



MIROVA

Natural Capital Investing

IMPACT REPORT 2020

Aligning economy with ecology

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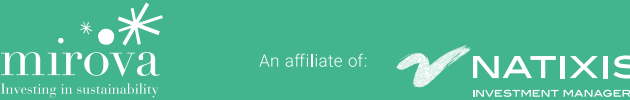
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Contents

LETTER FROM THE FOUNDERS & TEAM	6
SELECTED HIGHLIGHTS 2019	8
ALTHELIA CLIMATE FUND	10
THE SUMATRA MERANG PEATLAND RESTORATION PROJECT	12
ALTHELIA CLIMATE FUND IMPACT NUMBERS	14
ALTHELIA SUSTAINABLE OCEAN FUND	16
NEXTPROTEIN	18
THE LAND DEGRADATION NEUTRALITY FUND	20
URAPI: SUB-PROJECT, CAFÉ SELVA NORTE	22
ALTHELIA BIODIVERSITY FUND, BRAZIL	24
AGRI3 FUND	26
OUR APPROACH TO IMPACT	28
MEASURING LAND DEGRADATION NEUTRALITY	30
OUR APPROACH TO ESG RISK MANAGEMENT	32
THE WOMEN OF SHIPIBO CONIBO	34

Dear Investors, Colleagues, Friends,

This is a very special and emotional foreword that we write to you, as Christian and I are leaving Althelia, now Mirova Natural Capital, after eight years of a wonderful adventure. We are immensely proud of the journey accomplished to date, and to have the team continuing this story, with a new impetus.

2019 has been a milestone year. As Mirova became the sole shareholder of Mirova Natural Capital, we have completed a significant growth in our activities. First, the Althelia Sustainable Ocean Fund achieved its final close, at \$130m, after completing several investments; then we launched AGRI3, an innovative blended finance vehicle with Rabobank, the Dutch government, UN Environment Programme and our two partners, Fount and Cardano Development, so that one billion US\$ can be deployed into sustainable agriculture and forest protection. We also started the Amazon Biodiversity Fund in Brazil, a ground-breaking partnership with USAID to develop our production-protection approach in the Brazilian Amazon. The Land Degradation Neutrality Fund, managed by Mirova, has also completed its first investments.

As we leave, we would like to give a special thanks to our team, in London, but also in Paris, Lima, Sao Paulo and Jakarta. Nothing would have been possible without you, your incredible commitment and your trust. We can see that the transition is now complete and that you will not only deliver on the existing mandates but will also continue to bring innovation and push the limits so that the economy can fully serve the protection of ecology.

Yours sincerely,

SYLVAIN GOUPILLE,
CHRISTIAN DEL VALLE
Co-founders MNC

Dear Readers, Fellow Stakeholders and Friends,

The COVID-19 pandemic is a wake-up call for many. It is at last time for everyone to consider the effects and benefits of nature-based solutions on our planet and global population. Whilst we sometimes live in a world where words speak louder than actions, it is a great privilege to present results and alternative solutions at work.

This report demonstrates, we hope, tangible impacts, pathways to change and viability of scalable solutions. On our more mature solution, the Althelia Climate Fund, impact indicators are on track or already exceeding initial objectives, with 44 million tonnes of CO₂ emissions avoided, nearly 2 million hectares of critical and high conservation value habitat protected, and more than 2,000 livelihoods directly supported in rural economies. Beyond numbers, on-the-ground transformational impact is equally important.

Whilst other portfolios are in their ramp-up phase, future outcomes look equally promising.

These first tangible results were made possible thanks to the early leadership and innovative approach of these funds. Whilst it was a bold move to venture into new territories and try solutions that hardly existed before, this initiative belongs to all. From Limited Partners to leaders in the field – you all played a critical role in this endeavour.

Mirova is now taking up the torch and carrying on the tremendous contribution made by the team and all stakeholders involved.

Since inception, Mirova has demonstrated best-in-class ability to manage ESG and impact-focused portfolios successfully. Mirova has strong ambitions in the unlisted assets space and natural capital in particular, with a clear willingness to play a leading role.

Having a Natural Capital business unit anchored within Mirova provides practical and tangible benefits. This will eventually bring guarantees and resources that are significantly higher than those available before. Our teams will, amongst others, benefit from synergies and greater shared expertise.

As Mirova's natural capital activity is now moving to the next chapter of its life, with the arrival of Vincent Gradt as Managing Director of Mirova Natural Capital Ltd, it is also time to commit to future directions. Our roots are in this quest for innovative pathways to impact. That will clearly remain in our DNA.

Of course, challenges also come with additionality and we will continue to progress outside of our comfort zone. We will need to work hard and stay humble. What we will leave behind will eventually speak greater than words.

Yours sincerely,

THE NATURAL CAPITAL TEAM,
MIROVA

Selected Highlights 2019

January

The LDN Fund held its first Strategic Board in Paris with participation of the Executive Secretaries of the UN Convention to Combat Desertification (UNCCD) and UN Framework Convention on Climate Change (UNFCCC).

September

The Althelia Biodiversity Fund Brazil (ABF), a new investment fund dedicated to making pioneering impact investments in the Legal Amazon, reached its first closing.

November

MNC presented at the 4th Global Landscapes Forum in Luxembourg to exchange ideas on boosting investment into landscape sustainability projects and supply chains. The event brought together nearly 500 of the world's leaders of sustainable finance institutions with politicians, researchers and practitioners – joined by 6,500 more online, and 6.7 million on social media.

November

ABF Brazil was officially launched on November 7th in Belém, along with the launch of the expansion of the sustainable development Partnership Platform for the Amazon (PPA) into the state of Pará.

March

Ecosphere+, the carbon credit marketing and sales subsidiary of the Althelia Climate Fund, achieved 'B Corp' certification. Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.

June

A new letter from the Peruvian Ministry of Environment confirmed that all Althelia Climate Fund projects in the country can continue using their project baselines as part of the step-by-step nesting process.

October

Mirova completed their acquisition of Mirova Natural Capital, which is now a 100% subsidiary of Mirova Responsible Investing and part of the broader Natixis Investment Managers group. Mirova aims to reach a billion Euros worth of investments in nature-related projects by 2022.

November

The Sustainable Ocean Fund (SOF) raised an additional US\$ 50 million through its second close. The fund's total commitments are now more than US\$ 92 million.

December

The Althelia Climate Fund's Sumatra Merang Peatland project completed its first carbon credit audit process with 1.26 million VCUs issued for 2016-2018 vintages.



MIROVA FUND PROFILE

Althelia Climate Fund

THE CHALLENGE

Society and businesses continue to confront risks arising from climate change and resource depletion. Rising populations and consumption patterns place increased pressures on terrestrial, marine and atmospheric systems, leading to further resource and supply chain challenges. Today the earth takes 1 $\frac{3}{4}$ years to regenerate what is used by humanity in a single year.¹ This is most evident in the forest — we lost 130 million hectares of forest between 1990 and 2016, with this loss contributing nearly 20% of annual greenhouse gas emissions.²

INVESTMENT SOLUTION

The Althelia Climate Fund (ACF) invests to slow down deforestation, mitigate climate change, protect biodiversity and provide a fair and sustainable living to rural communities, whilst offering investors a fair return on capital. ACF supports sustainable, innovative agriculture, and the restoration and protection of biodiversity and its habitats. The fund enables the use of REDD+ carbon credits to support the development of livelihoods based on sustainable land use and protection of ecosystems and the services they provide.



