ENVIRONMENTAL, SOCIAL AND GOVERNANCE GUIDELINES

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1 Introduction

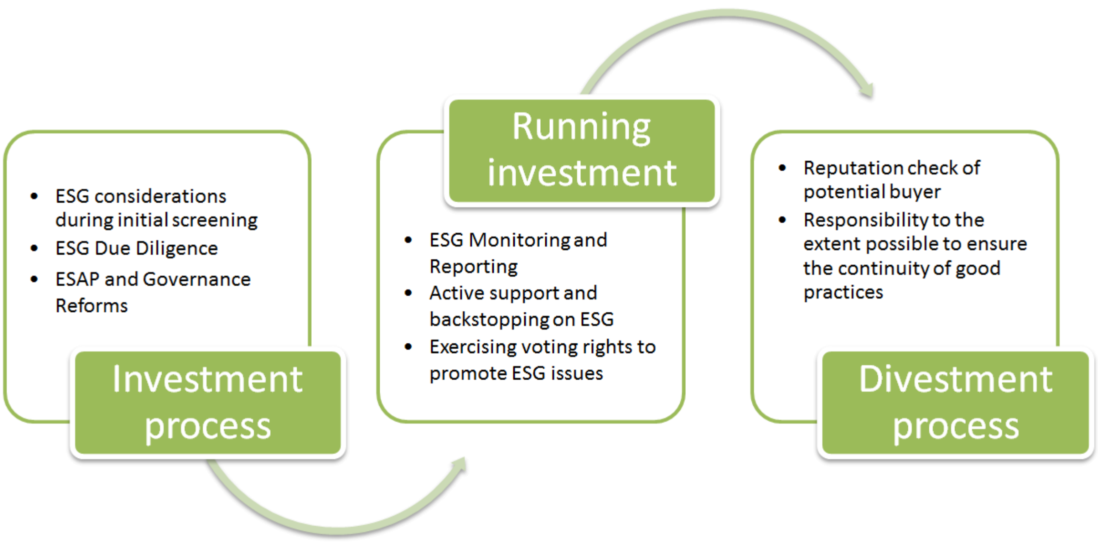
The Environmental, Social and Governance (ESG) Guidelines of the Arbaro Fund (the Fund) aim to provide the information needed to support the implementation and operationalization of the Fund's ESG Policy. The ESG Guidelines are based on the International Finance Corporation (IFC) Policy and Performance Standards on Social and Environmental Sustainability 2012, its Guidance Notes, and the Forest Stewardship Council® (FSC®) Principles, which have been harmonized with the European Investment Bank's (EIB) Environmental and Social Principles and Standards.

This document is structured as follows:

- Section 2 provides an overview of the ESG Management System set up by the Fund, describing the methods used throughout the investment lifecycle to assess, plan, implement, monitor and review the ESG performance of Portfolio Companies against set standards.
- Section 3 presents the resources allocated on Fund level to conduct all ESG related activities that are planned within the framework of the ESG Management System detailed in Section 2. It also gives an overview of the expected resources that Portfolio Companies will have to allocate to ESG matters.
- Section 4 outlines the ESG requirements and standards of the Fund, including the criteria and requirements regarding the aspects of good governance and environmental and social performance.

