# FINANCIAL INVESTMENT POLICY

# **Grendene®**



# **GRENDENE S.A.**

# Publicly Held Company CNPJ nº 89.850.341/0001-60 – NIRE nº 23300021118-CE

# **Financial Investment Policy**

# 1. Background

Cash management is a fundamental activity for preserving the equity of Grendene S.A ('Grendene' or 'the Company').

Grendene has historically shown a high capacity for cash generation, to comply with the financial commitments of its activities – these include:

- The cash flow needs of operational activities arising from the time between outgoing payments and incoming receipt of funds;
- Projects and investments in the operational activities of the Company and its subsidiaries;
- Maintenance of a safety reserve of cash for contingencies at moments of volatility
   and consequently of reduced operational activities;
- Quarterly or annual distribution of dividends, after constitution of the Legal reserve and the Reserve under the Bylaws, as stated in the Company's Dividends Policy.

Due to the volume of cash and cash equivalents generated by Grendene over the years, creation of a Policy on Financial Investments to govern the management of these funds becomes necessary.

# 2. Objective

This Policy establishes strategic guidelines and directives for management of Grendene's cash, to maximize the returns on Financial Investments, in obedience to the limits and rules set out in this Policy.

# 3. Application

This Policy applies to all the areas of Grendene and its subsidiary companies.

# 4. Period of Validity of this Policy

This Policy comes into effect on the date of its approval by the Board of Directors, and shall remain in force for an indeterminate period. It may be revised by that body when necessary.

# 5. References

- The Bylaws of the Company.
- The Regulations of the Board of Directors.
- The Regulations of the Investment Committee.
- The Regulations of the Committee on Related Party Transactions.
- The Policy on Related Party Transactions; and,
- The Dividends Policy.

# 6. Guidelines and Directives

This Policy has the following guidelines and directives:

- Preservation of capital in the long term;
- Ensuring the sustainability of the business through efficient management of financial investments;
- Ensuring adequate returns on capital;
- Limitation of exposure to liquidity and credit risk in financial investments, ensuring preservation of capital;
- Optimization of the risk/return ratio of investments;
- Strengthening of the Company's corporate governance practices.

# 7. Management of Liquidity

With the aim of guaranteeing permanent compliance with Grendene's financial obligations, specific criteria must be obeyed for measurement and maintenance of a minimum balance of immediate cash liquidity and of cash investments (the 'Minimum Cash Position'), segregating the investments by levels of liquidity, in accordance with the criteria below.

### 7.1. The Minimum Cash Position

This is defined by Grendene as the minimum cash necessary to guarantee the disbursements that are foreseen in the short term, taking into account the flows of incoming and outgoing funds.

The Minimum Cash Position must be calculated and reviewed monthly by the Financial Management, and presented quarterly to the Financial Director's Management Unit.

The following must be taken into account in the calculation: (i) debts payable in the short term; (ii) payment of tax and social security obligations; (iii) disbursements on projects and investments; (iv) generation of cash from operations; and (v) payment of dividends in accordance with the Company's Dividends Policy.

## 7.1.1. Allocation of the Minimum Cash Position

The funds must be applied in assets of high liquidity and low risk. These may have longer periods, but with a liquidity or repurchase clause as from 30 days after the date of the investment.

### 7.2. **Excess Cash**

Grendene defines this as all cash in excess of the Minimum Cash Position.

### 7.2.1. Allocation of Excess Cash

These funds may be applied in assets of lower liquidity, seeking a higher return in the medium and long term.

### 8. **Counterparty Risk**

Allocation of investments must obey criteria for minimizing counterparty risk in asset financial transactions and permanent short and medium-term investments. This risk arises from the possibility of Grendene and its subsidiaries suffering losses relating to default by its counterparties.

Subject to the criteria and limits below, preference will be given to counterparties with the best combination of rate of remuneration, guarantees and period of liquidity.

### 8.1. Required minimum ratings

Financial investments are permitted only with counterparties that have a risk classification on the Brazilian scale with at least two of the three principal rating agencies (Standard & Poor's, Moody's or Fitch), greater than or equal to the following:

Table 1 – Minimum Rating on the Brazilian scale

**Local minimum Rating agency** rating

A2

Α

Fitch Rating Α

Decisions to allocate in investment funds must take into account the fund's rating for the purposes of counterparty credit risk.

