

## SECOND-PARTY OPINION REPORT on the Responsible Commodities Facility (RCF) Programme





## SDG's alignment



## GBP categories' alignment

- Environmentally sustainable management of living natural resources and land use

## ERM NINT's assessment of the additionality of the operation

GBP	Overall assessment	Highlights	Gaps for leadership
1. Use of Proceeds	 <p>Comfortable</p>	<ul style="list-style-type: none"> <li>✓ Use of Proceeds eligible according to the Green Bond Principles, Green Loan Principles, and The Coolest Bonds publication;</li> <li>✓ 100% of the proceeds will be allocated to farmers that produce deforestation and conversion-free (DCF) commodities, especially, soy;</li> <li>✓ Proceeds will be annually directed to eligible farmers for each crop;</li> <li>✓ The use of proceeds fosters native vegetation conservation in areas that suffer from agricultural pressure in the Cerrado biome;</li> </ul>	<ul style="list-style-type: none"> <li>✗ The proceeds will not be directed to incentivise low-carbon agricultural practices beyond the DCF actions;</li> </ul>
2. Process for Project Evaluation and Selection	 <p>Leadership</p>	<ul style="list-style-type: none"> <li>✓ The Responsible Commodities Facility (RCF) Programme is aligned with the IFACC and the EU Deforestation-Free Regulation (2023/1115);</li> <li>✓ Producers who join the Programme are continuously monitored regarding compliance with RCF's Environmental Eligibility Criteria;</li> <li>✓ Participating producers should not use pesticides internationally banned by the WHO and the Rotterdam Convention that are permitted for use in Brazil;</li> <li>✓ A technical assistance company will be engaged in diagnosing the agricultural practices of RCF's participating producers;</li> <li>✓ The RCF Cerrado 1 generated benefits such as: 8,541 ha of native vegetation conserved in the Cerrado and 42,000 tonnes of vDCF soy produced (crop season 2022-2023);</li> <li>✓ No history of controversial cases involving SIM or RCF was found;</li> </ul>	-
3. Management of Proceeds	 <p>Leadership</p>	<ul style="list-style-type: none"> <li>✓ Sustainable Investment Management (SIM) is the RCF Programme Coordinator and continuously monitors farmers to ensure they remain eligible according to the Programme criteria;</li> <li>✓ The proceeds are paid into the bank accounts of eligible farmers, thus, diminishing the risks of contamination of proceeds;</li> <li>✓ In case of defaults to any criteria, participating farmers are expelled from the RCF Programme.</li> </ul>	-
4. Report	 <p>Leadership</p>	<ul style="list-style-type: none"> <li>✓ SIM will annually elaborate Environmental Reports encompassing the financial and environmental indicators of the proceeds;</li> <li>✓ The Environmental Reports will be annually reviewed by a third-party;</li> <li>✓ Investors will receive Statements of Impact regarding their environmental impact linked to their investments</li> <li>✓ Financial and environmental indicators will be externally reviewed;</li> <li>✓ Second-party opinion reports will be publicly disclosed;</li> </ul>	-

## About ERM NINT

ERM NINT (Natural Intelligence), is the largest ESG research and advisory firm in Latin America, with a +100 staff and local presence in Brazil and Latin America. We are one of the 5 best environmental and social research houses for investors according to Extel Independent Research in Responsible Investment - IRRI 2019 - and a pioneer in the green bond market in Brazil. We have provided second-party opinions for more than 200 ESG debt instruments. Since 2020 we are among the top 10 global providers of second opinions for sustainable bonds, according to Environmental Finance. In February 2023, NINT became part of ERM group.

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# 1. Scope

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This Second-Party Opinion (SPO) report aims to provide an opinion on the alignment of the Responsible Commodities Facility (RCF) Programme with the Green Bond Principles (GBP) and Green Loan Principles (GLP) and with international and national best practices for issuing green bonds and loans.

The Responsible Commodities Facility (RCF) is an initiative designed by Sustainable Investment Management Ltd (SIM), an environmental finance advisory firm, focused on promoting the production and trading of responsible soy in Brazil, by creating a financially sustainable vehicle to provide incentives to farmers and help them meet the growing international demand for zero-deforestation supply chains.

ERM NINT used its proprietary assessment method, which is aligned with the Green Bond Principles (GBP)<sup>1</sup>, the Green Loan Principles<sup>2</sup>, the Sustainable Development Goals (SDGs) of the United Nations (UN), the Climate Bonds Taxonomy of the Climate Bonds Initiative<sup>3</sup>, the Sustainable Finance Taxonomy of the European Union<sup>4</sup>, the Guide on Sustainable Bonds' Offerings<sup>5</sup> of Anbima (Brazilian Association of Financial and Capital Market Entities), the Sustainable Debt Guide in Brazil<sup>6</sup> and other internationally recognised sustainability standards.

ERM NINT's opinion is based on:

- Responsible Commodities Facility (RCF) Programme analysis and Sustainable Investment Management (SIM)'s sustainability's strategy;
- Analysis of RCF's alignment with the Green Bond Principles, Green Loan Principles and other sustainability standards;
- Corporate assessment of the company, including research of ESG controversy in which the company has been involved (corporate ESG assessment).

The assessment was based on information and documents provided by SIM (Sustainable Investment Management), some of them confidential, desk research and interviews with professionals from the financial and sustainability areas. This process was carried out between January and February 2024.

The assessment process consisted of:

- Planning the assessment;
- Carrying out the assessment, including preparing the client, obtaining evidence and assessment;
- Preparing the assessment conclusion;
- Preparing the second-party opinion report.

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<sup>1</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles-June-2022-060623.pdf>

<sup>2</sup> <https://www.lsta.org/content/green-loan-principles/>

<sup>3</sup> <https://www.climatebonds.net/standard/taxonomy>

<sup>4</sup> <https://ec.europa.eu/sustainable-finance-taxonomy/>

<sup>5</sup> <https://www.anbima.com.br/data/files/A1/01/CE/2C/D7848810DA216388B82BA2A8/Guide%20on%20Sustainable%20Bonds%20offering.pdf>

<sup>6</sup> [https://cmsarquivos.febraban.org.br/Arquivos/documentos/PDF/GuiaDividaSust\\_Abr23\\_02.pdf](https://cmsarquivos.febraban.org.br/Arquivos/documentos/PDF/GuiaDividaSust_Abr23_02.pdf)

ERM NINT had access to requested documents and key staff, thus being able to provide an opinion with a limited<sup>7</sup> level of assurance regarding completeness, accuracy, and reliability.

The assessment process was performed in accordance with relevant general principles and professional standards for independent auditing, and in line with the International Standard on Valuation Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000), International Standard on Quality Control (ISQC 1, 2009) and Code of Ethics for Professional Accountants of the International Ethic Standards Board for Accountants (IESBA, 2019).

The issuer intends to obtain a green bond and green loan classification for its future issuances based on its Programme, in line with national and international best practices such as the Sustainable Debt Guide in Brazil (2023), Guide on Sustainable Bonds' Offerings (2022), the Sustainable Finance Taxonomy of the European Union (2020), the Climate Bonds Taxonomy of the Climate Bonds Initiative, the Green Bond Principles, June 2021 version, and Green Loan Principles, February 2023 version. This opinion will be confirmed annually for each financing cycle of the RCF Programme.

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<sup>7</sup> See explanation in Method section.

## Declaration of Responsibility

ERM NINT (Natural Intelligence)<sup>8</sup> is not a shareholder, subsidiary, supplier or client of SIM (Sustainable Investment Management) or its subsidiaries. ERM NINT declares that it has no conflict of interest and is able to issue an independent opinion.

The analysis contained in this Second-Party Opinion is based on public and confidential documents, provided by the company. ERM NINT cannot attest to the completeness, preciseness, or reliability of these sources. Therefore, ERM NINT will not be held responsible for any decisions based on the information contained in this report.

ERM NINT emphasizes that any estimates, expectations, forecasts or similar terms, whenever mentioned in this Independent Opinion, refer to data used for the exclusive purposes of this Independent Opinion. It does not constitute a promise of SIM or RCF's performance or any estimates and perspectives regarding the company's operational and financial plans.

### THIS IS NOT A RECOMMENDATION

We emphasize that all the evaluations and opinions indicated in this report do not constitute an investment recommendation.

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<sup>8</sup> In February 2023, NINT (Natural Intelligence) integrated ERM Group.


## 2. Opinion

Based on the limited assessment procedures conducted and evidence obtained, nothing has come to our attention that causes us to believe that, in all material respects the Responsible Facilities Commodities (RCF) Programme is not in conformance with the Green Bond Principles (GBP) and the Green Loan Principles (GLP).

The *Green Bond Principles (GBP)* and *Green Loan Principles (GLP)* are guidelines that help the market understand the key points of how a financial product is characterized as Green. More details on these principles can be found in the **Method** section.

Adherence to these principles, although a voluntary process, signals to investors, underwriters, and other market players that the company follows appropriate standards of sustainability performance and transparency.

In the following subsections, we will analyze the alignment of the Responsible Commodities Facility (RCF) Programme following the four components of the GBP and GLP.

GBP/ GLP and classification	Summary of practices
<p data-bbox="244 1283 352 1346">1. Use of proceeds</p> 	<p data-bbox="432 1048 1402 1137"><b>Use of proceeds description:</b> The Responsible Commodities Facility (RCF) is run by the Sustainable Investment Management Ltd (SIM), an environmental finance advisory firm.</p> <p data-bbox="432 1171 1402 1294">The RCF is an initiative to promote the production and trading of responsible commodities in Brazil, in particular, soy. This is done by creating a financially sustainable vehicle to provide incentives to farmers and help them to meet the growing international demand for zero-deforestation supply chains<sup>9</sup>.</p> <p data-bbox="432 1328 1402 1574">The RCF's trial programme, called RCF Cerrado 1, was launched in 2022 and encompassed the Cerrado biome (Brazilian savanna). In its first year, it raised US\$ 11 million with four-year green bonds bought by UK supermarkets Tesco, Sainsbury's and Waitrose<sup>10</sup>. The capital raised was used to provide low-interest loans to nine large farming groups<sup>11</sup> who committed to deforestation and conversion-free (DCF) soy cultivation. The eligible producers used the proceeds for operational expenditures (OPEX) of soy cultivation, such as acquisition of agricultural inputs (seeds, fertilizers and chemicals).</p> <p data-bbox="432 1608 1402 1731">After an initial 12-month trial phase, it is expected that the Responsible Commodities Facility (RCF) will be scaled up to include hundreds of farmers across Brazil, helping to protect vast tracts of native Cerrado vegetation in Brazil, protecting biodiversity, water quality and enabling carbon sequestration<sup>12</sup>.</p> <p data-bbox="432 1765 1402 1854">In this context, the Sustainable Investment Management (SIM) wants to verify the alignment of the RCF Programme with the Green Bond Principles and Green Loan Principles for future issuances of thematic bonds and loans.</p>

<sup>9</sup> <https://sim.finance/responsible-commodities-facility/>

<sup>10</sup> <https://www.tescopl.com/zero-deforestation-soy-initiative-underway-with-major-uk-supermarket-backing/>

<sup>11</sup> <https://www.greenfinanceinstitute.com/gfihive/case-studies/responsible-commodities-facility/>

<sup>12</sup> <https://sim.finance/2022/08/02/sim-launches-zero-deforestation-soy-initiative-funded-by-green-bonds/>

100% of the proceeds raised under the RCF Programme will be allocated to operational expenditures to finance the production of deforestation and conversion-free (DCF) commodities, particularly soy. Other types of crops are those produced during the winter harvest (“safrinha”), such as maize and cotton. The RCF disburses the proceeds to eligible farmers within the crop season, thus, up to 12 months after the capital is raised for the Programme.

