

Neo

Neo ESG Letter



FEBRUARY 2022

Neo ESG Letter

The objective of this letter is to report our progress and aspirations related to the ESG agenda and how this connects with Neo Investimentos' purpose. We are one of the most experienced asset management groups in the financial market. Our autonomy, authentic vision and commitment to our clients have paved our trajectory of success. And our desire to contribute to the new and the future motivates us to work with an agenda that goes beyond our individual success.

We live in a planet with increasingly-limited natural resources. Inequality and social injustice at all levels have become more evident to the general public. And the systemic risks that our way of life faces, such as climate change, are becoming more and more apparent.

Given this challenging scenario, we want to be part of the solution and for our clients to join us in this journey, with the objective of contributing to an economic model that generates prosperity today without compromising the well-being of future generations.



The integration of ESG themes aligns with our fiduciary duty and better risk-adjusted returns

The integration of environmental, social and corporate governance themes in investments is part of our fiduciary duty and aligns with our investment philosophy. We are driven by the challenge of contributing to the future and only invest in what we believe in. Internally, corporate governance has always been monitored in all asset classes we invest in. Furthermore, since our investments look at the long-term, we perceive the importance of environmental and social themes for creating value, and that good ESG performance reflects the good quality of company management. Therefore, we adopt an approach in which our clients benefit from better risk-adjusted returns at the same time that we deliver more value to society.

Since 2021, we are signatories of the Principles for Responsible Investment, the largest global network of ESG investors. We are also signatories of the Carbon Disclosure Project, a non-profit organization that promotes transparency on information related to climate change. These associations reinforce our commitment of being aligned with best market practices of responsible investing. In addition, we actively participate in the ESG working group of the Brazilian Association of Financial and Capital Market Institutions (ANBIMA).

The transition to a low-carbon economy is a core objective of our responsible investment agenda

In November 2021, during COP-26¹, we participated in a public statement calling for immediate action on the part of the government to increase control over illegal deforestation and create carbon-pricing mechanisms, in alignment with Article 6 of the Paris Agreement. The document was signed by 18 other investors that account for roughly BRL 873 billion in assets under management, within the scope of Brazil's Investors for the Climate (IPC) initiative.

We also adopted internal actions, such as neutralization of our direct and indirect carbon emissions through the acquisition of carbon credits of projects that aim to preserve the Amazon Forest (REDD Fortaleza do Ituxi).

In, we will kick off our commitment to monitor the emissions of our equity funds and engage with our invested companies to create decarbonization targets.

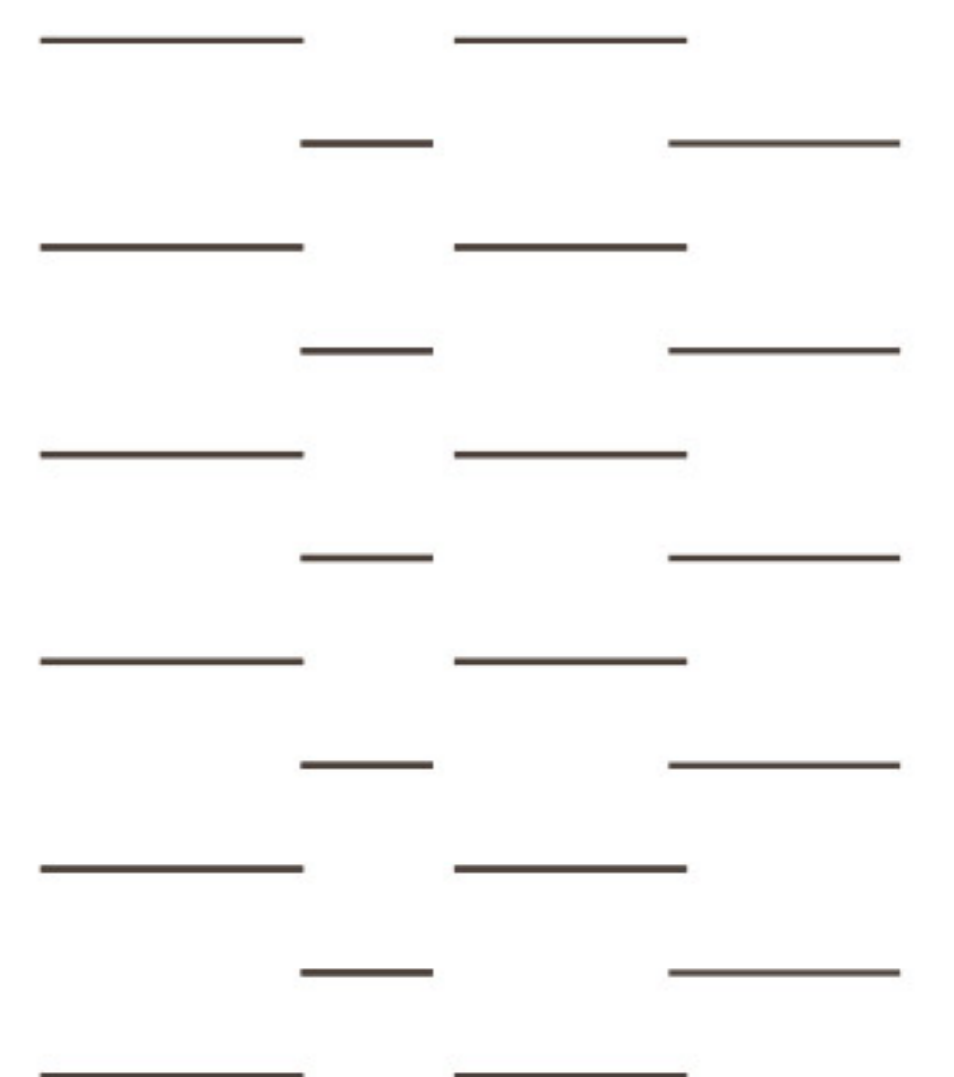
We structured ourselves internally according to a plan to advance our ESG agenda