2 ESG Management System of the Fund

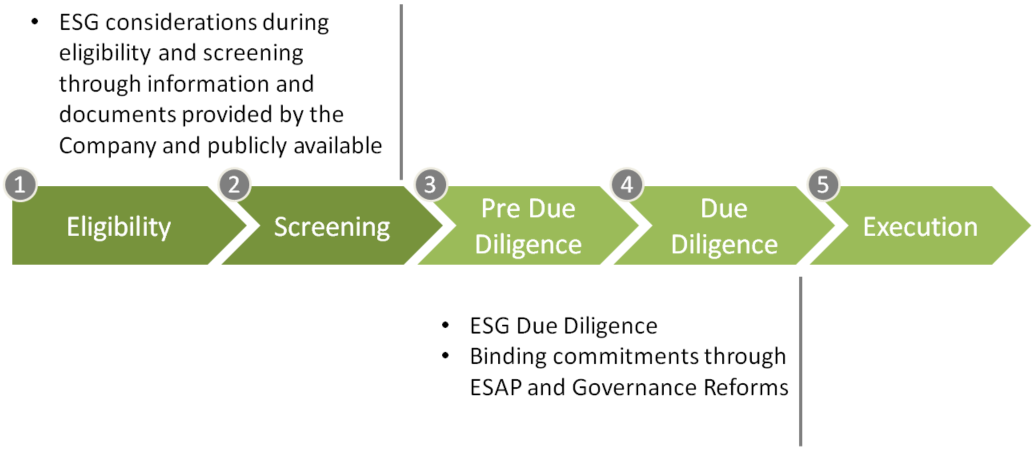
The Principles and Commitments stated in the Fund's ESG Policy are a cornerstone of all business operations of the Fund and compliance will be achieved through the ESG Management System. The ESG Management System considers environmental and social requirements and governance and integrity standards from the initial phase of the investment process and throughout the investment lifetime. The integration of the ESG Guidelines into each step of the investment process is presented in the figure below and detailed in the following sections.



ESG considerations throughout the investment lifecycle

2.1 ESG considerations during the investment process

ESG considerations at the different stages of the investment process can be visualized as follows:



ESG considerations during the investment process

2.1.1 Eligibility and Screening

Each potential Portfolio Company will be assigned a deal manager, a member of the Fund management team who will be responsible for coordinating and overseeing the assessment and for communicating with the potential Portfolio Company.

During eligibility and screening the **deal manager** will assess general information about the potential Portfolio Company. The ESG assessment shall encompass a review of public information to reveal any environmental, social, business integrity or legal controversy related to the potential Portfolio Company. For example, news articles will be searched through, and internationally recognized “black lists” that identify criminal offenders, sanctions and embargos will be checked as part of the Integrity Clearance procedure. This evaluation will be enhanced and triangulated by any additional information or documentation provided by the potential Portfolio Company (e.g. policies, management plans, reports, etc.) that are relevant to its ESG performance. At this stage, the *ESG Checklist* will serve the deal manager as guidance to identify deal breaking issues and potential risks, and get an overview of the ESG performance of the potential Portfolio Company.

2.1.2 ESG Due Diligence

The main tool to assess the potential Portfolio Companies’ compliance to ESG standards is the **ESG Due Diligence (ESG DD) process**.

During the initial phase of a DD, the deal manager will conduct a first site visit to the potential Portfolio Company during which inter alia additional ESG information will be gathered. The *ESG Checklist* will be completed with further detailed information on the ESG performance of the company and potential ESG risks. If no deal breaking issues or major concerns are identified during this initial assessment, the project prequalifies and the Fund management team will assign a specialized ESG team to conduct the ESG DD study including site visits as necessary. The ESG team will be led and coordinated by Arbaro Advisors and strengthened as necessary by additional ESG experts specialized in different areas. The ESG team will be granted full independency to perform an objective ESG DD study. In cases of potential conflict of interest the ESG team will be an independent third party in conformity with the *Conflict of Interest Policy* of the Fund. The deal manager will provide the ESG team with the information gathered through the *ESG Checklist* and communicate any ESG related concerns that have been identified during the first site visit.

The independent ESG team will conduct an ESG assessment and provide a gap analysis between the potential Portfolio Companies' current ESG performance and the Fund's requirements described in Section 4. This will be carried out mainly through documentation review, site visits and interviews with relevant stakeholders. In case new specific risks are identified during the assessment stage which required additional expertise the ESG team will report to the Fund management team to take appropriate action. The resulting information will be compiled, analysed and presented in terms and wording of the IFC Performance Standards, hence, in terms of ESG risks and opportunities of the potential Portfolio Company and its capacity to address them internally or with external support. The *ESG Due Diligence Report* will provide all the information needed to identify ESG reforms considered necessary to comply with the Fund's requirements. The ability and willingness of the potential Portfolio Company to undertake such reforms, corrective measures and improvements in a reasonable timeframe and the related allocation of resources to do so shall be assessed by the Fund management team and be considered for the investment decision.

