# Food Securities Fund S.A., SICAV-FIS

## Environmental, Social and Governance (ESG) Policy

This document is the environmental, social and governance policy ("ESG Policy") of the Food Securities Fund ("Fund") as approved by the Board of Directors on 16 February 2021. The ESG Policy should not be viewed as a stand-alone or exhaustive expression of the Fund's ESG commitments. The ESG Policy should be deemed as part of the Fund's governance, as stated in the Fund's Confidential Offering Memorandum.

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## I. Introduction

The Fund aims at creating a positive systemic change in agricultural supply chains. Specifically, the Fund intends to contribute to biodiversity conservation, climate change mitigation and adaptation and reversing land degradation, and concurrently to contribute to improved rural livelihoods, notably for smallholder farmers and rural women. Consumer sentiment and supply chain commitments by leading agriculture companies have increased demand for responsibly produced commodities. However, production in emerging markets is impacted by environmental degradation – including climate change, which disproportionately affects smallholder farmers and the businesses that work with them. Farmers and local businesses require additional financing to increase production and to implement sustainable, climate smart practices.

The Fund addresses this financing gap by lending to aggregators, i.e. businesses that aggregate produce from farmers and smallholders. Specifically, the Fund provides working capital loans of up to 12 months that can be renewed (at the Fund's discretion) subject to the financial and non-financial (impact) performance of the Borrower. By linking credit to the implementation of responsible practices, the Fund will contribute to positive social and environmental outcomes. The premise of the Fund is that responsible emerging market companies that operate in strong value chains and demonstrate a substantive and lasting commitment to social and environmental best practices are likely to generate better risk-adjusted returns. The Fund considers good environmental, social, and governance ("ESG") practices to be material factors in assessing, monitoring and mitigating investment risk. The obligations set forth in this ESG Policy are binding on the Fund.

## II. ESG Policy objectives

This ESG Policy provides a framework for how the Fund will use ESG criteria to screen for, execute and monitor investments to manage risks and generate positive systemic change in agriculture. It details which ESG criteria are taken into consideration and how these are relevant for the Fund's stakeholders.

Annex 1 summarises the quantitative impact metrics and qualitative assessment factors that the Fund will consider through its investments. Annex 2 summarises the questions that will be evaluated and reported to the Fund's investors on an annual basis to assess progress on the Fund's strategy and objectives.

This Policy intends to align the Fund with that of key investors and partners. In this regard, this ESG Policy also describes how the Fund intends to identify and manage environmental and social risks and potential impacts, including the tracking and reporting of social and environmental impacts such as global environmental benefits, notably:

- area of degraded agricultural land restored;
- area of landscapes under sustainable land management in production systems;
- carbon sequestered, or greenhouse gas emissions avoided in the Agriculture, Forestry and Other Land Use (AFOLU) sector; and
- number of beneficiaries disaggregated by gender.

In the conduct of its business operations and activities, the Fund shall give preference to activities that the Fund reasonably believes are intended to achieve the following objectives (or substantially similar objectives) over activities that are not intended to achieve such objectives:

a. to incorporate concepts of re-inhabitation, reparation, improved land tenure security or that otherwise would build the capacity of traditional and indigenous communities to defend and/or perfect their land tenure;
b. to provide material economic, health, education or other community benefits to residents of the localities in which the proceeds of the Fund's loans will be deployed;
c. to encourage local hiring preferences as part of the Aggregator's ordinary investing and/or business practices;
d. to provide employment and other training, health, housing and/or other community benefits to local residents;
e. to help extend local, employee or community ownership of natural resources, production, distribution and market channels and/or brands, or other means of benefits sharing among local and community residents; and/or
f. to help assess, evaluate and address induced conversions of land outside the strict boundaries of the area or project in which the proceeds of the Fund's loans will be deployed.

For the avoidance of doubt, the requirement that the Fund "give preference to" activities meeting the specified criteria means using commercially reasonable efforts to seek out investments meeting such criteria and, in evaluating prospective investments that are roughly comparable in all other material respects, to pursue the investment that most nearly satisfies the relevant criteria.