ESG is treated in a strategic and structured mannered at Neo, pursuant to our objective of being a perennial company. In 2019, we created our Sustainability Policy (and updated it in 2021), defining the guidelines of our ESG integration process. Yet in 2019, we created an ESG assessment process for publicly-traded companies we invest in.

Throughout 2020, a strategic diagnosis was conducted on Neo's existing actions. Based on this diagnostic a plan was developed with the main evolution points in Neo's ESG journey.

Some of the advancements implemented include:

- Creation of an ESG committee;
- ESG training for all employees;
- Joining of the PRI and CDP initiatives;
- Communication plan of ESG themes;
- Updating of the Sustainability Policy in alignment with PRI;
- Measuring and neutralizing direct and indirect carbon emissions;
- Program Neo Verde, aimed at minimizing the environmental impact of offices;
- Climate survey;
- Partnering with Young Women in Investments;
- Definition of strategic SDGs;
- Review of the philanthropy program;
- Signing of the IPC climate-change letter at COP-26.



Neo ESG Plan 2021/2022

2021

ESG PRINCIPLES

2022

ESG IMPROVEMENTS

1. ESG integration methodology in all asset management funds (except multimercado);
2. Continuous monitoring of ESG performance of companies;
3. Engagement of companies on relevant ESG themes;
4. Inclusion of ESG themes in Neo Future and Neo Navitas' quarterly letters;
5. First annual letter on our commitment to sustainability;
6. Improvement of our screening process;
7. Measuring the carbon emissions of equity funds (scope 1 and 2);
8. Intensification of engagement and monitoring regarding the emissions reduction of our invested companies;
9. Development of a diversity and inclusion program;

In terms of governance, we formed an ESG committee with representatives from all transversal businesses and products.

Our ESG committee main attributions include:

- Define Neo's ESG vision, goals and strategies;
- Monitor the action plan implementation of each asset management fund;
- Share knowledge about relevant ESG issues for the company;
- Ensure uniformity and alignment of the company's ESG vision;
- Monitor ESG risks and opportunities stemming from new regulations, trends and industry movements;
- Coordinate the communication of ESG actions;
- Review internal policies and procedures related to sustainability issues.

We provide ESG training and skill-building capabilities to our team

As part of the acculturation and skill-building process, we defined that at least one analyst from each Neo asset management fund be certified in Fundamentals of Sustainability Accounting, promoted by the Sustainability Accounting Standards Board (SASB). So far, seven analysts have been certified. Today, this certification is one of the main references for professionals seeking to integrate ESG themes in their financial analyses.

We also provide in-house training on ESG themes to our team with the objective of increasing the entire company's knowledge on the topic. In 2021, two training sessions were held for Neo's entire team.

We support diversity actions and seek to promote greater participation of women in the financial market

In November 2021, we started supporting Young Women in Investments. The program was launched by CFA Society Brazil and aims to create career opportunities in the financial market for young women getting their undergraduate degrees. The program combines courses and educational actions with internships in financial institutions, including at Neo.

Cultural aspects have historically restricted the participation of women in the financial market. In 2021, only 26.6% of taxpayer IDs registered in the B3 stock exchange were of women, even though 51% of the adult population is female. Only 11% of CFA certified professionals are women.²

Diverse people generate diverse solutions. We believe that greater participation of women and other groups underrepresented in the financial market (blacks, LGBTQIA+, disabled, among others) is important to achieve greater equity in society and also promote a more creative and empathetic environment internally.

In 2022, we intend to develop a diversity and inclusion program in NEO.

We defined the Sustainable Development Goals that are top-priority for our business and strategic objectives

The Sustainable Development Goals comprise a set of 17 strategic objectives, defined within the scope of the United Nations, to be achieved by 2030. Also known as Agenda 2030, the goals involve the construction of a collaborative agenda between governments, private sector and civil society.

