

2023 Responsible Investing Report



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Message from our CEO

Tom Eisenhauer, Founding Partner & CEO

I am pleased to share with you Bonnefield's 2022 Responsible Investing Report! In it, we report on our ongoing monitoring of sustainable farming practices and our approach to ESG for the 2022 calendar year.

Across our farmland funds, Bonnefield applies ESG principles as part of its Responsible Investing approach. We believe that ESG investment principles serve two core purposes – first to de-risk the investment and / or maximize opportunities by ensuring consideration of ESG factors and their impact on performance. The second core purpose is in supporting the sustainability of the investment and ensuring our core values are upheld across our activities.

While different ESG factors have greater relevance for certain investments over others, Bonnefield has identified climate change as a core ESG consideration that applies to all farmland investments. We believe that it is critical to consider potential climate change scenarios and their potential outcomes on the long-term performance of Canadian farmland. As such, we are pleased to have completed our first Taskforce on Climate-related Financial Disclosures ("TCFD") report this year, highlights from which we have included within this report.

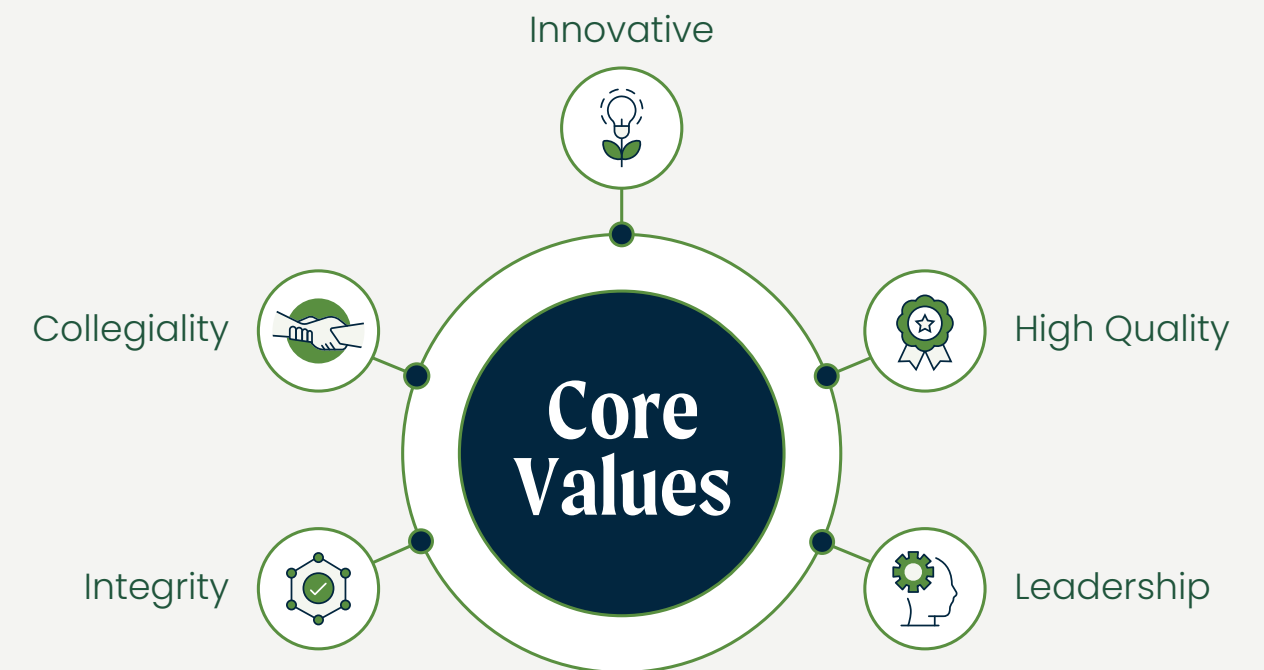
2022 saw continued geopolitical conflict, as well as droughts in Europe, the United States, and South America. In contrast Canadian agriculture fared remarkably well with farmers, setting a new record for farm cash receipts at \$95Bn up 15% from the year prior². While it is easy to point to Canada's relatively favourable positioning as an agricultural region benefiting from high-quality operators, strong government support and increasingly favourable conditions for growing high-value crops, these advantages cannot compensate for human decision making. Without sound on-farm practices food security is threatened.

As a partner to over 100 Canadian farmers, Bonnefield has a role to play in the preservation of food security and agricultural sustainability. Not only do we support Canadian farmers through flexible financing solutions, Bonnefield also supports our farm tenants to execute and monitor sustainable farming practices. You will see throughout this report that 2022 saw strong scores across our Standards of Care, highlighting the strong sustainable practices that we value across our farmland business.