**Environmental benefits associated with the use of proceeds and alignment with sustainability standards:**

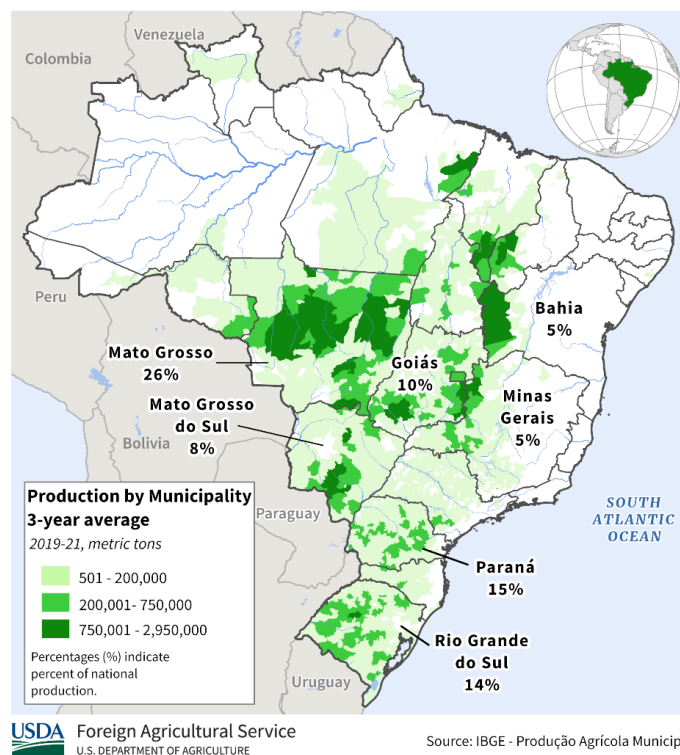
- Brazil’s relevance in soy production**

Brazil is the world’s largest soybean producer and exporter of the world. According to Foreign Agricultural Service (FAS) ‘Soybean Explorer’ data, last updated in January 2024, Brazil is responsible for 39% of the soy production in the world, ahead of the United States and Argentina.

The Brazilian state of Mato Grosso - which is located in the Cerrado biome and includes farms that received proceeds from the RCF trial programme -, is responsible for delivering, approximately, 26% of the country’s soy production<sup>13</sup>, as shown in Figure 1.

*Figure 1 - Brazil Soy Production per state*

**Brazil: Soybean Production**



Source - [https://ipad.fas.usda.gov/rssiws/all/crop\\_production\\_maps/Brazil/Municipality/Brazil\\_Soybean.png](https://ipad.fas.usda.gov/rssiws/all/crop_production_maps/Brazil/Municipality/Brazil_Soybean.png)

Based on the 04<sup>th</sup> survey of the National Supply Company (CONAB - *Companhia Nacional de Abastecimento*), in the crop-year 2022/2023, the soy crop area in Brazil was of 44,080.1 thousand hectares and the production was of 154,609.5

<sup>13</sup> <https://ipad.fas.usda.gov/cropexplorer/cropview/commodityView.aspx?cropid=2222000>



thousand tons. Both soy crop area and production are expected to increase in the crop year 2023/2024 by 2.7% and 0.4, respectively<sup>14</sup>.

According to the ABIOVE (*Associação Brasileira das Indústrias de Óleos Vegetais* or Brazilian Vegetable Oil Industry Association), the Gross Domestic Product (GDP) of the soy and biodiesel chain was expected to grow by 20.89% in 2023 compared to the previous year<sup>15</sup> (most recent data available). In the third quarter of 2023, job creation in this chain increased by 11% compared to the same period in 2022. Also, exports in the soy and biodiesel chain recorded US\$ 15.9 billion, an increase compared to the same quarter in 2022 due to higher volumes shipped.

- **Adverse impacts of soy production in the Amazon and Cerrado biomes**

**Despite creating jobs and generating wealth, soy production is also associated with significant negative environmental impacts.** According to MapBiomas, between 1985 and 2022, the area under agricultural cultivation in Brazil rose from 19.1 million hectares to 61 million hectares. **About 96% (58.7 million hectares) of this area were of grain and sugar cane crops. Of this total, 60% (35 million hectares) were covered by soy**<sup>16</sup>.

As reported by Stockholm Environment Institute (SEI), **the expansion of soy crops is the second largest direct driver of deforestation and conversion in South America, ahead of expansion of pasture for cattle farming and land speculation**<sup>17</sup>. Furthermore, converting lands to soy fields releases greenhouse gases that drive climate change. For instance, Brazilian soy deforestation and conversion linked to the 2020 harvest resulted in the release of 28 million tonnes of carbon from native vegetation, equivalent to 103 million tonnes of CO<sub>2</sub>. According to SEI, this amount represented 11% of the country's emissions from land use change in 2020<sup>18</sup>.

With regard to the agricultural expansion, **the Amazon and Cerrado biomes have been the most affected by direct conversion of native vegetation to agriculture**, as stated by MapBiomas<sup>19</sup>.

Since the 2007/2008 harvest, when an area of 1.64 Mha was cultivated, soy has been booming in the Amazon biome, at an average rate of 354,000 hectares a year. In the crop year 2021/2022, soy plantation in Amazon reached 6.60 million hectares, as indicated by ABIOVE in its 'Soy Moratorium - 15<sup>th</sup> Year Report'.

It is worth mentioning Brazil's **Amazon Soy Moratorium (ASM)**, a sectoral agreement under which commodities traders agreed to avoid the purchase of soybeans from areas that were deforested after 2008<sup>20</sup>. **The increase in soy cultivation in the Amazon, however, suggests that the Soy Moratorium has not slowed the expansion of soy in the biome, but has directed the production to areas that were already deforested before the Moratorium**<sup>21</sup>.

<sup>14</sup> <https://www.conab.gov.br/info-agro/safras/graos/boletim-da-safra-de-graos>

<sup>15</sup> [https://www.cepea.esalq.usp.br/br/releases/cepea-abiove-dados-do-3-tri-apontam-crescimento-de-21-no-pib-da-soja-e-do-biodiesel-em-2023.aspx#:~:text=Cepea%2C%2030%2F01%2F2024,de%20C3%93leos%20Vegetais%20\(Abiove\).](https://www.cepea.esalq.usp.br/br/releases/cepea-abiove-dados-do-3-tri-apontam-crescimento-de-21-no-pib-da-soja-e-do-biodiesel-em-2023.aspx#:~:text=Cepea%2C%2030%2F01%2F2024,de%20C3%93leos%20Vegetais%20(Abiove).)

<sup>16</sup> <https://brasil.mapbiomas.org/2023/10/06/area-de-agropecuaria-no-brasil-cresceu-50-nos-ultimos-38-anos/>

<sup>17</sup> <https://www.sei.org/features/connecting-exports-of-brazilian-soy-to-deforestation/#:~:text=Brazilian%20soy%20deforestation%20and%20conversion,use%20change%20annual%20emissions%EF%BB%BF%20.>

<sup>18</sup> <https://www.sei.org/features/connecting-exports-of-brazilian-soy-to-deforestation/#:~:text=Brazilian%20soy%20deforestation%20and%20conversion,use%20change%20annual%20emissions%EF%BB%BF%20.>

<sup>19</sup> <https://brasil.mapbiomas.org/2023/10/06/area-de-agropecuaria-no-brasil-cresceu-50-nos-ultimos-38-anos/>

<sup>20</sup> <https://forestsolutions.panda.org/case-studies/brazils-amazon-soy-moratorium#:~:text=%E2%80%942004%20February%202021,that%20were%20deforested%20after%202008.>

<sup>21</sup> <https://abiove.org.br/relatorios/moratoria-da-soja-relatorio-15o-ano/>



In the **Cerrado biome**, soybean area has increased more than 15-fold to about 18 million hectares, according to MapBiomas. Currently, **the Cerrado has 48% of Brazil's soybean area**, and a soy cultivation area about 3.3 times greater than that of the Amazon<sup>22</sup>.

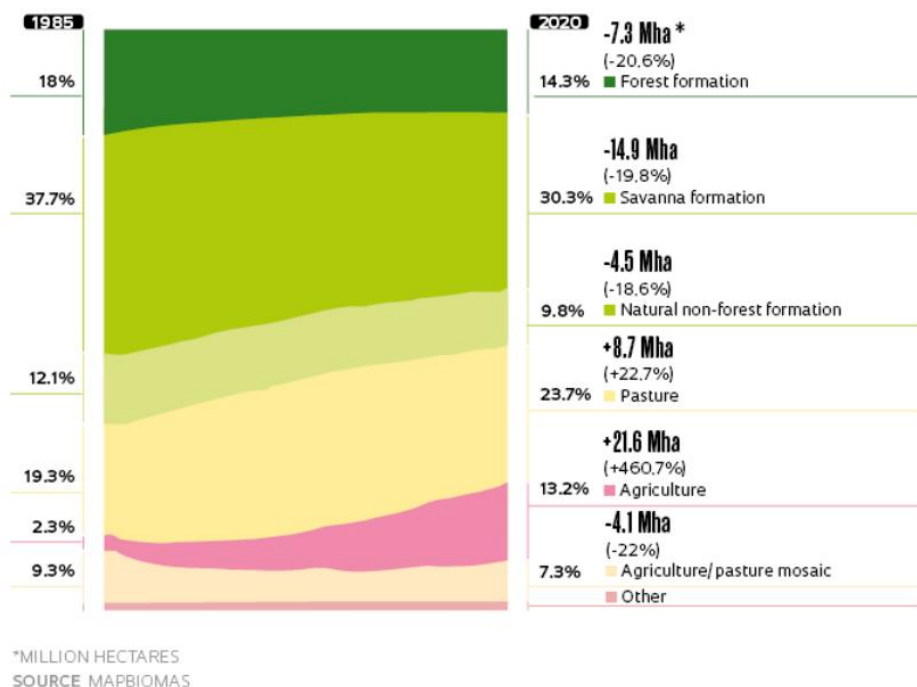
Nowadays, only 54.4% of the Cerrado area remains covered by native vegetation—and a much smaller proportion (around 20%) is unaltered. **About 45.6% of Cerrado's area was converted into farmland, pasture, roads, hydroelectric plants and cities**, which makes the Cerrado the second most altered Brazilian biome by human action<sup>23</sup>.

Between 1985 and 2020, roughly 26.5 million hectares of the biome's three main types of native formation (grassland, savanna, and forest) gave way to new areas for cattle farming and mass production of commodities, as shown in the Figure 2.

Figure 2 - Land cover changes in Cerrado (1985 to 2020)

## LAND COVER CHANGES BETWEEN 1985 AND 2020

Proportion (in %) of the Cerrado area by vegetation type and land use



Source - <https://revistapesquisa.fapesp.br/en/cerrado-under-threat/>

### • Land conservation initiatives and regulations

In relation to the protection of natural resources and land conservation, the **Brazilian Forest Code (Law nº12,651/2012)** establishes that the Legal Reserves must be conserved with native vegetation cover, and that activities occurring in Legal Reserve areas irregularly deforested after 22 July 2008 must be suspended<sup>24</sup>.

