IWC

IWC's 2020 ESG Report

Proper land use is crucial for the global aspiration of reducing greenhouse gas emissions

Forestry alone has been recognized as one of the most cost-effective and immediate solutions to curb climate change². Forests not only help in stabilizing the global climate by sequestrating carbon and substituting carbon-intensive materials and resources, they also offer water filtration, flood buffering, healthy soils and erosion protection, biodiversity habitat, and economic growth.

Agriculture, on the other side, is central for food security, has high economic and social importance, and has a role to play in tackling climate change. Efficient, sustainable agriculture can produce more on less land, improve soil health and water quality, and reduce resources use and GHG emissions.



AGRICULTURE - IMPORTANT ROLE TO PLAY

Feeds over **7 bln people** (9+ bln projected by 2050).

Is the world's largest industry, providing income to over **1 bln people**.

Occupies around **50% of the Earths'** habitable land.

FORESTRY - KEY CONTRIBUTOR TO CLIMATE

A large tree can transpire as much as **379 liters of water** into the air per day, and in so doing impact rainfall patterns.

A single 30-meter tall mature tree can absorb as much as **23 kg of CO2** in a year, which over its lifetime is approximately the same amount as an average car driven **41,500 km** would emit.



One tree can produce enough oxygen in a year to support two people, while sequestrating a portion of their CO2 emissions.

1 IPCC, 2014: Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report (AR5) of the Intergovernmental Panel on Climate Change.

2 The Inevitable Policy Response (PRI, Vivid Economics, and Energy Transition Advisors); and IPCC's AR5.

Climate change: a threat but also an opportunity

Current state and future risks

The world today is about 1°C warmer than the average pre-industrial levels³ with most of the warming caused by humans' greenhouse gas emissions. 2019 was the second warmest year over the 140-year recording period for global land and ocean surface temperature average. The five warmest years on record have all occurred since 2015, and nine of the ten warmest years on record have taken place since 2005⁴.

As a result, the last decade has been the costliest on record for global natural disasters, totaling USD 3 trillion of loss. Historically, tropical cyclones, severe convective storms, and flooding have been the costliest events. Wildfire, until recently a relatively insignificant annual loss driver, gained prominence after record-breaking losses in 2017, 2018, and 2019⁵.

Climate models are particularly important for building resilience towards physical risks, and as such, are of natural

interest for real assets investors. Surface temperature is projected to rise, and it is very likely that heat waves will occur more often and last longer. Furthermore, extreme precipitation events will become more intense and frequent in many regions. As consequence of climatic shifts, ecosystems and their related services will be significantly impacted; however, individual locations will experience changes differently.

Transition opportunities

Afforestation, reforestation, restoration of degraded land, sustainable and conservation forestry, and sustainable agriculture are nature-based solutions that could deliver around a third of the additional mitigation needed by 2030 to close the gap between current policy trajectories and what is required to achieve a 2° C or 1.5° C pathway⁶.

These solutions are feasible, readily-available, deployable at scale, and considered sustainable economic activities⁷. Broadening policy-supported investments could further

expand the opportunities for timberland and agriculture investments, through:

- carbon price and scope increase
- more ambitious national targets for large-scale restoration and public-private cooperation
- promotion of biodiversity protection
- reforestation and afforestation offset financing
- agricultural yield improvements and shifting diets.²
 - 3 Defined as the average annual global temperature between 1850 and 1990.
 - 4 NOAA National Centers for Environmental Information, State of the Climate: Global Climate Report for Annual 2019. Records of temperature (1880-2019).
- 5 AON, 2019 Weather, Climate & Catastrophe Insights.
- 6 IPCC, 2019: Climate Change and Land.
- 7 EU Sustainable Taxonomy

 is a transition framework, classifying environmentally sustainable activities.

A future built on wood: one of the best things we can do for the climate

Forests not only are unique and critical for regulating climate, protecting biodiversity, and enhancing human well-being, they are a key economic sector and driver of growth for some countries. As population and consumption increase, wood demand is expected to triple by mid-century⁸. Wooden products may increasingly substitute other carbon-intensive construction materials, while fibers may replace plastic materials, as a result of regulation and public concerns. In future, wood can serve as a base material in an increasing number of consumer goods – from fashion clothing and baby diapers, to glass and plastic products.

Therefore, planting forests, managing them sustainably for the longer term, and using wood for products and energy is one of the most environmentally and climatefriendly ways humans can live⁹.

While certified forests and plantations have been steadily growing over the past two decades, increasing wood demand is putting at risk natural forests, if sustainably managed commercial plantations are not magnified further. The dynamics occurring between the current annual net loss of forests, the international climate accord, the growing global population and wealth, and the constrained availability of land, require perpetual management and enhancement of existing sustainable plantations, productivity gains, large-scale sustainable landscapes, and cross-integrated nature-based solutions (i.e. agroforestry).





Special thanks to Træ.dk for inspiring the graphics on this page

IWC's ESG framework and investment solutions

At IWC, we believe ESG matters have a direct impact on the investment performance and the broader society. ESG is, therefore, enshrined in our day-to-day operations and crystalized in our ESG Policy, which is based on international principles, guidelines, and norms¹⁰.

