

Axxon Group

Responsible Investment Policy and Exclusion List

Responsible Investment Policy Axxon Group Private Equity

Our Investment Beliefs

Ethics and responsibility have been two core pillars of Axxon Group Private Equity (“Axxon”) since its inception in 2001. Our focus on mid-cap / family-owned companies means we are a driving force for the “professionalization” of Brazilian businesses and the realization of their full potential. In this context, we consider that Environmental, Social, and Governance (ESG) issues, when properly managed by our portfolio companies, are an intrinsic part of our investment approach, creating value not only for the companies in our portfolio and to our investors but also for the Brazilian economy as a whole. As a signatory of the UN Global Compact and the PRI, we support the Ten Principles of the United Nations Global Compact, which encompass human rights, labor rights, environmental stewardship, and anti-corruption efforts. We are fully committed to upholding these principles in our company's strategy, culture, and day-to-day operations. This includes preventing child and forced labor, respecting the rights of workers, complying with relevant labor laws and regulations, ensuring fair compensation and working hours, promoting equal opportunity, diversity, and non-discrimination, as well as adhering to environmental laws, minimizing our environmental impact, and preserving natural resources. Moreover, we have established robust audit processes, implemented anti-money laundering (AML) measures, and developed procedures to combat bribery and corruption.

Approach to RI

As a private equity manager with a focus on Brazil, we work with our investees to ensure compliance with the Brazilian laws and regulations pertinent to their business. We understand that apart from the legal requirements, various stakeholders, including customers, suppliers, civil society organizations, the media, amongst others, as well as environmental concerns such as resource scarcity, climate change and pollution, lead to new and informal regulations that can impact our investees. Therefore, we are committed to actively incorporating these risks and opportunities into our decision-making process, throughout the investment and ownership phases, as well as in our internal processes, whenever we believe they contribute to adding investment value.

Investment Cycle

We will consider ESG issues throughout the entire investment process. In the deal origination stage, we avoid investing in companies whose practices contradict our ethical principles and have the potential to harm, not only the parties involved in the transaction, but also the communities to which they belong (refer to *Exclusion List*).

The deal teams are required to develop a preliminary understanding of ESG aspects and to document it in the “First Meeting Report”. It is also mandatory that such initial understanding evolve, and is formalized in the opportunity “TearSheet”, and is presented to the Investment Committee (IC) before approving an NBO and expenses related to Due Diligences.

Axxon also conducts due diligence to assess the social and environmental risks and opportunities faced by potential investees in all projects. As such, we seek to foster compliance with the consumer, environmental, labor and tax regulations and prepare to tackle ESG risks and seize related value creation opportunities. In special cases, we may engage external experts to ensure we are addressing the most important elements in a specific sector or company.

The issues raised in these studies, as well as procedural requirements related to “Axxon’s ownership practices (described below), will be (1) embedded into investment agreements, (2) monitored by the deal teams and (3) at least annually, reported to Axxon’s Investment Committee, as part of the company’s presentation in Axxon’s Off Site Planning Meetings, or whenever relevant facts or changes occur.

Ownership Practices

We have an active role in our portfolio companies, collaborating with their top management to meet high standards of corporate governance. We work with our investees focused on strengthening their management structure and practices, and increasing, whenever necessary, their ESG awareness, knowledge and commitment.

Axxon will always vote in favor of policies, procedures, projects, and budgets to ensure that the portfolio companies have adequate resources, tools, and instruments needed to fulfill the ESG requirements that were established in investment agreements and/or relevant, evolving ESG issues.

We demand that our portfolio companies incorporate a formal ESG Strategy into their Business Strategic Plans within the first year following our initial investment. The CEOs bear ultimate responsibility for appointing a designated executive, the ESG Officer (who may serve in a part-time capacity), to oversee this function. The nomination of the ESG Officer, as well as the approval of the ESG Strategy and plan, must be conducted during a board meeting.

The CEO is also responsible for officially reporting and documenting, in official minutes, all relevant events, decisions, and the evolution status of the ESG initiatives in Board Meetings, at least once per semester.

We recommend that each company officially prioritizes no more than six of the most essential UN Sustainable Development Goals (SDG) to be focused on, with a long-term perspective (10+ years). The selected SDGs must be consistent with the nature of their business and operational models, as well as already existing, historical, proven ESG practices.

The ESG Strategic Plan should also comprise SDG-consistent metrics and yearly targets, as well as improvement projects and initiatives, with a nominated top leader accountable, and adequate budget, milestones, and deadline.

