

# Website disclosure under Article 10 of SFDR

## For a financial product promoting environmental and/or social characteristics according to Article 8 of SFDR

PRODUCT NAME:	<b>S-Arbor Timber Mandate SCSp, SICAV-RAIF (“S-Arbor”)</b>
LEGAL ENTITY IDENTIFIER/ISIN:	<b>LU2420554896</b>
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<b>1.0</b>	<b>1.1.2023</b>

### A. Summary

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S-Arbor Timber Mandate SCSp, SICAV-RAIF (“S-Arbor”) promotes environmental or social characteristics, but does not have as its objective sustainable investment. The fund promotes the following environmental and social characteristics:

- 1) Support for, and expansion of, sustainable forest management.
- 2) Support for, and expansion of, responsible investment.
- 3) Support for climate change mitigation through the maintenance and planting of sustainable working forest plantations that sequester carbon.

The fund promotes these characteristics through a robust ESG assessment during the pre-investment phase and active monitoring/engagement with the managers in the post-investment phase. The following actions and strategies are implemented to ensure that the fund meets the promoted environmental or social characteristics:

1. Sustainable forest management

## 2. Responsible investment

## 3. Climate change mitigation

The fund aims to have the whole portfolio aligned with E/S characteristics at the end of its commitment period (see chart below). The only #2 Other” assets of the Company will be limited to cash balances maintained for working capital, however, it is not possible to indicate what percentage this will be.

Once a timberland investment is made it becomes part of the following environmental and social monitoring activities:

- Manager reporting
- Manager engagement
- Forest certification audits
- Sustainable Development Goals contribution
- Carbon sequestration calculation

All data sources used to measure the achievement of the environmental and social objectives of the Fund are internally sourced, relying on direct due diligence on and engagement with the timberland fund managers. Estimations may be used where there is a lack of available data or guidance, however, this is expected to affect only a limited proportion of the data disclosed in periodic reporting.

There are usually no publicly available data that can be used directly for reporting on the Fund’s investment activities. A high degree of manual data collection and processing is therefore necessary to source such data. The limitations to this approach can be that information received could be incomplete, delayed or inaccurate so that (i) investor reports may consequently be less rigorous (ii) engagement activities based on such information might not be as efficient as if the information had been timely and comprehensive.

The Stafford Group applies an overarching Responsible Investment Policy to all of its investment products. This summarises our core investment beliefs, including our commitment to the UN-backed Principles for Responsible Investment. It also highlights how these are integrated into our investment process.

Given the indirect nature of S-Arbor’s investments, Stafford engages on ESG integration and sustainability with the managers of timberland funds S-Arbor invests in or commits to. This is incorporated in the fund's investment strategy. Through ESG engagement Stafford supports the improvement of fund managers' ESG policies, reporting frameworks and overall ESG performance.

There is no responsible investment or ESG benchmarks designated as reference benchmarks for this fund.

## B. No sustainable investment objective

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N/A.

S-Arbor is classified as an Article 8 fund under the EU disclosure regulation. The fund promotes E/S characteristics, but did not commit to making sustainable investments.

S-ARBOR was available to institutional clients only and is closed for investment.

## C. Environmental or social characteristics of the financial product

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S-ARBOR promotes the following E/S (or ESG) characteristics:

- 1) Support for, and expansion of, sustainable forest management.
- 2) Support for, and expansion of, responsible investment.
- 3) Support for climate change mitigation through the maintenance and planting of sustainable working forest plantations that sequester carbon.

The foundation for positive environmental and social characteristics across S-Arbor's portfolio is achieved during the investment phase by adhering to the following principles:

- **Avoidance of high-risk forest types** – The underlying assets consist of commercially-managed plantation forests. Investments into natural forests, which present a significantly higher risk of non-conformance to environmental or social best practice, are avoided.
- **Avoidance of high-risk countries** – 100% of S-Arbor's timberland investments are located in countries such as the United States, New Zealand, and Australia, which have well-established legal frameworks, industry operating standards, and governance.
- **Manager selection** – Stafford has a long history of working with some of the best-known international timberland managers. Where an investment opportunity might arise with a new, unknown manager, a full manager review is conducted as part of the due diligence phase. This review aims to flag potential cases where a manager might have a poor track record in managing assets, including in the environmental and social areas.
- **Focus on established assets** – Stafford focuses on established timberland assets rather than greenfield projects. The latter usually present a higher risk both environmentally (no history of tree growth performance or limiting factors like pests or disease on the site) and socially (conversion of land use and conflict with local communities).
- **Forest certification** – Wherever possible Stafford aims to have forest certification in place for all of its timberland portfolio. Third party accreditation schemes such as the Forest Stewardship Council (FSC)

or Programme for the Endorsement of Forest Certification (PEFC) are a fundamental tool in assessing and monitoring ESG compliance.

## D. Investment strategy

S-Arbor promotes E/S characteristics through a robust ESG assessment during the pre-investment phase and active monitoring/engagement with the managers in the post- investment phase. The underlying assets in S-Arbor will comprise of timberland with the following characteristics:

- *They are typically planted forests as opposed to natural forests.* There is no risk of natural forests being compromised. In fact, planted forests play a key role in alleviating pressure on natural forests to meet growing wood demand globally. According to United Nations Food & Agriculture Organisation (FAO) data, planted forests make up only 7% of the world's total forest area, yet supply over half of the world's industrial roundwood demand.
- *Wood products such as paper, cardboard, lumber and wood-based panels are low-carbon, biodegradable, and renewable materials.*
- *As trees grow, they provide a significant source of carbon sequestration.* The world's forests absorb 29% of global carbon dioxide emissions every year.
- *Forests provide extensive ecosystem services such as biodiversity and habitat conservation, or watershed management.* For example, 75% of the world's accessible fresh water supply for agricultural, domestic, industrial and environmental use comes from forests.
- *The forest industry is frequently a significant provider of employment opportunities in less wealthy, rural areas.*

To ensure S-Arbor meets the promoted environmental or social characteristics the following actions and strategies are implemented:

**1. Sustainable forest management** – For the purpose of assessing the % of forests under management that are certified under a third-party sustainable forest management standard, Stafford has an annual Certification Survey in place that managers are required to respond to. Through this survey we collect information on forest area certified by a third-party sustainable forest management standard and refusals or suspensions of certifications in the last 12 months. The results for S-Arbor are then compared to those of other timberland funds.

**2. Responsible investment** – For the purpose of the monitoring of external timberland fund managers, Stafford has a structured annual process in place for ESG assessment and reporting of these managers. This process is based on an (annual) ESG survey that they are required to respond to. The annual ESG survey is based on the annual survey and assessment methodology of the UN Principles for Responsible Investment (PRI) to assess the ESG performance of fund managers each year and covers fund managers' ESG strategy, stewardship policy, and ESG integration through all the stages of their investment process.

**3. Climate change mitigation** – Stafford maintains a proprietary carbon assessment tool for reporting carbon stocks and flows across these forests on an annual basis which has been validated by an external party, South Pole.

**The policy to assess good governance practices of the investee companies (properties):**

Stafford's investment teams are responsible for the ongoing assessment and monitoring of the governance practices of external fund managers, investee funds and companies in which we invest in. These assessments are made in the context of each investment strategy using available data and relevant research. Assessment of the governance practices of the underlying investments is complex and may be based on information, which is difficult to obtain, incomplete, estimated, or out of date. Investment teams assess good governance using any reasonably available information sources which they determine to be material to the underlying investments.

The due diligence process incorporates a site visit (where applicable), market review, financial and data room review, a focus on specific items relevant to the investment, management, and staff interviews. Legal and tax due diligence also form a significant part of the overall due diligence activities. Lastly, an Operations and Governance Review ("OGR") is performed by Stafford's operations team separately to the investment team's investment due diligence, as both reviews may have findings and conclusions tabled to the Investment Committee. OGR is a process of due diligence of third parties, i.e., investment managers, but also service providers or others with whom we have material relationship in connection with our Firm, our Funds or Mandates. It ascertains the integrity, existence and robustness of that person's structure, compliance and legal framework, prudence or controls, and responsible investment characteristics.

