Introduction letter

Dear Stakeholders,

We are pleased to provide you with the Annual Sustainability Report of the Arbaro Fund. While the year was certainly characterized by restrictions, uncertainty and lockdowns, we are happy to say that we still made good progress towards our target of delivering sustainable environmental and social impact. More information on the impacts of Covid-19 on our operations can be found in this report.

Arbaro’s third investment got slightly delayed due to some administrative issues, but the Fund did finalise an expansion investment in one of its portfolio companies. Operationally both portfolio companies completed their planting targets for the year increasing their planted area in total by 2,784 hectares. We hope to see the administrative delays past us soon and to be able to introduce you to our third investment, located in Paraguay.

Major milestone was reached during 2020 as the Fund reached its final closing, bringing in USD 51 million of fresh impact investment capital. Despite the challenges the pandemic brought to the fundraising, it has been encouraging that there is appetite for impact investments even in the middle of all the uncertainty.

The focus in 2021 will be on pipeline development and bringing in new projects. The pipeline is healthy with several interesting opportunities, and we are making good progress with assessing these. We look forward to a successful year 2021!

FIM ASSET MANAGEMENT S.À R.L.  ARBARO ADVISORS GMBH
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Fund update

In operation for more than two years, we continue our efforts to build and support sustainable forestry companies in Latin America and Sub Saharan Africa. We strongly believe in the positive economic, social and environmental impacts and contributions to climate action that timber plantations can deliver when managed in a responsible and professional manner. This is demonstrated by the achievements of our portfolio companies in the field.

A major achievement of 2020 was the final closing of the Arbaro Fund. USD 51 million of additional capital was raised mainly from new investors, including public as well as private investors. With this milestone, the Fund reached a final size of USD 111 million that will be allocated to plantation forestry projects in the coming years.

Despite the restrictions due to Covid-19, we managed to conduct several field visits to our portfolio companies and potential investment opportunities. The expansion of Forestal Apepú that was initiated in 2019 was completed, and we proceeded with our third investment, a second company in Paraguay, which is currently in execution.

Arbaro has so far invested USD 24 million, of which USD 0.6 million was invested in 2020. Arbaro has also commitments of USD 23 million and expected investments during 2021 in excess of USD 40 million.
Impact of Covid-19

**Arbaro Fund**

The team has been working remotely since March 2020 but with good technical solutions has not experienced any operational issues.

Covid-19 has had a significant impact on fundraising as many potential investors needed to focus on their existing assets and operations and put new investments on hold. Given this, Arbaro is very pleased having been able to reach the final closing towards the end of 2020.

Pipeline development has also been affected by the travel restrictions, which have caused delays in assessing potential projects. The team did manage to conduct several field visits during 2020 and despite the difficulties, the pipeline has developed well and is currently in healthy standing.

**Portfolio companies**

At the time of writing this, the pandemic continues to affect living and work globally. As such Arbaro’s portfolio companies are also impacted, but overall, such impact is foreseen to have very limited long term consequences. The companies continue to monitor the situation and react to it as necessary.

**Miro Forestry Developments Ltd**

Miro took quick and proactive measures to limit the impacts of Covid-19 on their operations. Their plan focused on three pillars: awareness raising, reducing exposure and responding to outbreaks.

Miro provided information, but also protective equipment and materials not only for their own employees but also for the communities and provided support to local health clinics.

**Forestal Apepú S.A.**

Apepú developed a contingency plan to ensure that operations can be kept going and making sure that employees stay safe.

