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investing for change

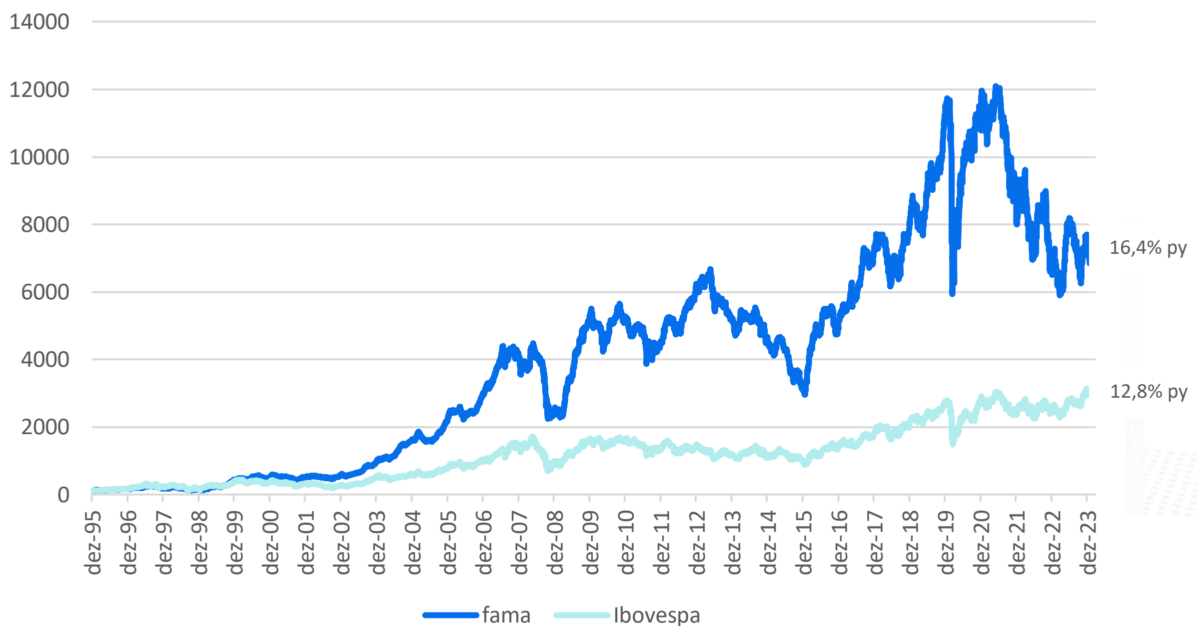
QUARTERLY REPORT

1st quarter 2024

PERFORMANCE

%	1Q24	2024	2023	2022	2021	2020	2019	2018	2017	2016	1 year	5 years	10 years*	Inception*
fama	**-5,6**	**-5,6**	**9,0**	**-21,2**	**-22,3**	**2,5**	**41,6**	**10,0**	**45,0**	**55,2**	**18,0**	**-11,1**	**35,6**	**7.130**
Ibovespa	-4,5	-4,5	22,3	4,7	-11,9	2,9	31,6	15,0	26,9	38,9	25,7	34,3	154,1	2.883

* FAMA strategy; since Dec 29, 1995



MESSAGE FROM THE CIO

The historic report 'Who Cares Wins', a result of a collaboration between more than 20 financial institutions led by the UNEP FI (United Nations Environment Programme Finance Initiative), will celebrate its twentieth anniversary in June this year. This report was part of a larger initiative, which also included the launch of the PRI (Principles for Responsible Investment) and sought to integrate sustainability considerations as guides for investments, significantly highlighting the term ESG. Although the acronym has played an important role in popularizing the concept of responsible investment by contextualizing it in environmental, social, and governance frameworks, it also inadvertently led to reductionism and compartmentalization of these concepts, meaning treating the letters E, S, and G as separate can dismantle something that should be integrated.

In this context, in many cases, the perception that good corporate governance practices are essential for maintaining long-term socio-environmental commitments was lost. Many companies that strive to develop good social or environmental practices falter in their structuring and execution if there is no governance framework governing such initiatives.

A few weeks ago, I was invited by the ICGN (International Corporate Governance Network) to be a panelist at a conference in Washington, DC on the status of Corporate Governance in emerging markets (video here), especially to share my views on this practice in Brazil.

It is important to remember that the vast majority of publicly traded Brazilian companies have defined control. Although, throughout our history, we have generally preferred to invest in family businesses, which are usually more committed to the long-term perspectives of companies, it is also notable that many family businesses tend to have boards of directors as a legal obligation and not because they see value in this sphere.

In this way, many boards become more ceremonial with little debate, while shareholder meetings often present diluted agendas and low quorum, and minority shareholders are often seen as adversaries. Given this, the importance of collaborative engagement with invested companies becomes clear, with a holistic and multidisciplinary vision, and a focus on creating value for all stakeholders, a practice we have adopted for over 20 years.

