

Farmland Principles Report 2012



The 5 Principles:

- 1. Promoting environmental sustainability**
- 2. Respecting labour and human rights**
- 3. Respecting existing land and resource rights**
- 4. Upholding high business and ethical standards**
- 5. Reporting on activities and progress towards implementing and**

Rabo Farm was established in 2009 and is part of the Rabobank Group. Rabo Farm is an arranger of non-listed investment vehicles. Its funds invest upstream in the food and agricultural value chain in both rural resources (farms, farmland and farming infrastructure) and primary production (predominantly crops for food and feed). Rabo Farm aims to generate sound investor returns while contributing to increasing global food production in a sustainable way.

In April 2012 Rabo Farm became a signatory to the Farmland Principles. By placing its signature, Rabo Farm underlines its commitment to responsible investment in farms and farmland.

In this report Rabo Farm presents an overview of how it has implemented the Principles so far in its internal policies and procedures with regard to the pre-investment process, the selection of our operators and the oversight and governance of our investments.

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Rabo Farm

Signatory of:

PRI Principles for Responsible Investment

Introduction

Global population is expected to exceed 9 billion people by 2050¹. In the next 40 years the agricultural sector will need to double agricultural commodity supply to produce the crops necessary to meet projected food, feed, fibre and fuel demand.

Recent research has estimated that 70-100% more farmland will be needed in 2050² if we do not increase production per hectare on existing farmland. Rabo Farm strongly believes that the main part of this required increase in agricultural production should come from productivity growth on existing farms, efficiency and less loss of food. We want to play a proactive role in meeting this global challenge.

Our overall approach is centred on understanding and managing risks associated with investing in agriculture. Our process is consistent and incorporates strong Corporate Social Responsibility (CSR) guidelines throughout the investment cycle.

This report is Rabo Farm's first report on its activities and progress towards implementing the Farmland Principles. Our aim is to provide our audience with concrete examples of how we are implementing the Principles.

Rabo Farm currently operates/manages one fund, which is active within the EU-27 with a focus on Central and Eastern European countries. The fund has a maximum investment horizon of 15 years and total commitments of 315 million euros. The fund focuses on investing in farms, farmland and onsite farming infrastructure.

Global demand fundamentals in agriculture are strong, while supply fundamentals are constrained and resources are limited. After years of underinvestment there is a huge need for investments in the agricultural sector with the particular aim of increasing productivity and efficiency to meet on going global demand growth.

We are committed to delivering sustainable financial and social returns for all our current and future stakeholders since we understand that these two are naturally related.

Rabo Farm's focus is on increasing primary agricultural production by improving productivity and the efficiency of existing farms and farmland. It is our aim to invest in closing the agricultural production gap between inefficient and efficient farms in a sustainable way.

Amsterdam, December 2012

¹ United Nations, Department of Economic and Social Affairs, World Population Prospects (2009)

² FAO/Rabobank

Principle One: Promoting Environmental Sustainability

Rabo Farm's commitment to the first principle and its related actions are crucial for the future of its investments. Rabo Farm strongly believes that environmental sustainability is one of the key drivers for all the stakeholders we deal with, from our farmers and local communities, internal stakeholders to our investors. Rabo Farm brings this first principle to life in the way it deals with its portfolio of farms. Current investments are made in former communist countries that have faced long periods of underinvestment in agriculture. Although they are now part of the European Union and have aligned their legislation to EU standards, in practice steps need to be taken at almost every farm we have bought to bring the farm into line with these standards.

An Environmental Site Assessment (ESA) is made during the investment phase for each individual farm. An inventory is made of the farm and its potential health, safety and environmental risks are assessed. This ESA is conducted by qualified external parties and includes elements such as: a description of the site and properties, possible risks of contamination of soil and water, waste management, use of asbestos-containing materials, oil tanks and installations containing PCBs.

After an investment has been made, the results of the ESA are used to set the necessary priorities during the management phase.

All leaseholders to which Rabo Farm leases farms and farmland are given individual lease contracts that require them to integrate sustainability factors into their policies and operations by committing to the principles of Good Agricultural Practices (GAP). Furthermore they commit to keeping the land and its buildings in at least their current or upgraded state. Rabo Farm implements a monitoring program to ensure compliance with these principles and requirements.

