IWC 2022 ESG Report

Message from IWC's CEO

Sustainable development: A language and a culture

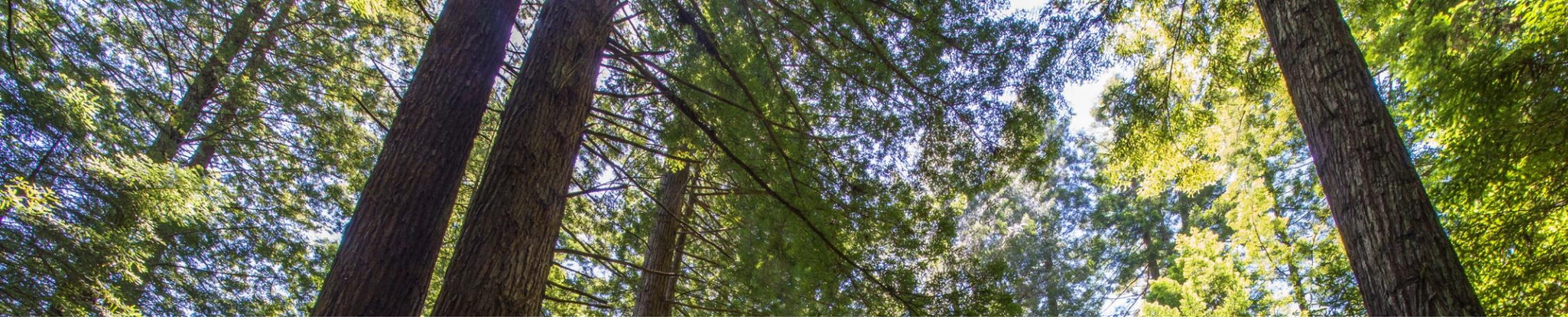
ESG is becoming a mainstream component of reporting, hereby increasing transparency on a variety of elements considered key metrics as to the sustainability of a company or investments.

Historically, the industrialized and globalized societies have focused on the state of the economy, while the language and culture around sustainability have had limited attention. But in the past 40 years, especially the United Nations has had an increased focus on sustainability, and we now have a sophisticated language and culture around what sustainable development is. I personally think that this is an important progress.

A few major events have been critical in where we stand today. The first that comes to my mind is the Bruntland report in 1987, stating that **sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.**

This was followed by the Earth Summit in 1992 which produced the Rio Declaration on Environment and Development, the Statement of Forest Principles, and Agenda 21. The Earth Summit also led to the establishment of the Convention on Biological Diversity, and the United Nations Framework Convention on Climate Change (UNFCCC). Furthermore, **the three main pillars of sustainable development** were defined as **economic growth, environmental protection, and social equality,** where no one element is more important than the other. If one element dominates the others, or one element is neglected, the system becomes instable and collapses.

Thirty years later, the language has become more sophisticated, and at the Sustainable Development Summit in 2015 we witnessed the introduction of the **Sustainable Development Goals (SDGs)** as a collection of **17 interlinked global goals designed to be a blueprint to achieve a better and more sustainable future for all**. This was a major step for a broader communication, and even down to kindergartens, the message was heard.



At IWC, we have recently participated in the implementation of the **Taxonomy Regulation** that was published in the Official Journal of the European Union on June 22, 2020, and entered into force on July 12, 2020. It establishes the basis for the EU taxonomy by setting out **overarching conditions that an economic activity must meet in order to qualify as environmentally sustainable**. The Taxonomy Regulation establishes six environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems.

We report the storage of carbon in our clients' standing forests, as well as the use of the wood taken out of the forests. The more wood is stored in buildings, the better for the climate. We also report on farmland investments which are key to a sustainable transition.

For both asset classes, in our due diligence of new assets, we look into climate change, social impacts, and biodiversity. Tools are being developed and baselines are established.

We are not there yet, and will never be, as ESG is an ever-evolving field, but we pride ourselves to be at the forefront of the developments regarding ESG components relevant to our business and our clients. This is our belief and culture at IWC.

