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QUARTERLY REPORT

ESG Equities Fund

4th Quarter - 2024





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Letter from the CIO

For decades, the concept of corporate responsibility was limited to what occurred within the boundaries of direct business operations. Product quality, factory efficiency, compliance with local regulations—these were the criteria by which an organisation's commitment to society was measured.

However, this simplistic understanding is no longer sufficient. We live in an interconnected world where the impacts generated throughout the entire value chain—from raw materials to waste disposal—can no longer be ignored.

In Brazil, where the interdependence between companies and their supply chains is particularly evident, the challenges are as vast as the opportunities. Deforestation, for instance, often associated with cattle ranching and agriculture, is one of the largest contributors to global greenhouse gas emissions.

Major meatpackers and agricultural exporters have responsibilities that go far beyond their direct operations. Zero-deforestation commitments have become a minimum requirement, but true progress depends on implementing robust traceability technologies that ensure the sustainability of suppliers, down to the level of small-scale producers.

In addition, companies need to recognise that inclusive governance is a prerequisite for structural change. Traditional shareholder-centric corporate governance has proven inadequate in addressing systemic crises such as social inequality and climate change. The role of stakeholders—workers, suppliers, local communities, and even the environment—must be integrated into decision-making processes. This approach creates a network of shared responsibility that strengthens the entire business ecosystem.

However, the most significant transformation needed lies in how emissions are managed. Today, a large part of corporate climate targets focusses on Scopes 1 and 2, which cover direct emissions and those from energy consumption. Yet Scope 3, which includes all indirect emissions along the value chain, remains a critical gap. This is where responsibility must be expanded, requiring companies to make commitments that go beyond their comfort zones.

An often-overlooked yet central aspect of this debate is the role of financed emissions—those associated with the credit portfolios of financial institutions. The financial sector has historically facilitated traditional economic dynamics, often financing activities that contribute to environmental and social degradation. However, as pressure from regulators, investors, and consumers increases, banks must rethink their practices.

In Brazil, leading banks carry a significant portion of companies in the energy, agribusiness, and mining sectors in their portfolios—activities with substantial greenhouse gas emissions. Analysing these financed emissions will become a key indicator of financial risk and sustainability. Banks financing entities responsible for deforestation or pollution are not only contributing to the climate crisis but also exposing their own portfolios to regulatory and market risks.

Including financed emissions metrics in financial institutions' climate strategies is a game-changer and must encompass a commitment to measure and reduce the indirect emissions in their portfolios. This means not only assessing the environmental impact of the companies they finance but also influencing them to adopt more sustainable practices. A bank financing a chain of meatpackers, for instance, can demand clear environmental commitments as a condition for new loans, driving systemic changes in the sector.

Moreover, the financial sector's role as a catalyst for systemic changes goes beyond minimizing harm. Banks and asset managers have the power to direct capital toward regenerative sectors, such as sustainable agriculture and green infrastructure. This requires breaking away from the short-term profit maximisation logic that perpetuates cycles of environmental and social degradation.



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Larger companies have an amplified responsibility in this context. Their gigantic scale grants

them a unique capacity to lead transformations across entire sectors. However, while pioneering companies move forward, the vast majority still resist change, perpetuating a business model incompatible with the challenges of the 21st century.

Finally, contemporary corporate responsibility cannot be treated as a cost or concession to meet external expectations. It must be understood as the essence of organisational longevity. The world faces existential challenges that demand not just incremental responses but a complete reimagining of the role of companies. Inclusive governance, value chain management, and financed emissions are just some of the axes that need to be integrated into a broad and strategic vision.

The future will be shaped by companies that understand that their responsibility extends to the entire network of direct and indirect impacts they generate. Business leaders who embrace this vision will lay the foundation for a fairer, more resilient, and sustainable world.

