

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY

Date of approval 18 June 2018

PURPOSE AND SCOPE

- 1- The Arbaro Fund (the Fund) is committed to actively promote sustainable development in the full range of its activities and investments. The Fund recognizes the environmental and social functions of property, forest resources and forest-related ecosystem services. Through providing finance to sustainable forest operations with sound governance systems, the Fund aims to integrate forest resources effectively into sustainable economic development.
- 2- In this Policy the term Portfolio Company refers to the organization in which the Fund's resources are invested in. The Portfolio Company may be a joint-venture company directly co-managed by the Fund.
- 3- This Policy outlines the environmental, social and governance (ESG) principles and commitments that underpin the Fund's activities. All further ESG guidelines, requirements and procedures on Fund and Portfolio Company level shall be developed accordingly.

PRINCIPLES

- 4- The Fund promotes an integrated approach to nature conservation and social development, aligning forest operations to applicable international and national nature conservation and social development laws, wider landscape approaches, strategic planning processes and land use plans.
- 5- The Fund commits to the principles of sustainable forestry, particularly the Principles and Criteria of the Forest Stewardship Council®.
- 6- The Fund applies a precautionary approach to the conservation, management and sustainable use of living natural resources by investing in Portfolio Companies that include measures to safeguard and, where feasible, enhance habitats and the biodiversity they support.
- 7- The Fund applies the principle of the mitigation hierarchy, seeking to avoid, and where this is not possible, minimize adverse impacts and enhance positive effects on the environment and affected stakeholders, so as to contribute to the avoidance of any deterioration in the quality of human life, the environment and any net loss of biodiversity and ecosystems.
- 8- The Fund promotes the efficient use of natural resources, the adoption of environmental and social safeguards, and the reduction of emissions of greenhouse gases.
- 9- The Fund recognizes the importance of addressing the causes and the consequences of climate change in its countries of operations by developing mitigation and adaptation measures.
- 10- The Fund recognizes the responsibility of business to respect human rights and seeks to avoid infringement on the human rights of others and address adverse human rights impacts that financed business operations may cause or contribute to.

- 11- The Fund seeks to apply the principles of fair treatment, non-discrimination and equal opportunity for employees and contractors on Fund and Portfolio Company level by complying with the International Labour Organisation Fundamental Conventions¹.
- 12- The Fund seeks to invest in activities that offer a safe and healthy working environment to all workers and safeguard the health and safety of all stakeholders affected by business operations where the Fund's capital is invested in.
- 13- The Fund seeks the fair treatment of all stakeholders relevant to the activities in which the Fund's capital is invested in by: i) identifying relevant stakeholders; ii) respecting local communities and indigenous peoples legal and customary rights over resources, as well as culturally and socially vulnerable sites; and iii) engaging in participatory, fair and transparent decision making processes.
- 14- The Fund is committed to exhibit honesty, integrity, fairness, diligence and respect in all business dealings by adhering to, and requiring Portfolio Companies to adhere to the principles of good corporate governance and integrity standards.
- 15- The Fund is committed to the principles of transparency, accountability and stakeholder engagement.

COMMITMENTS

- 16- The Fund will only finance Portfolio Companies that comply with this Policy.
- 17- The Fund will refrain from making investments included in its Exclusion List and may refrain from financing a Portfolio Company on environmental or social grounds.
- 18- The Fund will only finance Portfolio Companies that comply with all applicable local and national laws, as well as international conventions and agreements ratified by the host country.
- 19- The Fund will avoid investing in projects or companies which may involve non-resolvable land use conflicts with local communities.
- 20- The Fund will engage in environmental and social appraisal processes when considering an investment opportunity, and will integrate the International Finance Corporation (IFC) Environmental and Social Performance Standards 2012 and European Investment Bank (EIB) Environmental and Social Standards 2013 early in the planning process of each investment.
- 21- The Fund will require Portfolio Companies to establish an Environmental and Social Management System. The Fund will actively seek for senior level endorsement of and adherence to its ESG requirements, establishing formal commitments through appropriate tools, targets, budgets, resources and timetables for implementation.
- 22- The Fund will adopt a set of environmental and social key performance indicators to assess Portfolio Companies and will undertake appropriate follow-up and monitoring of the ESG performance of Portfolio Companies throughout the investment process, and provide technical support in the light of difficulties, new challenges and opportunities for improvement.
- 23- The Fund will require and support Portfolio Companies to seek Forest Stewardship Council® certification.

¹ ILO Conventions 29 and 105 (forced and bonded labour), 87 (freedom of association), 98 (right to collective bargaining), 100 and 111 (discrimination), 138 (minimum age) 182 (worst forms of child labour).

- 24- The Fund will engage in a dialogue with relevant stakeholders related to the Fund's environmental and social performance.
- 25- The Fund will seek to support and uphold the principles of good forest governance and legality of forest products trade in the companies and countries in which it operates, as outlined in the European Union's Forest Law Enforcement, Governance and Trade (FLEGT) policy.
- 26- The Fund will assess the ESG credentials of potential buyers at the exit of an investment.

INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

- 27- The Fund will allocate responsibilities and appropriate resources for the effective implementation of this Policy. The Fund will nominate one responsible person and adequate staff resources to oversee the environmental and social appraisal and monitoring processes and to initiate and develop environmentally and socially beneficial projects.
- 28- The Fund will develop and maintain appropriate documents to assist in implementing this Policy and will ensure that staff receives appropriate procedures and training on the requirements of this Policy.
- 29- This Policy may be amended or updated, subject to approval of the Investment Committee. In addition, this Policy will be subject to review by the Investment Committee at least every 5 years.
- 30- The Fund will establish a streamlined protocol to obtain feedback and redress grievances associated with the implementation of the Fund's activities and investments.
- 31- The Fund will make this Policy public and disclose any relevant related documents or information.