Otto Reventlow

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CEO of the IWC Group

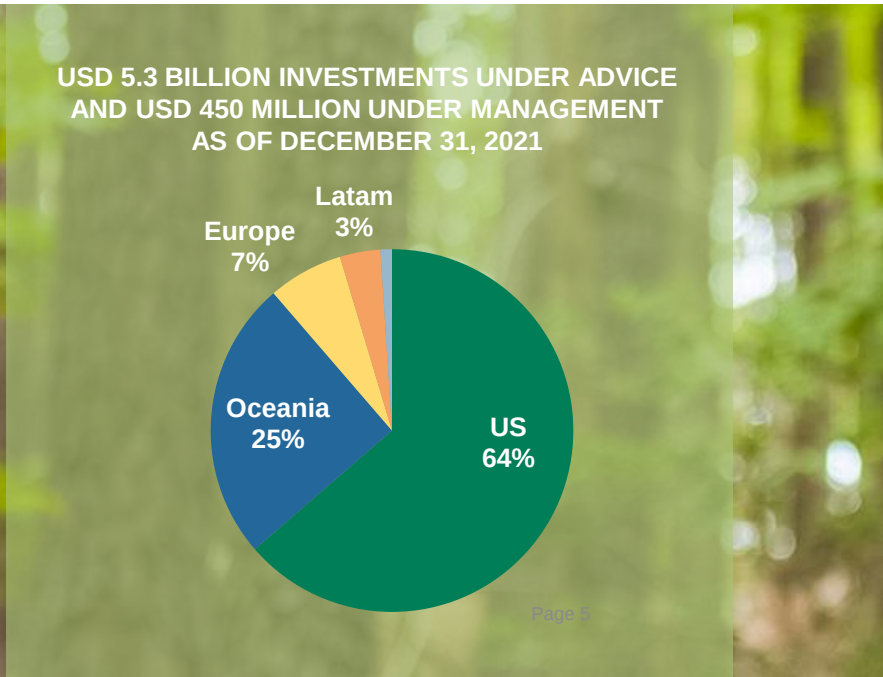
Content

Sustainability at our core

The IWC Group (IWC) is a leading natural resources investment expert with global expertise and experience in natural capital investments – timberland, agriculture, and ecosystems restoration – providing diversification, inflation hedge, capital appreciation, and ESG-proof investment opportunities to institutional investors. Established in 1991, IWC has today 27 employees, with diverse educational and national background, and oversees over three million hectares of nature-based investments globally, valued over USD 5.7 billion as of YE 2021.

During our three decades of experience, we have seen time and time again the effects ESG matters can have on an investment performance and the positive impact that responsible investment principles can have on the broader society. IWC thus carries out all investments in a manner that is socially responsible and environmentally sound, based on a rigorous ESG framework, integrated throughout an investment lifecycle (due diligence, investment decision/advice, holding, and exit).

ESG is indeed incorporated in relevant policies and procedures, distinguishing between different markets, types of investment, and level of control and IWC's core principles and values are inspired by accredited international principles, guidelines, and standards. Some of these are the International Finance Corporation's Performance Standards on Social and Environmental Sustainability, the Organization for Economic Development and Cooperation's Guidelines for Multinational Enterprises, the United Nations Global Compact's 10 Principles, the United Nations Guiding Principles on Business and Human Rights, the Recommendations of the Task Force on Climate-related Financial Disclosures, etc. In addition, we integrate climate-related risk and opportunities into our investment analysis.

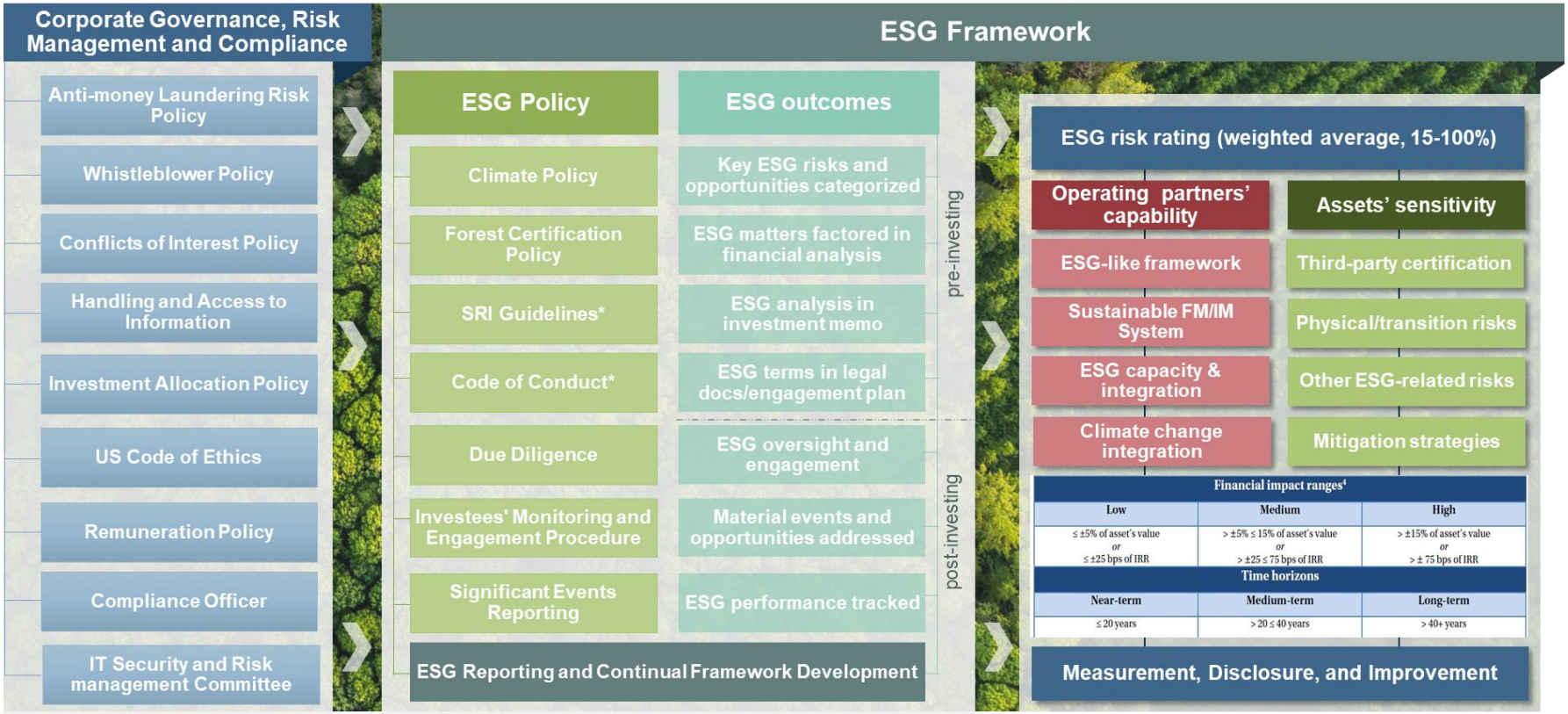


ESG framework – five-year review

Although sustainability has always been a core investment belief and approach, IWC's ESG framework has developed substantially over the past five years in an anticipation of, and response to, regulatory and market trends. Some examples are:

