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Sustainability Playbook for Alternative Investments

Brazilian and International Guidelines and Good Practice

October 2026



Acknowledgments

We are delighted to publish a new edition of the Sustainability Playbook prepared by ABVCAP – Brazilian Association of Private Equity and Venture Capital. This Guide is the result of a partnership between ABVCAP and KPMG, which brought together their technical expertise and their market knowledge to provide the Brazilian alternative investment industry with a practical reference guide on how to apply sustainability criteria throughout the whole investment cycle.

This Guide aims to cover the private capital ecosystem within a long-term framework, including the main players involved in capital flows — investors, managers and investees —, local and international regulatory issues, as well as the levers for creating value, seizing market opportunities and fostering innovation.

We would like to express our sincere thanks to KPMG's team for the methodological rigor, technical skills and commitment that made the preparation of this Guide possible, under the leadership of Lincoln Camarini, Senior Manager of KPMG's Sustainable Finance, and Camilla Aguiar, sustainability expert, both working under the supervision of Claudio Graeff, KPMG's Infrastructure Lead Partner.

We would also like to thank the members of ABVCAP's sustainability Committee for their valuable experience and contributions. We specially recognize the work of Filipe Borsato, Lead Coordinator of ABVCAP' Sustainability Committee, and of Cristina Penteado, Member of the ABVCAP's Sustainability Board.

We hope you find this Guide insightful.



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1. Introduction to sustainability principles applied to alternative investments

Applying sustainability criteria to investment decisions is no longer just a regulatory requirement, but has become a consolidated tool for managing and analyzing alternative investments. Globally, institutional investors recognize that sustainability practices are not limited to identifying and reducing risk: they also boost long-term value creation.

Accordingly, local and international asset managers and funds adopt guidelines and procedures to incorporate sustainability criteria into the asset managers' internal policies and governance procedures throughout the investment decision process – from the sourcing, selection and analysis of opportunities to the monitoring of investees and the definition of exit strategies – in addition to the management of the portfolio.

Sustainability practices can create value both at the investment manager level and the portfolio company level, based on multiple factors.

At the manager's level, applying sustainability principles to build a portfolio and manage investments is key to generating value. Among good market practices, the following stand out: (i) adopting industry initiatives, sustainability tools and (international and/or Brazilian) guidelines; (ii) formalizing sustainability or responsible investment policies in line with the asset manager's strategy; (iii) linking sustainability indicators to the asset manager's variable compensation (carried interest[1]); (iv) formulating an Environmental and Social Action Plan (ESAP) for the investees, including measurable performance indicators and goals; and (v) preparing specific sustainability reports for investors, commonly referred to as "Annual Sustainability Report or Annual Impact Report".

At the level of portfolio companies, identifying material topics and initiatives that can strengthen sustainable social and environmental practices – taking into consideration the maturity, size and other distinguishing features of each investee – is an important lever for long-term financial returns.

As with operational and financial issues, effective social and environmental management requires the commitment of investees, including, among other aspects, leadership engagement, incorporation of sustainability criteria into the organizational culture, assignment of roles and responsibilities, training of employees, investment in technology, definition and measurement of metrics, as well as governance procedures for monitoring initiatives and making decisions. Implementing these actions can be challenging and costly for investees, and requires that the asset manager adopt a sound approach, possibly prioritizing initiatives and adapting them to the reality of each portfolio company.

Chapters 2 and 3 show a range of market benchmarks widely used for alternative investments, according to the profile of each manager and the investment strategy of the funds under management. Existing private initiatives that give the opportunity for asset managers and/or investees to adhere to sustainability principles on a voluntary basis, as well as applicable regulations in several jurisdictions, are subject to revisions and/or adaptations over time.

Chapters 4 and 5 illustrate how the application of sustainability principles to alternative investments is strongly influenced by the sustainability requirements of investors, particularly institutional and foreign Limited Partners[2] – LPs. That puts pressure on managers to adopt practices aligned with regulatory and market standards (for example, Sustainable Finance Disclosure Regulation - SFDR[3] in Europe and ANBIMA's self-regulation rules enforced in Brazil). Common good practices include a clear definition of responsibilities, integrated operating procedures, integrity and reporting mechanisms and the effective management of sustainability risks and opportunities.

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[1] Carried interest is a performance-based portion of the profits of a private equity fund, paid to the fund managing partners (GPs - General Partners). Cf. CORPORATE FINANCE INSTITUTE. Carried *Interest Explained: What It Means and How It Works, 2025*. Available at: https://corporatefinanceinstitute.com/resources/private-equity/ carried-interest/. Accessed on: May 12, 2026.

[2] Limited Partners are passive investors that contribute either capital or assets to the partnership in order to share in the profits (or losses) of the investment, and are not involved in the day-to-day management of the partnership. Cf. CORPORATE FINANCE INSTITUTE. *Limited Partnership, 2023*. Available at: https://corporatefinanceinstitute. com/resources/management/limited-partnership/. Accessed on: May 12, 2026.

[3] European Union Regulation on the disclosure of sustainability-related information about the financial industry (Sustainable Finance Disclosure Regulation – SFDR). EUROPEAN UNION. Regulation (EU) 2019/2088, 2019. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2088. Accessed on: May 12, 2026.

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Chapters 6, 7 and 8 present sustainability cases for investment, describing strategies to apply sustainability principles to investment decisions and thematic and impact investment funds. These chapters also show the integrated due diligence process in more detail, including sustainability industry standards (GRI[4], IFC[5], OECD[6], among others), risk ratings, industry protocols, scoring methodologies and preparation of action plans. They also provide us with guidelines on how to apply sustainability findings to make investment decisions and on how to add those findings to contracts, by including sustainability summaries in the memorandum, adding mandatory clauses and customized private equity (PE), venture capital (VC), private credit and infrastructure/real estate provisions.

Chapters 9 and 10 focus on post-investment initiatives and address how to implement and monitor sustainability practices in investees, according to their size, industry and materiality, including climate change and nature governance in line with the relevant frameworks, such as the TCFD and TNFD. These chapters also present the use of sustainability key performance indicators (KPIs) as a management and value creation tool, addressing continuous monitoring, incident response, impact evidence, data governance and independent audits.

Chapter 11 highlights the role of new data technologies that are transforming the collection and analysis of sustainability data.

For example, artificial intelligence has proven to be a promising tool for climate risk analysis, allowing for advanced simulations of energy transition scenarios and of the impacts of extreme weather events in an efficient manner, when supported by quality data and adequate governance.

Blockchain, on the other hand, emerges as a technology capable of making the monitoring of production chains more traceable and transparent, strengthening the evidence of social and environmental impacts. Among the potential outcomes is the automation of sustainability reporting, which cuts costs and increases the quality, reliability and comparability of sustainability data, when the technology is well implemented and auditable both from the investee to the asset manager and from the asset manager to the investors.

Finally, chapter 12 presents the final remarks of this document. When preparing this guide, our expert team considered good practices of the alternative investment industry, the main private initiatives currently recognized in the industry, which are complied with by managers, investors and investees on a voluntary basis both at the international and/or local levels, in addition to relevant regulatory frameworks applicable in certain jurisdictions and adopted globally. Such references are not exhaustive and should be considered in light of the continuous evolution of sustainability practices.



[4] The Global Reporting Initiative (GRI) is an independent, international, non-profit organization that sets the world's most widely used standards for sustainability reporting. See chapter 3.

[5] The International Finance Corporation (IFC) is a member of the World Bank Group engaged in financing and development initiatives. See chapter 3.

[6] The Organisation for Economic Co-operation and Development (OECD) is an international organization and a unique forum and knowledge hub that works closely with governments to formulate evidence-based public policies, set international standards and find solutions to social, economic and environmental challenges. Available at: https://www.oecd.org/about/. Accessed on: May 12, 2026.

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2. Regulatory environment in Brazil

sustainability regulations in Brazil have evolved significantly in recent years, focusing on increasing reporting transparency and standardization in line with international standards, supported by local regulatory bodies, and grounded in several local policies.

Below are the main sustainability initiatives implemented by different institutions.

The Brazilian Securities and Exchange Commission (CVM)

- CVM Resolution No. 244/2026: regulatory framework that amends and updates CVM Resolution No. 193/2023, consolidating the application of the international standards set by the International Sustainability Standards Board (ISSB), including IFRS S1 and S2, to disclose sustainability-related financial information. Under that standard public companies that choose to adopt such standards must explicitly declare their adoption and follow specific disclosure guidelines, including requirements regarding consistency throughout the years and communication to the market. Brazilian regulations set to be effective in 2026 follow the "comply or explain" model. By opting for the IFRS S1 and S2 standards, public companies can enjoy some benefits from their transparent and comparable reporting to the market, therefore anticipating a possible future reporting requirement set by regulatory agencies.

- CVM Resolutions No. 217 and No. 218/2024[8]: Implementing IFRS standards and adapting them to local legislation by issuing technical pronouncements No. 1 and No. 2 issued by the Brazilian Committee of Sustainability Pronouncements (CBPS).

- Partnership between Carbon Disclosure Project9 (CDP) and CVM[10]: climate change data from more than 1,100 companies — which account for 86% of the Brazilian market capitalization — will be shared to support oversight by regulatory bodies and alignment with ISSB standards. In addition, training initiatives will be implemented and reporting guidelines will be issued.

- CVM Resolution No. 175/2022[12]: establishes the general framework for investment funds, by standardizing nomenclature and disclosing sustainability information about social and environmental funds.

- Financial Innovation Laboratory (LAB)[12]: created by the Brazilian Development Association (ABDE), the Inter-American Development Bank (IDB) and the Brazilian Securities and Exchange Commission (CVM), the Financial Innovation Laboratory provides a forum for discussion and debate.

Banco Central (BACEN)

The Central Bank of Brazil (BACEN) has been at the cutting edge when it comes to incorporating sustainability factors into the regulatory framework implemented to set prudential standards and supervise the national financial system:

- CMN Resolution No. 4,945/2021: establishes the guidelines for the Social, Environmental and Climate Change Responsibility Policy (PRSAC) to be implemented by financial institutions, requiring them to integrate sustainability risks into their management and governance processes.

- CMN Resolution No. 5,185/2024[13]: introduces the requirement to prepare and disclose, as part of the annual consolidated financial statements, the sustainability-related financial information report, in accordance with CBPS Technical Pronouncements No. 1 and No. 2, which sets out overall requirements for the disclosure of sustainability-related financial information (in line with IFRS S1 and S2). The reporting requirement applies, as from 2026, to institutions registered as public companies and to the leaders of prudential conglomerates classified into the S1 and S2 segments.

[7] BRAZILIAN SECURITIES AND EXCHANGE COMMISSION (CVM). *CVM Resolution No. 193/2023*. Available at: https://conteudo.cvm.gov.br/export/sites/cvm/legislacao/resolucoes/anexos/100/resol193consolid.pdf. | CVM 244: https://conteudo.cvm.gov.br/legislacao/resolucoes/resol244.html

[8] BRAZILIAN SECURITIES AND EXCHANGE COMMISSION (CVM). *CVM Resolutions No. 217, No. 218 and No. 219, of 2024*. Available at: https://www.gov.br/cvm/pt-br/assuntos/noticias/2024/cvm-edita-as-resolutions-217-218-and-219. Accessed on: May 14, 2026.

[9] Carbon Disclosure Project (CDP) is a global, independent non-profit organization that runs the world's main environmental disclosure system for companies, cities, states and regions to manage their environmental impacts. *CDP works as a platform through which organizations disclose information about their environmental impacts, risks and strategies*. More information at: https://www.cdp.net/en/info/about-us. Accessed on: May 14, 2026.

[10] BRAZILIAN SECURITIES AND EXCHANGE COMMISSION (CVM). CVM e CDP anunciam parceria inédita para acelerar a conformidade climática no mercado de capitais (CVM and CDP announce a novel partnership to accelerate climate compliance in capital markets). Available at: https://www.gov.br/cvm/pt-br/assuntos/noticias/2024/cvm-e-cdp-anunciam-parceria-inedita-para-acelerar-a-conformidade-climatica-no-mercado-de-capitais. Accessed on: May 14, 2026.

[11] BRAZILIAN SECURITIES AND EXCHANGE COMMISSION (CVM). *CVM Resolution No. 175, of 2022*. Available at: https://conteudo.cvm.gov.br/legislacao/resolucoes/resol175.html. Accessed on: May 14, 2026.

[12] More information is available at: https://labinovacaofinanceira.com/quem-somos/. Accessed on: May 14, 2026.

[13] CENTRAL BANK OF BRAZIL. *CMN Resolution No. 5,185, of November 21, 2024*. Available at: https://www.bcb.gov.br/estabilidadefinanceiraexibenormativo?tipo=Resolu%C3%A7%C3%A3o%20CMN&numero=5185. Accessed on: May 14, 2026.

