





Carrinho Group Environmental, Social and Governance Policy

ENVIRONMENT, SOCIAL AND GOVERNANCE CARRINHO GROUP POLICY

Document Approved

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Carrinho Group – ESG Policy

Environmental, Social and Governance Introduction

1. Background

The present document is the first formal ESG policy of Carrinho Group Fund, underlines the importance of environmental, social and governance (ESG) factors in the decision making and in the overall risk management.

The purpose is to set the ESG principles that Carrinho Group Fund is considering when investing. These are beliefs of the fund, based on research available and discussions that have been held within Carrinho Group Fund.

I. This document outlines an environmental and social policy for the Carrinho Group Fund. The policy is intended to ensure that in furthering the Fund's mission of addressing the adverse impacts of and risks posed by climate change, projects and programmes supported by the Fund do not result in unnecessary environmental and social harms. The policy is intended to build on the Fund's existing policies, operating procedures, and project cycle.

II. The Environmental and Social Policy of Carrinho Group will bring the Fund's practices generally into line with the practice of other leading financing institutions active in environment and development financing. This safeguard policie allow the Carrinho Group to identify and manage the environmental and social risks of their activities, by assessing potential environmental and social harms and then by identifying and implementing steps to avoid, minimize, or mitigate those harms.

2. General Principles

Principle 1: considering ESG factors can create economic value in the best interest of the stakeholders of the fund.

III. Pension funds and their members are by essence long term investors. Sustainability is expected to have a positive impact on the risk/return profile of the investments on the long run. Further, it is a move away short termism and the behavior of some potential investee companies.

Principle 2: pension funds are not solely investors but also have a social role to play. Investing in a sustainable manner can create long-term positive value for the society and contribute to securing a sustainable world.

Principle 3: local (asset owner) regulations might also be an incentive to consider ESG in a proactive way. This is especially the case for Carrinho Group Fund that is expected to operate in a cross-border environment and bring strong governance.

3. Principles for Responsible Investment

III. This policy is aligned with the 10 principles in its United Nations Global Compact. The later has indeed laid down 10 principles in its United Nations Global Compact. These are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

They can be grouped and presented as follows:

Human Rights

Principle 1: businesses should support and respect the protection of internationally proclaimed human rights.

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Principle 4: the elimination of all forms of forced and compulsory labour.

Principle 5: the effective abolition of child labour.

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: businesses should support a precautionary approach to environmental challenges.

Principle 8: undertake initiatives to promote greater environmental responsibility.

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: businesses should work against corruption in all its forms, including extortion and bribery.

These broad business conduct principles can be translated in Principle for Responsible Investment (PRI) that can be applied in defining an ESG-strategy.

PRI 1: We will incorporate ESG issues into investment analysis and decision-making processes.

PRI 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

PRI 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

PRI 4: We will promote acceptance and implementation of the principles within the investment agriculture, industry, logistics, retail and business channels.

PRI 5: We will work together to enhance our effectiveness in implementing the principles.

PRI 6: We will each report on our activities and progress towards implementing the principles.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. Carrinho Group Fund is not a signatory of PRI but certainly endorses and wishes to implement these principles.

4. Way of Implementing these Principles

IV. There are different ways of endorsing sustainability in investment matters, the main categories are:

- ESG Integration.
- Positive / best-in-class, negative/exclusionary and norm-based screening.
- Active ownership.
- Impact investing / Themed investments.
- Climate change-related investments.

The below go in the details of these approaches from a generic perspective.

