

Growing towards a

Sustainable Future.



2021

SUSTAINABILITY
REPORT

About Laguna Bay

Laguna Bay is an investment firm specialising in food and agriculture. Our research-driven, value-based investment strategy builds scalable and sustainable food and agribusinesses, for the benefit of all.

We believe that sustainability is an opportunity, not just a box to tick. With each investment, we seek to achieve sustainability while creating ecological and social value. We want to leave assets in a better condition than when we acquired them.

Geographies Covered

Australia & New Zealand



Laguna Bay Established

2010

Investment Capability

\$1B

Assets transacted (AUD)

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Founder's Message

Tim McGavin
Managing Director, Founder



We acknowledge the traditional custodians throughout Australia; recognise their continuing connection to land, waters and culture; and pay our respects to elders past, present and emerging

A duty of care and responsibility to protect and enhance our environment and the society we exist in is deeply rooted in Laguna Bay's DNA.

I grew up with strong associations and friendships with the local indigenous people who instilled in me a belief that nobody owns land. We act as custodians to care for the land and hand it down to future generations in a better state.

My mum and dad had a saying, "waste not, want not", meaning that if you use your resources carefully you should never be in need.

My mum and dad had a saying, "waste not, want not", meaning that if you use your resources carefully you should never be in need.

¹ CSIRO

I was born on a remote farm in outback Queensland with wind generated power supported by back up batteries. What waste the chickens didn't eat, was mulched and used to grow our vegetables. We milked our own cows, made our own butter, and butchered our own meat.

We founded Laguna Bay on the philosophy that we could help to solve some of the most challenging social issues in rural communities while enhancing the environment and delivering resilient financial returns for our investors.

Our joint venture models align and empower our operating partners, while helping to invigorate new ideas, innovations and management practices in regional areas. Together we strive to improve soils and the environment to produce consistent, sustainable, healthy and nutritious food for the planet.

Soil, vegetation and biodiversity enhancement are ways Laguna Bay makes a positive impact on our environment. Using a combination of management practices, carbon emissions can be reduced and also reversed through sequestration. While it is early days, Australia is well positioned to be a global leader in developing agricultural carbon markets.

I have been involved in carbon reduction for nearly a decade through an investment in the landfill gas sector. This has helped widen Laguna Bay's perspective and develop our knowledge on how to manage and optimise our agricultural assets for both sustainability and profitability.

The global commitment to net zero is rapidly firming. With 1% of global emissions but 8% of the land that is suitable for sequestration¹, Australia has an enormous opportunity to produce and export low cost carbon credits into a demand driven global market.



We are working on an exciting initiative with carbon auditing firm, Carbon Friendly, across our investments. We're delighted to report that our Woorndoo property reduced and removed more than 10,000t of CO₂ equivalent, net of its emissions, in 2020.

Biodiversity can also be enhanced through changes in management practices and protection of important areas of flora and fauna. This will help to create healthier soils, cleaner air and waterways and protect important species of plants, animals and insects.

At our Dickie's Waterway rehabilitation project in Victoria's Western Districts we have planted 27,000 trees to improve more than five kilometres of riparian waterway and provide a natural habitat for native flora and fauna.

Australia's very high corporate governance standards ensures our framework meets global benchmarks in relation to modern slavery, minimum wage requirements, health and safety.

We are immensely proud of our sustainability initiatives and to be playing a meaningful role in something that is bigger than all of us.

Australia's very high corporate governance standards ensures our framework meets global benchmarks in relation to modern slavery, minimum wage requirements, health and safety.

We remain focused on generating significant, non-correlated, inflation protected sustainable and socially responsible returns for our investor clients and their many beneficiaries. To be able to positively impact so many stakeholders is very humbling.

Tim McGavin
Managing Director, Founder
30 November 2021

Sustainability Highlights



Woorndoo Ag achieved a net zero carbon outcome in 2020, reducing and removing over 10,000 tonnes of CO₂ equivalent



4,200 beef calves were produced in FY21, significantly reducing NRDCs



40 South Dairies sharefarmers won the Dairy Australia Safety Award for Tasmania



27,000 trees planted & 5 kilometres of riparian waterway rehabilitated

Responsible Investment Policy

Commercially-focused analysis and a value generating mindset underpins all Laguna Bay investments. This ethos extends to matters of sustainability. We understand that superior ESG and sustainability practices work with, not against, good operational practices, and deliver improved performance which ultimately enhances value.