2.1.3 Binding commitment on ESAP and Governance Reforms

If the Fund management team and the Investment Committee decide to carry on with the investment, the ESG reforms considered necessary during the ESG DD will be formulated in an **Environmental and Social Action Plan (ESAP).** The ESAP will be formulated in negotiation with the senior management of the Portfolio Company, and will include identified priority ESG concerns, risk levels, actions required, delegated responsibilities, implementation timeline and costs involved. Furthermore, the ESAP will clearly delineate the monitoring processes that shall be undertaken by the Portfolio Company (see Section 2.2).

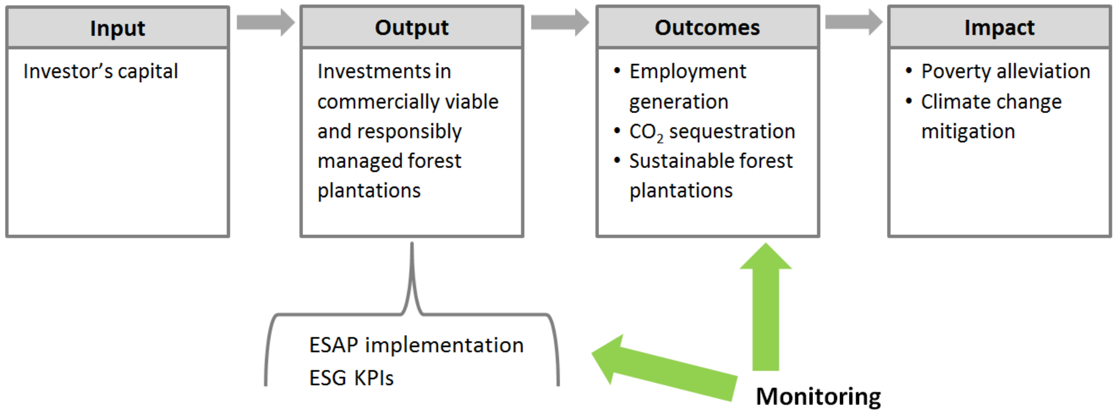
The investment contract between the Fund and the Portfolio Company will explicitly include the commitment of the Portfolio Company to implement the ESAP, meet reporting duties, and assume ESG related costs, as well as the implications of a breach of ESG requirements. The ESAP will be part of the contract as well, imposing a legally binding commitment to adhere to ESG reforms. The Fund management team shall clearly communicate ESG requirements to the senior management of the Portfolio Company and its wider implications. Any additional risks, challenges and expectations on both sides shall be clarified at this stage.

2.2 ESG considerations during running investment

During a running investment, the engagement of the Fund with its Portfolio Companies will aim at ensuring responsible business operations and increasing the Portfolio Companies' awareness and knowledge regarding ESG issues through:

- Monitoring and reporting;
- Active support and backstopping;
- Exercising voting rights to promote ESG issues.

Monitoring and reporting is one of the major tasks at this stage. As activities of the Portfolio Company are expected to have positive effects on local people, their environment and the climate, stringent monitoring and reporting is necessary to ensure that project implementation actually leads to such positive impacts. Therefore, the Fund will document and promote ESG measures by applying a pragmatic monitoring approach in accordance with the CDC toolkit[1], as shown in the figure below.



Impact chain of the Fund's ESG monitoring system (source: based on CDC)

The Portfolio Company's management will be held responsible for monitoring and reporting on the key aspects summarized in the table below. These are classified as either standard or extraordinary procedures. Standard procedures refer to predefined data collection processes that take place periodically according to a set of indicators, while extraordinary processes aim at committing the Portfolio Company to communicate transparently about unpredicted or unplanned events that entail ESG implications.