It is crucial to emphasize that corporate governance should not be seen merely as a set of rules or standards, as many interpret it. Good governance relates to ethics and corporate culture. If good governance were only about rules and standards, the biggest governance scandals in this country would not have occurred in companies of the New Market, which proposes clear guidelines on good governance policies but is evidently ineffective in promoting advances in organizational culture which should be fundamentally valued, instead of the norms which, without the proper culture, are violable.

We seek to invest in companies with an ethical culture that, in the absence or insufficiency of the norm, maintains fair, balanced decisions that consider the stakeholders.

Fabio Alperowitch, CFA – founder of fama re.capital

Performance Commentary

The fund presented a negative performance of -5.6% for the quarter compared to a -4.5% drop in the Ibovespa and -4.1% in the SMLL (Small Caps Index). The stock market's performance continues to be heavily influenced by interest rate dynamics and market expectations for the monetary easing cycle, which has already begun locally but experienced a revision of inflation-related expectations during the period, particularly in the North American market.

The main negative contributions in the period came from Localiza and MRV. In the case of Localiza, the shares suffered due to market concerns about the still challenging short-term dynamics in the used car market. MRV is going through a more complex moment, with the company addressing the impacts of cost pressures on inputs over recent years and a still financially weakened consumer base.

On the positive side, significant contributions during the period came from Porto and Klabin. Porto has captured results from its strong underwriting discipline, in addition to being very effective on the development of new business fronts and growth opportunities, such as in its health insurance operation. Klabin had a good performance in the quarter following the announcement of a significant transaction that materially expands its forest base, strengthening the core of its operations, in economically attractive terms with interesting options for future development. This is yet another major and assertive movement that reinforces one of the company's pillars over recent years, which is strong discipline in capital allocation.

A common trait among the four companies mentioned above is their family construction, even though they are currently at different levels of maturity. This is not a coincidence, as approximately 80% of our portfolio is composed of family-owned companies. Over our more than 30 years of investing in the Brazilian stock market, we have developed a clear preference for this type of company.

Although the culture of corporations (companies without a defined controller) has recently gained space in the investment community's preference, we believe that the long-term vision of a controller is crucial for the proper development of businesses. The usual conflicts among different constituents, such as shareholders and executives, are often too complex to be addressed only by statutory governance mechanisms, making the figure of the controller highly relevant to fostering the values and culture of the company's performance alongside its stakeholders.

It is rare to find companies that are successful in the long term that do not rely on a dynamic that shares part of the value created with other participants in the business ecosystem in which they are inserted. This becomes clearer in the context of entrepreneurial families, who can have a generational horizon in their decision-making process, escaping in many aspects from the pressure for short-term results to which executives are often subjected by the market.

The focus on the longevity of the business and a long-term horizon ultimately constitute important competitive differentials in its construction. We can observe that businesses supported by entrepreneurial families tend to have a higher quality profile, superior returns on invested capital, and more conservative capital structures, while they also have a higher level of dividend distribution [see CS Family 1000 report].

The aforementioned report brings another very curious perspective: the ESG ratings of family companies compared to corporations tend to be significantly impaired in terms of governance. Despite this, in general, they present better consolidated ratings than non-family companies, due to their strong performance in environmental and social criteria. We understand that this is more a consequence of the way governance is normally understood and evaluated in the market rather than a reflection of the management fundamentals of these businesses. We have significant reservations about using ratings in this type of analysis, but the study's conclusions are quite adherent to the reality we often see in groups led by entrepreneurial families.

The frameworks and policies considered best practices in governance were generally built considering the reality of companies with dispersed capital, much more homogeneous in their characteristics and conflicts. In the case of businesses run by entrepreneurial families, governance dynamics should be understood in the context of the peculiarities of these structures and family relationships. The main conflict usually addressed in governance manuals and guidelines is linked to the agency conflict between executives and capital owners, a conflict that is substantially reduced at its origin with family presence in different administrative structures of the company. On the other hand, the management of conflicts within different family groups becomes more important, as depicted in a recent study by the Cambridge Family Enterprise Group with centennial entrepreneurial families in Brazil.

Bringing this discussion to our portfolio, we can clearly observe this dynamic in some of our companies. Klabin, for example, was recently recognized by CDP once again with A grades in its three thematic focus areas: climate change, water security, and forests. The company is therefore part of a select group of only ten companies in the world (out of a total of 23,000 reporting) to receive the triple A certification, considered the "Oscar" of environmental transparency.

At the same time, we see Klabin often involved in noises related to its governance—noises caused by a misunderstanding of the dynamics of a family company, in the mistaken belief that the same methodology covers any company ("one size fits all"). Most of these questions originate from the error of understanding corporate governance through the lens of manuals and guidelines developed with companies with dispersed capital, which ends up obscuring the consistent evolution of the essence of governance in the company over the last few years.

Recently, the company was criticized in relation to its remuneration system, although the company has a robust program that combines accounting result metrics, sustainability metrics, and return to investors metrics (total shareholder return) to compose the

remuneration package of its executives and align them with the interests of the stakeholders.

More than that, the company was a pioneer in implementing a long-term incentive program based on shares that covers all of its employees. Incentives are extremely powerful tools for shaping behaviors, and we believe that this type of program is one of the most effective for strengthening a culture of ownership and results in addition to aligning interests at all levels of the organization.