Principles

Laguna Bay is a signatory to the United Nations-backed Principles for Responsible Investment Initiative (PRI). We commit to the PRI Principles:

✔ Principle 1:

We will incorporate ESG issues into investment analysis and decision-making processes.

✔ Principle 2:

We will be active owners and incorporate ESG issues into our ownership policies and practices.

✔ Principle 3:

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

✔ Principle 4:

We will promote acceptance and implementation of the Principles within industry.

✔ Principle 5:

We will work together to enhance our effectiveness in implementing the Principles.

✔ Principle 6:

We will each report on our activities and progress towards implementing the Principles.

Associations

Laguna Bay has publicly declared support for:



United Nations Sustainable Development Goals.



PARIS2015
ON CLIMATE CHANGE CONFERENCE
COP21-CMP11

The Paris Agreement and Australia's NDC.



Task Force on Climate-related Financial Disclosure.



Deep Woods Estate.

Our Sustainability Framework

We believe that sustainability is an opportunity, not just a box to tick. Part of our mission is to leave assets in a better condition than when we acquired them, which is why every Laguna Bay investment is assessed according to our four sustainability pillars.

Climate and environment

Our assets are managed with a long term view of reducing our impact on climate and environment.

Our goals:

- Reduce carbon impact each year and have them independently assessed.
- Respect our water resources: use it efficiently and dispose wastewater mindfully.
- Reduce inputs: chemical, fuel and other energy, feed and fertiliser.
- Aggregate and develop to suit sustainable land use.

People and communities

Our employees and local communities are engaged and respected.

Our goals:

- Lead our industry in health and safety in terms of standard, practices and results, to keep our people safe.
- Support local communities through health initiatives to better social wellbeing around our assets.
- Provide opportunities for local communities to benefit from our investment.

Governance and standards

Our investors, partners and employees have confidence in our commitment to sustainability.

Our goals:

- Incorporation of sustainability and ESG risks, opportunities and impacts in the investment process.
- Implementation of measurable targets aligned with objectives.
- Transparent reporting to all stakeholders.

Livestock and wildlife

We meet and look beyond our legal obligations and social expectations.

Our goals:

- Humane livestock management practices.
- Prioritisation of animal welfare to enhance productivity and lessen impact per unit of output.
- Promoting regenerative areas to enhance local biodiversity.



Rating: A
Every year since 2017.

Aligned to UN Sustainable Development Goals:



Climate and Environment

Our Commitment

Laguna Bay commits to taking action to reduce our carbon impact, as verified by independent carbon assessments.

We take a long-term view of reducing our impact on the climate and environment. We consider:

- Climate change and its potential impact on investments.
- The availability of, and competition for, water.
- The protection and stewardship of productive soils.
- Pollution and disposal of waste products.
- The impact an asset and its operations have on the local environment.



Effluent Pond, 40 South Dairies.

UPDATE Effluent management



The challenge

Effluent management is an important part of any dairy farm business. Attitudes towards it are shifting – what was once considered a waste issue is fast becoming a matter of resource utilisation and environmental protection.

The opportunity

The dairy industry must continue to strive for a clean and green image and adopting best practice effluent management has benefits both on and off the farm. Effluent is a valuable resource which, when managed well, increases pasture production (effluent and sludge provide a valuable source of nutrients and organic carbon) and reduces fertiliser costs.

Our action

Spanning more than 5,000 hectares in Tasmania's northwest, 40 South Dairies owns and operates 12 large dairy farms and two runoff blocks, all within a 30km radius of Smithton. The properties are among the highest per hectare pasture production and milk production dairy farms in Australia. Over the past 3 years, Laguna Bay significantly invested in the asset by upgrading and redesigning 12 solids and 12 liquid effluent ponds. 100% of effluent is recycled and used as fertiliser, achieving zero waste in an environmentally sustainable manner. Fencing was also installed to meet HSE requirements, keeping people, livestock and wildlife safe.

UPDATE Carbon Friendly Certification



The challenge

Climate change is a significant challenge facing the global community. Of particular importance for the food and agribusiness industry is how to increase food production for a growing population while reducing the impact on the environment and then communicating this to consumers.

