



Constellation ESG Framework

Greater consciousness of our long-term, socioenvironmental impact has propelled sustainable investing into becoming one of the asset management industry's highest-growing segments. We at Constellation understand its importance and have studied how to implement environmental, social and governance (ESG) factors into our investment framework. As investors and members of our society, we feel a duty to generate positive impact by incentivizing portfolio companies to move in the right direction. This theme has gained more traction in light of recent events, which causes us to reflect more on the holistic impact companies have and how they should be held accountable.

During our studies, we learned that sustainable investing is as complex as it is flexible. We sought to create a framework that genuinely encompasses ESG factors into our investment process yet does not outright limit our investable universe. While we are constantly learning and fine-tuning the framework, we would like to share our findings thus far with those who are interested in the subject. Transparency and sharing knowledge are, after all, fundamental pillars of Constellation's culture.

The framework is divided into two parts. The first one encompasses the factors we have found to be most commonly raised. We have quantified said factors between 1 and 3, in which the latter represents the highest standard. This numeric element permits us to compare companies within the same sectors, as well as industries amongst each other. With these benchmarks in hand, we may engage with portfolio companies to help them create an internal agenda and build processes to close the gaps. Ensuring that such awareness goes beyond good intentions and becomes a core part of an organization's culture and operations is perhaps the main challenge faced.

The second part is a composition of qualitative factors we consider critical to reflect upon and search for in companies' public documents or directly with management. It is a more subjective component, but not less important, of the analysis.

PART 1

ENVIRONMENTAL

- Energy and water consumption and efficiency
- Resource and waste recycling
- Air pollution (e.g. carbon emission)
- Biodiversity preservation
- Safety nets against disasters
- Conscious employees

SOCIAL

- Employee engagement and turnover
- Employee education development
- Talent attraction
- Employee health and safety
- Customer relations
- Supply chain
- Local community protection

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GOVERNANCE

- Shareholder rights and alignment
- Executive compensation alignment
- Board independence, expertise and pay
- Accounting practices (e.g. aggressiveness)
- Solid internal processes and controls
- Related party transactions
- Transparency and accountability
- Dual-class structures
- Prevention of corruption

PART 2

FOOD FOR THOUGHT

- Is ESG a critical issue for the company and does management take it seriously?
- Does the company have an ESG guideline and Sustainability report?
- Does management have ESG targets linked to compensation?
- What is the company's strategy in response to environmental risks?
- How is the company's history regarding environmental issues (negative headlines, violation records from regulators, etc.)?
- Is it appropriate to adjust income statement forecasts and valuation metrics (multiples, discount rate) due to ESG issues?
- Finally, is the company a net positive or negative to society?

Our intention is to cast light on this theme. We believe that companies with positive impact on society will have more sustainable business models and be better positioned to deliver stronger results in the long run. We want to stimulate this debate, incentivize investors and companies to reflect more on ESG issues and incorporate them into their actions. In doing so, we will all contribute to a better world, benefiting all of us and the generations to come.

Please feel free to contact us at cliente@const.com.br if any questions arise and/or if you would like to discuss this further.

Best regards,

Constellation Team

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