THE FUND

Target Size
€101M

Fund Life
8 years
June 2013
to June 2021

Geographies
Latin America,
Africa & South
East Asia

SDGs
ACF investments
contribute to all
the Sustainable
Development Goals,
mostly focused on



IMPACT



Climate

Climate change affects us all, and almost 20% of green house gas emissions are from deforestation and forest degradation. ACF protects standing forests, ensuring they continue to act as carbon stores and can provide the ecosystem services so vital to our planet.



Species

ACF investments improve the management of globally important ecosystems, protecting biodiversity and ecosystem services. We focus on tropical forests, which support an estimated 50% of the species on earth.



Livelihoods

More than a quarter of the world's population rely on forests for their livelihoods. ACF supports the sustainable use of existing farmland, to protect forest ecosystems whilst providing a long-term livelihood for local communities.



SCOPE



Conservation and ecosystem restoration
Investments in protection of standing forests and restoration of globally important ecosystems and the services they provide through REDD+ carbon projects.

Smallholder agroforestry
Alongside and supporting forest conservation, investments in sustainable, high-value agroforestry crops (e.g. coffee and cacao), developing cooperatives and building infrastructure such as processing facilities.

Sustainable farming practices
Investments in larger-scale zero-deforestation agriculture such as cattle farming and production of vegetable oils.



1. <https://www.sciencealert.com/we-just-used-up-all-of-earth-s-resources-for-the-year-and-it-s-only-july>
2. <https://www.nationalgeographic.com/environment/global-warming/deforestation/>
3. Based on impact data to the end of 2019 submitted by invested projects in 2020.

ACF PROJECT CASE STUDY



The Sumatra Merang Peatland Restoration Project

The Sumatra Merang Peatland Restoration Project is restoring more than 22,900 hectares of peatland rainforest in Indonesia. Protecting an area more than 3.5 times the size of Manhattan, the project targets the Merang biodiversity corridor, one of the largest and deepest peat swamps in South Sumatra. Climate finance rehabilitates and protects this threatened ecosystem, reducing emissions, and creating a conservation area for hundreds of unique and endangered species.

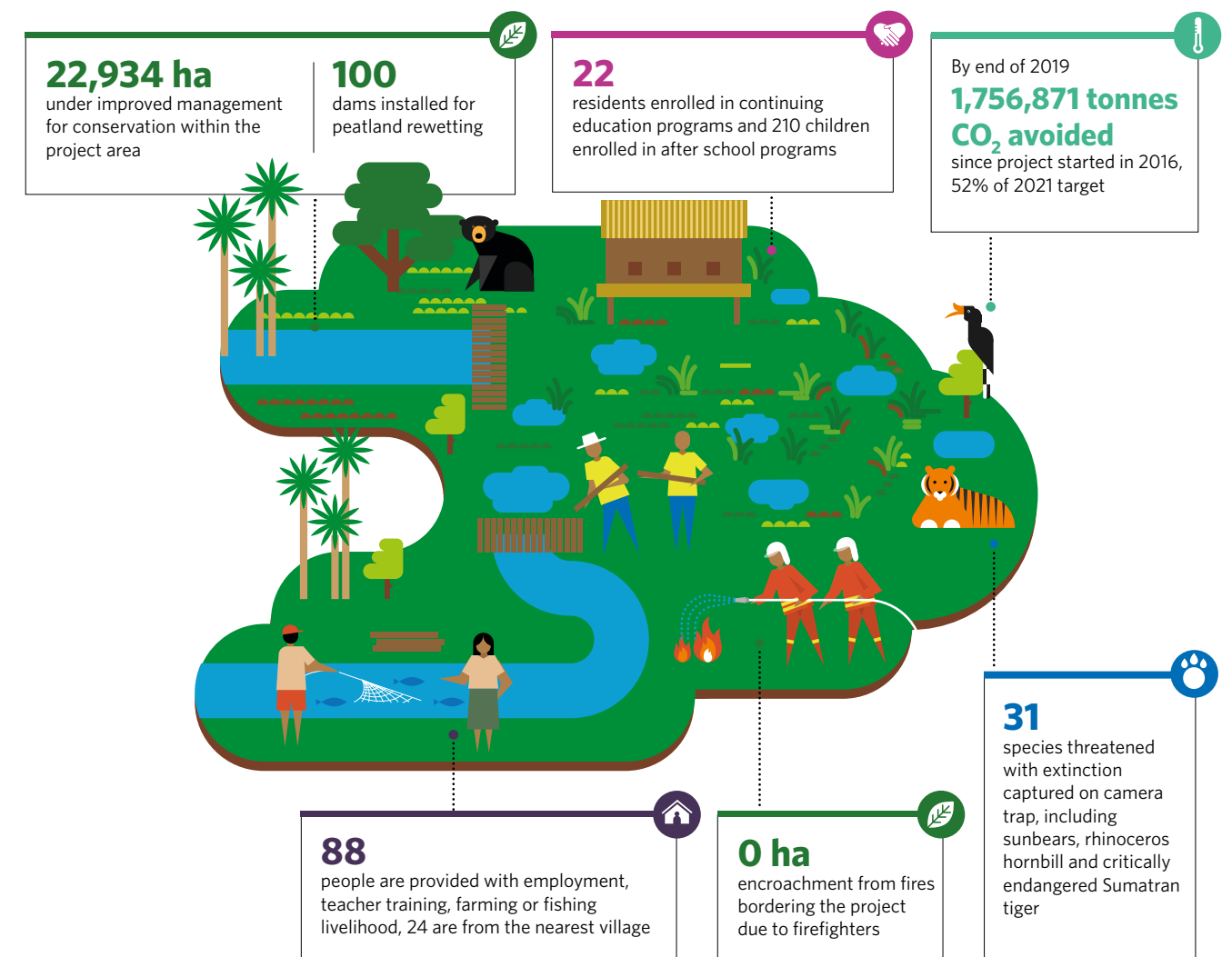
The project works with local communities from nearby villages to improve livelihoods which reduces pressure on the forest. This project is part of the Althelia Climate Fund and implemented in partnership with Forest Carbon and PT GAL.



COMMUNITY OUTREACH

The Sumatra Merang Peatland Project is implementing a new community development strategy, with social outreach officers engaging people from local villages. A key focus for 2019 was on scaling the education component of the strategy because employment regulations in companies around the area (palm oil, timber, etc) have recently changed, making it almost impossible for adults without high school qualifications to find work.

The project distributed 10 scholarships for students to attend Indonesia's Open University (Universitas Terbuka) and plans to increase this number in future years. These students have made commitments to become schoolteachers in their respective communities once they are qualified. Additionally, educational support has been expanded to enable students to take exams in the villages, removing a large financial barrier. Socio-economic development of local communities is a critical part of the project's objective of protecting and restoring critical peatland, helping to reduce the drivers of deforestation and unsustainable land use.



Based on impact data for the 2019 period submitted by the project in 2020.



ECOSYSTEM RESILIENCE - PEAT REWETTING AND REFORESTATION

Water drainage in surrounding areas for logging and plantation development has resulted in degradation of peatland areas. Makeshift canals within the project, once used to transport timber in illegal logging operations, have further degraded the area, leading to significant changes to the water table. Dry peatlands increase the risk of forest fires. The project is designed to prevent further degradation of the remaining forest and presents high rehabilitation and emissions reduction potential once peatlands can be restored to their natural hydrological state. The project supports several key activities to increase the resilience of the ecosystem through peat rewetting and reforestation including; dam building, regeneration and regrowth of standing trees, fire prevention, and forest monitoring.

