

CONSTELLATION

ASSET MANAGEMENT

Environmental Social Governance

2019 SASB REPORT

June 2020



More than just three letters...

As already mentioned in previous publications, as a long-term investor, Constellation has an essential role in the environmental, social and governance (“ESG”) debate, and we are always seeking to contribute positively to the development of this subject by absorbing and sharing our perceptions about this theme. In this regard, we developed this Sustainability Accounting Standards Board (“SASB”) Report. Eventhough we are not subject by any regulator¹ to have this in place, we believe the standards brought by SASB could help us to be more transparent about our ESG performance. This report looks back to the previous year – 2019 - and brings our achievements in these fields.

Join us in this reading.

About SASB

The SASB provides sustainability accounting standards for more than 80 industries in 10 sectors. This report provides ESG information for the **2019 calendar year**, referencing SASB’s reporting framework for “Asset Management & Custody Activities”. For more information about SASB, visit: www.sasb.org

¹ Constellation Investimentos e Participações Ltda. (“Constellation” and/or “the Firm”) is an investment advisor duly registered in the U.S. SEC, but exempted to report the annual filings Form-10-k and/or 20-F. This standard is being followed by the Firm on its own discretion, without a regulatory obligation attached.

Table 1. Sustainability disclosure topics & account metrics:

Transparent information & fair advice² for customers.

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	SASB CODE
Transparent information & fair advice for customers.	(1) Number and (2) percentage of covered employees with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceed.	Quantitative	Number: 0 Percentage: 0	FN-AC-270a.1
	Total amount of monetary losses as a result of legal proceedings associated with marketing and communication of financial product-related information to new and returning customers.	Quantitative	Total amount: 0	FN-AC-270a.2
	Description of approach to informing customers about products and services.	Discussion and analysis	Please check description item FN-AC-270a.3	FN-AC-270a.3

² In this context and following the limits of the licenses that the Firm has as an Asset Management company; Constellation cannot provide advice to investors.

Employee, diversity & inclusion

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	SASB CODE
Employee, diversity & inclusion	Percentage of gender and racial/ethnic group representation for (1) executive management, (2) non-executive management, (3) professionals, and (4) all other employees.	Quantitative	(1) 100% male and white (2, 3 and 4) 18% female, 100% white.	FN-AC-330a.1

Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory³

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	SASB CODE
Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory	Amount of assets under management, by asset class, that employ (1) integration of environmental, social, and governance (ESG) issues, (2) sustainability themed investing, and (3) screening.	Quantitative	(1) 100% (2, 3) 0%	FN-AC-410a.1
	Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment processes and strategies.	Discussion and analysis	Please check description item FN-AC-410a.2	FN-AC-410a.2
	Description of proxy voting and investee engagement policies and procedures.	Discussion and analysis	Please check description item FN-AC-410a.3	FN-AC-410a.3

³ In this context and following the limits of the licenses that the Firm has as an Asset Management company; Constellation cannot provide advice to investors.

Business Ethics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	SASB CODE
Business Ethics	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations.	Quantitative	Total amount: 0	FN-AC-510a.1
	Description of whistleblower policies and procedures.	Discussion and analysis	Please check description item FN-AC-510a.2	FN-AC-510a.2

Systemic Risk Management

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	SASB CODE
Systemic Risk Management	Percentage of open-end fund assets under management by category of liquidity classification.	Quantitative	99.5%	FN-AC-550a.1
	Description of approach to incorporation of liquidity risk management programs into portfolio strategy and redemption risk management.	Discussion and analysis	Please check description item FN-AC-FN-AC-550a.2	FN-AC-550a.2
	Total exposure to securities financing transactions.	Quantitative	0	FN-AC-550a.3
	Net exposure to written credit derivatives.	Quantitative	0	FN-AC-550a.4

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	SASB CODE
(1) Total registered and (2) total unregistered assets under management (AUM)	Quantitative	(1) USD 448M/ (2) USD 1,759M	FN-AC-000.A
Total assets under custody and supervision	Quantitative	0*	FN-AC-000.B

*As an investment advisor, Constellation does not custody assets.

Note to FN-AC-000.A – Registered AUM include those subject to the regulations of the Investment Company Act of 1940 (1940 Act), such as mutual funds, managed under the Employee Retirement Income Security Act of 1974 (ERISA), subject to the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive, or managed under the Commodity Futures Trading Commission’s (CFTC’s) Commodity Pool Operator (CPO) regulations. Unregistered AUM are those that do not fall under the definition of the registered AUM.

