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investing for change

QUARTERLY REPORT

FAMA FIC FIA

3rd Quarter - 2024

Content

Message from the CIO

Brazil is facing an unprecedented environmental crisis. In this past quarter, the fires that devastated Brazilian biomes, especially the Amazon, consumed approximately 2.8 million hectares of rural properties. *This situation has resulted in an estimated economic loss of R$ 14.7 billion, positioning Brazil as the world's largest emitter of greenhouse gases (GHG) during this period* — a statistic incompatible with a country that promotes itself as an environmental powerhouse and that will host the COP next year.

The most alarming aspect of these fires is that 99% of them were ignited by human activity[1], as a cheap and quick way to "clear" areas: after all, setting fires is easier and more economical than conventional deforestation.

Human action is clearly the driving force behind this destruction, but this process is intensified by climate change, which makes forest edges — the transition between deforested areas and remaining vegetation — extremely susceptible to fire. Even though forests are in a more flammable state due to the increased concentration of dry material on the ground, the fires only occur because there is an ignition source, which is triggered by human activity. Therefore, this is a deliberate choice of agricultural and livestock practices that prioritize the short-term gains at the expense of sustainability and global climate security.

In addition to the obvious environmental impacts, deforestation and fires have direct economic repercussions. Reduced agricultural production drives up the prices of basic goods, contributing to inflation. There is also a notable impact on public health costs as air quality deteriorates and more people become ill. Furthermore, insurance for rural and urban properties becomes more expensive, and rebuilding burned infrastructure generates additional costs. These accumulated effects *undermine Brazil's economic competitiveness, as the damage caused by these practices directly impacts prices and production costs.*

Given this catastrophic scenario, *it is necessary to reflect on the role of the financial market*, which continues funding activities that exacerbate deforestation. While many

[1] LASA/UFRJ (Environmental Satellite Application Laboratory)

international investors are focused on small conservation and reforestation projects, the central issue is neglected: halting deforestation would be a much more efficient strategy with a significantly greater environmental impact per dollar invested.

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Here lies the responsibility of investors to fund climate solutions instead of allowing the perpetuation of destructive practices. Deforestation, besides being environmentally unsustainable, is a financially risky activity in the long term. Companies that engage in or encourage deforestation are exposed to greater regulatory, reputational, and commercial risks and may even face litigation.

As an example, in July, the Federal Court of Amazonas froze R$ 292 million in assets from a rancher accused of deforesting and burning 5,600 hectares in the Amazon. This amount was calculated based on greenhouse gas emissions, by applying a carbon price of EUR 60 per ton of CO2eq — a clear indication that environmental infractions now carry substantial climate-related financial penalties. Additionally, *the Attorney General's Office (AGU) filed a climate damage compensation lawsuit on behalf of ICMBio, seeking R$ 635 million for the destruction of 7,000 hectares of forest in the state of Pará.*

The financial market has the opportunity to reverse this dynamic by directing capital to regenerative agricultural practices, sustainable land management, and initiatives that promote forest preservation rather than deforestation. It also has the fiduciary duty to begin pricing climate risks — including those related to climate litigation — associated with the financial assets it invests in.

During Climate Week in NYC, held in September, Brazil was consistently presented as a potential global leader in sustainable products and in the bioeconomy. However, *this will only be possible if there is a structural shift in the way capital is allocated.* Investors need to understand that "business as usual" is destroying the very economic viability of entire sectors, such as agribusiness, which directly depends on climate stability and healthy soils.

The belief that deforestation is necessary for economic development has been widely debunked. *Studies show that sustainable development offers robust financial returns, while also ensuring the protection of ecosystems.* Investors hold the capacity to influence supply chains by directing capital to companies that adopt strong environmental and social practices. It is also worth noting that environmentally responsible companies are increasingly concerned about their supply chains.

The path to curbing deforestation requires aligning economic objectives with environmental protection. The financial market has a central role in this process. It has the opportunity to reverse this dynamic by *directing capital to regenerative agricultural practices, sustainable land management,* and initiatives that promote forest preservation over deforestation.