An OGR includes the assessment of the following key risk areas, their levels and mitigants: the firm governance and structure, human capital, finance, cash controls, risk and internal controls, regulation and compliance, technology and cyber security, business continuity and outsourcing. A review of a firm's governance and structure incorporates among others, a history of the firm and its ownership structure, the firm's 3-year business plan, information on litigation, legal proceedings or regulatory inquiries related to its business operations during the past five years, the background and experience of the primary members of the team and team changes, information on the firm's insurance coverage, copies of the firm's financial statements and information on the employee incentive program and committees.

Operational and governance reviews are conducted not only in parallel to investment due diligence but also during length of holding an investment. Our monitoring of good governance practices is ongoing, and the investment teams use tools such as RepRisk to identify the incidents related to inferior governance practices in the underlying funds and portfolio companies.

## E. Proportion of investments

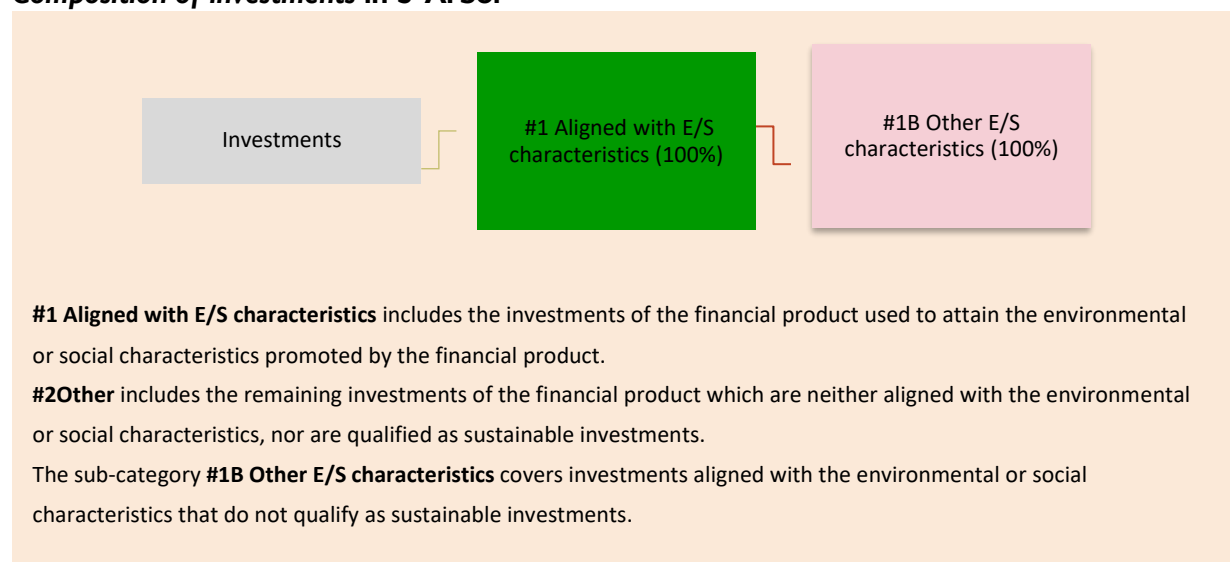
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S-Arbor is classified as an Article 8 product under the EU disclosure regulation which promotes E/S characteristics, but did not commit to making sustainable investments. The fund aims to have the whole portfolio aligned with E/S characteristics at the end of its commitment period (see chart below). The

only #2 Other” assets of the Company will be limited to cash balances maintained for working capital, however, it is not possible to indicate what percentage this will be.

While forest management is implicitly a sustainable activity, and this is consistent with the EU Taxonomy, none of the underlying S-Arbor managers have reported the alignment of their funds with this taxonomy to date (see chart below).

