abastos@spectrainvest.com

SHIFT
CAPITAL

Shift Alpha II: Strategic Guidelines

A new endeavor towards high-growth companies in the lower end of the Private Equity scale

Member:

Signatory:

We built Shift's investment thesis around the scarcity of capital observed in the lower middle market of Brazil's real economy.

And the truth is: Brazil is a middle-market country. Most of the economic activity is driven by middle-market companies, as is most of the M&A volume. Yet the lower end of the middle-market remains under-capitalized and structurally overlooked.

We have been tailoring Shift's strategy precisely for that gap: a hands-on, operator-led approach focused on the lower end of Brazil's middle market. We believe this model is uniquely suited to Brazil's capital scarcity, entrepreneurial talent, and operational complexity.

With our second vintage (Shift Alpha I) now fully allocated, and with the early outcomes reinforcing the strength of the strategy, we jump to Shift Alpha II – a new fund with more firepower, sharper tools, and a more tenured team – pursuing the same thesis as the previous vintage.

The lower end of the middle market: high growth, low competition, and multiple paths to exit

Shift Alpha II is grounded on a powerful insight: investing earlier in a company's lifecycle offers both higher growth potential and greater exit flexibility. We will target businesses that are generating up to R$150 million in annual revenues, a segment largely overlooked by traditional Private Equity firms in Brazil, yet not "techy enough" for typical Venture Capital firms, and not adherent to the "VC-track".

This lower middle-market gap is our strategic sweet spot. It remains underpenetrated and presents more opportunities for value creation through active operational and strategic support, a philosophy we have discussed in depth in our letter, Activist Minority Shareholder, where we outline the case for hands-on investing even without control. Our approach blends partnership, influence, and positive interventions, unlocking change without bureaucratizing it.

We seek companies capable of growing more than 50% per year. This is not just a threshold; it is the engine behind our investment thesis. In our letter About Time, we discussed how sustained high growth over multiple years leads to compounding returns: not the linear kind of value creation, but the exponential kind. By backing companies at this early growth point, we can ride growth for longer, reaching the compounding period faster and return outcomes that far exceed market averages, without relying on intensive financial engineering or multiple arbitrages.

By entering early, we not only access more attractive entry prices but also unlock the ability to compound capital by deploying additional checks as businesses scale. This flexible approach enables us to adapt to company needs, seize upside with less risk, and support long-term value creation. Most importantly, by investing earlier, we broaden our exit landscape and do not rely on an IPO. We exit, partially or totally, while companies are still in the middle-market, and the typical potential buyer of a Shift-backed company ranges from larger Private Equity funds to strategic acquirers and middle-market players, in a market niche that concentrates over 75% of Brazil's M&A activity and shows a resilient transaction number of over 1,300 transactions per year over the past 10 years. Investing in these companies requires patience, energy, and a willingness to get involved and bear risks that are not typical of a larger Private Equity firm. In many cases, we are the first investors those companies have ever had. These are businesses often growing quickly but still under-structured.

We believe this level of involvement is one of the reasons why so few investors focus on Brazil's lower middle market (and why we don't usually compete over deals). Supporting these companies

abastos@spectrainvest.com

demands more effort – and a greater ability to take and bear risks – than deploying larger checks into more mature companies (which tend to be the typical targets of traditional Private Equity).

Still, we choose to do the hard work. It's where we believe the best risk-adjusted returns and the most interesting stories are.

Moreover, the current macro environment in Brazil, marked by prolonged high interest rates, has produced a large number of financially distressed companies, even among those that are young, relatively small, and operationally sound. We believe Shift Alpha II may also capitalize on these opportunities: acquiring stakes in well-run businesses that suffer from balance sheet constraints yet possess strong fundamentals and high growth potential. By providing capital and hands-on operational support in a more stressful situation, we can unlock exceptional return opportunities that others may overlook.

Sector Focus: agnostic but with proven success in selected markets

For this new vintage, Shift will remain agnostic. Our opinion is that in this early growth period of a company's lifecycle, we are able to identify and capture growth and momentum in specific niches of a wide variety of large markets, depending on new trends and tailwinds that are typically harder to set in stone for a longer period. Therefore, what will matter more is not the market we choose to be in ex-ante, but the trends and tailwinds we are able to identify and ride in the specific niches/categories we choose to invest in.

We also believe that our investment strategy differs widely from Venture Capital. While in VC a company must grow hundreds of times to compensate for the traditionally high valuations, in Shift's approach we are able to produce solid returns with much less growth. Therefore, we can support companies in TAMs that are not as large.