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- Report on Social, Environmental and Climate-related Risks and Opportunities (GRSAC)/2025[14]: mandatory for larger financial institutions, the report requires the public disclosure of data on emissions, climate governance, physical and transition risks, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and ISSB.

Brazilian Association of Financial and Capital Market Entities (ANBIMA)

ANBIMA has been promoting sustainability self-regulation, setting voluntary parameters to foster transparent and standardized sustainability practices among managers and investors:

- ANBIMA Guide to Sustainable Finance/2023[15]: sets good practice guidelines for the classification of sustainability products, fund governance and transparent communication with investors.

- Rules and Procedures for Identifying Sustainable Investment (IS) Funds (SI)/2022[16]: establishes specific rules and procedures for Sustainable Investment Funds (SI), including disclosure, governance and eligibility criteria requirements.

Brasil, Bolsa, Balcão (B3)

B3 has played a strategic role in standardizing sustainability information and fostering corporate transparency, not by introducing regulations, but by engaging capital markets to adopt good sustainability practices:

- Guide to Sustainability and SUSTAINABILITY Management in Companies/2022[17]: provides practical guidance on topics such as SUSTAINABILITY climate governance, risks and opportunities and their integration into business strategies.

- Sustainability Indexes/[Date][18]: establishes incentive mechanisms that evaluate the SUSTAINABILITY performance of listed companies, helping institutional investors who seek to build portfolios that are more aligned with sustainability criteria.

- B3[19] sustainability Workspace Platform: centralizes and organizes sustainability information about the Brazilian market. Created with the purpose of promoting transparency, collaboration, and technology, sustainability Workspace drives the evolution of sustainable finance in Brazil by gathering data, companies, and investors in a single environment.

Brazilian Sustainable Taxonomy

ANBIMA has been promoting sustainability self-regulation, setting voluntary parameters to foster transparent and standardized sustainability practices among managers and investors:

The Brazilian Sustainable Taxonomy[20] (TSB), coordinated by the Ministry of Finance with the support of the Central Bank of Brazil, the CVM and the Inter-American Development Bank (IDB), seeks to create a common language to establish which economic activities can be considered sustainable in Brazil. Compatible with the EU Taxonomy (European Taxonomy) and the European SFDR, TBS adopts criteria appropriate for the Brazilian scenario covering topics such as land use, agriculture, adaptation and social inclusion – which are key elements of concern for the Global South.

The Brazilian Sustainable Taxonomy has three strategic objectives:

1. Raise and redirect finance and public and private investments to support economic activities that have positive environmental, climate, and social impacts, and to foster sustainable, inclusive, and regenerative development.

2. Promote technological depth focused on environmental, climate, social and economic sustainability to increase the productivity and competitiveness of the Brazilian economy on a sustainable basis.

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[14] CENTRAL BANK OF BRAZIL. *Relatório de Riscos e Oportunidades Sociais, Ambientais e Climáticos (Report on Social, Environmental and Climate-related Risks and Opportunities)*. 2025. Available at: https://www.bcb.gov.br/publicacoes/relatorio-risco-opportunity. Accessed on: May 14, 2026.

[15] BRAZILIAN ASSOCIATION OF FINANCIAL AND CAPITAL MARKET ENTITIES (ANBIMA). Guia para Ofertas de Títulos Sustentáveis (Guide on Sustainable Bonds' Offerings). 2023. Available at: https://www.anbima.com.br/data/files/83/A2/52/1A/FC3C781041836978B82BA2A8/GUIA%20PARA%20OFERTAS%20DE%20TITULOS%20SUSTENTAVEIS.pdf. Accessed on: May 14 2026.

[16] BRAZILIAN ASSOCIATION OF FINANCIAL AND CAPITAL MARKET ENTITIES (ANBIMA). *Guia para Ofertas de Títulos Sustentáveis (Guide on Sustainable Bonds' Offerings)*. 2023. Available at: https://www.anbima.com.br/data/files/83/A2/52/1A/FC3C781041836978B82BA2A8/GUIA%20PARA%20OFERTAS%20DE%20TITULOS%20SUSTENTAVEIS.pdf. Accessed on: May 14 2026.

[17] B3. *Guia Sustentabilidade e Gestão ASG nas Empresas: Como começar, quem envolver e o que priorizar (Sustainability and SUSTAINABILITY Management at Companies: How to get started, who to involve and what to prioritize)*. 2022. Available at: https://www.b3.com.br/pt_br/b3/asg/guias-publicacoes-outros-conteudos.htm. Accessed on: May 14, 2026.

[18] B3. *Índices de Sustentabilidade (Sustainability Indexes)*. Available at: https://www.b3.com.br/pt_br/market-data-e-indices/indices/indices-de-sustentabilidade/. Accessed on: May 14, 2026.

[19] B3. *SUSTAINABILITY Workspace B3*. Available at: https://sustainabilityws.b3.com.br/login. Accessed on: May 14, 2026.

[20] BRAZIL. *Ministry of Finance. Taxonomia Sustentável Brasileira (Brazilian Sustainable Taxonomy)*. Available at: https://www.gov.br/fazenda/pt-br/orgaos/spe/taxonomia-sustentavel-brasileira/cadernos/cadernos-da-taxonomy-sustentável-brasileira. Accessed on: May 14, 2026.

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3. Create a framework for producing reliable information on sustainable finance flows by promoting transparency, integrity, and a long-term vision for economic and financial activities.

4. In addition, TSB has seven core environmental objectives and four socioeconomic objectives. The major difference in relation to the EU Taxonomy (described in chapter 3) is the inclusion of the sustainable use of the soil (a critical activity for the Brazilian economy) and the full inclusion of social objectives, in line with Brazil's socioeconomic reality and challenges.

The environmental objectives are to

1. Mitigate climate change
2. Adapt to climate change
3. Protect and restore the biodiversity and ecosystems
4. Conserve, and promote the sustainable management and use of soil and forests
5. Promote the sustainable use and protection of water and marine resources
6. Make the transition to a circular economy
7. Prevent and control contamination

The socioeconomic objectives are to:

8. Create decent jobs and raise income
9. educe socioeconomic inequality, considering racial and gender issues
10. Reduce regional and geographic inequalities in the country
11. Promote quality of life, by guaranteeing rights and increasing access to basic social services



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3. International standards and the local scenario

Consolidating the sustainability agenda in the alternative investment industry requires standards and methodologies that provide guidance to managers and investors to assist them in formulating policies, carrying out due diligences and communicating with stakeholders[21]. In this context, international standards have played a structuring role by setting parameters that can be adapted to the Brazilian scenario, taking into account the regulatory and cultural issues and the maturity of the Brazilian market.

Principles for Responsible Investment (PRI)

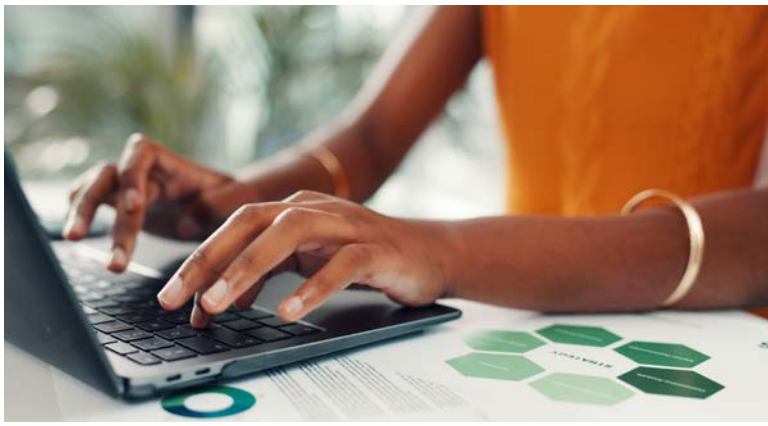
One of the most significant milestones in the sustainability agenda was the launch of the Principles for Responsible Investment (PRI), a global initiative that provides a framework for incorporating sustainability issues into investment practices and aims at helping investors to align financial decisions with long-term responsible impacts.

PRI[22] provides guidelines for formulating sustainability policies and also requires that entities report their progress on an annual basis, creating an accountability mechanism which directly influences fundraising with investors, in particular multilateral organizations and institutional investors. In particular, its six principles guide investors in terms of:

1. Incorporation: - We will incorporate sustainability issues into investment analysis and decision-making processes.
2. Active ownership - We will be active owners and incorporate sustainability issues into our ownership policies and practices.
3. Appropriate disclosure - We will seek appropriate disclosure on sustainability issues by the entities in which we invest.
4. Promote acceptance - We will promote the acceptance and implementation of the Principles within the investment industry.
5. Work together - We will work together to enhance our effectiveness in implementing the Principles.
6. Progress reporting - We will each report on our activities and progress towards implementing the Principles.

Sustainability Accounting Standards Board (SASB)

The standards issued by the Sustainability Accounting Standards Board (SASB) are another key reference source that has been incorporated by the IFRS. The SASB Standards are now maintained and housed globally under the IFRS Foundation and its International Sustainability Standards Board (ISSB). SASB[23] lists a set of financially material industry-specific sustainability indexes, which allow the identification of risks and opportunities specific to each industry. In Brazil's alternative investment scenario, they are mainly applied during the due diligence and monitoring of investees, establishing criteria for evaluating sustainability risks that directly impact the valuation of investments and, therefore, the financial return of the funds.



[21] *"In business, a stakeholder is any individual, group, or party that has an interest in an organization and the outcomes of its actions. Common examples of stakeholders include employees, customers, shareholders, suppliers, communities, and governments. Different stakeholders have different interests, and companies often face trade-offs in trying to please all of them."* Source: CORPORATE FINANCE INSTITUTE (CFI). *What is a stakeholder in business?* Available at: https:// corporatefinanceinstitute.com/resources/management/stakeholder/. Accessed on: May 14, 2026.

[22] CORPORATE FINANCE INSTITUTE (CFI). *What is a stakeholder in business?* Available at: https://corporatefinanceinstitute.com/resources/management/stakeholder/. Accessed on: 14 May 2026.

[23] IFRS FOUNDATION. *SASB Standards*. Available at https://sasb.ifrs.org/standards/. Accessed on May 14, 2026.

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Chartered Financial Analyst Institute (CFA Institute)

Although there is no consolidated list of sustainability topics and they are often interrelated, CFA Institute[24] provides a guide for professional investors, which lists some examples of topics to be considered, segmented into environmental, social and governance issues.



Examples of sustainability issues

Environmental issues	Social issues	Governance issues
• Climate change and carbon emissions. • Air and water pollution. • Biodiversity. • Deforestation. • Energy efficiency. • Waste management. • Water scarcity.	• Client satisfaction. • Data protection and privacy. • Gender and diversity. • Employee engagement. • Community relations. • Human rights. • Labor standards.	• Board composition • Audit committee structure. • Bribery and corruption. • Executive compensation. • Lobbying. • Political contributions. • Whistleblower schemes.

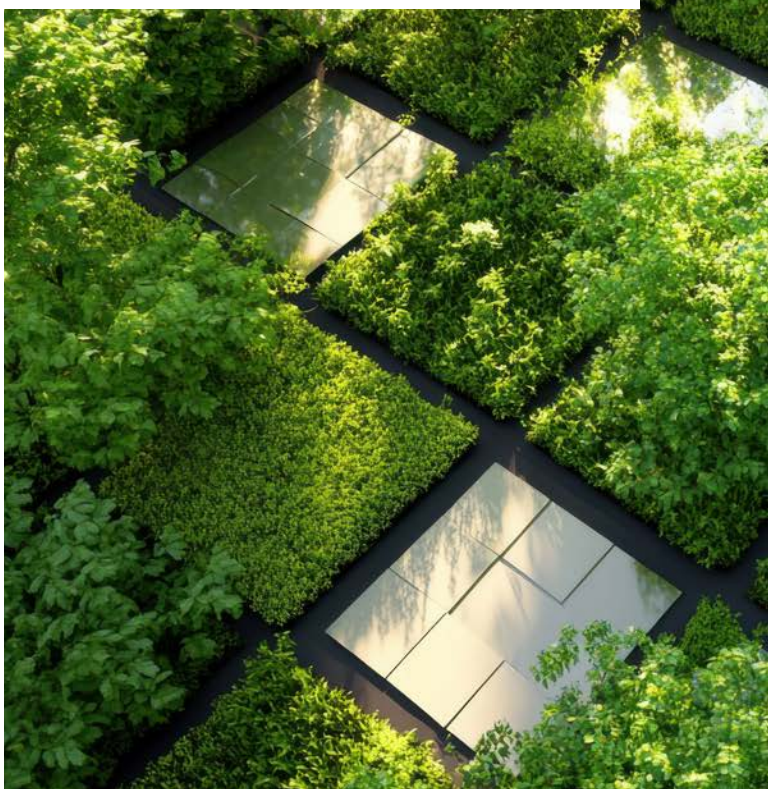
Source: adapted from CFA Institute

Global Reporting Initiative (GRI)

The Global Reporting Initiative has established GRI Standards[25], a reference material that provides a basis for sustainability reporting, with a focus on reporting materiality, complementing the ISSB's focus on enterprise value. By consolidating data from multiple investees into annual fund reports, managers meet the growing demands of investors (Limited Partners – LPs) for standardized information.

