

Impact Investing



IG4 CAPITAL

IG4 Capital is an
alternative investments firm
focused on special opportunities
and sustainable capitalism.



IG4 CAPITAL

Its unique approach towards private equity and private credit investment opportunities is based on promoting positive change in the fundamentals and operations of companies and assets. Through the engagement with the broader financial markets, we strive to turnaround businesses, innovate and promote a more sustainable form of capitalism.

Index

1

“Making sense of ESG in emerging markets private equity”

04

2

“The Green New Deal”

06

3

“The Opportunity in Emerging Markets”

07

4

“IG4 Capital and the Iguá Case”

09

Making sense of ESG in emerging markets private equity

When Larry Fink, BlackRock's Chairman and CEO, published a letter to CEOs this year, which he titled "Purpose & Profit", he sent a simple but very powerful message to the financial and capital markets: be responsible and think about how sustainable your investments are in order to fulfill a purpose beyond profit.

Simple messages and great impacts in action

Impact investments and Environmental, Social and Governance ("ESG") benchmarks have become common objectives for both companies and investors around the globe after the United Nations ("UN") launched their 17 Sustainable Development Goals—including zero hunger, good health and well-being, and clean water and sanitation, amongst others.

The UN estimates that these goals can be achieved with approximately \$6 trillion of investment, especially in the

developing economies. However, the global warming phenomenon is showing humankind that we will need much more than investment in the UN's Sustainable Development Goals in order to fix what modern industrial society has created over the last few decades.

We'll need a global effort in order to transform the developed and developing economies together. We'll need to rethink how we design and organize industrial life in modern societies globally.

Cuiabá River in the Pantanal Forest, Mato Grosso

16 tons of wastewater per day are treated by Iguá, reducing pollution and disease in the region. Iguá is a portfolio company of IG4 Capital PE Fund I





The Green New Deal

Beyond greenwashing and the Third Industrial Revolution infrastructure

The Green New Deal, a new book by American economist Jeremy Rifkin which was published this September, shares the same conclusions of other recently published books, including *The Case for the Green New Deal*, by economist Ann Pettifor.

If we do not introduce market regulation that will dramatically reduce fossil fuel consumption and introduce new standards in consumption behavior related to energy, food and goods, the next generations might face a disaster that will, in a disorganized manner, impact and change how modern capitalism and democracies were conceived.

But we do still have time—albeit not much—to drive change in an organized and planned fashion. Most of the efforts and positive impacts designed to avoid greater damage related to global warming are directly connected with what can be called the “Third Industrial Revolution infrastructure”. More specifically, this can be represented by “new communications technologies, new energy sources, new modes of mobility and logistics, and new built environments, enabling communities to more efficiently manage, power, and move

their economic activity, social life, and governance” [Rifkin, 2019, p.24].

Studies published in the last few years by researchers in developed economies have already pointed out engineering and technological solutions to disrupt how infrastructure projects are conceived, planned and executed. *Drawdown: The Most Comprehensive Plan Ever Proposed to Reverse Global Warming*, by Paul Hawken, and *Sustainable Materials without the Hot Air*, by Julian Allwood and Jonathan Cullen, are good examples of insightful ideas with a very pragmatic approach towards practical and actionable solutions.

What might be missing is how to create a new trend in capital allocation decision-making processes in the global financial and capital markets in order to fund the “Third Industrial Revolution infrastructure”. This could become a common goal of fund and asset managers in a self-regulating global effort regarding impact investing and ESG. It should probably also become a new standard to be pursued and developed by governments and multilateral agencies in the economic regulation of markets linked with ESG.

The Opportunity in Emerging Markets

Having impact investments and ESG as a purpose

One common argument of politicians in developing economies is that they should have more time to use the same strategies used by developed economies to industrialize and build infrastructure in their home countries.

Brazil, under an assortment of governments espousing different political ideologies over the last 25 years—ranging from the current extreme right (Bolsonaro), to the center (Cardoso), to the left (Lula and Rousseff)—has adopted the same conservative line of reasoning. Under that conservative way of thinking, environmental and social policies should be designed and adopted first in developed economies. Thus, developing countries should have a “waiver” in time until they reach a more responsible developmental standard.

We vehemently disagree with this argument and we firmly believe that we may be missing an opportunity to create value in emerging markets in a disruptive fashion under the “Third Industrial Revolution infrastructure”. Since developing economies have an enormous gap in terms of infrastructure, infrastructure investments in emerging markets could, and should, incorporate new standards and technology which could be adopted more easily and quicker than in developed economies.

Developed economies will potentially suffer more and spend

more in order to replace or modernize their infrastructure assets in the coming decades as they have a higher base to update to begin with. On the other hand, emerging markets could build new assets from scratch, assets which already incorporate more efficient and modern technologies that will make those countries and societies more sustainable, efficient and prosperous in the long run than countries that continue to burn fossil fuels and destroy the environment.

Furthermore, the inefficiencies in developing markets are so relevant that impact investing and ESG strategies can really make a difference in terms of value creation.

That might be conceptualized in economics as the “leapfrog effect” of the adoption of a “Third Industrial Revolution infrastructure” in developing markets. Investment strategies that adopt technology and modern managerial systems with focus on ESG can potentially generate more value in developing markets without going through intermediary steps already taken in developed markets (now with their core infrastructure under a potential distress situation).