During the most difficult times the operations were minimized just to essentials such that operationally the project would not suffer. As of end of 2020 all the foreseen operations for the year had been finalized and everything was on track.
Portfolio impact

24,264 ha of land managed under FSC® certification

769,000 tons of CO₂ sequestered in timber plantations

18,459 ha of timber plantations, of which 2,784 ha planted in 2020

Conservation over 8,000 ha of conservation areas, including natural forests, buffer zones and other sensitive habitats
Portfolio impact

2,240 people employed (FTE) throughout 2020.
Of which 17% are women

Social development programmes directly benefitting over 1,200 people of the local communities, with a focus on food security and access to water and education

1,973 people trained during the year to develop technical skills, strengthen health and safety and improve the environmental and social performance
Country Context: Ghana

### Environmental

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<tbody>
<tr>
<td>Forest cover</td>
<td>35.0 %</td>
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<tr>
<td>Annual deforestation rate, 10y average</td>
<td>~0.19 %</td>
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### Social

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<tbody>
<tr>
<td>Population</td>
<td>30.4 million</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>2,200 USD</td>
</tr>
<tr>
<td>GDP per capita growth, 10y average</td>
<td>7.4 %</td>
</tr>
<tr>
<td>Unemployment</td>
<td>4.5 %</td>
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### Technical

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<tbody>
<tr>
<td>Plantation forest</td>
<td>283,000 ha</td>
</tr>
<tr>
<td>Plantation forest of total forest area</td>
<td>3.6 %</td>
</tr>
<tr>
<td>FSC® certified plantation companies</td>
<td>21,400 ha</td>
</tr>
<tr>
<td>Sustainable timber supply gap</td>
<td>2-3 million m³</td>
</tr>
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</table>

The services sector contributes most to economic growth, followed by industry and agriculture.

Agriculture is the main land use sector.

Emissions from deforestation and forest degradation are significant and represent half of total emissions.

The main deforestation drivers are agriculture, commodity extraction and unsustainable wood removals.

During the last decades forest degradation and deforestation have reached levels that jeopardize the prospects of the historically important forestry and wood processing industries.

Sources: World Bank, FAO, FSC®, Arbaro
# Country Context: Sierra Leone

<table>
<thead>
<tr>
<th>Environmental</th>
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<tbody>
<tr>
<td>Forest cover</td>
<td>35.7%</td>
</tr>
<tr>
<td>Annual deforestation rate, 10y average</td>
<td>-0.74%</td>
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<table>
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<tr>
<th>Social</th>
<th></th>
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<tbody>
<tr>
<td>Population</td>
<td>7.8 million</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>527 USD</td>
</tr>
<tr>
<td>GDP per capita growth, 10y average</td>
<td>3.0%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>4.6%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Technical</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Plantation forest</td>
<td>20,000 ha</td>
</tr>
<tr>
<td>Plantation forest of total forest area</td>
<td>0.8%</td>
</tr>
<tr>
<td>FSC® certified plantation companies</td>
<td>6,000 ha (only Miro)</td>
</tr>
<tr>
<td>Sustainable timber supply gap</td>
<td>1 million m³</td>
</tr>
</tbody>
</table>

The major economic activities undertaken in the country are agriculture and mining. Agriculture provides employment for about 85% of the population and contributes more than 30% of the GDP and 16% of the total export earnings.

Fuelwood is the main source of energy for 90% of the population for domestic cooking. It is also used for non-domestic purposes in agro-based industries such as tobacco and fish smoking in many coastal villages.

The main causes of deforestation include expansion of agriculture, such as shifting cultivation practices, but also large-scale agricultural investments that are increasingly taking up large land areas, as well as logging, mining, construction, fuelwood harvesting and charcoal production.

Sources: World Bank, FAO, FSC®, Arbaro
Miro Forestry Developments Ltd

Miro operates timber plantations since 2010 on leased land in Ghana and Sierra Leone. As plantations expand and mature, the company has started its industrialization phase to become a vertically integrated forest company. We have invested USD 15 million into the project since 2018.

Plantations consist mainly of eucalypt, gmelina, acacia and teak species. Miro achieved its annual objective to establish 2,000 ha of new plantations in 2020, with a total plantation area of 17,278 ha at the end of the year.

During the year Miro operated a veneer plant and a sawmill, which was replaced by an edge glued board plant. Furthermore the company started the initial works to set up a plymill and pole treatment plant that will be completed in 2021.

