QUARTERLY REPORT

ESG Equities Fund

1th Quarter - 2025

Content

Letter from the CIO

More than three decades after the IPCC's first warning, and despite a growing body of empirical evidence on the economic impacts of climate change, most financial models still treat the issue as peripheral. The implications are well-known: misallocated capital, the perpetuation of systemic risks, and a short-sightedness that weakens economic resilience.

Behavioral finance literature has taught us that economic agents are far from fully rational. Their decisions are shaped by mental shortcuts, convenient narratives, and short-term incentives. When it comes to the climate crisis, this limited rationality manifests itself structurally. It is not a failure of technical understanding. It is a collective dysfunction involving managers and analysts, all operating within a cognitive framework that prioritizes the apparent stability of the present over the certain volatility of the future.

The discomfort surrounding the climate crisis partly stems from the difficulty of assimilating it into conventional decision-making tools. It does not behave like a traditional risk — with known probability distributions and localized impacts. On the contrary, it is a diffuse phenomenon, subject to tipping points and feedback loops, and likely to generate more frequent and severe disruptions. Yet, valuation models continue to operate as if the future were merely a linear extension of the past. Companies are assessed based on projected cash flows that ignore water scarcity, extreme weather events, biodiversity loss, and deep regulatory transformations meant to price environmental externalities.

This disconnect between what we know and how we make decisions is evident in everyday capital allocation decisions. Carbon-intensive infrastructure projects still receive preferential financing. Supply chains vulnerable to environmental shocks are treated as solid. Assets exposed to physical or reputational climate risks continue to be traded as if they were perennial. All of this because the system is built not to see — or to see only what can be measured in short timeframes and with high statistical confidence.

The problem is that statistical confidence, in this case, is an illusion. The climate crisis is marked by deep uncertainty, not known volatility. It is a type of risk that does not adapt well to pricing models based on historical averages. It demands a different posture: a willingness to act based on plausible scenarios, even when the probabilities are difficult to estimate. This means letting go of the security of closed models in favor of prudence in the face of the unknown. It means accepting that traditional pricing mechanisms — anchored in risk-adjusted returns — may be inaccurately calibrated.

Why, then, does this change not happen with the urgency required? Part of the answer lies in economic and institutional incentives. Bonus structures, management mandates, and performance metrics are all designed to reward short-term performance. In this environment, internalizing long-term risks—especially those that require questioning the viability of entire sectors — imposes a political and professional cost few are willing to bear. The collective behavior of investors reflects, therefore, a kind of strategic rationality: even if climate risk is real and growing, it is safer to follow prevailing norms than to act in a bold and isolated manner.

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This logic is reinforced by the dominant rhetoric of "efficient markets." Even today, there are those who believe that asset prices incorporate all available information and that any distortions will be automatically corrected as risks materialize. But this view ignores the fact that, in the case of climate, the correction may come too late — and at irreversible costs. The belief in market efficiency acts here as an ideological shield for inaction.

In recent years, what little climate-related discussion has occurred in the financial sector has focused on mitigation — on efforts to reduce emissions and offset impacts. This is understandable: mitigation still suggests a sense of control, of reversibility. But there is no longer any doubt that climate change is an ongoing reality, not a future hypothesis.

In this context, adaptation must cease being a marginal topic and become a central agenda. Adapting means reconfiguring infrastructure, rethinking agricultural models, adjusting production chains, and revising urban development patterns. It also means accepting that some of the transformations underway are irreversible — and that investing without acknowledging this is not only ineffective, but irresponsible.

Adaptation requires investments in resilience — and resilience is not measured only in financial returns, but in the ability to sustain socioeconomic systems under pressure. This calls for a profound reassessment of financial and economic models themselves. The instruments we use to price assets, estimate risks, and set priorities were built for a more stable, predictable world that no longer exists. Continuing to use them unquestioningly is not conservatism — it is negligence.

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The climate crisis will not be solved with the same tools that helped create it. If we truly seek a fair and effective transition, we must rethink the foundations of economic decision-making. Incorporating adaptation must be seen as a strategic lens. And we must accept that, in the face of inevitable climate change, it is no longer the planet that must adapt to the models — it is the models that must urgently adapt to the planet.