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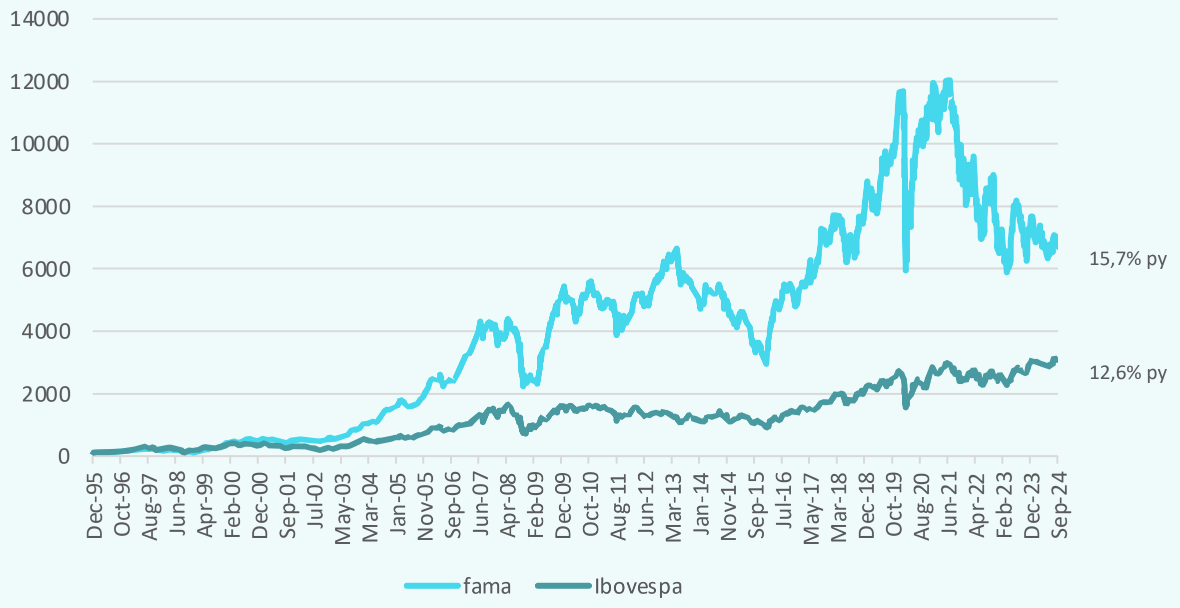
Fabio Alperowitch, CFA – founder of fama re.capital

Performance

%	3Q24	2024	2023	2022	2021	2020	2019	2018	2017	2016	1 year	5 years	10 years*	Inception*
fama	*2.2*	*-13.1*	*9.0*	*-21.2*	*-22.3*	*2.5*	*41.6*	*10.0*	*45.0*	*55.2*	*-5.1*	*-30.7*	*30.1*	*6,560*
Ibovespa	6.4	-1.8	22.3	4.7	-11.9	2.9	31.6	15.0	26.9	38.9	13.1	25.8	143.6	2,970

* FAMA strategy; since Dec 29, 1995



Performance Commentary

The fund posted a positive performance of 2.2% for the quarter, compared to 6.4% for the Ibovespa and 1.4% for the SMLL (Small Cap Index). The stock market's overall performance was positive during the period, despite this being a quarter marked by the reversal of the Brazil's Central Bank's monetary easing process, with the first-interest rate hike since August 2022. This decision reflects the increasing concerns of market participants regarding inflation dynamics and the government's fiscal balance. However, if we can extract a positive interpretation from this movement, it is that *the real economy remains quite resilient, something we have consistently observed in the results of our invested companies over recent quarters.*

In international markets, we observed movements in opposite directions, with the beginning of an interest rate reduction cycle in the United States and economic stimuli in China, which tend to be positive for stock markets, despite the growing geopolitical uncertainties that are likely to take some time to resolve.

The increase in local interest rates will naturally frustrate some of the channels through which we expected a more constructive dynamic for the Brazilian stock market, such as the reduction of financial expenses and the cost of capital. *However, it is important to separate the process of crystallizing an asset's value in the market from the intrinsic value creation of the business.*

In our investment process, we aim to invest in companies and businesses, not just financial assets traded on the stock exchange. *The value of these companies is created through the continuous efforts of their managers, in the effective management of their operations, the development and strengthening of competitive advantages, efficient capital allocation, and their social and environmental responsibility.* Companies with this quality profile, leaders in their segments, can take advantage of more challenging environments to increase their distance from competitors, enhancing their structural competitive advantages. This is exactly what we have observed in our portfolio, where companies continue to make consistent progress in their value creation agendas for all stakeholders, giving us great confidence in the prospects of these investments.

That said, understanding the actual value of a business is naturally subjective and can significantly deviate, for extended periods, from the more tangible reference of market price. We are observing a societal trend towards seeking almost immediate forms of result and satisfaction, especially with lottery-like characteristics. Nothing illustrates this dynamic better than the recent boom in online gambling and betting consumption in Brazil. *Recent estimates indicate that total spending on these betting sites already surpasses all investment in research and development in the country.* The number of people who have made an online bet today is multiple times higher than the number of individual investors on B3 (Brazil's Stock Exchange). This is undoubtedly a poor-quality expenditure for society, impacting various other segments of the economy, such as discretionary consumption, education, and consumer indebtedness. Not to mention the family and personal dramas brought on by gambling addiction.