- Inaugurating IWC's ESG Policy and IWC's Investees' Monitoring and Engagement Procedure
- Enhancing ESG Due Diligence processes (ESG questionnaires, checklists, and investment recommendations)
- Introducing IWC's Climate Policy and related governance documents and tools (due diligence, analysis, investment recommendations)
- Launching our own annual IWC's ESG Report and Investor Portfolios' ESG Performance highlights (including carbon and GHG accounting)[1]
- Developing our ESG risk categorization and monitoring tools.

IWC's corporate governance and ESG framework is illustrated below.



Risk rating is based on multiple categories fitting operating partners' capabilities and assets' sensitivities (including forward-looking climate-related risks and opportunities); aggregating to composite low, medium, high-risk categorization (subject to adjustment per clients' preferences)

1) Based on internationally acknowledged disclosure frameworks and certifications, i.e., PRI, UN SDGs, FSC, TCFD, IPCC.

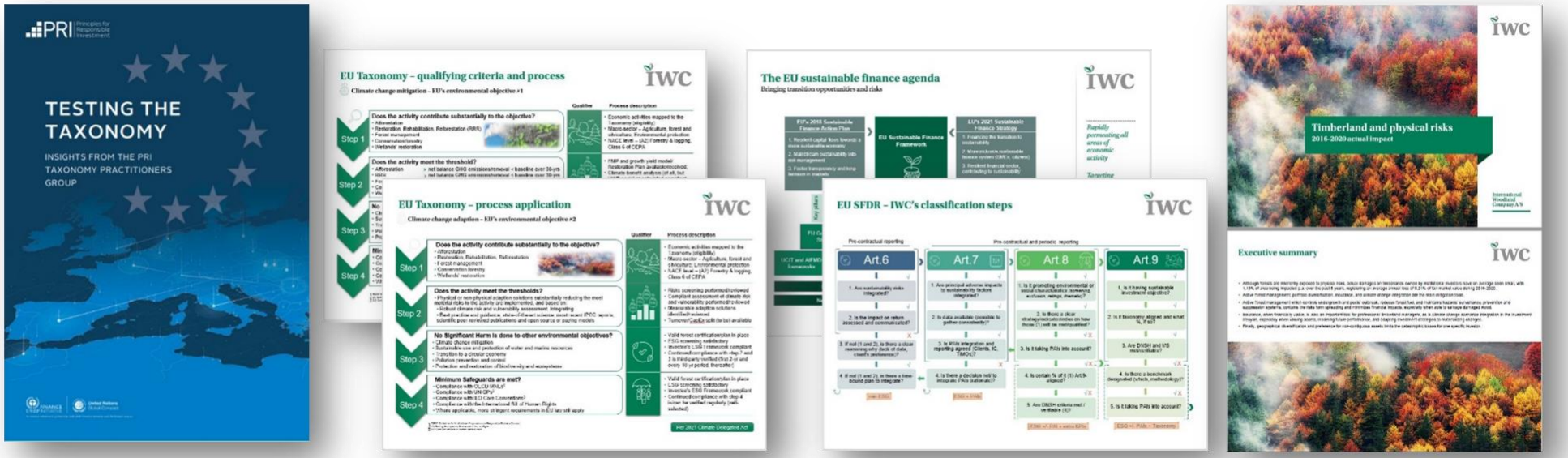
Today, all our investment decisions, advisory services, and monitoring programs are based on inter-related investment and ESG processes, expanding resources and analytics to highlight specific ESG risks and opportunities during the investment lifecycle. The following illustration is an anonymized excerpt of a dedicated ESG section in an investment recommendation, and further down is a table presenting a bucket of climatic risks and indicators, we are selecting from when doing our climate risk analysis and categorization (based on value-at-risk, financial sensitivities).

Climatic variables – direction of change, magnitude	Physical risks – return periods, intensity, value-at-risk
Growing season length	Wildfire risk
Maximum consecutive number of dry days - dry spell	Tropical storms and cyclones
Maximum consecutive number of frost days - cold spell	Convective storms
Maximum consecutive number of wet days - wet spell	Drought
Warm-spell duration index	Extreme heat
Frost days	Extreme precipitation
Total precipitation	Pests and diseases
Wet days	Coastal flooding and sea-level rise
Simple daily duration index (mean precipitation)	Riverine and urban flooding
Heavy precipitation days	Landslides and earthquakes
Very heavy precipitation days	Volcanoes
Mean temperature	**Forest attributes – direction of change, magnitude, financial impact**
Mean maximum temperature	Growth rates
Maximum of maximum temperature	Mortality rates

