

Materiality Assessment Summary

Introduction

Materiality assessments are conducted in order to identify the Environmental, Social, and Governance (ESG) factors that are important, or that may be financially material, to a company's business. As a steward and investment manager of major timberland and farmland holdings throughout the world, and an active member of the communities in which it operates, HNRG recognizes the importance of sustainable timberland and farmland management. In 2018, HNRG commissioned The Delphi Group ("Delphi") to conduct an independent, third party materiality assessment of HNRG's business ("HNRG SRI Materiality Assessment Executive Summary and Report," The Delphi Group, October 3, 2018), the results of which are summarized here.

Materiality Defined

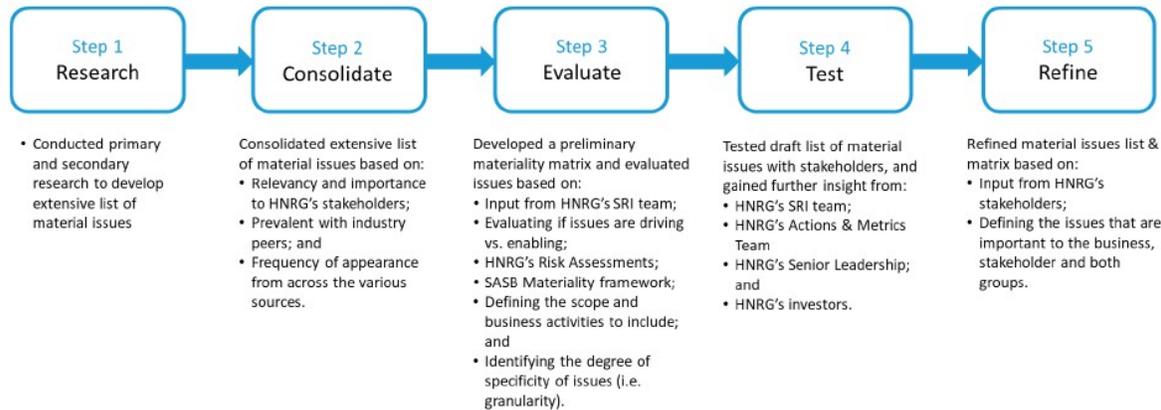
HNRG defines materiality in line with the Global Reporting Initiative (GRI), which describes material issues as those that reflect the organization's significant economic, environmental, and social impacts; or that substantively influence the assessments and decisions of stakeholders.¹ In other words, material information is any information that would impact decisions not only of investors, but also of employees, communities, governments, or other organizations. Understanding material information enables companies to identify risks and opportunities that may not otherwise be identified in ordinary operations.

HNRG's Materiality Assessment Process

In order to identify factors material to HNRG's business, Delphi conducted a five-stage assessment process, depicted in the figure below. Secondary research included consultation of general sustainability frameworks (UN PRI, GIIN, GRI, DJSI), as well as specific frameworks for forestry and agriculture (SASB forestry, FAO, SPOTT, Montreal Compact, etc.) and peers' sustainability reports. Primary research included consultation of multiple internal HNRG teams and working groups, as well as operational risk assessments and investor RFIs.

Over 70 issues were identified in the research phase, which were consolidated into 27 issues. These issues were then analyzed using a modified SASB framework that evaluated them in five respects: (1) Direct financial impacts and risks; (2) Legal, regulatory, and policy drivers; (3) Industry norms, best practices, and competitive drivers; (4) Stakeholder concerns and social trends; and (5) Opportunities. After further consolidation into 22 issues, the assessment was presented to HNRG's Leadership Team. After feedback from leadership and further testing through discussion with investors and a materiality survey of more than 60 employees, the list was further refined into 20 issues, which were ranked based on their importance to HNRG's business and their importance to stakeholders.