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This heightened focus on the short term has also manifested in the stock market. Often, companies are penalized for sound business decisions that have some short-term negative impact on performance indicators.

The main positive contributors to the fund's performance for the period were Porto Seguro (+1.9pp) and Lojas Renner (+1.7pp), while the main detractors were Azzas (-1pp) and Serena (-0.7pp).

Porto Seguro continues to reap the benefits of its discipline in insurance underwriting, having successfully implemented a strong price increase cycle in recent years that has sustained its solid profitability.

It is also a natural beneficiary of the interest rate hike process, capturing this profitability in the financial reserves of its products and eventually in the excess capital on its balance sheet. *The company is an excellent example of how a quality business with a solid stakeholder vision can create value in a differentiated way.* Operating in segments often associated with disruption risks, whether by channel, business model, or societal habit changes, Porto has proven to be a formidable competitor, delivering growth, profitability, and great customer satisfaction. All this with impressive consistency — perhaps not as appreciated today by a society eager for lottery-like quick returns — but which is an essential element in creating long-term value.

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It is interesting to note that, in mature markets, the dependence on a broker sales channel is often seen as a structural disadvantage. However, Porto's effective management of this channel over decades has not only hindered the penetration of direct sales but also proven a strong lever for growth in other products and business verticals. *We view its recent success in the health segment very optimistically, as a potential additional vector for growth and value creation.* In such a complex and challenging business chain as health, it is encouraging to see the momentum these new business models have gained and how they can play an important role in bringing more efficiency and alignment to the sector.

The apparel retail segment showed divergent performance during the quarter. The sector, already impacted by an asymmetrical competitive dynamic in relation to international players and by increasing pressure on discretionary purchasing power due to the growth of the betting market, is also potentially negatively affected by the interest rate hike cycle. *However, performance determinants among companies this quarter seem much more linked to their operational moments.* While Renner has begun to show initial signs of normalization in its operations — with improved profitability, greater accuracy in collections and pricing, and reduced delinquency in its financial business — Azzas faces a significant challenge in integrating its recently completed merger with the Soma Group. We believe in the potential of this combined platform, but it is also clear that the business has taken a leap in complexity, which will take some time to reach its level of operational normalization.

Meanwhile, *Serena*, operating in a capital-intensive sector and having recently completed a relevant capacity expansion cycle, is naturally more exposed to the high-interest-rate scenario. However, the company has a significant portion of its debt under subsidized terms with development banks, in addition to supply contracts indexed to inflation, mitigating this impact on its results. Additionally, *the company continues to work effectively on value creation through its commercial strategy, announcing two partnerships with major data center service providers in the country this quarter.*

The growing use of artificial intelligence tools should provide substantial support for data processing services consumption, thereby boosting energy consumption. McKinsey estimates that energy demand for data centers is expected to quadruple over the next 10 years in the U.S. market, representing a very interesting opportunity for companies connected to both power generation and grid improvement and expansion. This boost is already becoming visible in the sector's supply chains, with significant increases in lead times and bottlenecks in certain segments.

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The profile of this type of customer in the technology sector also has different characteristics from the usual energy consumer, *presenting greater maturity regarding the importance of decarbonizing their business chains and less sensitivity to energy prices*, which, although a critical input to operation, does not dominate their profitability dynamics. This is particularly positive for renewable energy generators.

Although Brazil is still at a different stage in the adoption of these technologies and the development of infrastructure for the sector, we are already beginning to feel its initial effects. The country has a great opportunity to benefit from this process, with ample availability of renewable energy sources at competitive costs, and we are pleased to see Serena positioning itself to play a leading role in this development.

ESG Risks and Oportunities

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

Porto

Opportunities

- 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

Risks

- Impact of increasing extreme physical events caused by climate change on the rise of claim rates
- Reduction in vehicle ownership/more efficient use of assets
- Decrease in demand for insurance (improved traffic safety practices/electrification of fleets, etc.)
- Legal disputes in relationships with policyholders

Klabin

Opportunities

- 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

Risks

- Reduction/optimization in the use of packaging use, circular practices
- Advancement in corporate governance practices / diversity

