CAPITAL+ SAFI S.A. | ADMINISTRADORA DE FONDOS DE INVERSIÓN

Summary of the framework for managing risks associated with climate change

This document is a summary of the original document.

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Introduction

Climate change is one of the greatest challenges of this century. We are facing a changing business and regulatory environment in which the transition to a low-carbon economy becomes a critical factor for the survival of the planet and society. The magnitude of the climate change challenge is immense, and urgent action is needed. Thus, Capital + SAFI is committed to addressing the risks and opportunities of climate change in the operations of the business, as well as through the investment decisions of the funds it manages.

In this sense, the purpose of this document is to provide a framework for managing climate risks and opportunities taking into account the following elements: (i) governance, (ii) strategy, (iii) risk management and (iv) metrics and objectives.

Definitions

i. **Climate Change:** Climate change risks can be divided into two main categories: those arising from physical impacts and those arising from the transition to a low-carbon economy (sometimes also referred to as carbon risks). It is considered as a non-diversifiable financial risk.

ii. **Value Chain**: It is a theoretical model that graphs and allows to describe the activities of an organization to generate value for the final customer and for the company itself. The value chain displays the total value, and comprises the value and margin activities.

iii. **Carbon Footprint:** it is defined as the set of greenhouse gas emissions produced, directly or indirectly, by people, organizations, products, events or geographical regions, in terms of equivalent CO2 emissions. To calculate the carbon footprint, three types of emissions are differentiated:

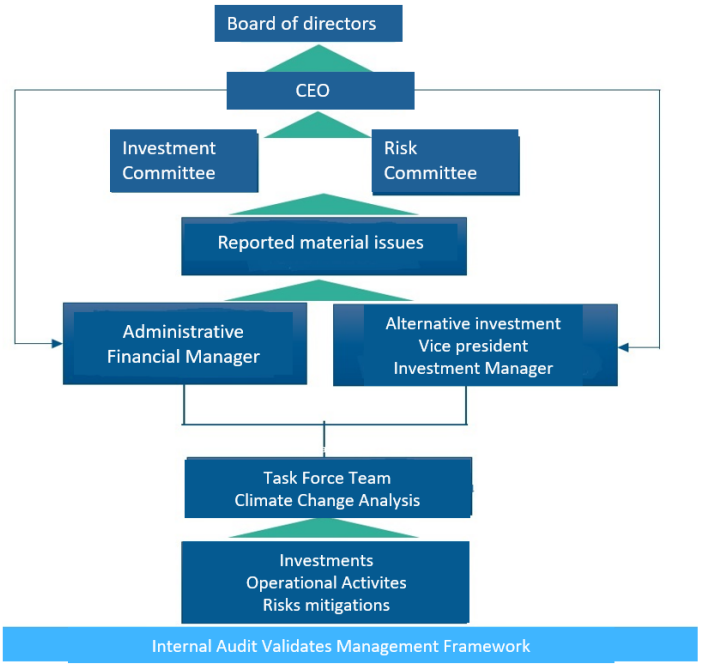
   - Scope 1 emissions are direct emissions produced by the burning of fuels by the company.
   - Scope 2 emissions are indirect emissions generated by the electricity consumed and purchased by the company.
   - Scope 3 emissions are indirect emissions that are produced by the activity of the company but that are owned and controlled by an agent external to the company.

iv. **Stewardship:** is defined as the use of influence by institutional investors to maximize the overall long-term value, including the value of common economic, social, climate and environmental assets, upon which the returns and interests of clients and beneficiaries depend. It is about contributing by influencing sustainable business practices that contribute to reach the objectives of the Paris agreement and the 2030 agenda of the United Nations.

v. **Task Force on Climate Related Financial Disclosures (TCFD):** The Financial Stability Board (FSB) created a "Task Force" (or special working group) to issue recommendations on financial communication regarding climate change in companies of both the financial and non-financial sectors.

