



INDEPENDENT VERIFICATION

On the alignment of the “Good Karma Fund” with the Operating Principles for Impact Management

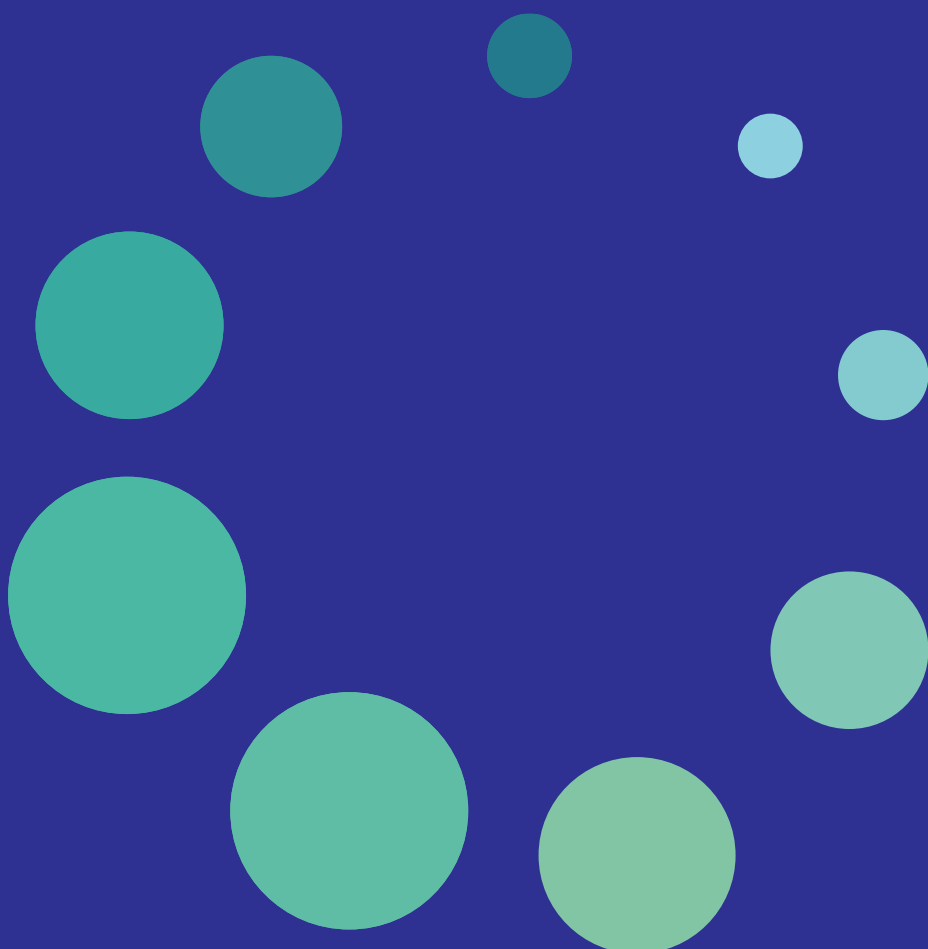
January 23rd 2023

About NINT

NINT (*Natural Intelligence*), formerly known as SITAWI's Sustainable Finance Program, is the largest ESG research and advisory firm in Latin America, with a +100 staff and local presence in Brazil and Latin America. We are one of the 5 best environmental and social research houses for investors according to Extel Independent Research in Responsible Investment - IRRRI 2019 - and a pioneer in the green bond market in Brazil. We have provided second party opinions for more than 170 ESG debt instruments.

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Scope and opinion

As a signatory of the Operating Principles for Impact Management (‘Impact Principles’)¹, Good Karma Ventures Gestora de Recursos Ltda. (‘the Investor’ or ‘GK Ventures’) is committed to disclosing the alignment of its Impact Management System with the Impact Principles. The Impact Principles standardize best practices for Investors to manage impact investment.

The Investor engaged NINT (Natural Intelligence) to undertake the assessment. This Disclosure Statement applies to the whole portfolio (Good Karma Fund - Fundo de Investimento em Participações - Multiestratégia “GKF” or “Fund”) that accounts for BRL 410.0 million in assets under management as of November 2022.

NINT used its proprietary assessment method, based on the Operating Principles for Impact Management, to conduct the assessment and form its opinion.


The information used to develop this Verification Statement came from various sources, including information and documents provided by the Investor (some of them confidential), desk research, as well as other elements acquired via interviews with the Investor’s staff. This process was carried out between December 2022 and January 2023.

