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Management Report

FAMA LatAm Climate Turnaround

3rd Quarter - 2025

Summary

Executive Summary

In the third quarter of 2025, the Climate Turnaround Fund (CTF) advanced its climate investment thesis, consolidating itself as an initiative that connects science and capital to build decarbonization and adaptation solutions. The fund aims to enhance resilience and create long-term economic value through collaborative engagement. During the period, the CTF deepened its work on structural themes – such as natural capital valuation, regenerative agriculture, green finance, and climate justice – reinforcing its conviction that financial returns and socio-environmental regeneration are inseparable dimensions of capital.

The quarter also marked the CTF's consolidation as an agent of knowledge generation and systemic influence. The publication of scientific studies and the strengthening of partnerships with companies, financial institutions, and policymakers expanded the fund's influence in the debate on Brazil's climate transition. As the country prepares to host COP30, the CTF reaffirms its role as a catalyst for a regenerative economy – one that turns commitments into measurable results and integrates mitigation, adaptation, and economic value into a single equation.

Message from the CIO

Financial markets run on anticipation. Discounted cash flow models, yield curves, and risk analyses do nothing other than try to translate the future into present value. The pricing of any asset in financial logic assumes that its value comes from the calculation of the present value of its future cash flows – which means that the further away in time the expected flow is, the less it is worth today. This logic has sustained the financial industry for centuries. But when we look at natural capital, this equation collapses. *In nature, the future is worth more than the present*. Preserving a forest for ten years generates cumulative value in biodiversity, in carbon stock, and in ecosystem services. *Translated into financial language, nature operates under a negative discount rate.*

This mismatch explains part of the structural delay of the financial market in dealing with the climate crisis. We continue to insist on models that reduce the importance of the long term, when in reality risks accumulate, and environmental assets become more valuable as time advances. The result is a *systemic underpricing of climate risks and an invisibility of the opportunities related to conservation and regeneration*. By ignoring this inversion, managers and investors compromise not only the planet's future but also the solidity of their portfolios.

This problem becomes even more serious when we analyze the sector's behavior. The capital market continues to act reactively, rarely proactively. The few instruments available under the environmental thesis mostly reproduce already known structures, without challenging the fundamentals of risk adjusted returns. There is some innovation in form, but little in substance. The dominant logic remains the same. *The market still treats sustainability as a restriction or reputational cost, and not as a primary source of value creation*.

In this context, COP30, to be held in Brazil this November, could serve as a wake-up call to the financial sector. The first letter released by the COP presidency was explicit: we are living through the first year in which the global average temperature has surpassed 1.5°C above pre-industrial levels – and if nothing is done, no financial stability will be possible. The climate crisis is no longer a topic for sustainability reports; it has become about systemic risk.

But the response cannot be another accumulation of isolated actions. Science moves in one direction, public policy in another, and regulators and capital in yet others. The result is fragmentation. There are dialogues and partnerships, but mostly peripheral ones – as if each actor could fulfill their role without changing the system's fundamentals. That model doesn't work. What we need is co-authorship: the *joint construction of solutions from the outset, integrating science, policy, and capital*.

It was precisely this gap that we sought to address this quarter by publishing a *study in the international scientific journal PLOS Sustainability and Transformation*. This marks an important milestone. It is not a unilateral thesis proposed by an asset manager, but a peer-reviewed study validated by the global academic community. The paper analyzed 123 publicly listed companies in Brazil, responsible for nearly three-quarters of Brazil's corporate emissions – and the results were striking.

First, the most significant variable explaining emissions is not the existence of climate targets, but profitability. More profitable companies emit more greenhouse gases. This reveals that in Brazil, *emissions trajectories remain tied to the economic cycle, not to voluntary climate commitments*.

Second, where targets do exist, they are often superficial: more than half of the companies analyzed had no formal target at all, and 81% of those that did were not aligned with the Paris Agreement. Third, we observed a pattern: *reductions are concentrated in energy (Scope 2), where Brazil's grid is already relatively clean, while supply-chain emissions (Scope 3) continue to grow without robust strategies*.

