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# Sustainability Policy

3J Gestora de Recursos Serez Capital International Sustainable Agro Brazil IS

OFFICIALLY SUPPORTED BY:





Algodão do Campo, a native plant of Cerrado, Brazil

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Sustainable agriculture and sustainable forestry are centered on the idea that industrial agriculture practices and food production can be delivered in synchrony with society, the environment, and the economy. They are viable and profitable.

The fund's primary focus is on the production of soybean. Soy is a fundamental crop in today's global food chain, affecting millions of lives globally. Soybean produces more protein per hectare than any other plant and is one of the most profitable agricultural products.

In the last 30 years, the production of soy has grown more than threefold, from 100 to 337 million tones (in 2019/2020) and the total area used for soybean production has increased from 93 million hectares in 2005 to 122 million in 2019/2020 (OECD) - more than the total combined area of Portugal, Spain, France, Belgium, the Netherlands and Switzerland. This expansion shows no sign of slowing down. By 2050, the world will require an estimated 60 percent growth in agricultural production to meet the food demand of a population of close to 10 billion people. The United Nations (FAO) suggests soy production will almost double by 2050. Most of this growth is occurring in South America and principally in Brazil. The country is the world's largest producer of soybean accounting for 37% of global production.

But rapid market expansion, expedited by capital-intensive and highly mechanized farming, has given rise to a host of sustainability concerns. Against this backdrop, fund manager 3J and farm manager Serez Capital endorse the sustainable production of soybean in Brazil and are strong promoters of the global transition toward a more responsible soy industry, which should include all players: producers, traders, food processors, retailers, financial institutions, and consumers. 3J and Serez Capital International are also aware that social and environmental risks can have a material impact on the profitability of the soy farms, and, therefore, the engagement of stakeholders across the production chain is fundamental to minimize adverse impacts and seize the opportunities presented by the responsible soybean industry.

The Sustainable Agro Brazil IS' Sustainability Policy expresses the intent to go beyond applicable laws and regulations and integrate sustainability into our business and farming practices by addressing their economic, social and environmental impact. This will be carried out by establishing a set of **Sustainability Targets and Commitments** and a related **Carbon Strategy**.

The global demand for more sustainable soybean will accelerate in the coming years compelling producing companies to revisit their business models. By pursuing sustainability practices in large-scale farming, 3J and Serez Capital wish to be one step ahead in the reshaping of the global agricultural industry.

#### A Sustainable Fund

The Sustainable Agro Brazil IS is an "Article 9" fund under the EU's Sustainable Finance Disclosure Regulation (SFDR) as it is a fund that has sustainable investment as its objective, alongside superior financial performance. The fund is also a "Sustainable Investing Fund" (*Fundo de Investimento Sustentável*), also known as "IS Fund" (*Fundo IS*), under Brazilian Financial and Capital Markets Association's (ANBIMA) Rules and Procedures Nr. 03 of January 2022. "The Nature Conservancy (TNC) acknowledges that this Policy fulfills all criteria of TNC's Environmental Framework (gold standard) for agricultural production in the Brazilian Cerrado region."

Following a 12-months selection process, in 2021 the fund was selected to the **Partnerships for Forests (P4F)**, a UK-government funded program that provides a blend of technical assistance and grants to top-tier projects worldwide that excel in terms of innovation, sustainability and financial performance. P4F aims to reduce deforestation and promote sustainable forests and sustainable land use worldwide.



UK Government

## SUSTAINABILITY TARGETS AND COMMITTMENTS

#### **Climate Change Mitigation**

 Develop carbon projects, predicated on sustainable agriculture and on sustainable forestry management, to trade carbon credits in the market according to international best practices and standards (see **Carbon Strategy**). The projects shall deliver important benefits for climate resilience, soil health and biodiversity. It is estimated that they will sequester 1.728.000 t/CO2e (14,4 t/CO2e/ha x 120.000 ha).<sup>1</sup>

#### **Forests and Native Vegetation**

Fully comply with Brazilian
 environmental legislation, including
 Federal Law 6.938/1981, which creates
 the National Environmental Policy and
 establishes the Environmental Permitting
 Process and the Civil Liability system for
 environmental damage; the Rural
 Environmental Registry (CAR), a
 mandatory and self-declaratory registry for
 rural properties; and the Brazilian Forest
 Code, a law requiring landowners to
 maintain 20 to 35 percent of native
 vegetation on their property (Cerrado);

