Introduction letter

Dear Stakeholders,

We are pleased to provide you with the Arbaro Fund’s first Annual Sustainability Report. We are excited to plant the seeds for delivering sustainable environmental and social impact as part of the Arbaro Fund’s mission.

Only a few months after its first closing in July 2018 with commitments of USD 60.2 million, the Arbaro Fund made its first investment in Miro Forestry Developments in Ghana and Sierra Leone in November 2018. As its second investment, the Fund established a new forestry company in Paraguay in June 2019. Both companies reached their planting targets for 2019, with the establishment of ca. 3,500 hectares of new plantations.

In 2020, besides managing the existing investments and developing new opportunities, the team will be occupied with continued fundraising efforts. There is a healthy pipeline with various potential opportunities in both Latin America and Sub Saharan Africa.

We look forward to a successful year 2020!

FIM ASSET MANAGEMENT S.À R.L.      ARBARO ADVISORS GMBH
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Our mission

The Arbaro Fund invests in plantation forestry projects in emerging markets in Latin America and Sub Saharan Africa.

With our investments we support the creation, technical improvement and expansion of forest companies with a firm commitment to sustainability and to delivering positive environmental and social impacts.

We firmly believe that sustainably managed timber plantations can offer an efficient source of raw material for the local markets, while at the same time reducing pressure on natural forests, creating employment and socioeconomic development in rural areas, and contributing to climate change mitigation and adaptation efforts.

Over the fund’s lifetime, for each 1 USD million committed to the fund we aim to:

- Sequester 100,000 tons CO₂ in timber plantations
- Create 25 jobs with our operations
- Earn a return of 12% for our investors
Our investment approach

**In a nutshell**

- We focus on selected countries where the natural conditions for plantation forestry are ideal, there is a pressing need for sustainably produced wood, and our team has an extensive track record and networks.
- We implement best silvicultural practices and follow a careful site-species-market approach in order to have the right tree in the right place from an environmental, economic and market perspective.
- While we invest in both greenfield and brownfield developments, we are committed to always plant new trees in our investments and create additional positive impacts.
- We work with locally rooted partners to ensure a local perspective in management.
- We apply stringent environmental and social standards to effectively mitigate risks and promote positive impacts.
- We are committed to achieving Forest Stewardship Council® (FSC) certification in all our investments.
- We aim to build a balanced and diversified portfolio by investing in both greenfield and brownfield, as well as processing operations, using different species and growing wood for different markets and end-uses.
Our investment approach

**Sustainable wood production**

In the countries where we operate, wood industries have traditionally relied on wood from natural forests, in many cases sourced by an informal forestry sector. With the advance of deforestation and forest degradation, as well as greater efforts to protect natural forests, wood industries face increasing difficulties to source their raw materials locally.

Furthermore, the demand for wood products will increase over the coming decades, as a result of growing populations and increasing prosperity. Meeting this growing demand will increase the already heavy pressure on natural resources.

Sustainable timber plantations can play an important role by efficiently producing wood from alternative renewable sources. At the same time planted trees sequester CO$_2$ from the atmosphere and over time, create a permanent carbon stock.

However, the sector has only seen little development in these countries. Substantial investments in new timber plantations, improved knowledge and technology are needed to promote innovation and create successful business cases that can be replicated.
Our investment approach

**Innovation through certification**

The FSC is a non-profit organization that promotes the responsible management of natural forests and plantations. Its system for voluntary and independent certification has become one of the most recognized, rigorous and comprehensive forest certification schemes.

FSC certification is a powerful tool that provides companies with guidance for positive change and leads to more transparent company cultures.

In our primary focus countries, FSC certified forests only represent a small share of production forests. Certified timber plantations are even rarer, with just a handful of certified companies.

Forest production under FSC standards is an innovative approach that needs joint efforts to become the industry standard and contribute to the shift towards sustainable production in the sector.
Our investment approach

Environmental and social focus
To put our investment approach into practice, we follow a strict investment process and we actively oversee the operations of our investees.

Our environmental and social management system (ESMS) ensures that environmental and social matters are properly addressed and integrated in all of our operations. This system sets the standards to which we adhere, most notably the Environmental and Social Performance Standards of the International Finance Corporation, and guides our operations at each phase of the investment lifecycle.

Our ESMS is a living system: we continually review and improve our processes.

1. Before we invest, we conduct exhaustive due diligence on investment opportunities, with environmental and social aspects as a fundamental part of the process.
2. When we invest, our investees commit to enhanced measures and capacities to address risks and improve performance.
3. During the investment, we closely monitor operations and actively support our investees with the aim to realize the full potential of the projects.
Our timeline

- **July 2018**: First closing of the Arbaro Fund with USD 60.2 million from a mixed group of private investors and development finance institutions.
- **November 2018**: First investment in Miro Forestry Developments Ltd.
- **June 2019**: Second investment in Forestal Apepu S.A.
- **December 2019**: Formal agreement to expand the management area of Forestal Apepu S.A.

