

# CARE

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RISK RATING AGENCY

UPDATE OF THE RISK  
RATING OF PARTICIPATION  
CERTIFICATES IN  
POSSESSION OF THE TRUST  
"FIDEICOMISO FINANCIERO  
FORESTAL BOSQUES DEL  
URUGUAY 4"

*Montevideo, April 2021*

# CARE

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## RISK RATING AGENCY

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## Updating of the Rating Issuance of Public Offer April - 19 - 2021

**Name:** Fideicomiso Financiero Forestal Bosques del Uruguay 4  
**Trustee:** EF ASSET MANAGEMENT Administradora de Fondos de Inversión S.A.  
**Operator (Manager) and Organizer:** Agroempresa Forestal S.A.  
**Registration and payment:** EF Asset Management. Administradora de Fondos de Inversión S.A.  
**Representative:** Bolsa Electrónica de Valores del Uruguay S.A.  
**Securities:** Book entry participation certificates  
**Currency:** US Dollars  
**Issue amount:** USD 330,000,000  
**Subscription Date:** April 10, 2019  
**Allocations:** According to the established procedure, there are Net Distributable Funds according to the results and after the third year.  
**Trust assets:** Purchase and/or lease of rural land for the development of forest exploitation.  
**Term of the trust:** 30 years maximum.  
**Validity of the Rating:** November 30, 2021.  
**Risk Rating:** BBB.uy<sup>1</sup>  
**Rating Committee:** Julio Preve, Martín Durán Martínez, and Adrián Tamber.  
**Manual used:** Manual de Calificación de Finanzas Estructuradas Administradas por Terceros [Third Party Managed Structured Finance Rating Manual]

<sup>1</sup> The granted rating may be subject to changes at any time as a result of CARE's work methodology.

### General Overview

***CARE has updated the rating of the participation certificates in possession of the trust “Fideicomiso Financiero Bosques del Uruguay 4”, maintaining the BBB.uy investment grade rating.***

From the actual main elements of judgment, the rating committee highlights the following:

- A financial construction that from a legal standpoint provides the necessary guarantees, as reflected in the legal report in Annex I of the original rating.
- A project that, from a physical and economic point of view, passes various tests to which the issuer and the rating agency have reasonably submitted the project. For this report, a new financial flow has been made available. However, the conclusions of the previous ratings remain the same. Also, a new estimate of the Opportunity Cost of Capital, that takes into account the variations in the international interest rate and country risk, has been produced.
- This project repeats the same basic characteristics of three other similar projects in the same business and with the same participants. These three other projects have fulfilled their business plans without major inconveniences. The deviations observed have been duly justified by the operator and the Supervisory Committee and, in principle, do not generate changes in the project's progress.
- A business comprising the acquisition of 55,365 hectares of forest land, on which, between those hectares already planted and those to be planted, an average harvest of 63% will be obtained. The Trust also leases a total of 6,030 hectares, of which a total of 3,900 hectares are planted. The forested area, between owned and leased fields, will be 38,700 hectares.
- It is noteworthy the alignment of incentives between the Trust and the Administrator, since the latter acquired Participation Certificates for 0.6% of the total amount of the public offering in the first issue. Likewise, Agroempresa Forestal is obliged to acquire in each year in the secondary market the Participation Certificates offered, for an amount equivalent to 0.6% of the initial issue, until completing a total participation of 3% at the fifth year from the date of issue.
- As of March 2021, the operator presented a new cash flow projected to 2039. Based on these projections, CARE estimates that the IRR for those who acquired the participation certificates in 2019 (although there were three integrations, all were in 2019) would be 9.5%. These results are estimated on the basis of expected timber prices and an evolution of costs, revenues and increase in land price, that CARE considers reasonable<sup>2</sup>.
- The first appraisal of the Trust's fields and forests as of December 31, 2020, is available and shows a total value of USD 388.44 million, a figure that exceeds the issued amount<sup>3</sup>.

<sup>2</sup>. The current health pandemic could have an effect on asset values and prices in the short term, but since this is a long-term business, it is understood that at the time of liquidation of assets that issue will have been overcome.

<sup>3</sup>. CARE has some differences regarding the methodology applied, which are stated in section IV.