We consider all goals to be important, but selected the five below as being top-priority within our business scope:



Listed below are a series of actions developed internally related to some of the SDGs prioritized:

Quality education

We believe that education is an important pillar for sustainable development and, therefore, we conduct internal and external education initiatives through the following actions:

- Associação Passos Mágicos: we support this institution which for the past 28 years has worked to transform the lives of underprivileged children and youngsters. The program caters to 824 children and offers learning and psycho-pedagogical programs;
- Young Women in Investment: we support this initiative introduced by CFA Society that aims to offer technical knowledge and employability opportunities in the financial market for women earning their undergraduate degree;
- Internal skill-building: we offer internal skill-building programs to our employees, including themes related to responsible investing.

Decent work and economic growth

We believe that valuing employees through fair compensation and good working conditions are an important factor for our growth. Some actions adopted internally include:

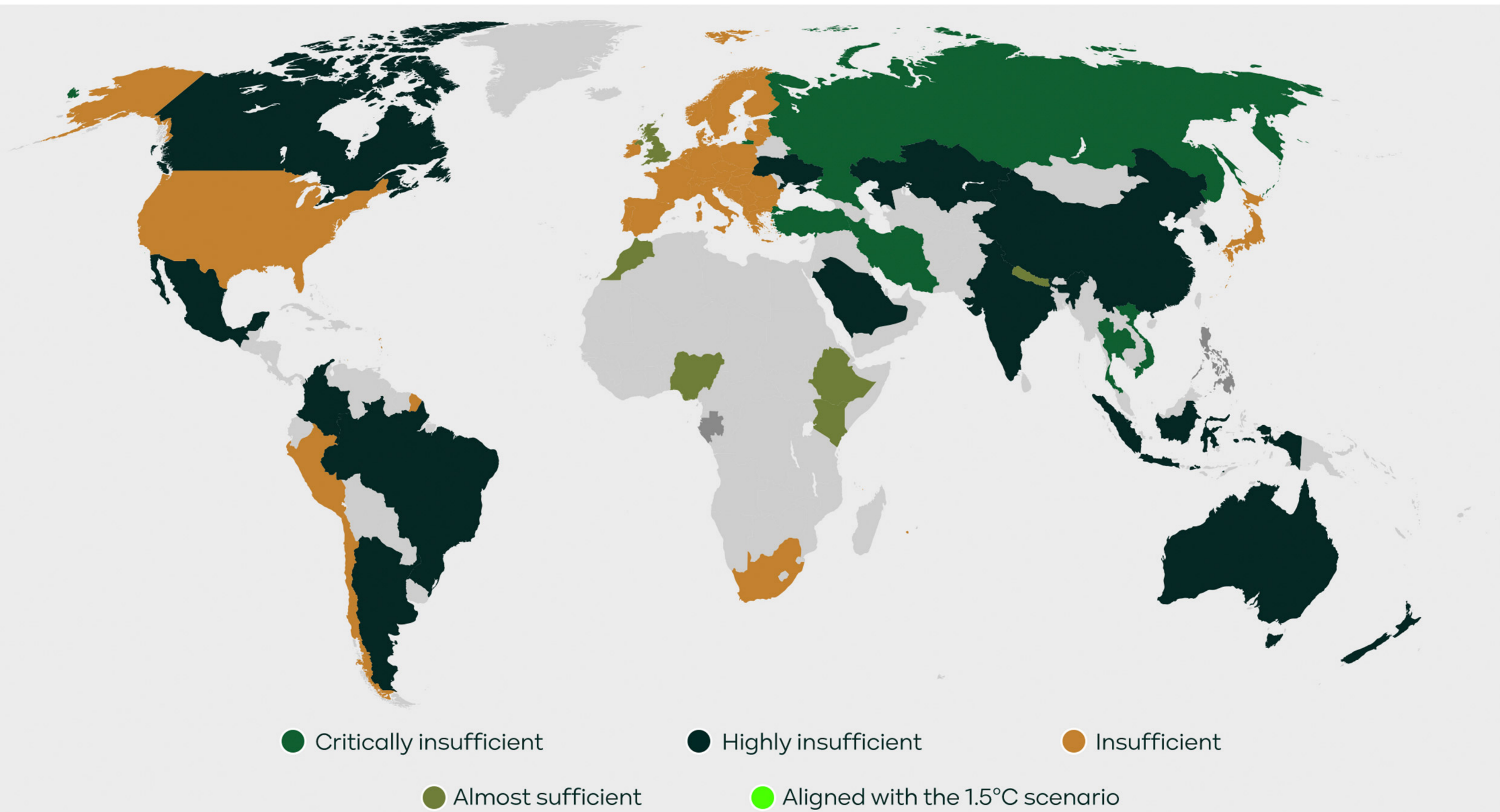
- Development of a structured career plan to promote meritocracy and team diversity;
- Organizational climate surveys aimed at promoting a healthy and welcoming work environment for everyone;
- In line with the objective of increasing efficiency and sustainability in the workplace, we implemented the Neo Verde program internally, which establishes actions adopted to minimize the environmental impact of our offices, such as the substitution of plastic cups, installation of high-efficiency LED lighting and the use of rechargeable batteries.