Mills

Opportunities

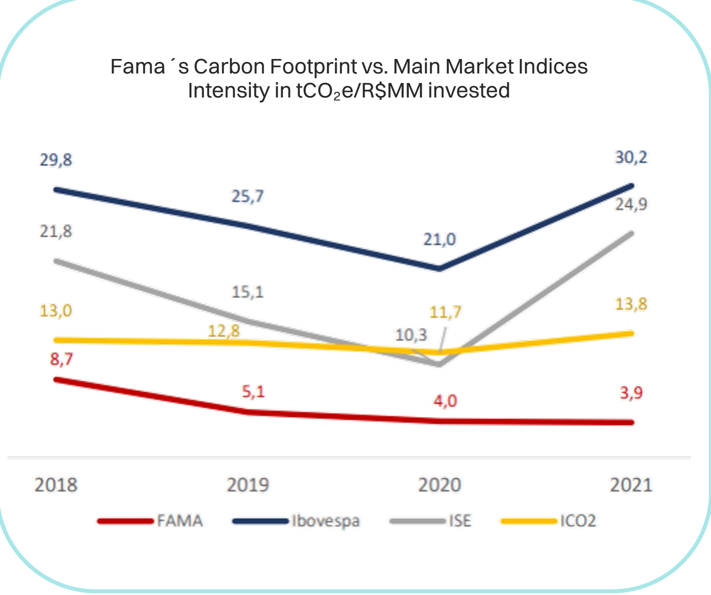
- Business model based on a powerful combination of increasing client productivity coupled with enhanced work safety practices
- Advocacy of adherence to safety guidelines, labor laws and sustainability practices among clients and providers
- Improved maintenance practices to increase availability and useful life of equipment
- Offering new, more energy efficient and environmentally friendly machinery can attract and retain certain clientes
- Implementing systems to monitor equipment usage remotely, and compile data on business chain emissions, and report on sustainability metrics can enhance transparency and accountability

Risks

- 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´s Carbon Footprint

Annually, we calculate the carbon footprint of our portfolio based on the PCAF[1] methodology, conducting historical analyses that allow us to compare both the evolution of our portfolio and its investees as well as the performance relative to major market indices. Below are the most recent results collected:



The carbon footprint of our liquid portfolio is negative, meaning it absorbs more CO2 than it emits.

-87%
fama re.capital´s carbon footprint vs. *Ibovespa*

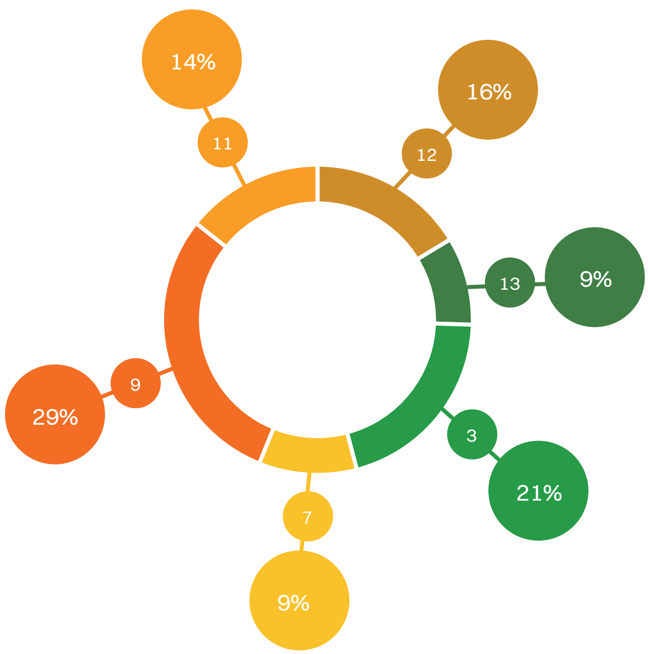
-84%
fama re.capital´s carbon footprint vs *ISE*

-72%
fama re.capital´s carbon footprint vs. *ICO2*

[1]Partnership for Carbon Accounting Financials

SDGs/ESG Allocation Breakdown

At the end of the quarter, our portfolio was composed of companies that primarily address six of the SDGs, with the most relevant being *SDG 3 (Good Health and Well-Being) and SDG 9 (Industry, Innovation, and Infrastructure), which together represent 50% of the exposure:*



3 GOOD HEALTH AND WELL-BEING — Good Health and Well-Being

7 AFFORDABLE AND CLEAN ENERGY — Affordable and Clean Energy

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — Industry, Innovation and Infra-Structure

11 SUSTAINABLE CITIES AND COMMUNITIES — Sustainable Cities and Communities

12 RESPONSIBLE CONSUMPTION AND PRODUCTION — Responsible Consumption and Production

13 CLIMATE ACTION — Climate Action