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- After a sharp fall in 2019, pulp price has begun to show some signs of recovery in the first months of 2021. The reduction of stocks and the recovery in demand, which should continue as the Covid-19 pandemic is overcome, would explain the beginning of the recovery of prices. The export market for pine and eucalyptus solid timber has also started to recover since the fourth quarter of 2020, although prices are still relatively depressed. The current situation shows that the recovery of values has been slow compared to other commodities, but there are no elements to assume that in the medium and long term this situation will continue, since the trend of the growth in demand is expected to continue. Section V provides updated information and further details on these aspects, particularly the evolution of land and wood prices.
- In 2020, the value of sales ended aligned with the projections, despite the fact that in the second quarter the activity was somewhat affected by the effects of the pandemic. The Trust took advantage of the market opportunities generated for pine exports, achieving exports well above the forecast for the year and thus bringing forward the reconversion. Eucalyptus solid wood exports did not reach the expected volumes or revenues.
- There are no threats in terms of public policies.
- We consider that the health crisis caused by Covid-19 will not have an impact of such a magnitude that it has not been contemplated in the sensitizations.

### 1. INTRODUCTION

#### 1. Scope and conceptual framework of the rating

CARE Risk Rating Agency has been hired to update the rating of the participation certificates in possession of the financial trust “Fideicomiso Financiero Forestal Bosques del Uruguay 4”.

Risk rating implies the stating of a specialized point of view by a company authorized for this purpose by the Central Bank of Uruguay (BCU), which supervises and controls the financial system, as well as risk rating agencies. The rating obtained does not represent a recommendation or guarantee of CARE for future investors; therefore, for any decision, the rating should be considered as one point of view to be taken into account, among others. CARE does not audit or verify the accuracy of the information submitted, which comes, however, from sources considered as reliable.

The conceptual framework of this rating implies a prospective exercise where a trust is given a grade that qualifies its expected performance and its capacity to generate profits over time, according to the forestry business project that its management is mandated to carry out. Once the IRR's range, derived from multiple simulations, has been admitted as reasonable for the project in the first rating, future ratings are not strictly connected to the obtention of those figures. In fact, this is not a case of an issue with a fixed return commitment. Therefore, the grade will not depend strictly neither on the extent of the Internal Revenue Rates calculated for the project, nor on the investors' opportunity cost of capital. In short, the grade will be based, among other criteria, on the compliance with the project and the achievement of a minimum return deemed acceptable at the time of each re-rating.

CARE Risk Rating Agency is a rating agency with records and manuals approved by the Central Bank of Uruguay as of April 1998. Its rates are a result of its methodology, duly approved by said authority, and the necessary professionals are selected for each case, to integrate the rating committee, which judges according to CARE's manuals. These manuals, its code of ethics, records and precedents are available on CARE's website: [www.care.com.uy](http://www.care.com.uy), as well as on the regulator's website: [www.bcu.gub.uy](http://www.bcu.gub.uy). In this case, the rating committee was composed by Martín Duran Martínez, Julio Preve, and Adrián Tamber. CARE also hired Mr. Leandro Rama, Attorney at Law, for the legal risk assessment at the time of the original rating. Care also regularly pays for additional field reports when necessary, and performs site visits.

Beyond standard updates, the rating may change due to new relevant facts. The semi-annual evolution of the business plan set forth in the Prospectus will be considered a significant event.

### 2. General background and most relevant events in the period

#### a. Background

- The financial trust “Fideicomiso Financiero Forestal Bosques del Uruguay 4” aims to provide investors with long-term returns achieved essentially through the proceeds of the sales of timber and standing forests, and the increase of the price of land assets, as well as, although to a lesser extent, from the proceeds of the sale of carbon credits and the grazing of non-forested lands. Investment and management protocols with adequate productive, environmental and social standards are followed at all times.
- As the most relevant antecedent, the Forest Financial Trusts Bosques del Uruguay I, II and III, which subscribed participation certificates in August 2011, October 2014, and December 2016, for an amount of 50, 70 and 190 million dollars, respectively, must be mentioned. These trusts, managed by the same entity as the current one, have been complying satisfactorily with their original business plans, which are similar to the one presented in this occasion.
- The development of the forestry enterprise begins with the acquisition of land and forests, continues with the silvicultural management of the trees, and finishes with the harvesting and marketing of wood, either for pulp production or sawmilling.
- The term of the Trust is for a maximum of 30 years, or until the Participation Certificates issued by the Trustee are paid in full and the other obligations under the Agreement are canceled. However, due to the scope of the project and the current age of the asset acquired, the investment is estimated to last approximately 20 years.
- The financial trust “Fideicomiso Financiero Forestal Bosques del Uruguay 4” was established on December 17, 2018, by the signing of the respective agreement between EF ASSET MANAGEMENT Administradora de Fondos de Inversión S.A. as “Trustee”, Agroempresa Forestal S.A. as “Manager”, and the initial Underwriters of the Securities as “Trustors”.
- With the issuance, it was acquired a forestry asset that was already forested and in full operation. A total of 55,365 hectares were purchased, comprising two blocks: the North (Terena) with 18,802 hectares, and the Northeast (Guanare) with 36,563 hectares. The fields of the Northeast Block are located in the departments of Cerro Largo and Treinta y Tres and those of the North Block in the departments of Tacuarembó and Rivera.
- The current planted area in the fields property of the company is approximately 34,650 hectares; there are about 370 hectares available for planting, which would result in an average utilization of 63%.
- The Trust also leases a total of 6,030 hectares, of which a total of 3,700 hectares are planted. The leased fields are located in the departments of Cerro Largo, Treinta y Tres, Tacuarembó, Rivera and Durazno.