Climate action

According to the latest IPCC Assessment Report, the average temperature on the globe increased more than 1°C in comparison to the preindustrial era, increasing the incidence of extreme climatic events^{3/4}. Collaboration between governments, companies and the financial sector is essential in order to overcome climate challenges and transition to a low-carbon economy.

In the Paris Agreement, established at COP-21, more than 190 countries established Nationally Determined Contributions (NDCs), that is, voluntary targets to reduce greenhouse gas emissions for 2030 and 2050. The targets aim to maintain the average increase in earth temperature at 2°C above preindustrial levels, and limit warming to 1.5°C. However, according to Climate Action Tracker, most of the commitments assumed by these countries are insufficient to achieve the 1.5°C scenario, as shown in the map below:

Alignment of country commitments and targets for a 1.5°C scenario



Source: Climate Action Tracker, 2021

Given this challenging scenario, we hold climate action as a top-priority in our responsible-investment strategy. Some of the actions we have adopted to address this issue are listed below:

We offset our direct and indirect greenhouse gas emissions by purchasing carbon credits of projects aimed at protecting the Amazon Forest (REDD Fortaleza do Ituxi).

- We endorsed a public statement led by Investidores pelo Clima at COP-26 in favor of transitioning to a low-carbon economy, by combating illegal deforestation and creating carbon-emission pricing mechanisms;
- We conducted engagement actions with companies in carbon-intensive sectors to disclose short and long-term decarbonization targets;
- In 2022, we will begin monitoring the greenhouse gas emissions of our invested companies with the objective of implementing a portfolio decarbonization strategy.

We know that there is a lot to be done over the next years and that we are still only discovering the path

We were able to advance considerably in 2021, but we know that there is still a lot to be done. We believe that this is a continuous learning process and that we can contribute significantly to this movement in Brazil. In the following section, we present how we include environmental social and corporate governance issues in each stage of our investment process.

ESG integration approaches for each asset class

The asset classes and strategies of our funds are quite diverse. As such, our ESG integration strategy develops specific procedures for each fund.

In order to standardize and adhere to best market practices, our ESG analysis process for all funds uses the Sustainability Accounting Standards Board (SASB) as a key reference.

SASB presents a series of relevant issues, indicators and metrics to assess the ESG performance of companies across 77 industrial sectors. For illustration purposes, we present below the matrix of material issues according to the SASB matrix for Neo Future's invested companies:

Material ESG issues according to SASB of Neo Future's invested companies

Nov. 24, 2021

	Alpargatas	Camil	GPS	Hapvida	Localiza	Petz	Vivara
Environment							
Greenhouse gases	○	●	○	○	○	○	○
Air quality	○	○	○	○	○	○	○
Energy management	⦿	●	⦿	●	○	●	⦿
Water management	●	●	⦿	○	○	⦿	⦿
Waste management	○	●	⦿	●	○	●	⦿
Social capital							
Human rights & community relations	○	○	○	○	○	○	○
Customer privacy	●	⦿	●	●	○	●	●
Data security	●	○	●	●	○	●	●
Access and accessibility	○	○	○	●	○	○	○
Product quality/security	●	●	●	●	●	●	●
Customer well-being	○	●	●	●	○	●	○
Logistics/product labeling	○	●	○	●	○	●	○
Human capital							
Work practives	⦿	⦿	●	○	○	●	⦿
Health and safety of employees	○	⦿	●	●	○	⦿	○
Commitment and diversity	⦿	○	○	●	○	●	⦿
Business model & innovation							
Product design and life cycle management	●	○	○	●	●	●	●
Business model resistance	○	○	○	○	○	○	○
Supply chain management	●	●	○	○	○	●	●
Materials sourcing and efficiency	●	●	⦿	○	○	●	●
Climate change physical impacts	○	○	○	●	○	○	○
Leadership and good governance							
Business ethics & payments transparency	○	○	●	●	○	○	●
Competitive behaviour	○	○	○	○	○	○	○
Legal and regulatory environment	○	○	○	○	○	○	○
Incident risk management	○	○	○	○	○	○	○
Systemic risk management	○	○	○	●	○	○	○

Materiality

● High ⦿ Medium ○ Low

Hence, by utilizing SASB, we are able to see, for example, that greenhouse gas emissions are more relevant for companies in the food industry, like Camil, than for a company in the healthcare industry, like Hapvida, where metrics associated to beneficiaries satisfaction and well-being are more relevant.

Furthermore, our sustainability policy prohibits us from investing in companies with a history of degrading, child or forced labor, production and sale of tobacco, firearms, gambling or that engage with countries sanctioned by the U.S. Office of Foreign Asset Control (OFAC).



All of our products adopt ESG integration strategies and negative screening (except for Neo's Multimercado fund, which still only uses negative screening).