<sup>22</sup> <https://brasil.mapbiomas.org/2023/10/06/area-de-agropecuaria-no-brasil-cresceu-50-nos-ultimos-38-anos/>

<sup>23</sup> <https://revistapesquisa.fapesp.br/en/cerrado-under-threat/>

<sup>24</sup> [https://www.planalto.gov.br/ccivil\\_03/\\_ato2011-2014/2012/lei/l12651.htm](https://www.planalto.gov.br/ccivil_03/_ato2011-2014/2012/lei/l12651.htm)

	<p>While the Amazon biome is protected under the Forest Code and the <b>Soy Moratorium (ASM)</b>, only 13% of the Cerrado is protected. The Forest Code requires conservation of 80% of the native vegetation on private lands in the Amazon biome but only 20% in the Cerrado (and 35% for the portion of the Cerrado located in the Legal Amazon)<sup>25</sup>.</p> <p><b>According to Soterroni et. al (2019), if the Soy Moratorium was expanded to Brazil's Cerrado in 2025, it could prevent the direct conversion of 2.9 million ha of native vegetation to soybeans by 2050. However, if the Cerrado remains protected solely under the Forest Code, only 0.9 million ha will be prevented from conversion. This occurs because the Forest Code only concerns illegal deforestation.</b></p> <p>As stated by Soterroni et. al (2019), the Forest Code requirements are not enough to protect the Cerrado. In this sense, <b>supply chain agreements can play a key role in the absence of more stringent protection criteria</b><sup>26</sup>.</p> <ul style="list-style-type: none"> <li>• <b>RCF's relevance on deforestation and conversion free (DCF) commodities' production and trade</b></li> </ul> <p>In September 2017, the '<b>Cerrado Manifesto</b>' was launched. Through this Manifesto, over 60 Brazilian NGOs - including WWF Brazil, The Nature Conservancy, Greenpeace Brazil, IPAM (Amazon Environmental Research Institute) and Imaflora (Institute of Agricultural and Forest Management and Certification) - released a call for "immediate action in defence of the Cerrado by companies that purchase soy and meat from within the biome, as well as by investors active in these sectors."<sup>27</sup>.</p> <p>Later, in October 2017, 23 global brands signed the <b>Statement of Support ("SoS")</b> that recognized the need to prevent further deforestation in the Cerrado to mitigate future risks associated with climate change and agricultural resilience in this biome. Currently, this Statement is supported by 57 investor signatories that represent, collectively, over \$7.8 trillion in assets. Sustainable Investment Management (SIM), Tesco Stores Plc, and Waitrose Ltd are some of the signatories of the SoS<sup>28</sup>.</p> <p>It is worth also mentioning the <b>Innovative Finance for the Amazon, Cerrado and Chaco (IFACC)</b>, an initiative of The Nature Conservancy (TNC), Tropical Forest Alliance (TFA) and United Nations Environment Programme (UNEP) to accelerate lending and investment for climate-friendly beef and soy production models in the Amazon, Cerrado and Chaco, without further conversion of these ecosystems<sup>29</sup>. The IFACC is committed to disburse \$1 billion by 2025 and \$10 billion by 2030<sup>30</sup>. SIM is also a signatory of this initiative.</p> <p>Regarding cut-off dates for deforestation in the Cerrado, despite the biome not having any Moratorium such as the Amazon, the <b>Environmental Framework for Lending and Investing in Soy in the Cerrado of The Nature Conservancy</b><sup>31</sup> establishes January 2018 as a reference date for zero-conversion in the entire</p>
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<sup>25</sup> <https://www.science.org/doi/pdf/10.1126/sciadv.aav7336>

<sup>26</sup> <https://www.science.org/doi/pdf/10.1126/sciadv.aav7336>

<sup>27</sup> <https://www.fairr.org/investor-statements/cerrado>

<sup>28</sup> <https://www.theconsumergoodsforum.com/environmental-sustainability/business-for-the-cerrado/>

<sup>29</sup> [https://www.tropicalforestalliance.org/en/collective-action-agenda/finance/ifacc/#:~:text=new%20environmental%20regulations,-,Innovative%20Finance%20for%20the%20Amazon%2C%20Cerrado%20and%20Chaco%20\(IFACC\),of%20its%20most%20important%20commodities.](https://www.tropicalforestalliance.org/en/collective-action-agenda/finance/ifacc/#:~:text=new%20environmental%20regulations,-,Innovative%20Finance%20for%20the%20Amazon%2C%20Cerrado%20and%20Chaco%20(IFACC),of%20its%20most%20important%20commodities.)

<sup>30</sup> <https://www.nature.org/en-us/about-us/where-we-work/latin-america/brazil/stories-in-brazil/ifacc/>

<sup>31</sup> <https://www.nature.org/content/dam/tnc/nature/en/documents/brasil/tnc-environmentalframeworksoy-eng.pdf>

	<p>rural property, including the areas under soy production. On the other hand, the Round Table on Responsible Soy Association (RTRS) establishes 2009 as a cut-off date for deforestation and 2016 for conversion<sup>32</sup>. It is worth noting, though, that the RCF Programme's cut-off date is 2020, thus less restricted than these other initiatives.</p> <p>Still in 2023, the European Union published the <b>EU Deforestation-free Regulation (EUDR) (Regulation n°2023/1115)</b>, in which any operator or trader who places commodities - like soy, palm oil, wood, coffee, beef, rubber and their derived products - on the EU market, or exports from it, must be able to prove that the products do not originate from recently deforested land or have contributed to forest degradation<sup>33</sup>. The EUDR cut-off date is set on 31 December 2020. In this sense, it is possible to affirm that the RCF Programme fits with the EUDR, since RCF's cut-off date is the same as the EU Deforestation-free Regulation, and the soy produced by RCF's eligible farmers are not related to deforested lands.</p> <p>In sum, the Responsible Commodities Facility (RCF) supports a deforestation and conversion-free supply chain, by financing producers committed to these practices, in a biome threatened by agricultural pressure.</p> <p><b>Fitting with sustainability standards and 2030 agenda:</b> Regarding sustainability standards related to sustainable use of land, natural resources and agriculture, the <b>Green Bond Principles (GBP)</b>, of the International Capital Market Association (ICMA), and the <b>Green Loan Principles (GLP)</b>, of the Loan Syndications and Trading Association (LSTA), list as eligible categories of green projects those related to the <u>environmentally sustainable management of living natural resources and land use</u>, including environmentally sustainable agriculture and preservation of natural landscapes<sup>34</sup>.</p> <p>The publication '<b>The Coolest Bonds</b>'<sup>35</sup> states that agricultural production unities with zero deforestation, with conservation above what is required by law, support to combat climate change.</p> <p>The Climate Bonds Initiative (CBI) Deforestation and Conversion Free Sourcing (DCF Sourcing) criteria are under development<sup>36</sup>. Therefore, it is not possible to assess the compliance of the RCF Programme with these criteria.</p> <p>The Responsible Commodities Facility (RCF) Programme focus on DCF commodities, in special, soy. Despite having some requirements regarding use of pesticides and compliance with the Brazilian laws, including the Forest Code, the Programme does not assess the farming practices of the producers who are eligible to receive proceeds. Therefore, while it is possible to assess the RCF in terms of deforestation and conversion-free practices, it is not possible to assess the Programme in terms of low-carbon agricultural practices of its participating producers.</p> <p>In this sense, it should be noted that the RCF Programme has partnered with a technical assistance that will be engaged in diagnosing the farming practices of the producers participating in the RCF (more details in the item '<b>Process for Project Evaluation and Selection</b>' of this report).</p>
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<sup>32</sup> <https://responsiblesoy.org/documentos/brazilian-national-interpretation-of-the-rtrs-standard-for-responsible-soy-production-v31?lang=en>

<sup>33</sup> [https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products\\_en](https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products_en)

<sup>34</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles-June-2022-060623.pdf>




<sup>35</sup> <https://esg.nintgroup.com/nao-perca-esse-bond>

<sup>36</sup> <https://www.climatebonds.net/standard/deforestation-and-conversion-free-criteria>

ERM NINT considers that this assessment, in order to incentivise the producers to adopt low-carbon agricultural practices, is key to enhance a sustainable supply chain. RCF also allowed the soy producers to access financing conditions at better rates than on the market, so they would have an incentive not to continue deforesting over the course of the programme's financing. In addition, the programme also tries to finance production from degraded pasture areas, which is interesting from the point of view of captured emissions. Nonetheless, since the potential eligible producers are analysed regarding deforestation and conversion of native vegetation, potential overlaps with indigenous, community or quilombola lands, and conservation units, ERM NINT considers that the RCF Programme is aligned with DCF practices.

The RCF Programme is also aligned with the Sustainable Development Goals of the United Nations as listed below (Table 1).

*Table 1 - SDGs*

SDGs	Applicable targets	Alignment with project's category
 	<ul style="list-style-type: none"> <li>2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality;</li> <li>12.2 By 2030, achieve the sustainable management and efficient use of natural resources</li> </ul>	<ul style="list-style-type: none"> <li>Environmentally sustainable management of living natural resources and land use</li> </ul>
	<ul style="list-style-type: none"> <li>15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements;</li> <li>15.a Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems</li> </ul>	<ul style="list-style-type: none"> <li></li> </ul>

*Source - Sustainable Development Goals - United Nations*

**Level of alignment with GBP and GLP 1 best practices:** Considering that (i) all the proceeds raised under the Responsible Commodities Facility (RCF) Programme will be directed to operational expenditures (OPEX) of eligible producers that are committed to producing deforestation and conversion-free and will not incentivize other low carbon agriculture good practices, the level of alignment of the RCF Programme with the GBP and GLP 1 best practices is **Comfortable**.

## 2. Process for Project Evaluation and Selection



**Alignment with the company's sustainability strategy:** Sustainable Investment Management Limited (SIM) is an environmental finance advisory firm. Its objective is to promote the financing of activities that result in positive environmental impacts worldwide.

Using a combination of sophisticated financial mechanisms, advanced technology tools - including remote sensing and blockchain technology -, and experts in environmental finance, carbon trading, commercial law and environmental sciences, SIM coordinates the blending and integration of sources of finance, services and activities related to its investments.

Its vision is to create a double bottom-line global investment firm to mobilize capital for actionable sustainable development, connecting investors seeking positive environmental change with credible business and projects which have a direct environmental impact<sup>37</sup>.

SIM works in four different sectors: (1) Sustainable agriculture; (2) Sustainable forest and conservation finance; (3) Greenhouse gases; (4) Waste management and the circular economy.

Hence, considering SIM's vision and strategies, ERM NINT considers that the Responsible Commodities Facility (RCF) Programme is aligned with the company's sustainability strategy.

### Process for Project Evaluation and Selection:

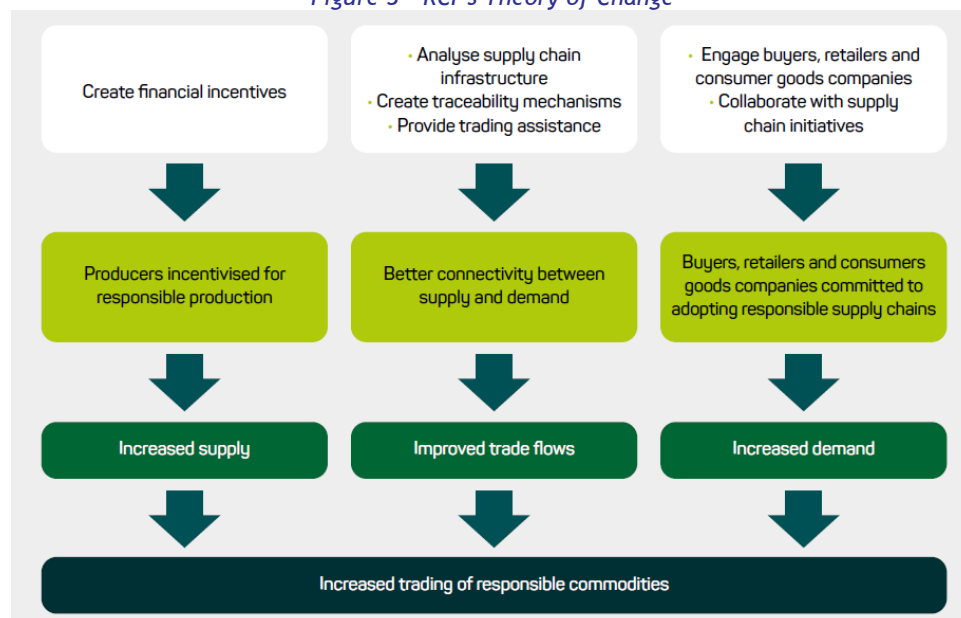
The Responsible Commodities Facility (RCF) Programme aims to maximise the conservation of native vegetation in areas of soy production through financial incentives.

RCF's main goal is to increase trading of responsible commodities without deforestation and land conversion, without excessive use of inputs, and with respect for human and landownership rights (See Figure 3). Under its goal, the RCF:

1. **Creates supply** through producers' engagement to responsible production by providing financial and trade incentives;
2. **Creates demand** by engaging a coalition of buyers, retailers and consumer goods companies committed to adopting responsible supply chains. Soy buyers are engaged in investing in the RCF and collaborating with initiatives such as the Innovative Finance for the Amazon, Cerrado and Chaco (IFACC), Forest Positive Coalition of the Consumer Goods Forum, the UK and French Soy Manifestos, and the UK Soy Retail Group;
3. **Improves trading flows** of responsible commodities, by improving the connectivity between supply and demand and providing trading assistance. The RCF analyses soy supply chain infrastructure to better understand the trade flows of soy globally and uses traceability mechanisms to allow deforestation and conversion-free (DCF) soy to be tracked from farm to user.

