



IndieCapital

RESPONSIBLE
INVESTMENT
POLICY

Our approach to Environmental, Social, and
Governance (ESG)

March 2023

indiecapital.com.br



Founded in 2011, Indie Capital is an asset management firm investing in Brazilian publicly traded companies. Our philosophy is to seek for and invest in outstanding companies, led by excellent managers during their highest value-creation periods.

Our partnership is based on idea meritocracy, independent thinking, open mindedness, and a steadfast search for capital-appreciation opportunities. We bring simplicity and excellence to what we do. In search of constant improvement, we cultivate ownership and a spirit of non-conformity.

Our team is made up of people with diverse experience including private equity and publicly traded assets, managing companies, and macro-economic analysis. We also value those we train in-house who can go on to strengthen our culture.

On the investor side, we seek companies that share our philosophy and investment horizon. We serve a broad range of investors, including institutional investors, wealth managers, investment advisors, and private and retail clients.





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1

VISION AND MOTIVATION

One of our motivations to begin integrating ESG is our commitment towards contributing to a sustainable future for generations to come. But adopting ESG principles is not just about doing good. It

is also directly linked to our fiduciary duty. We know that companies that protect natural resources, care about their communities, and practice high governance standards tend to have greater operational efficiency, lower risk exposure, and better reputations.

For us, ESG represents a tool to improve our analysis of the risk vs. return relationship of our investments.

We started discussing ESG at Indie Capital at the end of 2018, when one of our institutional partners questioned us about it. At the beginning of 2019, we held an off-site meeting with the whole team, and we decided to begin incorporating ESG into our investment philosophy. In May of that same year, we became signatories to the Principles of Responsible Investment (PRI), an international network of investors supported by the United Nations (UN), committing to responsible investing. To develop our own way of doing this, we used our company's philosophy: To have the humility to admit what we do not know, go straight to the source, talk to experts, and never stop learning.



We hired Sitawi, a consulting firm specialized in sustainable finance, to begin training our management and investment team through weekly meetings and workshops on specific topics. In 2020, we developed our ESG analysis framework and set up an ESG committee in partnership with Catavento, a leader in corporate sustainability consulting in Brazil.

As we interact with the companies in our universe of coverage, we increase our knowledge about the ESG attributes of each company; this in turn strengthens our rating system and makes it more effective. On the next pages, we will give a step-by-step explanation of our approach.



2

INTEGRATION APPROACH

Taking into account the discrepancies between the ESG evaluations given by market participants and our own traditional investing method - based on in-depth analysis and compounding knowledge of

different business models - we decided to develop our own methodology to evaluate and integrate ESG.

Our framework was built in partnership with ESG experts and is designed to allow constant evolution. It involves the following steps:

1

A comprehensive questionnaire on E, S, and G aspects

2

A more specific questionnaire that takes into consideration materiality according to business model

3

ESG score vs. management attitude

(1) In the first step, we divided the social, environmental and corporate governance topics into 14 subtopics:

Environmental

- Ecosystem
- Environmental Management
- Resource Usage
- Waste Management
- Greenhouse Gas Emissions

Social

- Workers
- Suppliers
- Customers
- Community

Governance

- People
- Culture and Management
- Trust and Integrity
- Alignment of Interests
- Control and Legal Structure



Using these, we drew up 70 questions to separately analyze each aspect (see Appendix). Each question is accompanied by a scale that we developed in partnership with Sitawi to facilitate the conversion of subjective and qualitative information into a quantitative parameter. Each question receives a score from 0 to 3, with 0 reflecting poor performance and 3 reflecting exemplary performance.

(2) In the second step, we filter the questionnaire based on our knowledge about the company's business model and what is relevant for it. Defining materiality is an extremely important step for the analysis; it is what should ultimately be considered when associating environmental, social, and governance aspects to the characteristics of each business model.

The process of defining materiality for each of the 14 subtopics involves widely disseminated methodologies for this type of analysis, such as the Sustainable Accounting Standards Board (SASB) Materiality Map[®] and the UN Sustainable Development Goals. To internalize materiality in the framework, each aspect receives a score from 0 to 3, with 0 reflecting low relevancy and 3 reflecting high relevancy or, in other words, materiality.

Because a sectorial generalization does not always validate a company's business model, sometimes an adaptation is needed to better reflect what is important.

After we perform an in-depth analysis to understand the company's perspective on the subject – with that analysis depending on the amount of information that the company is willing to disclose – we separate the main issues to address with the company's management and business area in order to study the questions in detail and to engage leadership.

(3) In the third step, we add another dimension to the analysis to measure the company's attitude toward the relevancy of ESG topics. For this assessment, we evaluate questions such as:

Does the team understand what is material?
Are ESG goals objective?