These findings highlight structural flaws. In an environment of weak regulatory enforcement, voluntary targets tend to reproduce business-as-usual rather than transform it. Without integration among public policies, market pressures, and science, there is no real incentive to reduce emissions at scale.

This diagnosis directly reinforces our conviction that *engagement must be intersectional*.

> To engage means to build bridges among science, policy, and markets. It is different from applying external pressure or demanding generic commitments. It means working together to redesign corporate strategies that make sense for shareholders, regulators, scientists, and society alike

That is precisely what we did, for example, by publishing *another study* – *this time in partnership with SLC Agrícola*. This work showed how it is possible to identify decarbonization levers while simultaneously creating economic value. It is co-authorship in practice: the shared construction of new pathways.

For investors, the choice is straightforward: either continue accumulating unpriced risks in portfolios exposed to the linear logic of business as usual or *position themselves as protagonists of a transition that – beyond being necessary – is a source of long-term value.*

At fama re.capital, we choose to stand at the frontier of this transition. We believe that *robust financial returns and socio-environmental regeneration are inseparable dimensions of capital*. Our trajectory has shown that strategic engagement and intersectionality enhance corporate resilience and create sustainable value in the most literal sense.

The president of COP30 has called for mobilization. Now, it is up to the financial sector to decide whether it will remain a follower – reacting to what is already inevitable – or assume its role as a protagonist, co-authoring the solutions. The choice is clear. And time – which markets usually discount – in nature, already accrues with negative interest.

Fabio Alperowitch, CFA
Founder of fama re.capital

Fund Performance

The third quarter was marked by mixed performance among portfolio companies, with operating and market results under pressure – except for Sabesp – leading to a -0.6% variation for the fund, compared to +5.3% for the benchmark. This performance reflects *heightened selectivity and caution across credit, protein, and agriculture theses, combined with persistently high capital costs and ongoing climate uncertainty*.

Still, this quarter's developments reinforced the structural fundamentals of our investee companies, all *anchored in long-term decarbonization and resilience strategies*. SLC Agrícola, Marfrig (now MBRF), Banco do Brasil, and Sabesp share a common trait: the integration between financial performance and climate impact remains the portfolio's main value driver – and neglecting climate risks can directly compromise operational results.

In this context, SLC Agrícola continues to demonstrate that *regenerative practices and disciplined agronomic management are structural sources of value creation*. The company maintains soybean and cotton yields 5–10% above the national average, supported by a regenerative agriculture strategy already implemented across more than 800,000 hectares, involving no-till planting, cover crops, bioprotectants, inoculants, and crop rotation[1].

These practices reduce year-to-year yield variability – even under climate stress – thereby reinforcing the company's operational and financial resilience. The *study "Regenerative Agriculture, Climate Resilience and Productivity", developed by fama re.capital and SLC Agrícola*, shows how this approach enhances margin stability while contributing to carbon sequestration and mitigation of physical climate risks.

For the fund, SLC Agrícola's case illustrates how the transition to regenerative production models in Brazil is not merely an environmental impact driver but a long-term economic lever – capable of protecting returns and redefining the competitive edge of Brazilian agriculture amid increasing water scarcity and global climate pressures. We remain confident that SLC Agrícola is well-positioned to continue leading this agenda.

By compiling concrete evidence of large-scale regenerative agriculture practices and productivity outcomes at SLC Agrícola, we helped *build a robust sectoral benchmark and*

[1] https://www.slcagricola.com.br/wp-content/uploads/2025/03/Relatorio-Integrado-2024.pdf

investment case, strengthening market perception of the company.

In addition to the study, we organized a virtual launch event and promoted broad dissemination of its findings to a diverse audience – including international investors who expressed interest in exploring further opportunities and dialogue with the company. Engagement with SLC Agrícola has also focused on zero-deforestation policies, climate commitments, transparency, and carbon market opportunities.