<sup>37</sup> <https://sim.finance/>

Figure 3 - RCF's Theory of Change



Source - RCF Annual Report Crop season 2022:2023

With regard to incentives for responsible production and the conservation of surplus native vegetation, the RCF Programme aims to offer attractive interest rates to farmers. For instance, in the crop season 2022-2023, RCF interest rates were 10% per year, while producers could obtain financing at interest rates of 12 to 14% per year. **According to SIM, this reduction in the interest rates provides savings for the farmers, which is equivalent to direct payments of USD 40-80 per hectare for the protection of their native vegetation areas.**

It is worth mentioning that ERM NINT conducted a benchmark of credit lines offered by banks to producers. Indeed, it was found that conventional financial institutions, such as Banco do Brasil and Bradesco, offer credit at interest rates higher than those of the RCF's, starting at 12% per year (See [Annex I](#)).

The BNDES (Brazilian Development Bank), a federal public company linked to the Ministry of Economy, offers lower interest rates with a financing limit of BRL 5,000,000.00 (five million reais) per crop-year<sup>38</sup>. However, as a public company, BNDES cannot be directly compared with the RCF Programme.

In addition, the benchmark research has shown that the credit lines available in the Brazilian market only have restrictions for illegal deforestation, accepting legal deforestation as long as it is legally authorized<sup>39</sup> (See the [Annex I](#) of this report for more details).

• **RCF's Eligibility Criteria:**

<sup>38</sup> <https://www.bndes.gov.br/wps/wcm/connect/site/b7184955-939d-4476-a875-03b9bf7f5eb5/23Cir30+RENOVAGRO+Ano+Agr%C3%ADcola+2023-2024.pdf?MOD=AJPERES&CVID=oB4-tzs>

<sup>39</sup> [https://www.bndes.gov.br/wps/wcm/connect/site/49905886-f740-40c1-a54d-1673f2cda5e2/22Cir57+Mitiga%C3%A7%C3%A3o+Desmatamento+Sem+Autoriza%C3%A7%C3%A3o+opelo+BNDES.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE.Z18\\_7QGCHA41LORVA0AHO1SIO51085-49905886-f740-40c1-a54d-1673f2cda5e2-oh50-xc](https://www.bndes.gov.br/wps/wcm/connect/site/49905886-f740-40c1-a54d-1673f2cda5e2/22Cir57+Mitiga%C3%A7%C3%A3o+Desmatamento+Sem+Autoriza%C3%A7%C3%A3o+opelo+BNDES.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE.Z18_7QGCHA41LORVA0AHO1SIO51085-49905886-f740-40c1-a54d-1673f2cda5e2-oh50-xc)



Prior to their inclusion in the RCF, farms and producers interested in participating in the programme are assessed by Sustainable Investment Management (SIM) for compliance with the RCF's Eligibility Criteria (See [Annex I](#)). The initial screening looks for farming groups that have surplus native vegetation compared to legal requirements (called "excess legal reserves") and have not converted any native vegetation since 1<sup>st</sup> January 2020, considering both legal and illegal deforestation. This analysis is carried out by SIM with geospatial tools.

In the first phase of the RCF, the Programme required that farms had at least 5% of excess legal reserve to be protected. However, considering the potential problems of referring the legal definitions of the Forest Code, RCF has decided to adopt metrics that better reflect its environmental objective as opposed to focusing on enforcement of Forest Code provisions, which is not an attribution of the Programme (See [Annex I](#))

Thus, **RCF has adopted the metric Protection/Production Ratio (PPR) of its potfolio**. This metric illustrates the proportion of areas of protection in relation to total areas of the farms financed by the RCF (for instance, total area of native vegetation divided by total area of CARs included in the RCF Programme). The targets of the Programme are defined using the Forest Code as a proxy, and reflect the PPR of RCF's portfolio.

It is important to emphasize that, between 2008 and 2020, RCF accepts deforestation as long as the producer is on the path to regularisation, including adherence to the Environmental Regularisation Programme (PRA - Programa de Regularização Ambiental). If a case of deforestation is identified, the Programme does not verify whether the farmer had an Authorisation for Vegetation Suppression (ASV - Autorização de Supressão Vegetal), which would classify the deforestation as legally authorised by the environmental authorities. However, Programme monitors deforestation cases from public databases, such as IBAMA embargos database.

From 2020 on, the Programme does not accept any type of deforestation and conversion of lands, whether it's authorised or not (More details can be found in the [Annex I](#)).

The RCF Programme shall only enter into transactions with, provide funds and financial incentives to producers that comply with the Environmental Eligibility Criteria described below. Additional requirements may be added to these criteria for funds and programmes with specific requirements, such as restoration, conservation, conversion of pastureland and others.

The Eligible Producers willing to be financed by the RCF shall enter into a Participation Agreement, committing to comply with the terms and conditions of the Programme, including the Environmental Eligibility Criteria.

Furthermore, in order to participate in the RCF Programme, landowners commit to forego their right to legally convert the remaining vegetation in their farms (in excess of legal minimum requirements) (See [Annex I](#) for more details).

## **1. Criteria related to the area of cultivation**

**1.1 Land use:** The area of cultivation must comply with the following conditions:



- 1.1.1 **Deforestation and conversion:** the cultivated area to be financed must have been cleared of native vegetation before 1 Jan 2020;
- 1.1.2 Preference to be given to areas restored from abandoned pastureland to soy cultivation;
- 1.1.3 No conversion of additional areas of native vegetation is allowed (in the farm in which the cultivation area is located) during the term of the Facility;
- 1.1.4 The **Protection:Production Ratio (PPR)** of the portfolio of farms financed must be at least:
- 40% in Cerrado areas **inside the Legal Amazon**; and
  - 25% in Cerrado areas **outside the Legal Amazon**;
- and the areas of native vegetation must be conserved for at least the duration of the Programme.

## 1.2 Compliance with the Forest Code

- 1.2.1 Farmland must be registered with the Environmental Rural Registry (Cadastro Ambiental Rural - CAR); and
- 1.2.2 The farm area must not overlap with conservation units, indigenous reservations, and community lands (including quilombos);
- 1.2.3 The farm must contain and maintain the required areas of Legal Reserve and Areas of Permanent Protection (APPs) determined by the Forest Code or have formally adhered to a Programme of Environmental Regularisation (PRA) established by the state environmental agency.

## 2. Criteria related to the Farmer

- 2.1 **Land title:** Farmers must have unquestionable right to use the land, be it as land title, land lease agreement or another legally recognized form of land tenure (e.g., 'posse');
- 2.2 **Legal compliance:** Farmers must demonstrate that they and their farms do not contravene any environmental or legal requirements, such as:

- Environmental embargoes on the soy cultivation area;
- Labour legislation (including slave and child labor);
- Soy Moratorium (if applicable); and
- Internationally accepted rules for the use of agrochemicals

3. **Environmental & Social Framework:** The Responsible Commodities Facility will also adopt an Environmental & Social (E&S) Framework developed in partnership with UNEP Finance.

The E&S Framework was developed to ensure that it supports the objectives of the Facility, and to contribute to the sustainable development goals (SDGs), Brazil's National Biodiversity Strategy and Action Plan (NBSAP), Brazil's National Determined Contribution (NDCs) to Paris Agreement of the United Nations Framework Convention on Climate Change (UNFCCC), as well as other industries initiatives, including Soy Working Group (Grupo de Trabalho da Soja - GTS), Cerrado Working Group (Grupo de Trabalho do Cerrado - GTC), Cerrado Manifesto, including the Statement of Support, tropical Forest Alliance 2020 (TFA 2020) and others.

	<p>SIM verifies the producers' compliance with RCF's criteria using satellite images and a due diligence &amp; risk assessment system (as explained in the following paragraphs and in the <a href="#">Annex I</a> of this report).</p> <p>In addition to the Environmental Eligibility Criteria, participating producers must comply with the aforementioned E&amp;S Framework, and any additional conditions applicable to each specific Fund (for instance, credit eligibility criteria).</p> <p>Both Environmental Eligibility Criteria and the E&amp;S Framework may be reviewed from time to time in order to better reflect the environmental objectives of the RCF Programme.</p> <p><b>Sustainable agricultural practices:</b> Concerning the agricultural practices adopted by producers who have joined the RCF Programme, the prerequisites are that their farms, in aggregate, contain native vegetation more than that required by the Brazilian Forest Code, and that there has been no conversion of areas of native vegetation on the financed farms since January 2020.</p> <p>Currently, RCF does not impose any changes in the agricultural practices adopted by the farmers. Once farmers join the Programme, they commit to not converting any areas of native vegetation on the financed farms nor using pesticides banned internationally by the World Health Organization (WHO) and the Rotterdam Convention, but which are permitted in Brazil. This is agreed by a signing of an agreement (See <a href="#">Annex I</a> for more details).</p> <p>The agronomist responsible for each farm sends a list of the types of chemicals used, and a declaration that the products forbidden by the Programme were not used.</p> <p>At present, the RCF does not carry out any mandatory site visits to check the agrochemicals used on crops. However, SIM has the right to do so if necessary. In 2024, the RCF Programme has partnered with the AGRI3 Fund<sup>40</sup> to implement a technical assistance focused on regenerative agriculture.</p> <p>In this sense, a third party (Produzindo Certo) will audit one third of the areas financed by RCF and the scope of the audit visits will include the agrochemicals used. Moreover, this technical assistance company will support the producers to adopt more sustainable farming practices.</p> <p>Nevertheless, as this is still in the initial phase, it was not possible to assess the farming practices of the eligible producers against the CBI's Agriculture Criteria or the CBI's Deforestation and Conversion Free Sourcing criteria, as these are still under development<sup>41</sup>.</p> <p>It should be noted that the objective of the RCF Programme is to provide working capital to eligible farmers to help them purchase the necessary inputs for their crops. The Programme does not yet have any criteria that enforce or encourage producers to use only bio-inputs instead of chemicals.</p> <ul style="list-style-type: none"> <li>• <b>ESG impacts and risks management of the RCF Programme:</b> SIM is the Programme Coordinator, being responsible for:             <ol style="list-style-type: none"> <li>i. Engaging, coordinating and managing the implementing parties of the Funds;</li> <li>ii. Selecting the portfolio of Eligible Producers;</li> </ol> </li> </ul>
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<sup>40</sup> <https://agri3.com/>

<sup>41</sup> <https://www.climatebonds.net/standard/deforestation-and-conversion-free-criteria>

- iii. Coordinating the monitoring and verification of the compliance of the Funds with RCF's Environmental Eligibility Criteria;
- iv. Measuring and reporting the environmental impacts of the Funds; and other activities.

In the first two years of the Programme, a group of stakeholders composed by financial partners, nongovernmental organizations (NGOs) and academia, and commodities buyers formed an **Environmental Committee**.

This **Environmental Committee** - formed by WWF Brasil, The Nature Conservancy (TNC), Conservation International, IPAM (Instituto de Pesquisa Ambiental da Amazônia), Proforest and UN Environment - supported SIM in the definition of the Environmental Eligibility Criteria of the RCF.

The aim of the **Environmental Committee** was to provide independent advice to the implementation, to the farms' selection and to the environmental performance of the RCF.

As the RCF Programme has expanded, the Environmental Committee has been dissolved and the external evaluation of the RCF is carried out by another party, in this case, ERM NINT.

Despite this, RCF will continue to take part in IFACC (Innovative Finance for the Amazon, Cerrado, and Chaco, managed by UN Environment, TNC, and the Tropical Forest Alliance) as a member and operate in accordance with its criteria.

Also, some of the members of the former Environmental Committee have joined a new **RCF's Environmental Advisory Board (EAB)** to provide strategic input into the development of the RCF and into any changes of the Eligibility Criteria. The members of this Advisory Board are still being decided, but their focus will be on advising the Programme according to its operation, expansion plans and environmental eligibility criteria.

- **Monitoring participating producers of the RCF Programme:** While farmers remain Participating Producers, they will be continuously monitored regarding the compliance with the Eligibility Criteria, which is a condition precedent to any renewal of the financing transactions.

**Monitoring of environmental obligations and impacts is conducted by SIM and by an Independent Monitoring Firm.**

SIM's analyses focus on detecting any sign of conversion of native vegetation, using Landsat images taken at different times in the crop season. The Independent Monitoring Firm (Geosys - EarthDaily Agro) conducts an analysis of crop development and deforestation and land conversion activity using satellite images with 10m resolution.

If there is a deforestation alert, the case is brought to the attention of the Programme Coordinator (SIM), the Credit and Monitoring Agent (Traive), and the Independent Monitoring Firm (Geosys - EarthDaily Agro) to check if it was a real deforestation case - as there are many false alerts in the Cerrado biome - , and a case of significant materiality (The RCF accepts minimal levels of deforestation or conversion. See [Annex I](#) for details).