Descriptions:

Transparent information & fair advice for customers

FN-AC-270a.3 – All products and services are based on marketing and technical materials, developed by the Firm following different regulation requirements, as well as market best practices, always observing transparent and direct language, specially in terms of risk factors. This is also addressed through personal presentations by our CIO and Sales team. Due to Constellation license limits in different jurisdictions, it is important to highlight that these materials are just for investors information only and should not be construed as an offer to buy or sell, a recommendation or a specific security analysis.

Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory

FN-AC-410a.2 - We built a proprietary framework to incorporate ESG in our investment process and portfolio management. Every member of our investment team is responsible for the ESG due diligence in the companies under their coverage, by studying public corporate documents, having meetings with company's leadership and other stakeholders. ESG is a recurring theme in our Investment Committee. We apply a fundamental qualitative approach in defining the critical issues to each industry and company-specific, which results in a "ESG materiality matrix". The team also quantifies potential impacts of risks and opportunities, and when appropriate includes them in our valuation model. We also use a proprietary ESG scoring system to rank companies. By incorporating ESG criterias into our investment process, we aim to achieve four objectives: (1) Improve the portfolio long-term performance; (2) Reduce portfolio risk; (3) Have an impact on companies, making them more attentive to ESG issues; (4) Constellation be more conscientious, as a Firm and as a team.

FN-AC-410a.3 - When exercising voting rights for the vehicles under our management, we are equally diligent in reviewing ESG issues and how companies are transparent about these issues at their meetings (accountability and transparency). In addition to the criteria specifically addressed in our Policy on the Exercise of Voting Rights at General Meetings (Proxy Voting), such as conflict of interest management, for example, the entire content of this Policy is also considered for voting.

Business Ethics

FN-AC-510a.2 - As described in our Code of Ethics and Conduct - <https://constellation.com.br/documentos-relevantes/> - Constellation has an integrity channel - ouvidoria@const.com.br - accessible to all employees and third parties to report misconducts and breaches to the Code of Ethics and Conduct, to the Compliance Manual or any other rule that govern our activities. The information access is restricted to the Compliance team, that will keep the anonymity that the person who shared the information.

Systemic Risk Management

FN-AC-550a.2 - The approach to incorporation of liquidity risk management programs into portfolio strategy and redemption risk management is managed by the Risk Department policies and procedures. The Risk Department has the authority to immediately correct any breaches of the investment guideline in the fund in case it momentarily does not adhere to regulation or surpasses the mandate's pre-established risk factors' hard limits.

1

Risk factor monitoring

Proprietary model to guarantee a balanced portfolio in terms of risk factors:

1. Companies in the coverage universe are categorized as exposed or not to a determined risk factor.
2. The risk department monitors daily the portfolio exposure to risk factors and their respective limits. There are two types of limits:
 - **Hard limits:** If reached, the fund must be rebalanced as soon as possible, respecting market conditions. In case a breach occurs, the Risk Director will let management know and both will correct it. In case the Risk Director is unable to contact the portfolio managers in timely manner, he is authorized to correct the breach himself.
 - **Soft limits:** If reached, an alert is generated and the Risk Committee is informed, inciting a discussion as to how the breach should be dealt with.

2

Market risk monitoring – alert system

- Comparison of the relative performance of each stock in the portfolio to the benchmark against the relative past performance (last 3 years). The periods analyzed are 3, 5, 10, 15, 20, 25 and 30 days. Alex Rodrigues, who is responsible for the Risk Management department, monitors this daily.

3

- If current relative performance is materially negative (more than 1 standard deviation) than it was in a given window in the past, an alert is incited, and management is informed. These alerts are discussed at the weekly Risk Committee meeting when managers need to justify an eventual stock's poor performance and whether the position of the stock in question should be reduced or exited. The decision to reduce or completely exit a position is made if the Committee concludes that there has been a change in the fundamentals of the company in question, and consequently in our investment thesis.

Liquidity risk - limit definition

- **Hard limit:** Considering all of the fund manager's holdings, Constellation must be able to liquidate at least 40% of the portfolio in one month.
- **Soft limit:** Avoid having more than 5% in each position in which Constellation is unable to sell more than 50% within one month.
- **Soft limit:** Avoid having more than 5% total in positions that Constellation takes more than two months to liquidate, considering that in the 5% are discounted % of the positions that can be sold within two months.

Limit monitoring

- The Risk Director is responsible for producing a daily liquidity report that is sent to the Risk Committee.

Stress test execution

- Stress tests are used to verify portfolio liquidity.
- It simulates extreme market conditions, considering (1) worsening variation in volume of assets negotiated, (2) elevated amounts of redemptions, (3) amount of NAV dispersion (investor concentration) and (4) redemption period.
- If the tested portfolio does not pass the stress test, a meeting takes place between the Risk and Investment Committees to discuss the rebalancing of the portfolio to create a more liquid composition.

Contact:

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