Key aspects to be monitored and reported by the Portfolio Company

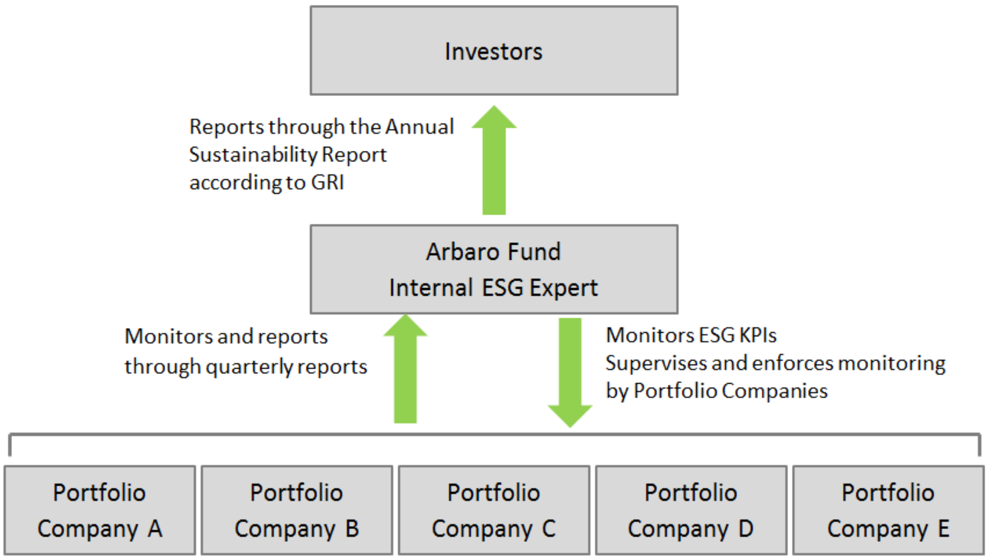
Procedure	Aspect to be monitored and reported	Frequency
Standard	Timely implementation of measures and reforms formulated in the ESAP according to the indicators defined in the ESAP	Quarterly
Standard	Data necessary to monitor the ESG Key Performance Indicators (KPIs) of the Fund, namely: • Progress towards achieving or ability to maintain the FSC® certification, by providing audit reports • CO_2 sequestration, by providing inventory data • Job creation, by providing current registers of personnel and proves for social security	Quarterly
Standard	Data aggregated according to the basic set of indicators defined by the Global Reporting Initiative (GRI)[2] for annual reporting	Annually
Extraordinary	Any changes in the scope of the project or production processes that entail new ESG risks or opportunities	Immediately after the incident
Extraordinary	Any serious incidents involving the breach of the Fund's ESG requirements	Immediately after the incident

[1] CDC (2010). Toolkit on ESG for fund managers. Adding value through effective environmental, social and governance (ESG) management, London, UK.
[2] GRI is an international independent organization that develops widely used standards on sustainability reporting and disclosure. For more information refer to: https://www.globalreporting.org/information/about-gri/Pages/default.aspx

The Portfolio Company shall inform the Fund management team regarding the previously listed aspects through reports formulated according to a defined template. The template will consist of a simple table that shall be completed with the defined indicators and updated on a quarterly basis, and a section where additional observations can be described. This approach is considered to lower transaction costs and efforts for internal reporting while at the same time encouraging close follow-up of ESG matters. For reporting purposes, the defined indicators shall be aggregated and systematized once a year according to the GRI standards, to formulate the Annual Sustainability Report, which will be publicly disclosed.

The Fund management team will be in turn responsible for reporting the progress against set ESG KPIs to the investors according to the methodology described in the *Methodological Approach for Environmental, Social and Governance Key Performance Indicators*.

Also, ESG matters will be followed up during regular field visits of the Fund management team and will be in the agenda of Board meetings that will be held on a quarterly basis at the Portfolio Company. The Board will evaluate the ESG performance of the Portfolio Company against set goals, define the goals for the next year, analyse weaknesses and discuss any necessary adjustments. Furthermore, the Fund management team will support the Portfolio Companies to reach set ESG goals and introduce and enhance the monitoring and reporting process if difficulties arise that prevent the Portfolio Company from delivering according to the agreement.



Two-level monitoring and reporting process

Regarding **extraordinary events**, ESG matters will be scrutinized extra carefully when they are considered to pose a high reputational risk to the Fund, for example, in cases when:

- The Portfolio Company initiates new high risk operations or business expansion without introducing appropriate safeguards;
- Unexpected or previously unknown information about the Portfolio Company with potential negative ESG implications comes to light.

In these cases, additional site visits will be necessary to assess the situation through interviews with management, employees, contractors and affected communities; through relevant environmental checks; and reviews of company records. Furthermore, independent verifications by specialist consultants will be considered only in cases of serious ESG related incidents or reasonable doubt of serious infringements.