The company, instead of being criticized, should be congratulated for this initiative, which we would like to have more visibility and be replicated in more companies. Thus, if we look at the essence and fundamentals, despite any criticisms, the company's remuneration program seems much closer to standards of excellence than the opposite.

Another interesting peculiarity that governance manuals have difficulty addressing is the issue of innovation and diversity within governance forums. This theme is particularly important, as the natural conservatism of many successful long-standing groups may lead them to neglect the importance of investments in innovation and the growing risks of disruption in businesses, even in traditional industries in an increasingly competitive global environment.

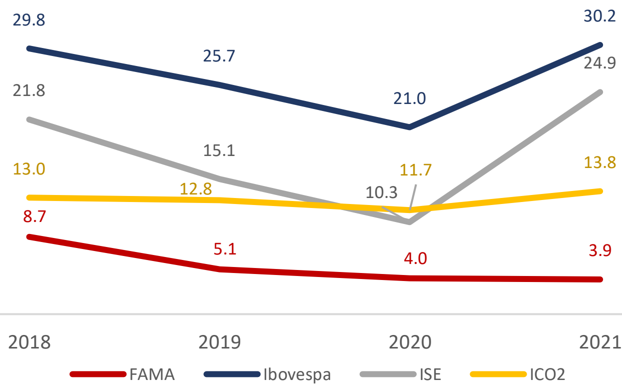
We are enthusiastic about the increasing participation of women and other diversity cuts, including young executives, in the governance bodies of our invested companies. In the case of Klabin, even as the chair of its board of directors. We believe that the pursuit of excellence, so present in entrepreneurial families and successful companies, naturally involves bringing to the decision-making process a suitable portrait of the world in which we are inserted, transforming the challenges of our society into great opportunities for value creation.

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 the use of packaging use, circular practices • Advancement in corporate governance practices / diversity
PORTO	• Innovation in products and services to adapt to an increasingly uncertain and changing environment • Formalization, better alignment and waste reduction on relationship with service providers • Recycling of damaged vehicles/ parts • Potential promotion of electrification in the transportation sector • Encouragement of safety/sustainability practices among clients	• Impact of increasing extreme physical events caused by climate change on claims • Reduction in vehicle ownership/more efficient use of assets • Decline in demand for insurance (better traffic safety practices/fleet electrification, etc.). • Increased litigation in its relationship with policyholders

PORTFOLIO CARBON FOOTPRINT



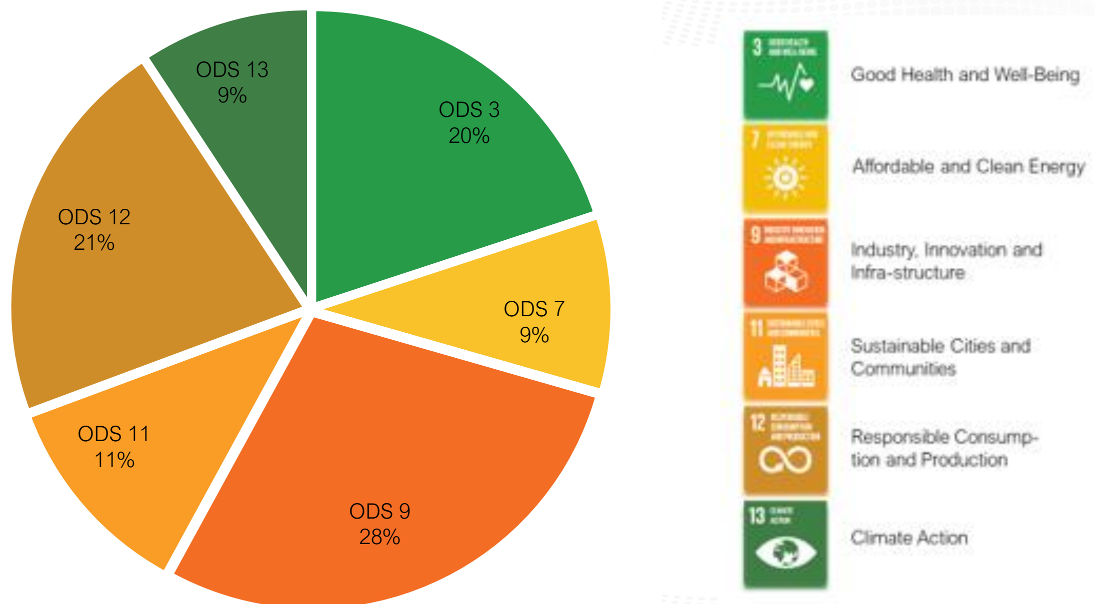
-87% FAMA Investimentos Carbon Footprint vs. **Ibovespa** in 2021

-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 was primarily composed of companies that address six of the UN's Sustainable Development Goals (SDGs), with the most significant being SDG 9 (Industry, Innovation, and Infrastructure) and SDG 12 (Responsible Consumption and Production), which together represent 49% of our exposure:



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