About Bonnefield

Since its founding in 2009, Bonnefield has been committed to maintaining farmland for farming and believes Canadian farmland should be operated in a responsible manner. Bonnefield also supports Canada's farm operators to achieve sustainable, long-term success. Through bespoke agreements with Canadian farmers, we provide an alternative source of financing to traditional debt which provides farmers with greater optionality to capitalize their businesses in a way best suited to their operational situation and long-term goals. This solution appeals to a variety of Canadian farm operators, most notably those looking for support with some or all the following characteristics:

- Reduce debt, improve cash flow, and improve return on assets;
- Finance expansion, growth, productivity, and profitability;
- Facilitate succession and transition of farming operations from retiring farmers to a younger generation; and/or
- Secure long-term access to farmland on an ad-hoc basis; all while protecting farmland for farming.



UNPRI Signatory

Since 2014

33,412 tonnes

CO₂e emitted

TCFD

Public supporter

\$1.4 Billion AUM

As at December 31, 2022

140K Acres

of farmland across Canada

112

Farm tenant partners

7 Provinces

in which we manage farmland

Bonnefield’s Responsible Investing Principles

(Farmland)

When founding Bonnefield, the company established a core set of corporate and social responsibility principles to guide its farmland investing activities. These responsible investing (“RI”) principles are rooted in a set of operating guidelines that put farmers and farming first.

Bonnefield’s ultimate goal is to promote sound farmland management practices, help improve operator efficiencies and protect the integrity of Canadian farmland, which we believe are core to protecting and enhancing long-term returns for our farmland investors.

The core RI principles that govern Bonnefield’s businesses are:

- We preserve Canadian farmland for farming use.
- We do not buy land for non-agricultural redevelopment.
- Our agronomic standards must balance exemplary farmland stewardship, sustainable farming practices and affordable farming operations.
- We aspire to become a long-term partner with our Canadian farm operator clients.
- Our programs must assist Canadian farm operators to build or maintain scale, become more profitable, improve cash flow and/or reduce debt.
- We will not dictate to our partners how to operate their farms.
- Our farmland lease programs must create an “as if owned” relationship with the leased land for the farm operator.

In accordance with the best practices of responsible investing guidelines, Bonnefield has adopted robust governance structures for its farmland funds. All funds have independent investor advisory committees, and base net asset values on independent third party appraisals. The advisory committees are also mandated to confirm any matter that may give rise to a conflict of interest, deviations from stated investment policies or distribution policies.

Bonnefield in the Community

Local Hockey

Bonnefield does its best to support local community-building initiatives. Through its Good Neighbor program Bonnefield has donated to support multiple local hockey teams and arenas across Canada.

Canada’s National Index on Agri-Food Performance

Beyond supporting individual farm operators, Bonnefield is committed to the development and success of the Canadian agricultural industry. As part of this commitment, Bonnefield is a contributing member to the development of Canada’s National Index on Agri-Food Performance. This initiative is being led by a coalition of private-public partners who are working pre-competitively to develop an integrated picture of sustainability for Canada’s agri-food sector from food production to retail. Creating the National Index on Agri-Food Performance aims to be based on science-based and high-quality metrics and will span four sustainability priorities: the environment, economic, food integrity, and societal well-being.

For further information on the Index you can visit www.agrifoodindex.ca

Food and Water First

Bonnefield also supports the communities in which we operate through various donations and engagement opportunities. We have long been a proud supporter of Food and Water First, a citizen coalition dedicated to protecting Ontario’s Class 1 farmland and source water region.

To learn more about this organization visit www.foodandwaterfirst.com

Bonnefield Metrics

Bonnefield’s Standards of Care cover a range of sustainable management practices. Farmland assets are reviewed annually by third-party agrologists to confirm adherence to the Standards of Care. Where necessary, Bonnefield works with tenants to resolve issues identified by the reviews as well as put preventative measures in place where future potential issues have been identified.