If it is confirmed, the case is discussed with the Credit and Monitoring Agent (Traive) and the Securitization Company (Opea), in order to define the communication and expulsion of the participating producer of the Programme.

The Programme Coordinator also monitors farms and farmers for infractions of other environmental legislation associated with their tax ID's (CNPJ/CPF) using a **Due diligence & Risk Assessment System** that combines real-time production data, consultation to external databases (SICAR, IBAMA, state environmental agencies, Ministry of Labour, etc.), and documental and satellite imagery analyses (MapBiomass).

SIM also monitors infringements of labour legislation through the Brazilian Ministry of Labour and Social Security database of employers who breach legal requirements, including subjecting workers to conditions analogous to slavery-like labour.

- **Associated environmental benefits:** The capital raised under the RCF Cerrado Programme 1 amounted to USD 11,000,000 and was used to acquire agricultural inputs to plant the 2022-2023 crop season. Harvesting took place in February- March 2023, yielding 42,000 tonnes of Deforestation and Conversion-Free (DCF) soy.

According to RCF's Annual Report, in the crop season 2022-2023, loans provided had interest rates, approximately, 25% lower than the rates these farmers would obtain from other sources of finance (See the [Annex I](#) for benchmark of interest rates for agricultural funding). All loans were repaid with no financial default on obligations and were renewed in April 2023 for farmers to plant the 2023-2024 crop season.


The environmental benefits of the Responsible Commodities Facility (RCF) Cerrado Programme 1 (crop season 2022-2023) are shown in the Table 2.

*Table 2 - Environmental benefits of RCF Programme (crop-season 2022-2023)*

Environmental impact	Quantum
Amount of volume of DCF (vDCF) soy produced in the main crop season	42,000 tonnes
Amount of DCF maize and DCF cotton produced in the winter crop ("safrinha") preceding the soy planting season	27,000 tonnes of DCF maize and 3,200 tonnes of DCF cotton
Number of farms involved	32 farms
Area of native vegetation conserved (in the Cerrado biome)	8,541 ha
Area of native vegetation conserved in excess of legal requirement	2,145 ha
Protection ratio (% area protected/total area financed)	42.1%
Area of native vegetation deforested or converted to other uses	0 ha
Carbon stocks maintained in forests protected by the RCF	2.90 MtCO <sub>2</sub>
GHG emissions from land use change (tCO <sub>2</sub> e / t soy produced)	0 tCO <sub>2</sub> emitted from land use change (0 tCO <sub>2</sub> / t soy produced)

*Source - RCF Annual Report 2022-2023*

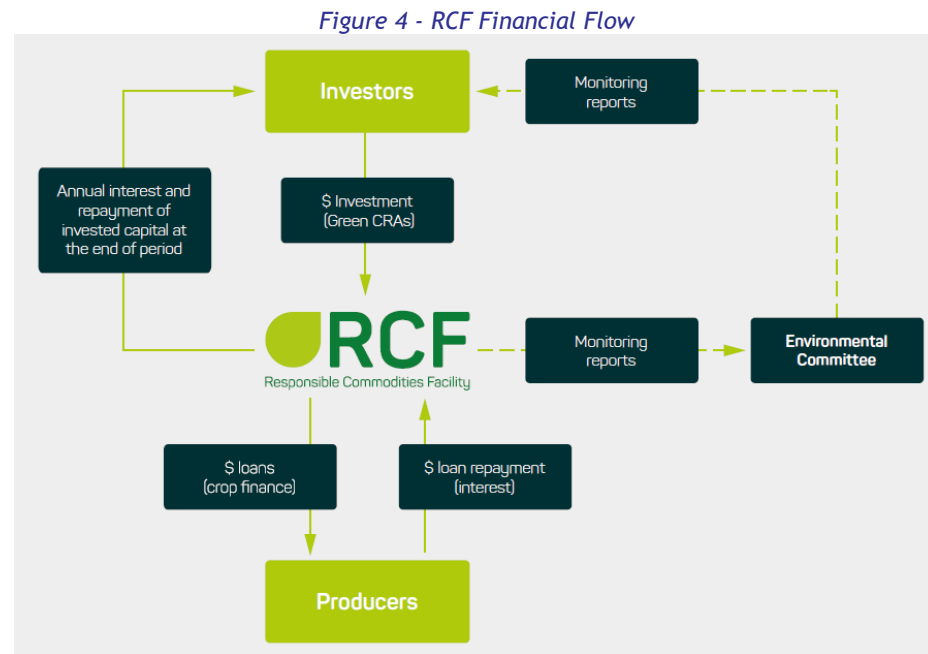
The carbon stocks stored in natural vegetation protected in RCF farms was estimated by SIM (Sustainable Investment Management) based on Aboveground Biomass extracted from the 2022 Brazilian submission to the UNFCCC (Submissão brasileira de Nível de Referência de Emissões Florestais para redução das emissões provenientes do desmatamento no bioma Cerrado, para REDD), applied to the specific vegetation types in each farm, using the 2018 IBGE Vegetation Map. Where no values were found, values were taken from the 3rd Brazil GHG Inventory, or an average of the values in the Brazilian submission to the UNFCCC was used. Belowground Biomass values were taken from Bustamante (2006).

	<p>Regarding the ESG Performance of the Programme Coordinator (Sustainable Investment Management - SIM), ERM NINT carried out a desk research about controversial cases involving the company and the RCF, and found no cases. Thus, ERM NINT considers that SIM can manage and mitigate the environmental and social (E&amp;S) risks of the Responsible Commodities Facility. More details regarding SIM's ESG performance can be found in the <a href="#">section 3</a> of this report.</p> <p><b>Level of alignment with GBP 2 and GLP 2 best practices:</b> The RCF has a well-structured Environmental Eligibility Criteria, which was developed with the support of various stakeholders. Prior to joining the RCF, potential eligible producers are assessed regarding deforestation and conversion of native vegetation farmlands, farmlands' registry in the National Rural Environmental Registry System (SICAR), overlap in conservation units, indigenous reservations and community lands, environmental embargoes and others. In terms of sustainable agricultural practices, the RCF does not require any additional agricultural practices other than not using pesticides internationally banned by the WHO and the Rotterdam Convention. However, the Programme has partnered with a technical assistance company that will carry out a diagnosis of the agricultural practices of the RCF's participating producers and help them move towards more sustainable production. No history of controversy involving SIM or the RCF Programme was found.</p> <p>Considering the above, the level of alignment of the RCF Programme with the GBP and GLP 2 best practices is <b><u>Leadership</u></b>.</p>
<p><b>3.Management of Proceeds</b></p> 	<p><b>Management of proceeds:</b> The investment vehicles (Funds) may be created under any legal structure and adopt any financial mechanisms which are able to deliver on RCF's objectives. This may include investment funds, securitization structures, bonds or any other financial structure.</p> <p>The investments can blend different types of financing, from institutional investors, impact investors, development finance institutions (DFIs) to commercial banks engaged in sustainability. The Programme aims to lend capital to deforestation and conversion-free (DCF) soy producers on an annual basis.</p> <ul style="list-style-type: none"> <li>• <b>RCF's Management of Proceeds and Credit analysis:</b></li> </ul> <p>The RCF Programme is managed by SIM (Sustainable Investment Management), which is the Programme Coordinator responsible for engaging and managing the implementing parties of the Funds. Traive is the Credit and Risk Manager of the Programme, responsible for credit risk analysis of producers and subsequent credit risk monitoring.</p> <ul style="list-style-type: none"> <li>• <b>RCF's Financial Flow:</b></li> </ul> <p>The first fund developed by the Responsible Commodities Facility, the RCF Cerrado Programme 1, was capitalized through the issuance of Green CRAs<sup>42</sup> (which stands for <i>Certificado de Recebíveis do Agronegócio</i> or Certificates of Receivables of the Agribusiness) in Brazil. These instruments were registered on the Vienna Stock Exchange. CRAs are a type of security widely used to finance the Brazilian agribusiness.</p>

<sup>42</sup> Despite the Green CRA classification, the operation did not have a second-party opinion report. However, it should be noted that the RCF Programme relied on an Environmental Committee to advise the Programme on its eligibility criteria. More details: <https://forbes.com.br/forbesagro/2022/08/do-cerrado-a-europa-sim-opea-e-traive-realizam-primeira-operacao-com-cras-verdes/>

The CRAs were subscribed by investors and capital raised was sent to Brazil to be loaned to RCF farmers. **Every loan was collateralized by Financial CPRs worth 110% of the loan value.** CPR stands for *Cédula de Produto Rural* (Certificate of Agricultural Production), which is a type of promissory note widely used to document agribusiness credit transactions in Brazil.

The financial flow of the RCF Programme is shown in the Figure 4.



*Source - RCF Annual Report Crop season 2022:2023*

- **Collection of guarantees and contracting:**

Each CPR includes a lien in the form of fiduciary alienation (“alienação fiduciária”), a modality of lien that allows for an expeditious execution process widely adopted to guarantee agrobusiness credit transactions in Brazil. The lien is on the future soy production for a value corresponding to 110% of the full amount due by the producer at maturity.

The CPR is registered in the public notary of the farm’s municipality and deposited in the B3 Stock Exchange in Brazil. The collection of the CPRs and the formalization process is conducted by the Formalization Agent (Ace - Agriculture Collateral Experts Ltda).

- **CRAs issuance and registration on Vienna Stock Exchange:**

Once all CPRs and the respective guarantees are duly formalised, Opea Securitizadora (the Securitization Company) issues the CRAs and registers them on the Vienna Stock Exchange.

Investors subscribe the CRAs and deposit the proceeds in a bank account managed by the Paying Agent (TMF). Farmers enter into offtake agreement with traders, for delivery of soy at harvest, and assign these agreements to the RCF to receive payment directly from the traders.

**Proceeds are transferred to Brazil and paid into the bank accounts of farmers. This reduces the risk of proceeds going to non-eligible farmers under the RCF Programme.**



	<ul style="list-style-type: none"> <li>• <b>Loan repayment and renewal:</b></li> </ul> <p>At the end of the crop cycle, soy is harvested and delivered at the location defined in the offtake agreements with soy traders. Traders pay directly to the RCF for the soy delivered. RCF uses these proceeds to repay interest and/or principal back to investors and the balance is returned to producers. Loans are renewed for farmers that continue to comply with the requirements of the RCF.</p> <p>As previously mentioned in the item <b>‘Process for Project Evaluation and Selection’</b> of this report, if a Participating Producer defaults in respect to any of the Environmental Eligibility Criteria, he will be expelled from the Programme. In these cases, the producer might also have to pay a penalty equivalent to 15% of the due value.</p> <p>Also, the clauses in the CPR establish that there might be early maturity events in case of breaches of the environmental and occupational health and safety laws, including slavery-like and child labour, and non-compliance with the Programme Eligibility Criteria.</p> <p><b>Level of alignment with GBP and GLP 3 best practices:</b> The proceeds are raised and directed only for eligible farmers. SIM continuously monitors the eligible producers, who only remains eligible in case of full compliance with the Programme criteria. Hence, ERM NINT considers that the level of alignment of the RCF Programme with the GBP and GLP 3 best practices is <b><u>Leadership</u></b></p>
<p><b>4.Reporting</b></p> 	<p><b>Reporting practices:</b> SIM (Programme Coordinator) will elaborate <b>Environmental Reports</b> and <b>‘Statements of Environmental Impact’</b> based on monitoring activities and environmental impacts generated by the Fund.</p> <p>The <b>‘Statements of Environmental Impact’</b> will be sent to investors. The main goal of the Statement is to substantiate environmental claims made by Fund’s investors regarding their investment in the Fund. That is, individual Environmental Impact Statements will be issued to each investor in the RCF, attributing the production and impacts generated by the Programme pro rata to their financial contributions.</p> <p>In the last couple of years, RCF’s monitoring reports were made available to the <b>Environmental Committee</b> to review and assess compliance with the eligibility criteria and the environmental performance of the Programme. From 2024 on, these reports will be made available to ERM NINT that will externally review them.</p> <p>The <b>Environmental Reports</b> will disclose the following <b>environmental indicators</b>:</p> <ol style="list-style-type: none"> <li>Number of farms who joined the Programme (#);</li> <li>Area of native vegetation conserved in the Cerrado (in hectares);</li> <li>Area of native vegetation conserved in excess of legal reserve requirement (in hectares);</li> <li>Protection ratio (% area protected/total area financed)</li> <li>Carbon stocks in native vegetation protected by the RCF (in MtCO<sub>2</sub>)</li> <li>Tonnes of CO<sub>2</sub> emitted from land use change (tCO<sub>2</sub>/t soy produced)</li> <li>Tonnes of Deforestation and Conversion-Free (DCF) soy produced in the main crop season;</li> <li>Tonnes of DCF maize and DCF cotton produced in the winter crop (“safrinha”) preceding the soy planting season;</li> </ol>

