

Performance Self-Assessment of the Board of Directors of Grupo Nutresa

March 2020

Executive Summary

Grupo Nutresa is one of the most representative Colombian Multilatin business groups. It is a leader in the food sector, and it is recognized world-wide for its sustainable practices. It currently operates in eight food businesses, with productive platforms in Colombia and abroad. It has an outstanding distribution network, and an administrative, logistic and transportation services company that supports its management. The shareholding structure, as of December 31st, 2019, was composed by Grupo de Inversiones Suramericana S.A. (35,26%), Grupo Argos S.A. (9,83%), international funds (8,05%), national funds (19,73%) and other investors (27,12%). In 2019 Grupo Nutresa showed important achievements in its financial profitability and sales, accomplishing a sales growth of 10,5% and an EBITDA margin growth of 13,5%, compared to the numbers registered in the previous year.

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The main mission of Grupo Nutresa is to improve the consumers' life quality with its healthy and high-quality food, while being highly committed to Sustainable Development. The strategic priorities selected for 2019 were: act with integrity, drive a profitable growth and an effective innovation, encourage a healthy life, build a better society, manage the value chain responsibly and reduce the environmental impact of the operations. Consistently with this focus towards sustainability, in 2019 and for the first time in its history, **Grupo Nutresa was recognized as the most sustainable food company in the world, according to the Dow Jones Sustainability World Index**. Additionally, it received the recognition of the most prominent company in the Sustainability indices of Dow Jones emerging markets and the Mila Pacific Alliance. At a national level and for the seventh consecutive year, Grupo Nutresa obtained the "*Investors Relations IR*" of the Colombian Stock Exchange.

This Board of Directors is currently composed of eight members. Four of them are independent members, achieving the 50% of independency, including the Chairman of the Board. None of the members work at the company and all the Directors meet the professional path, academic background and experience requirements established in the Good Governance Code, that are published at the board members' skills matrix.

In this context, Grupo Nutresa was interested in completing a **Performance Self-Assessment of the Board of Directors** to continue the follow up and development of the assessment work with Kearney, identifying advances, strengths and areas of improvement.

To achieve an integral self-assessment, Kearney chose to use a mixture of information capture tools to gain a 360-degree vision of the Board performance. First, we assessed the performance of the Board as a collegial group, where we emphasize in the committees' work. The methodological tool used to evaluate the **Board is built around four thematic categories** (see Figure 1), which have been used consistently in past assessments. These thematic questions are composed by different stages of excellence, to measure objectively the maturity level and international best practices implementation in terms of Corporate Governance.

Figure 1- Thematic Categories of the Kearney Corporate Governance model



The second part of this assessment is complemented with **thematic prioritization structured questions** and with a **tool that seeks to identify the virtuous conducts**¹ that characterize the Board as a successful work team and the conducts that the Directors would like to have in the future, given the group characteristics.

This methodology allows to:

¹ The Board of Directors performance is assessed based on 5 values that contribute to the effectiveness of the exercise: independency and integrity, degree of openness, accountability, action orientation and truth and mutual respect. Kearney Methodology elaborated based on the Nadler, Behan, Nadler (2005) investigation.

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- Assess the dynamics of the Board as a collegiate group in a holistic way
- Identify the strengths and improvement opportunities of the Board
- Recognize and work on the behavioral elements of the Directors
- Have an integral vision of the relevant themes and critical questions to answer
- Make a follow up to the Board advances

For the development of this Self-assessment, a customized assessment tool was built. It considered the priorities, needs and advances of the Board performance. This tool was applied for four weeks. During this process, Kearney considered the results and recommendations of the performance assessments previously made to Grupo Nutresa, the information collected from customized interviews (to the General Secretary of the Board, CEO of the company, and Chairman) and the documentary review done in the company facilities.

This Self-assessment was divided in five sections:

1. Self-assessment of the Board performance as a collegial group
2. Self-assessment of the functioning of the committees of the Board
3. Thematic prioritization for the creation of the Action Plan of the Board for 2019
4. Self-assessment on topics related to the dynamics of the Board
5. Recommendation advances – Performance assessment of the Board in 2017

Figure 2. Thematic selection for Grupo Nutresa – Performance Self-assessment of the Board as a collegial group (Part 1)

Dimension	Evaluated component
Focus on the strategic	<ol style="list-style-type: none"> 1. Distribution and depth in the topics addressed in the Annual Plan of the Board 2. Order of the day and leadership during the sessions 3. Design and definition of the strategic plan of the company
Structure of Governance	<ol style="list-style-type: none"> 8. Senior management succession plan 9. Conflicts of interest 10. Periodicity, length, and structure of the sessions
Coordination	<ol style="list-style-type: none"> 13. Formal introduction of new Directors

This document contains a summary of the main advances, topics to highlight and opportunities for improvement that Kearney found in this introspective exercise of the Board of Directors of Grupo Nutresa. It is relevant to mention that in this opportunity the Assessment tool was effectively filled by 6 of the 8 members of the Board and 3 of the 5 members of the Management that were asked for feedback.