ESG integration

We integrate ESG, including climate-related risks and opportunities, land and resource rights, and other environmental, social, and governance factors, into our investment analysis and ongoing oversight, and strive to obtain the most appropriate, recognized thirdparty forest certification for all forestry investments or forestry activities under our advice or management. Also, agriculture investments (now only in Europe) are being conducted with high emphasis on social, environmental, and resource management matters, and today 30% of these are managed organically.

Natural capital solutions

Afforestation and reforestation, maintaining and scaling up existing sustainably managed plantations and farmland, conservation forestry and ecosystem restoration, all have one common feature – the aim to deliver economic, social, and ecological functions for the longer term. IWC proudly offers and advises on opportunities within this broad range of natural capital landscapes across the globe, and more specifically sustainable timberland and agriculture, payment for ecosystem services, and impact investing.



IWC Group's 2019 ESG highlights



- i. The main driver of change in the forest certification status compared to 2018, is the disposition of certified assets and acquisition of new, not yet certified ones (-19 % change in the productive forest area). Post YE19, some assets have already been certified. Further, IWC re-categorized a few assets that we found were not on par with certification schemes, recognized by the company's Forest Certification Policy.
- Almost 0.9 million hectares of forests managed sustainably, with only 2% not certified or to be certified (in disposition). Certified forests provide multitude of benefits in addition to sustainable wood flow – preserve high-conservation values and protect rare habitat (238 species are protected in 126,000 forest hectares and 26,000 watersheds), ensure forest health and regeneration, store and sequester carbon. In so doing, contributing to the achievement of several SDGs (15,13,12,6).
- iii. The 2019 change in carbon pools is driven by asset sales. IWC is currently only accounting for carbon pools (above- and below-ground) up to the forest gate, though the harvested wood products (HWP) are an important carbon pool and substitute emission-intensive products.
- iv. While annual harvest levels are 17% higher than in 2018, increase is not at the expense of annual timber growth when looking at the

full portfolio. Sustainable forestry ensures that over the long term, growth is not exceeded by harvest and forest health and productivity are balanced. Even if within certain years removals are higher than growth, on an average and long-term basis, the timber stock is not diminishing, unless assets are sold or land use is changed.

- v. Many forests contain or are surrounded by watersheds that are important habitat for species above and below-ground, including humans. Sustainable forest schemes require such to be preserved – via surrounding buffers so no timber operation can disturb their natural state, but also through conservation easements when watersheds are habitat of rare, threatened or endangered species. In 2019, a number of 42 and 26,000 hectares of watersheds and 4,000 km of streams were protected.
- vi. In addition to forestry, active ecological restoration and longterm protection of waterbodies impacted by some form of land development, is how our clients' investments are preserving natural landscapes. Such investments have restored and permanently protected 3,900 hectares of wetlands in 2019 and since inception, have restored 10,000 ha of wetlands, 200 km of streams, and offset 1,400 tons of nutrients and 2,500 tons of sediments.
- vii. From 1990 to 2014, the value of agricultural production increased by 22% in Denmark, where our clients' agricultural assets are located.

In the same period, nitrogen loss to coast water was cut by 43%, the phosphorus excess went down 83% and greenhouse gas emission decreased by 16% (Danish Agriculture & Food Council).

- viii.Managers not having or currently formalizing their ESG policies, are applying sustainable forestry principles and other policies and procedures pertaining to responsible business conduct. Those structured to deliver positive environmental benefits, indirectly benefiting local communities, do not have the same ESG integration approach. Where ESG roles are not specifically dedicated, responsibilities are integrated in other senior and professional roles.
- ix. Climate change is integral to IWC's business. While we are integrating climate change analysis when assessing new opportunities and when adverse events manifest themselves, we are in process of streamlining our company-wide framework. This initial analysis is part of that process and currently aims at providing a high-level overview of climate change integration at IWC and investment managers, so we can set the right course for further improvement.

All values on pages 6 and 7 are presented as rounded figures.



Sustainable land use creates a cascade of additional benefits to society

17

16

15

14

13

O2

CO₂

12

11

15. Preserving wildlife habitat and biodiversity



13. Resilient forest landscapes helping climate change mitigation and adaption



13. Capturing and storing CO₂, purifying air

> 12. Sustainable timber substituting non-renewable building materials and everyday products



10

 15. Reducing soil erosion, enriching organic life



2. Ensuring food from sustainable agriculture

3. Improving health & well-being – tourism, recreation and education

6. Regulating and filtering water

7. Delivering sustainable and renewable energy, saving natural forest



8. Producing income from timber and non-timber forest products and services

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International Woodland Company A/S

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Investment

Partners A/S

The IWC Group is a leading natural capital investment expert with deep international experience within timberland, agriculture, and responsible investment, providing diversification, inflation hedge, capital appreciation, and impact investment opportunities to institutional investors.

To learn more, visit us at www.iwc.dk or contact us at iwc@iwc.dk.

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