Neo Future

In Neo Future, we invest in leading companies in growth markets, which adopt good ESG practices and have the ability to adapt to their customers' needs even in difficult times of economic cycles.

With a philosophy aimed at capital preservation and long-term return, we do not invest in companies that do business in concentrated markets with low sustainable-growth potential, a history of questionable ESG practices or with significant exposure to external factors, such as companies in the mining, oil & gas exploration and animal-protein industries.

The first stage in our company selection process consists in applying qualitative filters as illustrated below:

Neo Future company-selection qualitative filters



After applying the qualitative filters, we build and align a long-term vision with the company that includes ESG aspects. This early alignment on the long-term vision is fundamental in our asset-selection process. Lastly, we conduct a rigorous due-diligence process and fundamental analysis before submitting an investment proposal for approval.

Neo Future company-selection process

Application of
qualitative filters

Alignment on
long-term vision

Due diligence
and analysis process,
including ESG

Approval
process

We have a team member responsible for integrating ESG in our investment process and establishing an engagement agenda on material issues aligned with our long-term vision for all companies in our portfolio. We also adopt a quantitative methodology based on scores for monitoring the ESG performance of companies.

Neo Navitas

The investment philosophy of Neo Navitas is the search of companies with clear competitive advantages in their business segments, with a good execution history, own dynamic and adherence to ESG principles that we value. Based on the framework indicated by SASB, we identify the most important topics in the sustainability issues and analyze which ones have the greatest impact potential to create long-term value in each industry. Furthermore, we also develop a detailed analysis of the sustainability policies adopted by companies according to their business industry.

As a means to deep dive into the specificities of each company, we utilize several sources of information, such as reports published by each company (Integrated and Sustainability Reports), industry reports and specialized consultancy analyses, as well as interactions with the management of companies that make up Neo Navitas' portfolio. This process is fundamental for tracking the evolution of companies in relation to the adoption of best ESG practices, ways for building on their competitive advantages and creating additional long-term value.

In relationship to the ESG approach, we utilize this analysis methodology in two distinct moments of the capital-allocation process:

- We incorporate the analysis of these variables within our asset-screening process, which is the main filter used in the selection process of investment opportunities. Here, we attribute scores for each company according to their level of exposure to each ESG variable and their ability to adequately manage these risks;
- We also use our ESG metrics to rebalance the portfolio according to our perspective in relationship to risks and opportunities inherent to our invested companies from an ESG standpoint;



Based on the process described above, we seek to invest in companies that are capable of causing a positive impact on society at the same time that they create value for shareholders.

Navitas assessment model

<h1>1.</h1> <p>SASB, SITAWA AND CDP ANALYSIS</p>	<h1>2.</h1> <p>SCREENING</p>	<h1>3.</h1> <p>ESG INTEGRATION</p>	<h1>4.</h1> <p>SELECTION OF INVESTMENT TARGETS</p>	<h1>5.</h1> <p>MONITORING OF INVESTMENT</p>
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- Creation of a framework using SASB as reference
- Definition of materiality matrix
- Contracting of consultancies to improve understanding of ESG issues

- Quantitative filter
- Governance and management filter
- Asset-price agnostic strategy
- Dynamic screening
- NEO ranking

- Holistic vision of assets
- Dynamic strategy
- Pursuit of additional returns given the same risk level
- Fulfillment of our fiduciary duty

- Fundamental analysis
- Compounders
- Incorporation of ESG factors in the investment process

- Monitor ESG results of invested companies on a recurring basis
- Participation in shareholder meetings voting on ESG issues
- Influencing invested company to adopt best ESG practices

Neo Private Equity

Neo Private Equity aims to invest in privately held medium-size companies with high growth and consolidation potential.