The opportunity

Agribusiness is uniquely positioned. It is a contributor to carbon emissions and it will directly experience the consequences of climate change, however, it is also positioned to provide significant sequestration opportunities. At Laguna Bay, we aim to reduce our carbon emissions and positively impact the environment through best practice operational techniques and sensible carbon reduction and sequestration projects. We aim to do this across our diversified asset portfolio.

Greenhouse Gas (GHG) reduction measures in the agriculture industry play a substantial role in mitigating the effects of climate change. Carbon Friendly certifies crops where producers have made a commitment to sustainable farming practices. Carbon Friendly aims to encourage farmers to reduce GHG and increase carbon sequestered in the soils.

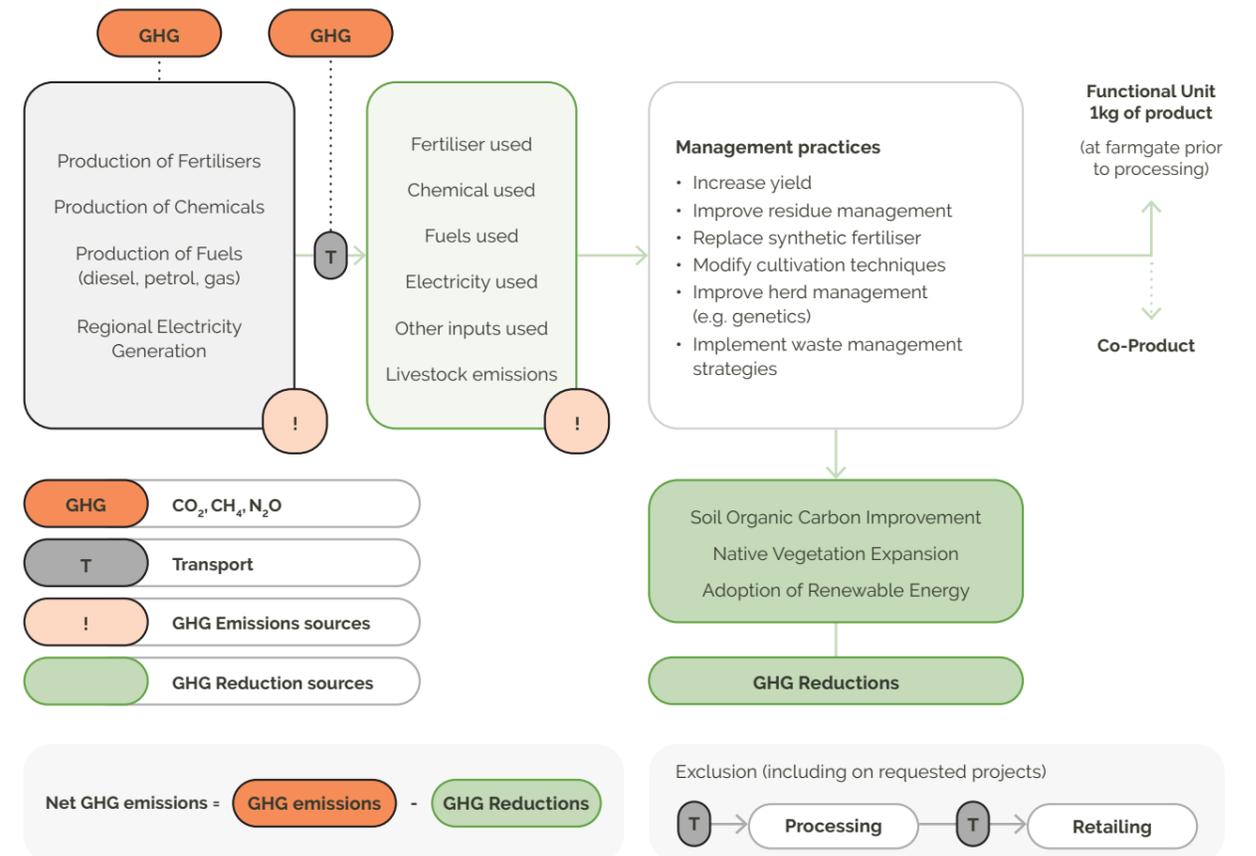
Laguna Bay utilises the Carbon Friendly certification process with a number of its assets. This is how it works:

- The GHG emissions simulation model compares the carbon footprint (from inputs through to the farmgate) of the farm's base crop against the current crop.
- It communicates the farmer's own progress, without comparing it with others – this shows intent and improvement.
- It is based on the International Greenhouse Gas Protocol guidelines and directives.
- Each carbon assessment is compliant with ISO 14064-2 then verified by third party AUS-QUAL, a leading certifying body in Australia.
- The methodology takes into account inputs including irrigation water, fuel, chemicals and fertilisers; paddock size, natural vegetation zones and yields; and organic carbon levels in the soil.
- It then gives an overall net emissions score.