The incorporation of BRF in September established Marfrig (now MBRF) as *one of the world's largest protein groups and expanded its capacity to influence broader value chains*. The integration of beef, poultry, and pork operations creates an ecosystem capable of standardizing traceability and low-carbon criteria across multiple chains, strengthening the capture of both operational and environmental synergies.

The company continues to prioritize indirect supplier traceability and alignment of socio-environmental goals with its scale expansion and growing demand for traceable products. These factors reaffirm its ability to transform traceability and decarbonization into vectors of competitiveness and value creation in a sector increasingly exposed to climate and regulatory risks.

Among the CTF's key engagement themes with Marfrig is supporting the company in *building business value through natural capital valuation*. Discussions with various market actors have been initiated to promote studies not only on Marfrig's own natural capital but also on how to improve regulation and market mechanisms for valuing environmental assets.

Image via Freepik

Additional topics include financial mechanisms for smallholder environmental regularization, zero deforestation, and traceability.

Banco do Brasil, which accounts for roughly *half of all rural credit in Brazil*, is uniquely positioned to influence the sector's transition toward more sustainable and climate-resilient practices. Although the current credit cycle poses profitability challenges, Banco do Brasil's *scale and nationwide reach remain key strategic differentiators,* particularly in a context of high exposure to agribusiness.

The bank has both the institutional and operational capacity to improve its credit policies by incorporating stronger climate and socio-environmental criteria. This would allow the channeling of capital toward regenerative activities and processes, while strengthening its ability to mitigate climate, reputational, and financial risks. Recent performance, however, highlights that *the institution remains indirectly exposed to assets vulnerable to climate change* – partly reflected in rising default rates within its agribusiness portfolio, which have weighed on operating results.

Despite below-expectation performance in recent quarters, we remain confident that our engagement with the company can contribute to developing transition strategies and climate risk pricing mechanisms, thereby improving balance sheet resilience and the bank's long-term sustainability.

Sabesp continues to advance in universalizing sanitation services, with consistent execution in infrastructure expansion, operational efficiency, and investment discipline. *In developing countries, achieving universal water and sewage treatment also means decarbonizing* – as it reduces methane emissions and improves organic waste management.

The company maintains CAPEX aligned with its 2029 universalization targets and has been expanding its use of digital and automation technologies, such as its partnership with Telefônica for smart metering – initiatives that reduce losses, optimize energy use, and improve network management. The combination of operational efficiency and stable regulatory governance reinforces the long-term thesis: *universalizing sanitation creates both economic and climate value* in a sector with direct impacts on public health and emissions.

As part of its engagement strategy with vulnerable communities, Sabesp launched *Projeto Brotar*, the *first sanitation census targeting rural, Indigenous, and quilombola communities within its service area*. The survey will run until July 2026, covering over 820,000 households, with the goal of mapping local needs to provide access to clean water and wastewater services to historically excluded populations.

Climate justice is one of the engagement topics between the CTF team and Sabesp, building on initiatives the company has already embedded in its social agenda and universalization strategy. The goal is also to promote financial education and income generation, directly reducing default rates in vulnerable communities. Furthermore, our interactions with the company have focused on exploring decarbonization pathways, climate commitments, and market positioning regarding climate adaptation – a topic closely intertwined with Sabesp's core business.

The quarter reaffirms the essence of the fund's strategy: to invest in companies that combine solid financial fundamentals with concrete climate transition plans, sustaining our conviction that decarbonization is also an economic value lever – capable of mitigating risks and strengthening margins.

The Present Value of an Asset with Increasing Future Worth: SLC Agrícola

The valuation of long-term agricultural assets, such as productive land, reveals a structural mismatch between the financial market's perceived value and the real – ecological, productive, and strategic – value of such assets. In the case of SLC Agrícola, for instance, the company delivers above-average operating margins, robust governance, and a consistent record of value creation. Yet, *it trades at a roughly 50% discount to its net asset value (NAV)[1], estimated at R$14.1 billion by the company itself[3]*. The central question is: why is a productive and scarce asset, positioned within a global trend of land appreciation and food security, being priced as if it were in decline?