In the case of non-financial counterparties, transactions may only be carried out after prior approval by the Financial Director's Management Unit, and, if necessary, by the Board of Directors.

### 8.2. Concentration

Grendene's exposure to any given counterparty may not exceed:

Moody's Investor

Standard & Poor's

The concentration index, which is variable depending on the counterparty's rating, as described in Column 1 of Table 2 below;

• A percentage of the counterparty's Net Equity: this percentage depends on the counterparty's rating, as described in Column 2 of Table 2 below.

Table 2 – Limits of concentration by ratin

Local minimum rating	1 – Counterparty limit	2 – Maximum % of the counterparty's Net Equity
AAA *	30%	5.0%
AA+ *	25%	4.0%
AA *	20%	3.0%
AA- *	15%	2.0%
A+ *	10%	1.0%
A/A- *	5%	0.5%

<sup>\*</sup> or equivalent

Investments in Brazilian government sovereign securities shall be considered as having a local rating of AAA and shall not be subject to the limits stated in Table 2.

Applications in Investment Funds must obey the limits set in Table 2 above. The Total Equity of the Fund shall be used for the purposes of calculation of the maximum concentration limit.

Investments made by exclusive Investment Funds must obey the terms established in this Policy.

In the case of non-financial counterparties, transactions may only be carried out after prior approval by the Financial Director's Management Unit, and if necessary by the Board of Directors.

# 9. Assets Authorized In and Outside Brazil

- 9.1. Eligible Instruments for the Minimum Cash Position
- Securities of Financial Institutions;
- Brazilian sovereign securities.
- 9.2. Eligible Instruments for the Excess Cash
- Instruments already eligible for the Minimum Cash Position;
- Corporate securities (Debentures, CDBs, Exchange Bills, Commercial Notes, Promissory Notes, Repos);
- Investment Funds.
- 9.3. Eligible Alternative Instruments for investment of Excess Cash

Investments may be made in 'alternative' assets upon recommendation by the majority of the Investment Committee, and in accordance with the limits approved by Grendene's Board of Directors.

The Alternative instruments eligible for investment of Excess Cash are:

- Investments already eligible for the Minimum Cash Position;
- Investments eligible for investment of Excess Cash;
- Real Estate Receivables Certificates (CRIs);
- Agribusiness Receivables Certificates (CRAs);
- Real Estate Investment Funds (FIIs);
- Receivables Investment Funds (FIDCs);
- Equity Holding Investment Funds (FIPs);
- Equity or share interests, including Passive Partnerships (SCPs), and Special-Purpose Companies (SPEs);
- Investments in shares that are included in the B3 Bovespa Index;
- Short and medium-term permanent investments;
- Purchase of shares for the Company's Treasury in accordance with the plan approved by the Board of Directors.

# 10. Derivative Financial Instruments

The only transactions with derivative financial instruments allowed are hedge instruments within the normal course of business related to exportation or importation.

The financial instruments eligible for implementation as hedge transactions are:

- Swap contracts (currency, interest rates or commodities);
- Standardized futures contracts in currency, interest rates or commodities;
- Fixed-term contracts;
- Options.

Any variation in protected or hedge positions that causes the hedge to exceed 100% of the position must be dismantled until the transaction obeys the limit.

Use of any new type of derivative requires authorization of the Board of Directors, and the proposal for implementation must include the characteristics of the instrument and its financial, tax and accounting implications.

# 11. Foreign Exchange Risk Management

To reduce the net foreign exchange exposure of its business, Grendene may negotiate futures contracts for sales of US dollars on the B3 up to the maximum limit given by the sum of the following items: (i) Bank balances in foreign currency held outside Brazil; (ii) Financial investments held outside Brazil; (iii) Balance of accounts receivable (denominated in US dollars) from foreign exchange transactions yet to be closed; (iv) up to 25% of the equivalent of the annual projected total of exports, or approximately 90 days of forecast exports (normally this corresponds to orders already in hand and negotiations for sales in progress), less: (a) the total of balances due to suppliers in

foreign currency; (b) imports in progress; and (c) advances on exchange contracts (ACCs).