2.3 ESG considerations during divestment process

To ensure the sustainability of environmental and social standards the Fund will carry out a reputation check on the potential buyer and the exit process may not proceed if there is evidence that the potential buyer is or has been involved in business practices listed in the Fund's Excluded Investments List. During exit negotiations, the Fund management team will to the extent possible, propose to select a new investor that ensures the continuity of high ESG standards, e.g. through representations to be made by the buyer of the Portfolio Company.

3 Allocation of Resources, Organizational Capacity and Responsibilities

3.1 On Fund level

To ensure the implementation of the ESG Guidelines, the Fund management team includes one designated person responsible for ESG matters. Over the investment period, the human resources dedicated to ESG matters will increase progressively according to the needs, as new Portfolio Companies engage with the Fund. At the end of the investment period, the Fund management team will include one person fully and exclusively dedicated ESG matters.

The ESG expert of the Fund management team will be responsible for overseeing all ESG related processes described in the sections above, namely:

- Overseeing the execution of the ESG Due Diligence process and reviewing the ESAP (see Section 2.1);
- Keeping the overview of the Portfolio Company's ESG performance against set indicators and ensuring appropriate backstopping and support is provided in case of difficulties or extraordinary events (see Section 2.2);
- Monitoring and reporting to the investors (see Section 2.2);
- Ensuring that ESG matters are included during the buyers check (see Section 2.3).

All resources associated to the initial ESG studies, mainly part of the ESG DD process, will be covered by the Fund, whereas the actual implementation and monitoring of measures and reforms needed to fulfil and maintain the ESG standards will be introduced by the Portfolio Company.

In cases when extraordinary measures call for additional studies conducted by external experts due to a serious breach of the ESG requirements by a Portfolio Company or there is reasonable doubt for high risk activities, the Fund and the Portfolio Company shall negotiate the resources needed for an independent review.

3.2 On Portfolio Company level

Depending on the results of the ESG DD and the gaps identified between current company practices and the compliance with the Fund's ESG requirements, the Portfolio Company is expected to allocate realistic budgets and human and financial resources to ESG matters.

As a minimum requirement, following roles shall be fulfilled in every Portfolio Company:

- **ESG Coordination:** Planning and coordinating ESG measures, monitoring and overseeing ESG performance and compliance with the Fund's ESG requirements, communicating with and reporting to the Fund management team.
- **Environmental Management:** Managing environmental risks, ensuring compliance with local legislation and the Fund's requirements regarding environmental performance.
- **Health & Safety Management:** Managing risks related to labour associated to the company's direct and subcontracted personnel involved in forest operations, ensuring the implementation of security measures and fair and healthy working conditions.
- **Community Relations:** Managing risks related to relevant stakeholders, particularly local communities living in or adjacent to the forest production area or depending on its resources. This includes stakeholder engagement, communication, grievance mechanisms and disclosure.

The amount of personnel dedicated to the roles described above may vary considerably according to the Portfolio Company's risks and adverse impacts, and its phase of development. However, these roles shall be fulfilled to the extent that ensures the implementation and maintenance of the Fund's ESG requirements.

When specific ESG aspects of a Portfolio Company have been classified as bearing high risk during the ESG DD process, the human resources dedicated to them will be set in place or strengthened accordingly by the Portfolio Company. When these high-risk aspects fall into the scope of one of the roles listed above, there shall be at least one fully dedicated person to this particular role with sufficient knowledge, skills and authority. Otherwise an additional position shall be set in place.

4 ESG Requirements

4.1 General Integrity and Good Governance

4.1.1 Identification of final beneficiaries

The Fund seeks to promote transparency of ownership and control. Accordingly, the Fund shall not enter into new investments whenever it is suspected or where there are substantiated allegations, that opaque corporate structures or corporate vehicles are being used to hide beneficial ownership. As part of the Due Diligence the Fund management team will identify the final beneficiary ownership of the potential Portfolio Company.