All peat measurement and hydrological modelling was completed in early 2019, and the new plan saw the construction of 100 dams to block manmade canals during the 2019 dry season. The project has been able to prevent fires inside its borders through a combination of



rewetting with dams, fire monitoring, and firefighting as well as supporting firefighting activities in neighbouring forest and private community lands. The reforestation strategy is on track and the project has developed a tree nursery at its field headquarters and at each guard post. The project now has a work plan, schedule, resource allocation, and dedicated staff member with a background in nursery management.

Althelia Climate Fund Impact Numbers⁴

2,365,425 ha

under improved sustainable management

263,176 ha

indirect conservation

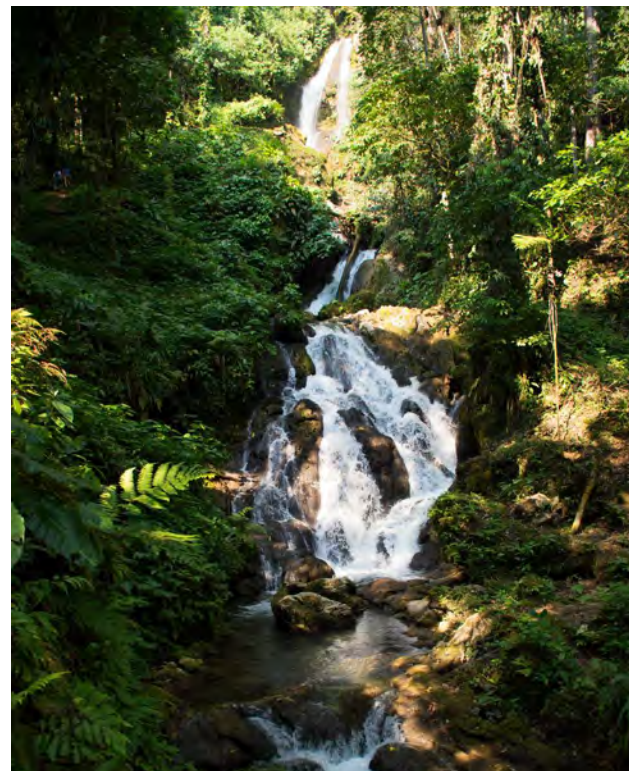
109,192 ha

of avoided deforestation



146

threatened species under improved conservation



44,426,950 tonnes

of CO₂ emissions avoided

1,963,382 ha

of critical or high conservation value habitat protected



Photo crédit: Marlon Dag

€56,733,110

returns generated into local communities and economies

2,041

jobs created or supported

35%

jobs held by women

PROJECT HIGHLIGHTS



» **TAMBOPATA-BAHUAJA REDD+ AND AGROFORESTRY PROJECT**

114

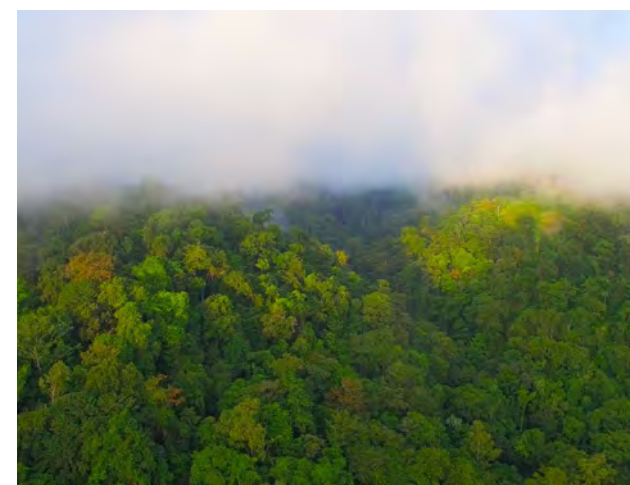
cocoa farmers certified Organic



» **SUMATRA MERANG PEATLAND RESTORATION PROJECT**

31

threatened and endangered species with improved conservation, including the Sumatran tiger