Going beyond existing legislation, conserve biomes of high ecological value such as the Cerrado the world's most biodiverse savannah and the source of three South American major river basins (Amazon, Plata and São Francisco) – by prohibiting any deforestation or native vegetation conversion after land purchase, by selecting land that has not been deforested or suffered native vegetation loss since January 2008, by using satellite imagery to monitor the farms' environmental dynamics, by supporting the Cerrado Manifest, and by endorsing the Statement of Support (SoS) for the Cerrado Manifesto. The 2008 cut-off date is consistent with the European Commission Technical Expert Group's Technical Report on EU Taxonomy. The land's history should be determined by data verification tools (e.g. CAR, SIMCAR, ITR, Mapbiomas) (see also Carbon Strategy);

 Restore the Legal Reserve in all purchased farmland. Legal Reserves, as enshrined in the Forest Code, are portions of land that must be retained as primary forest vegetation (as a percentage of the

<sup>&</sup>lt;sup>1</sup> The exact target will be determined once farmland is purchased and soil testing is carried out.

property). The Legal Reserve designates a set aside that occupies 35 percent in the Cerrado biome (if located in the Legal Amazon, otherwise 20 percent). Reforestation may be carried out by restocking existing borderline forests or by inserting native forest 'islands' or strands in or between agricultural productive areas (see also **Carbon Strategy**);

 Fully support and implement the 2006 Soy Moratorium, which obliges members not to buy soy from areas in the Amazon that were deforested after July 2008, and build on joint monitoring work undertaken by the soy industry;

• Maintain valuable biodiversity within farms' areas and not endanger threatened species.

#### **Certification and Validation**

Ensure adherence to a sustainability-based soy production certificate, such as the Round Table Responsible Sov (RTRS) Standard for Responsible Soy Production, the International Sustainability and Carbon Certification (ISCC) for feed certification, which is line with the European Feed Manufacturers' Federation (FEFAC) Soy Sourcing Guidelines; the Certified Responsible Soya (CRS) Standard; ProTerra: the Sustainable Farming Assurance Programme Non-Conversion (SFAP Non-Conversion): or the Sustainable Agriculture Network's (SAN) Sustainable Agriculture Standard adopted by the Rainforest Alliance. Certification is a crucial tool to achieve a sustainable production of soybean that meet environmental, business and social criteria;

• Uphold The Nature Conservancy's (TNC) Environmental Framework (Gold Standard), PRI's Responsible Investment in Farmland Guidelines, and Consumer Goods Forum's Sustainable Soy Sourcing Guidelines.

#### Sustainable Production and Land Management (see also Carbon Strategy);

 During soil preparation, avoid adverse practices that reduce the soil's organic carbon, expose organic matter to weathering, accelerate decomposition and mineralization, and interrupt processes that help stabilize the soil's organic carbon, such as tillage, subsoil tillage, harrowing, removing or burning of crop residues in crop areas, etc. Instead, adopt conservation and low carbon tillage practices, including no-till, or alternative methods that allow carbon to build up, increase organic matter in soil and improve water drainage and availability for crops;

 Adopt crop rotation, alternating soybean with corn or rice, contributing to biodiversity and a healthy soil with sufficient nutrient levels;

• When possible, include a livestock grazing period (such as cows) into traditional grain crop rotations to increase soil organic carbon.

• Ensure the conservation of existing natural water resources, such as riparian corridors, lakes, rivers, artificial lakes, dams, water tables and aquifers in/around the farms, and do not undertake new initiatives that reduce the availability of water for neighboring communities;

Ban the use of surface irrigation;

 Use non-Genetically Modified (non-GM) beans whenever there are favorable market conditions (premium offsets lower productivity and extra risk, and global supply and demand of non-GM beans is well-balanced and steadily priced) and appropriate logistics in place that ensure the transport and the traceability of the soybean;  Adopt technological solutions and sustainable organic matter management practices (such as innovative microbial soil carbon sequestration processes) to promote greater productivity and more sustainable land use, alongside less use of fertilizers, pesticides and herbicides and other inputs;

 When fertilizers, pesticides and herbicides are to be employed, never use toxic chemicals paraquat and carbofuran, nor chemicals listed in the Stockholm Convention on Persistent Organic Pollutants, the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention) or WHO classes la, lb lists;

• Manage production waste in a sustainable manner, avoiding burning of crop residues and refuse.