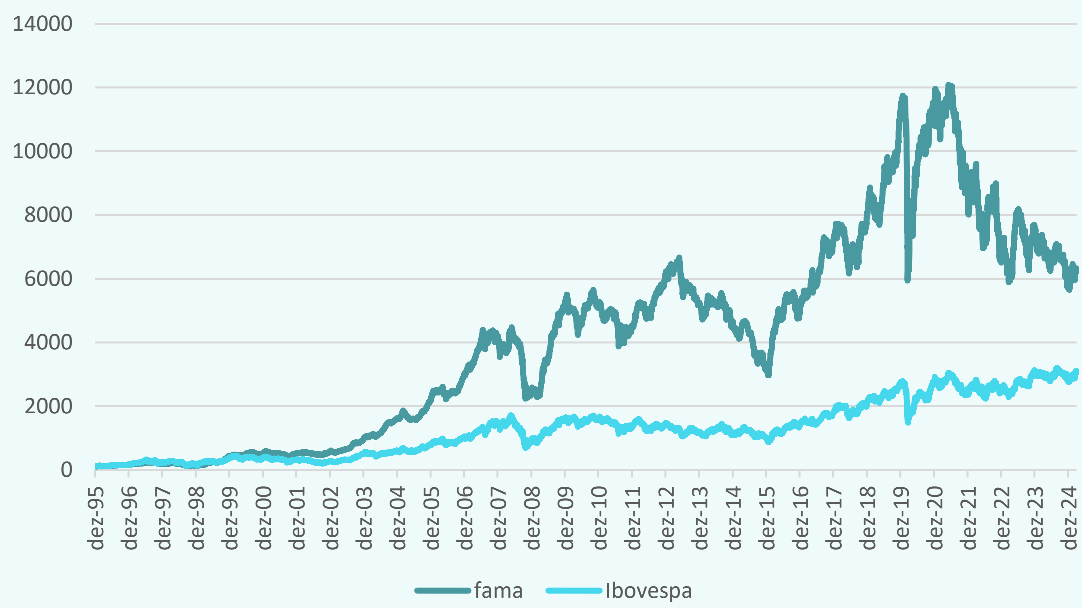
Fabio Alperowitch, CFA

Founder of fama re.capital

Performance

%	1Q25	2024	2023	2022	2021	2020	2019	2018	2017	2016	1 year	5 years	10 years*	Inception*
fama	7,7	-24.6	9.0	-21.2	-22.3	2.5	41.6	10.0	45.0	55.2	-14	-8,7	43,7	6.120
Ibovespa	8.3	-10.4	22.3	4.7	-11.9	2.9	31.6	15.0	26.9	38.9	1,7	78,4	154,7	2.933

* FAMA strategy; since Dec 29, 1995



Performance Commentary

FAMA FIC FIA posted a return of 7.7% in the quarter, compared to 8.3% for the Ibovespa and 8.9% for the SMLL (Small Caps Index). The first quarter represented a meaningful shift in recent market dynamics. We observed a significant divergence between the performance of emerging markets—particularly Brazil—and that of the United States, where the S&P 500 and Nasdaq fell by 4.3% and 8.1%, respectively. U.S. markets faced renewed concerns over tariffs and trade disputes, along with increasing doubts about the country's leadership in technology amid a more fragmented geopolitical context.

A key turning point came with the launch by a Chinese company of a new artificial intelligence model that proved significantly more efficient in processing capabilities than existing alternatives. This event challenged the competitiveness of major U.S. tech players and served as a catalyst for market rotation toward emerging economies. The resulting environment supported a more constructive outlook for local equities and FX markets, with the Brazilian real appreciating meaningfully against the dollar.

In Brazil, economic activity remained firm, and the stronger real contributed to easing inflationary pressures. Despite lingering doubts regarding long-term fiscal sustainability and the government's capacity to address the rising debt trajectory, markets began to price the end of the current monetary tightening cycle. The strength of Brazil's economy continues to be reflected in the performance of the companies in our portfolio.

The quarter's main positive contributors were Serena (+3.4pp), Totvs (+2.1pp), Porto (+1.5pp), and B3 (+1.2pp). Serena remained disciplined in executing its business plan and advanced its deleveraging process. In recent years, the company completed a robust cycle of investment to expand capacity, with assets now mature and generating cash. It has also opened new growth avenues, including distributed generation and international expansion, especially into the U.S., while refining its commercial strategies to unlock additional value. Despite concerns over leverage, the company's debt has favorable characteristics—partially subsidized, with rates well below CDI, and long maturities aligned with asset lives. Most of its revenue base is contractually secured and indexed to inflation, providing visibility and financial stability. This structure, combined with a more constructive outlook for power prices, helped drive the stock higher. In addition, market rumors—later confirmed—regarding a potential going-private transaction provided further support.