## III. Data, industry guidance and outlook

In its activities, the Fund will gather ESG-related data during due diligence, through reporting by its portfolio companies ("Borrowers") and where relevant and possible from third parties, such as specific voluntary private certification standards, regulatory bodies or industry associations. Where reasonable, the Fund will encourage Borrowers to obtain independent third-party certification for its products and practices to manage, monitor and report on social and environmental factors. These include standards for environmental[i], social[ii], and health and safety issues[iii], as well as sector specific standards[iv].

This ESG Policy is based on relevant best-practice guidance from the responsible investment industry and agricultural supply chains. Guiding frameworks that were considered in the development of this ESG Policy are included in Annex 8.

As a principle, the Fund seeks to align the ESG metrics it captures to industry standards to ensure comparability among its peers. The Sustainable Development Goals (SDGs) that the Food Securities Fund will contribute to include the following: SDG 1 (No Poverty), SDG 2 (No Hunger), SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth), SDG 12 (Responsible Consumption and Production), SDG 13 (Climate Action), and SDG 15 (Life on Land).

## IV. Description of key stakeholders

This ESG Policy focuses on the following three stakeholder groups in the agriculture supply chain:

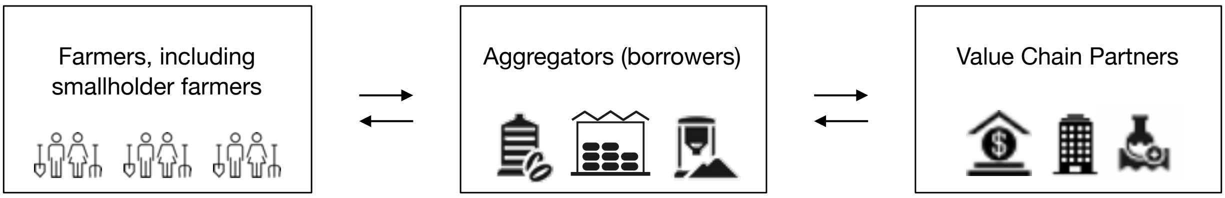


*Figure 1: Stakeholder groups relevant to the Food Securities Fund*

- Farmers, including female and smallholder farmers, are the primary producers of agricultural goods. In the supply chains relevant to the Fund, farmers sell some or all of their produce.

- Borrowers are companies or cooperatives that provide agricultural inputs to and/or aggregate agricultural produce from farmers. Their activities may include provision of inputs, storage, trading, processing, packaging and export of agricultural produce. In the supply chains relevant to the Fund, aggregators operate in emerging markets and trade with large corporates ("Value Chain Partners").

- Value Chain Partners are large corporations that sell agricultural inputs to and/or buy agricultural produce from Borrowers. Examples of Value Chain Partners include large international traders, seed producers and food & beverage companies.

The Fund also considers investors and other groups promoting sustainable agriculture, such as government agencies, as relevant stakeholders to its impact theory of change. A Stakeholder Engagement Plan (SEP), which includes a more detailed stakeholder map, is presented in Annex 6.

## V. Summary of impact theory of change

The Fund will provide working capital loans to Borrowers and promote the uptake of responsible, Climate Smart Agriculture (sustainable) practices, thereby achieving a positive social and environmental impact and contributing to improved food security as illustrated in Figure 2 below.

By giving Borrowers access to more credit, the Fund enables them to expand their operations and grow their staff (including women and youth). The Borrowers' growth translates into an improved, more reliable demand for produce from farmers, including smallholder and female farmers. Better access to working capital also improves the Borrowers' ability to provide pre-harvest inputs to farmers - e.g. in the form of seeds, tools and training.

The Fund actively selects Borrowers that are committed to good social and environmental practices, and transact with farmers implementing good agriculture practices, including climate-smart agriculture.

Such practices increase the resilience of agricultural production to climate change through mitigation and adaptation measures. Combined with better access to inputs, this allows farmers to increase and stabilize yields, which improves livelihoods and food security.