The answer lies in understanding how the market assesses – or fails to assess – the ability of agricultural systems to sustain and regenerate their asset base. Conventional valuation models tend to price projected cash flows over 5–10 years, assuming that a disproportionate share of value lies in perpetuity (i.e., the period after explicit forecasts, when stable growth rates are assumed). These flows are discounted by rates incorporating operational and commodity price risks. Yet, *such models often overlook climate (physical and transition) risks, soil regeneration capacity, yield stability, and cumulative gains from resilient agricultural practices* – effectively treating land as an exhaustible, rather than regenerative, asset.

The paper we published in partnership with SLC Agrícola helps address this gap, demonstrating that *regenerative practices not only enhance productivity but also reduce interannual variability and exposure to extreme climate events*. The combined adoption of no-till planting, continuous cover crops, diverse rotations, and bioinputs has increased production predictability and reduced losses during drought years by up to 12% (Lal, 2020; Nwaogu et al., 2024). From a financial standpoint, such predictability translates into lower cash flow volatility and, consequently, a reduced cost of capital.

Long-term studies reinforce this link between ecological resilience and economic performance. Montgomery et al. (2022) found that regenerative systems deliver more stable yields and higher margins than conventional systems, even without expanding cultivated

[2] SLC Agrícola Market Value in September 10th, 2025.
[3] https://ri.slcagricola.com.br/informacoes-financeiras/indicadores-financeiros/

area or input use. In a global meta-analysis, Pretty et al. (2018) identified that *conservation agriculture practices reduce fertilizer and pesticide costs by up to 30% while increasing average productivity by 20%.* These findings align with FAO (2023) evidence showing that soils richer in organic carbon retain more water, reducing irrigation needs and buffering climate stress effects.

The paradox, therefore, is that the market has yet to fully recognize this transition. As noted by Gosnell, Gill, and Voyer (2020), regenerative agriculture represents a structural – not incremental – transformation of production logic, replacing the extractive paradigm with a model of coevolution between production and ecosystem. However, the absence of comparable metrics on climate adaptation and soil resilience keeps these gains invisible to analysts and investors. Moreover, the recency of such studies may create uncertainty about the frequency and intensity of future climate events. *The result is a valuation bias that penalizes long-term investments and underestimates the net present value of assets that are, in reality, appreciating over time.*

Image via SARE

The SLC Agrícola case offers empirical grounds to reassess this dynamic. The company, now managing around 830,000 hectares, has integrated regenerative practices across 100% of its croplands in the 2024/25 season, including systematic use of inoculants, bioinputs, and cover crops. The cumulative impact of these practices is measurable: *soybean productivity 12% above the national average (Conab, 2025), lower variance between harvests, and stable yields even under drought or heat events*. In addition, its fields are estimated

to sequester up to 0.6 tCO_2e/ha/year (Bayer et al., 2006a; Locatelli et al., 2025), creating a natural asset that combines agricultural profitability with climate mitigation – a clear example of a sustainability double dividend.

From an economic-financial perspective, these attributes should translate into higher valuation multiples and lower discount rates. As Arrow et al. (2012) argue in Sustainability and the Measurement of Wealth, the true economic value of an asset depends on its ability to sustain benefit flows over time – and thus to preserve its underlying natural capital. Valuation models based solely on financial flows ignore the "inclusive wealth" of the system, which integrates natural resources and ecological resilience as components of productive capital. *Applied to agribusiness, this means recognizing that living soils, biodiversity, and water stability are forms of capital generating measurable economic value*.

This reasoning aligns with ongoing discussions within the Taskforce on Nature-related Financial Disclosures (TNFD, 2024) and the Science Based Targets for Nature (SBTN), which aim to integrate nature-related risks and opportunities into financial analysis. *Farmland under regenerative management can be viewed as a lower-risk, lower-cost-of-capital, higher-valuation asset* – particularly as carbon markets, green taxonomies, and resilience-based agricultural insurance mature.