Institutional Limited Partners Association (ILPA)

The **ILPA ESG Roadmap**[26], developed by ILPA, provides practical guidelines for the application of sustainability principles over the entire life cycle of the investment, from the structuring of the asset manager's internal policies to the engagement with LPs. This guide provides standardized templates and good practices that facilitate the development of policies, the design of engagement initiatives and communication with investors.



[24] CFA INSTITUTE. *Environmental, Social and Governance Issues in Investing: A Guide for Investment Professionals. 2015*. Available at: https://www.cfainstitute.org/sites/default/files/-/media/documents/article/position-paper/sustainability-issues-in-investing-a-guide-for-investment-professionals.pdf. Accessed on: May 14, 2026.

CFA INSTITUTE (2015) SUSTAINABILITY *Education: Bridging the Gap for Better Informed Investment Decisions*. Available at: https://blogs.cfainstitute.org/marketintegrity/2015/11/19/sustainability-education-bridging-the-gap-for-better-informed-investment-decisions/

[25] GLOBAL REPORTING INITIATIVE (GRI). *GRI Standards*. Available at: https://www.globalreporting.org/standards/. Accessed on: May 14, 2026.

[26] INSTITUTIONAL LIMITED PARTNERS ASSOCIATION (ILPA). *ILPA Roadmap for Environmental, Social & Governance*. Available at: https://ilpa.org/industry-guidance/environmental-social-governance/sustainability-roadmap/. Accessed on: May 14, 2026.

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EU Taxonomy

Nomenclatures and taxonomies are structures that help organize and assess the sustainability of financial activities: while nomenclatures consist of organized lists of terms used to identify and describe sustainability-related characteristics, taxonomies are formal classification systems based on technical criteria that determine the extent to which an activity is sustainable27. Both nomenclatures and taxonomies are essential structural elements for codifying, comparing and contrasting the degree of sustainability of funded activities, projects and products, which meet sustainable objectives based on specific criteria. Market and government taxonomies are in place for classifying financial products, disclosing information and assessing risks.[28]

In the global regulatory scenario, the EU Taxonomy[29], created by the EU, has become over the years one of the main benchmarks for the classification of sustainable economic activities. The purpose behind it is to support the growth of low-carbon sectors and decarbonize high-carbon ones. To that end, it sets limits (referred to as "technical screening criteria") for economic activities that:

- Make a substantial contribution to one of the six environmental objectives (mitigate and adapt to climate change; promote the sustainable use and protection of water; circular economy; prevent and control pollution; and protect and restore biodiversity and ecosystems);
- Do No Significant Harm (DNSH) to the other five environmental objectives, when relevant; and
- Meet minimum safeguards; for example, the guidelines of the Organisation for Economic Co-operation and Development (OECD) on multinational companies and the United Nations (UN) Sustainable Development Goals (SDGs) on business and human rights.

The EU Taxonomy focuses on the European reality; therefore, it considers characteristics of a range of sectors and activities that are specific to that region. This means that it does not fully address the Global South's social and environmental challenges, such as social inequality, low education and professional skill levels, informal economy and access to essential services.

The EU Taxonomy is often applied together with the Sustainable Finance Disclosure Regulation (SFDR), an European regulation applicable to asset managers in the EU and products offered in the European Economic Area, which establishes how funds must disclose their sustainability approach to investors. The SFDR classifies funds into three main categories:

- Article 6 – "Neutral" funds: funds that do not incorporate sustainability principles systematically into their investment strategy. Although fund managers can recognize sustainability risks in certain cases, no clear commitment is made and no formal framework is set to integrate these principles. The main regulatory requirement for this category is only to disclose whether and how sustainability risks are considered, without the need to prove specific practices or results.
- Article 8 – Funds that promote environmental and/or social characteristics: funds that apply sustainability principles to make investment decisions, promoting environmental or social concerns over the cycle of portfolio management, although they do not have an explicit sustainable purpose. In order to comply with Article 8 funds must demonstrate how they consider sustainability risks and opportunities when implementing their investment strategy. In the Brazilian scenario, this category is close, by analogy, to sustainability integration funds.
- Article 9 – Funds that have a sustainable objective: funds that seek to generate positive and measurable social and environmental results, and require clear objectives, measurement metrics and continuous proof of impact. It is the impact investing rationale, which demands a high level of transparency and accountability. Market practices include strategies with different degrees of intentionality (pure impact, transition and segment focus). The category provided for in Article 9 is divided into the following subcategories derived from market and unofficial practices:

[27] INTERNATIONAL CAPITAL MARKET ASSOCIATION (ICMA). *Usability of taxonomies and nomenclatures for the Green, Social and Sustainable Bond Markets*. Mar 2021. Available at: https://www.icmagroup.org/assets/documents/Sustainable-finance/Taxonomies/Taxonomies-and-Nomenclatures-Guidance-March-2021-18032021.pdf. Accessed on: May 14, 2026.

[28] INTERNATIONAL CAPITAL MARKET ASSOCIATION (ICMA). *Overview and Recommendations for Sustainable Finance Taxonomies. Zurich, 2021*. Available at: icma-overview-and-recommendations-for-sustainable-finance-taxonomies-18-may-2021.pdf. Accessed on: May 14, 2026.

[29] On March 9, 2020, the Technical Expert Group (TEG) published its final report on the European Union (EU) taxonomy. The document contains recommendations on the comprehensive design of the EU taxonomy, as well as extensive implementation guidance on how companies and financial institutions can use and disclose information in accordance with this taxonomy. EUROPEAN UNION. *Technical Expert Group on Sustainable Finance. Taxonomy: final report of the Technical Expert Group on Sustainable Finance*. Mar. 2020. Available at: https://finance.ec.europa.eu/document/download/9101b639-ebe5-413e-9c86-3e291722899e_en?filename=200309-sustainable-finance-teg-final-report-taxonomy_en.pdf, Accessed on: May 14 , 2026.

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i. 9.1 (pure impact) funds have as their main purpose to generate measurable impact, often implementing climate, social inclusion or development initiatives, among others.
ii. 9.2 (sustainability-linked) funds invest in companies in transition, linking the investment of capital to compliance with binding sustainability action plans and goals.
iii. 9.3 (hybrid or segment) funds focus on naturally sustainable sectors, such as renewable energy or sanitation, which combine impact objectives in selected segments and/or with additional criteria.

Accordingly, Article 9 covers a broad range of intentions, distinguishing between impact investing, commitment-based transition, and sustainable segment focus.

Global Impact Investing Network (GIIN)

The Global Impact Investing Network[30] has developed IRIS+, which is one of the most used systems globally to standardize social and environmental impact metrics to analyze impact investments. IRIS+ brings together comparable indicators by sector and topic (such as climate change, health, education and financial inclusion), as well as guides that set best measurement and reporting practices. IRIS+ makes it possible to demonstrate positive impact outcomes — an essential element for thematic and impact funds that comply with international standards, particularly those that need to report to institutional and multilateral investors.

International Finance Corporation (IFC)

The International Finance Corporation (IFC) has established the IFC Corporation Performance Standards31 (PS), a set of eight globally recognized standards for managing the environmental and social risk posed by private sector projects implemented in emerging markets. These standards require that companies identify risks, promote community engagement and minimize the labor, pollution, land biodiversity, indigenous peoples, and cultural heritage impacts of the project throughout its entire lifecycle. Unlike the Global Reporting Initiative (GRI), which guides the disclosure of information, the Performance Standards (PS) structure all the risk assessment process (including A, B, C and FI categorization), the formulation of an Environmental and Social Action Plan (ESAP) and ongoing monitoring. PS also serve as a guide for due diligence procedures, negotiation of contractual clauses and post-investment monitoring.

British International Investment (BII)

British International Investment32 (formerly CDC Group) takes a practical approach to the application of sustainability principles, offering operational guides, responsibility matrices, contractual clause examples, ESAP models and corporate governance parameters. In addition to establishing principles, the BII provides models applicable to different sizes of funds and investees, including due diligence methodologies, monitoring and stakeholder engagement.

Carbon Market

The carbon market makes it possible to incorporate greenhouse gas emissions as financial and strategic variables into investment opportunities. Globally, the EU Emissions Trading System (EU ETS)33 is the benchmark model that operates as a cap-and-trade system whereby high-emission companies are allowed to emit a specific amount of GHG, and ‘buy’ carbon credits from those companies who are emitting lesser than the set standards. Therefore, companies can buy or sell carbon credits depending on the level of actual greenhouse gas emissions during a given period. The cap-and-trade principle is expanding to other jurisdictions, such as the United Kingdom, China, South Korea, and California, creating a growing network of regulated markets. In Brazil, the Brazilian Emissions Trading System (SBCE) was launched with the purpose of making the country carbon neutral by 2050[34].

The SBCE has been established as Brazil’s main instrument for pricing carbon emissions in the regulated market, also adopting the cap-and-trade principle, in line with international best practices. Under the SBCE, carbon emission caps are set for GHG-intensive economic sectors. These emission caps require regulated agents to monitor, report and verify (MRV) their carbon emissions and to meet targets by allocating, purchasing or selling emission allowances. Industry obligations are set out in a progressive manner, considering criteria such as the amount of emissions, economic relevance and how feasible it is to cut carbon emissions, to ensure predictability and a gradual transition for the regulated

[30] GLOBAL IMPACT INVESTING NETWORK (GIIN). *IRIS+*. Disponível em: https://iris.thegiin.org/. Acesso em: 14 maio 2026.

[31] INTERNATIONAL FINANCE CORPORATION (IFC). *IFC Performance Standards*. Disponível em: https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards. Acesso em: 14 maio 2026.

[32] BRITISH INTERNATIONAL INVESTMENT (BII). *Toolkit*. Disponível em: https://toolkit.bii.co.uk/. Acesso em 14 maio 2026.

[33] EUROPEAN COMMISSION. *EU Emissions Trading System (EU ETS)*. Disponível em:https://climate.ec.europa.eu/eu-action/carbon-markets/eu-emissions-trading-system-eu-ets_en. Acesso em: 14 maio 2026.

[34] BRASIL. *Ministério da Fazenda. Mercado de Carbono*. Disponível em: https://www.gov.br/fazenda/pt-br/acesso-a-informacao/acoes-e-programas/transformacao-ecologica/programas-em-destaque/mercado-de-carbono. Acesso em: 14 maio 2026.

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sectors. SBCE's legal framework is established by **Law No. 15,042**, which sets the institutional bases, principles and instruments, and is regulated by **Decree No. 12,768**, which details the system's operational aspects, including governance, permission allocation criteria, compliance rules, and transparency mechanisms, placing the SBCE at the center stage of Brazil's decarbonization strategy and the achievement of long-term climate change goals.

In addition, the SBCE is closely linked to the European Union's **Carbon Border Adjustment Mechanism[35] (CBAM)** by creating a domestic framework for pricing carbon emissions in line with international regulated markets. By establishing robust criteria for measuring, reporting, and verifying emissions, and setting an implicit price for carbon emissions in regulated sectors, SBCE tends to reduce the risk of exposure of Brazilian exporters to Europe to carbon border adjustments, especially in the steel, cement, aluminum, and fertilizer industries. In practice, the existence of a domestic regulated market strengthens Brazil's claim of regulatory equivalence, increases transparency about the carbon emission intensity of exported products, and can mitigate additional costs associated with CBAM, by demonstrating that emissions are already being internalized in the source country. Finally, the voluntary carbon market allows companies to offset GHG emissions by buying carbon credits from other companies and/or projects, at their sole discretion and privately between the parties.

For investment funds, the carbon emissions trading market allows companies to manage risks (pricing of future carbon emissions, regulatory transition) and offers them an opportunity to generate value (low-carbon business models, credit-generating projects, integration into transition strategies). Additionally, regulatory requirements such as IFRS S1 and IFRS S2 and the TCFD introduce widely adopted sustainability practices and may make the disclosure of climate change risks and carbon emissions mandatory, when enforced by regulators, reinforcing the trend of integrating carbon metrics into due diligence, monitoring and asset valuation processes.

In practical terms, different international frameworks and methodologies can be used in an integrated manner by Brazil's alternative investment industry.

PRI is used as a voluntary benchmark and a tool for investor engagement; SASB works as an industry guide for due diligence and monitoring; GRI is a consolidated reporting tool; ILPA operates as a platform for investors grouping stakeholders around a focal point and; and the EU Taxonomy consists of a methodology for classifying economic activities and for measuring the portion of EU Taxonomy-aligned assets in investment portfolios. The CFA Institute complements these approaches by providing a guide to professional investors on sustainability issues, helping asset managers to integrate sustainability risks and opportunities into their analyses. In addition, tools and parameters for measuring impact, such as IRIS+, offer standardized metrics of social and environmental outcomes, while IFC Performance Standards guide the assessment and the mitigation of social and environmental risks throughout the investment cycle. BII offers detailed operational guides for implementing Environmental & Social Management Systems (ESMS), governance and due diligence procedures and for encouraging stakeholder engagement. Finally, the carbon emissions market, whether regulated or voluntary, makes it possible to price carbon emissions, enabling and/or adding value to the opportunities offered by energy transition efforts and a low-carbon economy.

