**RLU GENERAL Q&A**

**Background**

TLFF I Pte Ltd (TLFF I), an SPV domiciled in Singapore issued several classes of notes (Notes or Bonds) in February 2018. The Notes funded a USD95 million loan from TLFF I to PT Royal Lestari Utama (RLU), a joint venture between Michelin of France and the Barito Pacific Group of Indonesia. RLU operates 3 natural rubber concessions in Indonesia, in the provinces of Jambi in Sumatra and E. Kalimantan on the island of Borneo. &Green Fund (&Green) in January 2019 purchased 2 classes of the Bonds, which were arranged by the Tropical Landscape Financing Facility (“TLFF”, comprised of ADM Capital, BNP Paribas, UN Environment and the World Agroforestry Centre).

**TLFF Deal Structure**

1. **Why has &Green invested in the TLFF bonds? What is the role of TLFF?**

TLFF established the TLFF I entity to issue bonds to capital markets investors. The capital markets provide access to a wide variety of investors with deep pools of funding, which had not been tapped to finance sustainable land use and agri-commodity production. To date, investors in emerging markets bonds have only been issued by well-established plantation companies, and then only up to 5 year tenors. Due to commodity price risks and large upfront investment costs, early stage project companies have struggled to source financing from commercial lenders and institutional lenders alike. &Green reviewed the extensive due diligence available and spent nearly 12 months evaluating the RLU project area before deciding to invest in the Notes. This evaluation concluded that RLU was committed to operating a sustainable natural rubber plantation and was making significant additional commitments on environmental conservation and social inclusion programs, which are in line with &Green’s investment mandate. Without &Green’s investment, it was clear that demand from traditional pools of institutional capital was weak or absent for the longer tenor classes of notes. &Green’s investment is structurally subordinate to the traditional pools of institutional capital in the overall notes issue; but partially protected through a legal subordination of the Sponsor’s tranche of the investment.

TLFF is a platform established to identify companies like RLU in Indonesia and assist them to adopt internationally recognized ESG policies and source financing from the capital markets.

1. **Why didn’t &Green finance RLU directly? Are there risks with this investment structure over a direct loan to RLU from &Green?**

&Green evaluated all the materials provided by TLFF available to other Note investors, which included the E&S due diligence (ESDD) report from well-regarded specialist consultants as well as the E&S action plan (ESAP) based on the ESDD assessment. Along with further visits and several meetings and review of additional information available from RLU, an investment in the Notes was deemed suitable. Given the Notes had already been issued, and the loan to RLU included certain covenants restricting further borrowings, it was also not possible to provide a loan facility directly to RLU. Moreover, the financial additionality for &Green to purchase the 15-year and 7-year classes of the Notes was apparent and suited the &Green mandate. BNP, as lead manager of the TLFF I issuance had not managed to source sufficient investor demand for these classes of the Notes due to the long tenor and low expected trading liquidity.

There are certain risks associated with a purchase of the Notes versus a loan directly to RLU. However, the Notes are highly structured and possess several features to mitigate the overall structural risks. Among these features are (i) 3 years of pre-funded loan interest; (ii) a partial 1st loss reserve amount; (iii) a partial US AID guarantee for certain classes of notes; and (iv) security over cash and collateral accounts. In addition, the owners of RLU, Michelin and Barito Pacific Group, also purchased 1 class of Subordinated notes, which further mitigates the risk for other noteholders.

1. **What influence or recourse does &Green have over RLU and/or TLFF if the project fails to meet its financial, operational or E&S commitments?**

Sail Ventures (SAIL), as adviser and investment manager to &Green, has secured several additional commitments and rights as a condition of its purchase of the Notes. Firstly, SAIL will be appointed to RLU’s E&S Advisory Board (ESAB), which meets quarterly and reviews reports to its Board members on operational, financial and E&S progress against budgets and plans. Furthermore, &Green has secured commitments from RLU in its ESAP which are more specific, transparent and more closely aligned with the complex local environment as well as international standards than were included in the original notes issue. Finally, on request of SAIL Ventures, RLU has adopted a landscape protection plan (LPP) as part of the E&S commitments in the notes prior to issuance. The LPP describes its protection, production and inclusion commitments and sets out targets which will be monitored during the period of &Green’s investment in the Notes. As such, &Green will be able to monitor RLU’s compliance and through its ongoing reporting of the LPP and ESAP targets ensure transparency to our investors and other stakeholders, including to other noteholders.

1. **Who was responsible for developing the commitments and standards with which RLU has to comply?**

TLFF has set out and published its ESG Standards, with which its clients, including RLU must comply. These include following the IFC Performance Standards (IFC PS) and other best-practice guidance for management of E&S related programs and a sustainable natural rubber plantation. In addition, &Green has secured further commitments and more specificity relevant for the RLU project in respect of RLU’s ESAP deliverables, and the development of a Landscape Protection Plan (LPP).