In addition, individual investment teams and cross-team collaborations have resulted in a few projects, all aimed at improving IWC's ESG integration and value creation across services and products we offer to our clients. Some examples are:

- Regional historic and forward-looking climate, forest disturbances, and growth review under different scenarios and timeframes (1986 to 2100)
- 5-year historical study of physical impacts to timberland based on IWC's clients' footprint
- Establishing IPCC 2006/2019 Guidelines for National GHG Inventories as a main protocol for estimating carbon stock and annual sequestration
- Corporate GHG Accounting (GHG Protocol) and forest pools scope expansion in our CO_2 accounts
- Forward-looking carbon modelling of discretionary timberland mandates
- EU Taxonomy testing (PRI-led Practitioners Group) and selected advisory clients' portfolio analysis (ongoing)
- SFDR analysis and selected advisory clients' portfolio integration (ongoing)
- TNFD Forum membership and future contribution to the framework's beta version (forthcoming)
- DanSIF membership and knowledge sharing
- PRI signatory and contributor to forestry-related EU regulatory consultations.

Below are illustrations of selected publications and analysis.



Looking ahead

ESG is only getting more significant, and we very much enjoy working with this challenging but rewarding topic. Our work on improving climate-related integration and nature-related risks and opportunities is continuing with a particular focus on:

- Finalizing the aggregation of a global climate database (historical and forward-looking) for all investment regions, IWC and our clients are currently exposed to. To do so, pre-defined variables (see page 6) are being collected from the Copernicus Climate Data Store[1], along with physical disturbances (subject to availability and consistency), to be factored in financial analysis upon investing and monitoring.
- Continuing building our climate scenario analysis capabilities and tools, especially via remote sensing utilization and transition scenarios.
- Pilot-testing the GHG Protocol Land Sector and Removals Guidance, and following the GHG Protocol guidance finalization, integrating corporate with relevant investment-level GHG accounting.
- EU Taxonomy and SFDR integration – a cross-team project running in 2022 and beyond, minding the Taxonomy growing scope and time lags.
- TNFD Beta Framework testing – in the second half of 2022 – to support further refinement of the company's ESG and investment frameworks.
- Remote sensing and technology utilization – what IWC has so far done on an ad-hoc basis, relying on regional data and open-source platforms for climate analysis, will now be integrated in a more structured process and platform, for diligence and advisory services, subject to clients' interest.
- ESG report and metrics – while until now, we were cautious to not be introducing too many metrics or stick to one reporting framework, in an anticipation of frameworks convergence and mandating, we will going forward have the chance to identify and select the most relevant (or imperative) framework in terms of sector-suitability, metrics, and methods of disclosure (i.e., TCFD, TNFD, EU SFDR, ISSB).
- New affiliations endorsement – acknowledging the nature-based investment platform we are active on, and its importance to the climate and biodiversity crises, IWC is following closely the exponentially growing net-zero or nature-positive groups and assessing relevance on joining.

1) Sentinel satellites (1 and 2 for land monitoring) with global coverage and high-resolution historical data and future scenarios (CMIP5 and CIMIP6).

2021 ESG highlights

- 1,142,000 hectares of sustainably managed forest
- 177,000 hectares of protected areas
- 300 species protected
- 30,000,000 newly planted trees in 2021
- 21 main tree species

- 186 million tCO_2e stored in forests
- -84,000 tCO_2e net sequestration in 2021, with average annual sequestration of 4.5 million tCO_2e
- 616,000 tCO_2e forestry emissions in 2021
- 1.6 $MtCO_2e$ stored in HWP

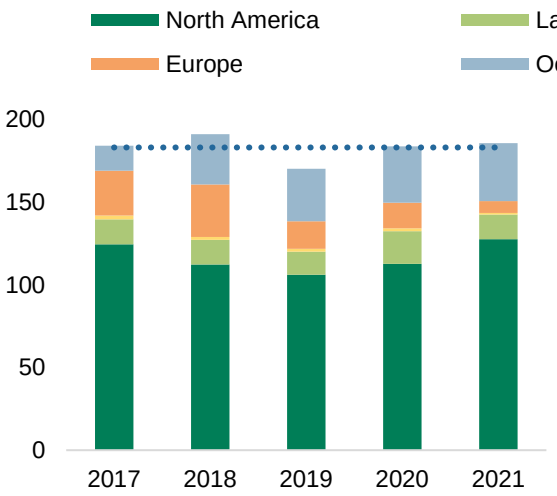
- 8.1 million m^3 of annual timber growth
- 7.9 million m^3 of certified timber production in 2021
  - 48% as construction materials = 133,440 houses
  - 51% as paper-related products
  - 1% for other end-uses

- 16,400 hectares of watersheds protected
- 3,800 km of streams protected
- 123 km of streams restored
- 4,900 hectares of wetlands restored
- 5,600 tons of excessive nutrients & sediments captured in watersheds

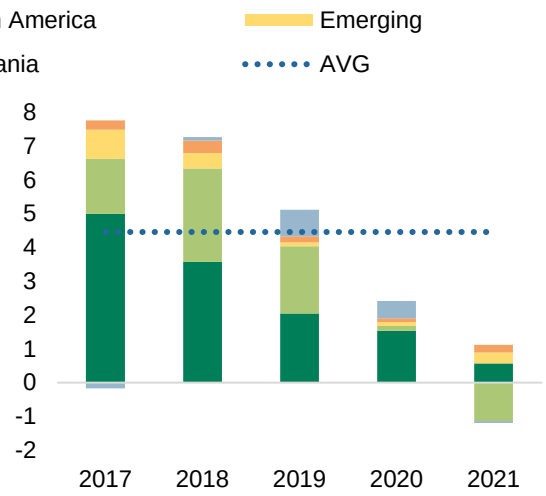
- 3,300 ha of productive farmland
- 18,900 people's calories intake p.a.
- 26% organically farmed land
- 7% is of low-till practice.