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Part 1. Board performance as a collegial group

The Board of Directors of Grupo Nutresa was located at an **advanced performance stage** in most of the assessed components. It continues with the commitment to seek higher standards of Corporate Governance. We found a mature Board, that is characterized by having an excellent level of communication and interaction, that has a broad knowledge of the business and the strategic challenges that the Group faces. It is a Board of Directors that has an integral vision of the businesses and knows how to focus on the prioritized strategic challenges. They understand the importance of having a solid risk management system led from the heads of the organization, according to the outlined sustainability challenges.

The outstanding high score obtained in the **Distribution and depth in the topics addressed in the Annual Plan of the Board dimension** in the self-assessment, demonstrates that the Directors believe there is clear and detailed planning around the frequency and depth in the different businesses and Board topics that are addressed. They work in a consensual way in the annual plan construction. We found a high level of alignment in the identified challenges and the prioritized business opportunities by the members of the board in the surveyed topics. Furthermore, we found an outstanding score in the strategic **plan design and definition**, where we can see that the management, led by the CEO, designs and defines the strategic plan and the Board constantly supervises the execution through key indicators and the strategic risk measurement. In terms of the meeting structure, we found an excellent evaluation from the directors in the **frequency, length, and structure of the Board sessions**. Finally, we highlight the score and positive comments that the Directors had regarding the current process of **formal induction of new Directors**.

We found dissent in some of the evaluated topics, where we found some improvement and/or conversation opportunities that may increase the performance level of the Board. In terms of **Order of the day and leadership during the sessions** we found that the Directors think the Chairman does an extraordinary job in designing the order of the day, in the prioritization of strategic topics and the Board performance management. However, he could take a more active role when encouraging a higher level of discussion and dedicating more time to the Directors' analysis and participation. Regarding the **Senior Management succession plan**, even though 66% of directors say the function is carried out prominently, there is a percentage (33%) of the Directors who think that the Board could have a more active role in it. Therefore, we consider it relevant to have a conversation on that specific topic. Finally, we found that in the **Conflicts of interest management within the Board** a good international practice of reviewing the definition of conflicts of interest could be implemented, where the Board may participate to achieve constant reviewing and a common conceptual understanding of the concept.

Part 2. Performance of the Board of Directors' committees

The general performance of the committees obtains a very good assessment according to the score of the Directors. The **Finance, Audit and Risks, Strategic Planning and Sustainability**, and **Corporate Governance committees** stand out for having

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accomplished an excellent planning that is showed in the thematic annual plans. They all attain a good score in the structure and periodicity of the meetings that allow them to have an optimum level of participation and understanding of the topics that are covered. The quality of the information prior to meetings has a good score, and it is outstanding in the case of the Finance, and Audit and Risks committees. These three committees obtain very high scores in the perceived value they add to the Board, and the Strategic Planning and Sustainability Committee accomplishes the highest score, showing the importance of this topic for the Board.

It is perceived that the **Appointment and Remuneration Committee** is an important source of value for the Board. However, there are some improvement opportunities related to: planning, meetings' structure, periodicity to address topics and the content. Furthermore, we consider it is important to improve the quality and promptness as the committee hands the information prior to the meetings, to ameliorate board preparation.

Part 3. Thematic prioritization for the construction of the Action Plan of the Board

We found there is a high level **of alignment and coherence between the most relevant topics to address the critical questions identified** by the members of the Board and by the Management. Most of the critical questions to answer are related to Corporate Strategy and Competitiveness, followed by topics related to the structure of the organization, and relevant context topics. We recommend considering the result of this prioritization in the Board Action Plan definition. We found that Directors also consider a priority to constantly monitor global trends in the food sector and focus in the topics related to the incursion of new products. Furthermore, there is a need to review matters related to the corporate and competitive strategy and the review/exploration of new geographies.

Part 4. Self-Assessment in topics related to the Board of Directors' dynamics

The Board, as a human system, is recognized as strong in behaviors related to the values of **degree of openness and independence**. The conducts that characterize the DNA of this Board according to the Directors are related to the value of **degree of openness** where they highlight behaviors such as the **frank exchange of opinions** and **respect for common sense and intuition**. In the value of **independence**, where this Board has always been strong, the behavior of **inquisitive spirit** stands out. The conducts in which the Board wants to get stronger to achieve a better result as a high-performance team is related to reaching a **higher level of constructive disagreement** and **focusing on priorities**.

Part 5. Advancement of the recommendations of the Assessment of 2017

We found a very good advance level regarding the recommendations done by Kearney in the Performance Assessment of Grupo Nutresa in 2017. It is worth mentioning that 84% of the Directors say the Board has got an outstanding advance in terms of sustainability from inside the Board. 80% of the Board thinks an optimum or very good advance has been made in the supervision of the long-term strategy. Furthermore, 66% of the Directors believe that the Board's Thematic Action Plan design has improved significantly. 84% of the board members say that the advancement level in increasing the international profile

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of the Board has been intermediate. Finally, 50% of the Directors estimate that the definition of independence and the terms of office in which a Director can be considered as independent could be reviewed, even though 40% of the Directors think the definition and terms of office for independence are in an optimum level.

Currently, the Board of Directors of Grupo Nutresa reaches outstanding levels of performance in each of the aspects assessed, showing the commitment the Board has had with continuous improvement and with acquiring good practices that will lead them to surpass their performance level. The recommendations and details of the self-assessment results analysis of the Board of Directors of Grupo Nutresa may be consulted in the full report presented to the Board of Directors.