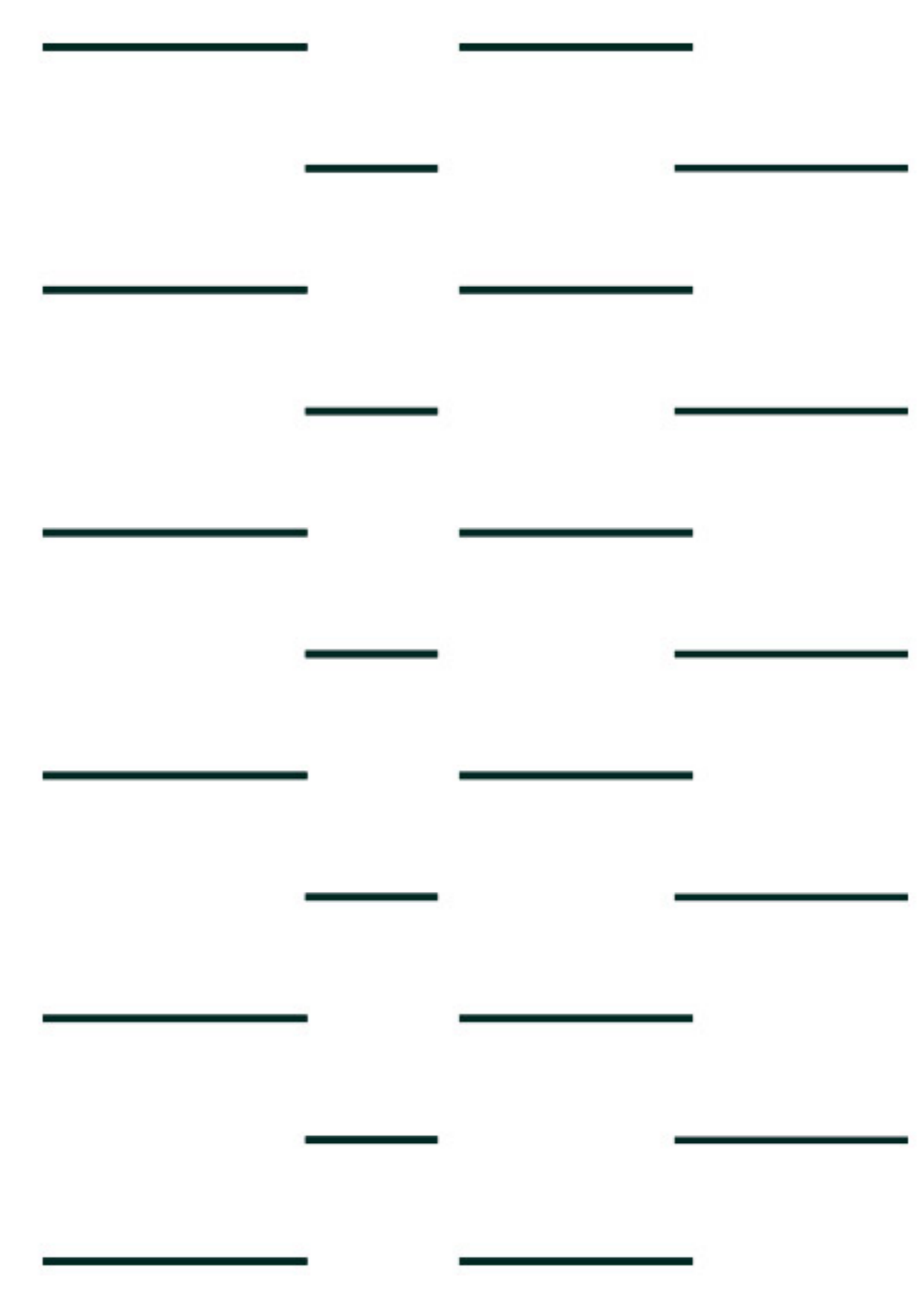
We adopt an ESG integration approach that permeates all stages of the investment process. A summary of this process is provided in the graph below:

Investment process stages and ESG integration tools

ORIGINATION AND TRIAGE	<ul style="list-style-type: none"> • Negative lists • Positive lists
INVESTMENT ANALYSIS AND DUE DILIGENCE	<ul style="list-style-type: none"> • Contracting of a specialized consultancy • Q&A list • SASB standards and domestic & international regulations
NEGOTIATION AND INVESTMENT APPROVAL	<ul style="list-style-type: none"> • Conditional/Binding clauses and covenants
MONITORING AND EXIT	<ul style="list-style-type: none"> • Voting and recommendations in forums • Diagnostics and sustainability reports

In the origination and triage process, we actively seek to identify businesses in sectors and activities that align with the transition to a sustainable economy, such as renewable energies, low-carbon agriculture, access to basic services and other themes that align with the United Nations' Sustainable Development Goals (SDGs).

The potential deal then enters the investment-analysis and due-diligence phase in which a more thorough assessment is conducted regarding the main ESG risks and opportunities. In this stage, in addition to SASB, we utilize other references such as IFC Performance Standards⁵, the World Bank Group Environmental, Health and Safety Guidelines⁶, among other applicable industry standards.



We can divide this stage into the following actions:

- Identification of relevant ESG issues and assessment of a company's management level based on document reviews;
- Interviews and technical visits to company units;
- Construction of a corrective action plan with measures to mitigate ESG risks of the business and leverage value-creation opportunities. This action plan, in turn, shall be part of the shareholders agreement and be monitored by Neo throughout the investment cycle.

The execution of this stage foresees the contracting of consultants with vast market experience in the process, with the objective of achieving the best technical parameters and mitigating all conflicts of interest.

In the next stage – negotiation and investment approval, – the committee discusses the results of the ESG due diligence and corrective action plan. The actions identified to mitigate the ESG impacts of investments are included in the shareholders agreement through the inclusion of condition precedent clauses, guarantees, indemnifications and covenants. Aspects related to the monitoring and transparency of ESG information to be reported are also included.

In the monitoring stage, implementation of the ESG action plan is monitored according to the frequency defined, as well as other actions associated to sustainability issues that are eventually implemented by the invested company. Each invested company appoints an ESG Officer responsible for the implementation and supervision of the corrective action plan, as well as for informing Neo any relevant developments in the topic. Neo will also play a proactive support and deliberation role with the board and management regarding ESG themes that are material for the company.

