ESG: 2023 IN REVIEW

At LarrainVial Asset Management we continued to consolidate our regional leadership in responsible investment in 2023, implementing key advancements in our ESG strategy. These included refining our proprietary ESG scoring model, actively engaging in collaborative initiatives, and strengthening our internal ESG governance, among others. The following is an executive summary of the changes, developments, and updates that our ESG strategy experienced during the year.

Internal ESG Scoring Model

Though our ESG analysis and scoring process is under continuous development, during the first half of 2023 we finished adjusting our internal scoring model, which is now automated and updates ESG scores weekly. Analysts and Portfolio Managers can also view ESG scores at the company and fund levels in real-time on our online portal, along with other financial metrics.

The process began with the development of a proprietary ESG questionnaire covering broad and sector specific ESG issues for 29 different ESG industry sectors. We then assessed the materiality of each issue for each of the different industry sectors, with the most material ones per pillar having greater weight in calculating the ESG score for each industry. Lastly, each company in the investable universe was then categorized into one ESG industry sector.

The ESG questionnaire is composed of 24 questions and follows 30 data points and indicators to answer these questions. Our analysts enter 7 of the 30 data points manually and update them twice a year. The rest are automatically retrieved from MSCI ESG Research, our ESG data provider, once a week.

The outcome of the process is an ESG score for each issuer that allows comparisons between industry sectors and the investable universe. The investment team can access all this information on our online portal showing the evolution in the scores of each issuer and fund. The latter can also be compared against our other funds and the benchmark. The portal also shows the main changes in scores and performs a performance attribution analysis from an ESG viewpoint.

Voting Process for Shareholders' Meetings

With our recent migration to a new fund custodian, we received access to a proxy voting provider that will allow us to vote at shareholders' meetings for all our holdings and better execute our active ownership strategy. To prepare for the upcoming voting season in Latin America, we established a process that involves research analysts, Portfolio Managers and the ESG Team in voting decisions.

Understanding how challenging it would be to directly, and consciously, vote in every single shareholders' meeting during the year, the first step in the voting process is to filter for those meetings where relevant topics are being put to vote and those of the companies representing the largest positions in our funds and/or where we hold a considerable portion of their market capitalization.

The relevant topics that have been established are:

- Election of Board of Directors
- Management and Directors' remuneration
- Election of auditors
- Acquisitions, mergers, spin-offs, etc.
- Significant changes in company bylaws
- Any other ESG-related proposal

The voting decision process is as follows:

1 We will vote in all shareholder meetings of issuers where we own 1% or more of their market cap and where the following issues are to be put to a vote:

- Election of Directors
- Management and Board of Directors' remuneration
- Acquisitions, mergers, and/or spin-offs
- Changes in bylaws
- Election of auditors

Shareholder meetings from other issuers will be evaluated when significant changes regarding the issues mentioned above are being put to vote.

2 Weekly check for upcoming shareholder meetings.

3 Shareholder meetings that meet the established criteria are communicated to the investment team, with information on:

- Issues to be put to vote
- Voting deadline
- Voting recommendations for ESG issues

4 Portfolio Managers decide whether the issues to be put to vote should be analyzed by the respective investment analyst.

5 Investment analyst evaluates items to be put to vote and delivers a vote recommendation.

6 Portfolio Managers decide how to vote on each issue based on the information provided by the investment analyst.

New Engagements

Following our active ownership strategy and belief that collaborative engagements have a better cost-benefit ratio than direct engagements (though we will continue having them), we joined three new collaborative engagements, which are currently engaging or will engage with 20 different companies.

We believe that collaborative engagements represent a stronger opportunity for us at this stage. First, because we usually hold a small proportion of each company's capital structure and hence the likelihood of a successful and impactful engagement is relatively low. Second, the maturity of our engagement strategy can benefit significantly by learning from other managers with more experience in these engagements. We also believe that our specialized teams' regional knowledge and that which we have acquired after investing in Latin America for 25 years will ultimately help get better results.