A growing investment portfolio enabled us to further expand portfolio management in the 2011-2012 season focusing on:

In 2012 we brought 85 hectares of marginal farmland under environmental protection (EU Birds Directive)



Cleaning up farm sites

Cleaning up farms

Serious risks had been identified on a number of farms during the investment phase and so we:

- Demolished and cleaned up 34 ruins and obsolete buildings
- Removed 174 tons of asbestos
- Dug out 16 single-sided oil tanks

Improving soilmanagement and water management on farms

The agricultural value of many of the farms we have invested in has suffered from neglect. Years of underinvestment in soil balance have resulted in soils that have such low PH levels that they are damaging crops, leading to inefficient use of inputs and therefore loss of harvest. Many of the farms Rabo Farm has invested in have either old-fashioned and or neglected systems for managing water. Depending on the location, a lack of or too much water can cost farmers a large part of their harvest, causes inefficient use of fertilizers, and can lead to serious soil erosion.



Cleaning ditches



Installing underground drainage & irrigation

In 2011-2012:

- 16,000 tons of lime was applied to start rebuilding a healthy soil structure.
- 65 hectares of neglected and degraded land was taken back into production
- Over 300 km of ditches that had not been not properly maintained were cleaned.
- We initiated a pilot project to redevelop 111 hectares of our portfolio. Rabo Farm invested in underground drainage and irrigation facilities and redesigned the field layout of these hectares to increase their average size to field sizes that are more suitable for modern, efficient farming techniques. The results of this pilot will be used for further rollout over other parts of the Rabo Farm portfolio in 2013 and beyond.

Principle Two: Respecting labour and human rights

Given the fact that the current fund and its investments are aimed at countries that are members of the European Union and that these countries have adopted legislation with regard to labour and human rights, the risks of the current Rabo Farm investment portfolio with regard to the second Principle have been classified as relatively low.

Rabo Farm is an investor in farm land and not a farmer itself. This means that leaseholders and farmers who operate farms we have purchased or invested in are responsible for the employment contracts and working conditions of their personnel. Rabo Farm concludes contracts with its leaseholders which oblige them to apply the country's existing laws in addition to GAP guidelines that also stipulate requirements for labour and working conditions. As part of Rabo Farm's farm monitoring programme and in maintaining contacts with the other local stakeholders (such as the community councils) we present ourselves as active and involved investors. In the few cases where Rabo Farm employs its own staff on farms we ensure that both contract and working conditions are at the appropriate levels.

Principle Three: Respecting existing land and resource rights

During the investment phase, land and resource rights are part of our Due Diligence process (see appendix for more information on our investment process and CSR assessment). Due Diligence (DD) is performed on land title, the seller and the potential leaseholder. Our CSR DD specifically looks at the aspects of the third Principle and we assign a score to every individual investment according to a pre-defined number of criteria. We initiate appropriate action depending on the score. These actions are part of the farm management plan.

During the acquisition of a farm in Romania it became clear that the lease register failed to reflect reality and a group of farmers were using the land without properly registered lease contracts. It also became clear that some of them were smallholders.

Together with the local authorities our local team conducted an analysis to determine which of the farmers were depending on the land as a primary source of income. By implementing our management plan for this farm, we legalised the position of these smallholders, giving them a long-term registered lease contract that also made them eligible for EU subsidies.

In the countries where Rabo Farm operates, the cadastre and courts are the first source of information. Legal DD, our own onsite research and Agricultural Due Diligence complement the overall process and provide us with an effective picture of land rights and land use. In some cases we encounter situations where local farmers are using the land without properly registering leases and lease contracts in the registers. This is an illegal, but above all an undesirable situation since the users, in Romania for instance, who might be depending on the land use for their family income are neither protected nor eligible for EU subsidies. Our general focus is aimed at finding the right balance between land use and protecting and improving smallholders' positions and economic opportunities.

Principle Four: Upholding high business and ethical standards

Rabo Farm is part of the Rabobank Group, a Dutch cooperative financial services provider, which was established in 1898. In the Netherlands, Rabobank Group is a full-service market leader, while internationally, Rabobank is a leading food and agribusiness bank. Rabobank has a top rating for creditworthiness, awarded by Moody's, Standard & Poor's, Fitch and DBRS. Corporate Social Responsibility (CSR) has always been at the heart of Rabobank. Rabobank has formulated policies on the main CSR topics, based on authoritative international standards, to comply with its responsibility for sustainable banking. As a cooperative, Rabobank works closely with customers and local communities on building a sustainable future. Rabobank supports business clients by assessing environmental, social and economic opportunities and risks.