### Composition of investments in S-Arbor



Source: *Stafford Capital Partners*

## F. Monitoring of environmental or social characteristics

Once a timberland investment is made it becomes part of the following environmental and social monitoring activities:

- **Manager reporting** – A quarterly reporting cycle by the underlying manager which includes details on any significant events in the environmental or social areas.
- **Manager engagement** – Stafford’s timberland team regularly meet with the underlying fund managers to discuss performance and specific matters of interest. This includes regular site visits where our staff of professional foresters can assess first-hand the standards of management being applied.
- **Forest certification audits** – Surveillance audits are undertaken on an annual basis by independent third parties.
- **Sustainable Development Goals** – Stafford has developed a tool to analyse the contribution of underlying assets in each of its funds towards the Sustainable Development Goals.
- **Carbon sequestration** – Stafford has developed a carbon accounting tool to estimate the carbon sequestration benefit for all of its timberland funds. This considers every underlying property

for location, species, growth rate, age class and typical management regime to estimate total biomass and the carbon component of this biomass. It is then adjusted for carbon emitted as part of harvesting operations and haulage of products to markets to arrive at an estimate of net carbon sequestered.

## G. Methodologies for environmental or social characteristics

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The methodologies Stafford will use to measure how environmental and social characteristics promoted by S-Arbor fund are met are explained below.

**Sustainable forest management** – For the purpose of assessing the % of forests under management that are certified under a third-party sustainable forest management standard, Stafford has an annual Certification Survey in place that managers are required to respond to. Through this survey we collect information on forest area certified by a third-party sustainable forest management standard and refusals or suspensions of certifications in the last 12 months. The results for S-Arbor are then compared to those of other Stafford timberland funds.

**Responsible investment** – For the purpose of the monitoring of external timberland fund managers, Stafford has a structured annual process in place for ESG assessment and reporting of these managers. This process is based on an (annual) ESG survey that they are required to respond to. The annual ESG survey is based on the annual survey and assessment methodology of the UN Principles for Responsible Investment (PRI) to assess the ESG performance of fund managers each year and covers fund managers' ESG strategy, stewardship policy, and ESG integration through all the stages of their investment process. In addition to that, we track the number of timberland managers in S-Arbor that are PRI Signatories, and engage with one managers which has not yet signed to the PRI.

**Climate change mitigation** – Stafford maintains a proprietary carbon assessment tool for reporting carbon stocks and flows across these forests on an annual basis which has been validated by an external party, South Pole.

## H. Data sources and processing

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As an investor in third-party funds, Stafford depends on external managers to collect and provide relevant ESG data for the underlying funds' portfolios. If external managers are not reporting ESG-related data, Stafford is not in a position to obtain and/or assess the data directly from the underlying companies (or buy it from ESG data providers, given that assets are privately-held and typically not covered by data providers).

All data sources used to measure the achievement of the environmental and social objectives of the Fund are internally sourced, relying on direct due diligence on and engagement with the timberland fund managers.

Estimations may be used where there is a lack of available data or guidance, however, this is expected to affect only a limited proportion of the data disclosed in periodic reporting.

S-Arbor will use the following data sources to monitor the attainment of the environmental or social characteristics promoted by the financial product:

**1. Stafford's Certification Survey** to assess forests under management which were certified under a third-party sustainable forest management standard.

**2. The annual ESG Survey** responses provided by timberland fund managers through the PRI reporting tool and scores and ratings for the Investment & Stewardship Policy module of the PRI reporting tool, provided by the PRI and based on the PRI's publicly available assessment methodology; checked and validated by the PRI.

**3. Stafford's proprietary carbon assessment tool** for reporting carbon stocks and flows across our forests under management on an annual basis which has been validated by an external party South Pole.

## I. Limitations to methodologies and data

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There are usually no publicly available data that can be used directly for reporting on the Fund's investment activities. A high degree of manual data collection and processing is therefore necessary to source such data. The limitations to this approach can be that information received could be incomplete, delayed or inaccurate so that (i) investor reports may consequently be less rigorous (ii) engagement activities based on such information might not be as efficient as if the information had been timely and comprehensive.

Stafford acknowledges the risks involved in manual data collection/processing and will focus on enhancing data quality standards. This will reflect in the due diligence carried out on underlying managers and/or service providers and the assurance that can be obtained regarding their processes, methodologies and controls. The main data-related issue for Stafford as investor in third-party funds is that we depend largely on external managers to collect and provide relevant ESG data. If external managers are not providing ESG-related data on their fund portfolios, Stafford is not in a position to obtain and/or assess the data directly from the underlying companies.