Therefore, it is up to each asset manager to decide on how to implement good sustainability practices, adopting and/or adapting international and local standards, according to the maturity of its operations, cases for investment and the profile of its investors. As a rule, sustainability practices are of key importance for asset managers to raise funds, particularly with foreign and institutional investors, development banks and multilateral institutions. Moreover, from the point of view of investees, sustainability practices may be necessary to meet regulatory requirements for access to capital markets, to ensure the business model's compliance with regulatory requirements for the company to establish relationships with a range of stakeholders and are key elements for valuing and liquidating the investment when it is disposed of, among other aspects to be considered in long-term investments.

[35] The Carbon Border Adjustment Mechanism (CBAM) was created to regulate greenhouse gas emissions embedded in certain goods, upon their importation into the customs territory of the European Union (EU), with the purpose of preventing the risk of carbon leakage. More information is available at: https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2021/07/summary-of-the-cbam-regulation.pdf. Accessed on: May 14, 2026.

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4. Asset manager selection and investor relations

The application of sustainability principles to alternative investments is not limited to investees: it bears directly on the relationship between asset managers and their investors. In recent years, investors' demands have been one of the main drivers for the application of sustainability principles by managers of illiquid assets. In particular, the engagement of multilateral organizations and institutional investors, especially from abroad, requires alignment with global sustainability standards, as well as the adoption of specific recommended legislation and regulation on diversity, equity, and inclusion (DEI), as well as environmental, social, and governance issues. As mentioned in the previous chapter, in Europe SFDR mandates that asset managers and other financial market participants disclose how they incorporate sustainability criteria into their investment decisions, often used in the market as a benchmark for classifying investment funds into Articles 6, 8 and 9, which comprise, respectively, funds without sustainability integration; funds that promote environmental and/or social characteristics; and funds with a sustainable investment objective. This regulation, applicable to asset managers in the EU and to products offered in the European Economic Area, has a direct influence on the decisions of European LPs, which prefer investment vehicles classified into those articles and tend to pressure foreign funds to set up structures aligned with the sustainability requirements spelled out by SFRD in those articles.

In Brazil, ANBIMA's[36] self-regulation has also sought to establish transparency and consistency rules for funds that declare themselves to be compliant with sustainability requirements reinforcing the importance of engaging in clear communication with investors.

To perform its supervisory role, ANBIMA continuously monitors the activities carried out by its members, using advanced technologies and data analysis to identify and correct deviations from the established rules. Its supervisory activities can include inspections, analyses of market practices, and constant monitoring to ensure that members comply with industry standards, as well as a proactive oversight approach consisting of identifying risks and mitigating them before they escalate.

When ANBIMA finds members in violation of standards, its enforcement mechanisms apply the corrective measures necessary to ensure that the members comply with the standards. These measures may include sanctions and penalties, reinforcing the effectiveness of the model.

ANBIMA's self-regulation model



Source: prepared by the authors.

Moreover, additional criteria such as exclusion lists that prohibit investments in industries that are not in compliance with sustainable practices, such as the thermal coal industry or the arms industry, the Environmental & Social Management System (ESMS) and compensation policies linked to sustainability Key Performance Indicators (KPIs) are more and more required by global LPs.

[36] BRAZILIAN ASSOCIATION OF FINANCIAL AND CAPITAL MARKET ENTITIES (ANBIMA). *Modelo de autorregulação, supervisão e enforcement (Self-regulation, supervision and enforcement model). 2018*. Available at: https://www.anbima.com.br/data/files/24/91/D5/DA/15C416102956441699A80AC2/Modelo%20de%20autorregula o%20supervis_o%20e%20 enforcement.pdf. Accessed on: May 14, 2026.

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In general, local and international lps increasingly demand the application of sustainability cross-sectoral integration, from building the case for the investment, making up and monitoring the investment portfolio to disposing of the investment/asset. Therefore, in order to increase their potential for funding, asset managers have to meet multiple regulatory jurisdictions and different stakeholders' expectations, which requires the implementation of well-established market policies, procedures and standards – in terms of internal operation and fund management – that can be checked and measured.



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5. Governance of asset managers

Formulating a sustainability policy is the starting point for alternative investment managers to consolidate a robust management system. The sustainability policy is more than a formal document, it sets principles, commitments and guidelines that structure the Environmental & Social Management System (ESMS), making the screening, due diligence, monitoring and reporting practices more coherent.

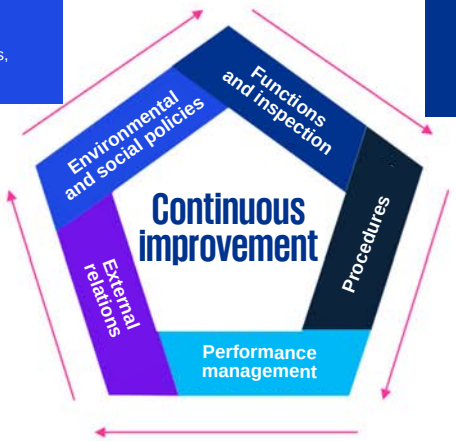


Aligned with international standards[37],[38],[39], the implementation of the sustainability policy should begin with the approval of senior management, include a list of exclusions and risk criteria, and detail the application of the sustainability principles throughout the investment cycle. By incorporating tools such as checklists, due diligence templates, and standard clauses, the sustainability policy makes the application of the sustainability criteria consistent, traceable, and transparent, for the benefit of investors and other stakeholders.

For illustrative purposes, the diagram below shows an ESMS template, according to the BII standard:

- Articulates the fund's principles and commitments regarding investment in the environment and social.
- Defines the environmental and social requirements and standards to be applied.
- Endorsed by senior management.
- Communicated to the team and, in some cases, to external stakeholders.

- Assign and document senior-level responsibility for the oversight of the ESMS.
- Assign and document responsibility for ensuring the implementation of the ESMS.
- Establish day-to-day working practices.
- Implement effective checks and balances.
- Ensure sufficient resources and training.



- Relatar e engajar-se com os limited partners sobre a implementação ESMS e o desempenho das empresas do portfólio.
- Relatar e engajar-se com outros stakeholders.
- Responder a eventos imprevistos e reclamações.

- A documented set of practical procedures for operationalizing the implementation of the environmental and social policy in every transaction, covering all stages of the investment process.
- Development of the process guided by simplicity and pragmatism.

- Periodically monitor and review the adequacy of the ESMS.
- Identify successes and areas for improvement in the implementation of the ESMS.
- Ensure the ESMS is reviewed when appropriate, with continuous improvement as the ultimate goal.
- Define key performance indicators (KPIs).

Source: prepared by the authors.

[37] BRITISH INTERNATIONAL INVESTMENT (BII). *Fund E&S management systems*. Available at https://toolkit.bii.co.uk/management-systems/fund-esms/. Accessed on: May 14, 2026.

[38] INTERNATIONAL FINANCE CORPORATION (IFC). *Padrões de Desempenho sobre Sustentabilidade Socioambiental (Performance Standards on Social and Environmental Sustainability)*. Available at: https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standards-pt.pdf. Accessed on: May 14, 2026.

[39] ERKURTOGLU SAVAS, Leyal; DELANGE, Nicolas Jean Claude. *IFC SUSTAINABILITY Guidebook. Washington, D.C.* : World Bank Group. Available at: http://documents.worldbank.org/curated/en/099915406292222803. Accessed on: May 14, 2026.

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The effectiveness of the ESMS depends on a clear governance framework. The engagement of the leadership supported by a sustainability committee that includes investment, legal/risk and investor relations representatives, and by and executive role responsible for implementation, is essential. An alternative sustainability governance approach consists of appointing a part-time "sustainability lead", supported by external consultants and, as the volume of assets under management increases, scaling the structure up to dedicated teams and industry experts. Guides such as BII's help to fine-tune responsibilities according to the size of the asset manager, and recommend corporate integrity mechanisms, whistle-blowing hotlines and conflicts of interest management frameworks.

Operational procedures support the sustainability policy, integrating it in a practical manner into the investment cycle. These procedures should be straightforward and incorporated into the asset manager's day-to-day operations, and workflows should be in place to define the stages, appoint the parties in charge and implement supervision, approval, and complaint mechanisms. Performance management ensures continuous improvement and consists of monitoring indicators, making systematic records and periodic reviews and improving personnel qualifications, either by offering training courses or specialized advice.

Example of a template for establishing procedures and assigning responsibilitie

Stages	Description of the activities	Parties involved in sustainability efforts
Screening	• Follow the list of exclusions. • Identify risks. • Plan the due diligence and assign responsibilities. • Prepare a Social and Environmental Action Plan.	• Investment Committee (IC). • Discuss key environmental and social matters. • Approve the due diligence budget.
Due Diligence (DD)	• Assess sustainability risks and opportunities. • Evaluate the company's capacity, commitment and track record. • Engage consultants.	• Senior member/partner to supervise the due diligence.
Investment decision	• Provide documentation to the Investment Committee (IC).	• IC to approve or reject the proposal.
Investment agreement	• Incorporate sustainability terms into the legal agreement.	• IC can be involved if the conditions for approval are not complied with.
Monitoring	• Monitor the sustainability action plan and regulatory compliance. • Monitor the company's environmental and social performance and provide support. • Deal with unexpected events. • Interact with LPs. • Prepare documents for • the Investment Committee.	• Provide regular reports to senior management. • Companies and the IC should be informed about significant issues.
Investment disposal	• Prepare documentation for potential buyers. • Provide evidence of environmental and social improvements. • Propose clauses that ensure the continuity of the investee's sustainability practices after the Fund sells its stake.	• Relevant partners and committees.
Performance Management	• Check whether the ESMS is adequate. • Approve and implement possible changes in the ESMS.	• Senior partners.
Engagement of external stakeholders	• Report on the company's sustainability performance and on the fund's ESMS to LPs.	• Senior managers.

Source: prepared by the authors.

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ESMS's credibility is also supported by a transparent communication with external stakeholders, especially LPs. More than producing annual reports, good practices consist of releasing periodic updates and making public announcements and visits and setting up forums for dialogue on sustainability issues, strengthening trust and allowing expectations to be aligned. Institutional investors have been putting a premium on the initiatives of companies to link variable compensation to specific and auditable sustainability KPIs, such as climate, safety or diversity goals, integrating them with long-term bonuses and incentives (performance fee or carried interest) of the investment team.

Governance should include integrity initiatives and compliance with conflicts of interest policies, independent data review, and incident response protocols. BII and OECD recommend that General Partners (GPs) adopt risk-based integrity systems, incorporating due diligence procedures, controls, and lines of defense that ensure reputational protection and improved quality of investment decisions across the portfolio.



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6. Cases for investment

Brazil's responsible investment market and sustainable finance is expanding and brings together different approaches, which stand out due to the scope of integration of environmental, social, and governance factors, in addition to financial return. Among the cases for investment, sustainability integration funds stand out by applying sustainability criteria across the entire process of analyzing and selecting the asset; the thematic funds, aimed at specific sectors; and impact funds, characterized by the explicit intention of generating measurable social and environmental outcomes, along with financial returns.

Considering impacts means that investors are moving from a reactive approach to risks imposed by sustainability factors to a proactive approach, seeking sustainability outcomes that address the root causes of these risks (system-level risks). Some of the systemic sustainability risks already recognized by stakeholders include climate change[41], nature-related issues[42],[43] and social inequality. PRI[44] also highlights that the impact can be incorporated both for maximizing the adjusted return and for incorporating the positive impact as a priority when making an investment decision together with financial purposes.

The table below shows the main types of sustainability funds, including considerations about their cases for investment.

Types of sustainability funds

Name	Description	Examples
Sustainability integration funds	Apply sustainability criteria across the entire process of analyzing and selecting the asset.	Investment funds that apply sustainability filters to make up their portfolios.
Thematic funds	Cases for investment focused on segments or activities directly linked to sustainability that incorporate sustainability factors specific to the target segments.	Funds for investments in renewable energy, basic sanitation, health and financial services.
Engagement/ Transition Funds	Funds that invest in polluting industries or segments with low sustainability performance, with the purpose of accelerating their sustainable transition.	Funds focused on decarbonization in heavy industries, energy transition in the oil and gas industry, retrofitting of manufacturing or infrastructure facilities.
Impact funds[40]	Cases for investments to generate a positive social and environmental impact, including specific measurable metrics.	Funds for Investments for social inclusion, energy transition and environmental conservation.

