



Principles for Responsible Investment in Farmland

Treetops Capital 2012 Report

Signatory of:



Treetops Capital is a signatory of the United Nation's Principles of Responsible Investment (PRI), and in August 2012 became a Member of the Principles for Responsible Investment in Farmland.

The Farmland Principles were created in September 2011 by a group of institutional investors with the goal of improving the sustainability, transparency and accountability of investments in farmland through best practice guidelines. As a Member, Treetops is required to report annually on progress made towards implementation of the Farmland Principles, which cover the environment, labor rights, human rights, land rights and business ethics.

This Report provides an overview of Treetops' agricultural strategy and investments, and details progress made in complying with each of the Principles, including how Treetops incorporates ESG (Environmental, Social and Governance) criteria into due diligence, monitoring, and investor reporting.

Background on Treetops Capital

Treetops Capital is a company dedicated to solving social and environmental challenges through market-based solutions. Treetops invests across sustainable agriculture, green real estate, and financial inclusion, and was selected as one of the Top 50 Impact Investors in 2012 by ImpactAssets.

Treetops focuses on incorporating technology, best practices, and innovative financial structures to enhance returns and sustainability, and is geographically focused in developing countries where it has a strong local presence or partnerships. Our goal is to pursue impact opportunities that are unique, scalable and that will have a demonstration effect.



Treetops Approach to Agricultural Investments

Treetops builds sustainable agribusinesses that enhance food production, create local jobs, and transfer technology and best practices to emerging markets. Treetops currently focuses on the Black Sea Region, and has its regional headquarters in Romania.

Beyond financial returns, Treetops expects to make a significant social and environmental impact. Treetops' overarching goals include:

- Introduce and develop new technologies and processes to increase competitiveness of the agricultural sector
- Increase production of locally grown agricultural products that benefit farmers and other actors along the value chain

- Create substantial employment opportunities for small-hold farmers, skilled agricultural specialists, and agri-business process sector employees
- Adapt businesses to international standards in both processing stage and distribution of final products, in order to help professionalize the sector and strengthen value chains
- Engage in best practices of sustainable agriculture and incorporates these best practices into investment process
- Utilize renewable energy whenever possible.

Agricultural Investments

Treetops Capital Agribusiness Fund

Treetops currently manages a Romanian Agribusiness Fund ("TCAF") with the participation of the Overseas Private Investment Corp (OPIC), a US government financial institution, the European Union (EU), and private investors. OPIC is an independent U.S. government agency whose objective is to mobilize private capital and skills for the promotion of economic and social

Development in less developed countries. OPIC is providing TCAF with senior debt financing.

Under the loan agreement with OPIC, all of TCAF's agricultural investments are required to comply with the International Finance Corporation's (IFC) Environmental, Health, and Safety General Guidelines (April 30, 2007), as well as the the IFC's Performance Standards on Social and Environmental Sustainability (April 30, 2006).

The participation of the European Union also greatly benefits the fund. The EU provides Romania with substantial structural funds to support the development of highly impactful SME agribusinesses that create employment opportunities and contribute to economic growth. All of TCAF's agribusiness investments will have received substantial grants from the EU, which serve as a capital buffer, reducing risk and further enhancing returns for investors.

To receive grant funding, projects have to meet rigorous EU criteria and go through a competitive selection process,

which also requires them to comply with all EU and national directives, laws, and norms as they relate to workers safety, public health, and the environment.

Before receiving approval, the business and technical plans of each project are analyzed extensively for consistency with EU legislation by specialized bodies, including the Environmental Protection Agency, Public Health County Directorate, Agriculture and Rural Development County Directorate, etc. The project is required to receive separate approvals from each of these bodies before applying for grant financing. Once the grant is approved, the EU plays an important role in terms of closely monitoring all expenditures during implementation to ensure there are no conflicts of interest or corruption. During implementation and throughout the life of the project, qualified inspectors from each of the local regulatory bodies make onsite visits to the project to ensure compliance with laws and regulations.

Treetops will take an active role in the management of these agribusinesses, leveraging its strong local team in Romania, successful track record of investing in Romanian SMEs, and experience of its affiliate, RPF Development, in project management, construction, and making land acquisitions.

Examples of current investments include a compost facility for mushroom farmers and modern silo storage facilities. Land has been acquired and the team is in the process of finalizing due diligence.

Investments in Agricultural Land in Romania

According to a recent World Bank report, food production needs to increase 70% to meet increased global demand due to population growth in emerging markets, rising per capita incomes, and a decreased supply of arable land.

Romania has 10 million hectares of agricultural land, and is only operating at an estimated half of its potential productivity level, according to the Chief Economist of Romania's largest bank.

