

Principles for Responsible Investment in Farmland

September 2011

Preamble

In recent years, *investment in farmland*^A has emerged as a new asset class for institutional investors. These “Principles for Responsible Investment in Farmland” (“The Farmland Principles”) are designed to guide *institutional investors*^B who wish to invest in farmland in a *responsible*^C manner.

As institutional investors, we have a fiduciary duty to act in the best long-term financial interests of our beneficiaries and clients. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) factors can represent sources of financial risk and opportunity for our investment portfolios. At the same time we acknowledge that farmland investments have implications for the people and the natural environment in the places where we invest. We are therefore committed to incorporating ESG factors into our investment policy and processes where appropriate.

The Farmland Principles will serve as a common framework for the specific farmland investment policies and practices of each institutional investor in support of implementation of the Principles.

Our commitment

We are committed to implementing the Farmland Principles in all our farmland investments. We will do this by applying the Farmland Principles to pre-investment *due-diligence and to the selection of investment managers and operators acting on our behalf*^D, and through ongoing oversight and governance of our investments.

As long-term investors we believe that the interests of our beneficiaries and clients will be best served by farmland operations that respect the environment, adhere to responsible labour practices and maintain positive stakeholder relations. Where feasible we will invest in technology and infrastructure to improve productivity and enhance environmental performance. These investments may contribute to local development and relieve pressure for farmland expansion.

We support the development of best-practice *ESG standards and guidelines*^E for agricultural commodity production and will ask investment managers and operators acting on our behalf to apply them where applicable and to contribute to their further development. While such standards already exist for other sectors, best-practice standards for farmland management are at an early stage. We are committed to contributing actively to their further development.

We will review the Farmland Principles from time to time based on implementation experience, and in order to reflect ongoing learning and emerging best practice.

Principles for Responsible Investment in Farmland

Principle one: Promoting environmental sustainability

We will promote measures aimed at protecting the environment and contributing to the sustainability of specific crops and locations, for example by reducing soil erosion, protecting biodiversity, reducing chemical emissions, effectively managing water, and mitigating climate impacts.

We will require investment managers and operators acting on our behalf to conduct an environmental assessment identifying the relevant environmental impacts and risks of a planned investment.

Based on this environmental assessment, investment managers and operators will be expected to implement mitigation and management measures relevant and appropriate to the nature and scale of the proposed investment.

Principle two: Respecting labour and human rights

We will respect labour and human rights in our farmland investments. We will require investment managers and operators acting on our behalf to do the same and to avoid complicity in human rights abuses.

We will require investment managers and operators to identify relevant labour and human rights risks and impacts of a planned investment and to implement mitigation and management measures to address them appropriately.

Depending on the location and the nature of the investment, we expect investment managers and operators to explicitly implement policies to respect rights such as those relating to indigenous peoples, vulnerable groups, unique cultural systems and values, local food security, labour and any other relevant rights in the scope of their risk assessment and mitigation measures.

Principle three: Respecting existing land and resource rights

We will respect the existing use of and ownership rights to land and other resources and we will require investment managers and operators acting on our behalf to do the same.

Investment managers and operators acting on our behalf will be required to implement processes for land acquisitions and related investments that are culturally appropriate and transparent, are monitored, ensure accountability and the engagement with relevant stakeholders.

For investments with potential *significant adverse impacts*^f on affected communities, the investment managers are expected to implement processes to ensure their *free, prior and informed consultation*^g and facilitate their informed participation as a means to establish whether a project has adequately incorporated affected communities' concerns.

Principle four: Upholding high business and ethical standards

We will promote high business and ethical standards in our farmland investments.

We will require that investment managers and operators acting on our behalf respect the rule of law even where it is poorly enforced. We will also require them to implement processes aimed at avoiding corruption in all its forms, including extortion and bribery, and to reflect an informed view of industry best-practice in their operations.

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

We will report publicly on our activities and progress towards implementing the Farmland Principles, taking into account appropriate confidentiality considerations.

We will encourage other institutional investors to endorse and implement the Farmland Principles.