» **GUATEMALAN CARIBBEAN FOREST CORRIDOR**

3,800

students enrolled in environmental education



» **CORDILLERA AZUL NATIONAL PARK REDD+ PROJECT**

25,240,372 tonnes

CO₂ emissions avoided



» **NII KANITI REDD+ AND COMMUNITY FOREST PROJECT**

223

jobs for indigenous community members

» **NARANJILLO COFFEE AND COCOA COOPERATIVE**

1,138 tonnes

of sustainable cocoa beans processed

» **SUSTAINABLE CATTLE RANCHING IN THE AMAZON**

26,719 ha

rainforest protected on partner and supplier ranches

4. Based on impact data to the end of 2019 submitted by invested projects in 2020.

FUND PROFILE

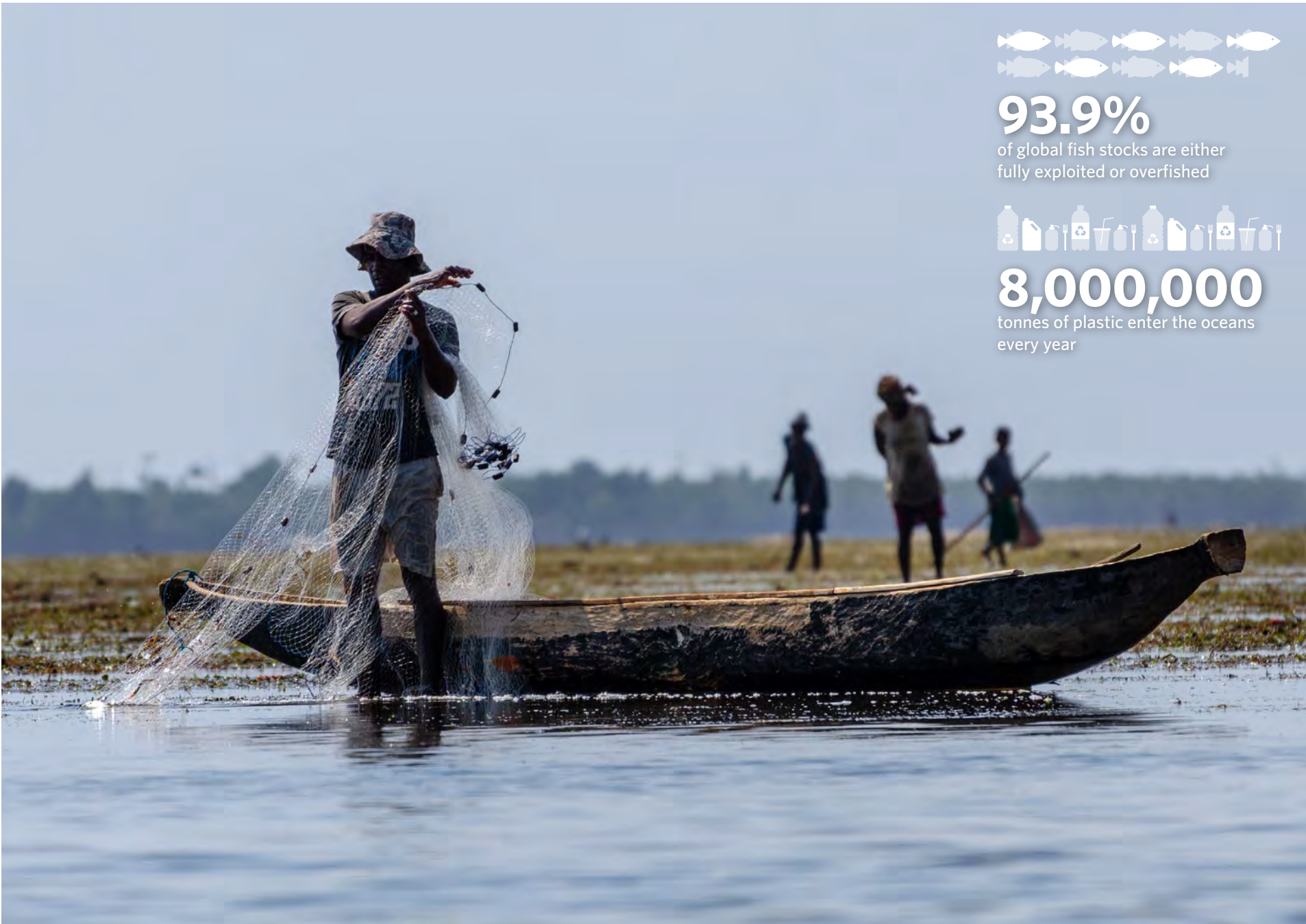
Althelia Sustainable Ocean Fund

THE CHALLENGE

Oceans play a crucial environmental and socio-economic role for the planet; regulating climates, providing natural resources, enabling international trade and ensuring livelihoods and food security for a large portion of the world’s population. Uncontrolled human activities are putting the oceans’ health under threat, adversely affecting their biodiversity, their capacity to mitigate climate change, and putting at risk many communities’ source of incomes and food. This is especially the case in small island developing states and in the global south.

INVESTMENT SOLUTION

The Sustainable Ocean Fund (SOF) is addressing these challenges by investing in scalable, impact-aligned companies and projects whose models offer a sustainable alternative to business-as-usual, making a positive impact on the environment and society, and delivering economic returns. By investing in initiatives that harness the ocean’s natural capital, the fund aims to build resilience in coastal ecosystems and create sustainable economic growth and livelihoods in the blue economy.



93.9%
of global fish stocks are either fully exploited or overfished



8,000,000
tonnes of plastic enter the oceans every year

THE FUND

Fund Size
\$132M

Fund Life
9 years from June 2018, 3.5 years investment period

Geographies
40% Latin America & Caribbean, 30% Africa, and 30% Asia and Pacific

SDGs

IMPACT



Ecosystems
Financing the direct protection and sustainable management of areas in high-value marine and coastal ecosystems. Supporting the improvement of fisheries’ management and the reduction of their impact on ecosystems and habitats.



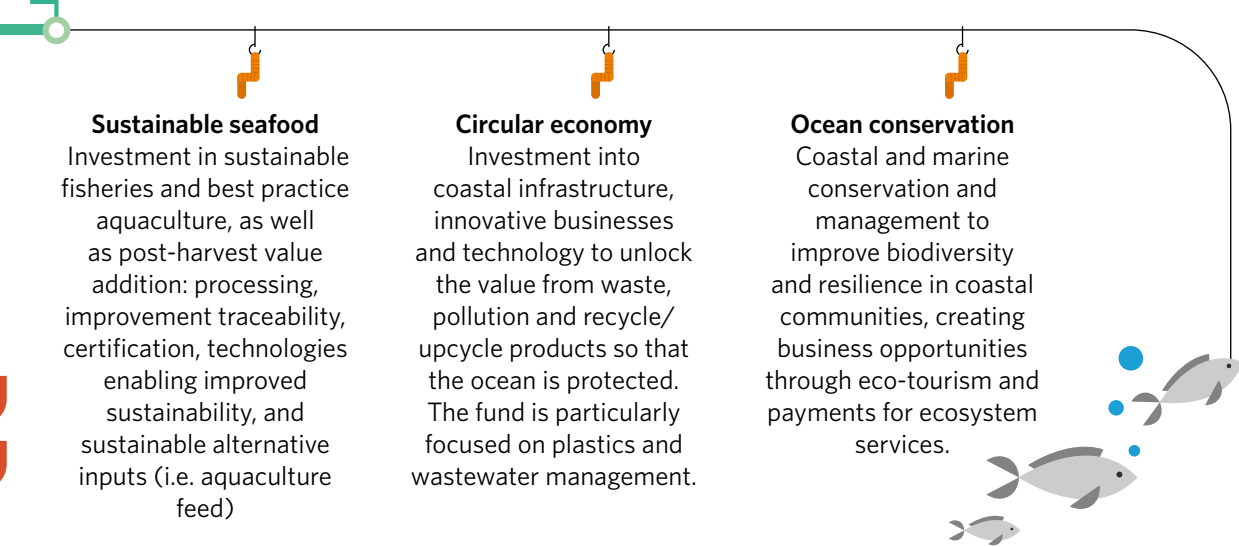
Climate
Focusing on business models with strong positive climate impacts (mangrove conservation, circular economy models) or designed to reduce pollution by plastic and wastewaters.



Livelihoods
Creating or directly supporting jobs and indirectly supporting sustainable livelihoods in associated supply and value chains in coastal communities, for both women and men. Creating or supporting more than 17 enterprises and supporting them to unlock access to additional funding and reach long term viability.



SCOPE



SOF PROJECT CASE STUDY

nextProtein

Insect protein has been emerging as an answer to the increasing demand for feed in the expanding aquaculture sector. The traditional feeds used in aquaculture have come under greater scrutiny as they are having a substantial negative long-term impact on wild fish stocks through the use of fishmeal, and on forests and climate change through the use of soya protein.

**Tunisia**



SDGs


Project Partner
nextProtein

Over the last six years, nextProtein has developed, tested and fine tuned the production of black soldier fly (BSF) larvae, raising them on vegetal agricultural and food processing waste. The company, based in Tunisia, now reliably produces a stable high-protein insect meal that can be included in animal feed formulation, especially aquafeed, where it can replace fishmeal and soy. NextProtein are committed to sell at least 50% of their insect protein to the aquaculture feed market within the next three years.

The production site is located in a large agricultural area and so vegetal wastes are available in large volumes and at a low cost. This helps nextProtein lower production costs and allows farmers to dispose of large quantities of waste that would otherwise end up in landfill. The use of agricultural waste as feedstock contributes to the reduction of greenhouse gas emissions by avoiding the waste degradation that produces methane. The insect meal process also produces a by-product called frass, used as a natural organic certified fertiliser.

SOF is investing, alongside other impact investors, in nextProtein's next stage growth – a new factory with a capacity of 2,500mt of insect protein per year, and to the development of its commercial pipeline. This investment is also a first step towards expansion in the subregion.

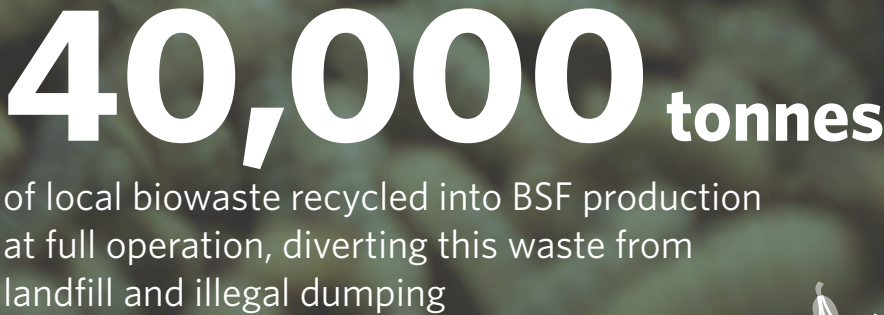
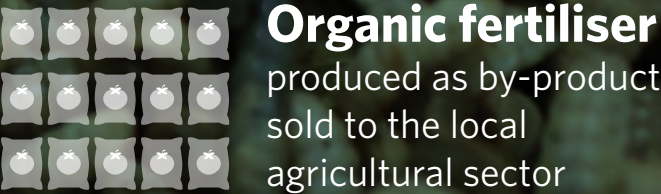
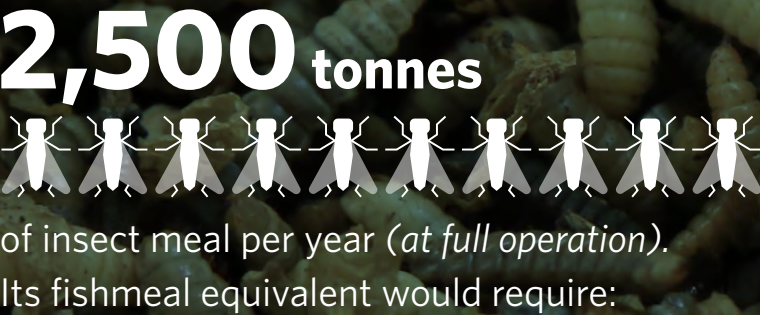


“Insect protein provides solutions to major societal problems: a growing population with a higher demand for fish and meat, and a degrading environment.”