### Human Rights and Community Development

 Respect land use right, including the principle of free, prior and informed consent of both quilombolas communities (communities of runaway slave descendants) and indigenous groups located in the states where the farms invested in by the Sustainable Agro Brazil IS are located;

 Protect the rights of all farm workers, their freedom of association, health and safety in compliance with federal, state, and municipal laws and applicable international conventions;

 Prohibit child labor, forced labor discrimination and harassment in compliance with federal, state, and municipal laws and applicable international conventions;

 Maintain participatory and structured communication with farm workers and adopt processes for effectively addressing complaints;  Maintain an open and consistent dialogue with the local communities regarding the impacts of the soy farming operation and adopt mechanisms for resolving complaints and grievances;

 Promote the social and economic development of local communities by using the farms invested in by Sustainable Agro Brazil IS as local hubs of economic development and poverty reduction;

 Offer free-of-charge training programs to local communities and farmers and have those programs validated by the Brazilian S system (SESI, SENAI and SENAC).

#### **Business Governance**

 Do business with integrity by avoiding corruption in all forms, including bribery. Abide by all applicable anticorruption laws, including Brazil's Anti-Corruption Law (Federal Law No. 12,846 of 2014), and international conventions;

 Refrain from partnering up or doing business with entities that are listed in Brazil's National Registry of Ineligible and Suspended Companies (CEIS), the Notfor-Profit Entities Debarment List (CEPIM), the National Register of Punished Companies (CNEP) or the Slave Labor Dirty List (Lista Suja do Trabalho Escravo).

#### Asset Management (3J)

• Join the Principles for Responsible Investment (PRI) and endorse its internationally-recognized principles;

 3J will have an adequate functional, organizational and decisionmaking structure to fulfill its responsibilities related to the management of a sustainable investment fund;

• Make reference to the fund's sustainability practices and targets in all fund's marketing and legal documentation, in alignment with standards, regulations,

certifications or guidelines put forward by regulators and industry-associations;

 Conduct training on the global ESG market and on how ESG issues impact company performance, shareholder value and investment decision-making (e.g. PRI Academy);

• Adopt all necessary actions, metrics and/or material indicators to monitor and measure the investment objective(s) of the fund.

#### **Multi-Stakeholder Platforms**

 Advocate for sustainable soy production in forums such as the International Soybean Growers Alliance (ISGA), the Brazilian Oilseed Processors Association (ABIOVE) or the National Association of Grain Exporters (ANEC);

Monitor, contribute to and/or seek support by international initiatives on sustainable agriculture commodities such as DFID's Partnerships for Forests program, the PRI's Investor Initiative for Sustainable Forests, UNDP's Green Commodities Program, the World **Business Council for Sustainable** Development's (WBCSD) Soft Commodities Forum (SCF), the Consumer Goods Forum (CGF), the New York Declaration on Forests, the Retailers' Soy Group, Agroideal.org, the Global Innovation Lab for Climate Finance, the **Tropical Forest Alliance or the** Good Growth Partnership;

• Support the work carried out by the Cerrado Working Group and promote the adoption of a Soy Moratorium also in the Cerrado.

#### Monitoring, Auditing and Reporting

 Commission an independent party to conduct an annual comprehensive auditing process, which will cover at least 4 dimensions: (i) compliance with all metrics contained in the Sustainable Agro Brazil IS' Sustainability Policy, (ii) compliance with the Round Table Responsible Soy Standard for Responsible Soy Production (or other selected sustainability-based soy production certificate); (iii) compliance with TNC's Environmental Framework, and (iv) compliance with the Carbon Strategy;

 Regularly inform stakeholders about both progress and challenges on a variety of issues, ranging from infrastructure maintenance and harvesting practices, to compliance with legal, employment and other local regulations, and be open to receive feedback on how to improve financial, farming and sustainability performances;

 Use satellite tools to monitor where soy is being produced and provide regular, reliable and consistent data to stakeholders regarding non-deforestation and non-native forest conversion policies and practices.

## CARBON STRATEGY

Forest Afforestation/Reforestation and Avoided Deforestation

Sustainable Agriculture

### AFFORESTATION/REFORESTATION AND AVOIDED DEFORESTATION

#### Context

• Forest ecosystems are the largest terrestrial carbon sink on Earth, and their management has been recognized as a cost-effective and scalable strategy for mitigating greenhouse gas emissions. Deforestation and forest degradation are the second leading cause of global warming, responsible for about 15% of global greenhouse gas emissions, which makes the loss and depletion of forests a major issue for climate change.