IG4 Capital has become one the first private equity managers in Latin America to be certified as a B-Corporation

Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose. B Corps are accelerating a global culture shift to redefine success in business and build a more inclusive and sustainable economy.



IG4 Capital and the Iguá Case

Iguá is the third largest private water and sanitation company in Brazil, providing almost 7 million people with clean water and sewage collection and treatment.

IG4 Capital acquired the company (formerly known as CAB Ambiental) in 2017, and in two and a half years, we dramatically turned the business around, not only by restructuring over R\$1.3 billion of debt in partnership with the major banks in Brazil, but also by changing the way of doing business in the Latin American water and sanitation market.

We've changed the way we design engineering projects at Iguá. Instead of continuing to follow the model favored by construction companies—focusing on large civil works, such as building big concrete pools to treat wastewater—we've begun using pre-molded carbon steel modular structures to build water and wastewater treatment facilities. This solution is not only cheaper, but also quicker and more efficient. Additionally, we are also building smaller facilities that require less energy to pump water into the system, significantly reducing operating expenses in addition to the environmental impact related to energy usage.

Moreover, our carbon steel modular facilities require less land than the traditional solution. This means cutting down fewer trees in addition to a more rational use of urban space, where we've been trying to optimize by installing photovoltaic power generation infrastructure in order to produce the energy that we consume at Iguá (equivalent to 33% of operating expenses).

In two and a half years, we've increased the coverage of sewage collection and treatment in Cuiabá, the capital of the State of Mato Grosso, the largest producer of soya beans in the world, from 31% to 44%. Nowadays, the water in Cuiabá contains Fluor and its quality is compliant with World Health Organization ("WHO")

standards. We're also preventing approximately 16 tons of non-treated wastewater from being dumped into the Pantanal's (one of the largest protected forests in Latin America) rivers every day. As a result, we've seen a decrease in the number of health issues related to wastewater contamination in the region.

In terms of governance and compliance, Iguá is a new company, with a new controlling shareholder, IG4, a new board of directors and new compliance policies aligned with the best and most rigorous standards in the market.

We still have a lot to do, but in a very short amount of time we've significantly improved Iguá's operations while also generating major positive impact in ESG.

The financial results of all these efforts could not be better (the following results are as of year-end 2018 and compared to 2016): (i) EBITDA margin has grown from 34% to 44%, (ii) EBITDA has grown from R\$175 million to R\$255 million, and (iii) the company became profitable once again, reverting the losses generated over the last few years prior to IG4's acquisition.

Thus, IG4 has generated value and profits at Iguá, but with a purpose: to have a sustainable investment in ESG.

This is a clear example that it is possible to think differently and implement a "Third Industrial Revolution Infrastructure" investment strategy in emerging markets, generating an enormous and quick ESG impact.

IG4 Capital has become, in large part because of the Iguá case, one of the first private equity managers in Latin America to be certified as a B-Corporation.

Finally, IG4 has been supporting the Iguá Institute, a non-profit organization, to fund and foster access to treated water and sanitation in rural communities in Brazil. The Iguá Institute is part of the Alliance "Água + Acesso", a project supported by the UN Global Compact.

Paulo Mattos

CEO of IG4 Capital and Chairman of Iguá Saneamento S.A.

Disclaimer

This presentation and the information contained herein (together with copies and summaries thereof "the discussion materials") are being provided on a confidential basis for informational and discussion purposes only with respect to IG4 Capital and do not constitute an offer to sell or a solicitation of an offer to purchase any interest in the platform or any other investment opportunities offered by IG4 Capital or any other security. The opinions herein do not take into account prospective investors' circumstances, objectives or needs and are not intended as recommendations of particular securities, financial instruments or strategies to any prospective investors. Any such offer or solicitation shall be made only to qualifying investors, and only pursuant to the definitive documents of the platform (the "definitive documents"), which describe the terms applicable to the platform and certain risks related to an investment in the platform and which qualify in their entirety the information set forth herein. Such definitive documents should be read carefully prior to an investment in the platform. This Q&A does not constitute part of any such definitive documents.

The contents of this discussion materials do not constitute legal, tax, investment or other advice. Prospective investors should obtain independent advice based on their own particular circumstances before making an investment in any security. This q&a is intended for authorized recipients only and must be treated in a confidential manner. The information contained herein may not be reproduced, distributed, used or disclosed, in whole or in part, without the prior written consent of IG4 Capital. IG4 Capital does not assume any liability for unauthorized or fraudulent use of this presentation.



IG4 CAPITAL



IG4 Capital Investimentos Ltda.

R. Leopoldo Couto de Magalhães Jr. 1098

6º andar Itaim Bibi 04542 001

São Paulo SP Brasil

T +55 11 2844 8036

IG4 Capital Advisors LLP

1 Ropemaker Street

11th floor EC2Y 9HT

London UK

T +44 20 8885 8472

IG4 Capital Inversiones SpA

Isidora Goyenechea 3000 Piso 29

Las Condes 7550653

Santiago Chile

T +56 2 2592 6795

contact@ig4capital.com

www.ig4capital.com