Syrine Chaalala
Co-Founder and Managing Director



Projected Impacts



**CO₂ eq emissions
reductions from:**

**Agricultural
waste degradation**
(direct impact)

**Soy substitution
in aquafeed**
(indirect impact)



FUND PROFILE

The Land Degradation Neutrality Fund

THE CHALLENGE

Poor land management practices, often fuelled by exploitation for short-term economic gains instead of favouring long-term sustainability, have led to the loss of more than 25% of the world’s arable land in the last two decades. A total of two billion hectares of land are degraded worldwide, and through exploitative production, we continue to degrade another 12 million hectares of productive land every year.

INVESTMENT SOLUTION

As well as the direct economic value of using land and its resources sustainably, proper management of land-based ecosystems can increase food security, decrease biodiversity loss, and help combat climate change, poverty, social instability and conflicts. The Land Degradation Neutrality (LDN) concept addresses this and is therefore included in the SDGs and other initiatives. More than 120 countries have committed to LDN-related initiatives, enabling LDN investments. Co-promoted by Mirova and the UNCCD, the LDN Fund is a source of transformative capital bringing together public and private investors to fund triple bottom line projects that contribute to Land Degradation Neutrality.



THE FUND

Target Size
\$200-300M

Fund Life
First closing
December 2018;
Investment period
5 years; fund life
15 years

Geographies
Primarily
developing
countries
where capital
mobilisation is
crucial.

SDGs

TARGETED IMPACT⁵



Climate
The Land Degradation Neutrality Fund (LDNF) aims to reduce CO₂ emissions by 35 million tonnes. Recent studies and real economy trends demonstrate that just a transition to a resilient, zero-carbon future will have huge benefits. By addressing climate change we can build a more sustainable world.

Ecosystems
The Fund is designed to support scalable land degradation reduction and reversal and so will invest in projects and programs that will positively impact a significant area and/or be replicable in order to reach its goal of 500,000 hectares of sustainably managed land.

Livelihoods
LDNF aims to improve livelihoods for over 100,000 people through its investments. By focusing on providing jobs that support local ecosystems and build stable communities, the drivers of land degradation are addressed in a long-term, sustainable way.

SCOPE

Sustainable land management
Sustainable agriculture (60%), sustainable forestry (30%), other LDN-related sectors such as green infrastructure and land reclamation or eco-tourism (10%)

Land rehabilitation
Projects have to demonstrate clear benefits of land rehabilitation and/or degradation avoidance and comply with robust environmental & social standards

Landscape impact
Projects should benefit local communities and generate other environmental benefits (climate, biodiversity, etc.)

Innovative financing
The Fund will support projects to which traditional commercial funders will not or cannot provide suitable financing

5. With the assumption of a US\$300m fund

LDNF PROJECT CASE STUDY

Urapi: sub-project, Café Selva Norte

The **Café Selva Norte** project, part of the **Urapi Sustainable Land Use (Urapi)** programme, is reversing land degradation by implementing sustainable coffee plantations on degraded areas in Peru

The project has five overall objectives:

- » **To achieve sustainable landscapes** by financing and implementing agroforestry systems based on shade-grown coffee in collaboration with local cooperatives of smallholders.
- » **To increase resilient ecosystems** that will avoid and reverse land degradation, water pollution, and diminishing biodiversity.
- » **To increase the incomes** of smallholder producers in the targeted area and improve their livelihoods.
- » **To create a truly sustainable** value chain for the coffee sector in the northern Peruvian Amazon.
- » **To mitigate climate change** through the reduction of carbon emissions from deforestation and forest degradation and the capturing of CO₂ from the atmosphere through reforestation and enrichment activities.

To achieve these objectives, the **Café Selva Norte** project, part of the wider **Urapi** initiative, is being developed by **ECOTIERRA** in the following ways:

- It will measure its performance and impacts by implementing an innovative, accessible monitoring system, **MINKA**, which will monitor land cover, land productivity and carbon stocks, among other indicators.
- It is creating a scalable model for sustainable agroforestry that could be replicable at a landscape level in other areas of Peru and South America.
- It uses climate finance initiatives to improve the risk profile of the project, and as a means to differentiate their coffee in international markets.

- It contributes to a comprehensive model of sustainable development, focusing on the producers' activities but strengthening every stage of the value chain including the international sales capabilities.
- It is encouraging social responsibility and promoting social inclusion at every level of project development.

At the end of 2019, the project was progressing well. Land restoration activities were ongoing with more than 200 ha of agroforestry systems planted and smallholder producers financed.

The project ensures three critical components are brought together to maximise positive impact and promote sustainable development.

1. Land-use transitions are financed to:

- Recover degraded lands with productive agroforestry systems based on shade-grown coffee;
- Rehabilitate old fragile agroforestry systems, increasing land productivity and therefore reducing deforestation risk;
- Protect remaining standing forests and stop slash-and-burn practices;
- Reforest with a mix of timber species for future sustainable logging.

2. The coffee value chain is consolidated by:

- Building infrastructure to strengthen cooperative's production capacities and positioning;
- Creating and strengthening capacities in different stages of the value chain;



**Peru**



SDGs


Project Partner
ECOTIERRA

- Developing marketing tools and positioning the project's coffee on specialty markets.
3. Sources of revenues are diversified by:
- Including a climate finance component that will generate new revenue flows based on payment for environmental services (reforestation and forest conservation);
 - Increasing the marketing resources and using innovative market strategies that include the use of independently verified certifications and standards.

“Providing technical assistance, finance and access to market to cooperatives of smallholders is key to support the development of agroforestry, restore land and accelerate communities’ sustainable development.”

Etienne Desmarais
CEO ECOTIERRA

SIZE OF DEAL (COST AND TIMEFRAME)

\$7M Micro-loans to smallholders through cooperatives	\$3M Establish a central coffee mill
	\$2M Project operations including carbon project Duration: 15 years

Total

\$12.2M

\$0.2M
Build up a robust monitoring system for environmental services at a landscape level

TARGET IMPACTS

9,000 ha
of degraded land into productive agroforestry system

1.3 million tonnes
CO₂ emissions per year sequestered or avoided

2,400
producers with improved livelihoods

FUND PROFILE

Althelia Biodiversity Fund Brazil

THE CHALLENGE

The Amazon biome is the single largest remaining tropical rainforest, hosting the greatest collection of living plant and animal species on earth. Lack of impact funding in the Brazilian Amazon for enterprises implementing conservation, sustainable land use and innovation in tertiary industries has left them under-resourced, capital hungry and with low productivity, resulting in huge deforestation and biodiversity loss.