Metric	2022	2021	2020	2019
Percentage of acreage owned longer than one year with annual property inspection completed by the asset manager	100%	100%	100%	100%
Percentage of acreage with formal title search and review completed to verify chain of ownership	100%	100%	100%	100%
Assets passing water quality test	96.9%	92.6% ³	95.5%	94.9%
Assets with sustainably rotated crop rotations certified by third party agrologists ⁴	96.5%	95.6%	-	-
Assets following annual best management practices ⁵	99.9%	99.1%	99.0%	98.8%
Percentage of acreage used to grow a permanent crop or vegetables following annual best management practices	99.7%	96.0%	95.2%	96.7%
Three year average lease renewal percentage ⁶	96%	96%	98%	-
Number of rural clients	112	113	114	104

99.9%
of assets Sustainably Managed⁷

Bonnefield Greenhouse Gas Inventory

Bonnefield’s second annual Greenhouse Gas (“GHG”) inventory for its investment funds has been prepared and restated in accordance with WRI/WBCSD’s Greenhouse Gas Protocol’s Corporate Accounting and Reporting Standards for quantifying corporate GHG emissions (“GHG Protocol”). The process of restating results accounts for the effect of acquisitions and dispositions in the portfolio to avoid misleading trends

Under the operational control approach of the World Resource Institute (WRI) GHG Protocol, a partial Scope 3 inventory was completed. The inventory was limited to on-farm emissions and select off-farm emissions associated with business travel for property management activities.

	2022 Emissions (tonnes of CO2e)	2021 Restated Emmissions (tonnes of CO2e)
On Farm Scope 3	33,408	33,431
Off Farm Scope 3	4	7
Total	33,412	33,438

TCFD Reporting

The Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board to provide stakeholders with decision-useful information on an organization’s climate risks and opportunities. In 2023 Bonnefield published its inaugural TCFD report which can be found on the Bonnefield website.

Key Bonnefield Taskforce on Climate-related Financial Disclosures include:



Governance

Board Oversight

The Board is responsible for fostering a risk management culture, approving the Climate Change Policy, and receiving climate-related information from management.

Management Responsibility

Bonnefield management, led by the Investment Committee, makes operational and risk management decisions that are required to implement and report on the Climate Change Policy.



Strategy

Risks and Opportunities

Bonnefield is experienced in evaluating climate-related risks and opportunities from the perspective of farmland portfolio management. Bonnefield has identified a number of significant climate-related opportunities and risks.

Financial Impacts

Under Bonnefield’s Core farmland investment strategy, there are currently more financially significant opportunities than risks from the impacts of climate change.

Scenario Analysis

Scenario analysis reveals that the Core farmland investment strategy is resilient to the potential future impacts of climate-related policies, market behavior and technology, as well as climatic changes.



Risk

Identifying and Assessment

Bonnefield has a comprehensive process to identify and assess significant climate-related risks that could contribute to the volatility of investment returns.

Management

Bonnefield uses a variety of risk management processes to manage or mitigate significant climate-related risks.

Integration

Bonnefield’s climate risk management process is a well-integrated component of its overall risk management system.



Metrics

Description

Key climate-related risk management metrics include:

- Cultivated acres practicing sustainable crop rotation: 97%
- Cultivated acres with a third-party agrologist inspection: 100%*
- Assets at elevated risk of heavy rainfall inundation: 6%

Greenhouse Gas

Bonnefield has no significant sources of Scope 1 or 2 emissions as defined by the Greenhouse Gas Protocol since it does not operate its farmland properties, but has estimated the Scope 3 emissions associated with tenant’s operations. Bonnefield includes 100% of its cultivated farmland acres in its GHG calculations.

*Rounded

Stories From the Farm

Fighting Soil Erosion in New Brunswick

The St. John River Valley in New Brunswick is well-known as a high quality potato-growing region thanks to its cool summer nights and fertile and well-drained soils. However, the steep rolling hillsides of the region, combined with the soil disturbance that can be caused by harvesting potatoes can make the land susceptible to soil erosion. Soil erosion is problematic for multiple reasons including a reduction in quality soil depth to support the development of root systems, as well as the reduction of organic matter and nutrients to maintain productivity of growing conditions over a long-term basis.

To combat soil erosion, generations of New Brunswick farmers have built elaborate terrace systems into the hillsides but other regenerative farming practices can be (and are being) adopted. While these practices are put in place to promote the long-term sustainability and profitability of the farm operations, they often come with a hefty price tag which can be difficult for farmers to finance. This is where a relationship with Bonnefield can offer meaningful support to a farmer's growth and profitability.

One such example is our work with John (not his real name), a sophisticated operator who farms potatoes on ~1,600 acres managed by Bonnefield. In addition to maintaining terraces to combat soil erosion, John implements a cover cropping regimen to build up organic matter in the soil. Cover cropping involves planting crops in the fall to overwinter in the fields and protect the soil. In the spring, instead of harvesting the overwintered crop, it is plowed into the soil where it decomposes and builds up biomass and nutrients that contribute to healthy soils. Increased organic matter is critical to crop productivity and particularly relevant in areas that suffer from erosion. John has also undertaken efforts to build up topsoil in certain areas of the farm in order to remediate the effects of past erosion.