	Pros	Cons
<p>ESG Integration</p> <p>This approach tackles sustainability by systematically taking into account ESG factors in the financial analysis and in the decision-making process for active management. For passive management, ESG integration can be implemented by incorporating ESG factors in the index design.</p>	<ul style="list-style-type: none"> ▪ High sustainability impact. ▪ Good coverage of most asset classes. ▪ Improved decision-making process. ▪ Benchmarks are readily available. <p>Can be combined with active ownership.</p>	<p>Reliance on third party providers and the related cost.</p>
<p>Best-in-class</p> <p>Best-in-class screening allows selecting issuers for their superior ESG performance relative to their peers.</p>	<ul style="list-style-type: none"> ▪ High sustainability impact (selection of the best ESG performers). ▪ Aims to positively influence corporate behaviour and the economy as a whole (superior long-term performance). ▪ Good coverage of most asset classes. <p>Benchmarks are readily available.</p>	<ul style="list-style-type: none"> ▪ Reliance on third party providers and the related cost. ▪ Discretionary decision to establish threshold for inclusion. <p>Concentration on smaller investment universes.</p>
<p>Negative screening</p> <p>This approach excludes issuers based on business activities or location based on ESG criteria.</p>	<ul style="list-style-type: none"> ▪ Simple and transparent way to express specific ESG views/beliefs. ▪ Easy to implement and document. ▪ Less resource intensive. <p>Particularly relevant to companies or industries do not open to behavioural change.</p>	<ul style="list-style-type: none"> ▪ Low sustainability impact. ▪ Static picture not factoring evolution. ▪ Concentration on smaller investment universes. <p>Potential unintentional bias which may lead to a less good risk/return profile.</p>
<p>Active ownership</p> <p>This approach implies voting or engaging with the issuers. This might be done directly or by delegating to investment managers or third-party providers.</p>	<ul style="list-style-type: none"> ▪ High sustainability impact. ▪ Long-term engagement with the issuers ▪ Participation in the economic benefits of ESG improvements <p>Works for active & passive strategies.</p>	<ul style="list-style-type: none"> ▪ Resource intensive. ▪ Cost. <p>Limited to corporate issuers.</p>
<p>Impact investing / Themed investments</p> <p>This approach not only focuses on financial return, but also on environmental and social benefits. Aim is to also contribute to a sustainable world.</p>	<ul style="list-style-type: none"> ▪ High sustainability impact. ▪ Distinct share of portfolio. allocation fully dedicated to responsible investing. ▪ Potential to create a positive environmental and social impact. ▪ Pure ESG strategy. <p>Diversification effect.</p>	<ul style="list-style-type: none"> ▪ Higher due diligence resources ▪ Lower liquidity <p>Higher fees.</p>

Another question that might be raised is whether all strategies can be rolled out across the asset classes used by Carrinho Group Fund. The below table summarizes which strategy could be applied.

	<i>Government bonds</i>	<i>Corporate bonds</i>	<i>Public equities</i>	<i>Private equities</i>	<i>Real estate</i>	<i>Hedge funds</i>
ESG integration	✓	✓	✓	✓	✓	✓
Best-in-class	✓	✓	✓	✓	✓	
Exclusions	✓	✓	✓	✓	✓	✓
Active ownership		✓	✓	✓	✓	
Impact investing		✓	✓	✓		

Finally, the discussion around active and passive asset management can also be discussed in an ESG context. Some of the strategies can indeed not be applied as easily as others in all cases.

5. Carrinho Group Fund Strategy Regarding Sustainability

V. Being a cross-border pension fund (Global Market), Carrinho Group Fund also has to consider broader requirements that could apply locally.

Beyond minimal requirements, Carrinho Group Fund indeed sees long term economic benefits to take into account ESG factors in its investment process and recognizes that the fiduciary duty entrusted to the fund also encapsulates a commitment to social or environmental issue to contribute to a better world for its members.

However, Carrinho Group Fund has the conviction that broad principles are only worth if they can be implemented in an effective manner. The limited size of the fund and the fact that it is exclusively invested through off-the-shelves vehicles certainly limit the possible.

Based on that the medium to long term goal is to:

- Move away from broad benchmarks and invest specific ESG universe and use related benchmarks.
- This can be achieved through either active or passive vehicles.
- Carrinho Group Fund will seek to ensure that its managers are taking into account ESG factors.
- For that purpose, the fund might leverage on the overall relationship of the Carrinho Group and Funds with its managers.