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- At the end of the project, the estimated total revenues from sales will be 51% from the sale of timber, 35% from the sale of standing timber, and 15% from the sale of land at the end of the project. Revenues from grazing are marginal. These revenues are estimated by discounting the expected cash flow at a rate of 6%.

**Table 1. Composition of Bosques del Uruguay 4 revenues (discounted at 6%)**

Item	Amount (US\$)	Participation
Sale of wood and pulp	958,839,612	51%
Sales of land	254,486,667	14%
Sales of forests at the end of the	665,800,457	35%
Grazing	8,611,442	0%
<b>Total</b>	<b>1,879,126,736</b>	<b>100%</b>

Source: CARE based on the financial flow provided by the operator

- The business plan assumes that as the pine forests are cut, the harvested areas will be replanted with Eucalyptus sp for the production of knot-free saw wood, and in the less productive areas, Eucalyptus species will be planted for the production of cellulose pulp.
- On August 28, 2019, the Trust took possession of the acquired fields, and the Operator started its operations.
- In December 2020, the annual FSC certification audit was carried out without major developments and the certificate was renewed without any major observations.
- In order to address the cash deficits from the harvesting costs and the export process, the Trust has taken short-term loans with local private banks, which have been renewed on several occasions. On all these occasions, the renewal has been approved by the supervisory committee and the Trustee has informed the Rating Agency.

### ***b. Most relevant events in the period***

- In 2020, 1,895 hectares were reforested, 38 hectares more than those budgeted. Costs per hectare were slightly higher than expected due to the higher tillage costs of the areas to be reforested.
- In December, the company Geosylva carried out the control of the survival and early growth of the autumn plantings. Despite having had some problems with frost and wind during winter, the percentage of new plantings was good for all the properties and species, 94% on average.
- The pruning and regrowth control plan was reasonably complied with, and costs stayed within budget.



- In 2020, the wood harvest was greater than the previous calculations. Taking taking advantage of market opportunities, a significant volume of pine logs exported to China and India, while simultaneously meeting pulpwood volumes committed to local pulp mills. One of the main deviations from the previous calculations was generated by the lower volume of eucalyptus logs exported.
- Negotiations continue for the purchase, or participation in the purchase, of a sawmill. This option will require a modification of the Trust agreement.
- The area under grazing contracts in the fourth quarter of 2020 increased by about 2,200 hectares compared to the previous quarter, bringing the total percentage of leased area to 72%. With the contracts currently in force, the total grazing income for 2021 is estimated at USD 473,786, in line with the budget.
- On November 30, the swap of 347 hectares of non-forest land for the equivalent of forest hectares was signed. This new area was included in the operating plan to be forested in 2021.
- On December 28, 2020, the Meeting of Holders of the Participation Certificates with a 99.99% representation was held , where it was decided to modify some terms and conditions of the participation certificates; the modifications do not modify CARE's rating.
- As of December 31, 2020, the total forested area, in owned and leased fields, is approximately 38,350 hectares, of which approximately 63% corresponds to Eucalyptus and 37% to pine.
- On this occasion and for the first time, an appraisal of the trust's forests and fields as of December 31, 2020 is presented, which shows a total value of US\$ 388.44 million, a figure that exceeds the issued amount.