With that said, we do not ignore the fact that over the last 8 years of operating and investing in companies, we have developed knowledge in certain sectors and business models that are now part of our circle of competence. Those are: B2C Consumer/Services (as in Skelt Beauty Brands, Bluefit, The Coffee and Zerezes), Agribusiness (as in Terra Magna and Atlas Agro), Financial Services (as in Terra Magna and Paketá), and B2B Consumer (as in Acquion). We do expect to, during this new vintage of Shift Alpha II, add new companies with similar sectorial positioning and business models adherent to our circle of competence, but also to expand this circle by investing in totally different sectors, capturing specific trends and tailwinds we think are too good to ignore.

It is also important to mention that when we say our thesis is "real-economy", this does not mean that we are only investing in companies with real tangible assets, or tangible products. We use this "real economy" metaphor to provide a clear understanding that we do not target VC-track companies due to the questionable nature of their valuations, governance, entrepreneurial mindset, and business fundamentals. We are perfectly able to invest in tech and tech-enabled businesses as long as they follow what we refer to as "real economy": reasonable valuations, a down-to-earth company-building playbook, and entrepreneurs rooted in the Brazilian reality as opposed to Silicon Valley. Another common characteristic among the companies we invest in is their limited access to capital, both debt and equity. These are businesses that often face a "chicken-and-egg" dilemma: their growth demands working capital and capex, yet their proprietary resources are already exhausted, and they have few viable financing alternatives. As a result, founders are forced to slow down precisely when momentum

abastos@spectrainvest.com

is strongest. That is when partnering with Shift becomes a catalyst. By stepping in with both capital and operational support, we allow these companies to accelerate growth, scale more efficiently, and build a much larger pie than what would be possible through bootstrapping alone.

Investment Parameters

The fund will have the following structure:

- At least 6 portfolio companies
- Average checks of R$30-50 million per company (including co-investment vehicles)
- Small follow-on reserve to allow for a very opportunistic, non-systematic follow-on strategy

The investment period is set at 3 years, with expected holding periods of 5–7 years. The strategy is designed for flexible capital deployment: from initial partnering positions to long-term scaling and eventual control.

The investment pace is defined as a minimum of 1 new investment per year, and a maximum of 3 (the same pace we have been adopting since Shift's inception). Our fund-sizing and fundraising strategy/design is based on the main bottleneck that we have: finding new investment cases and concluding new transactions.

With check sizes of ~R$30-50 million per company, we will be able to support target companies' long-term growth, without relying on other funds to invest alongside Shift, and also not relying on excessive debt at a company's early growth stages. We acknowledge that our first vintages suffered from a lack of capital due to a deficiency in our previous fund sizing. Consequently, Shift relied on other funds and on debt structures to address our invested companies' growth capital needs.

We also acknowledge that in Brazil, where the cost of capital is high, having available capital is a natural competitive advantage. Therefore, being able to support our companies' capital needs over a longer period is an advantage of this new fund-sizing. Although we prefer asset-light businesses that require little capital to grow, the natural dynamic of capital scarcity of the region generates an interesting duality where, on one hand, capital is scarce and expensive, but on the other, having capital and investing it in initiatives or assets that produce competitive advantages gets companies far away from competition. Therefore, we intend to use Shift's capital advantages to support our companies in developing long-lasting competitive advantages through the intelligent use of equity capital.

With that in mind, Shift's capital deployment strategy will prioritize operationally profitable companies, where capital needs are mostly directed to (i) capital expenditures and (ii) working capital.

Shift Alpha II: summary of portfolio build-up	
Target nº of companies	6
Check sizes (one check or in tranches)	R$30.0M – 50.0M
Expected amount of co-investment opportunities	R$100M – R$200M

abastos@spectrainvest.com

Structured Equity

Over time, we have learned that the segment we operate in not only permits but often rewards creative structuring. Some of our most successful cases were enabled by models that required a little more structuring and creativity. These structures were not deviations from our strategy; they were expressions of it: pragmatic and tailored to context.

That experience shapes our view going forward. We believe there is ample room in the Brazilian lower middle market for more structured approaches to better manage entry risk and unlock asymmetric outcomes. Flexibility is a tool, one that we have used before and intend to keep using when the opportunity justifies it.

For this new vintage, we expect to allocate ~70% of the available capital through more structured approaches, mitigating a few important risks while keeping full or almost full equity upside. This structuring aims at two important goals (from most important to least important):

1) Secure liquidity in a decent investment horizon
2) Increase downside protection

Operational support: the secret sauce

Operational support is not a product we offer; it's a posture embedded in our investment strategy. Unlike traditional control-oriented Private Equity or the typical hands-off approach of Venture Capital, we operate in a less standardized and more complex middle ground.