Governance and responsibilities

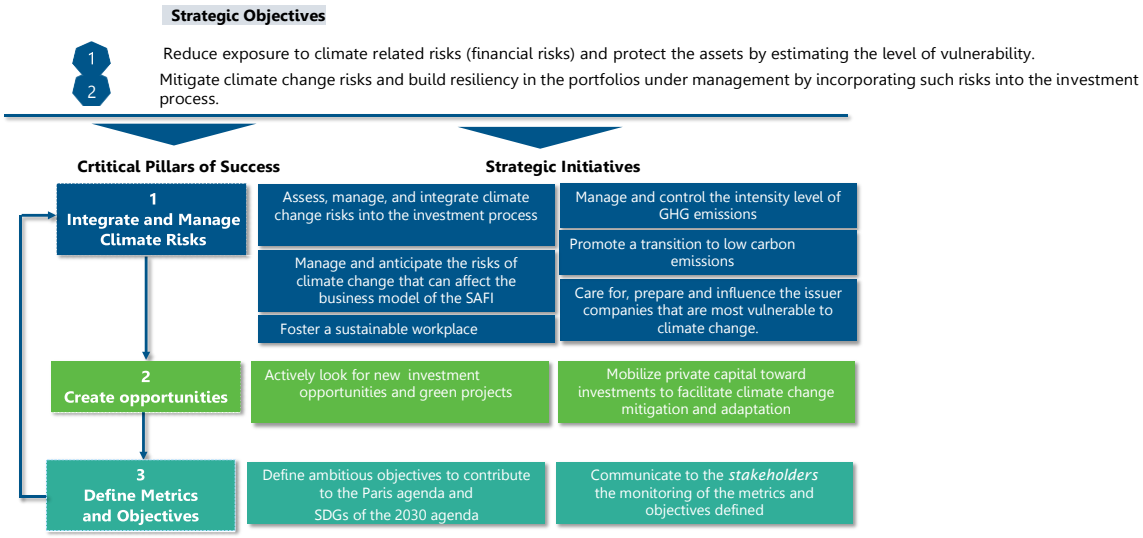
The governance system considers a fiduciary duty to incorporate climate risks and opportunities into the business model, as well as into the management of investments so that the clients and other stakeholders understand the level of exposure to these risks. Below is an outline of the governance structure for managing climate risks and opportunities.



Strategy

Given the relevance of climate change to society and the planet, the purpose of Capital + SAFI is to respond to climate change by reducing the exposure of the business model to these risks, as well as to build resilience in each of the portfolios under management. In this sense, the strategic framework contemplates three critical pillars of success: (i) manage and integrate climate risks in the investment process, (ii) create opportunities and (iii) define metrics and objectives.

Next it is shown the strategic outline for addressing climate issues.



In this paper, each critical pillar of success of the climate change strategy is treated in depth in the following sections.

Climate risks management and integration

1. Comprehensive risk management system of the business

Capital + SAFI, has a comprehensive risk management framework for the management of all relevant financial and non-financial risks. There are various support and control tools for the operations of the business and in the investment process, that are underpinned on the SAFI's integrated risk management policy, which is based on three lines of defense: the first one contemplates the operational management which is own and manage by the operational managers, the second includes the management of risks and compliance functions; and finally, the third one is made up by the internal audit unit, which is an unit that provides assurance about the effectiveness of the governance, management of risks and internal controls. This management framework provides a solid basis for the identification, assessment, and monitoring of climate-related risks.

2. Climate risks

The TCFD (2017) defines two main categories of climate-related threats/risks that may have financial implications. These categories are presented below:

- Transition risks, which may be changes in norms and regulations related to climate change, technological changes, changes in consumer behavior, and others.
- Physical Risks, is physical damage which can result from the increasing severity and frequency of extreme weather events or from a gradual and long-term change in the climate. This can affect the companies directly by damaging their assets or infrastructure, or indirectly by disrupting their operations or altering their value chain.

Transition and physical risks can affect: (i) portfolios under management becoming a source of financial risk and (ii) business model operations. In the following sections is detailed the management and integration of climate risks both in business operations and in the investment process.

3. Specific framework for the integration and management of climate risks

A. Business operations

The framework for the business comprehensive risk management helps to identify the threats of disruption in the business' processes that may be caused by natural phenomena in the city/cities where it operates, or the threats from a transition to a low-carbon economy. Thus, based on the information and research of the main material climatic factors (at the macro and micro level) it will be carried out an assessment by the management staff in coordination with the risk area (according to the Methodology of Assessment of ESG and Climate Risks and Opportunities of Capital + SAFI).

B. Portfolio investment process

A structured management and integration helps to anticipate circumstances of high uncertainty, and brings about a reflection on future challenges and strategic initiatives to follow.