 Carbon accumulates in forest ecosystems through the absorption of atmospheric CO2 and its assimilation into biomass. Carbon is stored in living biomass, including standing timber, branches, foliage and roots; and in dead biomass, including litter, woody debris, soil organic matter and forest products. Any activity that affects the amount of biomass in vegetation and soil has potential to sequester carbon from, or release carbon into, the atmosphere.

• Today, there are three forestry options available for verified carbon credits: improved forest management, afforestation/reforestation, and avoided deforestation. Our fund's carbon strategy is based on the latter two.

• While reforestation aims to draw down carbon out of the atmosphere by planting trees, avoided deforestation (also called forest conservation) aims to protect the enormous carbon stored in existing old-growth forests. Tropical reforestation typically sequesters 11 metric tonnes of CO2 per hectare per year, but the loss of one hectare of mature forest can release more than 30 times that amount of CO2 — over 400 metric tons — all at once. Forest conservation projects earn carbon credits by demonstrating that without their existence, the forest would be cut down or degraded. They are awarded credits for preserving the forest and avoiding the emissions that would be released if the trees were removed.

 Keeping carbon in the forest is an economically attractive option. By the end of 2020, 77 projects for "reducing emissions from deforestation and forest degradation" (REDD) were registered under the VCS and 185 million credits were issued.

#### How does it work?

We will work closely with agtech Ecofix Securities in the development of a carbon project that aims to trade carbon credits in the market. Our sustainable forestry carbon strategy is predicated upon four axes:

• **Registration**. We will register our project with carbon offset registry Verra (previously Verified Carbon Standard), an online database that issues, records, transfers and tracks the carbon units that are exchanged within market mechanisms or financed through results-based initiatives. The registry will undertake a formal validation of our offset project so that it may then be issued carbon credits and be listed on a voluntary or compliance market (see **Sustainability Targets and Commitments – Forests and Native Vegetation**).

• **Verification**. The carbon offset registry will oversee independent third-party bodies that will verify the project by utilizying a standardized approach that promotes the relevance, completeness, consistency, accuracy, transparency and conservativeness of emissions reductions data reported by us.

 Issuing Carbon Credits. The registry will issue and and track the transaction of carbon credits (Climate Reserve Tonnes) generated from our projects in a transparent, publicly-accessible system.

• Additional revenues. Sustainable management forestry practices can also pave the way to access differentiated credit lines (better terms and lower interest rates). In addition, Brazilian legislation on Payments for Environmental Services (Law nº 14.119/2021) offers tax benefits for environmental services projects, such as the offer of biodiversity and water (measured by the "standards" of Cool Farm Tools, for example), creating new upsides not yet considered in the fund's business model.

#### SUSTAINABLE AGRICULTURE

#### Context

• To limit global warming, we need both to reduce greenhouse gas emissions and to remove more carbon from the atmosphere. The agricultural sector is a major emitter of greenhouse gases, but it can also play an important role in the fight against climate change due to the great potential for sequestering soil carbon.

• The entire food chain, including agricultural production, land use, storage, transport, packaging, processing, retail and consumption, accounts for 25%-30% or more of total annual human-induced emissions. Without intervention, these emissions are likely to increase by around 30%-40% by 2050, due to growing population demand and income growth, as well as changing dietary patterns.

• The biggest source of greenhouse gas emissions from agriculture comes from land use change (e.g., deforestation, wetland drainage). But agricultural soils have substantial potential to act as a global carbon sink. Global soils contain 2,000-2,500 gigatonnes of

carbon. The world's soil contains about three times as much organic carbon as plants and twice as much as the atmosphere. However, arable soils, especially in monoculture regions, have lost much of their soil carbon. Literature reviews estimate that agricultural soils have lost 30%-75% of the soil's original organic carbon due to conventional agricultural practices.

• Yet almost all cultivated soil can be improved and engineered to sequester carbon. Global croplands and grasslands can capture and store the equivalent of up to 8.6 gigatons of carbon dioxide a year, according to a 2019 report from the Intergovernmental Panel on Climate Change. That's equal to about 1.3 times all U.S. emissions that year, according to U.S. government data. Soils farmed in a regenerative manner can act as a vast carbon sink by capturing carbon in their fields. They remove carbon dioxide from the atmosphere, helping reverse climate change.