NINT had access to all requested documents and key staff, thus being able to provide an opinion with a reasonable level of assurance regarding completeness, precision, and reliability.


Final opinion: NINT states that Good Karma Venture’s Impact Management System is highly aligned with the Impact Principles.



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¹ <https://www.impactprinciples.org/signatories-reporting>



Declaration of responsibility

NINT is not a shareholder, client, supplier or subsidiary of the Investor or of its affiliates, being therefore able to provide an independent opinion regarding its alignment with the Impact Principles.

DISCLAIMER

NINT acted as an ESG & impact advisor to Good Karma Ventures. To mitigate the potential conflict of interest and ensure objectivity and impartiality, the professionals responsible for this Verification Statement were not involved in the advisory projects. Thus, NINT declares not having any conflicts of interest and also being able to provide an independent opinion regarding the impact management of Good Karma Fund (“GKF” or “Fund”).

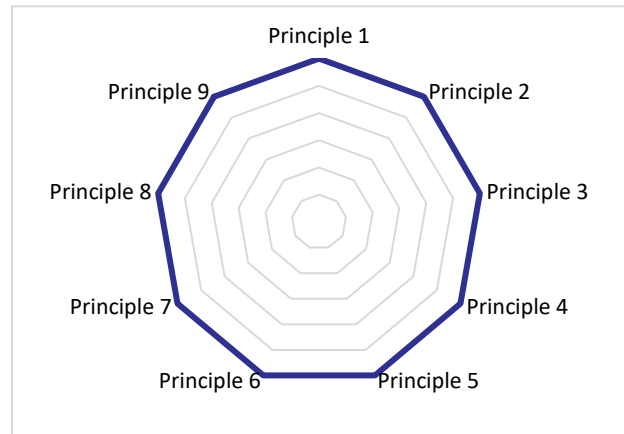
The assessment contained in this Verification Statement is based on a series of documents, part of which are confidential, provided by the Investor. We cannot attest to their completeness, accuracy or reliability. Therefore, NINT is not responsible for the use of the information contained in this opinion report. This assessment focuses on impact management and does not include the verification of the impacts achieved.

THIS IS NOT A RECOMMENDATION: We reinforce that the analysis and opinion in this report shall not be taken as an investment recommendation or a proxy for liquidity or returns.



Overall assessment

Investor:	Good Karma Ventures Gestora de Recursos Ltda ("GK Ventures")
Fund	Good Karma Fund - Fundo de Investimento em Participações Multiestratégia ("GKF")
Country:	Brazil
Committed AUM²:	BRL 410.0 MM
Overall Alignment	High



Main strengths

- ✓ The Good Karma Fund’s Impact System is highly aligned with the Impact Principles (9 out of 9)
- ✓ Well-defined strategic impact objectives that are consistent with its investment strategy
- ✓ Internally developed and robust Impact Management System to assess and measure impact of invested companies
- ✓ Robust engagement practices to ensure that investees will achieve the expected impacts
- ✓ Expected impact estimated and compared to baseline and actual impact to improve monitoring practices and impact achievement
- ✓ Impact achievements and Impact Principles alignment are publicly disclosed and independently verified
- ✓ GK Ventures’ global goals include financial incentives related to the achievement of impact

² Assets under Management (AUM) in November 2022 according to Good Karma Ventures Update Material



Alignment to the Principles

This section provides a summary of the alignment assessment for each Principle:

Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

Level of alignment:

High

Good Karma Fund ('GKF' or 'fund') is a private equity fund managed by Good Karma Ventures ("GK Ventures" or "the Investor") that aims to promote positive social and/or environmental impact ('S&E') as well as generate financial return to its limited partners (LPs).

The fund aims to contribute to 10 of the 17 Sustainable Development Goals (SDGs), namely, SDGs 1 ('No Poverty'), 3 ('Good Health and Well-Being'), 4 ('Quality Education'), 6 ('Clean Water and Sanitation'), 7 ('Affordable and clean energy'), 8 ('Decent Work and economic growth'), 10 ('Reduced Inequalities'), 11 ('Sustainable cities and communities'), 12 ('Responsible consumption and production') and 13 ('Climate action').

The Fund's impact-oriented strategy is focused on solutions for climate, healthcare, and education. These sectors represent potential positive outcomes and relevant investment needs in Brazil.

During the investment period, GK Ventures seeks to improve the investees' impact by supporting them to develop their products, services or modus operandi to generate impact along with business opportunities.

Principle 2: Manage strategic impact on a portfolio basis.