Treetops recognized a strong opportunity to employ technologies and best practices to increase sustainable production in Romania to help address the issue of food security. Treetops is in the process of building an investment platform for investors seeking to own, operate, and add substantial value to agricultural land in Romania.

As part of its strategy, Treetops will invest in modern equipment and irrigation to enhance efficiency and yields of cereals, soybeans, and oil seeds. Romania is a leading producer of grain in Europe (5th largest), and implementation of these sustainable practices will further increase its competitiveness in the sector. In some cases Treetops will also vertically integrate farms with silo storage facilities that provide cleaning and drying services, with additional capacity rented to local farmers. Despite Romania's leading position in grain production in the region, farmers lack sufficient storage capacity and often have to pay separately for cleaning and drying services.



Implementation of Farmland Principles

The first principle: Promoting Environmental Sustainability

This principle supports promoting measures aimed at “protecting the environment and contributing to the sustainability of specific crops and locations, for example by reducing soil erosion, protecting biodiversity, reducing chemical emissions, effectively managing water, and mitigating climate impacts.” Investment Managers are also required to conduct an environmental assessment identifying the relevant environmental impacts and risks of a planned investment.

Environmental Site Assessments

Treetops’ internal policies require an environmental site assessment to be conducted prior to making an investment in an agribusiness.

For Treetops’ investments in Romania through TCAF for example, each of the agribusinesses have to undergo an extensive environmental analysis by the Environmental Protection Agency before receiving EU grant approval. This site assessment includes an analysis on the release of potentially hazardous chemicals, impact on groundwater, and consistency with all aspects of EU environmental legislation. Any potential environmental risk is incorporated into the project

specifications and Business Plan. For instance, the EU requires that all water used in the compost facility be 100% recycled so that there is no ground contamination from water mixing with the manure. It was also required that the project also had to be publicized so that any stakeholder/ member of the local community could voice any opposition and file petitions against its construction.

Upon implementation of each of TCAF's agribusiness investments, environmental inspectors from the Environmental Protection Agency will carry out an on-site visit to verify consistency between the approved documentation and project operations. The inspectors will continue to monitor compliance with EU and national environmental regulations at least once per Quarter throughout the life of the project.

Going forward, Treetops will continue to conduct environmental assessments and implement measures to mitigate any environmental risks before

making an agricultural investment. Such assessments will be conducted prior to launching agribusiness projects on the land purchased in Romania.

Treetops' Sustainability Efforts

From an environmental perspective generally, as mentioned previously, OPIC requires TCAF's agricultural investments to comply with the IFC's Environmental Guidelines (April 30, 2007), as well as the the IFC's Performance Standards on Social and Environmental Sustainability (April 30, 2006). Where EU environmental regulations are more stringent, EU standards are upheld.

In addition to environmental standards required by OPIC and the EU, Treetops has taken further measures to increase the sustainability of its investments. For example, Treetops is incorporating a geothermal pump system in the compost facility and solar panels on the silo storage facilities to reduce energy usage.

Treetops is currently researching sustainable ways to reduce the negative impact of surface runoff containing fertilizer and agricultural chemicals for future crop investments.

The second principle: Respect for Labor and Human Rights

It is Treetops policy to assess any risk or potential impact of our investments on labor and human rights issues.

In Romania for example, all newly formed Agribusinesses must abide by all EU and national laws and regulations governing occupational health and safety and worker's rights.

Treetops' agribusiness investments in Romania are required to obtain an approval from the Public Health Directorate, which includes an analysis of the employee working conditions and any potential risks / hazards for consistency with the EU's labor and public health standards. Compliance with these standards is monitored and verified by labor inspectors who make onsite visits to review the working conditions of the project.

In addition, prior to the start of operations, every business is required to have an Occupational Health and Safety System and Manual in place, which is to be prepared by specialized consultants to ensure compliance and is also reviewed by the labor inspectors on the visits.

In addition, Treetops will analyze labor conditions and worker necessities on a case by case basis and consult with OPIC prior to investment. For example, it will be mandated that respiratory protection equipment be provided to all employees working within the composting facility to prevent exposure to bio-aerosols.

Treetops' policies also require agribusiness investments to comply with the Internationally Recognized Worker Rights. To this degree, they will:

- Not take any actions to prevent Workers from lawfully exercising their right of association and their right to organize and bargain collectively, and not take any action on the basis of such rights or activities, including, but not limited to any form of