The instruments used for foreign exchange protection comprise sale or purchase of future US dollars using financial instruments specific for this purpose, such as:

- Long and short contracts on the B3;
- Advances on exchange contracts (ACCs);
- Advance on delivered shipping documents (ACEs);
- Non deliverable forwards (NDFs);
- Pre-payment of exports.

# 12. Positions and Transactions Not Allowed

Grendene and its subsidiaries may not, in isolation or jointly, hold stockholding control, nor influence in the management via a director or other management personnel elected under the bylaws, of investments carried out through interests in companies classified as non-permanent investments, in commercial companies including Passive Partnerships (SCPs), or Special-Purpose Companies (SPEs).

No transactions with derivatives are allowed in which instruments, transactions or strategies:

- have a speculative nature;
- jointly or in isolation create any type of leverage or contain contractual clauses that cause them to be leveraged;
- are capable of generating additional risks greater than those that they aim to protect;
- are in the list of derivative transactions that are not authorized.

# 13. Redemptions

The Financial Director's management unit will periodically evaluate counterparties, assessing their financial statements. If the financial indicators of any issuer deteriorate, partial or total early redemption may be requested of financial investments or of positions for protection of invested capital.

# 14. Related Parties

Transactions between related parties must be made for amounts, periods and average rates that are usual in the market, in effect on the date in question, and on commutative conditions. Managers of Grendene are not allowed to carry out any financial transaction which aims exclusively to favor related parties or any manager or member of their families – as set out in the Company's Policy on Related Party Transactions.

# 15. Investment Committee

The Investment Committee is an advisory body to the Company's Executive Board.

The members of the Committee have the duties of: (a) evaluating proposals for financial investments offered to Grendene, within the limits established: (i) by the Board of Directors, notably for investments not having collateral in financial institutions and/or federal government securities, and/or (ii) by the Company's Bylaws; and (b) issuing recommendations to the Executive Board as to approval of the transactions presented and analyzed.

# 16. Related Parties Committee

The Related Parties Committee is responsible for analyzing transactions with Related Parties, in accordance with the terms of the Policy on Related Party Transactions, to ensure equality and transparency, so as to guarantee to stockholders, investors and other interested parties that the Company adopts the best corporate governance practices.

# 17. Responsibilities

- 17.1. Board of Directors
- to approve this Policy and any revisions of it;
- to approve the limit for investment in 'alternative' assets not backed by financial institutions and/or the federal government;
- to participate in the decision on any subject related to investments of the Company that are not described in this Policy;
- to decide on the course of action to be taken in any cases that do not qualify under the definitions of this Policy;
- 17.2. Financial Director's Management Unit
- to ensure that transactions take place within the limits established by this Policy;
- to approve investments in non-financial counterparties.
- 17.3. Financial Management
- to execute the investments in accordance with the limits established in this policy;
- to optimize Grendene's cash flow management, while obeying this Policy;
- to carry out the monthly review of the Minimum Cash Position, and present it quarterly to the Financial Director's Management Unit;
- to monitor and control, together with the Controller's Management Unit, the limits of investment funds.

# 17.4. Controller's Management Unit

- to monitor and control, together with the Financial Director's Management Unit, the limits of investments of funds and financial risks;
- to carry out the accounting of financial investments, taxes and other contributions, complying with the accounting rules of the control bodies and the law; auditing; and preparation of financial statements and reports;
- together with the Executive Board and the Financial Director's Management Unit, to carry out the due monitoring and controls and to comply with the obligations on transactions with related parties.

# 17.5. Investment Committee

- to assess proposals for financial investments offered to Grendene within the limits set by the Board of Directors, in particular: investments not backed by financial institutions or the federal government.
- 17.6. Committee on Transactions with Related Parties
- to analyze transactions with Related Parties in accordance with the Policy on Transactions with Related Parties.
- to ensure that the Company adopts best corporate governance practices in transactions with Related Parties.

# 18. Risks Involved

Compliance with this policy can minimize the effects of the following risks:

- financial losses on financial investments with institutions of high risk;
- lower than expected financial returns to stockholders; and
- financial losses due to concentration of financial investments.

Farroupilha, August 13, 2020.		
Alexandre Grendene Bartelle Chairman	Renato Ochman Secretary	