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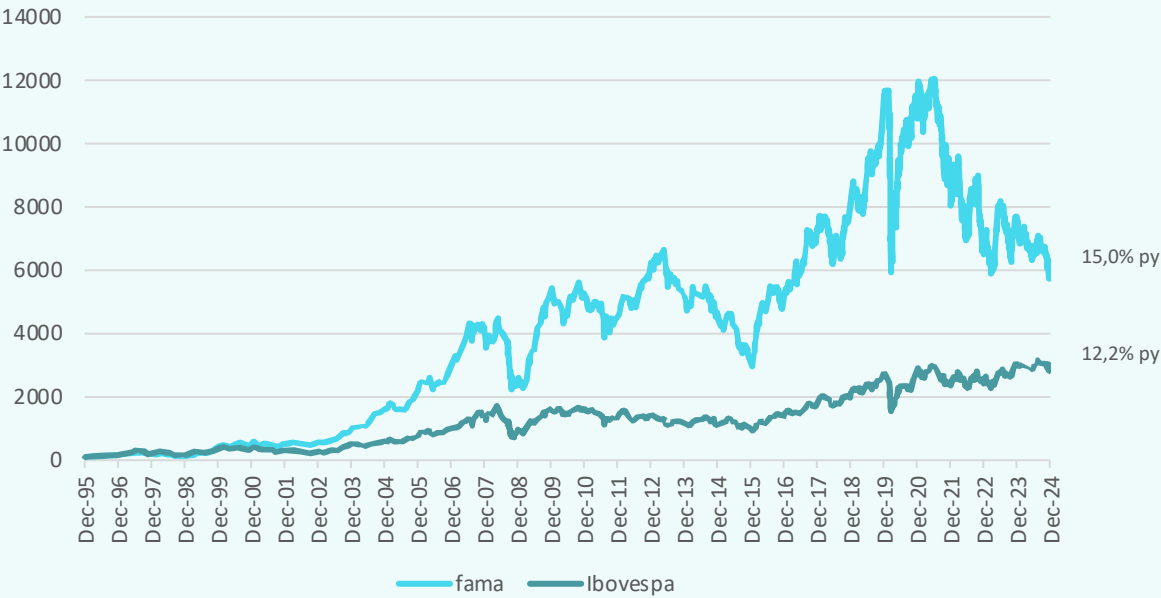
Fabio Alperowitch, CFA

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Performance

%	4Q24	2024	2023	2022	2021	2020	2019	2018	2017	2016	1 year	5 years	10 years*	Inception*
fama	-13.3	-24.6	9.0	-21.2	-22.3	2.5	41.6	10.0	45.0	55.2	-17.7	-27.0	35.6	5,675
Ibovespa	-8.7	-10.4	22.3	4.7	-11.9	2.9	31.6	15.0	26.9	38.9	4.9	22.7	133.0	2,701

* FAMA strategy; since Dec 29, 1995



Performance Commentary

The ESG Equities Fund posted a negative performance of 13.3% for the quarter, compared to -8.7% for the Ibovespa and -13.2% for the SMLL (Small Caps Index). Consequently, the fund closed the year with a 24.6% decline, while the Ibovespa contracted 10.4%, and the SMLL fell 25% over the same period.

The year 2024 was marked by *a significant divergence between the performance of the Brazilian stock market and major global markets*. In U.S. dollars, the Ibovespa declined 29.9%, whereas the Euro Stoxx 600 (Europe) appreciated 9.6%, and the S&P 500 delivered an even stronger 23.3% gain.

In Brazil, concerns over fiscal balance, combined with a heated economy and inflationary pressures, heightened expectations of a prolonged and more persistent cycle of interest rate hikes, leading to a sharp repricing of domestic assets.

Against this backdrop, *it is essential to distinguish temporary adverse market conditions from structural deterioration in the quality and earnings potential of businesses*. Historically, Brazil has experienced high interest rates and pronounced macroeconomic volatility, yet this has not hindered the development of high-quality companies and meaningful value creation. Our portfolio is composed of leading businesses managed by experienced executives and partners, who have navigated multiple economic crises of even greater magnitude than the current one.

The main positive contributor during the quarter was *Klabin* (+1.3%), a company that, despite being capital-intensive, benefits from a vertically integrated business model, high operational flexibility, stable end-market demand, and a high-quality forestry base. Additionally, prudent capital allocation, long-term, low-cost financing, and a significant portion of dollarized revenues provided resilience amid the volatile foreign exchange environment observed during the quarter.

Conversely, negative contributions were more widespread, with Serena (-3.3%), Mills (-2.1%), and Localiza (-1.9%) standing out. A broad market-wide compression in valuation multiples

was particularly pronounced among capital-intensive businesses with higher financial exposure to rising interest rates, given their capital structures.

While the companies in our portfolio continue to deliver solid operational results, their market valuations have been primarily driven by the deterioration in macroeconomic expectations rather than company fundamentals. This divergence has created substantial valuation distortions, presenting attractive capital allocation opportunities for long-term investors, despite the limited visibility on near-term catalysts for normalization.

This environment, though challenging, is often favorable for market leaders with robust and resilient business models, allowing them to strengthen competitive advantages and consolidate leadership positions.