INVESTMENT SOLUTION

The Althelia Biodiversity Fund (ABF) is investing in the protection of this critical natural resource. It provides venture and growth finance for enterprises that have a positive impact on ecosystems, biodiversity and communities in the Brazilian Amazon, restoring degraded lands and protecting standing forest. By supporting innovation in services, technology and finance, its investments increase productivity and boost returns for business owners. ABF invests in a range of sectors including agriculture, extractives, services, technology and financial.



THE FUND

Target Size
BRL 400M

Fund Life
11 years from 13th September 2019, 5 years investment period, 6 years divestment

Geographies
Legal Amazon of Brazil

SDGs

1
 2
 5
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IMPACT



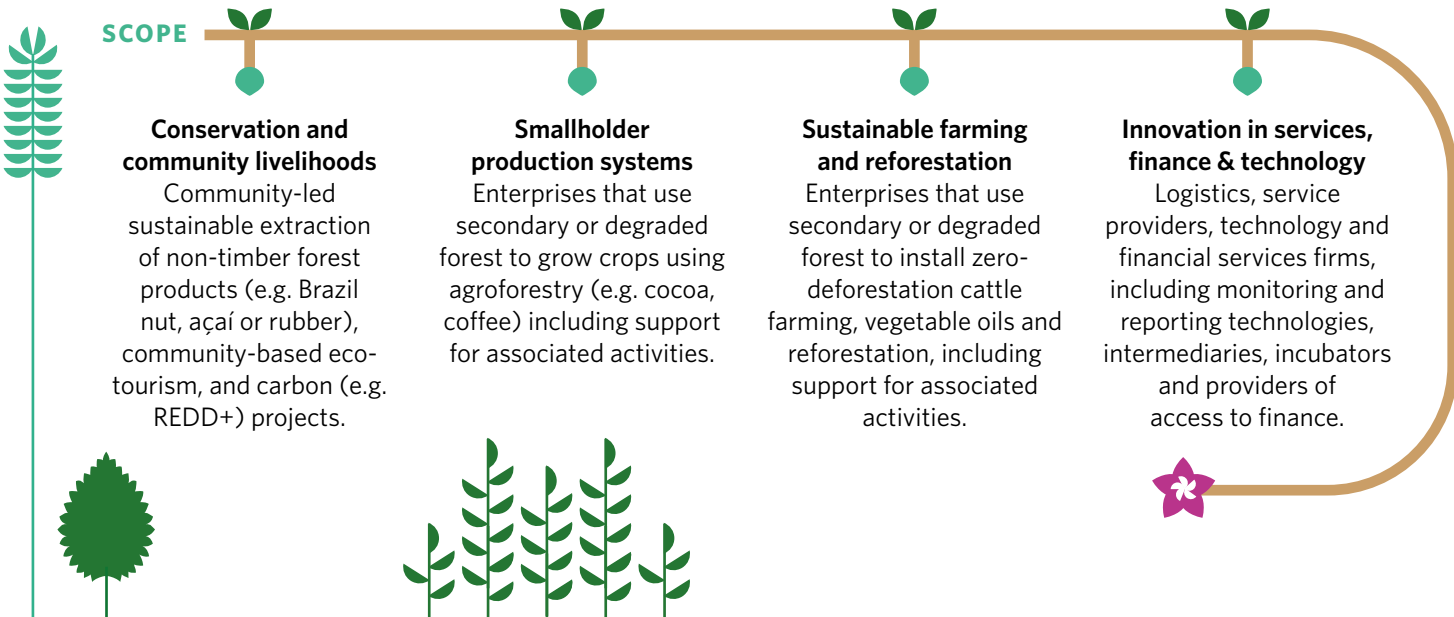
Species
The Amazon biome hosts the largest collection of living plant and animal species on Earth, with one in every ten species and one in five of all bird and fish species. ABF invests in the conservation of this critical biome.



Livelihoods
The Amazon is home to some 30 million people, drives weather patterns, agricultural production, jobs and well-being across the hemisphere. Many rural communities, extractivists and indigenous peoples are vital stewards of the forest. ABF invests in the capital and know-how needed to support these communities.



Ecosystems
Protected Areas (PA) and Indigenous Territories comprises over 50% of the Brazilian Amazon, but are under increasing threat in recent years as deforestation rates rise. ABF invests in alternatives that can reverse this trend and protect these areas.



FUND PROFILE

AGRI3 Fund

THE CHALLENGE

Fertile land represents an important security for future generations. Unfortunately, the demand to produce more, combined with market imperfections, have led to ongoing deforestation and land degradation around the globe. Financial sector players face substantial difficulties in providing the solutions needed by farmers to adopt more sustainable practices. The effective implementation of new agricultural practices often requires the availability of tailor-made finance and financial services along the value chain.

INVESTMENT SOLUTION

The AGRi3 Fund is a blended finance vehicle that catalyses private financial resources for forest protection and sustainable agriculture, aiming to unlock at least \$1 billion in finance towards deforestation-free, sustainable agriculture and land use, whilst improving rural livelihoods. The Fund, established by Rabobank and UNEP, in partnership with IDH, (The Sustainable Trade Initiative) and FMO (the Dutch Entrepreneurial Development Bank), will provide guarantees and subordinated loans to commercial banks and other financial institutions, mobilising capital by de-risking and catalysing investments in sustainable agriculture, forestry and rural livelihoods. AGRi3 includes a TA facility, managed by IDH to support pipeline development and delivery. MNC is an investment adviser to the Fund, alongside Dutch Impact Investment Advisory firms, Fount and Cardano.



THE FUND

Target Size
\$150M, with an aim to create \$300m in exposure and unlock \$1bn in finance

Fund Life
Indefinite

Geographies
Global with a focus on Middle Income/Lower Income countries

SDGs

2

13

15

IMPACT



Climate
Financing the direct protection and restoration of forest land and ensure the reduction, avoidance or sequestration of CO₂ emissions. The latest science is clear that reaching net-zero carbon emissions by 2050 globally is possible with the right action.

Ecosystems
Financing and overseeing the conversion of farmland to sustainable land use practices. Natural ecosystems underpin global prosperity and wellbeing by providing economic value and security, supporting human development and equality, and increasing our resilience to climate change.

Livelihoods
Training farmers in sustainable agricultural production, directly supporting households with sustainable livelihoods and raising communities out of poverty.

SCOPE

Global reach
Focus on Middle Income/Lower Income countries around the world, initially in Brazil, Indonesia and India, and expanding as opportunities arise.

Diversified portfolio
Maintain a variety of investments across geographies, commodities, client types and risk profiles. Initial commodity focus will be on cattle, soy and palm oil.

Sustainable agriculture
Investments will be made into innovative and scalable business models in sustainable agriculture and forestry.

Our approach to impact

Over the past 5 years, the impact investment field has grown substantially with over \$500bn now invested in impact generating assets globally.⁶ Alongside this growth there have been significant advances in impact management and measurement across the natural capital sector, with a range of tools developed to support the assessment, management and recognition of impact generation. These include the IFC Operating Principles for Impact Management (IFC OPIM),⁷ Verra's Sustainable Development Verified Impact Standard,⁸ the Healthy Ecosystem Metric Framework⁹ and the Impact Management Project's Five Dimensions of Impact,¹⁰ among others.