Totvs continues to benefit from a resilient business model, with inflation-adjusted recurring revenue and high switching costs for customers, creating stability and predictability. The company has maintained solid operating metrics while expanding into new growth verticals. In an environment where businesses are accelerating digital transformation and AI adoption, Totvs' solutions are increasingly strategic, helping companies structure and operationalize critical data for decision-making. Its partnership with Itaú in the techfin space also presents promising opportunities, especially in a segment that typically thrives in high-interest and inflationary settings. The stock also gained from renewed speculation around a possible acquisition of Linx. While Totvs initially withdrew from negotiations—demonstrating sound capital discipline—the company has reengaged discussions under more favorable competitive conditions.

Porto navigated the challenging macro backdrop well, capitalizing on a constructive competitive environment in auto insurance to grow profitably. Its financial services and credit vertical, Porto Bank, also showed resilience. Porto's conservative capital structure—with strong liquidity and reserves—has enabled it to capture attractive marginal returns across various financial segments. The stock performed well in the quarter, supported in particular by growing optimism around its health insurance segment, which has delivered robust growth, controlled claims ratios, and healthy profitability—clearly standing out in a sector facing broad operational challenges.

B3 remains strategically well positioned to benefit from a potential rotation of investor flows toward emerging markets, which could translate into higher volumes across multiple verticals of its trading platform. The company has made important strides in revenue diversification and product innovation, including the launch of a Brazilian VIX index and futures contracts on digital assets, among others. It continues to leverage the strong competitive advantages of its dominant infrastructure, even in the face of possible new competitors. The stock also reacted positively to the favorable resolution of legacy tax disputes related to goodwill amortization from the merger between Bovespa and BM&F.

On the negative side, the main detractors were Klabin (-2.0pp) and Azzas (-0.6pp).

Azzas declined due to investor concerns regarding cultural integration between Arezzo and Soma, as well as uncertainties about post-merger alignment among founding shareholders.

Klabin delivered a weak performance in the quarter, a reversal from the strong relative returns it posted during the market correction in the previous quarter, once again highlighting the defensive nature of its business model. Operationally, the company continues to execute well across all areas, advancing the ramp-up of recent capacity expansions and maintaining healthy cash generation. The balance sheet remains more leveraged than ideal at the moment, reflecting recent industrial investments and a strategic acquisition of land and forest assets aimed at ensuring long-term fiber supply. Nevertheless, we believe this move structurally strengthens Klabin's forestry base and will contribute to accelerated cash flow generation and gradual deleveraging in the coming quarters. In addition to that, Klabin's debt profile remains favorable despite its higher leverage, with competitive funding costs and long tenors, supported by development banks, export credit agencies, and international sustainable financing instruments such as green and sustainability-linked bonds.

The pulp market has been more volatile in the short-term, pressured by capacity additions and uncertainties in global demand, especially in the face of recent trade and tariff tensions. Klabin's integrated production model, which provides significant operational flexibility, remains a key competitive advantage to navigate this scenario. While the strength of its cash flow generation might take some time to gain visibility, due to extraordinary investments in modernizing one of its older mills, this should ultimately become an important source of shareholder returns. On the sustainability front, the company's recertification of greenhouse gas reduction targets under SBTi, now including scope 3 emissions and reflecting heightened decarbonization ambition, was a notable achievement.

Looking ahead, we remain confident in the strength and quality of our portfolio companies and their ability to generate structural value. These are, for the most part, robust business models that have been tested across challenging macroeconomic environments. Decades of high inflation and interest rates in Brazil have not prevented the development of companies that are admirable in every respect. One of the distinguishing features of this history has been the emergence of business models with a high degree of financialization or integrated financial services, which not only add resilience but open up significant opportunities to deepen client relationships and enhance monetization.

Examples from our portfolio include:

- Porto, with its excellence in risk management and solid credit operations;
- 3Tentos and Renner, which use financial services to support sales increase client retention;
- Localiza and Mills, which benefit from rising demand for outsourcing and asset-light solutions amid tighter capital availability;
- B3, a critical player in credit registration and maintenance;
- Totvs, developing a digital platform to enhance credit access for clients.