4.1.2 Integrity Clearance

Widely accepted and internationally recognized "black lists" (e.g. international sanctions, embargos) will be consulted to verify whether the proposed persons, or entities or their management or shareholders, appear on any of them. If during the Due Diligence process of an investment opportunity integrity red-flags are identified but cannot not be confirmed due to insufficient reliable evidence during the assessment, an additional background check may be commissioned to an independent specialized company. Background checks shall review the potential Portfolio Company's and its officers' current and past compliance with the integrity principles of the Fund and its level of involvement in activities included in the Excluded Investments List.

4.1.3 Excluded Investments List

During the Due Diligence of an investment opportunity the Fund management team will assess whether it is in line with the investment criteria and ESG Policy of the Fund. A main tool at this stage is the *Exclusion List* of the Fund which lists activities excluded to be financed by the Fund. If a potential investment opportunity includes any of the businesses or activities included in the list the investment process may not proceed.

4.1.4 Conviction or serious criminal offences

Conviction of a serious crime of the potential Portfolio Company and/or any member of its management or executive board is a reason to turn down an investment opportunity. As a general principle, in the case of an on-going serious criminal investigation or where someone has been indicted, the Fund shall not enter into the relationship until the investigation is either dropped or a decision is made whether to prosecute. The Fund recognizes that in some jurisdictions criminal convictions and investigations, or the absence thereof, are not in themselves reliable indicators of guilt or innocence. However, a criminal conviction or investigation could expose the Fund to reputational risk which would be difficult to offset no matter what other positive aspects the investment may represent.

In the context of an already on-going investment by the Fund, the Fund management team shall review and analyse the potential impact of situations in which a criminal investigation is opened, or a criminal prosecution is initiated, or a criminal conviction is handed down, immediately upon receipt of the respective information. The same process applies if Portfolio Companies are subject to investigations or sanctions by regulatory bodies.

4.1.5 Links to organized crime

The Fund shall not proceed with an investment where evidence points to involvement with any of the following activities:

- Organized crime or associations with organized criminal groups or criminals;
- Participation in money laundering or terrorist financing operations;
- Association with acts of violence or threats thereof.

4.1.6 Anti-money laundering and counter terrorism finance

The Fund shall evaluate internal policies and controls in place at the potential Portfolio Company to avoid being used as a platform for any money laundering and/or terrorism financing scheme and the level of compliance of such policies and controls with local and international standards.

4.1.7 Compliance with current tax practices

The Fund shall not proceed with an investment where there is evidence of on-going illegal tax activities. In many cases, especially where tax laws or regulations are evolving, the legality of the practices may not be clear or may be considered marginal.

It is for the Fund management team to decide, taking account of exceptional circumstances (e.g. the practice is “condoned” by local authorities or is in line with generally accepted international practice) whether it can accept a period of uncertainty or minor non-compliance where it is confident that the legal and reputational risk is low.

4.1.8 Involvement in questionable business practices

In addition to the cases described above, the Fund shall avoid entering an investment at a potential Portfolio Company where there is evidence of involvement in poor, questionable or dubious business practices. Examples of such practices might include, but are not limited to, systematic abuse of information asymmetries between the potential Portfolio Company and its clients, remuneration of some staff deemed excessive given the size and profitability of the potential Portfolio Company, existence of dubious investment vehicles totally or partially owned by the potential Portfolio Company, allegations of involvement in corruption practices. Evidence found by the Fund management team leading to suspicion of a Portfolio Company or potential Portfolio Company involvement in such practices shall be immediately communicated to the Investment Committee.

4.2 Environmental and Social Standards

4.2.1 ESG Key Performance Indicators

Through its investments, the Fund aims at increasing job opportunities, sequestering carbon and sustainably managing forest plantations. In order to measure the achievement of these objectives, the Fund has defined the following three ESG KPIs:

- Employment generated by the investments of the Fund;
- CO_2 sequestration generated by forest plantations in which the Fund invests;
- FSC® certification of forest plantations managed by the Portfolio Companies.

Portfolio Companies will provide monitoring data on direct employment generation and forest plantations inventories to the Fund management team. Indirect employment generation and carbon sequestration will be calculated according to the methodology described in the *Methodological Approach for Environmental, Social and Governance Key Performance Indicators*.