We invest in high-growth, under-structured businesses, which we often refer to as "crude diamonds." These are companies built by entrepreneurs who have grown with limited access to capital, talent, or management tools, reinvesting cash flows to fund expansion and often without external support. While this constraint fosters resilience and creativity, it also creates structural and organizational gaps that, when addressed, can unlock substantial value.

In this context, entrepreneurs are rarely the finished product. Some may lack commercial or financial depth, while others excel in sales but struggle with strategic planning or execution. In certain cases, the individual who led the business to its current stage may not be the most suited to lead its next phase. Identifying and navigating these inflection points is central to our operational thesis.

The playbook (or lack of it)

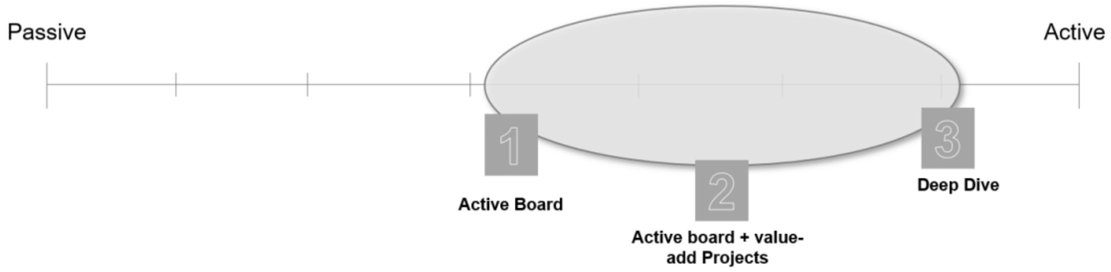
Given the diversity of business models and leadership profiles in our portfolio, Shift does not follow a one-size-fits-all playbook. We tailor our engagement to the specific context of each company, carefully assessing its needs, the entrepreneur's vision, and the moment in the company's lifecycle.

Despite this flexibility, our approach is structured. We use what we call the "Engagement Spectrum" to calibrate the type and intensity of our involvement, ensuring effective allocation of internal resources and clear expectation-setting with founders and management teams.

This model allows us to operate across three distinct levels of engagement, each matched to a company's maturity and growth potential. The ability to navigate this spectrum is enabled by

abastos@spectrainvest.com

our intentional portfolio construction: a concentrated number of investments and a low deal cadence that ensures capacity for meaningful involvement.



Importantly, we are selective about where and how we engage. Our goal is not to intervene more, but to intervene effectively, always with a focus on building internal capability rather than long-term dependency.

Building Influence

We view governance as a foundation for collaboration, not control. While we negotiate the necessary legal rights – such as board participation and protective provisions – to ensure alignment, our influence is rarely exercised through formal mechanisms. Instead, it is built through consistency, credibility, and partnership.

In our experience, particularly in Brazil's middle market, influence is earned, not imposed. Coercive governance models tend to erode trust and hinder performance. The most effective engagement stems from a relationship of mutual respect and shared goals.

Our perspective is shaped by practical experience. While we do not position ourselves as the most senior team in the market, we have built and led companies in similarly constrained environments, managing growth, structuring operations, and navigating volatility. This operational background lends weight to our perspectives, which are received not as prescriptions but as value-added contributions from an aligned partner.

Ultimately, our role is defined by relevance and reliability. We aim to be present in the moments that matter, contributing with clarity, conviction, and discretion. Influence, in our view, is not what is written in shareholder agreements. It is what gets built, day by day, inside the businesses we back.

People & Culture

From the beginning, we have been intentional about building a culture that promotes growth from within. Several of the analysts who joined us in Shift's early days are now partners. They have taken on more responsibility, led investments, stepped into operating roles, and brought new energy and perspective back into the investment process. That kind of progression isn't just a nice story. It's a core part of our model.

We have always believed that our good investing does not come just from analysis and asset picking. It comes from proximity to the operation, the day-to-day operational decisions, and the effort it takes

abastos@spectrainvest.com

to build something durable. Shift itself was born out of that experience, and we have tried to keep that hands-on mindset alive as we scale. We are not a firm that thinks strategy sits above execution. We think they feed each other.

That is why we often embed our people in the companies we invest in. When someone from Shift takes on an operational role, they do not step away from the firm. They stay connected, keep a seat at the investment committee, and bring back insight that sharpens our entire approach. Once that operating cycle ends, they become better investors.

Shift now has a 9-person team. With the prospect of Shift Alpha II, we will need to add one or two more, making it 10. From those, half will be exclusively dedicated to board seats, operational support, and special projects, making sure the companies in our portfolio perform according to our plans. The other half will be dedicated to investing and other tasks (IR and other operational tasks). The priorities will change as we evolve with the fund's deployment, shifting our attention from "investing" to "supporting" along the Fund's lifecycle. Our first vintages have behaved in a similar way, and this is a core strategy of our investment style.