Source: prepared by the authors.

[40] *"Impact is defined in the Norms as a change in an outcome caused by an organization. An impact can be positive or negative, intended or unintended. An outcome is the level of well-being experienced by a group of people, or the condition of the natural environment."* More information is available at: https://impactfrontiers.org/norms/. Accessed on: May 14, 2026.

[41] WU, Baohui; WEN, Fenghua; ZHANG, Yun; HUANG, Zhijian (James). *Climate risk and the systemic risk of banks: A global perspective, Journal of International Financial Markets, Institutions and Money*, v. 95, 2024, 102030, ISSN 1042-4431. Available at: https://www.sciencedirect.com/science/article/abs/pii/S1042443124000969?via%3Dihub. Accessed on: May 14, 2026.

[42] ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD). *A supervisory framework for assessing nature-related financial risks: Identifying and navigating biodiversity risks. OECD Business and Finance Policy Papers, n.33*. Paris: OECD Publishing, 2023. Available at: https://doi.org/10.1787/a8e4991f-en. Accessed on: May 14, 2026.

[43] NETWORK FOR GREENING THE FINANCIAL SYSTEM (NGFS). *Nature-related Financial Risks: a Conceptual Framework to guide Action by Central Banks and Supervisors. Technical document. 2024*. Available at: ngfs-conceptual-framework-nature-risks.pdf. Accessed on: May 14, 2026.

[44] PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI). *PRI's perspective on impact/outcomes. Impact Consortium Global Advisory Committee*. 2024. Available at: https://impact-consortium.fsa.go.jp/wp-content/uploads/2025/03/advglb_01_03.pdf. Accessed on: May 14, 2026.

[45] INTERNATIONAL FINANCE CORPORATION (IFC). *Operating Principles for Impact Management*. Available at: https://www.impactprinciples.org/9-principles/. Accessed on: May 14, 2026.

[46] IMPACT FRONTIERS. *Five Dimensions of Impact*. Available at: https://impactfrontiers.org/norms/five-dimensions-of-impact/. Accessed on: May 14, 2026.

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Sustainability integration funds apply environmental, social and governance criteria across the entire process of analyzing, selecting and monitoring assets to obtain competitive financial returns, regardless of the main activity of the investees. These funds are currently the most common ones in Brazil, as they allow asset managers to adjust sustainability risks and opportunities within traditional strategies with a wide scope of investments.

Thematic funds focus their investments in industries or activities directly linked to sustainability, such as renewable energy, sanitation, education, healthcare and financial services. Although they still account for a small share of the Brazilian market in terms of volume, several funds of this nature have already been set up, with increasing scale and specialization, and a particular focus on energy transition and the carbon market, driven by Brazil's favorable energy mix.

Impact funds, on the other hand, stand out due to their explicit intention of generating measurable positive social and environmental outcomes together with financial returns, while not generating significant negative impacts (under the Do No Significant Harm criterion, as explained above).

In these cases, the investees' core activity should be directly focused on addressing significant social and/or environmental challenges. In Brazil, these funds usually follow international standards to ensure a consistent and credible application of ECG principles, such as the IFC's[45] Operating Principles for Impact Management, which consist of management principles applied by the asset manager or the investment fund, providing governance and procedural guidelines; and Impact Frontiers's[46] Five Dimensions of Impact, which offer a practical measurement methodology usually applied to investees, helping to define clear metrics and to show the impacts achieved by sustainability initiatives in a transparent manner.

Five dimensions of the impact of an investment (Impact Frontiers)

Dimension	Description
Who	Identifies which people or communities are affected, considering characteristics such as income, vulnerability, geographic location and necessity levels.
What	Defines the type of outcome achieved by the investment, assessing whether it is a positive, negative, intentional or unintended outcome, and its social or environmental relevance.
How much	Measures the intensity, scale, depth and duration of the impact, showing the actual extent of the change produced by the investment.
Contribution	Evaluates the extent to which the investment has actually generated impact compared to what would have happened without it.
Risk	Considers uncertainties and the likelihood that the expected impact will not be realized, will be reversed or will produce undesirable effects.

Source: adapted from IMPACT FRONTIERS. *Norms | five Dimensions of Impact*. Available at: <https://impactfrontiers.org/norms/five-dimensions-of-impact/>. Accessed on: May 15, 2026.

In general, governance initiatives and good practices implemented in alternative investment funds are important requirements for both asset managers and investors. Asset managers who integrate sustainability factors into their value creation efforts, reporting practices and outcomes in a clear manner, boost investor trust and make the selection and management of the investment portfolio more robust.

For illustrative purposes, the table above summarizes the approach to impact analysis, according to *Impact Frontiers*.

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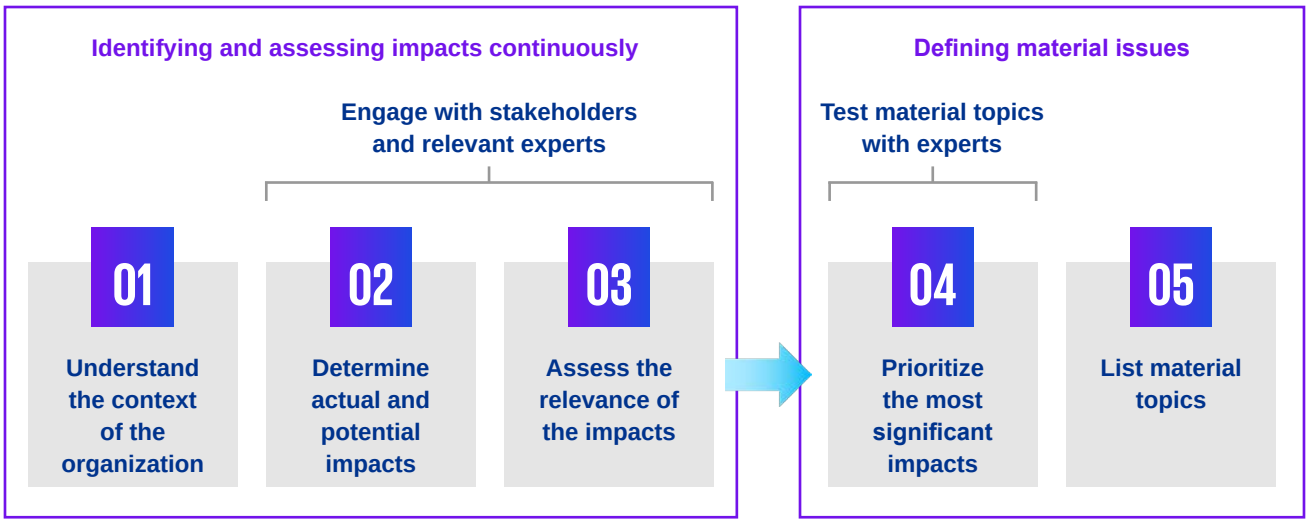
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7. Integrated Due Diligence

The primary purpose of sustainability due diligence is to enable the Investment Committee, or equivalent body, to make well-informed decisions about potential investments.



GRI shows the need to identify areas of improvement and the resources needed to address them, while promoting the recognition of opportunities to add value by improving sustainability practices. The model below illustrates the process of defining material issues according to GRI[48]:



Source: prepared by the authors.

Defining the scope of the due diligence is crucial to ensure a consistent investigation that is commensurate with the degree of social and environmental risk posed by the investee. A benchmark frequently used by managers is the IFC[49] categorization: Category A companies show significant environmental and social risks and impacts that require a deeper scope of analysis, including specialized studies, increased stakeholder engagement and intensive monitoring in the post-investment period. On the other hand, Category B companies pose limited and smaller-scale risks and require due diligences focused on the most relevant material aspects;

Category C companies pose minimal risks and may undergo more simplified assessments. IFC also establishes the FI (Financial Intermediaries) category, whose aggregate risk depends on the nature, scale and scope of the activities of its clients or investees.

Across all risk categories, it is essential to map the company's organizational structure, physical assets, primary and related operations, and to consider the working conditions of employees and subcontractors and the supply chain risks.

[47] BRITISH INTERNATIONAL INVESTMENT (BII). *Due Diligence*. Available at: https://toolkit.bii.co.uk/investment-cycle/due-diligence/. Accessed on: May 14, 2026.

[48] GLOBAL REPORTING INITIATIVE (GRI). *GRI 3: Temas Materiais (Material Issues). 2021*. Available at: https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-portuguesetranslations/. Accessed on: May 14, 2026.

[49] INTERNATIONAL FINANCE CORPORATION (IFC). *Environmental and Social Categorization*. Available at: https://www.ifc.org/en/what-we-do/sector-expertise/sustainability/policies-and-standards/environmental-and-social-categorization. Accessed on: May 14, 2026.

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In such a scenario, GRI Standards can complement the due diligence process, by providing benchmarks on transparency topics and the most used KPIs in the industry, and by showing how these indicators are measured. It is important, however, to understand that GRI is about reporting materiality, not investment risk materiality. GRI Standards are usually integrated into a broader approach according to the level of risk posed by investments, and are applied together with other specific social and environmental assessment methodologies.

In addition, IFC Performance Standards are one of the main global benchmarks for assessing the environmental and social risks and impacts of investments. Unlike GRI50, which guides reporting practices, IFC PS provides guidelines for identifying, categorizing and mitigating material risks from the due diligence stage to the post-investment monitoring stage.

Asset managers may also choose to develop their own methodology to categorize companies, by establishing separate criteria by sector or by creating rating tools[51], based on sustainability good practices and frameworks, among other approaches.

Identifying actual and potential impacts is key to prioritizing actions, as highlighted in the OECD's52 Guidelines. Document analysis — including reviews of Environmental and Social Impact Assessments (ESIAs)53, auditors' reports and compliance documents — is an essential component of this process. In addition, stakeholders are asked about their concerns and to provide feedback on sustainability initiatives, ensuring that the surrounding community, as well as other impacted parties, are heard (stakeholder engagement).

The practice of monetizing sustainability impacts for the target company when the due diligence is carried out is also growing, i.e. incorporate into the financial analysis how sustainability-related issues impact the potential deal. This is essential for mapping the main sustainability value creation criteria applied to the company (and how to leverage them), as well as for understanding the negative aspects and seek contract protection.

Key documents used for managing the application of sustainability principles to investments

Document	Purpose	Practical application
ESMS (Environmental & Social Management System)	Perform continuous management to set policies, roles, responsibilities and processes to integrate ESG factors into the investment cycle.	Used for standardizing screening, due diligence, monitoring and reporting procedures.
ESIA (Environmental & Social Impact Assessment)	Assess the environmental and social impacts of large projects or assets, and implement mitigation and offset measures.	Applied to high-risk projects (Infrastructure, Energy, Mining).
ESDD (Environmental & Social Due Diligence)	Conduct an investigation to identify risks, compliance gaps and ESG opportunities.	Carried out in any investee (including SMEs/start-ups).
ESAP (Environmental & Social Action Plan)	Establish corrective measures to align the company with the fund's standards. The action plan includes deadlines, people in charge and indicators.	Prepared after the ESDD and added to the deal contracts.

Source: prepared by the authors.

[50] GLOBAL REPORTING INITIATIVE (GRI). *GRI Standards*. Available at: https://www.globalreporting.org/standards/. Accessed on: May 14, 2026.

[51] Industry criteria may become evident both through exclusions and through specific constraints designed to minimize risks and maximize opportunities. For example:

- ROBECO. *Sustainability Integration: approach and guidelines. 2025*. Available at: https://www.robeco.com/files/docm/docu-robeco-sustainability-policy.pdf. Accessed on: May 14, 2026.
- NORDEA. *Nordea Sector Guideline for the Real Estate Industry. 2019*. Available at: https://www.nordea.com/en/doc/nordea-sector-guideline-for-the-real-estate-industry.pdf. Accessed on: May 14, 2026.
- NORDEA. *Nordea Sector Guideline for the Forestry Industry. 2024*. Available at: https://www.nordea.com/en/doc/nordea-sector-guideline-for-the-forestry-industry.pdf. Accessed on: May 14, 2026.
- SCHRODERS. *Schroders Group Sustainable Investment Policy. 2025*. Available at: https://mybrand.schroders.com/m/6197143c263420f5/original/Schroders-Group-Sustainable-Investment-Policy.pdf. Accessed on: May 14, 2026.

[52] ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD). *Guia da OCDE de devida diligência para uma conduta empresarial responsável (OECD Due Diligence Guidance for Responsible Business Conduct). 2018*. Available at: https://www.oecd.org/pt/publications/2018/02/oecd-due-diligence-guidance-for-responsible-business-conduct_c669bd57.html#related-publications. Accessed on: May 14, 2026.

[53] BRITISH INTERNATIONAL INVESTMENT (BII). *Specialist E&S assessments*. Available at: https://toolkit.bii.co.uk/investment-cycle/cdc-guidance/es-assessments/. Accessed on: May 14, 2026.