Level of alignment:

High

GK Ventures builds the '100-Day Plan' together with the investee, with activities to be carried out within the first 100 days of the investment. The investee also has the 'Value Creation Plan' that has other impact initiatives and key performance indicators (KPIs). The defined actions and indicators depend on the investee's sector and activities. These are monitored and revised periodically.

Some of the defined indicators might be: (i) number of Business-to-Business (B2B)³ clients; (ii) number of students; (iii) water consumption - specific (intensity) and total; (iv) scope 1,2 and 3 emissions - specific (intensity) and total; (v) renewable energy consumption (%); (vi) gender pay gap (%); (vii) representativeness of independent directors in the Board (%); (viii) whistleblowing cases related to corruption or other unethical behavior received in the previous year, etc.

The progress of the investee is annually monitored regarding the Multiple of Impact (MOI), checking on the predicted impact and the real impact. The Multiple of Impact estimates the financial value of the social and environmental impact that is likely to result from each BRL invested. The 'Value Creation Plan' is annually updated based on this process.

In addition, GK Ventures sets annual global targets which are tied to the bonus of its whole team. The impact target is directly related to GK's team members.

Principle 3: Establish the Manager's contribution to the achievement of impact.

³ According to Investopedia: Business-to-business refers to business that is conducted between companies, rather than between a company and individual consumer. Definition available at: <https://www.investopedia.com/terms/b/btob.asp>



Level of alignment:

High

GK's investment process has four stages: 1) Screening; 2) Due Diligence; 3) Portfolio Management and 4) Exit. The ESG risks and opportunities are assessed in the Due Diligence process. After the due diligence, GK builds a '100 Day Plan' and a 'Value Creation Plan' together with the investee to address ESG gaps and enhance positive impact and value creation.

The Investor (GK Ventures) focuses its work to achieve impact with the investee in four main pillars: i) networking and strategic feedbacks; ii) supporting business growth to achieve scalable growth; iii) impact and ESG management; and iv) risk management. GK Ventures also allocates its human resources (impact team and investment team, as well as senior advisors) to support investees during their growth process. Thus, the Fund's contribution to impact achievement is made mostly through non-financial channels.

Principle 4: Assess the expected impact of each investment, based on a systematic approach.

Level of alignment:

High

The screening phase is the first stage of Good Karma Fund's impact management system. In this phase, the goal is to understand the challenges and potential impact presented by the investees. The investees must fill out an 'Impact and ESG Questionnaire'. This allows GK Ventures to evaluate its investees through a rating system on a scale from 1 to 5, building a scorecard, named GKF Impact Score. This System is based on the Impact Management Project (IMP) dimensions and GKV only invests in companies rated 3 or above in GKF's Impact Score, which is equivalent to IMP's classification of enterprise impact⁴ level B - benefit stakeholders or C -contribute to solutions.

GKV does not invest in companies with higher ESG risks, with activities that cause or may cause harm, and companies involved in controversies such as animal violence, violations to human rights, etc. The Investor also has an Exclusion List whereby GKV undertakes not to invest in assets such as deforestation-inducing activities, including conversion of natural forest to plantation; production or activities that affect traditional peoples' lands; production or trade in alcoholic beverages, tobacco, gambling, production or trade in asbestos fibers, etc.

Additionally, for every company to be invested, GK Ventures also conducts a preliminary assessment that estimates the financial positive impact of the investment. Using a proprietary methodology, developed together with the Academia (Insper Metricis), GK Ventures calculates the Multiple of Impact ('MOI') of each investment. The 'MOI' is an evidence-based method that enables GK Ventures to quantify and classify the financial impact of potential investments. The minimum approval threshold is of 2.0x. Thus, for every 1 BRL invested, 2 BRL should return in terms of environmental or social impact.

It is worth mentioning that GK Ventures is a signatory of the Principles for Responsible Investment (PRI), as well as member and contributor to the Impact Management Project (IMP), the GIIN, IRIS+ and SDG Impact. Thus, all indicators developed by GK Ventures are aligned with these standards.

Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment

Level of alignment:

High

In the screening phase, GK Ventures (GKV) excludes companies that are involved in relevant ESG controversies related to human rights, animal welfare, ethics, and products safety, and also companies that have activities listed on its Exclusion List, as mentioned in the Principle 4.

⁴ <https://impactfrontiers.org/norms/abc-of-enterprise-impact/>



Other risks and uncertainties related to the investment's impact thesis and risk mitigation measures are also evaluated by the Investor. The ESG risk level is classified according to the investee's sector and other specific contextual issues. Furthermore, GKV considers the interests of affected stakeholders and the company's performance in areas not related directly to the main effect. GKV may use B-lab's impact assessment, if needed.