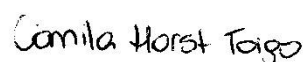


	<p>ix. Deforestation or conversion of any native vegetation (in hectares);</p> <p>x. Number of financial default on repayment of loans (#)</p> <p>The <b>financial</b> indicators to be disclosed are:</p> <p>a. Total volume of proceeds raised (USD);</p> <p>b. Proceeds temporarily allocated to other financial instruments, if applicable (amount in USD, per instrument)</p> <p>The indicators will be monitored by SIM and Traive, and externally audited by ERM NINT.</p> <p>In addition, this second-party opinion report (SPO) and further verification reports will be disclosed on SIM's website.</p> <p><b>Level of alignment with GBP 4 and GLP best practices:</b> SIM commits to annually report the environmental and financial indicators regarding the Responsible Commodities Facility Programme. The indicators will be externally audited on an annual basis. This SPO report and further verification reports will be publicly available. Hence, ERM NINT considers that the level of alignment of the RCF Programme with the GBP and GLP 4 best practices is <b><u>Leadership</u></b></p>
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- **SIM's ESG Assessment**

Analysis	Description
<b>ESG Performance</b>	The projects managed by Sustainable Investment Management (SIM) relate to the financing of sustainable agricultural production and trading practices. The company has policies to promote equality and safety in the workplace. SIM's staffs and members are free to engage in political activity as long as this do not negatively impact their working hours or use SIM's resources. The company has a grievance procedure established in which it commits to resolve any complaint within one month of it being raised.
<b>ESG Controversies</b>	No controversy regarding SIM or the RCF Programme were found.
<b>Conclusion</b>	Thus, we consider SIM to be capable of managing and mitigating ESG risks of its operation.

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Rio de Janeiro, 09 May 2024

### 3. SIM's ESG Performance

SIM (Sustainable Investment Management Ltd) is an environmental finance advisory firm. As a company regulated by the Financial Conducts Authority's criteria, it adopts a series of internal procedures.

The company's mission is to provide finance to promote sustainable production and trading practices.

With regard to the Responsible Commodities Facility (RCF), the Programme is part of the IFACC and complements other responsible soy production initiatives such as the UK Soy Manifesto and the Consumer Goods Forum's Forest Positive Coalition.

An analysis of the company's environmental, social and governance performance was carried out based on an analysis of the policies and practices for measuring, preventing, mitigating and compensating the ESG risks of its activities. To this end, the following documents were analyzed:

- SIM Policies Book;
- RCF Environmental Governance;
- RCF 2023 Annual Monitoring Report;
- RCF Programme Framework;

#### ENVIRONMENTAL ASPECT

The projects developed by SIM are related to financing for sustainable agriculture production and trading practices. The company's activities are office-based and, thus, its operations have a low environmental impact. The waste generated by the company is related to office materials and its day-to-day operations.

In relation to the projects developed, beyond the RCF (Responsible Commodities Facility) that aims to provide financial incentives to soy farmers committed to zero deforestation in Brazil, the company has also designed and manages the "SIMFlor Programme" that provides financial incentives for landowners to comply with the Brazilian Forest Code<sup>43</sup>.

SIM also works in partnership with BVRio, a not-for-profit organization, designing and promoting innovative market-based solutions for the green economy. One of the projects with BVRio is the 'Circular Action', a venture dedicated to developing circular economy solutions in developing countries, focused on promoting the use of proper and sustainable solid waste management solutions, including plastics recycling<sup>44</sup>.

Regarding greenhouse gases (GHG) emissions, SIM intends to reduce its emissions, help offset carbon footprints and accelerate the transition to a low-carbon economy. In this sense, SIM is a shareholder of Ecorescurities<sup>45</sup>, a market leader in carbon markets.

<sup>43</sup> <https://sim.finance/>

<sup>44</sup> <https://circular-action.com/>

<sup>45</sup> <https://www.ecosecurities.com/>

## SOCIAL ASPECT

SIM supports the Universal Declaration of Human Rights, carrying out activities without discrimination based on race, gender, sexual orientation, disability, religious or political affiliation and others. The company also repudiates any form of sexual exploitation, harassment, and it has a zero tolerance of child abuse.

In its Equality Policy, the organization states that its aim is to ensure that its workforce is representative of all sections of society, and each employee feels respected and treated fairly. SIM commits to train, develop and offer progression opportunities to all staff, and to promote equality in the workplace. The Chief Executive is responsible for the implementation and operation of this Policy. Managers should also ensure that they and their staff operate within this policy.

All SIM's staff members and representatives are free to engage in political activity in their country of citizenship as long as their involvement is not in conflict with their official duties, during working hours and does not use SIM resources. Furthermore, SIM staff members or representatives who engage in political activity are prohibited from representing that SIM endorses their political activity.

## CORPORATE GOVERNANCE ASPECT

Currently, SIM's Team is composed by a Chief-Executive Officer (CEO), a Chief Operating Officer (COO), a Vice-President (VP) of Environment, a Director of Investor Engagement and a Head of Compliance.

SIM has a Code of Conduct in which it set standards that the company expects the organisation, including its executives, employees, collaborators and subcontractors to be bound to. The company has a grievance channel where any apparent or actual deviation from its Guidelines can be reported. The formal grievances process should normally be concluded within one month of the grievance raised. Where possible, the Human Resources (HR) manager will be involved at all stages of the grievance process. The HR will make sure that all action agreed will be implemented, monitored and reviewed.

The organization is committed to a zero-tolerance policy on bribery and corruption in any form. Furthermore, given that SIM is a UK-registered company, it follows the 2010 Bribery Act. In order to reduce the risks of corruption, SIM (i) provides regular learning sessions to support staff in responding to corruption incidents and developing appropriate strategies to deal with particular situations as they arise; (ii) ensures that all staff members are fully informed about the anti-bribery and corruption policy; (iii) ensures that all clients and contractors are fully informed about SIM's zero tolerance of corruption; (iv) carries out a bribery and corruption risk assessment when it enters a contracting relationship with another entity and a due diligence assessment against risks.

According to SIM's Anti-Bribery and Corruption Policy, any serious case of corruption should be investigated. The investigation shall involve the line manager and at least one other member of the SIM team. The people or the person concerned should be interviewed in a maximum of two weeks of the incident report.

## ESG CONTROVERSY

ERM NINT carried out a desk research regarding Sustainable Investment Management (SIM) and the Responsible Commodities Facility (RCF) Programme. No history of controversial cases was found.

The Sustainable Investment Management (SIM) has not been identified in the Ministry of Labour and Employment's list of employers who have subjected workers to conditions analogous to slavery, updated on 09 February, 2024<sup>46</sup>. Also, SIM has no debts arising from labour assessments<sup>47</sup> and no occurrence was found in Ibama's Consultation of Environmental Notices and Embargoes<sup>48</sup>.

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<sup>46</sup> [https://www.gov.br/trabalho-e-emprego/pt-br/assuntos/inspecao-do-trabalho/areas-de-atuacao/cadastro\\_de\\_empregadores.pdf](https://www.gov.br/trabalho-e-emprego/pt-br/assuntos/inspecao-do-trabalho/areas-de-atuacao/cadastro_de_empregadores.pdf)

<sup>47</sup> <https://eprocesso.sit.trabalho.gov.br/ProcessoEletronico/ProcessosPorEmpregador>

<sup>48</sup> [servicos.ibama.gov.br/ctf/publico/areasembargadas/ConsultaPublicaAreasEmbargadas.php](https://servicos.ibama.gov.br/ctf/publico/areasembargadas/ConsultaPublicaAreasEmbargadas.php)

## 4. Green Bond External Review Form

### Section 1. Basic Information

**Issuer name:** Sustainable Investment Management (SIM)

**Bond ISIN<sup>49</sup>:** BRGAIACRA1B2, BRRBRACRA413, BRRBRACRA421 e BRRBRACRA405

**Independent External Review provider's name:** ERM NINT - Natural Intelligence, an ERM Group company.

**Completion date of this form:** 09 May 2024

**Date of the review:** This opinion will be confirmed annually for each financing cycle of the Responsible Commodities Facility (RCF) Programme.

### Section 2. Overview

#### SCOPE OF REVIEW

The review:

☒ assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).

☐ assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:

- |  |   |
|--|---|
| <input type="checkbox"/> Use of Proceeds   | <input type="checkbox"/> Process for Project Evaluation and Selection |
| <input type="checkbox"/> Management of Proceeds  | <input type="checkbox"/> Reporting                                    |
| <input type="checkbox"/> assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones: |   |

#### ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Second Party Opinion  | <input type="checkbox"/> Certification  |
| <input type="checkbox"/> Verification                     | <input type="checkbox"/> Scoring/Rating |
| <input type="checkbox"/> Other ( <i>please specify</i> ): |   |

**Does the review include a sustainability quality score<sup>50</sup>?**

- |   |  |
|---|--|
| <input type="checkbox"/> Of the issuer    | <input type="checkbox"/> Of the project  |
| <input type="checkbox"/> Of the framework | <input checked="" type="checkbox"/> Other ( <i>please specify</i> ): Use of proceeds |

<sup>49</sup> The ISIN code is mandatory for publishing the form in the Sustainable Bond Issuers Database

<sup>50</sup> The external review may indicate the provider's opinion of the overall sustainability quality of a bond or bond framework and assess whether it has a meaningful impact on advancing contribution to long-term sustainable development.

☐ No scoring

## ASSESSMENT OF THE PROJECT(S)

**Does the review include:**

- ☒ The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- ☒ The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- ☒ The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

## ISSUER'S OVERARCHING OBJECTIVES

**Does the review include:**

- ☒ An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- ☒ An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- ☒ A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

## CLIMATE TRANSITION STRATEGY<sup>51</sup>

**Does the review assess:**

- ☐ The issuer's climate transition strategy & governance?
- ☐ The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- ☐ The credibility of the issuer's climate transition strategy to reach its targets?
- ☐ The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- ☐ If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- ☐ The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways <sup>52</sup> that are deemed necessary to limit

<sup>51</sup> Where issuers wish to finance projects towards implementing a net zero emissions strategy aligned with the goals of the Paris Agreement, guidance on issuer level disclosures and climate transition strategies may be sought from the [Climate Transition Finance Handbook](#).

<sup>52</sup> GHG emissions reduction targets that are in line with the scale of reductions required to keep the average global temperature increase to ideally 1.5°C, or at the very least to well below 2°C above pre-industrial temperatures. Science Based Targets Initiative (SBTi) is a branded verification body for science-based targets and SBTi verification is one way for issuers

climate change to targeted levels?

☐ The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically<sup>53</sup>?

**Overall comment on this section:** SIM (Sustainable Investment Management Ltd), an environmental finance advisory firm, is responsible for the design and management of the Responsible Commodities Facility (RCF), a programme focused on providing incentives to soy farmers committed to zero deforestation and conversion of lands in Brazil.

## Section 3. Detailed Review

*Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.*

### 1. USE OF PROCEEDS

**Does the review assess:**

- ☒ the environmental/social benefits of the project(s)?
- ☒ whether those benefits are quantifiable and meaningful?
- ☐ for social projects, whether the target population is properly identified?

**Does the review assess if the issuer provides clear information on:**

- ☒ the estimated proceeds allocation per project category (in case of multiple projects)?
- ☒ the estimated share of financing vs. re-financing (and the related lookback period)?

**Overall comment on this section:** The Responsible Commodities Facility (RCF) is an initiative designed by the Sustainable Investment Management (SIM) to promote the production and trading of responsible commodities in Brazil, in particular, soy. This is done by creating a financially sustainable vehicle to provide incentives to farmers and help them meet the growing international demand for zero-deforestation supply chains. 100% of the proceeds raised under the RCF Programme will be allocated to financing deforestation and conversion-free (DCF) commodities, in special, soy.