Listed below are some of the key topics considered in the assessment of companies during this process

ENVIRONMENTAL

- Depletion of natural resources
- Waste treatment plan
- Environmental practices
- Water and energy consumption
- Pollution and climate change
- Sanitary licenses
- Product lifecycle

SOCIAL

- Human resources policy
- Working conditions
- Human rights
- Diversity and inclusion
- Employee health and safety
- Education programs
- Supplier management

GOVERNANCE

- Board composition
- Management compensation
- Risk management system
- Committees
- Ethics and anticorruption
- Data use and privacy
- Cybersecurity

Neo Multimercado

In Neo Multimercado, we currently have two types of funds, Neo Argo Long & Short, which invests in stocks of Brazilian listed companies, and Multiestratégia, which focuses on local/international interest rates, currencies and stocks. The multimarket funds possess an asset analysis process that's independent from the other company strategies, in addition to having a shorter holding period and a broader investment universe. All these factors make the ESG integration process more challenging.

The responsible investment strategy of multimarket funds focuses on the portion invested in stocks. For this, a negative filter is adopted. That is, investments in this asset class comply with the same exclusion list of the other funds, sector and normative .

Furthermore, Neo's multimarket team possesses two certified SASB analysts who provide support in assessing key material issues of invested companies.

Perspectives and ambitions

We advanced significantly in our ESG journey over the last two years

As reported above, we made important progress in our responsible investment process over the last two years. We defined which SDGs were high priority for us to focus on, with special attention to SDG 13 – Climate Action. We took a stance at COP-26 regarding the urgency of transitioning to a low-carbon economy and began to address the direct environmental impact of our work through Program Neo Verde and the neutralization of direct carbon emissions.

We revised our philanthropy program, seeking greater alignment with the SDGs of greatest interest to the company, and sought to strengthen our work environment through the creation of career plans, organizational climate surveys and partnering with program Young Women in Investment.

We aim to be one of the main references of ESG integration in all asset classes we do business with

We have a structured roadmap with clear actions to be accomplished. As part of our commitment of transitioning to a low-carbon economy, we wish to increasingly engage our invested companies with the objective of increasing the transparency and commitment to reduce greenhouse gas emissions. Internally, we are structuring diversity programs to increase career opportunities for groups underrepresented in the labor market.

More than shareholders, we wish to be catalysts of change in the implementation of an ESG culture

The engagement and proximity with invested companies is part of Neo Investimentos' DNA, in all asset classes it invests in. Our goal is to exercise this engagement with the objective of promoting leadership's involvement and an ESG culture in all levels of the company, generating a positive impact on society, with better risk-adjusted returns.

We are aware that our invested companies are in different stages of their sustainability trajectories. We believe that the construction of strong governance is the shortest path for companies to be able to implement this agenda with benefits for all stakeholders.



Regulatory innovations in Brazil and around the world shall help pave the way for transparency and better ESG practices in investments

In March 2021, the Sustainable Finance Disclosure Regulation⁷ went into effect in Europe. The new regulation provides greater clarity on criteria that asset managers must adopt to label ESG or sustainable investment products.