FAIRR Initiative – Working Conditions in the Meat Industry

FAIRR A COLLER INITIATIVE

The FAIRR Initiative is a network of investors that provides tools, benchmarks, collaborative engagements and policy action to help investors understand and manage ESG risks and opportunities in the livestock agriculture sector. As members of this initiative, in 2022 we participated in an engagement process aimed at raising awareness on the materiality of the use and heavy reliance on fishmeal and fish oil (FMFO) for salmon feed. Given the positive experience with this initiative, we decided to participate in a new engagement led by FAIRR this year: "*Working Conditions: Unpacking Labour Risk in Global Meat Supply Chains*". The objective of this engagement is to call on six global meat producers (BRF, Marfrig, Tyson Foods, Cranswick, and WH Group) to strengthen their corporate policies, enforcement mechanisms, and data reporting mechanisms to empower employees to communicate health and safety risks and therefore promote a stable, productive and healthy workforce.

Latin America Collaborative Engagement on Climate Change

A group of 12 Latin American investors, including asset managers and asset owners from Chile, Mexico, Peru, and Colombia, began a collaborative effort to encourage Latin American issuers in carbon-intensive industry sectors to improve their disclosures related to the climate, make progress with decarbonization efforts, and accelerate climate action.

The initiative is focused on the following key aspects:

- Measurement of GHG emissions
- Decarbonization plan with clear targets
- Governance structure focused on climate change
- Identification of climate-related risks and opportunities
- Disclosure

11 companies have been targeted for the initial stage, in which Lead and Supporting Investors will have one-on-one conversations over the course of 2024. LarrainVial Asset Management is Lead Investor in the engagements with Colbún and Fomento Económico Mexicano (FEMSA).

Climate Action 100+

Our application to become members of Climate Action 100+ (CA100+) as Contributing Company Investor was accepted in the second half of 2023, making us the first Chilean investor to join the initiative.

Climate Action 100+ is an investor-led initiative to ensure that the world's largest corporate greenhouse gas emitters take necessary action on climate change. Over 700 investors with USD 68 trillion in assets under management are engaging companies on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures to create long-term shareholder value.

As Contributing Company Investor, we support Lead Investors in their engagements and our main responsibilities include helping with analysis and assessment, contributing to meetings and providing feedback on engagement materials.

We signed up for the working groups engaging with Petróleos Mexicanos (Pemex), Suzano, and Ecopetrol to kick off our participation in the initiative.

Direct Engagements

Regardless of our focus on collaborative engagements, we still make direct engagements when we see fit to act on specific issues affecting a company, which are usually brought up during the ESG Committee mentioned below. In 2023 we had a successful direct engagement with Oncoclinicas, a Brazilian healthcare provider specializing in the management of oncology services that went public in 2021. In 2023, an investment manager discovered that the company held an outstanding loan owed by its founder, Director and CEO Bruno Ferrari, for BRL 32 million (~USD 6.4 million). Though the debt originated before the company's IPO, the problem was that Oncoclinicas was reporting this loan under "non-controlling shareholders" in its financial statements, even though Mr. Ferrari was a part of the Shareholders' Agreement with Goldman Sachs that established shareholders' voting rights and the company itself had classified Mr. Ferrari's position as that of a controlling shareholder.

We believed that this issue posed a reputational risk for the company, regardless of the significance of the outstanding amount, so we contacted the company directly to discuss ways to solve the issue. We recommended that Oncoclinicas settle the loan with Mr. Ferrari to appease the controversy surrounding the topic. Finally, Oncoclinicas' Board of Directors decided that Mr. Ferrari had to pay his debt with the company, which he did by selling part of his stock in the business and through a private bank loan.

ESG Committee

We established an ESG Investment Committee led by our Head of ESG. The committee is held quarterly and is attended by investment analysts, Portfolio Managers, and our Chief Investment Officer.

The committee:

I. Reviews the results of the ESG scoring process and analysis.
II. Discusses ESG scores for specific issuers and ESG scores of funds.
III. Updates the team on recent developments in the ESG strategy and discusses future ones.
IV. Follows up on commitments established at previous committee meetings.
V. Highlights developments of ongoing engagement processes, discusses next steps if necessary and agrees on new engagements to initiate.

The main discussion points during the year have primarily revolved around the ESG team's road map for the near future, main contributors and detractors of our funds' ESG scores, updates on current engagements, and the establishment of an engagement prioritization process.