### 3. Analyzed information

The information analyzed was as shown below:

- Balance sheet with audit report as of December 31, 2020, of Agroempresa Forestal.
- Financial statements of the Trustee as of December 31, 2020
- Financial statements of the Trust as of December 31, 2020.
- Interviews with senior staff of Agroempresa Forestal.
- Operator's reports, the latest as of the fourth quarter of 2020.
- Appraisal Report of the lands and forests of the BM2C Trust as of December 31, 2020.
- Appraisal Report of the lands of the Agroclaro Trust as of November 30, 2020.
- Audit Committee reports, latest as of January 30, 2021.
- Ratings and updates of Forest Financial Trusts Bosques del Uruguay I, II and III, carried out by CARE.

### II. THE TRUST AND THE PARTICIPATION CERTIFICATES

Participation certificates in possession of the trust "Fideicomiso Financiero Forestal Bosques del Uruguay 4", created by the corresponding financial trust agreement, were offered in a public offering. This agreement, the certificates and the other contracts mentioned are discussed in this section.

#### 1. General description

**Name:** Fideicomiso Financiero Forestal Bosques del Uruguay 4

**Trustee:** EF Asset Management Administradora de Fondos de Inversión S.A.

**Administrating manager:** Agroempresa Forestal S.A.

**Registration and payment agent:** EF Asset Management Administradora de Fondos de Inversión S.A.

**Representative:** Bolsa Electrónica de Valores del Uruguay S.A.

**Stock exchange listing:** Bolsa Electrónica de Valores del Uruguay S.A.

**Organizer:** Agroempresa Forestal S.A.

**Securities issued:** Participation certificates

**Trust assets:** The Trust invested in the purchase and lease of rural properties for forest exploitation.

**Currency:** Interbank dollar

**Issued amount:** USD 330,000,000

**Allocations:** Whenever there are Net Distributable Funds after each year-end closing, or upon the sale of the assets of the Trust, or upon the final distribution of Net Remaining Funds. (Between the years 0 to 2, there will be no distribution of funds even if they exist since they will be used for financing the business plan.)

**Risk Rating:** BBB.uy

### 2. Legal analysis

The legal analysis was added in Annex I ("Fideicomiso Financiero Forestal Bosques del Uruguay 4". Legal Report). It ruled out any possible conflict arising from, for example, the legal structure, the respective agreements, the compliance with current regulations, etc.

At the beginning of the report, the introduction stated that *"from the attestation of all these documents, as a general concept, it can be pointed that they comply with the legal and regulatory provisions for the financial trust, both in terms of its formal constitution and aspects related to the capacity and recognition of the parties. As for the substance, there are no legal obstacles that prevent or jeopardize the expected yield under the participation certificates to be issued."*

The report finally concludes: ***"...In conclusion, and considering all aspects involved, the trust business has a reasonable degree of coverage, with no noticeable legal risks associated to the issuance process"***

### 3. Risks considered

**Structural legal risk.** This includes the analysis of possible defaults in the payments to beneficiaries, due to defects in the legal structure, for failing to comply with any regulation in force, as well as by the possible enforcement of court orders as a result of claims for damages by possibly affected parties due to the creation previously described. The aforementioned report having been verified, which essentially resembles the reports of Trusts I, II and III, it is concluded that *he structural legal risk is considered to be virtually nil.*

**Liquidity risk.** The certificates have been designed to be liquid. Hence, liquidity can be considered as adequate given the characteristics of the Uruguayan market. However, this process is not instantaneous, it and may take a period difficult to determine. *The risk is medium-low.*

### III. THE MANAGEMENT

The characteristics of the issue make it necessary to analyze two managing companies: EF Asset Management (EFAM) as issuer and trustee of the financial trust, and Agroempresa Forestal S.A. (AF) as operator of the project.

#### 1. EF Asset Management (EFAM) (The Trustee)

The trustee or managing company is EF Asset Management Administradora de Fondos de Inversión S.A (EFAM). It is a closed joint stock company with the purpose of the management of investment funds and trusts of whatever nature. It was registered in the National Register of Commerce under No. 2014 - Taxpayer Identification Number: 214769530012, on April 7, 2003.

On August 20, 2003, the Central Bank of Uruguay (BCU) authorized the company to operate under the Investment Funds Act No. 16,774 of September 27, 1996, and its subsequent amendment in Law No. 17,202 of September 24, 1999.

On July 9, 2004, the Central Bank of Uruguay (Communication No. 2004/188) authorized the firm to operate as a Financial Trust within the framework of Law No. 17,703 of October 27, 2003. Also, on that date, the company was registered as a Financial Trustee in the Securities Market Registry of the the Central Bank of Uruguay.

