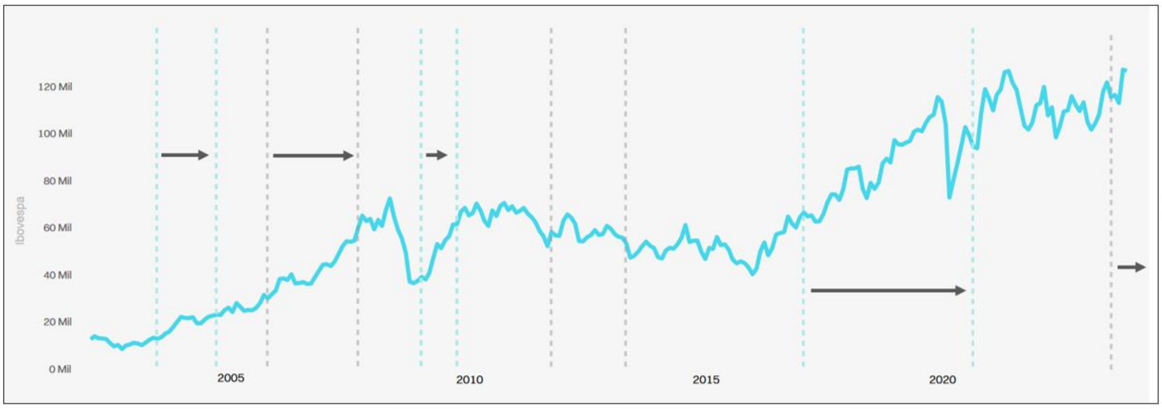
The fund presented a positive performance of 9.1% in the quarter compared to 15.1% of the Ibovespa and 11.5% of the SMLL (Small Caps Index).

This positive performance was quite widespread in the portfolio, reflecting a more constructive risk appetite in local and international markets, particularly due to the quality and growth profile of our invested companies, which makes their valuation more sensitive to variations in the required return by investors.

The main gains in the period came from Renner and Totvs. Renner benefited from improved expectations about its operating performance and credit business, especially following the disclosure of third-quarter results. In addition to a more critical stance by government officials regarding the import tax exemption used by some of its competitors. Totvs reported solid results for the third quarter in all its business units, particularly on the financial segment, where it showed an acceleration in credit origination and improvements in delinquencies.

The main negative contribution in the period came from Klabin, which suffered from the market's negative reaction to the increase in expected disbursements on third-party wood in 2024, despite being a natural consequence of the increased production in its recently inaugurated Puma2 unit. It is important to highlight that later in the quarter the company announced a highly synergic acquisition of land and forests from Arauco. This transaction significantly strengthens its forest base, also in very attractive economic terms, and we believe it will be an additional lever of performance and opportunities for the coming years.

The dominant theme in markets in recent quarters has been the dynamics of interest rates and the agents' expectations for the monetary easing cycle, which has already begun in the local market. Historical evidence is surprisingly positive; all previous cycles of interest rate reduction in Brazil in the last 20 years were followed by quite positive stock market performances.