• Carbon stored in soil could then become a commodity crop from the sale of emission reductions (i.e., carbon credits) on the voluntary market. It generates generate additional income streams, while benefitting the environment. In its simplest terms, carbon trading allows businesses to buy or exchange carbon credits, which finance the removal of greenhouse gases from the atmosphere. Companies that cut their emissions or remove carbon from the atmosphere, for example through sustainable land management practices, may sell or trade unused credits. Each credit typically represents one metric tonne of CO2 equivalent.

#### How does it work?

We will work closely with Brazil-based agtech Ecofix Securities in the development of a carbon project that carries the aspiration of trading credits in the market. Our sustainable agriculture carbon strategy is predicated upon three axes:

• **Determining soil carbon levels**. We will measure the soil carbon stocks at the project site before the new management actions are implemented, with soil sampling and laboratory testing. We will also mathematically measure soil carbon at regular intervals during the project to determine how much carbon has been captured and stored, and to determine the success/no success of our sustainable production and land management practices. We will use data gathered by humans, satellites, and sensors on farm machines. Emissions from other sources that have changed because of the project such as emissions from livestock or agricultural supplies that result in GHG emissions will be factored into the abatement calculations. We will have in place a GHG emissions monitoring system that provides on-the-spot results.

• **Practicing sustainable agricultural land management**. We will apply a range of practices to decarbonize production and enhance carbon capture such as the ones described in the Sustainability Targets and Commitments (Sustainable Production and Land Management, and Forests and Native Vegetation) to create a resilient agroecosystem.

• Verifying and issuing Carbon Credits. We will register our project with a registry, (Verra, previously Verified Carbon Standard), which will track it and set standards and protocols for carbon accounting. The registry will use a third-party accredited validation and verification body (VVB) to validate the data, and will quantify and credit the greenhouse gas benefits of sustainable agricultural land management, i.e., project activities that increase carbon stocks in the agricultural landscape. We will also use IPCC's Guidelines for National Greenhouse Gas Inventories in Agriculture, Forestry and Other Land Use.

## ANNEX Certification Schema



CERTIFICATION	NR. INDICATORS	AREAS	GMO USE	ADDITIONAL INFO
Round Table Responsible Soy (RTRS)	62	<ul> <li>Legal Compliance and Good Business Practices</li> <li>Responsible Labour Conditions</li> <li>Responsible Community Relations</li> <li>Environmental Responsibility</li> <li>Good Agricultural Practices</li> </ul>	Allowed	http://tiny.cc/RTRS
ProTerra	129	. Law . Society . Biodiversity . Economics . Transparency . Feed Food Safety	Not Allowed	http://tiny.cc/ProTerra
International Sustainability and Carbon Certification (ISCC) Plus	?	. Waste and Residues . Reuse and Recycling in the Circular Economy . Sustainability Requirements . Traceability and Chain of Custody	Allowed	http://tiny.cc/ISCC
European Feed Manufacturers' Federation (FEFAC) Soy Sourcing Guidelines	59	. Legal Compliance . Responsible Working Conditions . Environmental Responsibility . Good Agricultural Practices . Respect for Legal Use of Land/Land Rights . Protection of Community Relations	Allowed	http://tiny.cc/FEFAC
Certified Responsible Soya (CRS) Standard	66	<ul> <li>Compliance with the law</li> <li>Labor Conditions</li> <li>Land Rights</li> <li>Environmental Requirements</li> <li>Social Responsibility</li> <li>Good Agricultural Practice</li> </ul>	Allowed	http://tiny.cc/CRS1
Sustainable Farming Assurance Programme Non-Conversion (SFAP Non- Conversion)	46	<ul> <li>Legal compliance and good business practice</li> <li>Respect of human rights and safeguarding worker safety</li> <li>Good Agricultural Practices and Environmental protection</li> <li>Safeguarding community relations</li> </ul>	Allowed	https://cutt.ly/ow2D4yD
Sustainable Agriculture Network's (SAN) Sustainable Agriculture Standard	?	Effective Planning and Management System     Biodiversity Conservation     Natural Resource Conservation     Improved Livelihoods and Human Well- Being	Allowed	http://tiny.cc/SAN1

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ESG and fund pre-marketing