GK Ventures applies its workshop of the Theory of Change to its investees and develops together with them an 'ESG Value Creation Plan'. These tools generate a series of KPIs which are monitored during the investment period.

Periodically, GK Ventures has meetings with the investee, where they discuss the company's actions, how the ESG and Impact practices are doing, how to address identified gaps and new actions to enhance the investee's impact performance. The ESG Value Creation Plan is also monitored and revised during the investment period.

Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

Level of alignment: High

During the due diligence phase, GK Ventures calculates the Multiple of Impact (MOI) of each potential investment. The MOI allows GK to estimate the financial value of the environmental and social impact that is likely to result from each BRL invested. The investee must have a minimum MOI of 2.0x, and the MOI is re-calculated every year, considering the expected and the real impact of each investment.

Considering the initially expected progress, the Value Creation Plan of its investees is also reviewed based on the KPIs' performance to ensure the defined targets are met. The impact metrics are mostly based on the IRIS+ indicators and are connected to the SDGs.

In case the impact metrics of an investment indicate that it is not going to achieve its intended impact, GK Ventures will try to understand what led to this result. Through meetings with the investee and new data gathering, GK Ventures will design new measures and include them in the Value Creation Plan to adjust this scenario and help the investee to achieve the expected impact.

The Fund also has meetings on a regular basis with its Portfolio Management Committee, where it conducts individual outcome studies to demonstrate impact and exchange lessons learned among portfolio companies. The whole portfolio's annual performance is disclosed to investors through GKV's Annual Sustainability Report.

Principle 7: Conduct exits considering the effect on sustained impact.

Level of alignment: High

During the investment process, GKV plans investees' exit strategies, considering the probability and maintenance of impact at the exit. This helps the Investor to prioritize the investments.

It is worth mentioning that one of the dimensions considered in the Multiple of Impact (MOI) calculations is longevity, where the Fund assesses the likelihood that people benefited, and social value will continue undiminished for five more years. Thus, the sustained impact is key for the Investor's decision-making process.

The investees' exit strategies are periodically revised and take into account the risks, the impact generation and financial return of the companies. When the disinvestment recommendation is presented to the Portfolio Management Committee for approval, GKV considers the time, structure, fiduciary obligations, and others. Moreover, the Investor considers different scenarios



of exit, analysing prospective buyers and level of impact achievement, including the relevance given by the buyers to the advancement of ESG performance and positive impact generation.

The Fund has not made any exit yet. However, the Investor informed that it intends to monitor investees' impact KPIs even after its exit. GKV considers that this will help to elaborate case studies and to improve its investment process through incorporation of lessons learned.

Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

Level of alignment:

High

Good Karma Ventures is committed to continuous improvement. A member of the GK Ventures team is responsible to support each investee in the implementation, monitoring and review of its Value Creation Plan. This helps the Good Karma Fund to monitor the investee's progress on ESG and impact issues.

The impact analyses are always documented so that GK Ventures can compare the expected and actual impact in each company. In addition, the Multiple of Impact (MOI) of the investee is also re-calculated periodically.

A dashboard with the impact KPIs is created at the company and portfolio levels. The Fund also sends Annual Reports about the ESG performance of its portfolio to its investors. The investors are also informed in case of any relevant ESG controversy or other material fact related to the investees.

The Good Karma Fund develops case studies, highlights positive ESG progress and includes feedback loops into the investment process in order to exchange lessons learned among portfolio companies.

Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification of the alignment

Level of alignment:

High

In line with Impact Principles' requirements, Good Karma Fund will disclose its Annual Sustainability Report and its Disclosure Statement to its investors and external stakeholders. The Annual Sustainability Report will contain consolidated analysis of the ESG and impact performance at portfolio level. The Good Karma Fund's first Annual Sustainability Report will be published in 2023.

Additionally, a third party will provide an independent verification of the Fund's impact management systems' alignment with the Impact Principles. The conclusions of the 2022 analysis will be publicly disclosed, as part of GK Venture's commitment to the Operating Principles for Impact Management.



Method

About the verification requirements

The Operating Principles for Impact Management state that: *“Signatory must provide regular independent verification of the alignment of its impact management systems with the Principles. The verification may also highlight aspects of the systems and processes where alignment may be enhanced. Independent verification may be conducted in different ways, for example, as part of a financial audit or through a portfolio/Investor performance evaluation.*

The verification may be performed by an external third party or by an internal unit of the Signatory. If the verification is performed by an internal unit, the Signatory must provide a description of the verification process and how it is separate from the operational units.