Carbon and timber accounting

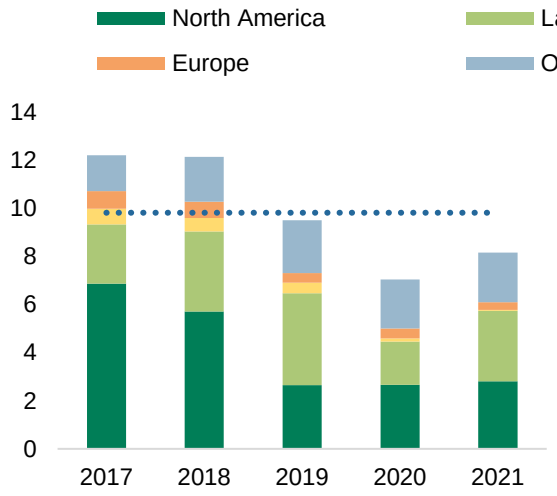
Carbon stock ($MtCO_2e$)



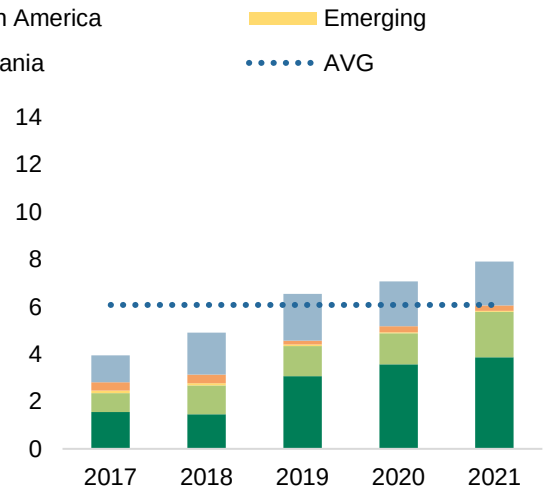
Annual sequestration ($MtCO_2e$)



Annual timber growth (mio m^3)



Annual timber harvest (mio m^3)



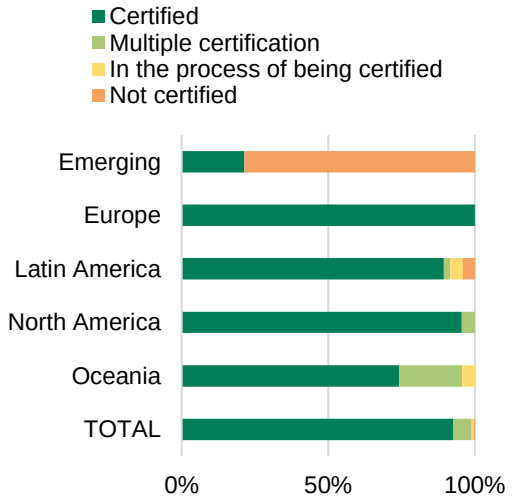
Commentaries

- Carbon stock in the forests, which includes above and below ground biomass, slightly increased in 2021.
- Carbon stock across IWC clients' forests has proven stable over the years, despite acquisitions and divestments.
- Annual sequestration is netted of emissions from forest operations and carbon credit sales, while it includes carbon stored in harvested wood products, which represents a long-term carbon storage.
- Refinements in carbon accounting methodologies from some of IWC's operating partners resulted in slight adjustments from 2020 estimates.
- Timber growth and timber harvest only consider merchantable timber – young trees are not included in the account (different from carbon metrics). Hence, total forest growth is underestimated.
- The slightly negative net sequestration in 2021 is due to increased harvesting in North and Latin America compared to previous years. This is part of the normal plantation cycle. IWC clients' total portfolio has an average of 4.5 million tCO2e annual net sequestration over the past five years.

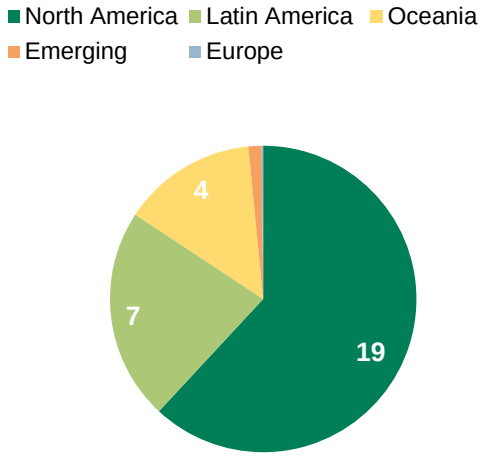
Where direct carbon metrics have not been provided by operating partners, IWC utilized the methodology of the IPCC Guidelines for National GHG Inventories and regional data in estimating these.