In addition to the ESG score, this dimension establishes a decisive criterion for integrating ESG into the portfolio in accordance with the belief that our differential lies in understanding the people who run the companies.

We thus conclude our ESG integration approach: we are able to assess companies based on both their current level of ESG and the attitude of the company's executives – aspect which will define the company's ESG evolution over time. We believe that companies are like living organisms that are constantly evolving; we are therefore continuously monitoring their ESG initiatives. As is with our financial analyses, we update the ESG assessment according to news, recent interactions with management, new projects, results disclosures, sustainability report releases, etc. This helps us to remain as up-to-date as possible concerning a company's ESG quality and posture.



3

ESG INTEGRATION INTO FUNDS

The combination of quantitative and qualitative approaches ensures that we have the right tools to recognize ESG risks and opportunities for the companies that we analyze. As for ESG

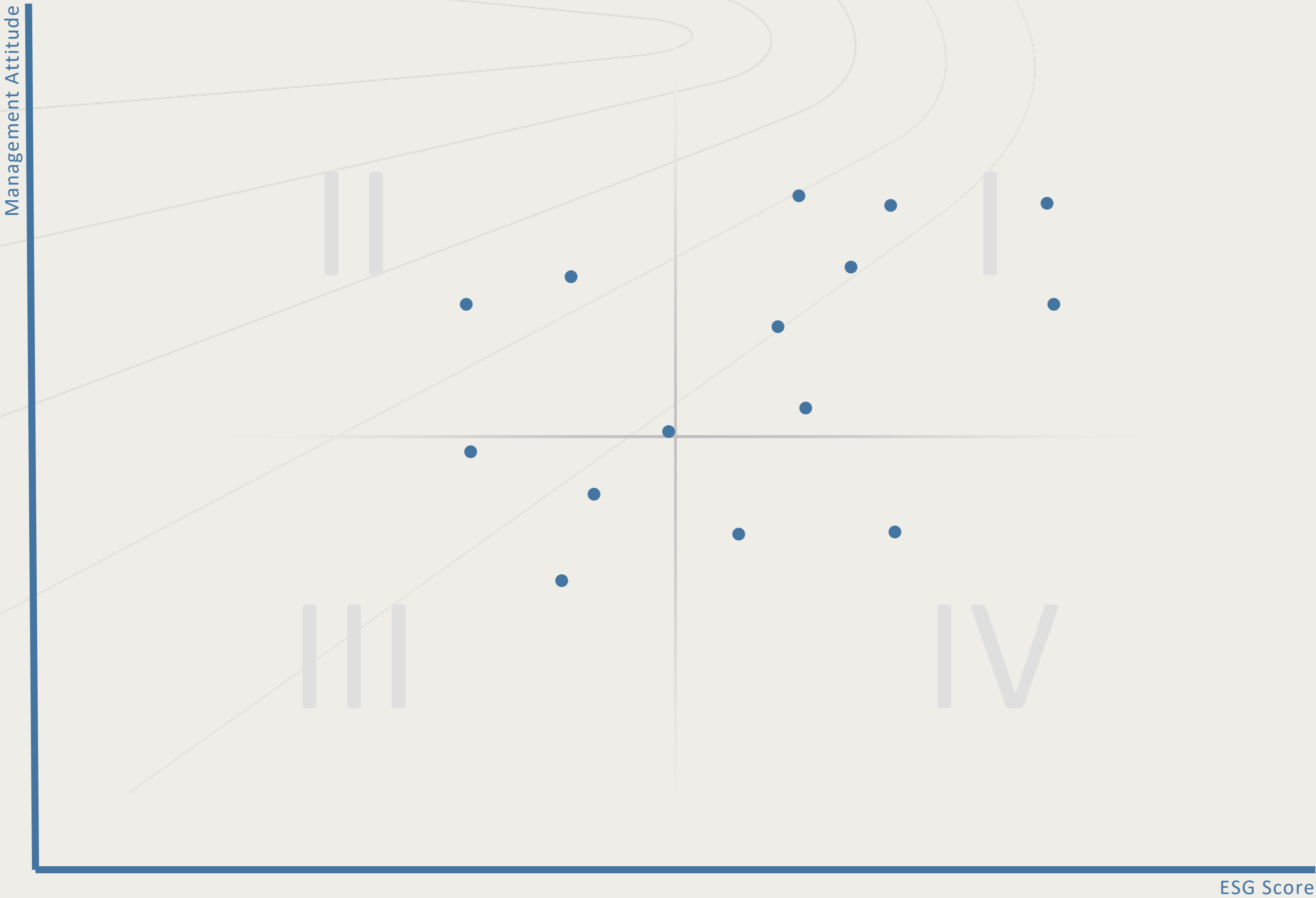
integration into Indie's FIC FIA fund, the ESG assessment score generated is incorporated into our traditional rating methodology. This methodology is based on five pillars:

- i. Business Model - to understand the longevity of the company's cash flow;
- ii. Value Generation - to assess the size of a company's target market and the challenges they face in order to reach it;
- iii. Management and Governance - to better understand the people who are behind the company;
- iv. Capital Structure - to explore possible balance sheet risks or off-balance-sheet risks capable of threatening the business or its growth;
- v. Socio-Environmental - to explore sustainability aspects.