MNC continues to be a leader in impact management, working closely with all our projects around the world to identify, improve, manage, monitor and report on the positive impacts they are having on communities, conservation and the climate. We collaborate and co-build with our project partners a thorough understanding of the pathway from the finance we provide through to the impacts generated in the landscapes where our projects are based. Under the umbrella of Mirova, we have signed up to the IFC OPIM, through which our impact processes and management will be strengthened further, and verified by a third party.

OUR IMPACT PROCESS

The generation of positive impact is central to MNC's approach – every investment we make must demonstrate how it will achieve its environmental and social objectives alongside, and connected to, its financial ones.

During our investment process, projects move through a series of stages with a decision point between each stage. The pre-investment stages allow us to understand the projects in progressively more detail across all aspects, including impact management and monitoring.

We work collaboratively with projects to understand the logical steps that take the project from our investment to the positive impacts they aim to achieve. We also identify and, where possible, minimise all the risks and assumptions made by the project. A series of Key Performance Indicators (KPIs) are then identified that help track the progress of the project along its impact pathway, and the project determines targets and baseline values for each. Where projects have existing reporting requirement e.g. through certification, we aim to incorporate existing KPIs, streamlining reporting from the project's perspective and eliminating duplication.

Once an investment has been made, we track annual progress of the project against its KPIs, working closely with the project, particularly in the first year of investment, to make sure the monitoring methodology is well understood and that the data being collected are accurate and timely.

When we are approaching the completion of a transaction, we consider the exit strategy and its potential effects on the sustained impact of the project. Due to the nature of our investments, a project's impact objectives are integrated with its business objectives, with the aim of creating a sustainable business that continues to generate positive impacts through its ongoing operations. In this way, we expect our projects to continue to deliver impacts to communities and for conservation and climate, sustaining and building on impacts generated during our investment period. We assess this in detail to understand the specific case of each project's exit.

Finally, we take an adaptive management approach to all our investment processes, including those related to impact. We periodically review our impact process, improving it where needed and ensuring we maintain our position as leaders in the sector.

6. Sizing the Impact Investing Market, April 2019, Global Impact Investing Network

7. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/principles

8. <https://verra.org/project/sd-vista/>

9. <https://www.cisl.cam.ac.uk/resources/working-papers-folder/healthy-ecosystem-metric-framework>

10. <https://impactmanagementproject.com/impact-management/impact-management-norms/>



LDNF AND SDG 15.3

Measuring Land Degradation Neutrality

A FUND ANCHORED WITHIN THE SDG FRAMEWORK

Discussions during COP12 of the UN Convention to Combat Desertification (UNCCD) in 2015 were clear that public and philanthropic financing was not sufficient to address land degradation, and that the private sector has a critical role to play. The Global Mechanism (GM) was therefore mandated to assist in the creation of an independent Land Degradation Neutrality Fund (LDNF) to finance LDN initiatives.

In December 2015, following an international public tender, the GM selected Mirova as the fund structuring partner and co-promoter of LDNF, with the key mission to invest in profit-generating sustainable land management and land restoration projects that contribute to SDG 15.3.

Although Mirova remains independent in all its decision making, the UN continues to play an important role through the Strategic Board. This governance body, which includes representatives of WWF, the UNFCCC and CBD, ensures that the Fund remains aligned with the SDGs, and it provides access to pipeline opportunities and expertise from its members.

Target
*LDNF investments should directly result in the reversal or reduction of land degradation on 500,000 hectares of land*¹³



SDG 15.3

"By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world."

LDN refers to a state where the global net amount of healthy and productive land remains stable or increases.

It is estimated that two billion hectares of land is currently degraded worldwide, and we continue to degrade another 12 million hectares of productive land every year.¹¹ According to an extensive study conducted in 2016 by the International Food Policy Research Institute (IFPRI), land degradation has already negatively affected 29% of global land area.¹²

LDN MONITORING

The LDN Fund aims to measure each project’s contribution to LDN, in line with the UNCCD LDN Scientific Conceptual Framework. According to this framework, progress towards Land Degradation Neutrality is measured using three indicators:

- » Land cover (assessed as land cover change)
- » Land productivity (assessed as net primary productivity)
- » Carbon stocks (assessed as soil organic carbon)

A Technical Assistance Facility, managed by IDH - the Sustainable Trade Initiative - is supporting the LDNF in the development of a harmonised approach towards monitoring, based on a methodological framework relying especially on remote data monitoring, in order to control and demonstrate measurable impacts of investments made.



UNCCD GLOBAL MECHANISM

Responsible for:

- » Initial concept
- » Enabling environment
- » Institutional coordination

Established in 1994, the UNCCD is the sole legally binding international agreement linking the environment, poverty and development to sustainable land management. The UNCCD’s Global Mechanism (GM) supports countries in achieving land degradation neutrality at the national level.

The UNCCD has extensive experience of working with developing countries across the globe. It has established global LDN target-setting to assist countries in adopting voluntary LDN targets and has already collaborated with more than 110 countries. This process creates an enabling environment for potential LDNF investments, as it demonstrates that there is political support for combatting land degradation.

OTHER ENVIRONMENTAL AND SOCIAL BENEFITS¹¹

» **Climate change mitigation**
Projects of the LDN Fund will store an additional 35 million tonnes of CO₂ and will also reduce GHG emissions compared to business as usual approaches.

» **Climate change adaption**
Sustainable Land Management approaches will increase resilience for the 500,000 hectares of project area, and the people that depend on them.

» **Improved livelihoods**
Fund projects should create or support 100,000 decent jobs, predominantly in rural areas of developing countries.

» **Improved biodiversity**
LDNF projects will use biodiversity-friendly practices, and aim to protect or increase biodiversity on 500,000 hectares.

» **Reduced deforestation**
Typical fund projects will aim to reduce pressure on forests (e.g. illegal logging, slash-and-burn agriculture) by providing alternative sustainable jobs, and some projects will include conservation and reforestation elements.

11. Rickson et al. (2015). Input constraints to food production: the impact of soil degradation. Food Security 7(2)
12. International Food Policy Research Institute (2016). 2016 Global Food Policy Report
13. With the assumption of a \$300m Fund

Our approach to ESG risk management

ESG, or environmental, social and governance risk management, relates to identifying, managing and mitigating ESG risks associated with our investments. In short, this is about preventing negative impacts. Impact management is “the other side of the coin”, it is about the positive benefits our investments – and the projects we invest in – are generating. The two are intrinsically linked, operating to the highest ESG standards will improve the positive impacts an enterprise will have, but it also ensures optimal financial performance.

High ESG performance is at the core of MNC’s mission and is applied across all our operations. Our best-in-class ESG Standard centres around the IFC Performance Standards and embodies our ESG Principles.

OUR ESG PRINCIPLES

» We aim to be best in class in environmental and social performance. We expect activities we finance to:

» Comply with internationally recognised performance standards and certifications, as well as local laws and international conventions

» Provide quality employment

» Provide substantive, measurable, positive benefits to people and the environment

» Conserve natural habitats and wild species

» Apply high ethical standards and operate transparently

» We measure and report on our progress

» We expect open and constructive engagement with the organisations we invest in

» We do not take finance from or finance projects or entities involved in the activities listed in our exclusion list

» We also apply these principles to the way we operate

We do not expect our projects to be fully compliant with our ESG Standards at the point of investment. Instead we work with our projects to improve their ESG management through an Environmental and Social Action Plan.

Following are some examples from our projects of gaps we identified, and the steps taken by our projects to fill them.



CHALLENGE
Animal welfare of cattle
Project
Sustainable Cattle Ranching in the Amazon, Brazil
Project Partner
PECSA

» During the course of our investment into sustainable cattle ranching in the Amazon, it became clear that a period of confined fattening for the cattle was necessary in order for the project to begin generating financial returns. At the time this need was identified, the ESG Team conducted a full ESG Audit of the project and identified that a separate Animal Welfare Policy for confined fattening was required.