Bonnefield understands the value that John's practices create long-term but that these come with cash flow impacts. As such, Bonnefield worked with John to create a multi-year lease structure that compensated John for his regenerative practices. Through this capital solution, John was able to focus on his area of expertise as a grower, while Bonnefield and its investors gain comfort that the farmland is being managed to meet long-term sustainable objectives. It is a partnership that highlights the environmental and agronomic benefits that Bonnefield can facilitate alongside its local farm partners.

Irrigation Efficiency Upgrades in Southern Alberta

Bonnefield has been working with Canadian farmers in the Southern Alberta Irrigation Districts for over a decade. This region is defined by regulated water supply regimes with much of the water sourced from snow melt in the Canadian Rocky Mountains, rather than underground water sources which are most typical for irrigation systems in North America. The districts consist of a series of centrally managed canals and reservoirs that, unlike many regions around the world, are fortunate to have stable, sustainable access to water. While the districts typically use substantially less water than their legal allotments, irrigation efficiency is always a critical consideration for farm operators. However, many operators may have outdated, low-efficiency irrigation systems in place and capital to upgrade these systems can be difficult to access.

This was the case in 2022 when Bonnefield worked with a local farmer to expand his acreage by supporting the purchase of 477 acres in the region. The seller was represented by the estate of a local farmer who did not have a succession plan for the farm. The property had been underinvested in for a number of years leading up to the sale. One section of the property, in particular, had aging flood irrigation equipment rather than more modern and efficient pivot irrigation. The flood irrigation installed on the property required substantially more water than more modern irrigation methods. Additionally, this older irrigation system was more labour-intensive to operate than newer systems. As part of the underwriting process and discussions with the future tenant, Bonnefield decided to invest in replacing the aging infrastructure.

With its investment in irrigation upgrades, Bonnefield was not only able to contribute to a reduction in overall water usage, but the investment also improved the productivity of the land by allowing for a greater variety of crops to be grown on these acres. This improved productivity has increased the profitability of the land for Bonnefield's tenant while at the same time helping to further improve the management of water resources in the community.



Tracks left by an irrigation pivot on the property.

Methodology

The majority of data presented in this report is collected by Bonnefield as part of the monitoring of our Standards of Care. Farmers submit information on their farms using Bonnefield’s proprietary, online Farmer Portal.

Data is expected to be uploaded by year-end each year although farmers are encouraged to input data as soon as the crop has been harvested. Bonnefield’s property managers travel cross-country to visit each farm as soon as planting starts each season (typically early May to end of October). They verify information submitted by the farmers and relay the information directly to the deal team. Additionally, agrologists hired by Bonnefield visit each farm to provide an additional layer of data verification. As of March 2023, 76% of farmers had submitted data for 2022.



Winter on a Bonnefield property in Northern Manitoba

Notes Related to Data Metric Calculations

Third-Party Verification

That the farm is maintaining good management of fertilizer/pesticides. Non-compliance is calculated as the percentage of farmland parcels that either

- (A) exhibit a soil fertility issue and / or
- (B) do not have two out of three of an adequate
 - (i) weed control
 - (ii) insect control or
 - (iii) disease control program.

Water Quality

Farmland parcels will not pass if there are water drainage issues present.



About Bonnefield Financial

Bonnefield is a leading Canadian farmland and agriculture investment manager, providing financing to progressive farmers and agricultural operators through land-lease and non-controlling equity solutions. Bonnefield is dedicated to preserving farmland for farming, and the firm partners with growth-oriented operators to help them grow, reduce debt, and finance retirement and succession. The firm's investors are individuals and institutional investors who are committed to the long-term future of Canadian agriculture. www.bonnefield.com

Footnotes

- 1 - Previously referred to as Bonnefield's "Sustainability Report"
- 2 - Statistics Canada, Table: 31-10-0045-01
- 3 - Restated from 93.5% in 2021 report to account for changes in data tracking
- 4 - Based on percentage of cultivated acres
- 5 - Defined as passing annual best management practices in third-party agrology review, as part of Bonnefield's Standards of Care
- 6 - Calculated on a 3yr rolling basis. Exclusive of situations where renewal discussions were not planned or entered into (ie retirement)
- 7 - Sustainably Managed Farmland is defined as the percentage of individual farmland parcels where best management practices are followed as assessed by a third-party agrologist

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