The data on the metrics we have defined to measure the attainment of environmental and social characteristics of S-Arbor are being collected internally by the investment teams (proprietary carbon assessment tool for reporting carbon stocks and flows) or through surveys sent to external managers (to assess fund managers' ESG performance, certification survey etc). Hence, the limitation mentioned above will not critically affect the ability of the financial product to meet the environmental and social characteristics, as long as fund managers respond to the surveys.



## J. Due Diligence

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The Stafford Group applies an overarching Responsible Investment Policy to all of its investment products. This summarises our core investment beliefs, including our commitment to the UN-backed Principles for Responsible Investment. It also highlights how these are integrated into our investment process.

Stafford seeks to identify sustainability risk and opportunities already during the initial screening of investment opportunities. The consideration of current and historic land use on target assets, together with the use of tools created to support carbon project development, allow us to ensure that target have the potential to contribute successfully towards the Fund's objectives.

Investment targets that pass through this initial screening may be put to the Fund's investment committee (IC) for a first review and assessment. The proposal must receive IC approval to move forward into the next phase where a more thorough due diligence process is completed.

The due diligence will typically see an extensive review of documentation, investment models and supplementary materials shared directly or via data rooms. Particular attention is also paid to discussions with the team who will be responsible for managing the asset, specifically their experience, track record, resources (including software, databases, etc), and capacity for investor support (reporting) and administration.

Wherever possible the due diligence will include a site visit to assess the physical characteristics of the asset as well as to meet the management team and relevant stakeholders. This generally allows for a better understanding of key topics that may be relevant to specific investments.

Stafford has considerable internal resources available when it comes to technical forestry matters and a well-established track record in investing into forestry assets. This expertise will typically be complemented by external resources such as legal advisors, financial and tax advisors, technical expert teams, external ESG consultants and/or other well-reputed management consultancy firms as needed during this due diligence process.

At the end of the due diligence process a detailed investment recommendation report is presented to the IC. Responsible investment and ESG considerations are a standard element of Stafford's investment recommendations papers and are as such being discussed during Investment Committee's meetings.

Stafford's investment teams across all business lines perform the ESG analysis internally, supported by the ESG team and by the Sustainability Committee. In addition, we use some ESG services and tools by external providers, namely:

- **Ethixbase** (for a general risk and compliance review and background checks of fund managers contacts, used in Operations & Governance Review),
- **RepRisk** (to monitor the ESG-related incidents and reputational risk of underlying portfolio companies and managers) and

- **The PRI Reporting and Assessment tool** to monitor and assess the annual ESG performance of GPs, whereby we work closely with the PRI's Reporting & Assessment Team.

Furthermore, Stafford's staff uses any relevant ESG and responsible investment related research, guidelines and handbooks published by the PRI, SASB, academic institutions and research institutes.

## K. Engagement

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Given the indirect nature of S-Arbor investments, Stafford engages on ESG integration and sustainability with the managers of timberland funds S-Arbor invests in or commits to. This is incorporated in the fund's investment strategy. Through ESG engagement Stafford supports the improvement of fund managers' ESG policies, reporting frameworks and overall ESG performance.

Engagement with the Fund's property managers or portfolio companies on sustainability matters is key for properly identifying and managing investment risks, monitoring assets across the portfolio and ensuring long-term sustainability.

This engagement will be effected primarily through active dialogue and at least once per quarter, in line with the regular reporting cycle. Stafford holds quarterly discussions with underlying fund managers to discuss portfolio management topics including environmental and social performance.

Stafford maintains a biennial survey of managers to assess third party forest management certification, conducts an annual ESG survey drawing on PRI results, and circulates an annual data request to managers to better assess investments and manager performance. Data typically requested includes the investment/s cash flow outlook, forest carbon projects under preparation and ongoing risk management topics.

## L. Designated reference benchmark

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S-Arbor primarily invests indirectly, in third-party funds which are composed of privately-held timberland assets and properties. As a result, there are no Responsible Investment or ESG benchmarks designated as reference benchmarks for this fund.