In the meantime, we continue our efforts in fundraising and in the identification and development of attractive investment opportunities to allocate our funds.
**2019 Highlights**

**Arbaro Fund**

- **USD 23.4 million of which 14.4 in 2019** invested in two forest companies operating in Ghana, Sierra Leone and Paraguay

- **3,489 ha** planted in 2019

- **16,062 ha**

- **21%**

- **7,884 ha** of natural forests and other sensitive areas set aside for conservation

- **24,264 ha** of land managed with FSC certification
2019 Highlights

- **2,034 people** employed by our investees under fair and safe conditions (expressed in full time equivalents)

- **13,000 people** estimated to benefit from community development programs promoted by our investees

Contributions to our key impact indicators:
- 1,200 full time equivalents
- 324,000 tons CO₂

Please refer to the methodological note

Our investees’ plantations have cumulatively sequestered **366,000 tons CO₂** from the atmosphere, plus carbon also stored in processed products, protected areas and soils
Miro Forestry Developments Ltd

Miro Forestry in Ghana and Sierra Leone

Miro operates since 2010 in Ghana and Sierra Leone. At the time of our investment, the company managed ca. 10,000 ha of plantations and operated pilot sawnwood and charcoal facilities.

Operations are conducted on land leased from the government and local communities. The main species planted include eucalypts, as well as gmelina, corymbia, acacia and teak.

Miro has a strong focus on environmental and social aspects. The company has a fully operational ESMS and has built solid relations with local communities and stakeholders. The plantations are certified in both countries (certificates FSC-C133731 and FSC-C135138).

Alongside other investors, we support Miro in the expansion of plantation areas and further industrial development.
2019 Highlights

In 2019 Miro achieved its annual objective to establish 3,000 ha of new plantations, with a total plantation area of 15,601 ha at the end of the year.

Miro continues to explore industrial options and to test the market for different products. While charcoal operations have been suspended, the company conducts trials in sawnwood and veneer production. A pole treatment plant will be established in Sierra Leone and start operations in 2020.

On environmental and social matters, the company has introduced and improved several processes. Most importantly, the ESMS has been extended to cover industrial operations. Moreover, procedures related to security measures, vulnerability assessments and third party assessments have been enhanced.
Miro supports several social development projects focused on infrastructure, access to water, education and agriculture. The team is currently designing a smallholder program that will be launched in 2020.

Unfortunately, Miro has recently faced difficulties in Ghana related to road safety. Two serious accidents in 2019 and 2020 have shown that effective action is needed to address this situation. Miro already introduced important improvements in 2019 and will continue efforts in 2020 to enhance road safety.
Forestal Apepu S.A.

Forestal Apepu in Eastern Paraguay

Forestal Apepu is a new company fully established by the Arbaro Fund in 2019. The company operates on a land property previously used for mechanized agriculture and cattle, with soils highly suitable for forestry. Overall, it will establish 1,850 ha of eucalypts produced by local nurseries. An additional 550 ha of natural forests and sensitive areas are protected in the property.

Operations are managed by UNIQUE and its Paraguayan subsidiary. The local team has extensive experience in plantation forestry under certification, deep knowledge of the region and strong local networks.

The project is located in the San Pedro Department, a region that has suffered from heavy deforestation in the past.
2019 Highlights

In the initial months, Forestal Apepu focused on obtaining the necessary permits from the national authorities, for which an environmental impact assessment was conducted. Forest operations only started in July 2019 but the team managed to plant the annual target despite the late start.

Over the year the company has employed 25 full time equivalents for its operations. More than 90% of the workforce come from local communities.

Forestal Apepu has established its ESMS.

In 2019 a community liaison officer was hired, the team and operations were presented to the local communities, a grievance mechanism was introduced, and information was collected for social and biodiversity baseline studies. The team has also worked on documenting its policies and procedures.
In 2020 Forestal Apepu will continue planting operations and will seek FSC certification for the first time. The team will take initial steps to develop three initiatives:

- Trials with native species to test their suitability and performance under plantation regimes
- A research partnership with the local university to explore and develop alternatives to pesticide use
- Establishment of vegetable gardens with families and women from local communities, providing inputs and technical assistance
The Team

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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Methodological note

To estimate contributions to our two key impact indicators, employment and carbon sequestration, we apply a specific methodological approach.

**Employment creation**
Expressed in full time equivalent units, employment supported by an investee includes:
- Direct employment in company operations, including direct and contracted workers. This value is directly reported by investees.
- Indirect employment along the supply and value chains, estimated as a multiplier of direct employment that varies between 1 and 2 depending on mechanization levels.

**Carbon sequestration**
Expressed in tons CO₂ units, sequestration achieved by an investee corresponds to net carbon sequestered in timber plantations:
- Only aboveground and belowground biomass in planted trees are considered.
- Baseline and leakage are deducted.
- Additional carbon stored in litter and soils, in protected forests, and in wood products is not accounted for.

Calculations are based on standing wood volumes reported by our investees, measured in forest inventories. Volume data are then converted to tons CO₂ 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.

**Progress towards targets**
- Expressed as contributions, since we account for the full achievements of our investees, also when other investors are involved in the investee company.
- Only additional contributions, meaning that any achievements of years prior to our investment are deducted, while our investment will 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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