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The significance of an impact is understood as a function of its severity. Severity of impacts will be judged by their scale, scope and irremediable character, according to the OECD guide. The likelihood of the impact is also measured to prioritize actions.

BII[54] provides specific protocols for the following industries to ensure that critical issues are addressed:



- Agriculture and aquaculture
- Education
- Fishing
- Food and Beverages
- Design and implementation of engineering and building projects
- Forestry and plantations
- Hospitality
- Healthcare
- Infrastructure
- Manufacturing
- Mining
- Oil and gas
- Pharmaceuticals
- Energy
- Retail
- Telecommunications

The purpose of sustainability scoring methodologies is to translate social and environmental risks and opportunities into scores or ratings that can be compared between different industries, company stages and geographical locations. In the private equity and venture capital industries, this process is especially relevant to support investees that still lack structured data. Scoring is used as a standardization tool, allowing the asset manager to evaluate the “starting point” of each company, set engagement priorities and formulate action plans for improvement.

BII[54] provides specific protocols. One of the most common approaches is the use of materiality matrices, which correlate the relevance of sustainability issues for the industry (e.g., water consumption in the food and beverages industry, cybersecurity in the technology industry, health and safety in the construction industry) with the level of exposure and ability to manage the company. From there, a score is assigned to each criterion. Some asset managers use custom-made internal sustainability scoring methodologies, while others adapt tools described in international standards.

[54] BRITISH INTERNATIONAL INVESTMENT (BII). *Sector Profiles*. Available at: https://toolkit.bii.co.uk/sector-profiles/. Accessed on: May 14, 2026.

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After this assessment, it is necessary to formulate a goal-oriented sustainability action plan. Priorities are set based on the materiality of the assessed risks, and responsibilities and resources are clearly allocated to implement planned actions.

Throughout the investment cycle, the monitoring of and communication with investees are of key importance to support and check the implementation of the agreed action plan. The strategies described in this guide, as highlighted in the GRI Standards, include preparing periodic reports for the shareholders, board of directors and top management of the investee, as well as for the fund's investors, and continuously evaluating the KPIs related to sustainability initiatives.

To help with the sustainability due diligence, an example questionnaire was drawn up in Appendix 1 based on the PRI[55], [56] Models. Each asset manager can make adjustments in the sustainability due diligence according to its investment philosophy, industry focus and specific portfolio characteristics, ensuring greater compliance with strategic priorities and regulations in different scenarios.



[55] PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI). *Responsible investment DDQ for venture capital limited partners. 2022*. Available at: https://www.unpri.org/private-equity/responsible-investment-ddq-for-venture-capital-limited-partners/10635.article. Accessed on: May 14, 2026.

[56] PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI). *Responsible investment DDQ for private equity limited partners. 2021*. Available at: https://www.unpri.org/private-equity/responsible-investment-ddq-for-private-equity-limited-partners/8730.article. Accessed on: May 14, 2026.

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8. Decision-making process

The integration of sustainability factors into decision-making should follow a structured and documented approach, ensuring that the IC has all relevant information gathered over the course of the due diligence. To that end, it is recommended that an sustainability summary, prepared in a clear and objective manner and, if necessary, additional supporting and/or reference documents be included in the investment memorandum.

The sustainability summary presented to the investment committee should include:

- The risk assessed by applying the Environmental & Social (E&S) and governance and business integrity (G&BI) criteria, supported by a rationale.
- A description of the sustainability due diligence process.
- Due diligence conclusions, highlighting material risks and gaps in relation to relevant standards.
- The value creation opportunities found by applying sustainability criteria to investment decisions.
- Estimates of the costs and time required to address gaps and explore opportunities, aligned with the future investee's complete investment plan.

The inclusion of sustainability clauses in the Investment Agreement (or other contract documents) is a key step to ensure that the investee complies with the standards of conduct agreed with the investment fund. In general, the Investment Agreement should include the following:

- Specific representations and guarantees about the company's sustainability practices, based on the gaps found during the due diligence process.
- The incorporation of an sustainability action plan, requiring the investee to implement the planned actions within the established deadlines.

In addition, the contract should contain clauses that allow the investment to be managed, including recurring information, mandatory auditing and monitoring of social and environmental aspects and goal setting for the implementation of the action plan. Some examples of contractual clauses are described below:

- Right to information: obligation by the company to provide regular reports on sustainability performance (on a quarterly, semiannual or annual basis), in the format previously agreed by the parties, and to give immediate notification to stakeholders in the event of serious or fatal incidents.
- Inspection rights: access to the company, its facilities, as well as corporate records and documents, to verify compliance with sustainability obligations.
- Seats on the board of directors or executive committees: the investor can demand the inclusion of the sustainability topic in the agenda of the Board of Directors' meetings and/or the creation of a specific sustainability committee within the company to monitor the implementation of the action plan, ensuring the engagement of internal stakeholders in corporate governance, strategic planning and the dissemination of corporate culture as a whole.

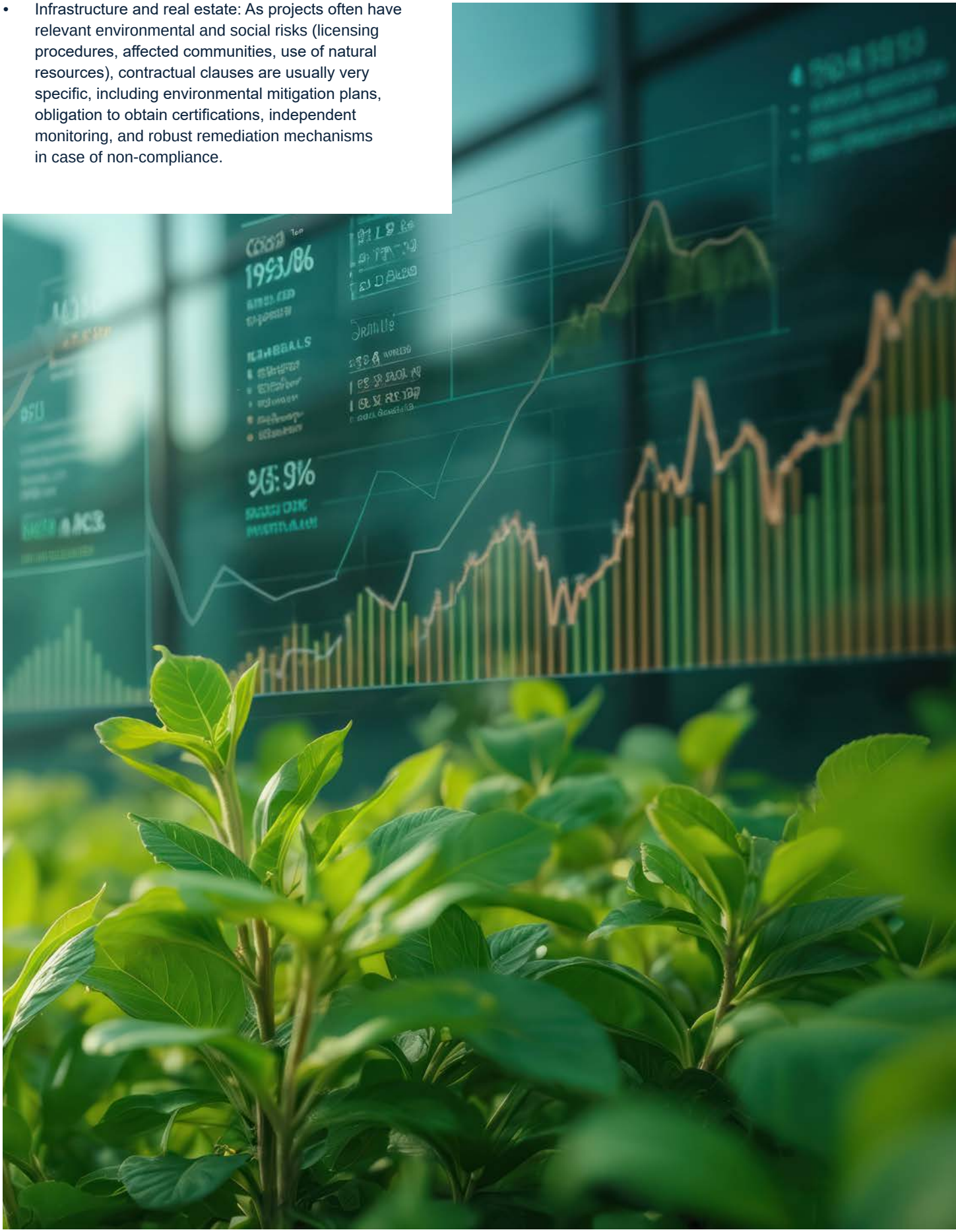
In the event of non-compliance with contractual obligations, the agreement should establish clear and specific legal protection mechanisms and remedies. Although legal instruments are not considered to ensure the fulfillment of the established obligations, contractual clauses allow goals to be set, procedures to be implemented and, if applicable, corrective actions to be adopted, which helps to mitigate risks and increases the effective application of those corrective actions.

Sustainability clauses in investment agreements can vary greatly depending on the type of asset the fund invests in. International guides, such as those of the BII, ILPA, and PRI, highlight that there is no single wording, but rather the need to fine-tune the range of obligations according to the type of asset and the way the investor operates. Some examples among different asset classes are:

- Private equity: clauses are usually more detailed and include Environmental and Social Action Plans and right of veto on certain practices (for example, non-traceable suppliers), in addition to the creation of sustainability Committees with the active participation of the investor.
- Venture capital: clauses tend to focus more on rights to information, periodic reporting and incident notifications, as well as phase-out obligations to implement SUSTAINABILITY policies as the company matures.
- Private credit: sustainability clauses can consist of financial and non-financial clauses linked to payment conditions or, in case of non-compliance, the possibility of early maturity of the debt. For example, pré-pagamento da dívida. interest rate is reduced if sustainability goals (sustainability-linked loans) are met or a default event can be triggered in the case of serious violations of environmental or labor standards that may lead to the earlier maturity of the debt.

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- Infrastructure and real estate: As projects often have relevant environmental and social risks (licensing procedures, affected communities, use of natural resources), contractual clauses are usually very specific, including environmental mitigation plans, obligation to obtain certifications, independent monitoring, and robust remediation mechanisms in case of non-compliance.



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9. Investees

Monitoring and implementing sustainability practices in investees is one of the foundations of responsible investing, and is essential for creating sustainable value throughout the investment cycle. These guidelines should be implemented according to the size, the sector and the materiality of each company, taking into consideration that startups require more pragmatic approaches, while mature or pre-IPO[57] companies need to comply with international reporting standards and certification requirements. According to PRI, an effective sustainability integration depends on metrics adapted to the reality of each investee, and on the continuous interaction between the asset manager's team, shareholders and the executive body of the company.

For early-stage companies, the focus should be on formulating basic governance, compliance and ethics policies, identifying material risks and establishing appropriate diversity and transparency practices. Tools such as sustainability due diligence checklists, code of conduct templates and guidelines for creating whistleblowing hotlines are examples of instruments that allow initial monitoring without overloading operations. The objective is to foster a culture of accountability, preparing the company to meet future demands according to its growth and maturity levels. This approach becomes increasingly more sophisticated and comprehensive throughout the business growth cycle, from early-stage to late-stage, and then to small, medium, and large-sized companies.

In more mature companies, implementing sustainability practices requires procedures implemented according to the best market practices. The preparation of periodical sustainability reports aligned with international standards (such as GRI and SASB), the accreditation with well-known industry certification bodies, the definition of measurable KPIs and the creation of internal sustainability or sustainability committees are some examples of recommended procedures. Programs to foster engagement with stakeholders, including suppliers, clients and the local community, allow the company to be continuously evolving and mitigate reputational and regulatory risks. In addition, it is important to prepare investees to meet, when applicable and as required by CVM, IFRS S1 and S2 standards, including the disclosure of climate and sustainability information relevant to companies registered with the CVM.

Ongoing monitoring should be part of sustainability action plans (ESAPs), and consists of assigning responsibilities, setting indicators, including deadlines and performance goals that can be adjusted as the business and the regulatory environment evolve.

The strategy should be customized by industry, considering environmental risks (such as carbon emissions by heavy industries), social risks (such as labor practices in services and manufacturing) and governance risks (such as the composition of boards of directors and compliance policies in financial institutions and technology companies).



[57] More information on Initial Public Offering (IPO) and its requirements can be found at: https://b3.com.br/data/files/8E/A3/51/ BB/06AD2810AA8B5C28AC094EA8/B3%20-%20Guia%20do%20IPO.pdf. Accessed on: May 14, 2026.