As outlined in previous reports, we consider the most direct impact of monetary policy on businesses to be rising financing costs. However, a defining characteristic of successful companies in Brazil is low leverage. The country's persistent macroeconomic volatility makes debt management particularly complex. It is not uncommon for companies to incur financing costs equal to or exceeding the required equity returns, effectively inverting the typical capital structure rationale. This challenge is especially acute for smaller companies with weaker competitive positioning, which further reinforces the advantages of market leaders—businesses with access to diverse financing sources at more favorable costs.

Another fundamental trait of companies that create consistent long-term value is their pricing power—*the ability to pass cost increases to customers without significantly impacting demand*. This “*pricing power*” is often supported by contractual indexing, strong brand equity, scale, and high switching costs, among other factors. Ultimately, a superior value proposition within the business ecosystem enables such companies to maintain profitability

across economic cycles.

A third critical success factor is business model flexibility. *The ability to pivot strategically across market segments and geographies, as well as to adjust investments and growth trajectories*, is essential to mitigating risk and building competitive resilience.

Lastly, but equally important, is *capital allocation discipline*. Notably, a high-interest-rate environment inherently fosters stricter investment discipline. Whether due to direct financing costs or a higher opportunity cost, only the most compelling investment opportunities tend to be pursued. *Among various capital allocation strategies, returning capital to stakeholders has become increasingly relevant*—whether through deleveraging (given the high cost of debt), dividend distributions, or share buybacks.

Analyzing our portfolio companies, we observe several of these defining characteristics. Serena, for instance, has a strong track record in capital allocation, predominantly contracted and inflation-indexed revenues, and a highly flexible business model, with multiple scalable growth drivers, including new projects, asset expansions, acquisitions, and geographic diversification. This flexibility also enables asset recycling as an alternative capital source. Following the completion of a significant capacity expansion, the company has now entered a phase of balance sheet deleveraging.

Another compelling example is *Mills*, which, after enduring a severe downturn between 2015 and 2017 due to its high exposure to infrastructure and construction, *successfully diversified its business portfolio and expanded its end markets*. Although operating in a highly price-sensitive sector, enhanced operational flexibility has enabled the company to optimize financial performance, while its current leverage profile is significantly lower than in previous cycles.

Similarly, *Localiza* has historically leveraged its operational flexibility to preserve margins and cash generation, even at the expense of short-term growth. Over the years, *its disciplined approach to capital allocation and execution has allowed the company to achieve a distinctive scale within the sector*, positioning it favorably to navigate market

fluctuations, especially given the weakened financial position of its primary competitors.

We are confident that the companies in our portfolio are well-positioned to navigate an increasingly complex macroeconomic environment, continuing to deliver consistent long-term value for stakeholders.

The macroeconomic challenges appear largely cyclical, while the fundamental drivers of these companies' competitive positioning are structurally sound, albeit requiring continuous monitoring and adaptation. The recent market repricing of these high-quality businesses—which are led by experienced management teams, possess strong competitive moats, exhibit disciplined capital allocation, and uphold social and environmental responsibility principles—presents *a compelling opportunity for long-term investors*.

In terms of portfolio rebalancing, we have sought to align corporate resilience with potential upside. During the quarter, we fully exited two investments, including RD Saúde, one of the fund's longest-standing and highest-return investments. While we continue to hold the company in high regard, we opted to redeploy capital into opportunities where the current price dislocation appears more pronounced.

Conversely, *we initiated a position in 3Tentos*, a family-controlled company with decades of experience in the agribusiness sector, operating primarily in Rio Grande do Sul and, increasingly, in Mato Grosso. *The company operates through an integrated model across three segments:* the sale of agricultural inputs, grain trading, and industrial processing, converting soybeans into meal and biodiesel and corn into ethanol (with a plant currently under construction). We believe that this integrated model, in addition to generating operational synergies, also mitigates the risks associated with each segment when considered individually.

The company has also demonstrated *robust growth* in its operational results, driven

by recent investments and the effective management of its business operations, alongside a well-controlled leverage profile. Despite the recent downturn in the sector, the company has distinguished itself through its *strong operational performance and the successful execution of its business plan established* at the time of its IPO, a rare achievement among the most recent wave of companies entering the market. Additionally, we believe this investment provides valuable diversification of business drivers within our portfolio.

From a sustainability perspective, we appreciate that 3Tentos has an increasing exposure to the biofuels segment (biodiesel and, in the future, ethanol), playing a significant role in advancing decarbonization within the transportation sector. Moreover, the company has developed programs to promote regenerative and low-carbon agricultural practices among its suppliers. Currently, nearly 80% of the raw materials used in its biodiesel production are sourced from family farming. Furthermore, the company maintains a comprehensive traceability system across its supply chain for agricultural inputs, ensuring greater transparency and accountability.