The RCF's trial programme, called RCF Cerrado 1, was launched in 2022 and encompassed the Cerrado biome (Brazilian savanna). In its first year, it raised US\$ 11 million with four-year green bonds bought by UK supermarkets Tesco, Sainsbury's and Waitrose. The capital raised was used to provide low-interest loans to nine large farming groups who committed to deforestation and conversion-free (DCF) soy cultivation. The eligible producers used the proceeds for operational expenditures (OPEX) of soy cultivation, such as acquisition of agricultural inputs (seeds, fertilizers and chemicals).

*to validate the alignment of their emission reduction trajectories with science-based reference trajectories. In addition, ICMA has published a [Methodologies Registry](#) which includes a list of tools to specifically help issuers, investors, or financial intermediaries validate their emission reduction trajectories..*

<sup>53</sup> Including information such as the respective contribution (e.g. %) of the different measures to the overall reduction, the total expenses associated with the plan, or the issuer's climate policy engagement.



The RCF is aligned with the Green Bond Principles (GBP) and the Green Loan Principles (GLP) under the project's category of environmentally sustainable management of living natural resources and land use, which includes environmentally sustainable agriculture and preservation of natural landscapes.

In addition, the publication 'The Coolest Bonds' states that agricultural production unities with zero deforestation, with conservation above what is required by law, support to combat climate change.

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

**Does the review assess:**

- ☒ whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones.<sup>54</sup>
- ☒ whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?
- ☒ the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?
- ☒ the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?
- ☒ any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

**Overall comment on this section:** The Responsible Commodities Facility (RCF) Programme aims to maximise the conservation of native vegetation in areas of soy production through financial incentives.

Prior to their inclusion in the RCF, farms and producers interested in participating in the programme are assessed by Sustainable Investment Management (SIM) for compliance with the RCF's Eligibility Criteria. The initial screening looks for farming groups that have surplus native vegetation compared to legal requirements (called "excess legal reserves") and have not converted any native vegetation since 1st January 2020. RCF's whole portfolio shall have at least 5% of surplus native vegetation.

It is important to emphasize that, between 2008 and 2020, RCF accepts deforestation as long as the producer is on the path to regularisation, including adherence to the Environmental Regularisation Programme (PRA- Programa de Regularização Ambiental). From 2020 on, the Programme does not accept any type of deforestation and conversion of lands, whether it is legal (authorised by environmental agencies) or illegal.

Other eligibility criteria are:

<sup>54</sup> The EU Taxonomy, CBI Taxonomy, UK Taxonomy, China catalogue, etc.

**1. Land Use:** the area of cultivation must comply with the following conditions: (i) the cultivated area to be financed must have been cleared of native vegetation before 1 Jan 2020, preference to be given to areas restored from abandoned pastureland to soy cultivation; (ii) no conversion of additional areas of native vegetation is allowed (in the farm in which the cultivation area is located) during the term of the Facility; (iii) The Protection:Production Ratio (PPR) of the portfolio of farms financed must be at least: 40% in Cerrado areas inside the Legal Amazon; and 25% in Cerrado areas outside the Legal Amazon. The areas of native vegetation must be conserved for at least the duration of the Programme.

**2. Compliance with the Forest Code:** (i) farmland must be registered with the Environmental Rural Registry (Cadastro Ambiental Rural - CAR); and (ii) the farm area must not overlap with conservation units, indigenous reservations, and community lands (including quilombos); (iii) the farm must contain and maintain the required areas of Legal Reserve and Areas of Permanent Protection (APPs) determined by the Forest Code or have formally adhered to a Programme of Environmental Regularisation (PRA) established by the state environmental agency.

**3. Farmers** must have unquestionable right to use the land, be it as land title, land lease agreement or another legally recognised form of land tenure (e.g., 'posse'); and farmers must demonstrate that they and their farms do not contravene any environmental or legal requirements, such as: environmental embargoes on the soy cultivation area; labour legislation (including slave and child labor); Soy Moratorium (if applicable); and internationally accepted rules for the use of agrochemicals.

The capital raised under the RCF Cerrado Programme 1 amounted to USD 11,000,000 and was used to acquire agricultural inputs to plant the 2022-2023 crop season. Harvesting took place in February- March 2023, yielding 42,000 tonnes of Deforestation and Conversion-Free (DCF) soy. 32 farms received proceeds from the Programme. The area of native vegetation conserved (in the Cerrado biome) was of 8,541 ha and 2.90 MtCO<sub>2</sub> of carbon stocks were maintained in forests protected by the RCF.

During the Programme, the participating producers are continuously monitored for deforestation. If a case of deforestation and conversion is confirmed, the participating producer will be excluded from the Programme and will not be eligible for the next financing cycle.

ERM NINT concluded that the internal processes for project evaluation and selection are transparent and based on comfortable eligibility criteria. The projects are aligned with SIM's strategy and they provide environmental benefits, delivering positive contributions to sustainable development.

### 3. MANAGEMENT OF PROCEEDS

**Does the review assess:**

- ☒ the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- ☒ the intended types of temporary investment instruments for unallocated proceeds?

☒ Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

**Overall comment on this section:** The RCF Programme is managed by SIM (Sustainable Investment Management), who is the Programme Coordinator responsible for engaging and managing the implementing parties of the Funds. Traive is the Credit and Risk Manager of the Programme, responsible for carrying out credit risk analysis of the producers and subsequent credit risk monitoring.

The first fund developed by the Responsible Commodities Facility, the RCF Cerrado Programme 1, was capitalized through the issuance of Green CRAs (which stands for Certificado de Recebíveis do Agronegócio or Certificates of Receivables of the Agribusiness) in Brazil. These instruments were registered on the Vienna Stock Exchange. CRAs are a type of security widely used to finance the Brazilian agribusiness.

During the crop season, farms are monitored for crop development, deforestation and land conversion. If there is a deforestation alert, the case is brought to the attention of the Programme Coordinator (SIM), the Credit and Monitoring Agent (Traive), and the Independent Monitoring Firm (Geosys - EarthDaily Agro) to check if it was a real deforestation case - as there are many false alerts in the Cerrado biome - , and a case of significant materiality (The RCF accepts minimal levels of deforestation or conversion).

If it is confirmed, the case is discussed with the Credit and Monitoring Agent (Traive) and the Securitization Company (Opea), in order to define the communication and expulsion of the participating producer of the Programme.

If a Participating Producer defaults in respect to any of the Environmental Eligibility Criteria, he will be expelled from the Programme. In these cases, the producer might also have to pay a penalty equivalent to 15% of the due value.

At the end of the crop cycle, soy is harvested and delivered at the location defined in the offtake agreements with soy traders. Traders pay directly to the RCF for the soy delivered. RCF uses proceeds to repay interest and/or principal back to investors and the balance is returned to producers. Loans are renewed for farmers that continue to comply with the requirements of the RCF.

#### 4. REPORTING

**Does the review assess:**

- ☒ the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?
- ☒ the frequency and the means of disclosure?
- ☒ the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

**Overall comment on this section:** SIM (Programme Coordinator) will elaborate Environmental Reports and 'Statements of Environmental Impact' based on monitoring activities and environmental impacts generated by the Fund.

The ‘Statements of Environmental Impact’ will be sent to investors. The main goal of the Statement is to substantiate environmental claims made by Fund’s investors regarding their investment in the Fund. That is, individual Environmental Impact Statements will be issued to each investor in the RCF, attributing the production and impacts generated by the Programme pro rata to their financial contributions.

The Environmental Reports will disclose the following environmental indicators:

- i. Number of farms who joined the Programme (#);
- ii. Area of native vegetation conserved in the Cerrado (in hectares);
- iii. Area of native vegetation conserved in excess of legal reserve requirement (in hectares);
- iv. Protection ratio (% area protected/total area financed)
- v. Carbon stocks in native vegetation protected by the RCF (in MtCO<sub>2</sub>)
- vi. Tonnes of CO<sub>2</sub> emitted from land use change tCO<sub>2</sub>/t soy produced)
- vii. Tonnes of Deforestation and Conversion-Free (DCF) soy produced in the main crop season;
- viii. Tonnes of DCF maize and DCF cotton produced in the winter crop (“safrinha”) preceding the soy planting season;
- ix. Deforestation or conversion of any native vegetation (in hectares);
- x. Number of financial default on repayment of loans (#)

The financial indicators to be disclosed are:

- i. Total volume of proceeds raised (USD);
- ii. Proceeds temporarily allocated to other financial instruments, if applicable (amount in USD, per instrument)

The indicators will be monitored by SIM and Traive, and externally audited by ERM NINT.

The second-party opinion report (SPO) and further verification reports will be disclosed on SIM’s website.

## Section 4. Additional Information

**Useful links** (e.g. to the external review provider’s methodology or credentials, to the full review, to issuer’s documentation, etc.): <https://sim.finance/> ; <https://sim.finance/responsible-commodities-facility/>

### **Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:**

The RCF Programme contributes to the SGDs 2, 12 and 15 its targets: 2.4, 12.2, 15.a and 15.1

**Additional assessment in relation to the issuer/bond framework/eligible project(s):** Not applicable.

## 5. Method

ERM NINT's assessment is based on a proprietary methodology, based on internationally recognized standards. The assessment is composed of two steps:

- 1) **Issuance's assessment** - evaluation of whether the use of proceeds has a potential positive environmental impact, consistent with the Green Bond condition. To do this, we evaluate the alignment of the issuance to the four components of the Green Bond Principles (GBP) and the Green Loan Principles (GLP).
  - **Use of Proceeds (UoP):** evaluates the purpose of the issuance and its alignment with the categories of the Green Bond Principles, Green Loan Principles, Social Bond Principles, Sustainability Bond Guidelines, Guidelines for Blue Finance and international taxonomies, such as the CBI and the European Union Taxonomy;
  - **Process for Project Evaluation and Selection:** evaluates the process mentioned with the purpose to ensure the associated environmental benefits;
  - **Management of Proceeds:** evaluates the procedure for proceeds' financial management, with the purpose to guarantee the destination to activities eligible as green;
  - **Reporting:** evaluates the issuer's commitment on disclosure of information about the process for monitoring the allocation of proceeds, as well as the positive impacts expected from the operations financed.
- 2) **Company's ESG Performance** - evaluation of the company responsible for the project operation, according to the best sustainability practices through internationally recognized standards, such as GRI<sup>55</sup> and others. In this context, the main aspects analyzed are:
  - Policies and practices to measure, prevent, mitigate, and compensate for potential ESG risks of its activities;
  - Company's contribution to the achievement of a sustainable development and climate change mitigation;
  - Controversy<sup>56</sup> in which the company is involved.

### Subtitles

#### Assurance Level

Assurance Level	
<b>Reasonable</b>	An assessment in which the assurance risk is acceptably low under the circumstances of the engagement undertaken. The conclusion is expressed in a way that conveys the professional's opinion on the outcome of the assessment in relation to the criteria observed.
<b>Limited</b>	An assessment in which the engagement assurance risk is greater than a reasonable assurance level but still capable of supporting the main arguments used in the analysis.

<sup>55</sup> <https://www.globalreporting.org/Pages/default.aspx>

<sup>56</sup> The concept of controversy is defined as facts disclosed in the press and media, manifestations of other interest groups, such as labor groups and social movements, as well as decisions by inspection and regulatory agencies.

## Controversy

Severity Level	
<b>Low</b>	Breaches the law and/or negatively affects <i>stakeholders</i> , but causes no or minimal harm that does not require remediation.
<b>Medium</b>	It breaks the law and/or negatively affects <i>stakeholders</i> , and the level of difficulty and cost of remediation is average.
<b>High</b>	It breaks the law and negatively affects the <i>stakeholders</i> , and the damage is irremediable or difficult or costly to remediate.

Responsiveness Levels	
<b>Proactive</b>	In addition to the company acting in a remedial manner when faced with a controversy, the company takes measures that go beyond its obligation. In addition, the company carries out systematic procedures to prevent the problem that occurred from recurring.
<b>Remedial</b>	The company takes the necessary actions to correct the damage and communicates appropriately with the impacted <i>stakeholders</i> .
<b>Defensive</b>	The company takes insufficient action to correct the damage or issues a statement without corrective action
<b>Non-responsive</b>	There is no action or communication from the company regarding the controversy.