Axxon conducts regular follow-ups on the ESG Strategy, measurements, and plans every 2 or 3 months through ESG Committee meetings. These meetings involve at least one Axxon's ESG representative and the company's ESG Officer, ensuring effective communication and collaboration."

Axxon's ESG Partner is also responsible for coordinating with the deal teams to report relevant facts to Axxon's Investment Committee.

On a demand-basis, Axxon will provide guidance and support, including its proprietary structured methodology and frameworks, to assist in formalizing the ESG Strategy and Plan (*). While the utilization of Axxon's methodology is not mandatory, if not used, the company should ensure comprehensive coverage of all sets of analysis and strategic outputs.

Axxon's ESG partner is responsible for coordinating counseling sections, and follow ups about ESG Strategy and Plans with the deal teams.

We believe that with these practices, intense communication with the ESG Officers and mandatory bi-annual reporting in Board Meetings, Axxon will effectively influence its portfolio companies towards adopting proper ESG practices, risks and opportunities management, and, consequently, driving sustainable value creation.

Governance and Transparency

We aim to establish long-lasting relationships with our investees, LPs and specific stakeholders.

Starting from 2014 and on an annual basis, Axxon's ESG evolution and performance will be externally audited, using a proprietary measurement tool. This audit will drive ESG priorities and plans for the following years, ensuring a continuous improvement process.

Our investees' performance on ESG, metrics, milestones and relevant issues, are monitored and key facts are communicated in our Annual Report.

Additional information will be gradually made available and improved, in accordance with the integration of ESG clauses in our investment agreements and ESG-monitoring procedures.

To ensure the effectiveness of our Responsible Investment Policy and related practices we designated our operating partner to oversee implementation and coordinate the review of our practices periodically, accumulating the role of ESG Partner.

The ESG Partner is also responsible for organizing onboarding and regular learning/training procedures, disseminating curated and relevant materials and leading thematic discussions during our bi-annual Off Site Planning Event, as well as, for extraordinary reasons, in our weekly Deal Flow sessions.

The ESG Partner is also responsible to communicate to the IC if any specific assigned responsibilities are not being met.

We understand this is a continuous learning process that entails increasing complexity. Therefore, the implementation of our RI Policy will be carried out gradually, ensuring each step is taken consistently and accurately, in order to strengthen Axxon's sustainable and responsible performance.

(*) Axxon's methodology was designed to assess historical evolution and current state of ESG practices, to highlight priorities based on macro and sectorial benchmarks and trends, to make the Strategic Essence explicit, and to select the key SDGs, metrics and targets, as well as recommend macro action thrusts.

Exclusion list

The purpose of this exclusion list is to confirm and disclose that under no circumstances will Axxon Group Private Equity. ("Axxon"), the funds, or the companies invested by the funds engage in transactions with companies involved in the following:

1. Forced labor¹ and/or child labor²
2. Pornography and/or prostitution
3. Money laundering, embezzlement of public funds, and other corruption practices
4. Production and activities that impinge on the lands owned or claimed under adjudication by indigenous people without full documented consent from them
5. Activities or materials deemed illegal under Brazilian laws or regulations or international conventions and agreements, or subject to international bans, such as:
 - a) Ozone depleting substances³, PCBs (Polychlorinated Biphenyls⁴), and other specific, hazardous pharmaceuticals, pesticides/herbicides or chemicals;
 - b) Wildlife or products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES)⁵; or
 - c) Unsustainable fishing methods (e.g. blast fishing and drift net fishing using nets in excess of 2.5 km in length)
6. Unbonded asbestos fibers and radioactive material
7. Destruction⁶ of High Conservation Value (HCV)⁷ Areas
8. In the event that any of these following products form a substantial part of a project's primary financed business activities:⁸
 - a) Weapons and munitions; or
 - b) Tobacco; or
 - c) Gambling, casinos and equivalent enterprises.

If any contributor of Axxon suspects or becomes aware that another contributor of Axxon has initiated transactions or engaged in conversations with any company involved, directly or indirectly, in any of the aforementioned activities, they must immediately contact the Compliance Officer and the CFO.

¹ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions.

² Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development. Persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art.2), unless local legislation specifies compulsory school attendances or the minimum age for working. In such cases the higher age shall apply.

³ Chemical compounds which react with and deplete stratospheric ozone, resulting in "ozone holes". The Montreal Protocol lists ODSs and their target reduction and phase out dates.

⁴ A group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

⁵ See <http://www.cites.org>

⁶ Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

⁷ High Conservation Value (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (see <http://www.hcvnetwork.org>).

⁸ More than 10% of a company consolidated balance sheets or earnings.