1. **Who monitors compliance with RLU’s E&S and other commitments?**

ADM Capital is responsible for monitoring the progress and auditing RLU’s compliance with its ESG commitments. A specialist consultant has been hired to perform annual audits of RLU’s performance against the ESAP, the LPP and various other E&S commitments for its stakeholders. SAIL Ventures will monitor ADM’s performance and validate their findings, and will be able to intervene if &Green’s standards and the contractual arrangements are not met.

1. **How often does TLFF or RLU report on the progress of the project?**

Annual audits will be conducted by a specialist consultant who is familiar with the project. RLU will also report to its Board members on a quarterly basis via an E&S Advisory Board meeting. Monthly surveys of land use (SLUS) are also conducted and made available. &Green will have access to quarterly information provided to the ESAB and the annual audit.

1. **How much did RLU raise for the project? Is this sufficient for the completion of the project?**

TLFF I issued USD95 million worth of bonds, which funded the loan to RLU of the same amount. Some of this amount was used to refinance an existing loan from an Indonesian commercial bank and the balance was used to fund RLU’s operations and the structural features like the 3-years of loan interest and 1st loss reserve accounts. As the planned plantation area is approximately 34,000 hectares, further funding from RLU’s sponsors or other sources will be required over time to fulfil the planting target and the full scope of environmental and social commitments. &Green’s investment is an important catalyst for unlocking additional funding to the project.

1. **Who are the key sponsors of RLU?**

Publicly listed Michelin, one of the largest consumers of natural rubber globally and the largest tire manufacturer controls 49% of RLU. The other 51% is controlled by a subsidiary of the Barito Pacific Group, an Indonesian conglomerate with business interests in timber, oil and gas, petrochemicals, mining and energy and property. The joint venture was formed at the end of 2014 and commenced operations in 2015.

1. **Who are RLU’s key stakeholders?**

Given RLU’s 3 concessions extend across over 70,000 hectares in Jambi and nearly 20,000 hectares in E. Kalimantan, it is crucial for RLU to develop partnerships with a variety of organizations and stakeholders to ensure and secure its ability to operate safely and efficiently as well as develop and implement the various programs necessary to comply with its E&S and operational commitments. Some of the key stakeholders operating in partnership with RLU and more broadly within in the landscape are: WWF (France and Indonesia), Partnership for Forests (P4F), IDH – The Sustainable Trade Initiative, Warsi and Wana Aksara, US AID as well as TLFF and &Green. RLU also collaborates closely with the local and provincial authorities, and with the communities and their representatives in and around its concessions.

1. **How will the local community and local farmers benefit from the project?**

RLU conducts regular community forums to educate members of the more than 18 villages surrounding the concessions about fire prevention and boundaries of the concession, particularly the wildlife conservation area (WCA). This serves to develop a closer understanding of the communities’ composition, requests and ambitions for a longer-term partnership with RLU. Immediate benefits result from direct employment for contracted workers and day-laborers required for the plantation activities. As a result, their families also benefit with expanded access to health services from RLU’s health clinics and other subsidized social services like schooling. Over the longer term, RLU aims to develop the appropriate smallholder farming programs (e.g. Plasma) to allow farmers with existing planted areas on and around the concession the opportunity to benefit from training in good agronomic practices to improve their yields as well as to be able to sell their product to RLU/Michelin.

1. **How will the project protect forest, on and around the concession?**

RLU has developed a flagship conservation area, the Wildlife Conservation Area or WCA, which contains the only remaining natural forest (circa 3,900 ha) abutting the equally important and threatened Bukit Tigapuluh National Park (BTNP). The forest, which is within the gazetted Mandelang Forest Reserve and the BTNP are a critical area for some of the most endangered fauna in Sumatra – Sumatran Elephants and Tigers among them. This part of the WCA is also important as it is adjacent to one of two WWF-managed ecosystem restoration concessions. The WCA spans over 9,000 hectares, but given access to some of the WCA is facilitated by an existing inter-concession hauling road, controlling encroachment is challenging. RLU has an experienced conservation manager from WWF and has hired 10 forest rangers to patrol the WCA to prevent further encroachment. Other areas, such as riparian land near large and small rivers and streams are also being demarcated and monitored to prevent encroachment by communities. As RLU continues to establish the plantation areas and work more extensively with the villages, it expects to increase its “control” over the parts of the concession which are currently being claimed or used by villagers for their livelihoods or for speculation. The combination of education, job opportunities and services as well as actual compensation for land, all of which are employed by RLU is intended to increase their control and acceptance by the existing communities who have depended on the concession areas while it was not being utilized by the government or its designated concessionaire.