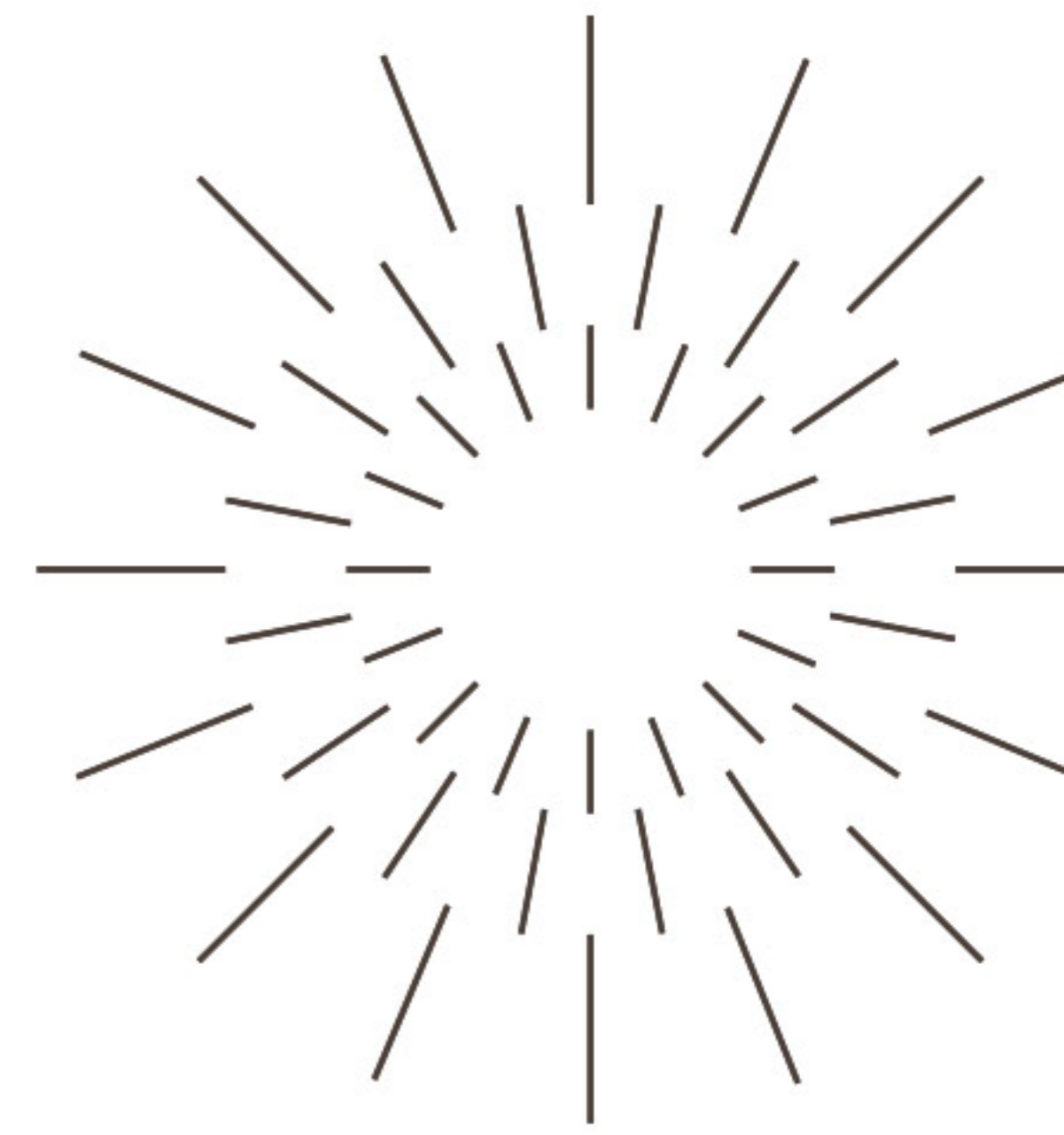
Shortly thereafter, the Brazilian Association of Financial and Capital Market Institutions (ANBIMA) presented for public consultation a Brazilian classification of sustainable and ESG investment funds⁸. In December, Brazil's Securities Exchange Commission (CVM) announced amendments to Instruction #480 aimed at increasing disclosure of ESG information on the part of companies. In parallel, Brazil's Central Bank has been promoting a green agenda, seeking to lend more transparency about the impacts of climate change in the financial sector, among other actions⁹. We welcome this movement on the part of regulatory and self-regulatory bodies, as they aim to lend more clarity and transparency to the market, in addition to defining minimum criteria for ESG practices in investments.

Estimates by the World Economic Forum point to an annual investment gap of USD 2.5 trillion to achieve the Agenda 2030 goals (UN's Sustainable Development Goals)¹⁰. These funds need to be invested in technologies and services so that society can live a better life in a more-equal and sustainable manner.

In order to reach this figure, coordinated efforts are necessary on the part of governments, companies and investors. But in the end of the day, it's people who are the main drivers of economic change. And the transition to a greener and more-inclusive economy is subject to more responsible decisions on how we do things, consume things and manage our resources. With this in mind, we invite our clients to join us in this sustainability journey which is Neo's priority.

Best regards,
Neo Investimentos.



The logo for Neo, featuring a stylized 'N' followed by 'eo' in a dark teal color.

We remain available to further discuss the processes
and learnings of our responsible-investment
and ESG-integration journey at
esg@neo.com.br



references

- 1 COP, or Conference of the Parties, is a conference generally held every year between countries to promote and guide actions that contribute to dealing with climate change. They occur within the scope of the United Nations Framework Convention on Climate Change (UNFCCC),
- 2 <https://valorinveste.globo.com/blogs/ana-leoni/coluna/por-mais-mulheres-no-mercado-financeiro.ghtml>
- 3 <https://www.ipcc.ch/report/ar6/wg1/>
- 4 <https://www.ecodebate.com.br/2021/08/10/ipcc-relata-que-as-mudancas-climaticas-sao-reais-conheca-as-principais-conclusoes-do-relatorio/>
- 5 https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards
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- 7 Went into effect on March 10, 2021 < https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/sustainability-related-disclosure-financial-services-sector_en>
- 8 https://www.anbima.com.br/data/files/40/31/C5/25/AA40C710E480CEB76B2BA2A8/10.%20Regras_procedimentos_Fundos%20IS_AP.pdf
- 9 <https://www.capitalreset.com/bc-vai-exigir-reporte-climatico-dos-bancos-a-partir-de-2022-e-quer-biro-verde-para-credito-rural/>
- 10 <https://www.weforum.org/agenda/2020/01/unlocking-sdg-financing-decade-delivery/>

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of contributing to the future

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