Carrinho Group – ESG Policy

Environmental and Social Policy Statement

A. General Environmental and Social Commitment

VI. Environmental and social policies are fundamental to ensuring that the Fund does not support projects/programmes that unnecessarily harm the environment, public health or vulnerable communities. As part of the implementing entities' responsibilities for the project/programme, all implementing entities shall (i) have an environmental and social management system that ensures environmental and social risks are identified and assessed at the earliest possible stage of project/programme design, (ii) adopt measures to avoid or where avoidance is impossible to minimize or mitigate those risks during implementation, and (iii) monitor and report on the status of those measures during and at the end of implementation. There shall be adequate opportunities for the informed participation of all stakeholders in the formulation and implementation of projects/programmes supported by the Fund.

B. Environmental and Social Specific Principles

VII. All projects/programmes supported by the Fund shall be designed and implemented to meet the following environmental and social principles, although it is recognized that depending on the nature and scale of a project/programme all of the principles may not be relevant to every project/programme.

Compliance with the Law

VIII. Projects/programmes supported by the Fund shall be in compliance with all applicable domestic and international law.

Access and Equity

IX. Projects/programmes supported by the Fund shall provide fair and equitable access to benefits in a manner that is inclusive and does not impede access to basic health services, clean water and sanitation, energy, education, housing, safe and decent working conditions, and land rights. Projects/programmes should not exacerbate existing inequities, particularly with respect to marginalized or vulnerable groups.

Marginalized and Vulnerable Groups

X. Projects/programmes supported by the Fund shall avoid imposing any disproportionate adverse impacts on marginalized and vulnerable groups including children, women and girls, the elderly, indigenous people, tribal groups, displaced people, refugees, people living with disabilities, and people living with HIV/AIDS. In screening any proposed project/programme, the implementing entities shall assess and consider particular impacts on marginalized and vulnerable groups.

Human Rights

XI. Projects/programmes supported by the Fund shall respect and where applicable promote international human rights.

Gender Equity and Women's Empowerment

XII. Projects/programmes supported by the Fund shall be designed and implemented in such a way that both women and men (a) are able to participate fully and equitably; (b) receive comparable social and economic benefits; and (c) do not suffer disproportionate adverse effects during the development process.

Core Labour Rights

XIII. Projects/programmes supported by the Fund shall meet the core labour standards as identified by the International Labor Organization.

Indigenous Peoples

XIV. The Fund shall not support projects/programmes that are inconsistent with the rights and responsibilities set forth in the UN Declaration on the Rights of Indigenous Peoples and other applicable international instruments relating to indigenous peoples.

Involuntary Resettlement

XV. Projects/programmes supported by the Fund shall be designed and implemented in a way that avoids or minimizes the need for involuntary resettlement. When limited involuntary resettlement is unavoidable, due process should be observed so that displaced persons shall be informed of their rights, consulted on their options, and offered technically, economically, and socially feasible resettlement alternatives or fair and adequate compensation.

Protection of Natural Habitats

XVI. The Fund shall not support projects/programmes that would involve unjustified conversion or degradation of critical natural habitats, including those that are (a) legally protected; (b) officially proposed for protection; (c) recognized by authoritative sources for their high conservation value, including as critical habitat; or (d) recognized as protected by traditional or indigenous local communities.

Conservation of Biological Diversity

XVII. Projects/programmes supported by the Fund shall be designed and implemented in a way that avoids any significant or unjustified reduction or loss of biological diversity or the introduction of known invasive species.

Climate Change

XVIII. Projects/programmes supported by the Fund shall not result in any significant or unjustified increase in greenhouse gas emissions or other drivers of climate change.

Pollution Prevention and Resource Efficiency

XIV. Projects/programmes supported by the Fund shall be designed and implemented in a way that meets applicable international standards for maximizing energy efficiency and minimizing material resource use, the production of wastes, and the release of pollutants.

Public Health

XX. Projects/programmes supported by the Fund shall be designed and implemented in a way that avoids potentially significant negative impacts on public health.

Physical and Cultural Heritage

XXI. Projects/programmes supported by the Fund shall be designed and implemented in a way that avoids the alteration, damage, or removal of any physical cultural resources, cultural sites, and sites with unique natural values recognized as such at the community, national or international level. Projects/programmes should also not permanently interfere with existing access and use of such physical and cultural resources.

Lands and Soil Conservation

XXII. Projects/programmes supported by the Fund shall be designed and implemented in a way that promotes soil conservation and avoids degradation or conversion of productive lands or land that provides valuable ecosystem services.