Portfolio Companies will be requested to commit to a process of full adherence to the FSC® Principles through certification. This according to the following timeframe: Pre-audits shall take place within 1 year after the investment; first main audit shall take place within 3 years after the investment; and FSC® certification shall be achieved within 3 years after the investment and subsequently maintained. If FSC® requirements are not fully met at the time of investment approval, the Portfolio Company will be required to achieve compliance through the adoption of corrective measures stated in the ESAP. As part of ESG monitoring activities, the Fund management team will register if FSC® certification took place and is maintained.

4.2.2 International Environmental and Social Standards

All ESG related assessments, monitoring and reporting processes described in Section 2 are based on the IFC Performance Standards 2012 and the FSC® Principles. The IFC Performance Standards 2012 will be used as an overarching framework for all these tasks, as they evaluate environmental and social (E&S) risks and its risk management, entail a holistic approach with a process-oriented focus and are in line with investors' expectations. On the other hand, FSC® Principles will be equally important, as they are subject to a formal certification process entailing external audits and enhance sustainability. Furthermore, being a forestry standard, FSC® focuses on forestry related specificities that are relevant and might be overlooked otherwise.

To ensure compliance to both standards and create synergies between the IFC Performance Standards 2012 and the FSC® Principles, the *ESG Checklist* and the *ESG Due Diligence Report* will be developed including all relevant aspects. Hence, evaluations will follow the structure and wording of the IFC Performance Standards, while at the same time including additional aspects not covered by IFC but considered specifically by FSC®.

Both IFC Performance Standards 2012 and FSC® Principles as at the time of the formulation of this document are listed in the following.

IFC Performance Standards 2012

Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
Performance Standard 2: Labour and Working Conditions
Performance Standard 3: Resource Efficiency and Pollution Prevention
Performance Standard 4: Community Health, Safety, and Security
Performance Standard 5: Land Acquisition and Involuntary Resettlement
Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
Performance Standard 7: Indigenous Peoples
Performance Standard 8: Cultural Heritage

FSC® Principles

Principle 1. Compliance with laws and FSC Principles: Compliance with laws, regulations, treaties, conventions and agreements, together with all FSC Principles and Criteria
Principle 2. Tenure and use rights and responsibilities: Definition, documentation and legal establishment of long-term tenure and use rights
Principle 3. Indigenous peoples' rights: Identification and upholding of indigenous peoples' rights of ownership and use of land and resources
Principle 4. Community relations and worker's rights: Maintenance or enhancement of forest workers' and local communities' social and economic well-being
Principle 5. Benefits from the forest: Maintenance or enhancement of long-term economic, social and environmental benefits from the forest
Principle 6. Environmental impact: Maintenance or restoration of the ecosystem, its biodiversity, resources and landscapes
Principle 7. Management plan: Existence of a management plan, which is implemented, monitored and documented
Principle 8. Monitoring and assessment: Demonstration of progress towards management objectives
Principle 9. Maintenance of high conservation value forests: Maintenance or enhancement of the attributes which define such forests
Principle 10. Plantations: Planning and management of plantations in accordance with FSC® Principles and Criteria

4.2.3 Implementation of an Environmental and Social Management System

Portfolio Companies will be required to establish an Environmental and Social Management System, in accordance to IFC Performance Standard 1 – *Assessment and Management of Environmental and Social Risks and Impacts*. This represents an overarching requirement that shall define the framework to manage all environmental and social matters in a structured way throughout the project cycle and thus shall support continuous compliance to all the other IFC Performance Standards and FSC® Principles and Criteria.

E&S Management System according to IFC Performance Standard 1 (source: IFC)

Portfolio Companies will be required to set in place a management system that establishes procedures and tools, and allocates appropriate resources to guarantee the effective implementation of environmental and social requirements. The system shall ensure the involvement of all relevant stakeholders and include all environmental and social requirements. Portfolio Companies shall make sure that the system functions in a dynamic and continuous process, ensuring an effective learning and improvement cycle.