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Implementing sustainability practices in investees

Company's size	Sustainability pillar	Recommended indicators
Small-sized Early/late-stage	Environmental	Initial emissions estimate (Simplified GHG Protocol); Preliminary Energy Efficiency Plan.
	Social	Labor risks and diversity; climate surveys; Gender/race diversity metrics.
	Governance	Basic compliance and ethics policies; risk matrix; governance checklist.
Medium-sized	Environmental	Emissions inventory (Scopes 1 and 2); ISO 14001 certifications; waste reduction goals.
	Social	Human rights and occupational health policies; Incident rate; diversity and inclusion training courses.
	Governance	Formal compliance and audit framework; risk committee; anti-corruption policies aligned with the OECD.
Grande	Environmental	Tracking of production chains; independent audit of suppliers; reports aligned with the Taskforce on Nature-related Financial Disclosures (TNFD)[58]: governance, strategy, risk management and metrics.
	Environmental - Climate	TCFD[59],[60]-compliant reports; governance, strategy, risk management and metrics.
	Social	Consultation with stakeholders; social impact reports; local development indicators (employment, income).
	Governance	Annual reports in accordance with IFRS S1 and S2; sustainability KPIs linked to variable compensation; sustainability committee linked to the board of directors.

Source: prepared by the authors.

Finally, the actual implementation of sustainability practices in investees depends on a close interaction with the asset manager, ensuring that the fund's policies, LPs' expectations and the company's operational practices are aligned. The integration between KPI monitoring, periodic audits, and regular reports builds a cycle of gradual improvements, allowing investments to generate financial and social and environmental value, reinforcing the resilience and sustainability of the portfolio.

9.1 Selected topics in climate and nature governance

Investees should implement clear-cut climate change governance processes, in line with international best practices, such as the recommendations of the TCFD. This requires establishing a disclosure process grounded in four pillars: (i) governance, describing the role of the board of directors and senior management in monitoring the issue; (ii) strategy, presenting how climate change risks and opportunities affect the business model

[58] TASK FORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD). *Recomendações da Força-Tarefa para Divulgações Financeiras Relacionadas à Natureza (Recommendations of the Task Force on Nature-Related Financial Disclosures)*. Sept. 2023. Available at: https://tnfd.global/wp-content/uploads/2024/06/Recomendacoes-da-Forca-Tarefa-para-Divulgacoes-Financeiras-Relacionadas-a-Natureza.pdf?v=1718113716. Accessed on: May 14, 2026.

[59] TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD). *Recommendations of the Task Force on Climate-related Financial Disclosures. 2017*. Available at: https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf. Accessed on: May 14, 2026.

[60] TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD). *Recommendations of the Task Force on Climate-related Financial Disclosures*. Available at: https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf. Accessed on: May 14, 2026.

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and growth plans; (iii) risk management, detailing methodologies for identifying, evaluating and mitigating these risks; and (iv) metrics and targets, showing the indicators used (such as GHG emissions, carbon intensity, energy efficiency) and reduction or adaptation targets.

In July 2023, the Financial Stability Board (FSB) announced that the work of the Taskforce on Climate-related Financial Disclosures (TCFD) had been completed, and that its conclusions would inform the preparation of the ISSB standards[61],[62],[63]. IFRS S2 requirements are consistent with TCFD recommendations and include additional requirements such as the disclosure of industry-based metrics and the use of carbon credits[64]. Integrating TCFD recommendations into ISSB standards streamlines disclosure initiatives for companies and investors.

Similarly, the recommendations from the Taskforce on Nature-related Financial Disclosures (TNFD[65]) provide companies and financial institutions with a framework for identifying, assessing, managing and disclosing nature-related issues, including 14 recommended disclosures about nature-related dependencies, impacts, risks and opportunities. Designed to be consistent with TCFD and ISSB, facilitating integrated reporting on climate and nature. These recommendations replicate the four disclosure pillars and TCFD's 11 recommended disclosures, according to ISSB standards. The recommendations cover different global materiality approaches to meet the material information needs of investors.

To that end, recommended indicators and additional guidelines have been developed on how to start using TNFD, on identifying and assessing nature-related issues, on evaluating specific industries and scenarios, and on involving indigenous peoples and local communities. TNFD proposes a lead indicator approach, using the available scientific and cross-reference parameters already used by organizations such as SASB, GRI, CDP and EFRAG, providing a flexible basis for comparative analysis by report users.

In 2025, the IFRS Foundation and the Taskforce on Nature-related Financial Disclosures (TNFD) signed a Memorandum of Understanding to work together to integrate TNFD's recommendations into ISSB[66]'s work, and therefore to improve nature-related financial disclosures in global capital markets. ISSB will use these recommendations in its research project on biodiversity and ecosystem services. Moreover, ISSB mentioned in its 2024-2026 plan that it intends to start studying human capital[67] risks and opportunities.



[61] FINANCIAL STABILITY BOARD (FSB). *FSB Plenary meets in Frankfurt. 2023*. Available at: https://www.fsb.org/2023/07/fsb-plenary-meets-in-frankfurt/. Accessed on: May 14, 2026.

[62] IFRS FOUNDATION. *ISSB and TCFD*. Available at: https://www.ifrs.org/sustainability/tcfd/. Accessed on: May 14, 2026.

[63] IFRS FOUNDATION. IFRS *Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024*. Available at: https://www.ifrs.org/news-and-events/news/2023/07/foundation-welcomes-tcfd-responsibilities-from-2024/. Accessed on: May 14, 2026.

[64] IFRS FOUNDATION. *Comparison IFRS S2 Climate-related Disclosures with the TCFD recommendations. 2024*. Available at: https://www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-s2/ifrs-s2-comparison-tcfd.pdf. Accessed on: May 14, 2026.

[65] TASKFORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD). *Como começar a adoção das recomendações da TNFD (How to start adopting TNFD's recommendations)*. 2023. Available at: https://tnfd.global/wp-content/uploads/2023/09/Getting-Started-Portuguese.pdf?v=1725286208. Accessed on: May 14, 2026.

[66] IFRS FOUNDATION. IFRS Foundation and TNFD *formalise collaboration to provide capital markets with high-quality nature-related information. 2024*. Available at: https://www.ifrs.org/news-and-events/news/2025/04/ifrs-foundation-tnfd-formalise-collaboration/. Accessed on: May 14, 2026.

[67] IFRS FOUNDATION. *Human Capital. 2025*. Available at: https://www.ifrs.org/projects/work-plan/human-capital/. Accessed on: May 14, 2026.

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10. Key Performance Indicators (KPIs) and Value Creation

Monitoring sustainability KPIs consists of linking the asset manager's strategic commitment to the creation of sustainable value in the portfolio. This stage aims to ensure that sustainability risks and impacts are effectively reported and managed, while identifying opportunities for creating financial and reputational value for the investee and for the fund. Implementing the sustainability action plan in a timely manner after the investment is essential, as it allows stakeholders to continuously assess risks and impacts, ensures compliance with agreed-upon standards and prepares the company to meet future requirements, such as industry certification and international reporting standards.

The table below shows examples of sustainability KPIs that can be implemented and tracked as part of the social and environmental management and governance strategy. These indicators are illustrative and each company should define a specific set of metrics according to its industry, size and the materiality of the reported risks and opportunities.

Sustainability KPIs

Pilar	Exemplos de KPIs positivos	Exemplos de KPIs negativos
Environmental	• % of renewable energy consumed. • Water consumption per production unit. • Recycling and responsible disposal rate.	• Greenhouse Gas (GHG) Intensity (tCO_2e/ revenue or production). • Frequency of environmental incidents • (leaks, contamination).
Social	• % of women/diverse leaders in managerial positions. • Social investment (% of revenue).	• Lost Time Injury Frequency Rate (LTIFR). • Number of suppliers involved in violations of human or environmental rights. • Voluntary turnover rate.
Governance	• % of independent board members. • % of resolution of whistle-blowing cases. • Frequency of SUSTAINABILITY reports. • % of variable compensation linked to sustainability KPIs.	• Number of whistle-blowing reports about non-compliance (corruption, fraud). • Tax liabilities or history of assessments of tax deficiency (over the past 3 or 5 years)

Source: prepared by the authors.

A successful completion of this stage depends on the asset manager and the investee establishing an open partnership. sustainability discussions should be initiated before the capital contribution is made in order to align expectations, formulate action plans and establish formal governance mechanisms to monitor sustainability issues. Market practices suggest regular meetings with senior management and/or the board of directors, site visits and frequent sustainability reports, which can be supplemented by advice from external consultants to ensure independence

Effective monitoring should include systematically documenting major incidents, continuously updating stakeholders on relevant new developments, and verifying compliance with applicable laws and regulations. Managers need to be prepared to respond quickly to unforeseen events, such as occupational accidents, environmental disasters, negative findings from regulatory inspections, or even significant changes in the company's shareholding structure and management, including the resignation/dismissal of key sustainability professionals. Responsiveness to these situations not only mitigates

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risks, but also strengthens trust among stakeholders and investors.

Throughout the investment cycle, monitoring should be value-oriented. This means recording evidence of how sustainability improvements have helped to boost operating performance, reduce risks, increase brand value, and increase attractiveness for future investors, strategic buyers or stock exchange listing.

The asset manager's engagement[68] is a key leverage point for managing the investment portfolio. It provides evidence of the tangible gains on the company's value, due to the influence of the fund, the systematic monitoring of sustainability performance, the effective management of unforeseen events and the maintenance of strong relationships with stakeholders. The monitoring stage requires comprehensive documentation on compliance and performance, including regular reporting, audit trail records, and evidence that the action plan has been implemented, which supports the fund's position with investors and prepares the investee for a successful divestment in the future.

The table below shows some examples of value creation according to PRI[69]:

Portfolio value creation

Reduction in costs and liabilities	Increase in revenue
• Reduce potential liabilities, such as those resulting from environmental pollution. • Use resources (e.g. energy and water) more efficiently. • Avoid an increase in capital or operating expenses by proactively identifying harmful environmental or social conditions. • Increase the company's resilience to avoid disruptions to operations. • Ensure access to capital.	• Identify new sustainable product lines. • Attract and retain top talent through strong corporate values. • Win new customers as a result of a better brand image. • Increase the company's competitiveness from brand positioning. • Increase workforce engagement and, consequently, productivity.

Source: BUCKLEY, Natasha, GOODMAN, Jake. Private Equity. Available at: <https://public.unpri.org/download?ac=10226>. Accessed on: May 15. 2026.

In addition to value creation, data verification and auditability are key points to ensure the credibility of the information reported to investors, particularly institutional investors. Simply collecting and disclosing metrics is not enough: it is necessary to ensure that data is consistent, and that It can be traced and subject to independent review. This requires the adoption of robust data governance systems, standardized reporting procedures, and ideally, the engagement of external auditors or third-party checkers, in line with internationally recognized methodologies. Validation by external auditors strengthens stakeholders' trust, reduces the risks of greenwashing[70] and ensures that improvements in sustainability performance can be shown in a transparent, comparable and reliable manner throughout the investment cycle.

[68] "According to the PRI Glossary, engagement can be defined as "Interactions and dialogue conducted between an investor, or their service provider and a current or potential investee (e.g. company), or a non-issuer stakeholder (e.g. an external investment manager or policy maker) to: improving risk-adjusted returns and/or improving practice on an sustainability and governance related-issues and/or making progress on sustainability outcomes and/or improve public disclosure In private markets, engagement also refers to investors' dialogue with management teams and/or Board of portfolio companies and/or real assets."

[69] PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI). *Guide for limited partners: responsible investment in private equity. 2020*. Available at: https://www.unpri.org/private-equity/guide-for-limited-partners-responsible-investment-in-private-equity/5657.article. Accessed on: May 14, 2026.

[70] *"The Corporate Finance Institute defines greenwashing as „Making false, misleading, unsubstantiated, or otherwise incomplete claims about the sustainability of a product, service, or business operation".* Source: CORPORATE FINANCE INSTITUTE (CFI). Greenwashing. 2022. Available at: https://corporatefinanceinstitute.com/resources/SUSTAINABILITY/Greenwashing/. Accessed on: May 14, 2026.

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11. Market opportunities and innovation

Brazil offers a wide range of investment opportunities aligned with sustainability criteria, driven by the growing scope of the regulatory framework, the demand for climate solutions, and the availability of finance instruments that encourage sustainable projects. Identifying and seizing these opportunities requires asset managers to build cases for investment, develop internal capacity and show that the funds under their management have a proven track record of performance.

Energy transition is one of the key drivers: investments in renewable sources, storage (batteries), smart grids, energy efficiency, biofuels and green hydrogen. The attractiveness of these investments lies not only on their potential for economic return, but also on their alignment with regulatory commitments and global decarbonization goals, in addition to the high corporate demand for clean energy supply. In particular, development banks and public programs have increased their investments in green assets, along with other sources of private capital and blended finance, which allows outlays for large-scale projects and encourages the decarbonization of production chains.

In addition, regulated and voluntary carbon emission markets emerge as another investment option: the creation of the Brazilian Emissions Trading System (SBCE) and the development of the carbon emission market generate opportunities for mitigation projects (reforestation, bioenergy), verification platforms and carbon offtake agreements (Guaranteed Minimum Purchases) and carbon credit trading.