In a market where capital is increasingly commoditized, we think people, and how they grow, are still our most important assets.

Return Framework

Each investment in Alpha II must meet a minimum gross nominal IRR of 30%, anchored in a disciplined underwriting process with defined upside levers and milestones. Our Investment Committee remains focused on pressure-testing assumptions from a bottom-up perspective, ensuring consistency with our risk-adjusted return expectations.

Our ambition is to build a portfolio capable of compounding value without relying on a positive market cycle or on binary outcomes or IPOs.

While we maintain a strict approval framework based on risk-return thresholds, our experience has taught us that additional upside triggers are essential. Initially, we assumed our portfolio would yield a relatively balanced distribution of returns across companies. In reality, returns have shown greater concentration driven not by chance, but by our ability to identify and actively pursue asymmetric upside within each business.

For Alpha II, we revisit the principles outlined in *Back to Basics* and reaffirm that while we seek high-quality companies with a 30%+ base case IRR, we aim to be systematically exposed to opportunities capable of outperforming that benchmark. These outperformance levers include: (i) growth potential relative to entry valuation, (ii) multiple expansion, (iii) inorganic growth or positive externalities, (iv) TAM expansion via new projects/initiatives, and (v) category tailwinds and macro trends.

In practice, our return equation is straightforward:

1. Fair entry valuations, both in absolute terms and relative to market multiples;
2. Sustained organic revenue growth of 50%+ per year for 5+ years;
3. Base case IRRs of 30% plus, with structured downside protections;

abastos@spectrainvest.com

4. Embedded upside optionality via new projects, inorganic opportunities, and favorable exit dynamics.

Staying disciplined on points (1) and (3), while actively driving (2) and (4), is what will define our performance. With the right combination of effort and favorable circumstances, be it macro tailwinds or company-specific catalysts, we believe it is possible to deliver an aggregate IRR north of the 30% threshold defined to approve each new deal.

Pipeline Sourcing, Analysis & Asset Selection

The strength of our investment process starts well before capital is deployed. We treat deal sourcing and evaluation as strategic capabilities, refined over the years. Our pipeline is built on a dual engine of active and passive sourcing, followed by a rigorous and structured analysis framework designed to ensure consistency, mitigate biases, and guide smart capital allocation.

Sourcing: a proactive DNA, now augmented by increasing ecosystem strength

We continue to source most of our opportunities actively, a hallmark of Shift since inception. Within this approach, we operate in two distinct formats. The first is *idea-based sourcing*, where our investment team formulates thematic theses or identifies tailwinds – ranging from global trends to sector-specific transformations – then maps and targets companies that fit the narrative. The second is *generalist outreach*, where we engage directly with companies that spark our interest, regardless of a pre-defined thesis, often unlocking unexpected insights (that turn into new ideas) and relationships.

Complementing this, we maintain a strong passive origination engine. Our ecosystem includes M&A advisors, investment banks, founders, suppliers, and other stakeholders who regularly refer companies to us. We nurture this network actively, sharing periodic updates on our investment thesis and appetite via tailored email communications with ~80 M&A advisors (2025). While our sourcing has historically been ~70% active, the evolution of our reputation has naturally led to a more intensive passive origination. Still, active sourcing remains our most differentiated strength and the origin of many of our top-performing investments, including Skelt, Atlas Agro, and Zerezes.

With the team increase expected along Shift Alpha II, our goal is to significantly scale our origination engine, expanding both volume and depth.

Analysis & asset selection: structured, comparative, conviction-led

Once an opportunity enters our funnel, it is subjected to a rigorous evaluation process designed to minimize bias and support high-conviction decision-making. Our team is trained using Shift's proprietary *Investment Manual*, a comprehensive framework that anchors our analysis on a conservative, standardized base case for each company. This creates a common denominator across all investment theses and enables us to compare opportunities horizontally.

We evaluate each case through four critical lenses: (i) base-case IRR (which typically must exceed 30%), (ii) exit feasibility, (iii) risks not captured by the base case scenario, and (iv) upsides also not captured in the base case. While base-case returns are a must for a company

abastos@spectrainvest.com

to be qualified as an investment case, the risk/additional upside asymmetry and exit profile are usually decisive factors among companies with similar prospects of base-case IRR.

To supplement qualitative analysis, we deploy a proprietary *Scoresheet*, a pragmatic tool to score opportunities across dimensions such as conviction level, growth potential, capital efficiency, and pricing/valuation relative to price. This helps bring structure to internal debates, guide due diligence focus, and ultimately drive investment decisions.

This rigorous and evolving approach to sourcing and selection underpins our ability to deploy capital with discipline, building a portfolio that combines high growth, strong fundamentals, and resilient paths to exit and value creation.

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