The Environmental and Social Management System shall at least consist of the following four components:

- **Environmental and Social Policy:** Portfolio Companies shall formulate an Environmental and Social Policy that integrates nature conservation, biodiversity protection and social safeguard components with productive objectives, and that is compatible to the Fund's ESG Policy and Guidelines. The Environmental and Social Policy reflects the commitment of the Portfolio Company with sustainable development and provides a framework for the environmental and social management on company level. Therefore, it shall be officially endorsed by the senior management of the Portfolio Company and appropriately communicated internally and externally.
- **Identification of Risks and Impacts:** Portfolio Companies shall carry out or commission an Environmental and Social Risk and Impact Assessment before initiating or expanding business operations according to IFC Performance Standards and in line with national legislation. The assessment process shall adjust to the type, scale and location of foreseen business operations. It shall consider the nature, likelihood, magnitude and materiality of identified risks and impacts.

The Portfolio Company shall consult with local communities, local authorities and other relevant stakeholders during the assessment, particularly when the project area is or has been subject to land use conflicts or/and when vulnerable local communities and indigenous peoples live in the project area or area of influence. If required or regulated by law in host countries, a formal assessment process shall be initiated and fulfil all applicable administrative rules and formal procedures for public participation, documentation and decision making. In all cases the Fund management team will assess if the content and scope of the assessment undertaken by the Portfolio Company is satisfactory. If the Impact Assessment conducted by the company is not satisfactory in terms of identifying risks and impacts according to IFC Performance Standards, the Portfolio Company will be obliged to undertake another assessment which will be evaluated for its quality and completeness by the ESG DD team and/or the Fund management team.

- **Management Program:** The management program must be consistent with the company's ESG Policy and provide mitigation and performance improvements to address identified risks and impacts, which may consist of a set of operational documents and procedures. For forestry activities and according to FSC® Principles, the main document that provides the management rationale of forestry operations is the Forest Management Plan (FMP). Portfolio Companies shall plan forest operations according to a sound FMP in line with FSC® requirements considering the findings of the risk and impact assessment and outline social and environmental safeguards, including tools to safeguard workers, local communities and indigenous rights. The FMP must be complemented with operation procedures appropriately socialized and implemented to serve its operational function and guarantee that all operations are conducted according to the plan. The management program shall be subject to continuous revision throughout the project cycle.
- **Organizational Capacity:** The Portfolio Company shall establish and maintain an organizational structure that defines roles, responsibilities, and authority to implement the ESMS. Key environmental and social responsibilities should be well defined and communicated to the relevant personnel, and the human and financial resources provided shall be sufficient to achieve the Fund's ESG requirements on an ongoing basis (refer to Section 3). Furthermore, the personnel should possess the knowledge, skills, and experience to implement the specific measures and actions required under the ESMS.
- **Stakeholder Engagement:** Stakeholder engagement is an ongoing process that may involve stakeholder analysis and planning, disclosure and dissemination of information, consultation and participation, grievance mechanism, and reporting to affected communities. The nature, frequency, and level of effort of stakeholder engagement may vary considerably according to the project's risks and adverse impacts, and the project's phase of development. Typically in forestry projects this involves identifying the communities that live in the area or adjacent to forestry operations or depend on the resources of this area and the initiation and maintenance of a dialog that ensures their involvement in important decision making and safeguards their user rights and livelihoods. Furthermore effective grievance mechanisms should be developed with culturally appropriate and transparent procedures.
- **Monitoring and Review:** Portfolio Companies shall set in place systems to monitor and assess environmental and social matters according to Section 2.2. The Portfolio Company shall establish clear indicators that allow for an in-depth analysis against set environmental and social goals formulated in the ESAP and reflect its Environmental and Social Policy. Results of the monitoring system shall be carefully analysed and reported on, and shall be subject to periodic verification, revision and reporting by the Fund management team. When business operations are subject to

external, independent reviews due to the attainment of the FSC® certification schemes, this may considerably minimize efforts undertaken directly by the Fund management team.

4.3 Other aspects

Coherence with EU FLEGT and related policies

The Fund will work in a way that is consistent with commitments like the ECOFAC and FLEGT which reflect the EU's determination to work with timber-producing countries to tackle deforestation and curb illegal trade in timber. The Fund management team will therefore maintain a close dialog with the EU FLEGT Facility to ensure that investments target countries where a Voluntary Partnership Agreement (VPA) is already signed or the negotiation process is not put on hold due to limited commitment of the partner country. Similar processes such as the US Lacey Act will also be observed to assess the investment environment.