Agtech companies and nature-based solutions are another key driver. Startups and companies that develop tracking technologies, regenerative agriculture, bioinputs, and low-carbon agricultural practices are gaining ground in the face of the growing need for global food chains to be socially and environmentally compliant. In such a scenario, public policies such as the ABC+ Plan (Low-Carbon Agriculture) and initiatives to strengthen the Forest Code provide a regulatory framework and financial incentives to increase access to sustainable practices in the agroindustry sector.

Climate techs, in turn, include e-mobility, energy efficiency and carbon capture startups. Innovation is also part of investments in circular economy and waste-to-value schemes (recovery of waste to be used as manufacturing inputs, advanced recycling, returnable packaging and bioprocesses) that have a double impact: they reduce environmental liabilities and cause the creation of more resilient and profitable supply chains. Public policies and finance programs focused on reverse logistics and bioeconomy can be important levers for scaling up projects.

The Brazil Climate and Ecological Transformation Investment Platform - BIP[71] is an example of this type of sustainability initiative. It was developed by the Brazilian government to increase sustainable investments in key sectors and subsectors that are key for the economy, it particularly supports:

- Agricultural bioinputs and green fertilizer.
- Regenerative agriculture.
- Native vegetation restoration.
- Low-carbon steel/aluminum.
- Low-carbon cement.
- Strategic minerals.
- Low-carbon hydrogen.
- Sustainable fuels.

Historically, technological evolution plays a key role in economic reshuffling both at the domestic and international levels. Artificial intelligence is also expected to accelerate these changes in a structural and disruptive manner for business models, significantly impacting society and the allocation of capital. New cases for investment emerge as others, hitherto successful, may be outdated or be put aside by investors after a shift in the risk-return balance. In such a scenario, the tools and methodologies for analyzing and evaluating assets, projects and companies in accordance with good sustainability practices and due diligence processes play an important role, helping investors, managers and investees to mitigate risks, on the one hand, and identify business opportunities and market trends, on the other hand. This approach is particularly relevant in the case of illiquid assets with a long investment cycle.

[71] BRAZIL. Ministry of Finance. *Plataforma Brasil de Investimentos Climáticos e para a Transformação Ecológica (BIP) (Brazil Climate and Ecological Transformation Investment Platform (BIP))*. BIP. Available at: https://www.gov.br/fazenda/pt-br/access-to-information/actions-and-programs/transformation-ecologica/bip. Accessed on: May 14 2026.

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12. Final considerations

The evolution of responsible investing in Brazil and worldwide shows that the integration of environmental, social and governance criteria is an essential practice for alternative investment funds. A successful implementation of sustainability practices depends on a combination of robust governance, structured due diligence procedures, transparent communication and the ability to engage with investors, investees and other stakeholders.

Among the success factors, the following stand out:

1. Governance in the asset manager: well-formulated sustainability policies, integrated with the ESMS, approved by senior management and monitored by dedicated committees, make the fund's operations consistent and credible. Linking sustainability KPIs to variable compensation and adopting corporate integrity systems reinforces decision-making and accountability.

2. Sustainability integration into investees: Implementing sustainability criteria gradually and in line with the size and stage of the entity allows startups and companies of different sizes to develop sustainable practices without compromising their operations and to become more resilient in the long term.

3. Due diligence and continuous monitoring: a detailed assessment of sustainability risks and opportunities, together with the monitoring of KPIs and the implementation of action plans (ESAP),create financial value and social and environmental benefits, reducing regulatory and reputational risks.

4. Investor Relations (LPs): aligning sustainability policies and best practices with investor expectations is critical for accessing capital. Clear, regular and auditable communication reinforces trust and allows the company to show the impact caused and the value created by sustainability initiatives.

5. Market opportunities: Cases for investment such as renewable energy, agtech companies, circular economy schemes and carbon markets, among others, are guided by sustainability requirements and allow the build-up of critical mass for companies to raise capital by offering attractive returns against risk.

Relevant trends for the Brazilian market in the coming years consist of:

- Improving sustainability practices: the dissemination of best practices, the comparability between applicable requirements and the quality of the reports and public announcements required by investors should boost the implementation of environmental, social and governance criteria in alternative investment funds.
- Standardizing and auditing: sustainability practices information will be increasingly required to have a certain level of quality and to be traceable and auditable, reinforcing investor trust and reducing greenwashing risks.
- Integrating technology: Artificial intelligence, blockchain, and automated reporting will transform the collection, analysis, and transparency of sustainability data, allowing more agile and informed decisions to be made.
- Increasing the scope of the cases for investment: regulatory incentives, corporate demands, and market trends will have an impact on investment strategies, creating opportunities and potential markets, such as thematic funds with a higher degree of specialization or impact funds with positive social and environmental intentionality and exclusion filters.
- Increasing regulatory requirements: convergence with international standards, such as ISSB, EU Taxonomy and global reporting methodologies, will require asset managers to maintain consistent and documented sustainability practices that serve the needs of multiple jurisdictions.



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Acronyms and abbreviations

- **ANBIMA –** Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais (Brazilian Association of Financial and Capital Market Entities)
- **B3 –** Brasil, Bolsa, Balcão (Brazil's official stock exchange)
- **BACEN –** Banco Central do Brasil (Central Bank of Brazil)
- **BII –** British International Investment
- **CBAM –** Carbon Border Adjustment Mechanism
- **CDP –** Carbon Disclosure Project
- **CFA Institute –** Chartered Financial Analyst Institute
- **CMN –** National Monetary Council
- **CVM –** Brazilian Securities and Exchange Commission
- **DNSH –** Do No significant harm
- **EFRAG –** European Financial Reporting Advisory Group
- **E&S –** Environmental and Social
- **ESAP –** Environmental and Social Action Plan
- **ESDD –** Environmental & Social Due Diligence
- **ESIA –** Environmental & Social Impact Assessment
- **ESMS –** Environmental & Social Management System
- **EU –** European Union
- **EU ETS –** EU Emissions Trading System
- **FI –** Financial Intermediaries
- **FSB –** Financial Stability Board
- **GHG –** Greenhouse Gas
- **GIIN –** Global Impact Investing Network
- **G&BI –** Governance & Business Integrity
- **GPs –** General Partners
- **GRI –** Global Reporting Initiative
- **GRSAC –** Relatório de Riscos e Oportunidades Sociais, Ambientais e Climáticas (Social, Environmental and Climate Risks and Opportunities Report)
- **IC –** Investment Committee
- **IFC –** International Finance Corporation
- **IFRS S1 and S2 –** International Financial Reporting Standards S1 and S2
- **ILPA –** Institutional Limited Partners Association
- **IPO –** Initial Public Offering
- **IRIS+ –** System of metrics for measuring and managing social and environmental impacts designed by the Global Impact Investing Network (GIIN)
- **IS –** Investimento Social ou Sustentável (Social or Sustainable Investment)
- **ISSB –** International Sustainability Standards Board
- **KPI / KPIs –** Key Performance Indicator(s)
- **LAB –** Financial Innovation Laboratory
- **LP/LPs –** Limited Partner(s)
- LTIFR – Lost Time Injury Frequency Rate
- **MRV** – Monitoring, Reporting and Verification
- **OECD –** Organisation for Economic Co-operation and Development
- **SDGs –** Sustainable Development Goals (SDGs)
- **PE –** Private Equity
- **PRI –** Principles for Responsible Investment
- **PRSAC –** Política de Responsabilidade Social, Ambiental e Climática (Social, Environmental and Climate Responsibility Policy)
- **SASB –** Sustainability Accounting Standards Board
- **SBCE –** Sistema Brasileiro de Comércio de Emissões (Brazilian Emissions Trading System)
- **SFDR –** Sustainable Finance Disclosure Regulation
- **TCFD –** Taskforce on Climate-related Financial Disclosures
- **TNFD –** Taskforce on Nature-related Financial Disclosures
- **TSB –** Taxonomia Sustentável Brasileira (Brazilian Sustainable Taxonomy)
- **VC –** Venture capital

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Appendix 1

Illustrative due diligence questionnaire

1. Policy and governance

1.1. Does the company have a formal sustainability policy approved by senior management? If it does, attach the document.

1.2. Who is in charge of sustainability supervision (for example, the board, senior management, sustainability committee, designated executive)?

1.3. Does the company have incentive mechanisms in place, such as variable compensation linked to sustainability KPIs?

1.4. Does the company adopt codes of conduct, and anti-corruption or integrity policies?

1.5. Are there forthright prohibitions (activities which the company does not perform or industries in which the company does not operate under sustainability criteria)?

2. Funding

2.1. Has the company raised equity or debt capital linked to sustainability commitments (for example, green bonds, sustainability-linked loans)?

2.2. Have sustainability formal commitments been made to investors or lenders? If so, please describe them.

2.3. Do fundraising efforts comprise pitching contractual clauses or conditions linked to sustainability performance?

3. Pre-investment

3.1. Does the company assess sustainability risks and opportunities before new projects, contracts or acquisitions?

3.2. Does the company apply a list of exclusions or screening criteria to new investments or transactions?

3.3. Are environmental, social and governance due diligence assessments conducted on suppliers, partners or critical projects?

3.4. What material sustainability risks have been identified prior to the current investment?

4. Post-investment

4.1. After the investment, did the company implement the sustainability action plans requested by investors or creditors?

4.2. Are there sustainability KPIs regularly monitored? If so, list them.

4.3. How does the company handle sustainability incidents? Are formal reporting and response procedures in place?

4.4. Are periodic sustainability training courses offered for employees and leaders?

4.5. Is an effective, independent and accessible whistleblowing hotline in place for employees and external stakeholders?

5. Disclosure reports

5.1. Does the company publish sustainability reports or information? If so, what standards does it adopt (e.g., GRI, SASB, ISSB, TCFD)?

5.2. Does the company send periodical sustainability reports to its investors/shareholders? Indicate the frequency and scope.

5.3. Is the sustainability information disclosed by the company checked by an audit team or by independent third parties?

6. Additional info

6.1. Does the company identify business opportunities directly linked to sustainability (e.g. new green products, energy efficiency, carbon emission markets)?

6.2. What are the main short-term and long-term sustainability goals?

6.3. Are there any public commitments made (e.g., Net Zero[72], UN Global Compact, diversity goals)?

6.4. Provide any additional documents, policies, records, or reports that may support the sustainability analysis.

[72] *"Net zero emissions are achieved when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period. Where multiple greenhouse gases are involved, the quantification of net zero emissions depends on the climate metric chosen to compare emissions of different gases (such as global warming potential, global temperature change potential, and others, as well as the chosen time horizon)":* INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE (IPCC). Annex I: Glossary. In: MASSON-DELMOTTE, V. et al. (eds.). Global Warming of 1.5°C: an IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty. Cambridge; New York: Cambridge University Press, 2018. p. 541-562. DOI: 10.1017/9781009157940.008. Accessed on: May 14, 2026.

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Guided by its purpose of empowering change, KPMG is a reference company in the segments in which it operates. We have shared value and inspired trust in the capital market institutions and in communities for over 110 years, transforming people and companies, while generating positive impacts that contribute to the realization of sustainable changes in our clients, governments, and civil society.

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About ABVCAP

The Brazilian Private Equity and Venture Capital Association (Associação Brasileira de Private Equity e Venture Capital - ABVCAP) is a non-profit organization founded in 2000 dedicated to expanding and improving the various fronts of long-term investment in Brazil. With more than 230 members, it represents national and international entities that operate in the Brazilian alternative asset industry, including the private equity, venture and seed capital, private credit, infrastructure, real estate, natural resources and special situations segments, among others.

As an entity that represents the private capital industry, ABVCAP defends the interests of industry members alongside public and private institutions, both national and foreign, in pursuit of public policies that are increasingly favorable to fostering these investments in Brazil — for the benefit of members and the real economy as a whole. ABVCAP's mission also includes strategic integration with Brazilian capital markets.

ABVCAP's work aims to provide an environment conducive to debate and strengthen relationships between all stakeholders in its community, and to disseminate good investment practices and international benchmarks.

Training programs, the development of studies and research on the industry, the dissemination of reliable data, the promotion of good practices among members of the community it represents and in invested companies – as well as interaction with similar or related entities, both national and international, are part of our daily activities, in favor of a healthy development of relationships between markets and the dissemination of the culture of long-term investment. Learn more at abvcap.com.br.

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Contact us

KPMG

Claudio Graeff

Capital Advisory Partner at KPMG in Brazil
claudiograeff@kpmg.com.br

Lincoln Camarini

Capital Advisory Senior Manager at KPMG in Brazil
lsegundo@kpmg.com.br

ABVCAP

Adriana Fernandes

Superintendent
afernandes@abvcap.com.br

Marcio Sabalo Barea

Information and Research
mbarea@abvcap.com.br

Communication
comunicacao@abvcap.com.br

Contact
abvcap@abvcap.com.br

kpmg.com.br

/kpmgbrasil

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