Sustainable forests and biodiversity conservation

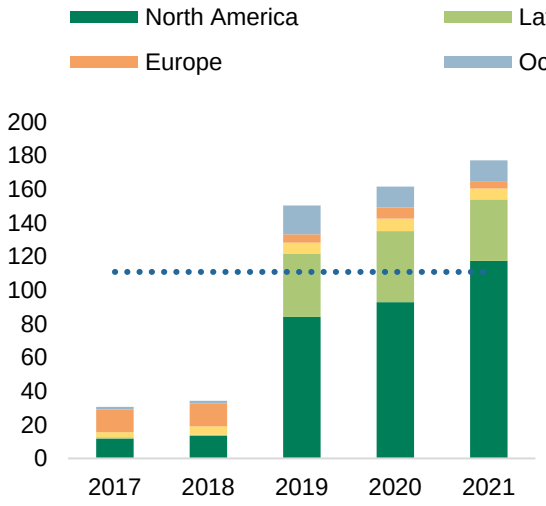
Forest certification status (% of NAV)



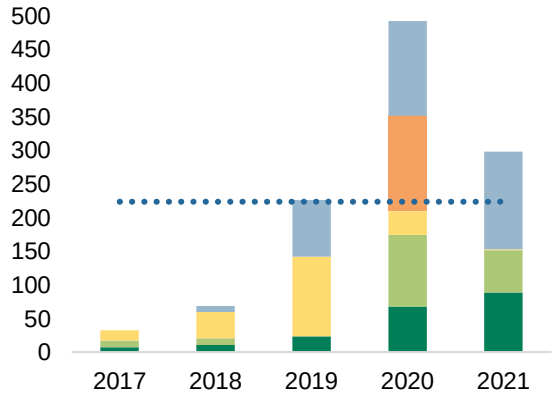
Million trees planted in 2021



Protected forest areas (thousand ha)



Protected species

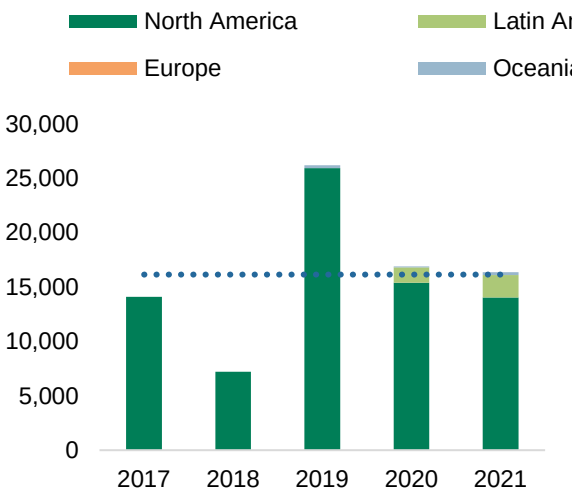


Commentaries

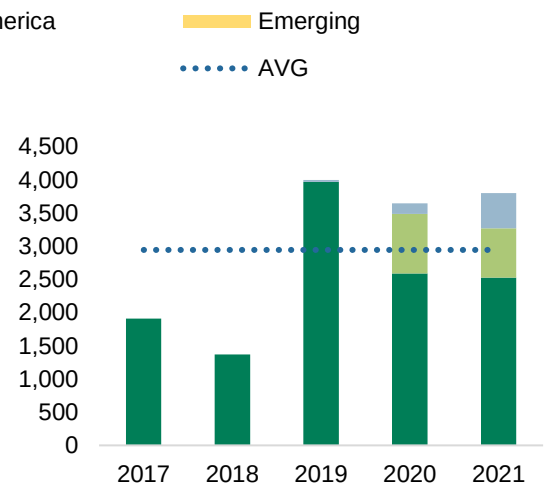
- At the end of 2021, almost the full (99%) IWC portfolio was certified, up from last year, mainly due to changes in the portfolio composition. In particular, the acquisition of already certified assets had a significant effect.
- Non-certified areas in emerging countries and Latin America are in divestment phase, expected to be out of the portfolio in the next 1-2 years.
- Certification schemes are a main boost for protection of habitats within commercial forests. Indeed, certified assets include portions of protected and non-harvestable land.
- Number of protected areas in the IWC portfolio keeps increasing due to more precise data and extended protection of habitats in relation to wildlife conservation and watersheds preservation.
- Strengthening environmental regulation also plays a role in the increasing of the total protected areas.
- The drop in protected species is a consequence of divestments, especially from one large investment in Europe.