This financial fluency, coupled with conservative leverage, enabled these companies to sustain value creation and expand their competitive advantages. They are laying the foundations of future profitability—even if this value is not yet fully recognized by the market.

During the quarter, we initiated a position in Eletrobras, a company we have followed for many years, with renewed focus following its privatization. Since the beginning of its restructuring in 2016, the company has made significant operational progress, with greater focus on results, simplification of its portfolio, and reduction of legacy liabilities, such as those associated with compulsory loans. We now see a company well positioned in both power transmission and generation, the latter of which features an enviable portfolio focused on renewable and clean energy, following divestments of coal and, more recently, gas assets.

We have a constructive long-term view on electricity demand, driven by secular trends like electrification of transportation and the widespread adoption of AI, among others. In this context, Eletrobras' asset base seems well placed to play a pivotal role. We are particularly attracted to the combination of a low-risk, cash-generative transmission segment, a generation platform with growing demand and environmental benefits, and a management team focused on creating shareholder value.

Despite these positives, we had previously held off investing while awaiting greater clarity around corporate governance following privatization. We traditionally prefer companies with defined controlling shareholders—often family-owned—and viewed the absence of a strategic anchor investor with some concern. However, the recent agreement between the company and the federal government helped mitigate this risk, improving the governance framework and reducing the likelihood of Eletrobras being required to fund the development of new nuclear capacity. While nuclear power is considered clean, its development history includes frequent delays and cost overruns—risks we prefer not to expose our capital to.

From a sustainability perspective, we acknowledge the historical social and environmental damage caused by some large hydroelectric projects, such as Belo Monte. We see these as legacies of a period of heavy state intervention and weak environmental safeguards—issues that are unlikely to repeat under current frameworks. While Eletrobras still faces some challenges in managing these legacies, we believe the solutions will require sector-wide regulatory coordination, which we will continue to monitor closely.

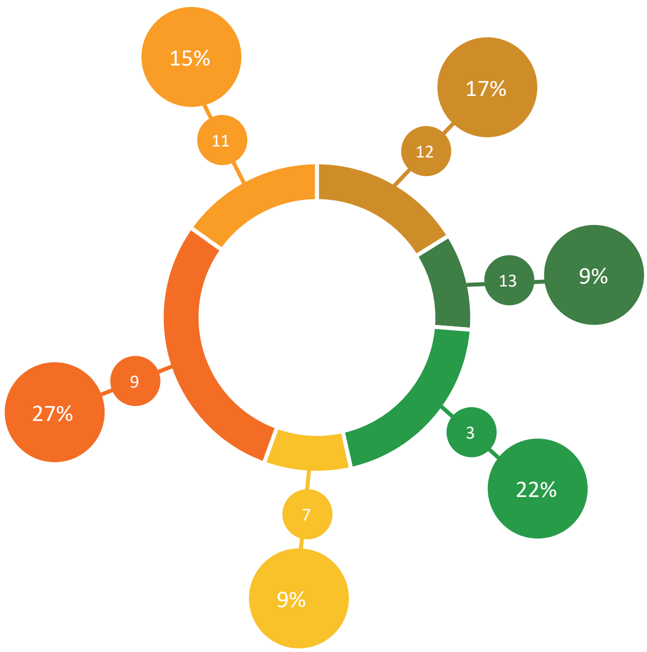
ESG Risks and Opportunities

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

	Opportunities	Risks
Localiza	➢ Key player in urban mobility matters ➢ Ability to levarege its fleet to drive the reduction of greenhouse gas amissions in the sector ➢ Potential leadership in advancing the electrification of vehicle fleets within the transportation sector.	➢ Decarbonization plan with significant challenges in measuring and managing Scope 3 emissions, with an uncertain impact. ➢ Significant fleet turnover, requiring the disposal/sale of mature assets after use, posing challenges for proper asset utilization and indirect disposal.
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
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 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

SDGs/ESG Allocation Breakdown

At the end of the quarter, our disclosed 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 49% of the exposure:**



Good Health and Well-Being

Affordable and Clean Energy

Industry, Innovation and Infra-Structure

Sustainable Cities and Communities

Responsible Consumption and Production

Climate Action

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