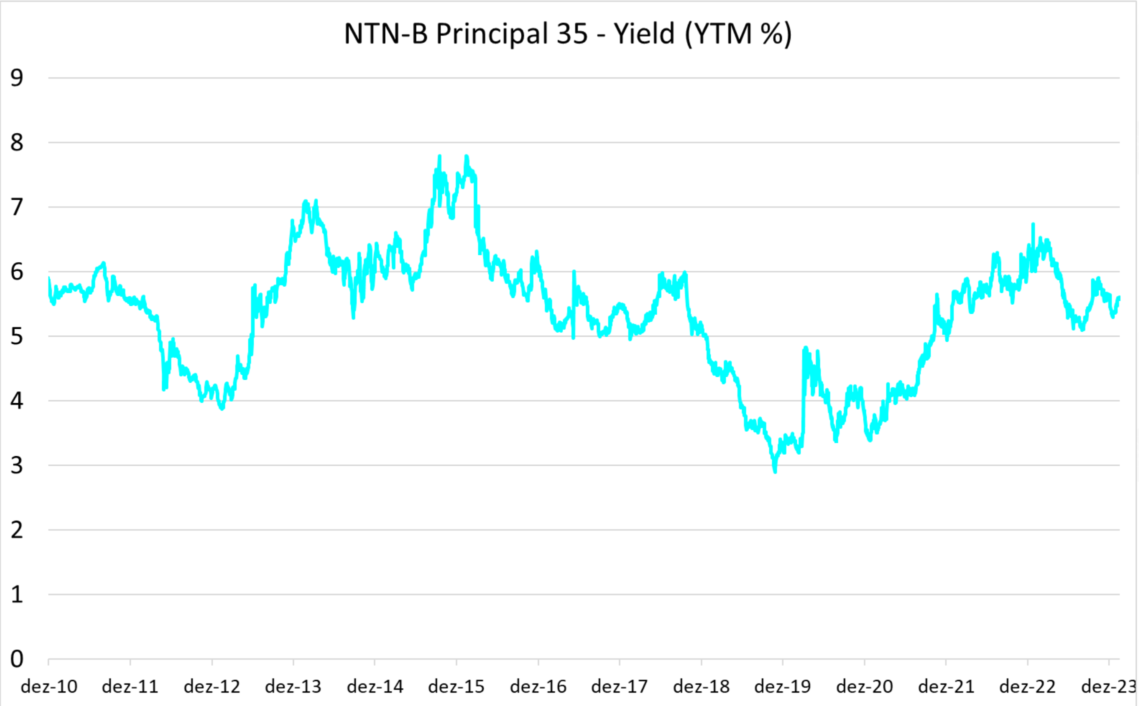


Period	Return 12m ahead	Return 18m ahead
June 2003	63%	102%
October 2005	30%	62%
January 2009	66%	72%
September 2011	13%	8%
January 2017	31%	23%

Each cycle has its peculiariies, but it is worth understanding the structural dynamics behind these performances to compare the current moment with the last cycle initiated in 2017.

The most direct transmission mechanism of this movement occurs through discount rates and the return required by investors. The reference rates relevant to this analysis are not necessarily short-term interest rates, but long-term rates of inflation-indexed bonds, with a duration similar to that of the cash flows of companies traded on the stock exchange.

Taking the NTN-B Principal 35 as a reference, we can observe that the starting point of rates at the beginning of this cycle is quite close to what we had at the end of 2016 (the start of the last interest rate reduction cycle).



This macro effect has dominated recent price movements in the market, with more pronounced impacts on companies with a significantly higher growth profiles, which consequently have their expected cash generation further into the future.

However, the impacts of the interest rate cycle are much more extensive in the corporate environment. Bringing this discussion to its most micro-economic elements, central to our investment process, we expect them to drive, among other things, an impulse to revenue growth, significant reduction in financing costs, and increased profitability.

We can understand the value of a company, in a very simplified way, as a function of its future results distributable to capital providers (already deducted from taxes and retentions necessary for growth), discounted to present value. Formalizing this construct a bit, we have:

$$\text{Value} = \frac{\text{(income after tax – growth capex)}}{\text{(discount rate – growth rate)}}$$

Which adjusted for the valuation of equity capital would be equivalent to:

$$\text{Value} = \frac{\text{net income} * (1 - g / \text{roe})}{(\text{ke-g})}$$

Where ROE represents return on equity; Ke represents the required return of equity investors; and G represents the profit growth rate.

This decomposition of value determinants helps us understand where we are today in terms of investment opportunities in stocks.

The evolution of long-term interest rates described above highlights the similarity between the required returns at the entry point of this cycle and the previous one in 2016. For the other key value drivers, we like to analyze our portfolio in an aggregated way, assuming our participation in each of the invested companies and combining them to form a hypothetical fama re.capital reference company:

Portfolio	**4T16**	**3T23**
Returns (%pa)		
ROIC	9%	11%
ROE	14%	12%
Margins (%)		
Gross Margin	47%	50%
EBITDA Margin	29%	35%

In this sense, starting with the return dynamics, it is worth noting that this reference company would be operationally in a better position today than in 2016, with better returns on invested capital and with gross margin and EBITDA margin above that period. Despite the challenging business environment of recent years, we observe that they have managed to solidify their competitive positions and performance in the period.