Watersheds protection and restoration

Protected watersheds in forests (ha)



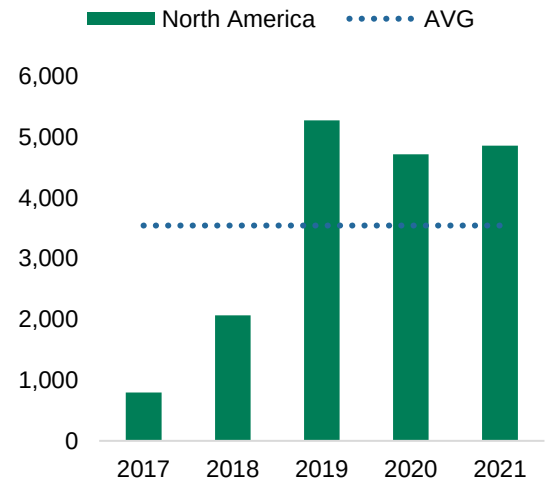
Protected streams in forests (km)



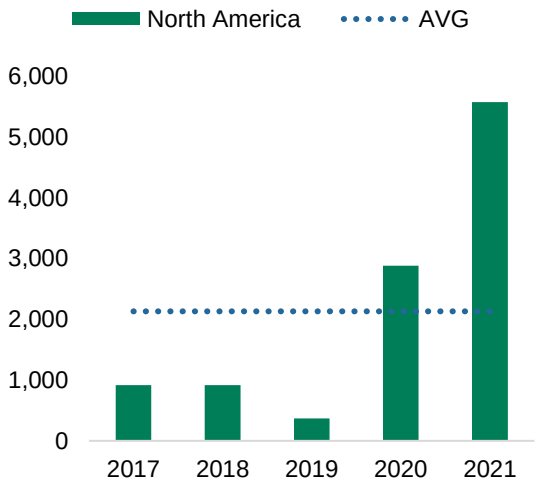
Commentaries

- Forested watersheds include lakes, ponds, and streams (the later being shown separately in km) and are providing water supplies of highest quality (drinking water, aquatic habitat for native species, and recreation), which is the main reason for the establishment of forest reserves.
- Streams and wetlands restored and protected are so through investments in mitigation banking and/or nature-based investment solutions.

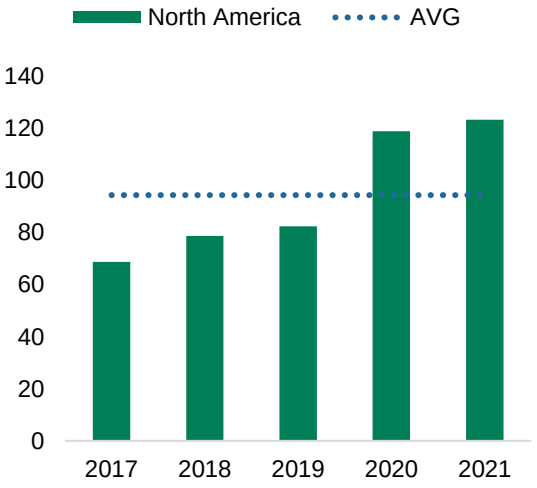
Restored and protected streams (km)



Nutrients & sediments captured (Kt)

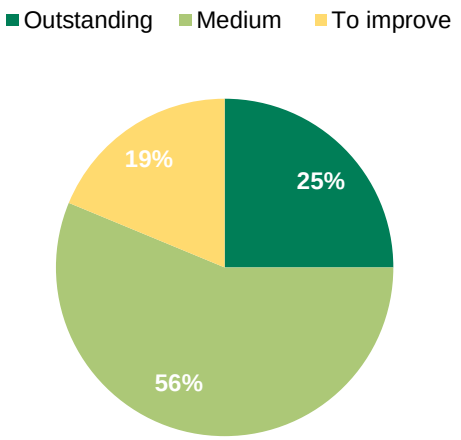


Restored and protected wetlands (ha)

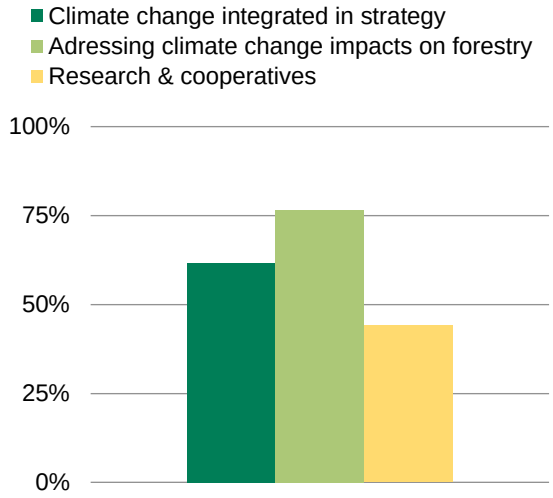


ESG integration

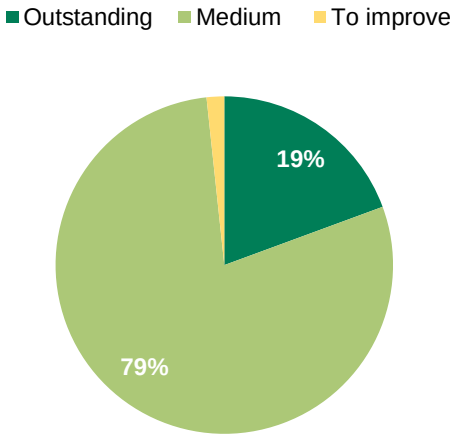
ESG integration (% partners)