Annex 1 – Notes

A: The attractiveness of investment in farmland derives from the expected low correlation of its returns with other asset classes and its potential for relatively stable cash flows to investors. There are various ownership and/or operating models that institutional investors can adopt for farmland:

- buy the land and operate at their own risk, (with exposure to the commodity price of the crop);
- buy and lease to a farmer (receiving a fixed rate return);
- buy and receive revenue based on a combination of the two previous models (cropsharing).
- lease from the owner and operate at their own risk or shared risk.

These models can be implemented through direct investments, or funds or funds-of-funds managed by a third party.

B: Institutional investors are organizations that pool large sums of money and invest them on behalf of their clients and beneficiaries. Types of typical investors include banks, insurance companies, national pension schemes, retirement or pension funds, hedge funds, investment advisors and mutual funds. Their role in the economy is to act as professional investors on behalf of others. Institutional Investors have a fiduciary duty to act in the best financial interest of their beneficiaries.

C: As described by the UN-backed Principles for Responsible Investment initiative (www.unpri.org), ‘responsible investors’ take a long-term view in managing their assets and are convinced that certain ESG issues can affect the performance of their investment portfolios and therefore need to be taken into account in investment management and ownership policies and practices.

D: As noted above, institutional investors often invest through a fund or a fund-of-funds structure. The institutional investor or the investment manager, in turn, often delegates the task of operating and managing the land to a specialist operator. This limits the extent to which the institutional investor can control the way the land is managed once the investment has been made. This is why the institutional investor, as part of its pre-investment due diligence process, will actively ensure that the investment managers and operators have the policies, systems and expertise needed to integrate ESG considerations into their investment decisions and ownership activities. Prior to committing capital, the investor will also discuss the ESG-related disclosures that the investment managers and operators will be required to provide during the life of the relationship.

E: A range of voluntary standards and guidelines for actors along different agricultural supply-chains (including investors) are currently being developed. Relevant initiatives include the Roundtable on Sustainable Biofuels, the Roundtable on Responsible Soy, the Roundtable on Sustainable Palm Oil, and the Better Sugarcane Initiative. The IFC Social and Environmental Performance Standards also provide a relevant overall framework for farmland investments.

F: Adverse impacts are significant if they severely impact the well-being and livelihood of whole communities, as opposed to the well-being and livelihood of single individuals or groups.

G: Please refer to the IFC Performance Standards on Social & Environmental Sustainability for guidance on the concept of free, prior and informed consultation and informed participation.

Annex 2 - Examples of implementation measures

We expect our investment managers and operators to take the practical steps necessary to implement the Farmland Principles. These will differ greatly depending on the local context and the planned use of the land.

We include here some examples of possible implementation measures by local land operators. The information is for illustrative purposes only and is by no means exhaustive. It should not be seen as a prescription in defining an implementation plan, which will always have to reflect the specific situation and use of the land.

Examples of implementation measures:

- Introduce a system to monitor and manage agrochemical use with a view to minimizing risks and impacts on the environment, farm workers and local communities
- Introduce a soil management and conservation system
- Introduce a system to monitor and manage water use with a view to using water more efficiently, protecting and enhancing water quality and minimising water pollution
- Implement an energy and waste management system, aimed at using energy more efficiently, reducing greenhouse gas emissions and minimizing waste production (for example through reuse/recycling)
- Introduce measures to protect biodiversity, including endangered species and sensitive ecosystems (for example protected areas within own properties)
- Implement a health and safety management system for employees and contractors
- Define and monitor the implementation of standards for suppliers and contractors, including human rights issues and environmental protection
- Define and monitor the implementation of a policy explicitly prohibiting the use of child and forced labour
- Establish a training program for employees with the goal of better implementing social, environmental, health and safety measures
- Commit to using crops and animal husbandry systems that are suited to the specific region / climate
- Avoid using new crops where potential negative impacts are not fully understood
- Avoid investments in regions where compliance with local law is difficult to enforce
- Avoid land acquisition which results in involuntary resettlement, or has significant impacts on local communities, disadvantaged or vulnerable groups and unique cultural systems and values, unless appropriate decision-making procedures are followed
- Work with local officials and other leaders to ensure community support
- Use consultants and auditors with local know-how
- Where appropriate, support measures aimed at improving the livelihoods and health of local communities.