TIMBERLAND INVESTMENT RESOURCES LLP
EUROPE

Sustainable Forestry and Natural Capital Fund | 2024

Investing in U.S. Working Forests to Generate Competitive, Long-Term Returns and Promote Environmental and Social Resilience

Natural Capital Solutions Strategy Overview

An Overview of Carbon Credit Markets

- **What is a Carbon Credit (or Carbon Offset)?**
  A carbon credit is a financial instrument that represents the reduction, avoided emission, and, or sequestration of the equivalent of one metric ton (mtCO2e) of carbon dioxide – or those of comparable greenhouse gas equivalents (GHG), like methane. A fundamental requirement is that the carbon credits being made available for sale are "real, permanent, quantifiable, verifiable, enforceable, and additional" (relative to a baseline – such as regional stocking, rotation lengths or "business as usual harvest volumes" for credits derived from forest-based carbon projects).

- **How are Carbon Credit Markets Organized?**
  There are two types of markets within which carbon offsets are transacted – the "Voluntary Market" and the "Compliance Market."

  Carbon credits sold in the "Compliance Market" are typically purchased by companies and organizations that are compelled to comply with the mandates of the governmental jurisdictions in which they are based or operate – a country, state, province or municipality that has passed laws indicating that corporate entities must undertake efforts to reduce their greenhouse gas emissions (GHGs – of which carbon and other equivalent gases, like methane, are categorized) in accordance with global climate change standards and objectives. In the U.S. the largest and most active carbon credit "Compliance Market" is operated by the State of California, and specifically the California Air Resources Board (Carb). Outside of the U.S., countries like New Zealand and Australia, as well as others, also sponsor "Compliance Market" carbon credit exchanges. "Compliance Market" credits tend to have longer terms – often 100 years.

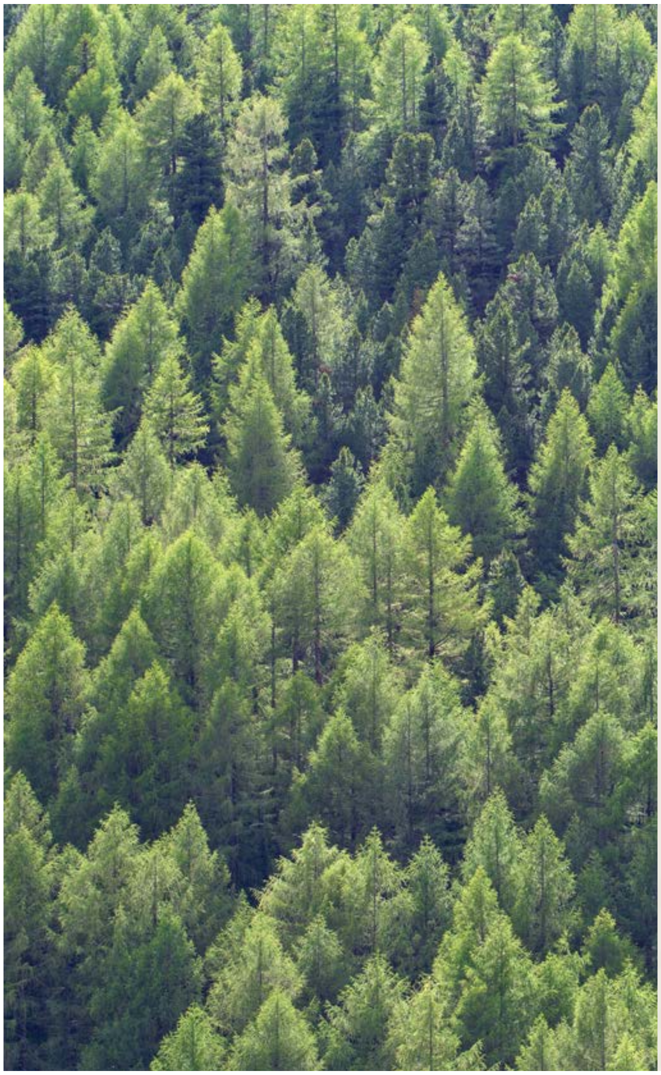
  In contrast, carbon credits sold in the "Voluntary Market" are typically purchased by global corporations and other organizations that are voluntarily striving to mitigate or "offset" the emissions generated by their activities and operations. The "Voluntary Market" is neither regulated nor permitted by any governmental body – rather it is self-regulated by the individual registries that collectively comprise the market. These registries each develop the unique standards and methodologies they employ to quantify and provide assurance to credit buyers as to the effectiveness of the offsets they are offering for sale. "Voluntary Market" credits tend to have shorter terms – often 40 years; some as short as 1 year.

Forestry-based Natural Climate Solution Opportunities

★ **Negative emission insets using Greenhouse Gas (GHG) protocol**
In accordance with EU Sustainable Finance Disclosure Reporting for Article 9 compliance (and/or using the Greenhouse Gas protocol developed by World Resources Institute and the World Business Council for Sustainable Development), calculate net emissions (Scope 1, Scope 2, and Scope 3) and carbon footprint of the timberland portfolio. Annual negative emissions may be distributed to investors of the fund and/or possibly monetized for the fund by trading them to other parties.

★ **Improved Forest Management projects**
Acquire extant working forestland in an area considered ecologically important for biodiversity, climate resilience, and freshwater resources. Following the protocol of a chosen "Voluntary Market" registry, develop carbon offset credits where forest carbon stocks are demonstrated to be above the regional average and where marginal rate of carbon sequestration increases in response to the improved forest management techniques. Examples include improving growth rates, improving the ratio of growth accruing to sawtimber, reducing presence of exotic species, etc. Some portion of annual growth may be harvested to produce income. Where the project can partner with a sawmill, additional sequestration credits may be obtained by developing "chain of custody" certification for lumber production.

★ **Afforestation projects**
Acquire agricultural land where forests have been present historically and establish semi-natural planted stands. Examples include conversion of orchard groves, pastures, alluvial cropland, etc. Following the protocol of a chosen "Voluntary Market" registry, develop carbon offsets as the forest becomes established. Where this project occurs along riparian areas mitigation banking credits and/or conservation easements may be sources of investment return in the early years of the investment.



11.0
Tons*

Estimated Carbon Sequestered by Acre by Year For an Average, Actively Managed Southern Pine Plantation Forest

* Based on Estimate by Winrock International

★ **Native Forest/Shrubland/Grassland Restoration projects**
Acquire lands of degraded habitat quality. Following the protocol of a chosen "Voluntary Market" registry, implement a restoration management plan to improve biodiversity, species richness, and climate resilience of the forestland, shrubland, or grassland.

★ **Harvest Deferral projects**
Participate in "Voluntary Market" registry for short-term or long-term harvest deferral projects. Portfolio is compensated for performance demonstrating reduction of harvest activity relative to a "business as usual" baseline.

★ **Carbon Capture and Storage projects**
Lease subsurface pore space rights of the portfolio timberland to carbon capture and storage operators for annual income. Income stream typically consists of the greater of a minimum amount or a volume-based injection fee paid for the right to store carbo dioxide in the pore space of subsurface geologic strata.

★ **Wetland Restoration, Mitigation, or Watershed Replenishment projects**
Acquire timberland or historically forested land in impaired watersheds. Following mitigation protocols, restore wetlands and develop mitigation credits that may be sold in the Wetland Mitigation Banking Program administered by the USDA Natural Resources Conservation Service or a mitigation bank instrument administered by the US Army Corps of Engineers.

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