The frequency of the verification report may vary, depending upon the type of organization. If it is not performance on an annual basis in conjunction with the annual disclosure report, then the Signatory must disclose the frequency of the independent verification and the underlying rationale.

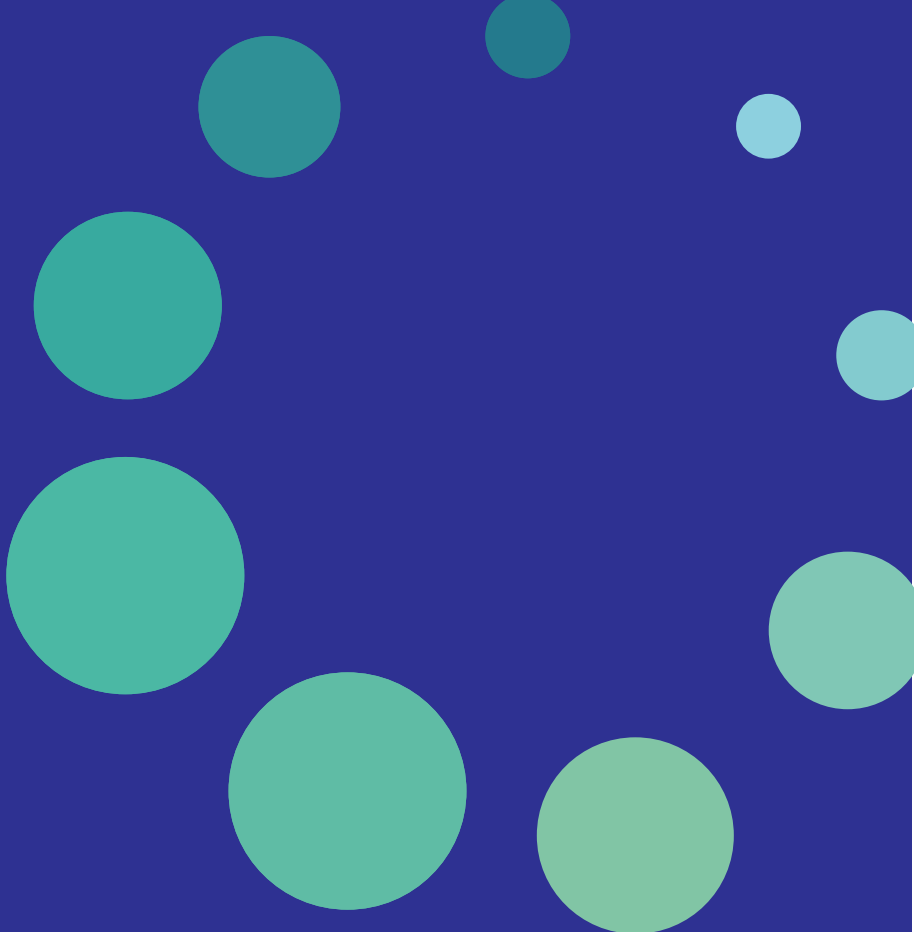
If the first verification report is not available when the first disclosure statement is submitted, then the Signatory must provide the date that it will be provided, how frequently it will be provided, and the name and qualifications of the independent verifier.”

Verification assessment procedures

NINT’s assessment is based on a proprietary methodology, aligned to the Operating Principles for Impact. NINT also considers Impact Management Project (IMP) and IRIS+ as relevant references. The assessment consists of the following stages:

- 1) Application of NINT’s methodology for the verification of the Investor’s performance level for each of the nine Operating Principles. The methodology developed divides each Operating Principle into two or more Components and assesses the level of alignment of the Fund’s impact management practices, tools, policies and responsibilities to each of these Components. Our opinion is based on desk research of publicly available information, interviews with staff and assessment of internal documents.
- 2) Alignment can be:
 - a. **Low**, when there are no practices in place that correspond to the demands of each Component;
 - b. **Medium**, when there are tacit practices in place that correspond to the requirements of a Component OR when the formal practices partially meet the requirements; and
 - c. **High**, when there are formal practices in place that meet the Component requirements.
- 3) The average of the Components level of alignment make up each Principle’s level of alignment. The final result is the average of the nine Principle’s level alignment that represents the level of alignment of the Investor to the OPIM.





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