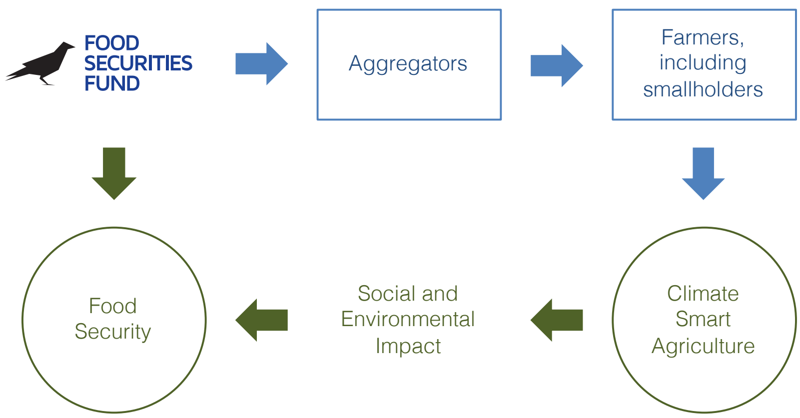


*Figure 2: Illustration of the Food Securities Fund's impact theory of change*

Value Chain Partners also benefit from the additional financing provided by the Fund to the Borrowers they work with. It allows Borrowers to grow their trading volumes with Value Chain Partners, thereby contributing to responsible supply chain commitments. Partnering with the Food Securities Fund can help Value Chain Partners to strengthen their supply chains, in particular those integrating female and smallholder farmers, and to scale up robust responsible agricultural practices.

Over time and with increasing size, the Fund aims to become a key financing partner that provides an incentive for additional Value Chain Partners and Borrowers to adopt responsible practices to access its loans. To investors, the Fund aims to demonstrate that responsible agriculture in emerging markets is a financially attractive and impactful investment strategy.

## VI. Safeguards and exclusion criteria

### *Safeguards*

The strategy and associated documentation of the Food Securities Fund have been reviewed and considered to be in compliance with internationally recognised social and environmental safeguards – e.g. as promoted by the Global Environment Facility (GEF) and implemented through its nine minimum standards. The Fund will ensure adherence to these safeguards through this ESG Policy, including the Gender Mainstreaming Plan (GMP, in Annex 5), the Stakeholder Engagement Plan (SEP, in Annex 6), and the Accountability and Grievance Mechanism (AGM, in Annex 7).

### *Exclusion criteria*

To avoid financing harmful activities, the Fund considers a range of exclusion criteria which are detailed below. The Fund follows the GEF, Conservation International (CI) and International Finance Corporation (IFC) Exclusion List criteria[v].

The Fund will not finance Borrowers involved in activities that[1]:

- are in breach of local laws and relevant best practice guidance, including on human rights, labour practices and natural resource management;
- are in breach of international best practices on human rights, labour practices and natural resource management and that contravene major international and regional conventions on environmental issues;
- engage in the commercial development of projects that result in the conversion of native habitats into forestry, agroforestry or agricultural plantations on land that had never been previously used for such purpose (i.e., a "greenfield" development of such a plantation);
- promote deforestation of primary forests or biodiversity hotspots and/or important conservation areas, including any activities that would reasonably be likely to accelerate the pace or scope of deforestation or the conversion of native habitats for development or industrial purposes in the immediate area where a proposed investment is expected to be deployed;
- engage in or promote the direct conversion of native habitats for real estate development or industrial purposes, except for a conversion of less than one percent (1%) of the land owned or occupied by a Borrower and/or its affiliates or one percent (1%) of the land that is directly involved with such Borrower;
- use any portion of the loan obtained from the Fund to acquire or to lend money for the acquisition of, or to make an investment directly involving land in which a genuine dispute exists with respect to the title or ownership of such land where any government, investors, companies or other persons or entities appear to be actively displacing, or actively attempting to displace, indigenous or traditional inhabitants or users of such land;
- practice involuntary re-settlement or contribute to social unrest due to land tenure issues and displacement of peoples;
- propose the introduction of exotic species that can certainly become invasive and harmful to the environment;
- use any portion of the loan obtained from the Fund to attempt to influence legislation, or to participate in, or to intervene in (including the publishing or distributing of statements) any political campaign on behalf of (or in opposition to) any candidate for public office; or
- promote the use of internationally or locally banned chemicals, including those that are referenced in the Stockholm Convention on Persistent Organic Pollutants (POPs).[2] Borrowers may not use financing from the Fund to purchase, trade, or facilitate the use of chemicals on Fairtrade International's Red List of prohibited materials[vi].