The weight of each of these pillars differs according to their importance in determining the attractiveness of an investment. Among the ESG pillars, Management and Governance (iii.) has always been at the center of our analysis. The inclusion of the Socio-Environmental pillar (v.) was the result of our more recent evolution towards ESG integration. The weight of this pillar in the rating methodology should evolve as we gain more knowledge about the subject.



ESG Matrix



● Companies

I
Companies with a reputation for prioritizing ESG and whose management is highly engaged. We see lower risk and a greater potential for generating value with these companies that are a market reference in ESG.

II
Companies whose management displays a willingness to develop ESG practices but have not yet put them into practice.

III
Companies that are not yet developing ESG fronts and whose management is not engaged. We understand that these companies present a higher risk over the long term;

IV
Companies that naturally address ESG aspects, even if their management is not fully engaged with the topic just yet.

Figure is for illustration purposes only

For companies in the first quadrant that have good ESG scores and committed managers, we have a better perception of the quality and risk of those companies and a potential to increase investment position.

For companies that fall into the third quadrant, the logic is the opposite: we have a worse perception of quality and risk, because of their bad grades and low engagement from their management. In this case we seek to engage with these managers to demonstrate ESG relevance for their company's long-term value creation potential.

We have thus created a structure that evolves together with our internal ESG-assessment capacity, ensuring a gradual and careful transition while we continue to learn and grow.

All evaluation criteria and analyses produced are discussed by the Investments and Analysis Committee in order to constantly refine the results. In addition to analyzing each company, we also discuss: the emergence of new ESG topics to be observed, the valuation or devaluation of an asset to adjust the risk and return of our portfolio, the management of risk itself, and the possibility of engaging with the invested companies to help them forward.



4

STEWARDSHIP

A fundamental characteristic of our investment analysis is the quality and alignment of the executive team. We believe that people make the difference in a company's performance. Our ESG

approach is no different; we feel it is important to have direct contact with the managers and other stakeholders of the companies we invest in.

We seek to share best practices, knowledge, and ESG analyses by engaging executives, their teams or other shareholders and pointing out issues that may conflict with the highest standards of ESG principles.

We believe that building a constructive relationship with the companies we invest in is the most efficient way to achieve our common goals. For this reason, we choose not to work with negative screening.

We prioritize engagement with companies that are classified in the second and third quadrants of the ESG Matrix (page 12) – those companies with low ESG scores.

The first contact with the company usually takes place by sending a specific questionnaire, covered in the second section of this document.



When the companies respond, we perform an in-depth internal study to focus on relevant points to be discussed at the time of our second contact, depending on materiality and the company's stage in each of these points.

Our main objective in this initiative is to discuss material points of concern with the company, share our assessment of implemented processes, and suggest good practices which we have seen through other analyses in order to help the company evolve. We seek to position ourselves before companies as partners in this transition.

In the first half of 2021, we adopted the Stewardship Code of the Brazilian Association of Capital Market Investors (AMEC), in which we commit to follow its 7 principles and report our performance annually. At the same time, we also became participants in *Investidores Pelo Clima* (investors against climate change, in literal translation) through which we promote dialog and seek commitments from selected companies together with other participant investors.



5

ESG AT INDIE CAPITAL

We believe that just as large corporations must innovate and comply with the new context, **fund managers like ourselves must also look to adapt to changing times.**

Regarding the institutional incorporation of ESG in Indie's daily activities, we highlight the following:

I.

Reinforcement of the partnership program structured to clarify the company's governance bodies and retain talent;

II.

Commitment to increasing the diversity of our team of professionals, such as the number of women at Indie - which increased from 9% in 2019 to 29% in early 2021;

III.

The mapping and neutralizing of our CO² emissions by purchasing carbon credits in partnership with Carbonext;

IV.

Establishment of an internal committee focused on benevolence and philanthropy – during the COVID-19 pandemic, we made institutional donations focused on groups affected by the pandemic.