C. Environmental and Social Management System

XXIII. The implementing Caarrinho Group capacity and commitment to reducing environmental and social risks will be assessed through the accreditation process. The implementing Carrinho Group risk management systems include the commitment and capacity to assess and respond to the environmental and social risks of projects/programmes supported by the Fund in light of this environmental and social policy. Carrinho Group is responsible for screening all projects/programmes to determine the extent to which they present environmental or social risks, including all risks associated with the Fund's environmental and social principles identified above. Carrinho Group should not propose projects/programmes that present environmental and social risks shall be ensure that the environmental and social impacts of such projects/programmes are thoroughly assessed; that measures are identified for avoiding, reducing or mitigating all environmental and social impacts; and that the implementation of such measures is monitored and reported on through the life of the project/programme. The environmental and social risk management system shall be commensurate in scope and ambition to the potential scope and severity of environmental and social risks inherent in the project/programme design.

D. Environmental and Social Policy Delivery Process

Screening of Environmental and Social Risks by Carrinho Group

XXIV. All proposed projects/programmes shall be screened by the Carrinho Group to determine their potential to cause environmental or social harm. The screening process shall seek to identify potential environmental and social impacts and risks, taking into consideration the Fund's environmental and social principles outlined above. The screening process shall consider all potential direct, indirect, transboundary, and cumulative impacts in the project's/programme's area of influence that could result from the proposed project/programme. All proposed projects/programmes shall be categorized according to the scale, nature and severity of their

potential environmental and social impacts. Projects/programmes likely to have significant adverse environmental or social impacts that are for example diverse, widespread, or irreversible should be categorized as Category A projects/programmes. Projects/programmes with potential adverse impacts that are less adverse than Category A projects/programmes, because for example they are fewer in number, smaller in scale, less widespread, reversible or easily mitigated should be categorized as Category B. Those projects/programmes with no adverse environmental or social impacts should be categorized as Category C.

Environmental and Social Assessment

XXV. For all projects/programmes that have the potential to cause environmental or social harm (i.e. all Category A and B projects/programmes), the implementing Carrinho Unit Business shall prepare an environmental and social assessment that identifies any environmental or social risks, including any potential risks associated with the Fund's environmental and social principles set forth above. The assessment shall (i) consider all potential direct, indirect, transboundary, and cumulative impacts and risks that could result from the proposed project/programme; (ii) assess alternatives to the project/programme; and (iii) assess possible measures to avoid, minimize, or mitigate environmental and social risks of the proposed project/programme. As a general rule, the environmental and social assessment shall be completed before the project/programme proposal submission to the Fund. In some Category B projects/programmes where the proposed activities requiring such assessment represent a minor part of the project, and when inclusion in the proposal is not feasible, a timeline for completing the environmental and social assessment before construction begins shall be incorporated in the agreement process concerning with the project/programme approval.

Environmental and Social Management Plan

XXVII. Where the environmental and social assessment identifies environmental or social risks, the assessment shall be accompanied by an environmental and social management plan that identifies those measures necessary to avoid, minimize, or mitigate the potential environmental and social risks. A commitment by Carrinho Unit Business to implement the management plan shall be a condition of the project/programme approval and reflected in the monitoring and reporting plan for that project/programme.

Monitoring, Reporting, and Evaluation

XXVIII. Implementing entities' monitoring and evaluation of projects/programmes supported by Carrinho Group Fund's shall address all environmental and social risks identified by the Carrinho Unit Business implementing during project/programme assessment, design, and implementation. The implementing Carrinho Unit Business annual project/programme performance reports shall include a section on the status of implementation of any environmental and social management plan, including those measures required to avoid, minimize, or mitigate environmental and social risks. The reports shall also include, if necessary, a description of any corrective actions that are deemed necessary. The mid-term and terminal evaluation reports shall also include an evaluation of the project/programme performance with respect to environmental and social risks.

Grievance Mechanism

XXIX. There is a grievance mechanism in Carrinho Group that provides people affected by projects/programmes supported by the Fund, this process is accessible, transparent, fair and effective process for receiving and addressing their complaints about environmental or social harms caused by any such project/programme.