

CONSTELLATION
ASSET MANAGEMENT

ESG
BEST PRACTICES
POLICY

June 2020

 **PRI** | Principles for
Responsible
Investment

Scope

Constellation
employees

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Summary

This ESG Best Practices Policy presents the criteria used by Constellation, both in the analysis of the investments of the funds under its management and in its ESG function as a Firm.



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About Constellation



More than just three letters...

...a paradigm shifts.

ESG is the abbreviation for "environmental, social and governance" and it has never been more important to talk about sustainable economic growth. We have experienced worldwide significant climate change, increased environmental accidents, scarcity of natural resources, disruptions in business models, changes in working conditions, a pandemic with unprecedented impacts in modern history, among many other changes.

As long-term investors, we have an essential role in this debate and we can, and should, demand measures and contribute positively to the development of this issue by the invested companies.

Sustainable investments consider the incorporation of ESG matters in the analysis of companies for investment decision making, focusing beyond the pure and simple profitability, seeking to understand how returns are derived. Our investment philosophy prioritizes companies with robust and sustainable business practices.

To help understanding the extent of this theme, see below examples of criterias used by Constellation in the analysis of ESG factors:



Environmental

- ✓ Use of natural resources - energy consumption and energy efficiency;
- ✓ Recycling and waste management;
- ✓ Air pollution (e.g. carbon emissions);
- ✓ Deforestation;
- ✓ Preservation of biodiversity;
- ✓ Anti-disaster measures;
- ✓ Environmental awareness.

Environmental issues consider the environmental impact of the activity and the efficiency and responsibility of the company in the use of natural resources, as well as the effectiveness and speed of contingency plans. This factor includes global treaties on climate change, a prominent item on the political and corporate agenda.

According to the latest report from the World Economic Forum¹, the five major economic risks concerns to environmental subjects.

¹ <https://www.weforum.org/reports/the-global-risks-report-2019>



SOCIAL

- ✓ Human capital - engagement, turnover and diversity of employees;
- ✓ Professional development (education) of employees;
- ✓ Captivating talent;
- ✓ Employee health and safety;
- ✓ Level of customer satisfaction;
- ✓ Relationship with sustainable supply chain;
- ✓ Protection of local communities.
- ✓ Board engagement with social issues;
- ✓ Responsible production;

Social issues are essential for the balance of society and the future of the companies we invest in. Without the social concern, the company will hardly succeed. Healthy work environments, training and development of people, diversity of workforce and concern for employee welfare are key elements for companies. Equally important is treating the customer well and demanding good supply chain practices. It is necessary to adopt practices that cover this issue in a broad way for the perennality of companies.

In relation to Diversity, we see it not only as a social mission, but also as an important tool for companies to make better decisions and know their consumers better. From the point of view of the company leadership, having diversity of knowledge in the teams adds value to the decision-making process and understanding of its customers.



GOVERNANCE

- ✓ Business ethics;
- ✓ Alignment and rights of minority shareholders;
- ✓ Strong corporate governance and corporate behavior;
- ✓ Anti-corruption and bribery practices;
- ✓ Antitrust practices;
- ✓ Accounting practices;
- ✓ Compliance and soundness in internal controls and processes;
- ✓ Independence, expertise, compensation based on objective pillars and diversity of the Board of Directors;
- ✓ Share class structure;
- ✓ Transactions with related parties (conflict of interest management);
- ✓ Transparency and accountability.

The Governance factor aims to verify good corporate practices. The composition and supervision of the Board of Directors, experience, diverse skills in its composition, structured policies, reputation, incentives, among other aspects.

Our investors believe we will deliver a superior risk/return ratio. ESG analysis is a key element in our analysis and decision-making process, strengthening our investment philosophy.

Maintaining a focus on the client's experience is essential for invested companies to deliver above average returns, and to survive in a challenging and often disruptive environment. This also applies to Constellation as a company and to our team.

ESG CONSTELLATION – AS INVESTOR

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.