Appendix

I. DESCRIPTION OF THE 14 ESG
SUBTOPICS

II. ROLES & RESPONSIBILITIES

III. GUIDELINES

E

I. Description of the 14 ESG subtopics

ENVIRONMENTAL

SUBJECT: ECOSYSTEM

- Fines for environmental damage
- Environmental positioning of the company

SUBJECT: ENVIRONMENTAL MANAGEMENT

- Environmental risks during the production stage
- Actions to mitigate environmental impacts during production

SUBJECT: RESOURCE USAGE

- Measures for energy and water efficiency
- Use of sustainable raw materials, circular-economy practices

SUBJECT: WASTE MANAGEMENT

- Processes for reducing simple and hazardous waste
- Recycling processes and sustainable use of raw materials

SUBJECT: GREENHOUSE GAS EMISSIONS (GHG)

- GHG disclosure and practices for reducing emissions
- Impacts of climate change and business model resilience

S

I. Description of the 14 ESG subtopics

SOCIAL

SUBJECT: WORKERS

- Relationship with employees, diversity, inclusion, and working conditions
- Talent retention and training
- Risks related to health and safety and actions to mitigate them
- History of health and safety disputes and actions to mitigate them

SUBJECT: SUPPLIERS

- Environmental, social, and human rights criteria are used in evaluating and selecting the suppliers of products and services

SUBJECT: CUSTOMERS

- Product and packaging safety for the final consumer
- Consumer relations
- Data security and privacy
- Customer accessibility to the product or service
- Product lifespan management

SUBJECT: COMMUNITIES

- Relationship with surrounding communities or those impacted by the company's operations
- History of conflicts with the communities



G

I. Description of the 14 ESG subtopics

GOVERNANCE

SUBJECT: PEOPLE

- Quality of the board (long-term vision, alignment with shareholders, and supervision of managers)
- Management team long-term vision and focus on the creation of sustainable value

SUBJECT: CULTURE AND MANAGEMENT

- Relationship with employees
- Vertical or horizontal hierarchy; meritocratic or autocratic decisions
- Discriminatory practices

SUBJECT: TRUST AND INTEGRITY

- History of conflicts with minority shareholders
- Transparency and disclosure
- Anti-competitive behavior
- Bribery and corruption

SUBJECT: ALIGNMENT OF INTERESTS

- Executive compensation and long-term incentives

SUBJECT: CONTROL AND LEGAL STRUCTURE

- Board Independence
- Protection of minority shareholders

The list presented is not exhaustive of the possible subjects and criteria to be assessed. Whenever a new subject is deemed relevant, it will be analyzed.

ROLES AND RESPONSIBILITIES

The integration of ESG into Indie Capital's investment process is carried out collectively, involving individuals with different functions and of different areas. A summary of the responsibilities for this process are divided as follows:

Investment Committee

This committee is comprised of the Investment Director and members of the Management and Analysis team. The committee meets weekly and is responsible for making investment decisions, deliberating new investment theories and quantitative and qualitative analyses, integrating ESG, voting, promoting engagement and managing portfolio adjustments. The committee is also responsible for approving and maintaining the Responsible Investment Policy¹ and defining general guidelines for advancing this agenda.

Analysis Team

This team evaluates companies' ESG evolution using a proprietary pre-established methodology, the results of which are then discussed by the Investment and Analysis Committee. The analysis team interacts with the invested companies, addresses controversial ESG issues, and engages management wherever possible to reduce risk and create sustainable value-creation opportunities.

Investor Relations

This area is responsible for relations with stakeholders² and for addressing Indie Capital's ESG agenda with clients, trade associations, the PRI, and others.

ESG Committee

The ESG committee reviews the case studies of the most complex companies and critically monitors the evolution of Indie's proprietary ESG methodology.

¹Responsible Investment: Integration of environmental, social, and corporate governance topics in managing investments and in the practice of ownership (active proprietorship), based on the premise that these topics can impact asset risk and performance.

²Stakeholders: Interested parties, including investors of the products we offer; companies that are part of our investment universe

ESG GUIDELINES

I.

The ESG assessment takes place within the regular investment process.

II.

Because they are considered material for the investment analysis, ESG issues should be systematically incorporated into the decision-making process to determine asset risk and return assumptions.

III.

To incorporate ESG issues into investment decisions, the analysis teams must use qualitative and quantitative methodologies.

IV.

A company's ESG performance will not be a factor leading to its exclusion from our investment universe.

Indie *(def.)*

(1.) Independent

(2.) Not affiliated with a large group

(3.) Independently produced music genre



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Our Responsible Investment Policy has been approved by the Investment and Analysis Committee and is made publicly available to interested parties on our website. We have a process for periodically reviewing and updating our Responsible Investment Policy to ensure that it is in line with our investment philosophy and industry best practices. We understand that even despite our best efforts, Indie Capital is not exempt from environmental, social or corporate governance risks.