The exception in this return dynamics is ROE (return on equity) but it needs to be understood in context of the level of indebtedness of the combined portfolio, which went from a positive cash position in 2016 to a leverage equivalent to 1.3x ND/EBITDA.

Portfolio	4T16	3T23
Leverage		
Net Debt / EBITDA	-0,7x	1,3x

Traditionally we prefer to invest in companies with little leverage. The economic volatility that has characterized our business environment in recent decades usually is not very healthy for the performance of indebted companies. However, we also need to understand the use of debt as a natural part of the operation of capital-intensive businesses in their growth cycle. Business leaders often have, in their ability to tap attractive funding terms, an important competitive advantage to implement their strategies, and the relevant comparison ends up being between the operating returns generated and the cost of this financing.

By way of example, we can mention the case of Klabin, which finances itself at nominal rates of approximately 5% in dollars and has consistently presented returns on invested capital between 10%-20%, Serena which has a significant portion of financing subsidized by development banks for the expansion of its renewable electric generation capacity, and Localiza which has one of the most competitive financing costs in its segment and also a quite healthy spread of returns above these rates.

We continue to prefer conservative balances in our investments, but effective capital structure management, also taking into account the diversification of sources of funding and terms compatible with the cash flow profile of their businesses, is an important skill to be considered. The good news is that this may be one of the most direct channels for transmitting the interest rate reduction to companies, which should observe a gradual decrease in their financial cost as this process evolves, improving their results.

Another point that brings us a lot of optimism is the theme of growth. The recent debate about company results has been guided in large part by concerns related to the government's need to achieve better fiscal balance, and consequently increase taxation on several traditionally profitable sectors. Initiatives such as taxing state subsidies, reducing incentives for capital distributions such as interest on equity, or changes in the mechanics of tax credit compensation are examples of these initiatives.

We believe that these are short-term impacts that often detract from the larger structural growth factors that we currently see underway in the economy and especially in our portfolio. Themes such as energy transition, decarbonization of the economy and growth of renewable energy sources, use of biological-based materials, rationalization and efficiency in asset use, productivity growth, conscious consumption, and e-commerce, are important forces that leave us excited about business prospects for companies, in a way almost independently of the broader short-term macroeconomic dynamics. We believe that these trends have been consolidating and gaining strength in the business environment and should support significant value creation for players positioned to capture these opportunities.

Looking at the valuation metrics of our reference company in these two moments of the cycle, we can observe that they are much more discounted than they were in 2016. It is worth noting that we prefer to use for this analysis multiples based only on the effective metrics of the last twelve months and not prospective ones, as we often see in the market, to remove from them subjectivity regarding the growth implied in multiples.

Portfolio	**4T16**	**3T23**
Valuation (LTM)		
P/E	39x	22x
P/B	3,6x	2,2x
EV/Ebitda	13x	9x

As we detailed above, this price dynamics seems to be much more linked to the reduction in flows and exposure to the stock market that we have seen in recent years along with the tightening monetary cycle than to the fundamentals of the companies in question. Which only seems to increase the attractiveness of the investment opportunity we have at the moment.

This combination seems to us quite unusual, where we have companies today with better operational and return performance, extremely well-positioned from a competitive standpoint to capture the eventual market improvement, and also expected to reduce their financial burden, with excellent growth prospects that seem not only to have been consolidated in recent years but to have gained strength forward, and with valuations clearly discounted in relation to what we had in the past.