Following an assessment by a consultant, PECSA developed a policy which covers local requirements, RSPCA Animal Welfare Standards and the Humane Farming Standard. The policy contains a list of minimum criteria, some criteria that should be improved during the period of contracting with PECSA and finally, some best practice criteria that PECSA will encourage the supplier to implement. PECSA do not operate the confined fattening systems on their own farms, they work with organisations that offer this as a service.

In early 2020 PECSA used their Animal Welfare Policy to screen suppliers and it was a major factor in their decision-making process. The policy is included in the contract with the chosen supplier and it is fulfilling to see ACF’s drive for excellence in ESG performance influencing the operations of our projects’ suppliers.





CHALLENGE
Child labour on family farms
Project
Guatemalan Caribbean Forest Corridor
Project Partner
FUNDAECO

» We assess the risks of child labour at all of our project sites and any project that works with family farms or in sectors where child labour is common, e.g. cacao, is required to address this issue. Since FUNDAECO work with a large number of family farmers to produce a variety of high-value crops such as cardamom, xate and pepper, we requested that they develop a policy to manage the risks that the worst forms of child labour (as specified by ILO) are being used.

FUNDAECO conducted an assessment of the risks and developed a policy that includes communication to farmers that no one under 14 should undertake work in a manner that has an impact on their access to education and that no one under 18 should undertake hazardous work. The policy also includes a commitment to ensuring no one under 18 is provided training by FUNDAECO on the use of agrochemicals (since this is hazardous work) and a section included in the training sessions explaining that this work should not be undertaken by anyone in that age category.

Finally, FUNDAECO works across the landscape, mainly with Indigenous communities, on women’s rights (mainly reproductive rights and healthcare). They have included information on children’s rights as part of this programme to improve the understanding of this subject at the community level.



CHALLENGE
Land Invasions onto Indigenous Peoples’ Land
Project
Nii Kaniti, Peru
Project Partner
AIDER

» Several MNC projects operate in remote areas at the frontier between indigenous rural settlements and large areas of tropical forest. In recent years, in Central and South America, such areas have seen a massive increase in land invasions by non-local farmers, clearing forest to make way for illegal plantations of coca, likely linked to organised narcotics cartels. Two communities of the Nii Kaniti project in the Peruvian Amazon experienced significant deforestation of community forests as a result of these invasions during 2019.

Through the project, community members are employed in surveillance committees to patrol their legally designated forest areas, documenting and reporting deforestation and plantations to the authorities. However, confronting invaders is dangerous and the response from authorities is slow, with arrests rarely made. As a result, the land invaders simply keep coming back. To catalyse a more effective response, MNC has been working closely with the project lead, AIDER, to provide ongoing advice to support a strategic response to the land invasion issue.

AIDER is driving advocacy at the policy level with Peruvian government ministries to push for stronger responses by regional and national government offices. MNC have also provided technical recommendations to strengthen interventions on-the-ground, specifically regarding safe and efficient patrolling and reporting practices and the use of radar-based near real-time monitoring tools. AIDER are now implementing a comprehensive action plan for addressing the land invasion issue at community, regional and national levels and they are providing MNC with regular updates, with ongoing coordination and advisory calls.



ALTHELIA CLIMATE FUND: TALES FROM THE FIELD



Photo credit: Marlon Dag

The women of Shipibo Conibo

In the Nii Kaniti project, handcrafting is a way for five women's committees from indigenous communities in the Peruvian Amazon to earn a sustainable, deforestation free income.



"We have worked hard and learned a lot; I am making products that I did not imagine I could do. Thanks to the support of AIDER and the project, we can demonstrate what we know to a wider audience so that more companies contract us."

Pastorita Zumaeta (Member of the crafts committee of the Pueblo Nuevo native community)

"Thanks to the project I have greatly improved my craft making technique and design, for example to make products such as purses, napkins, lens holders and pencil cases."

Vilma Sanancino (Head of the native Curiaca community and member of the craft committee)



"I am proud of the activities that the project supports in my community; crafts, agroforestry, surveillance and control of our territories. Thanks to AIDER technicians and training, we are greatly improving the quality of our products."

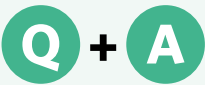
Shirley Mori (Member of the Curiaca community and promoter of the project)

"I am proud to have come this far with the sustainable fashion company, creating Amazon collections for brands. I used to do embroidery on fabrics, now I can make products which I can sell at the Ruraq Maki fair."

Celinda Rodríguez (Member of the craft committee of the Flor de Ucayali native community)

"Indigenous women contribute in the same way as men and are the best caretakers of the forest. We want to be part of an indigenous economy where we sell forest products in a legal and certified way. We want to change the perception that indigenous people are poor. Our management of the communal forests is an example for other indigenous communities."

Diana Mori Gonzales (Member of the Calleria native community and sales promoter of Nii Biri, an indigenous company)



Berenice Brizuela
Sustainable Business Specialist, AIDER

AIDER, a Peruvian NGO, is Mirova Natural Capital's implementing partner for the Nii Kaniti project. The Nii Kaniti REDD+ project works with seven indigenous, remote communities in the Peruvian Amazon, supporting them to protect their forests and avoid deforestation by developing sustainable livelihoods.

What is your motivation to work with AIDER and on the Nii Kaniti project?
I love being part of AIDER because all the work we do aims to ensure that our forests, and the resources and biodiversity within them, continue to exist; and that the people who live in the forest are also considered.

The Nii Kaniti project is very strong environmentally, but also has a strong focus on the native communities and the importance of respect and appreciation between different cultures.
How do you work with women in the Nii Kaniti project communities?
In order to achieve the sustainable management of communal forests and avoid deforestation, native communities must generate proper income in a sustainable way.

Shipibo Conibo crafts is a traditional activity through which women express their indigenous worldview using elements of the forest.

Unfortunately, traditional Shipibo Conibo handicraft products have failed to successfully enter national and international markets. The pieces are generally very large, which makes them expensive, and the markets don't pay a fair price. The lack of financial reward has discouraged many women from continuing to make handicrafts.

How does the project help?
The project is training artisans to make products that reflect traditional indigenous art but are of better quality and functionality. We target clients that value Amazonian and fusion art, product origin, and are willing to pay

higher prices. We are also training the women in business management so that their entrepreneurship generates better long-term income.

We have managed to get the women's project involved with the sustainable fashion sector and developed relationships with two recognised brands. The artisans have developed two summer "Amazon" collections in co-creation with the brands and we have had interest from other fashion companies to do the same. Our dream is for the women to build their own indigenous crafts brand.

What is the impact of the project for the women?

We work with around 100 female artisans from five native Shipibo Conibo communities. Without the support of the project, they might continue working traditional crafts but would face difficulties selling their products for fair prices. As has happened previously, they would therefore likely start working in deforestation activities such as agriculture to make a living, forgetting their traditional handicraft techniques.

However, because this way of working can generate a sustainable income, it has encouraged them to go back to community spaces and work, talk and connect with other women. They have even started to wear their traditional costumes when they go to the city again.

It has helped female leaders emerge. Some began as chairs of the craft committee, in charge of coordinating the delivery of materials or production orders, and then were promoted within the wider community. Wilma Sanancino was elected as the first female head of the Curiaca community in early 2020.

The handicraft initiative will also enable them to have a deforestation-free income to improve their livelihoods, contributing to the conservation of the forests of the Amazon.





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