In order to explain our ESG analysis process, we answered some questions:

1. Which funds adhere to the ESG strategy?
A.: All Long Only Strategies and Compounders.
2. How many of the total ESG assets are under management?
A.: All Long Only and Compounders strategy, ~98% of the assets under management.
3. Employees responsible for ESG analysis and management, as well as allocation of responsibilities:
A.: Each member of the investment team is responsible for ESG analysis of the companies under their responsibility and to feed the Investment Committee with the relevant information. The backoffice team is responsible for the risk control of the funds, including ESG factors.
4. ESG factors that are considered in Constellation's analysis and that are the focus of the investments:
A.: Check descriptive in the item above.
5. Indicators used to evaluate the ESG questions:
A.: Qualitative aspects of ESG are evaluated, such as: governance, opportunities, risks, challenges.
Use of proprietary scoring system for the analysis (using the criterias above) and the score is constantly reviewed. If the company goes through ESG filters, but the score is low, a maximum exposure to the company is then set.
6. Procedures adopted for acquisition and monitoring of ESG assets:
A.: Specific ESG discussions at the Investment Committee, with structured material to feed the conversations.
Periodic meetings with ESG leadership in the companies and subsequent updates to the team in the Investment Committee.
7. Adopted governance and implemented procedures, including voting policy and criteria for divestment of assets that do not meet the requirements of the ESG investment policy:
A.: ESG issues are dealt with in the Investment Committee (when related to the invested companies) and in the Executive Committee (when dealing with Constellation's own internal affairs). If an invested company has its ESG score

reviewed down, we may review the maximum position within the fund. In more extreme cases, we may completely divest.

Finally, 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.

8. Actions taken by the Manager to adapt its analysis model to ESG requirements:
A.: We are signatories of PRI (Principles for Responsible Investment), we are on the GRI (Global Reporting Initiative) Advisory Board in Brazil, we neutralize our pollutant gas emissions, we incorporate ESG factor analysis into our investment process and portfolio risk management, and we prepare a formal Constellation ESG policy.
9. Periodicity of management's investment policy review and of this policy.
A.: Annual basis and whenever necessary.
10. Other criteria considered in the evaluation of variable income assets.
A.: In addition to the criteria described above, Constellation's fundamentalist investment philosophy includes the analysis of the company's growth potential, the quality of its business (balance sheet strength, level and behaviour of returns, growth opportunities, etc.) and valuation.

ESG CONSTELLATION – AS FIRM

Education, the foundation of all things.

As a participating firm in the capital market, we believe in our socioenvironmental role and briefly share some of our practices.

Our founding partner and Chief Investment Office ("CIO"), Florian Bartunek, truly believes that the basis for change is education and it is in this pillar that we focus our efforts. Florian sits on the boards of several educational institutes.

At Constellation, all partners and employees are constantly encouraged to read and study, but our philosophy applies in practice when we talk about young people, because we believe that our project "Constellation Challenge" brings the greatest impact.

Constellation Challenge is the largest university business evaluation competition in the country, sponsored by Constellation. With monitoring provided by Constellation professionals, the participants learn in practice the concepts of fundamentalist analysis when preparing an investment case for the competition.

The finalist groups present the case to a judging panel composed of members of Constellation and of the analysed company and the best analysis wins the final prize.

Finally, we recently created the "Constellation University", an internet channel to give back and share with our community a little of the knowledge of our team and our analysis philosophy, to guide those who want to venture into investments.

All are equal.

All partners and employees of the Firm are equal. What matters to us is the passion with which each one performs their functions, independently of gender, race, religion, etc. We truly value an environment free of harassment, where everyone can have a voice. Respect is the basis of our relationships, internal and external.

Meritocracy

The Company also believes in long-term relationships with its employees. Excellence in individual performance and truly embrace the Firm's philosophy are important points in the evaluation, and everyone has equal opportunity.

Effective actions

In addition to various educational actions and becoming a PRI signatory, we have adjusted our Firm in order to mitigate our impact on the environment, e.g.: we have neutralized emissions of polluting gases, eliminated the use of plastic products and included selective collection. Finally, we seek to disseminate this culture through events and constant conversations with experts, invested companies and investors".

Support

Finally, we believe that our immediate relationships make up our community and we support and assist our members and employees, incentives in addition to compensation, such as courses and education programs, among other initiatives are constantly monitored.

Executive Committee

The Executive Committee is the independent body responsible for the initiatives of the Firm, as a business, focused on the ESG theme.