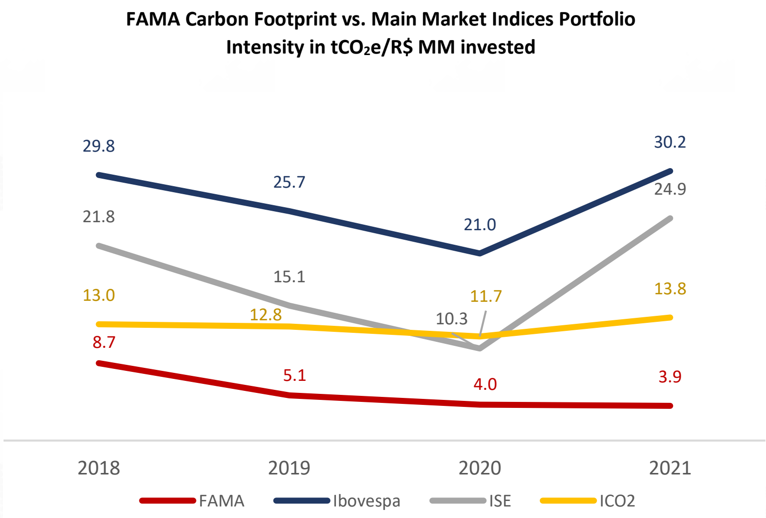
We believe that this combination only reinforces the attractiveness we currently see for investments in high-quality companies, with clear competitive advantages, which present consistent growth, limited vulnerability to the macroeconomic scenario, and conduct their businesses ethically and responsibly.

ESG Risks and Opportunities

Please find below ESG risks and opportunities of the fund´s main holdings

	OPPORTUNITIES	RISKS
SERENA	• Key player in renewable power generation, advancing decarbonization of the electricity sector • Advocacy in favor of the continued advancement of clean energy sources and democratization of access in the Brazilian electricity sector • Digital solutions to enhance grid efficiency and increase retail client access to renewable energy sources • Strengthen analytical tools and operating resiliency to increasing weather uncertainty • Increase in the commercialization of Renewable Energy Certificates (RECs) to support clients decarbonization strategies	• Extreme weather events can affect availability of resources and the reliability of energy operations • Potential changes in environmental regulation or government policies, that could impose barriers to licensing, project development or operations • Potential conflicts with local communities due to issues related to land use, indigenous rights, or environmental concerns, especially if not appropriately addressed or handled • Socioenvironmental impact and regulatory risks from incorrect disposal of construction materials and equipment
KLABIN	• Development of new biobased, renewable, recyclable, and biodegradable products • Substitution of single-use plastic packaging with paper • Forest-based environmental services / carbon credit capture and sale	• Reduction/optimization in packaging use, circular practices • Advancement in corporate governance practices / diversity
MILLS	• Business model based on a powerful combination of increasing client productivity coupled with enhanced work safety practices • Advocacy of adherence to safety guidelines, labor laws and sustainability practices among clients and providers • Improved maintenance practices to increase availability and useful life of equipment • Offering new, more energy efficient and environmentally friendly machinery can attract and retain certain clients (i.e. increase in the percentage of electric machinery and equipment) • Implementing systems to monitor equipment usage remotely, and compile data on business chain emissions, and report on sustainability metrics can enhance transparency and accountability	• The 'yellow line' / heavy machinery poses relevant challenges for the company’s decarbonization process • Reliance on client operation requires extensive training to avoid improper use • Need for mature asset disposal/divestment post-usage, posing challenges in proper asset use and indirect disposal • Relevant exposure to infra-structure and construction projects, indirect exposure to government contracting practices that need to be monitored

PORTFOLIO CARBON FOOTPRINT



-87% FAMA Investimentos Carbon Footprint vs. **Ibovespa** in 2021

-84% FAMA Investimentos Carbon Footprint vs. **ISE** in 2021

-72% FAMA Investimentos Carbon Footprint vs. **ICO2** in 2021

SDG / ESG Allocation Breakdown

At the end of the quarter, our portfolio consisted of companies that prioritize addressing six of the UN Sustainable Development Goals (SDGs), with the most significant being SDG 9 (Industry, Innovation, and Infra-structure) and SDG 3 (Good Health and Well-Being), which together account for 50% of our portfolio: