

An aerial, high-angle photograph of a zebra crossing on a city street. The white stripes of the crossing are prominent against the dark asphalt. Several pedestrians are captured in motion, crossing the street. The lighting creates long, dark shadows, suggesting it is either early morning or late afternoon. The overall tone is somewhat somber due to the dark shadows and the high-angle perspective.

CONSTELLATION

ASSET MANAGEMENT

ESG BEST PRACTICES POLICY

Constellation Investimentos e Participações Ltda.
("Constellation" and/or "the Firm")

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



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ESG AT CONSTELLATION – AS INVESTOR

Overview

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 ESG issues by the invested companies.

We seek to deliver a superior risk/return ratio to our investors, and ESG integration is a key element in our analysis and decision-making process, strengthening our investment philosophy.

By incorporating ESG criteria into our investment process, we aim to achieve four key objectives:

1. Improve the portfolio long-term performance;
2. Reduce portfolio risk;
3. Have an impact on companies, making them more aware of ESG issues;
4. Constellation be more socially conscious, as a company and as a team.

We are a signatory to the Principles of Responsible Investment (“PRI”), a voluntary initiative that sets best-practises ESG standards to asset owners and asset managers. We also participate in collaborative ESG industry initiatives on a selective and strategic basis.

ESG Integration into the Investment Process

Our Approach

We incorporate ESG factors in the analysis of companies and 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.

We believe being conscious to ESG issues, and really walking the talk is paramount for companies to not only have a superior long-term profitability, but also to survive in a challenging and disrupting environment.

In addition to the criteria described below, 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.

At Constellation, all Long Only strategies (~98% of the AuM) are subjected to ESG integration and the whole investment team is involved in the process.

ESG Framework

We sought to create a framework that genuinely encompasses ESG factors into our investment process. We believe ESG is not a box-checking exercise and will not rely on external ESG ratings. Constellation's proprietary ESG Framework seeks to evaluate a company's adherence to ESG considerations on a bottom-up basis. We built our framework considering the recommendations of well-known sustainable investment and corporate initiatives, such as SASB (Sustainability Accounting Standards Board). Also, Constellation does not have an exclusion list per se, but we focus on sectors we believe are consistent with our investment strategy and ESG perspective.

Our ESG Framework consists of three main pillars: Quantitative Analysis, Qualitative Analysis and Engagement.

I. Quantitative Analysis

The first part of Constellation's ESG Framework consists in a numeric element which translates in an ESG Score and an ESG Classification for each portfolio company, based on the following criteria¹:



ENVIRONMENTAL

- ✓ Water and wastewater management;
- ✓ Energy management and efficiency;
- ✓ Waste and hazardous materials management;
- ✓ Air pollution;
- ✓ Biodiversity preservation and land use;
- ✓ Safety nets against disasters;
- ✓ Climate change strategy and resilience.



SOCIAL

- ✓ Employee engagement and diversity;
- ✓ Employee training and development;
- ✓ Talent attraction and retention;
- ✓ Employee health and safety;
- ✓ Product safety & quality and selling practices;
- ✓ Customer relations and satisfaction;
- ✓ Supply chain management;
- ✓ Local community relations and human rights.



GOVERNANCE

- ✓ Shareholder alignment;
- ✓ Executive compensation alignment;
- ✓ Board independence, expertise, pay and diversity;
- ✓ Accounting practices;
- ✓ Solid internal processes and controls;

¹ This list is not meant to be exhaustive.

- ✓ Related party transactions;
- ✓ Transparency and accountability;
- ✓ Dual-class structures;
- ✓ Integrity and prevention of corruption;
- ✓ Relevant controversies.

The Quantitative Analysis consists of a standardized tool that help to systematically analyze the environmental, social, and governance factors that could impact our investments. The ESG Score is built upon information provided on annual reports and corporate disclosures, interactions with management, media, and internal analysis.

The extent to which ESG factors are material to a given company vary widely and can be specific to a given sector or geography. Thus, the assessment of a company's ESG performance is relative to its material issues² that affect its sector, allowing us to focus on ESG factors we believe are meaningful to a firm's growth, profitability, and risk management profile.

Our proprietary Quantitative Analysis provides a standardized framework for assessing a company's ESG characteristics relative to peers. The final ESG Score results in an overall ESG Classification for each portfolio company: ESG Leader, ESG Average or ESG Laggard.

II. Qualitative Analysis

The second part of Constellation ESG Framework is a composition of qualitative factors we consider critical to reflect upon and search for in companies' public documents or directly with management.

Many ESG factors are qualitative in nature and many ESG data sets are underdeveloped, with limited disclosure and lack of standardization. Also, we recognize that while the asset management industry tends to group environmental, social, and governance factors into one bucket ("ESG"), governance factors are more well established and uniformly disclosed than environmental and social factors. Although this represents a limitation of our methodology, the Qualitative Analysis aims to close this gap and access a company's qualitative performance on the three ESG factors, contemplating outcomes besides data outputs.

At this stage, our team must answer several questions regarding the company's ESG positioning, commitment and transparency, business model resilience and competitiveness. The answers are considered by the Investment Committee in its decision-making process.

III. Engagement

With benchmarks in hand and the results of the Quantitative and Qualitative Analysis, we may engage with portfolio companies to help them create an internal agenda and build processes to close the gaps. As investors, we prefer to approach engagement constructively.

Our engagement approach mainly focuses on bottom-up issues affecting a company's ESG performance, and the engagement topics are reviewed on a recurring basis.

² Financially material ESG issues are those factors likely to affect, positively or negatively, a company's business and performance.

Occasionally, we participate with other investors in industry-level initiatives aimed at improving disclosure or ESG practices. But the central focus of our engagement efforts is at the invested company level.

Shareholder proposals of socioenvironmental issues are becoming more frequent. We take a case-by-case approach to analyze these proposals. Also, 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. In addition to the criteria specifically addressed in our Policy on the Exercise of Voting Rights at General Meetings, the entire content of this Policy is also considered for voting.

Decision-Making Process and Monitoring

The Investment Committee integrates the results of the ESG analysis in its decision-making process and decide upon engagement efforts, position size and exposure limits. If an invested company has its ESG score reviewed down, we may review the maximum position within the funds. In more extreme cases, we may completely divest.

We frequently monitor the ESG performance of the invested companies, including specific sustainability KPIs, commitments and targets and ESG reports. Also, we have periodic meetings with companies' ESG leadership and management.

Governance

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. Since August 2022, this process is overseen by a dedicated ESG person, who is responsible for coordinating efforts related to ESG and leads ESG discussion in the Investment Committee.

The Backoffice team is responsible for the risk control of the funds, including ESG factors.

Finally, in 2022 Constellation created an ESG Committee, consisting of among others, its partners, Chief Operating Officer, General Counsel, Compliance officer, and head of ESG. The ESG Committee is responsible for maintaining the ESG Best Practices Policy, monitoring ESG, reporting and providing periodic training to Constellation personnel.

Oversight of our ESG Best Practices Policy and initiatives resides with the firm's Committees:



Review

This Policy is reviewed on an annual basis and whenever necessary.

ESG AT CONSTELLATION – AS FIRM

Overview

We address social issues through educational initiatives and social responsibility programs. On a recurring basis, ESG training is provided to the investment team and all employees are required to receive business ethics training.

In relation to environmental issues, we have adjusted our internal practises to mitigate our impact on the environment: we annually purchase carbon credits to offset our greenhouse gases (GHG) emissions, eliminated the use of plastic products, adopted in-office reduced waste, recycling, and “paperless” efforts.

Finally, we seek to disseminate sustainable investment through events, educational actions, and constant conversations with experts, invested companies and investors.

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

Diversity & Inclusion (“D&I”)

We promote fair opportunities to all partners and employees. What matters to us is the passion with which each one performs their functions, independently of gender, race, religion, age, national origin, pregnancy, sexual orientation, disability. We truly value an environment free of harassment, where everyone can have a voice. Respect is the basis of our relationships, internal and external.

We believe in diversity of backgrounds, skill sets and experiences, because diversity brings varying perspectives to the table. We want to be the asset manager of choice for the most talented and skilled in the financial markets, and this means extending our reach to candidates of all identities.

At Constellation, we seek to promote D&I in the workplace, providing continuous education to our employees (e.g., anti-workplace harassment and unconscious bias training), and maintaining a workplace in which every employee is able to reach his or her full professional potential.

On an annual basis, we conduct an anonymous diversity census, to track the diversity group composition of our team.

We also believe in long-term relationships with our employees. Excellence in individual performance and truly embrace the Firm's philosophy are important points in the evaluation. Everyone has equal opportunity, and we recognize the contributions of all employees.

Constellation is committed to create a safe work environment, implementing appropriate measures to promote health and well-being.

We actively promote D&I initiatives, both inside the Firm and throughout the asset management industry, including through financial support to like-minded external organizations.

Social Engagement

Constellation is committed to promoting philanthropic activities. We seek to empower youth and find solutions that drive social good.

We engage team members in charitable efforts, including volunteering initiatives.

We amplify our impact awarding direct grants to charities. Annually, Constellation itself and its partners support organizations that fight poverty through education. Constellation's partners also serve as board members of charitable organizations.

Governance

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