Our action

Laguna Bay acquired the Woorndoo Ag property, located in the Western Districts of Victoria, in 2017 and converted it from a predominantly grazing operation to cropping that same year. Specific focus was placed on upgrading on-farm infrastructure and restoring the health of the property's soils.

Our progress was measured by the team at Carbon Friendly, who undertook a climate impact assessment for the asset. This analysis recognised GHG reductions and removals of 10,498t CO₂e by Woorndoo Ag, for the year 2020.



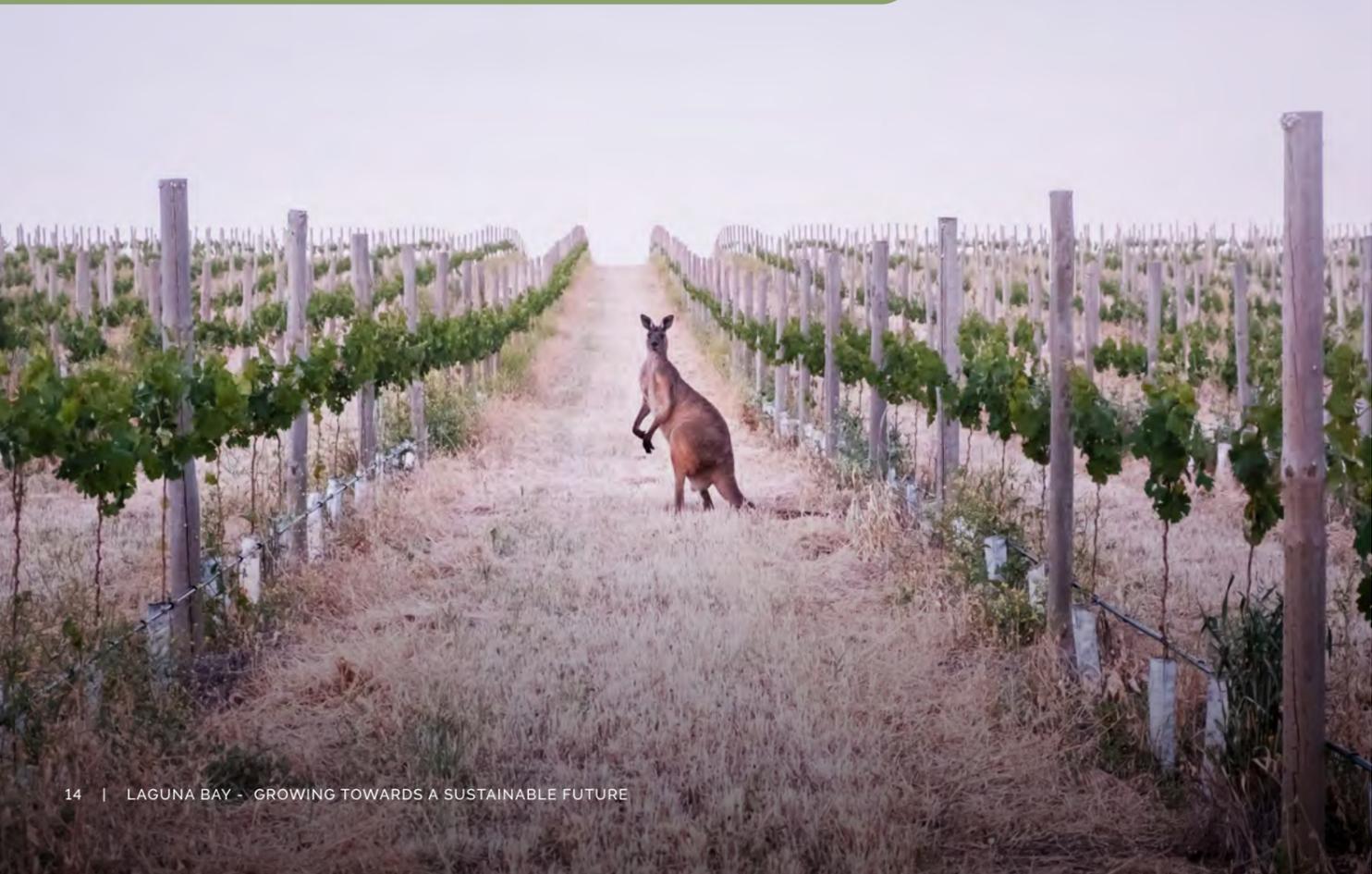
Livestock and Wildlife

Our Wildlife Commitment

Laguna Bay is committed to continuing to promote regenerative areas. Habitat loss is a leading driver of biodiversity loss. By encouraging and actively driving regeneration projects, Laguna Bay is helping to maintain healthy wildlife populations.

We recognise that animal welfare plays a critical role in our day-to-day business. We seek to:

- Meet and go beyond expected standards, guidelines and codes of practice.
- Implement humane alternatives to improve animal welfare.
- Integrate biodiversity and wildlife impacts into our ESG assessments.
- Ensure animal welfare on the farm and throughout the supply chain.



Dickie's Waterway, Woorndoo.



UPDATE

Dickie's Waterway project



The challenge

When we acquired the Woorndoo Ag asset in 2017, we inherited significant areas of water logged pasture, a degraded waterway and dam which required upgrading to support the conversion from grazing to high yield cropping.

The opportunity

Laguna Bay saw an opportunity to rehabilitate a riparian grass and native wetland area approximately five kilometres long, which will ultimately discharge its water into an upgraded dam.

Our action

The project has gradually restored a natural riparian corridor running alongside 'Dickie's Waterway' which runs through the farm. The project's goals were to improve soil composition, prevent soil erosion, enhance biodiversity, support the return of native wildlife, increase organic carbon soil levels and decrease carbon emissions.

In total we've planted 27,000 trees over five kilometres – this forms a natural windbreak, and a biodiversity strip for wildlife and insects which supports local ecology. The trees planted are indigenous to the local area, including native gums, bottlebrush, banksia and paperbarks that are suited to the growing conditions.