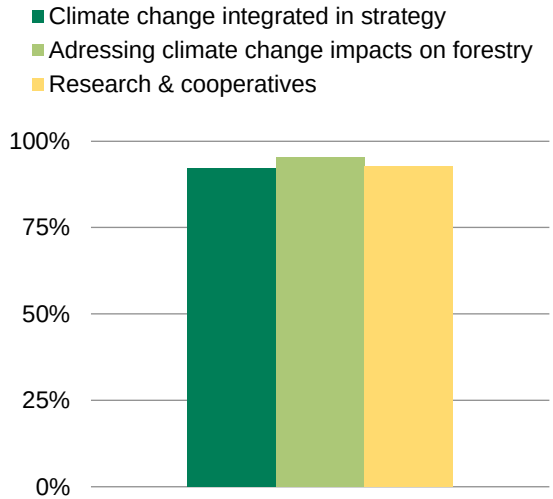
Climate change (% partners)



ESG integration (% NAV)



Climate change (% NAV)

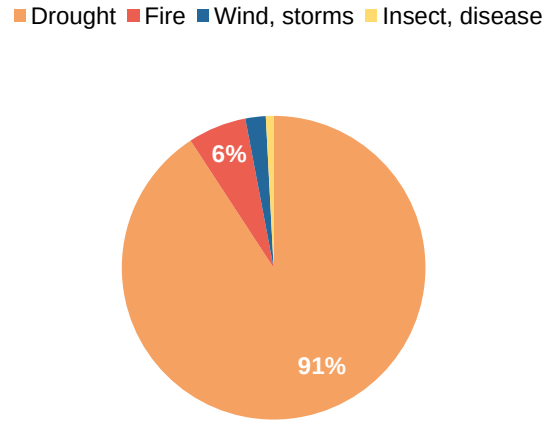


Commentaries

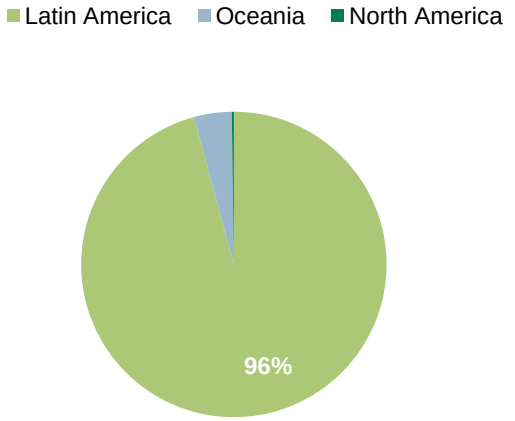
- ESG integration is assessed based on IWC partners' internal capabilities and resources. The assessment is a combination of both qualitative and quantitative analysis.
- The majority of the partners have "Medium" to "Outstanding" ESG integration. The "To improve" rating is mostly related to the lack of ESG dedicated staff and procedures.
- ESG integration considers climate change, but also all other items in relation to environmental issues as biodiversity, social dynamics, job security, and governance structure of the operating partners.
- Most of the assets in IWC clients' portfolio are managed considering climate change as an integral part of the business strategy and activity. We believe this to be essential in providing a hedge against climate risks and in seizing new revenue opportunities, like carbon credits sales.

Physical impacts

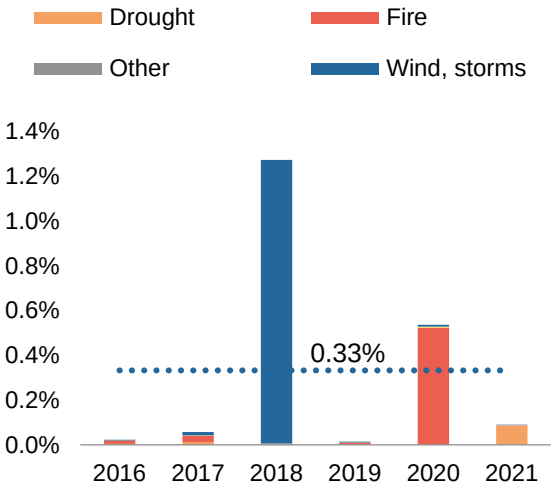
2021 net value loss per peril



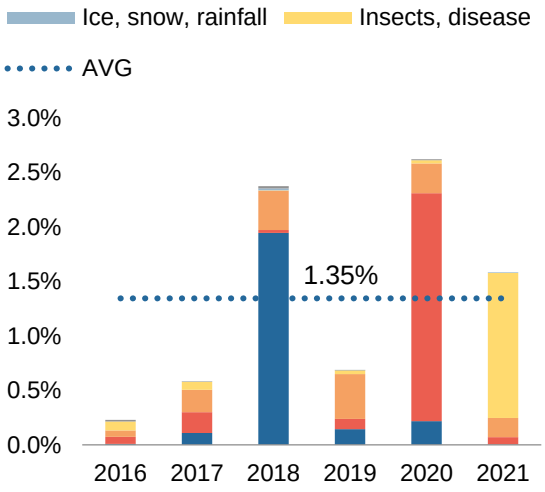
2021 net value loss per region



Historical net value net loss



Historical area impacted



Commentaries

- The main physical impacts in 2021 were due to drought in Brazil, where water scarcity reduced the tree growth.
- Looking back at the last six years, the 2021 physical disturbances impacted a relatively higher area, increasing the average area affected to 1.35% p.a.
- However, the net value loss related to physical risks was low in 2021, decreasing the historical average value loss by 5bps, to 0.33% of fair market value p.a.
- Active forest management, portfolio diversification, insurance, and climate change integration remain the main mitigation tools to physical impacts.
- Today, 60% of IWC clients' portfolio value has some sort of insurance policy. However, insurance is not always financially viable.

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