However, this transition still depends on measurement tools and public policy. As proposed in the SLC Agrícola paper, the development of standardized climate resilience metrics – such as yield stability, crop diversity, water retention capacity, and soil carbon management – is a prerequisite for incorporating these factors into credit and valuation models. Such metrics could underpin sector-wide climate adaptation indices, *serving as the basis for differentiated pricing of agricultural assets, parametric insurance, and green bond issuance*.

Ultimately, the present value of a farm should reflect not only its generated cash flow but also the appreciation potential tied to its ability to regenerate and sustain its natural capital. As the financial market integrates resilience and regeneration indicators, it will not only correct valuation distortions but also realign economic incentives with ecosystem preservation and global food security.

[4] https://www.linkedin.com/pulse/quanto-vale-uma-fazenda-daniel-baeta-99rsf/?trackingId=m9ZU06MMSt2p1Ys1cBhd1A%3D%3D

On April 17, 2025, Daniel Baeta, CEO of Luxor Agro, published a provocative article[4] titled "How Much Is a Farm Worth?" His conclusion was simple: "It depends on what you do with it." Following that logic, we suggest that a farm is worth what it can regenerate. In the long run, it will be precisely these living and resilient assets – those that restore soils, capture carbon, and maintain stable productivity – that define the true market value of agriculture in the 21st century.

Climate Targets and the Roadmap to COP 30

The Conference of the Parties (COP) meetings are multilateral negotiation spaces among the member countries of the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement. In principle, they are not arenas for direct private-sector influence. However, recognizing that *non-state actor engagement is essential to the effectiveness of climate commitments*, signatory governments have increasingly encouraged private-sector participation in COPs.

This movement gained momentum in Glasgow during COP26, held amid the COVID-19 pandemic. The British presidency actively promoted corporate and financial institution engagement, leading to a wave of voluntary commitments, initiatives, and sectoral decarbonization coalitions.

At COP30, to be held in Belém do Pará, the Brazilian government aims to take a step further – creating a platform that effectively connects private action to the Paris Agreement's multilateral decision-making framework. The difference is that, rather than a stage for new voluntary pledges, the focus is on showcasing *concrete outcomes*: actions already being implemented that deliver measurable GHG reductions and climate resilience gains. In other words, *not promises – but delivery*.

This distinction is crucial, especially for the private sector: corporate commitments have not yet translated into actual decarbonization among Brazilian firms. This reality is evidenced by the *study "Corporate Emissions and Climate Targets: Insights from High-Emitting Firms in Brazil's Transition to Sustainability", published in PLOS Sustainability and Transformation*, which analyzed financial and emissions data from Brazilian companies listed on B3 between 2019 and 2023.

The study – authored by members of the fama re.capital team – concludes that profitability was the most consistent factor explaining the operational emissions of Brazilian companies during the period. It also shows that recent macroeconomic shocks had uneven impacts: emissions dropped in retail (-35%) and transport (-29%) during the pandemic, but rose 28% in food and agriculture – precisely the sectors most exposed to global deforestation and

supply-chain pressures. Reductions were concentrated in energy consumption, benefiting from Brazil's cleaner electricity mix, while indirect value-chain emissions increased steadily.

Moreover, among Brazilian companies with climate targets, 81% are not aligned with the 1.5°C global warming limit relative to pre-industrial levels – the scientific benchmark established by the Paris Agreement.

If GHG emissions follow profit cycles, then *only through economic value creation can corporate decarbonization policies become effective*. As long as companies cannot grow while reducing emissions, climate targets will remain insufficient and largely symbolic.

The CTF seeks to identify, clarify, and capture the economic value linked to emissions reduction across sectors of the Brazilian economy, contributing to the robustness and credibility of corporate climate targets. We believe that *true progress will come when capital systematically recognizes and prices the value of companies that reduce emissions* – not out of regulatory obligation, but as a competitive advantage – *turning decarbonization into a driver of growth*.

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