The project also helps link an existing waterway corridor on each side of Woorndoo and facilitates effective drainage of surrounding cropping areas – ours and neighbours. These help protect our raised bed formations and guard against erosion.

Our Livestock Commitment

Laguna Bay commits to humane alternatives to improve livestock management and animal welfare. We want our investors to feel comfortable that we aim for best practice and ethical approaches throughout the animal life cycle.

UPDATE

Dairy Beef program



The challenge

Representing 75% of calves born in the dairy industry, NRDCs (or non-replacement dairy calves) are calves born from milking cows, which are not intended to be reared to replace the outgoing milking herd. NRDCs are considered a low-value by-product of dairy farming.

The opportunity

The correct investment into a dairy beef enterprise could drive significant change in Australia's dairy industry with animal welfare, environmental and social benefits. Crossing a dairy cow to a beef sire produces a product on par with conventional beef, with a carbon footprint significantly lower than conventional beef. Sourcing calves for beef from a dairy herd eliminates the need for a separate beef breeding herd.

The emission output, primarily enteric methane emissions, of one dairy cow can produce both dairy and beef outcomes (via calf progeny), significantly reducing overall emissions.

Our action

Laguna Bay, through its investment in 40 South Dairies, has produced 4,200 beef calves in the FY21 year, significantly reducing NRDCs.

We are presently developing an investment case to refine and operate the beef business at scale, which models the full potential of the dairy beef production system. The effect of this is expected to be significant to the wider up-take and investment in these systems within the dairy industry.



People and Communities

Our People Commitment

Laguna Bay commits to continuing to develop as leaders in health and safety, and educating our employees and partners to make a difference. Healthy and happy employees make a more effective and productive workforce.

We champion sustainable operators and treat our local communities with respect. We focus on:

- Laguna Bay's effectiveness in maintaining relationships with the community.
- Our effectiveness in constructively managing labour relations with our workforce.
- How we can effectively manage and provide transparency for the safety of our workforce.
- Adhering to Australian regulations and international conventions.
- Workforce diversity, including gender diversity at senior levels.