- retaliation, such as termination, suspension, demotion, blacklisting or transfer of any Worker by the employer, or by an officer, agent or representative thereof;
- Observe applicable laws relating to a minimum age for employment of children, conditions of work, minimum wages, hours of work, and occupational health and safety;
 - Not use forced or compulsory labor (including but not limited to any form of slavery, debt bondage, and serfdom);
 - Not employ persons, formally or informally, under the age of fifteen for general work and under the age of eighteen for work involving hazardous activity likely to harm the health, safety, or morals of those persons;
 - Pay all wages, including all bonus pay and premium pay for overtime work, in full, in legal tender and in a timely fashion, except when Workers have agreed otherwise;
 - Not require Workers to work more than 48 standard hours of work per week (not including overtime work) and ensure that Workers shall be guaranteed a weekly 24-hour rest period;
 - Not use funds from the OPIC Loan Agreement to fund any activity (directly or indirectly) that violates any of the foregoing; and
 - Comply with any other applicable law or collective bargaining agreement that imposes a requirement that is more protective of worker rights than any of the foregoing requirements.
 - Require contractors and their subcontractors employed by the Portfolio Company to comply with the foregoing requirements.
- To ensure that working conditions are compatible with national legislation and these above rights, investments will be subject to a third-party audit if deemed necessary.

The third principle - Respecting existing land and resource rights

The third principle addresses the need to respect the use of, and rights of ownership to, land and other natural resources, and implement the proper procedures for land acquisition.

Prior to purchasing agricultural land, Treetops conducts due diligence on the land title, leaseholder, and seller. In Romania, Treetops verifies the land ownership history and any lease contracts in the proper registries. An onsite visit is also conducted to determine if the land is being leased without proper registration. Due diligence on the seller, including a background check, is also a part of the process.

The fourth principle – Upholding high business and ethical standards

Treetops shall promote and uphold high business and ethical standards, respect the rule of law in countries where it is not

properly enforced, and implement processes aimed at avoiding corruption in all its forms.

Treetops is in the process of developing a corruption compliance program with the purpose of detecting, deterring, reporting and properly addressing corruption, as well as ensuring compliance with the Foreign Corrupt Practices Acts. In order to better educate employees and increase awareness of potential corruption, all Treetops officers and employees that are involved in the management of agribusinesses are required to read OPIC's Anti-Corruption Handbook. Managers also require employees to observe regulations devoted to good business ethics.

The EU, which approved substantial grants to TCAF's agricultural investments, also plays a major role in minimizing the potential for corruption during the implementation process of these investments. The EU is required to monitor and verify all expenses and conduct on-site visits before approving a reimbursement.

The fifth principle: Reporting on activities and progress towards implementing the principles and promoting the principles

Treetops will publicly report on an annual basis progress made toward implementation of the Principles.

Treetop also incorporates ESG (Environmental, Social, Governance) into the due diligence process and monitors and reports on ESG indicators in each of our respective investment sectors.

Sustainability throughout Investment Process

For its agricultural investments, Treetops develops a tailored screening, monitoring, and reporting process to address ESG issues.

To provide an example, Treetops has developed an ESG Management System specifically for TCAF which includes:

- A procedure for identification of ESG risks and impacts associated with prospective investments during the diligence process;
- A formal organizational structure, including identification of clear lines of responsibility for management of ESG risks and monitoring performance;
- Monitoring and reporting procedures to address social and environmental performance metrics.





Screening and Identification of ESG Risks

In the initial stage of due diligence, Treetops screens out investments that do not meet its overarching social and environmental goals, as outlined previously.

In terms of identifying ESG risks in TCAF investments, all potential agribusiness investments must receive EU Grant approval, which ensures compliance with a number of environmental and social regulations. Related to governance, all of the agribusinesses in which TCAF invests are required to have appropriately engaged local affected communities in project planning and implementation, including not only land acquisition, but actual operations.

Any project-specific issues are discussed in the Investment Committee, which can propose the implementation of specific measures / policies to address any ESG concerns. Project-specific indicators are also developed and measured annually to monitor these issues.

Management of social and environmental risks

All required policies and indicators developed related to ESG risks are included in loan agreements between TCAF and the specific agribusiness. The agribusiness is responsible for implementation of these policies and monitoring and reporting of required indicators. Treetops' ESG Analyst will be responsible

proper reporting of these risks in the Yearly Report to OPIC and other investors. If there is any concern that the agribusiness is not in compliance with these policies, TCAF shall report this to investors and take immediate corrective action.

The agribusinesses are also required to indicate their understanding of and intent to comply with the Internationally Recognized Worker Rights and develop an Occupational Health and Safety Management System & Manual prior to the start of Operations. Anti-corruption measures are also put in place as discussed above.

Monitoring of ESG performance

Local government inspectors are responsible for monitoring the agribusiness' compliance of national and EU legislation. It is the responsibility of the Portfolio Company to operate within the EU's pre-approved guidelines and prepare for these visits.

In addition, Treetops will be responsible for proper annual reporting via the Yearly ESG Report. This Report will include performance on any project-specific risk indicators as determined during the Investment Committee process, as well as a number of TCAF's own ESG indicators that were developed to help meet the overarching goals.



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