Miro has completed a new investment round that will fully fund its expansion and industrial development plans. This milestone secures the funds needed until the company becomes cashflow positive and supports its financial sustainability.
The plantations are FSC® certified in both countries (certificates FSC® C133731 and FSC® C135138). During 2020 surveillance audits were successfully completed and FSC® Chain of Custody certification was achieved for all industrial operations (certificates FSC® C136035 and FSC® C158218).

Throughout the year Miro supported a total 2,197 FTE employees, both directly hired and subcontracted.

To address road safety issues and the challenges of new industrial development, Miro has made a great effort to improve the health and safety performance and culture across the company. The teams have been strengthened with new hires and reinforced trainings and the vehicle fleet has been upgraded. Internal procedures and controls have also been further developed and improved.

Miro has built solid relations with local communities and stakeholders. The company continually supports social development projects, the focus of which remains on food security, access to clean water and access to education. In 2020 the first trials of its forestry smallholder scheme were established, with approximately 50 ha planted.
Focus on landscape restoration activities

In recent years Miro has been planting native species within its conservation areas with the aim to encourage the restoration of these natural environments and improve the connectivity of conservation and riparian areas, which creates wildlife corridors.

These activities also have the potential to reduce the risks on the plantations, as the presence of dense forest in a mosaic landscape improves the resistance against fire and prevents the occurrence of illegal activities.

So far 160 ha have been planted and the scale is growing as the company gains experience and validates the success of the activities.

Given the increasing interest in the potential of nature-based solutions to sequester carbon, Miro is looking for partnerships that would allow to implement this landscape restoration model at large scale.
Country Context: Paraguay

<table>
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<tr>
<th><strong>Environmental</strong></th>
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<tbody>
<tr>
<td>Forest cover</td>
<td>41.9%</td>
</tr>
<tr>
<td>Annual deforestation rate, 10y average</td>
<td>-1.93%</td>
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</table>

<table>
<thead>
<tr>
<th><strong>Social</strong></th>
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<tbody>
<tr>
<td>Population</td>
<td>70 million</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>5,414 USD</td>
</tr>
<tr>
<td>GDP per capita growth, 10y average</td>
<td>41%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>7.6%</td>
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<table>
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<tr>
<th><strong>Technical</strong></th>
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</thead>
<tbody>
<tr>
<td>Plantation forest</td>
<td>133,000 ha</td>
</tr>
<tr>
<td>Plantation forest of total forest area</td>
<td>0.8%</td>
</tr>
<tr>
<td>FSC® certified plantation companies</td>
<td>30,500 ha</td>
</tr>
<tr>
<td>Sustainable timber supply gap</td>
<td>1 million m³</td>
</tr>
</tbody>
</table>

Services sector followed by industry, agriculture, energy and forestry are the main GDP contributors. 

Agriculture commodities are main export products with Brazil and Argentina being the main export destinations.

Main land use is agriculture.

Land use changes and agriculture constitute the largest contributor to emissions.

Past and current deforestation are among the highest in the world.

Main direct causes of deforestation include expansion of agriculture and livestock, in many cases using fire to clear land, and infrastructure extension. Wood extraction plays a major role in forest degradation.

Sources: World Bank, FAO, FSC®, Arbaro
Forestal Apepú S.A.

Forestal Apepú is a forestry company that was established by Arbaro in 2019. The company acquired 2,650 ha of land previously used for mechanized agriculture and cattle with the aim to establish sustainable timber plantations. At the end of 2020 Arbaro has invested USD 9 million.

The company intends to plant 1,850 ha with eucalypt species and has designated 550 ha for conservation, corresponding to remnants of natural forests and other sensitive areas.

During 2020 the annual planting target was achieved, reaching a planted area of 1,181 ha. During the year, the first pruning operations, that will guarantee the good quality of the produced timber, as well as the first forest inventories were conducted on the young plantations.