# Annex I - Process for Project Evaluation and Selection

## Benchmark of funding for producers and farmers

ERM NINT conducted a benchmarking of credit lines offered by banks to producers in order to compare RCF's interest rates with those of other Brazilian banks. The analysis is presented in the Table 3.

Table 3 - Benchmark of interest rates for agricultural funding

Bank/Company	Description of credit line	Interest rates
Banco do Brasil	BB Custeio: a line destined for costs with inputs, cultivation and harvesting during the crop's productive cycle, production of seedlings and seeds.	The interest rates on this line of credit varies between 12% per year for controlled proceeds or the market rate for uncontrolled use of proceeds <sup>57</sup>
E-agro (Bradesco)	E-agro is a digital platform that provides credit through 'CPR' for purchase of fertilisers, seeds, medicines, feed, and other products to enable planting and cultivation of crops and livestock.	A credit simulation carried out on the 'e-agro' website returned a interest rate of 13.78% per year <sup>58</sup>
TerraMagna	The company offers funding for inputs distributors around Brazil. It raises capital through "Fiagro", a type of investment fund focused on the agricultural sector	The average interest rate of its operations is of 24.6% per year <sup>59</sup>
BNDES	Pronamp Custeio: offers funding for medium-sized farmers (gross annual income of up to BRL 3 million) for their costs associated with the rural production	Fixed interest rate of 8% per year <sup>60</sup>
BNDES	Under the RenovAgro Programme, there are two specific credit lines, RenovAgro Recuperação e Conversão and RenovAgro Ambiental, which cover activities like recovering degraded pastures, adapting or regularising rural properties in accordance with environmental legislation, including recovering legal reserves, permanent preservation areas (APP, in Portuguese acronym), recovering degraded land, implementing and improving sustainable forest management plans.	Fixed interest rate of up to 7% per year for RenovAgro Recuperação e Conversão and RenovAgro Ambiental.  For other activities the fixed interest rate is of 8.5% per year <sup>61</sup>

It is important to highlight that the Brazilian Development Bank (BNDES - Banco Nacional de Desenvolvimento Econômico e Social) RenovAgro Recuperação e Conversão (Recovery and Conversion) and RenovAgro Ambiental (Environment) are the only credit lines with a similar focus to the Responsible Commodities Facility (RCF) Programme.

<sup>57</sup> <https://www.bb.com.br/site/agronegocios/custeio-agropecuario/#/>

<sup>58</sup> <https://e-agro.com.br/simulacao-de-credito>

<sup>59</sup> <https://www.theagribiz.com/agtechs/por-que-a-terramagna-levantou-r-25-milhoes-com-o-modal/#:~:text=A%20taxa%20m%C3%A9dia%20de%20juros,por%20Softbank%20e%20Shift%20Capital.>

<sup>60</sup> <https://www.bndes.gov.br/wps/portal/site/home/financiamento/produto/pronamp-investimento>

<sup>61</sup> <https://www.bndes.gov.br/wps/portal/site/home/financiamento/produto/renovagro>



Nevertheless, the BNDES only suspends financing when there is evidence of deforestation without proof of the regularity of the situation<sup>62</sup>. In this sense, the credit lines shown in Table 3 cannot be directly compared with RCF's Programme, which from 2020 does not accept deforestation under any circumstances (legal or illegal).

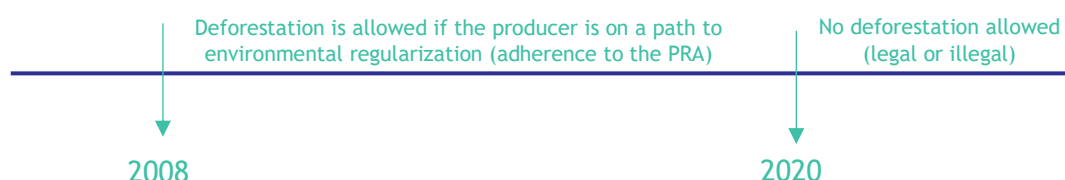
## RCF's Eligibility Criteria

The Responsible Commodities Facility aims to create additional areas of effective conservation of native vegetation in relation to its baseline. Nonetheless, it is worth emphasizing that the RCF does not intend to substitute public authorities in the enforcement of the Law nor it is supposed to validate the official regularization process in substitution of the public authorities.

The Sustainable Investment Management (SIM) is responsible for screening farmers and farms for compliance with RCF's Programme during its cycle.

The analysis conducted includes spatial analysis of farms selected to identify deforestation or conversion of native vegetation since 2008 and after 2020 using ArcGIS and Landsat images taken at different times in the crop season.

Between 2008 and 2020, RCF accepts deforestation as long as the producer is on path to environmental regularisation including adherence to the PRA (Programa de Regularização Ambiental or Environmental Regularisation Programme). For deforestation cases identified during this period, the RCF does not check whether the farmer had an Authorisation for Vegetation Suppression (ASV - Autorização de Supressão Vegetal), which would classify the deforestation as legally authorised by the environmental authorities.



From 2020 on, the Programme does not accept any type of deforestation, whether it's legal (authorized) or illegal.

SIM also analyses the Rural Environmental Registry (CAR - Cadastro Ambiental Rural) of the farmlands in order to assess its compliance with the Brazilian Forest Code (Law nº 12,651/2012). Regarding this, it is important to highlight that the data reported in the CAR is self-declared and not validated by the relevant environmental agencies. Therefore, SIM conducts its own analysis to determine likelihood of compliance based on the amount of native vegetation observed in the CARs and satellite imagery to assess whether the farmlands satisfy the theoretical requirements of the law.

<sup>62</sup> [https://www.bndes.gov.br/wps/wcm/connect/site/49905886-f740-40c1-a54d-1673f2cda5e2/22Cir57+Mitiga%C3%A7%C3%A3o+Desmatamento+Sem+Autoriza%C3%A7%C3%A3o+opelo+BNDES.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE.Z18\\_7QGCHA41LORVA0AHO1SIO51085-49905886-f740-40c1-a54d-1673f2cda5e2-oh50-xc](https://www.bndes.gov.br/wps/wcm/connect/site/49905886-f740-40c1-a54d-1673f2cda5e2/22Cir57+Mitiga%C3%A7%C3%A3o+Desmatamento+Sem+Autoriza%C3%A7%C3%A3o+opelo+BNDES.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE.Z18_7QGCHA41LORVA0AHO1SIO51085-49905886-f740-40c1-a54d-1673f2cda5e2-oh50-xc)

The process of determination of legal reserve compliance starts with the area of native vegetation observed within the polygon declared in SICAR (Sistema Nacional de Cadastro Ambiental Rural or National Rural Environmental Registry System). If this area is sufficient for the requirements of the law for the Legal Reserve (20% or 35%, for the Cerrado areas of the RCF), the farms are considered preliminary compliant with this requirement, pending analysis of APPs.

For the calculation of APPs (Áreas de Preservação Permanente or Permanent Preservation Area), SIM uses the self-declared number in the CAR, both in figures and in the polygons drawn in the CARs. Often, the areas declared and the area drawn in the map are different. In case of discrepancies, when the visual and GIS analysis provide a clear delineation of the APP area, these results are used. Otherwise, the highest figures are considered.

The RCF analysis of native vegetation is based on groups of CARs that, in aggregate, satisfy the spatial requirements of the Forest Code. This is particularly relevant as, in many cases, these CARs were originally part of a single farm in an estate that was segmented during generational transfers.

In some cases, this may create situations where the individual CAR is not in compliance with the vegetation requirements of the Forest Code, and the landowner has to adhere to a PRA (Programa de Regularização Ambiental or Environmental Regularisation Programme) to rectify it.

In case the farm does not contain enough vegetation as required by the Forest Code, if the farming group is formally engaged in a process of regularization of the farm - having enrolled the farm in the CAR and, whenever appropriate, having adhered to a formal process of regularization (PRA) - the RCF considers a farm “compliant with the Forest Code”.

The RCF adopts the **Protection/Production Ratio** metric that measures the proportion of areas of protection in relation to total areas of the farms financed by the Programme. In this context, **the RCF portfolio aims to include farms that in aggregate protect at least 5% more area of native vegetation than required by the Forest Code for the region where farms are located.**

In some cases, the aimed proportion of production and protection areas of a farmer can be achieved in a single farm (defined as the area covered by a CAR), and, in other cases, **the farmer may bundle groups of individual CARs that, in combination, result in the desired area of native vegetation put under the protective status of the RCF. This bundling should not be understood as a means of compliance with the Forest Code requirements and is not intended to release the farmer of the regularization process committed under the Forest Code rules.**

In order to differentiate RCF’s metrics from those of the Forest Code, the RCF refers to areas of **Excess Native Vegetation (ENV)** as opposed to Excess Legal Reserve, to avoid confusion with areas legally categorised under the Forest Code.

**An area of ENV is the area of native vegetation that exceeds the proportion of Legal Reserve required by the Forest Code (35% or 20%, as the case may be), placed under protection by farmers in land owned or controlled by a farmer. For the purposes of**

calculation ENV, the RCF aggregates any area of native vegetation, including areas that could be labelled as legal reserve or APP under the definitions of the Forest Code.

Additionally, during the crop season, SIM relies on the Independent Monitoring Firm's (Geosys - EarthDaily Agro) monitoring reports that provide early warning of any factor that could potentially affect the financial and environmental objectives of the RCF Programme.

It is important to note that for the assessment of the eligibility criteria, the RCF adopts the concept of **Minimal level of deforestation or conversion** as defined by the Accountability Framework Initiative (Afi), that is, a small amount of deforestation or conversion that is negligible in the context of a given site because of its small area and because it does not significantly affect the conservation values of natural ecosystems or the services and values they provide to people.

Minimal levels of deforestation or conversion at the site scale do not necessarily violate no-deforestation or no-conversion commitments. However, this provision does not sanction substantial conversion of forests or natural ecosystems to enlarge commodity production areas. To be considered consistent with no-deforestation or no-conversion commitments, minimal levels must generally meet the following conditions:

- i. Not exceed cumulative thresholds that are small both in absolute terms (e.g., no more than a few hectares); and
- ii. Relative to the area in question (e.g., no more than a small proportion of the site).
- iii. Multiple small instances of conversion may lead to a producer being considered noncompliant with commitments.

- **Geosys - EarthDaily Agro's analysis**

The Independent Monitoring Firm, EarthDaily Agro, is a data and analytics company. In parallel to the monitoring conducted by SIM, Geosys - EarthDaily Agro analyses the potential participants in the RCF Programme according to the Programme Eligibility Criteria, including potential overlaps with conservation areas, indigenous and quilombola lands, areas of native vegetation, cleared areas and areas of crop cultivation, etc.

**Throughout the crop season, Geosys (Earth Daily) continuously monitors the development of the crop and provides bi-weekly reports on:**

- i. emergence of planted crops and comparison with historic performance;
- ii. development of the crop and comparison with historic performance;
- iii. any indications of factors affecting crop development and yield, including droughts, pests, diseases, or fire;
- iv. expected harvesting date;
- v. evolution of harvesting activity; and
- vi. real time deforestation and conversion alerts

**The main objective of this continuous monitoring is to provide early warning of any factor that could potentially affect the financial and environmental objectives of the RCF Programme.**

At the end of the crop season, Geosys (Earth Daily) also elaborates a report containing:

- i. spatial analysis of indications of deforestation or conversion of native vegetation since the previous analyses, when farms joined the RCF Cerrado Programme;
- ii. recent satellite images of each individual farm selected;
- iii. location of the farm with relation to vegetation type and biome;
- iv. information about the estimates of soy harvested; and
- v. repeated verification of possible infractions of Brazilian legislation (environmental, social, criminal) associated with each farming company and/or individual, based on analysis of governmental databases.

**Sustainable agricultural practices:** As mentioned in the section 2 of this report, once the producers join the RCF Programme, they commit to not using pesticides banned by the World Health Organization (WHO) and the Rotterdam Convention that are permitted for use in Brazil. These pesticides are:

- abamectin (WHO - Class 1B);
- alachlor (Rotterdam Convention)
- aldicarb (Rotterdam Convention)
- beta-cyfluthrin (WHO - Class 1B);
- carbofuran (Rotterdam Convention);
- methomyl (WHO - Class 1B);
- parathion-methyl (Rotterdam Convention); and
- zeta-cypermethrin (WHO - Class 1B);



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