Relevant Actors in the Local ESG Landscape

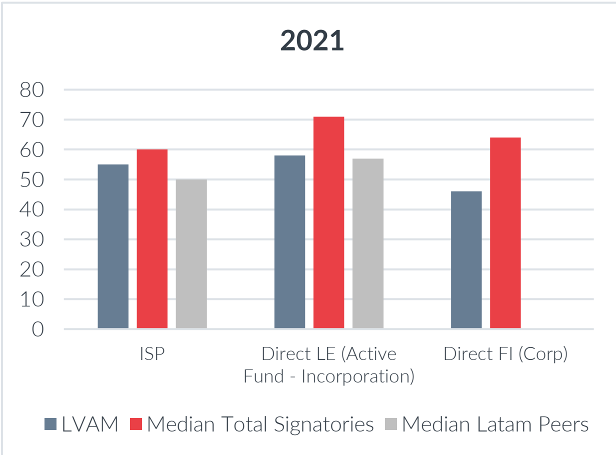
During 2023 we endeavored to continue promoting ESG and responsible investment in the region and position ourselves as an authority on the matter. Our Head of ESG participated in a podcast on digital transformation and sustainability where he talked about how LarrainVial Asset Management integrates ESG into its funds, how Chilean companies have evolved in terms of their sustainability strategies and what to expect in the near future. He also published opinion pieces in local and regional media outlets commenting on the need for companies in Chile to include directors with ESG expertise on their boards and on what effects the new SEC naming rules and other ESG-related reforms could have on Latin American financial markets.

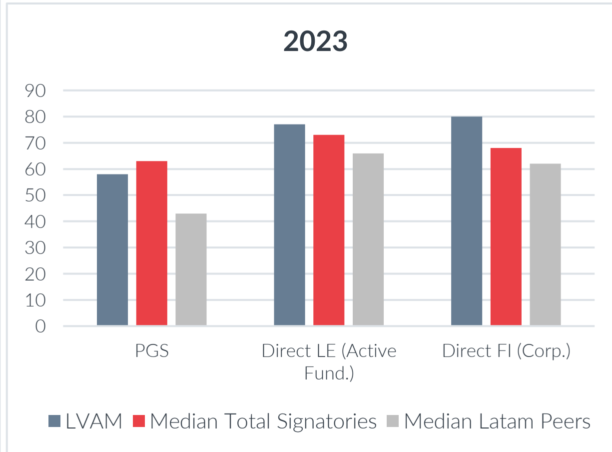
Lastly, the Portfolio Manager of our Latin American equity strategies participated in a webinar about "How sustainability is really implemented in global equity portfolios", alongside other Portfolio Managers investing in developed and emerging markets. Here, she had the chance to talk about how the ESG integration process in an emerging market fund differs from that of a global equity fund and how the analysis may be affected by data availability constraints.

PRI Reporting Framework 2023

After a year with no reporting because of changes in the methodology, the PRI Reporting Framework returned in 2023. Given that the last time we had to report was in 2021, this year we had to update many of our previous answers due to developments since then.

We recently received our assessment results and are pleased to report that the advances in our ESG strategy had an immediate impact on our scores for 2023. Though overall scores cannot be compared because of the methodology changes mentioned above, we were able to observe improvements when comparing ourselves with the median scores of all PRI signatories.





While in 2021 we were far from the median in all modules scored, in 2023 we were above the median in the Listed equity – Active fundamental and Fixed income – corporate modules, the two mandatory strategy modules we had to report on. We also scored above the median in these modules when compared with other asset managers in Latin America with similar assets under management as us. Moreover, we ranked in the fourth quartile in listed equity and in the third quartile in fixed income.

Though we are still below the median score in the Policy, Governance and Strategy (PGS) module (formerly Investment & Stewardship Policy – ISP), we have narrowed the gap.

Having received the assessment results, we can now evaluate our strategy and recognize the areas where further improvements are needed so we can continue to progress in our ESG strategy. We are already aware that reporting and transparency is one of the areas in which we need to progress and believe that reporting requirements under the EU's SFDR will be helpful in this regard, in addition to other internal initiatives we are planning to implement.