Planting of the entire production area will be completed in 2021. Apepú is currently assessing the potential acquisition of additional land that would allow it to increase its production and conservation areas substantially.
Throughout 2020 an average of 43 FTE worked in Forestal Apepú, with over 90% of field workers coming from the close by communities. The team increased efforts to improve compliance with health and safety measures in operations, and trainings were provided to the employees.

As a young forestry company Forestal Apepú continued to develop its ESMS during 2020 and successfully put it into practice. As a result, the company achieved an important milestone in December, when it completed its first main audit to become FSC® certified. The certificate was formally issued in March 2021 (certificate FSC® C157449).

Furthermore, the documentation for VCS carbon certification was formulated and released for public consultation.

Forestal Apepú has initiated its research project in cooperation with partners to test the suitability and performance of native species for commercial plantation. During 2020 seeds of selected native trees were collected and the production of seedlings of high quality started. These will be ready in 2021 to establish 18 ha of trials under different silvicultural regimes and combination of species.
Focus on agricultural project with communities

In 2020 Forestal Apepú launched its first social development project. Vegetable gardens were established with 57 selected beneficiaries from the neighboring communities.

The objective was to contribute to food security particularly during Covid-19 times, and to start building trust and a positive relationship between the company and the communities, which will be the basis of future and long-term partnership and cooperation.

The company provided seeds and technical assistance to the participants and monitored the performance. All beneficiaries successfully maintained their gardens throughout the year and used their produce mainly for subsistence, with some informal sales in the communities.

The initiative will be continued during 2021 with a view to foster more autonomous producers, through the production of seeds, and to facilitate the commercialization of produce for the interested participants.
The Arbaro Fund relies on a fully dedicated team of seven with extensive experience in forest operations, forest investments and impact finance, and benefits from full back office support through its two founding companies.

More information: www.arbaro-advisors.com

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Investment manager
Contribution and approach to impact targets

**Employment: 1,680 FTE**

We continuously monitor the performance of our investees. Once a year we collect a set of predefined indicators and consolidate them to estimate the performance at fund level.

In particular, for the two specific impact indicators, employment and carbon sequestration, we apply a defined methodological approach that can be summarized as follows:

**Employment creation**

For the estimation of employment supported by an investee we include both direct and indirect employment defined as:

**Direct employment** relates to employment generated by forest management activities. It includes workers directly engaged by the company (direct workers) as well as workers engaged through third parties (contracted workers). Direct employment is directly reported by the companies to the fund.

**Indirect employment** relates to employment generated along the supply and value chains. It includes direct and contracted workers, as well as workers engaged by primary suppliers and clients of the company along the supply and value chains. Indirect employment is estimated indirectly by the fund as a multiplier of direct employment, that varies between 1 and 2 based on benchmarks from the literature.

Employment is expressed in terms of *full time equivalent (FTE)* units, where one FTE is equal to one employee working full time. The use of FTE units allows the generation of comparable values across different contexts, regardless of the share of permanent employees working full time, seasonal and temporary workers.

**Carbon sequestration: 0.7 million tons CO₂**

**Carbon sequestration**

Carbon sequestration corresponds to *net carbon sequestered* in timber plantations: we only include aboveground and belowground biomass in planted trees, which are the carbon pools that change the most with plantation operations, and baseline and leakage are considered and deducted.

Sequestration is expressed in *tons of carbon dioxide (CO₂)*. Calculations are based on standing wood volumes reported by our investees, measured in annual forest inventories. Volume data are then converted to tons CO₂ units in line with provisions from the IPCC and approved methodologies.

To account for losses over time due to harvest operations, we limit our maximum sequestration to the long term average, an approach applied by the main voluntary carbon certification schemes.

Additional carbon benefits that may be achieved with carbon stored in litter and soils, in protected forests, and in in wood products are not accounted for.

**Progress towards targets**

Expressed as contributions, since we account for the full achievements of our investees, even when other investors are also involved in the investee company. Only additional contributions, meaning that any achievements of years prior to our investment are deducted, while our investment may also be important to maintain and further support prior achievements.

For additional details on our methodological approach, please contact our team.
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