In addition, the Fund's administrator and depositary (i.e. Citibank Europe plc, Luxembourg Branch) will not execute investments in or accept subscriptions from parties that do not comply with the bank's know your client (KYC) procedures, Financial Action Task Force (FATF) policies on Anti-Money Laundering & Counter Terrorist Financing (AML/CTF), the laws of Luxembourg, and similar best practices in the financial sector (especially those in Switzerland and Luxembourg).

## VII. ESG metrics

Through its investment, the Fund aims to contribute to outcomes listed below. To assess progress towards these outcomes, the Fund considers outputs in the form of quantitative metrics and qualitative assessment factors. These are described in Annex 1 in the following sections:

| Target outcome | Description of indicators | Details in Annex 1 |
|---|---|---|
| Catalyse sustainable rural development and support food security | Socio-economic metrics concerning the Borrower, its employees, and the farmers the Borrower transacts with. | Part I |

[1] Note that the Fund does not provide equity or long-term debt, and will de facto therefore not be engaged with greenfield plantations, land acquisition, removal of physical cultural resources, dam development, etc. Also note that the Fund does not apply exclusion criteria / negative screening to farmers as these are not its direct counterparties.

[2] These can be found at: http://chm.pops.int/Home/tabid/2121/Default.aspx

| | | |
|---|---|---|
| Promote responsible agricultural production | Metrics regarding the use of natural resources and agricultural inputs. | Part II |
| Adopt good governance practices | Assessment factors regarding the Borrower' policies, procedures and governance. | Part III |

Complementary to the three aforementioned general target outcomes, the Fund has specific targets related to four global environmental benefits and society, described in the bullet points below. Progress on these benefits are monitored quarterly and reported annually. Annex 3 provides further information on the Fund's strategy for assessing progress on global environmental benefits.

- Area of land restored, based on an estimate of the overall land footprint that is likely to be in the Fund portfolio at a given time, including the proportion of that land that is represented in loans that are renewed so they can result in restoration, and the commodity-geography mix where restoration is a particular focus of the Value Chain Partner and Borrower.
- Area of landscapes under improved practices, i.e. the estimated entire land footprint of the loan portfolio of the Fund at a given time, based on similar assumptions as above. It is expected that all of the land that comes under oversight of the Fund will enter into "improved practices".
- Climate mitigation, adaptation and resilience (Climate Smart Agriculture), which is based on estimated net greenhouse gas impact associated with changes in emissions related to agricultural production and processing, including sequestration and avoided emissions, to the point where produce leaves the Borrowers' local facilities. Net estimates are developed primarily using the FAO-EXACT tool, scientific literature, white and grey papers, information from multilateral, government or NGO led initiatives. Note that the Fund intends to evaluate contributions to Climate Smart Agriculture in its annual report, based on a range of information.
- Direct beneficiaries estimated at a given time in the Fund's portfolio. This includes number of farmers that the Borrower interacts with (e.g. procures from, trains), as well as local employees / staff at the level of the Borrower. This information will be collected and disaggregated by gender.

The information described in Annex 1 enables the Fund to monitor and report on the aforementioned impact areas. The Fund aims to respond to a set of impact questions on an annual basis, as listed in Annex 2. In conclusion, the Fund will use quantitative and qualitative information sources collected from Borrowers and other sources to report on the Fund's impact performance, including its progress towards meeting environmental and social targets.