Rabo Farm has implemented extensive processes to ensure high business and ethical standards for its own personal and external contractors. All our counterparts are subject to strict due diligence procedures and risk and compliance protocols are part of our daily management procedures (see Annex).

Rabo Farm underlines the principle that it respects the rule of law of a country even when it is not always enforced. As mentioned before, the countries Rabo Farm currently invests in are members of the European Union and have adopted its main legislation. In reality however, the actual implementation and application of this legislation is often still in progress. In 2012 Rabo Farm paid special attention to identifying all the legal requirements that are applicable to owners of land and assets. Where necessary, steps were taken to upgrade the farms to bring them into line with the legislation. A next step will be the further identification of specific Rabo Farm requirements and their application to all farms. These requirements include aspects that go beyond the legal requirements of the countries but are considered to be a requirement in line with our corporate and business standards. These requirements look at soil quality and general farming infrastructure, some examples of which were given under Principle One.



Principle Five: Reporting on activities and progress towards implementing and promoting the Principles

Disclosure about activities is made to a level appropriate to the confidentiality of information that has been agreed with the investors in our funds.

This report is Rabo Farm's first report on its activities and progress towards implementation of the Farmland Principles. Rabo Farm sees this report as a first step towards enhancing communication about its activities and as a process of learning how to share the results and challenges that are part of investing in agriculture.

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Appendices

Investment process

Portfolio construction phase	Investment phase	Management phase
<ul style="list-style-type: none"> •Agricultural analysis •CSR country analysis •Country risk analysis •Enabling factors analysis 	<ul style="list-style-type: none"> •Scope of Due Diligence: <ul style="list-style-type: none"> •Agricultural DD •Environmental DD •Market Appraisal •Customer DD •Legal DD •Tax, Fiscal, Accounting DD •CSR DD •Farmer/operator DD 	<ul style="list-style-type: none"> •Example of activities: <ul style="list-style-type: none"> •Water management: drainage, irrigation, ditch cleaning •Soil sampling, GPS measurement, liming, fertilization •Removal of Asbestos Containing Materials •Land consolidation •Restoring neglected land •Demolishing/re-building farm buildings •Development of renewable energy projects

CSR Assessment table

Category	Description	Indicators
A	Investment with potentially significant adverse social or environmental impacts that are diverse, irreversible or unprecedented	<ul style="list-style-type: none"> - Involuntary resettlement – physical displacement: large number of families in relation to the size of the investment (measured according to local norms) - Plot(s) located in areas with issues concerning disrespect for local cultures or the rights of indigenous peoples (media sensitive/interference) - Plot(s) located in/or adjacent to protected areas (see IFC Guidance Note 6 on Biodiversity Conservation and Sustainable Natural Resource Management) or areas of cultural heritage - Plot(s) that currently contain a lot of unique biodiversity - Deforestation
B	Investment with potentially limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures	<ul style="list-style-type: none"> - Involuntary resettlement – physical displacement: low number of families in relation to the size of the investment (measured according to local norms) - Involuntary resettlement – economic displacement; - Plots in an area with a lot of smallholders - Buying land from subsistence farmers - Buy & build, buying large numbers of plots from local smallholders/subsistence farmers is considered to be 'buy & build' - Conversion of scrub land into agricultural land - Future export of produce, currently used for local market - Infrastructure investments exceeding 25% of purchase price or €10 million - High level of corruption/bribery in the country: CSR Quick Scan by Rabobank - Country known for violation of human rights: Declaration of Human Rights and topics mentioned in the CSR Quick Scan by Rabobank: discrimination, forced labour, child labour, poor working conditions - Country known for participating in/ allowing land grab activities - Country with regions that suffer structural starvation
C	Investment with minimal or no social or environmental impacts	<ul style="list-style-type: none"> - Purchase of an existing farm - Purchase of areas of farmland not in the direct vicinity of planned or existing urbanisation (no direct negative impact on people) - Investments in new technology (replacement of old); - Use of existing infrastructure - Investments likely to improve social wellbeing of the local community

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