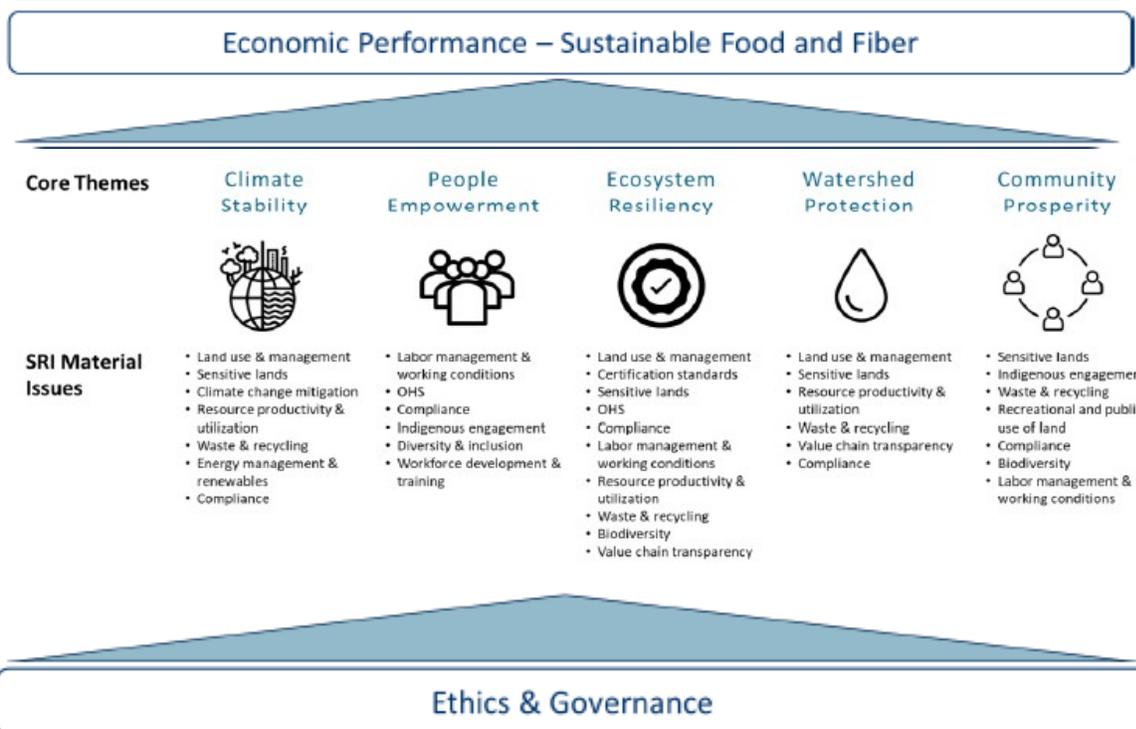
¹ <https://www.globalreporting.org/standards/questions-and-feedback/materiality-and-topic-boundary/>



For illustrative purposes only

HNRG's Materiality Assessment Results

HNRG and Delphi were able to identify five main themes that captured each one of the 20 issues identified: Climate Stability, People Empowerment, Ecosystem Resiliency, Watershed Protection, and Community Prosperity. Two issues – Ethics and Governance, and Economic Performance – were recognized as highly important issues to both HNRG and its stakeholders. These cross-cutting issues are applicable to all five themes in many respects: All material SRI issues need to also contribute to economic success and good governance. Ethics and Governance enable positive performance on the themes, and Economic Performance is a result of positive performance on the themes.



For illustrative purposes only

After identifying these five themes and the underlying material issues for our business, we built our sustainability strategy on them. These five themes represent the operational areas of risk and opportunity most critical for HNRG's success, and collectively form HNRG's "ESG" investing strategy. At HNRG, we call this Sustainability and Responsible Investing (SRI), and it animates everything we do. Rather than ideals, HNRG recognizes SRI and its five themes as essential strategies to maximize value and as such, embraces them as core guiding principles. Those principles are:

- **Climate Stability** – We seek to limit the impacts of climate change by responsibly using and managing land, creating carbon sequestration opportunities with our forests and farms, and mitigating climate change through investing in renewables and energy efficiency.
- **People Empowerment** – We value our people, employees, and contractors and work to ensure that we are offering not only safe and healthy working environments but the tools, training, and support they need to thrive.
- **Ecosystem Resiliency** – Healthy ecosystems provide immense value to the vitality of communities and economies. To ensure this for generations to come, we operate in a way that responsibly manages land and protects sensitive lands and biodiversity.
- **Watershed Protection** – Protecting and improving watersheds is vital for the ecosystems and communities that depend on them. We do this by protecting sensitive lands, adhering to strict water and land management policies and best practices, and supporting forest growth.
- **Community Prosperity** – We are committed to supporting and strengthening the local and Indigenous communities where we operate. We provide employment opportunities, public use of our land, engage with NGOs, and support local causes as part of our community stewardship.

Investing involves risks, including the potential loss of principal. Financial markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. These risks are magnified for investments made in emerging markets. Currency risk is the risk that fluctuations in exchange rates may adversely affect the value of a portfolio's investments.

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