Statement on the EU Taxonomy Regulation

Introduction

The European Union (EU) Taxonomy[1] includes a classification system of economic activities which contribute to six environmental objectives. Disclosure obligations in relation to the first two environmental objectives are currently in force (with obligations for the remaining four environmental objectives coming into effect from 1 January 2023):

1. Climate change mitigation;
2. Climate change adaptation;
3. Sustainable use and protection of water and marine resources;
4. Transition to a circular economy;
5. Pollution prevention and control; and,
6. Protection and restoration of biodiversity and ecosystems.

Within each objective, the EU Taxonomy additionally classifies activities using two categories: enabling and transitional activities. The EU Taxonomy accompanies the EU's Sustainable Finance Disclosure Regulation (SFDR)[2]. Financial products that meet the requirements of Article 8 and Article 9 of the SFDR and which contribute to an environmental objective (for Article 9 products) or promote an environmental characteristic (for Article 8 products) (referred to as Taxonomy 'eligible') must disclose to what extent their investments are "environmentally sustainable economic activities" as defined in the EU Taxonomy, including its alignment with the technical screening criteria of the EU Taxonomy (referred to as Taxonomy 'alignment').

Agriculture and the EU Taxonomy

The final publication of the Delegated Act, the central policy outlining EU Taxonomy eligible activities and accompanying technical screening criteria in relation to the EU Taxonomy climate-related environmental objectives, has not yet included agricultural activities (growing non-perennial crops, perennial crops and livestock production) as an eligible activity for the objectives of climate change mitigation and climate change adaptation. This is in order to allow for the criteria to be aligned with the European Common Agricultural Policy (CAP) which has not yet been finalised (Delegated Act 2021, page 3-4). It is expected that the EU will include agricultural activities within the list of eligible activities for the EU Taxonomy climate-related objectives in 2022.

Silverlands I and Silverlands II EU Taxonomy eligibility and alignment

Silverlands I and Silverlands II are classified as Article 9 under SFDR.

The investment objective of both Silverlands I and Silverlands II is to "*seek attractive returns for investors whilst achieving a substantial positive social, environmental and climate impact*". This is achieved by focusing investments on those parts of agricultural value chains where a positive social, environmental and climate impact is expected to be highest. As a result of our focus on the agricultural sector, none of the investments are currently eligible activities for the climate-related objectives outlined by the EU Taxonomy (in particular given the Delegated Act, referenced above, does not include agricultural practices).

[1] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088.
[2] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

The sustainability-related disclosures for Silverlands I and Silverlands II will be updated in due course to reflect developments in the EU Taxonomy once the activities of the Funds are considered EU Taxonomy eligible.

Silverlands I and Silverlands II climate and environmental strategy and results

Despite not currently being eligible under the climate-related objectives of the EU Taxonomy (and associated Delegated Acts / Technical Screening Criteria), Silverlands I and Silverlands II implement a range of climate change mitigation and adaptation practices. In addition, the Funds are making contributions towards the following EU Taxonomy objectives: sustainable use and protection of water and marine resources; pollution prevention and control; and, protection and restoration of biodiversity and ecosystems. A central objective of our strategy is to: (1) protect our natural capital; (2) reduce CO_2 emissions and (3) ensure climate resilience. To achieve this we focus on two areas:

Smallholder Farmers

Sub-Saharan Africa will be home to most of the world's population increase from now until 2050. This will incur a huge increase in demand for food. To meet this demand, countries can either increase the land under cultivation which would lead to an additional 227 million hectares of land being cleared in Sub-Saharan Africa by 2050 (Williams *et al.* 2021), or increase their yields, avoiding the vast deforestation and associated emissions. By increasing access to hybrid seed, Silverlands I and Silverlands II are increasing yields and therefore preventing land from being cleared, avoiding greenhouse gas emissions and protecting biodiversity. We estimate that in 2021, our hybrid seed prevented 261,000 hectares of land from being deforested. Clearing this area of land could release 77 million t CO_2eq (estimated using data from Tilman *et al.* 2011) – equivalent to the emissions from 20 average US coal fired power stations.

In addition, we are supporting smallholder farmers to adopt conservation farming techniques, which develops soil health and increases yields which helps avoid deforestation.

Our operations

On our operations we focus on multiple environmental aspects:

1. Soil and land management: We practice minimum tillage, crop rotation, intercropping, erosion control
2. Biodiversity conservation: We conserve over 24,000 ha of indigenous ecosystems in non-arable areas on our properties.
3. Pest management: We follow integrated pest management practices to reduce our pesticide use.
4. Nutrient management: We analyse soil and plant health with remote sensing technologies (using satellites and drones), and soil analyses, to minimise our use of fertilisers and other resources.
5. Power management: We have implemented several renewable energy projects, including solar and hydro power, which add efficiency and reduce emissions.
6. Selecting locations and varieties: To mitigate the risk of climate volatility, we seek operations that are in the optimal locations for each crop, for example with the best climatic conditions and good water security.
7. Water management: We implement multiple technologies to reduce our water use, including automated soil moisture probes and the most efficient irrigation types such as drip and micro irrigation systems.

8. Pollution prevention and control: We implement best-in-class waste management practices that include applying crop residues and poultry manure to cropping areas, and certified disposal of old chemical containers.

Climate Reporting and Governance

We support the recommendations made by the Task Force on Climate-Related Financial Disclosures (TCFD) and have begun using this framework to guide our disclosures, which include:

Climate Change Committee

SilverStreet's Climate Change Committee oversees and reports on the progress made to support the objectives of the Paris Agreement and identify and monitor climate related risks and opportunities. Members of the committee include SilverStreet's Chief Investment Officer and Head of Impact and ESG. The committee reports to the General Partner biannually. For more information see our Climate Change Policy.

Greenhouse Gas Assessment

In 2021 we quantified the emissions for all the portfolio companies for 2020 as a baseline and developed a bespoke tool to monitor our annual greenhouse gas emissions. This covers scope 1, scope 2 and material scope 3 emissions. A summary of the results is included in the forthcoming 2021 Annual Impact and ESG Report.