Therefore, through the integration of climate risks into the investing process, it is intended to address these risks and potential opportunities in three levels: a specific assessment of the company/issuer, assessment at the portfolio level, and macroeconomic/sectoral investigation on climate issues. As a result, the process of climate risk management and integration follows the following steps:

- **Macro analysis of climate data** corresponds to the analysis and research of climate-related data (at the global and country level depending on the availability of information) that help to understand the potential risks and opportunities that arise from climate change.
- **Heat map of the portfolios to prioritize economic sectors**, based on the macro trends identified in the data analysis as well as on the supporting tools, it is assessed the level of sectoral exposure to climate-related risks. The evaluation is carried out taking into account the level of exposure in the portfolio in monetary terms, and the level of general risk. The aim of it is to focus the work in greater depth in the industries that are more likely to suffer the risks of climate change and this information is updated at least once a year. To complement the analysis of transition risks and sectoral prioritization, there is a sectoral heat map of GHG emissions, as well as an inventory of financed emissions. For physical risks, the analysis will depend on the availability of information.
- **Investigation of trends in the prioritized sectors**, once the sectors have been prioritized, we proceed to carry out an investigation on the main trends in each of the industries considering the following: frequency and intensity of climatic events, vulnerability of the sector and factors that can aggravate it, an analysis of the value chain identifying the links most prone to climatic events, an analysis of the potential effect of climate change on crop yields (local and/or international as applicable), additional investments or costs that the industries could incur as a result of climate change, local and international price variability (if applicable), existing and emerging policies and regulation associated with the climate change, economic and social impacts on the value chain, and sector-specific government programs in adaptation and mitigation.
- **Analysis and assessment of the business model by issuer**, based on the sectoral evaluation is carried out an analysis at the level of companies regarding: the threat and its probability, the exposure or impact, the level of resilience of the issuer and the financial impact. The analysis and assessment may follow the guidelines defined in the industry guides developed with the purpose to pay attention to the main characteristics, threats, vulnerabilities and / or opportunities. After the analysis and quantification of the dimensions indicated, it can be obtained the climate risk profile (based on a score) both at the investment and portfolio level. Such profile will be consolidated in the matrices of evaluation of the ESG analysis (for more details refer to the Methodology for the Analysis

and Evaluation of the ESG and Climate Profile).

- **Active management (Stewarship),** Capital + SAFI considers a corporate duty its engagement with companies, investors, government, competition and different stakeholders, to promote, influence and propose improvements that help mitigate the threat of climate change. Thus, the conclusions drawn from the analysis described in the preceding sections may be used to influence issuers to evaluate and make changes when necessary. The purpose is to be able to structure more resilient portfolios in the long term to protect the resources of the investors. For further details on the guidelines of active management or stewardship please refer to the policy of Sustainable Investment.

Creating opportunities

In addition to climate-related risks, there are also potential opportunities. Identifying and developing these opportunities is a fundamental pillar in the corporate strategy to address climate issues.

A. Business operations

They are focused in capturing the benefits that arise from generating operational efficiency in its business activities through an adequate management of the energy and water use within the facilities; as well as in establishing a balance between air travel and GHG emissions. Similarly, there is a strategy aligned with the creation of shared value that facilitates the mitigation and adaptation to climate change. Additionally, Capital + SAFI is committed to maintaining an active participation in the financial market promoting and supporting an orderly transition to a low-carbon economy.

B. Portfolio investment process

The potential positive impacts related to climate change on relevant investment products and/or strategies can be:

- **Existing Products**, the methodology for the management of ESG and climate risks includes the evaluation of the level of efficiency in the production and/or operational process of the emitter's business model (energy use, water, waste management, carbon intensity emissions, etc.), as well as the strategic policies aimed at environmental and climate management that include the productive process as well as the value chain.
- **New Products**, consists in creating products and/or financial instruments that can facilitate the transformation towards a green and sustainable economy. This means mobilizing private capital by encouraging and promoting projects for climate change adaptation and mitigation, thus being a crucial contribution to reducing the financing gaps necessary to achieve the SDGs, as well as the Paris Agreement.

Performance indicators and goals

The performance indicators to be used will be aligned with those recommended by the Task Force on Climate-related Financial Disclosures (TCFD). On the other hand, the goals will be described in our document: “Our Net Zero roadmap”. Likewise, a report will be published annually progress of climate management and it will be included in the Sustainability report.