## VIII. Implementation and integration of the ESG Policy

This ESG Policy will be implemented throughout the Fund's activities, most importantly during the analysis of potential investments, in investment decisions, monitoring and reporting to investors as described below. Annex 4 details how this ESG-related information is documented during these activities.

Note that the Fund provides loans to Borrowers, who are also the Fund's primary source of ESG-related information. This section therefore focuses on Borrowers. The implementation of the ESG Policy will be carried out by the Fund's Investment Adviser, in collaboration with other stakeholders engaged in the management of the Fund.

*Analysis of potential investments*

Prior to the detailed analysis of potential investments, the Borrowers will be filtered according to the exclusion criteria detailed above. Subsequently, the relevant ESG-related information will be reviewed during the analysis and due diligence of the potential Borrowers, specifically concerning the impact metrics and assessment factors listed in this policy. This may include the review of the Borrower's records, systems, policies and business practices, as well as any available reports by independent third parties such as auditors or certification agencies. The analysis of ESG-related information is an integral part of the due diligence conducted on potential Borrowers, both from an impact and risk management perspective. On-site due diligence, including discussions with farmers and local representatives of the Aggregator as well as other relevant groups, is an important part of the investment analysis.

In addition to utilising its own expertise and that of external experts, the Investment Adviser will consult with its Impact Advisory Board at least two times a year. The purpose of this is for the Impact Advisory Board to assess actual alignment of the Fund with its impact and ESG objectives, and to support maximum impact creation. In this meeting, Investment Adviser shall present and receive guidance on application of the ESG policy during its investment advisory activity.

*Investment decisions*

Information on ESG criteria will be reflected in the investment proposal provided to the Fund's investment committee. ESG aspects will be considered alongside other financial and business indicators.

To the extent relevant, reasonable and practicable, preference shall be given to investments that are expected to produce greater global environmental benefits and social outcomes. Notably, to give preference to investments that create measurable improvements in the lives of local communities in a manner supportive of the Sustainable Development Goals, in particular smallholder farmers and women – and on a case by case basis other relevant groups such as local youth. For example, investments that create more local employment and train more women. Investments will also be compared as to their ability to meaningfully contribute to land restoration, sustainable land management and climate mitigation both on land under the Borrower's control as well as the wider sourcing landscape. This means that the Fund will use commercially reasonable efforts to seek out Investments or business activities meeting these criteria and, in evaluating prospective investments that are roughly comparable in all other material respects, to prioritise the investment that most nearly satisfies the relevant criteria.

*Monitoring*

For each investment the Investment Adviser has the discretion to select the impact metrics and assessment factors that should be monitored according to Annex 1. These metrics and factors will be included as reporting requirements in the loan agreement with the respective Borrower. The reporting requirements will include sharing of relevant reports from third parties, such as auditors or certification bodes, where possible.

The Borrowers will report to the Fund on a quarterly basis. To the extent possible, such reporting will be verified and complemented by the Investment Advisor, and potentially third parties, during any on-site visit to the Borrower.

*Reporting to investors*

The Fund will report to its investors on ESG approaches and performance on at least an annual basis. Such report will include the relevant impact metrics and assessment factors, subject to their availability, on a consolidated basis. Where practical, relevant industry or geographical baselines will be included to put the performance of the Fund's portfolio into perspective. Where possible, the Fund aims to demonstrate impact over time and against the "business as usual" scenario.

The annual ESG report shall be available to Fund investors by April 30$^{th}$ (i.e., first report available by April 30$^{th}$, 2022).

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[i] e.g. USDA, EU, IFOAM, Soil Association, Rainforest Alliance UTZ
[ii] e.g. FLOCERT, WFTO, Max Havelaar
[iii] e.g. Global GAP, ISO, HACCP
[iv] e.g. RSPO
[v] Available at http://www.ifc.org/exclusionlist
[vi] Fairtrade International Prohibited Materials List 15.05.2014 https://www.fairtrade.net/fileadmin/user_upload/content/2009/standards/documents/Prohibited_Materials_List_EN.pdf