In our engagement efforts, and as managers committed to responsible investing, we take pride in *witnessing and supporting the progress of Mills' socio-environmental and governance agenda*. Since the beginning of our partnership, we have admired its strong stakeholder-oriented culture and have consistently highlighted the company's efforts across various fronts, particularly in its *sustainability planning and strategy*, which have evolved into several impactful initiatives that deliver tangible results for the core business. Notably, the company was awarded the B Corp certification during the quarter.

We remain confident that Mills will continue to lead by example, implementing protocols that foster positive impact and contribute to the mitigation of negative externalities, in alignment with the vision articulated by its founder, Cristian Nacht, in 1993: "A company can be a model for transforming society, the country, and the world."

Despite the macroeconomic challenges, *we remain enthusiastic about the value creation potential of the companies within our portfolio* and the opportunities presented by the current market dislocations for long-term investors.

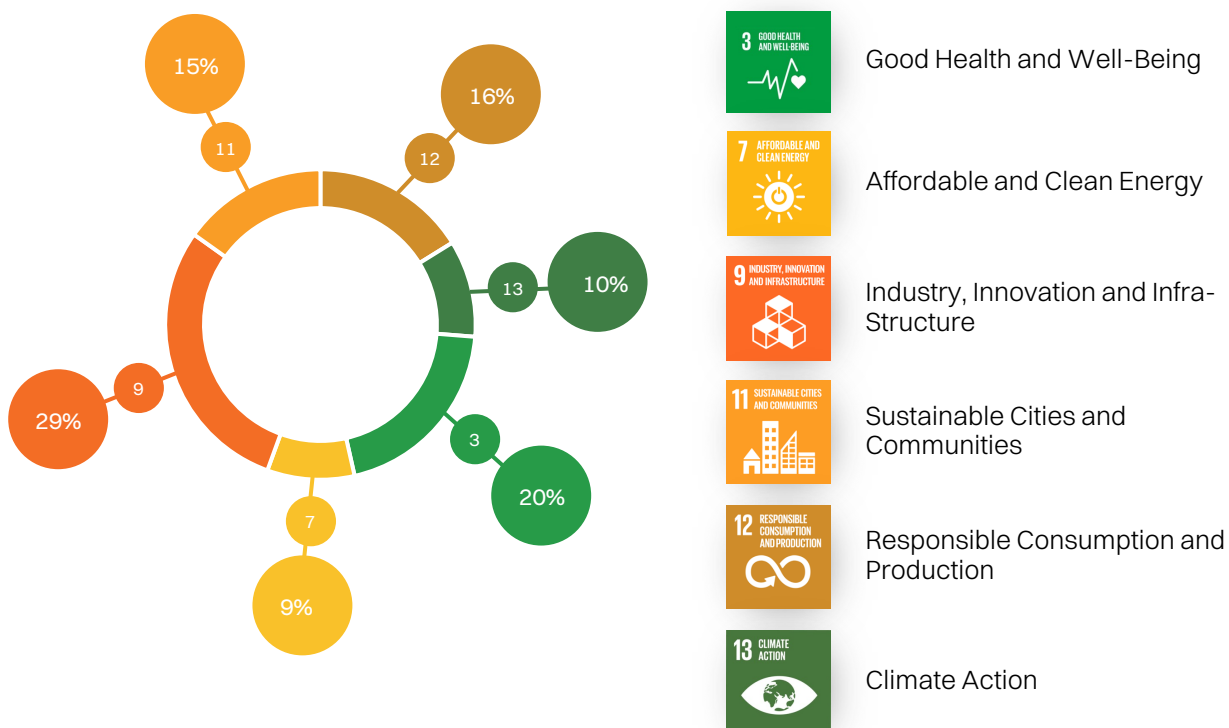
ESG Risks and Opportunities

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

	Opportunities	Risks
Localiza	<ul style="list-style-type: none"> ➤ Key player in urban mobility matters ➤ Ability to leverage its fleet to drive the reduction of greenhouse gas emissions in the sector ➤ Potential leadership in advancing the electrification of vehicle fleets within the transportation sector. 	<ul style="list-style-type: none"> ➤ 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.
Klabin	<ul style="list-style-type: none"> ➤ 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 	<ul style="list-style-type: none"> ➤ Reduction/optimization in the use of packaging use, circular practices ➤ Advancement in corporate governance practices / diversity
Porto	<ul style="list-style-type: none"> ➤ 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 	<ul style="list-style-type: none"> ➤ 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 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:*



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