UPDATE

National award for health and safety



The challenge

The maturity level of health and safety in the Australian agriculture industry is not as high as other significant industries such as mining and construction.

The opportunity

The growth of corporate agricultural enterprises can have a significant positive effect on health and safety across farming communities, by leading improvements to processes and increasing awareness.

Our action

Over the last 12 months, Laguna Bay controlled assets reported consistently high completion rates for Safe Work Practices and certified training, with both Woorndoo and 40 South Dairies averaging over 85%. Injury numbers were below or slightly above the Corporate Ag Group benchmark with no injury serious enough to be reportable to State agencies. The focus on health and safety at Laguna Bay assets was reflected in the presentation of the 2021 Dairy Australia Safety Award for Tasmania to 40 South Dairies Sharefarmers, Luke and Tammy Tuxworth. Luke and Tammy were interviewed on ABC radio and have been asked to share their learnings on farm safety and calf rearing with the local dairy community.



Luke and Tammy Tuxworth - 2021 Dairy Australia Safety Award for Tasmania.



Smithton Primary School

Our Communities Commitment

Laguna Bay commits to supporting local communities through the initiatives of our assets.

UPDATE

Donation of calves to local schools



The challenge

Our assets are all located in regional communities. Supporting regional areas helps keep them viable and vibrant for the future.

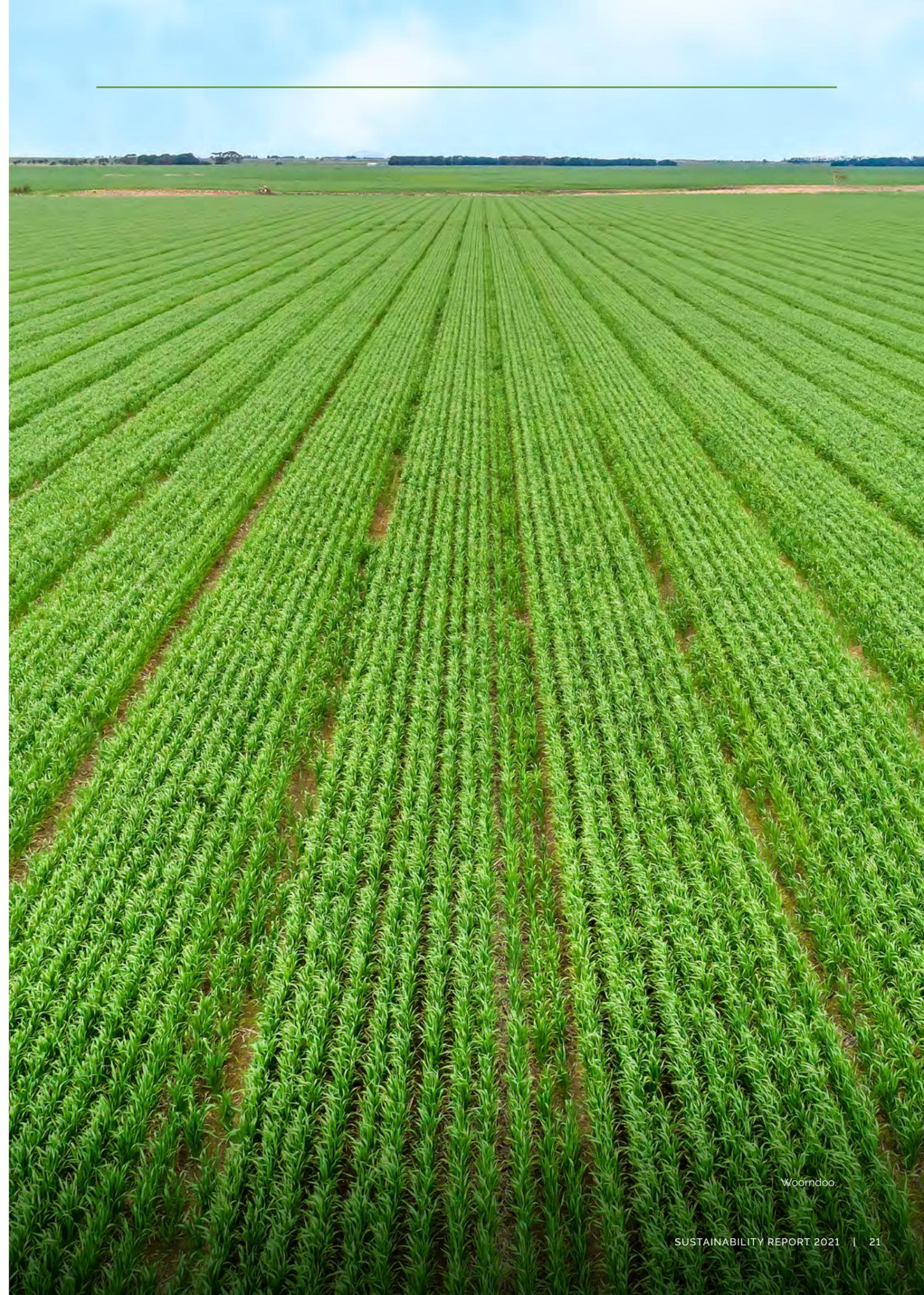
The opportunity

Regional Australia is responsible for approximately 40% of the nation's economic output and provides around 30% of the job opportunities. Our assets and sharefarmers are a significant business in the local area and have a real opportunity to give back to the local community.

Our action

For the past four years, Smithton Primary School has run a very effective whole school Dairy Industry Focus program. Two of our Sharefarmers partner with the school and gift calves for the students to hand rear, as well as providing milk powder, calf grain and most importantly, plenty of support.

This program allows staff and students an up close and personal look at one of the primary industries and employers of their town. It integrates well into the curriculum – students write about the calves, conduct mathematical and scientific investigations, and learn about ethical treatment of animals. Interestingly, the school has seen an increase in student engagement and in school attendance levels as a whole.



Woorndoo

Governance and Standards

Our Commitment

Laguna Bay commits to a strong ESG focus in our due diligence process.

We commit to good governance and empower our partners to do the same. We ensure:

- The structure and composition of boards of directors are adequately skilled, and directors are fit and proper.
- The provision of adequate transparency about the Company's operations, ESG measures and a governance structure that demonstrates appropriate accountabilities.
- A culture at Laguna Bay that safeguards against bribery or corrupt practices.



UPDATE

ESG integration into investment and asset management functions



The challenge

The Laguna Bay team believes capital can be allocated in a manner that addresses sustainability challenges over the long term while creating value in a manner that meets the objectives of investors and their beneficiaries.

The opportunity

We recognise that ESG factors can have a significant impact on the performance of an asset or business and that ESG factors of an agribusiness can have a significant impact on the surrounding environment and community. Accordingly, the assessment of ESG risks and opportunities forms an important part of Laguna Bay's screening and diligence process when reviewing potential investments, and asset management processes once an investment is made.

Our action

Laguna Bay includes an ESG assessment, covering risks and opportunities, in Investment Committee submissions and prior to any recommendation to the Board for approval. The detailed ESG due diligence program is tailored for each new investment based on risks and opportunities identified by reference to the sector, geographic location and operational characteristics of the investment.

As part of the annual plan update, ESG related risks and opportunities are re-assessed to identify anything new and understand any change to the previous evaluations.



Carpendale.

Other Achievements

Laguna Bay continues to work on other projects to improve our sustainability.



Our dryland cropping paddocks at Woorndoo have been developed into raised beds, this improves drainage and water efficiency.



Procedures have been implemented at 40 South Dairies to cull less productive cows. By only retaining the most effective cows, we are increasing the productive output per CO₂e emitted.



Hump and hollow drainage has been extensively implemented through 40 South Dairies to improve water and fertiliser efficiency and minimise soil damage from stock.



New assets in the portfolio, Carpendale and Allied Beef are implementing the GreenSquare health, safety, environment and animal welfare system, in line with Woorndoo and 40 South Dairies.



Through the year we made a commitment to a local care centre which provides living arrangements to people who have suffered injuries as a result of farming accidents.



Our developments at Carpendale have converted grazing to dryland cropping, significantly improving productivity.



The Brisbane Laguna Bay office operates in a 6 Greenstar, certified carbon neutral building.



Millbrook Estate.

This Report has been prepared by and on behalf of Laguna Bay Pastoral Company Pty Ltd (ACN 61 166 533 615) (**Laguna Bay**). Laguna Bay is a corporate authorised representative (AR No. 452491) of LBPC Services Pty Ltd (ACN 56 168 904 916, AFSL 461135).

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