On May 23, 2005, the Central Bank of Uruguay authorized it to act as a Professional Trustee within the framework of the aforementioned law (No. 17,703). On the same date, the company was registered in the Register of Professional Trustees, General Trustees Section, kept by the Central Bank of Uruguay.

#### **Authorities**

The Board of Directors is composed of Diego Rodríguez Castagno, as President, and Nelson Mendiburu Battistessa, as Vice-President.

#### **Economic and financial situation<sup>4</sup>**

The analysis of the financial statements as of December 31, 2020, continues to show a situation of robust solvency. The liquidity ratio remains below one. It should be mentioned that the non-current assets are largely made up of the security deposits to which the firm is bound, according to current regulations, and by the trusts it manages and which are, therefore, of restricted availability. This explains the financial liabilities, which are incurred to constitute these securities which, once they are released, cancel the financial liabilities. As for the eventual temporary need for funds to meet short-term obligations, the firm has obtained financing from related parties, and therefore, the liquidity risk is very limited.

<sup>4</sup>. In relation to the health crisis caused by Covid-19, and its possible economic impacts, the Management considers that there would be no significant impact on the Company's financial and equity situation, given that it has a diversified trust portfolio and that its long-term agreements remain unchanged.

**Table 2: Financial Statement of EFAM (thousands of \$)**

Item	12/31/2020	12/31/2019	12/31/2018
Current Assets	15,859	16,842	9,167
Non-current Asset	228,346	176,772	95,074
<b>Total Assets</b>	<b>244,205</b>	<b>193,613</b>	<b>104,240</b>
Current Liabilities	27,348	22,132	14,368
Non-current Liabilities	180,257	140,738	63,040
<b>Total Liabilities</b>	<b>207,605</b>	<b>162,870</b>	<b>77,408</b>
<b>Assets</b>	<b>36,600</b>	<b>30,743</b>	<b>26,832</b>
<b>Total Assets and</b>	<b>244,205</b>	<b>193,613</b>	<b>104,240</b>
<b>Current Ratio</b>	<b>0.58</b>	<b>0.76</b>	<b>0.64</b>

Source: Financial statements of EFAM

The results of the company as of December 2020 show a significant increase compared with the same period of the previous year.

**Table 3: Revenues Statement of EFAM (thousands of \$)**

Item	12/31/2020	12/31/2019	12/31/2018
Operating Revenues	60,275	48,081	45,176
Sales and Administration	(53,901)	(43,595)	(41,745)
<b>Operating Result</b>	<b>6,373</b>	<b>4,486</b>	<b>3,431</b>
Financial Results	2,566	2,484	(682)
<b>Pre-tax profits or losses</b>	<b>8,939</b>	<b>6,970</b>	<b>2,749</b>
Revenues Tax on Economic	(2,686)	(2,586)	(1,120)
<b>Fiscal year profit or loss</b>	<b>6,253</b>	<b>4,384</b>	<b>1,629</b>
Revenues from operating	10.57%	9.33%	7.59%
Fiscal year revenues	10.37%	9.12%	3.61%

Source: Financial statements of EFAM

EFAM manages an important portfolio of trusts, both in number and diversity; therefore, its suitability for this function offers no doubts.

## 2. Agroempresa Forestal S.A. (AF)

The operating company has already been analyzed by CARE when performing the original rating of this trust, and three other similar trusts and their successive updates. On all occasions the firm's evaluation in terms of its capacity to carry out the different projects has been positive, so that from now on it will only be followed up, flagging any relevant fact that may justify a review of such opinion.

As a summary, AF Global SRL is the holding company under which AF Administraciones Forestales operates. The other two divisions are La Novillada (weed control and sales of agrochemicals) and AF Maderas, which is focused on the export of logs for sawmilling and timber sales in the domestic market.

AF started operations in Uruguay in 2000; in 2007 in Chile, and in 2010 in Brazil. Combining the three countries, AF managed more than 100,000 hectares.

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In Uruguay, which is most relevant antecedent, AF manages, among others, the assets of four trusts (including this one) rated by CARE, and for their acquisition a joint issuance of participation certificates was necessary, worth USD 630 million. Due to their good performance to date, all of them have been rated with an investment grade.

With the starting-up of the fourth trust, AF assumed the need to restructure its organization by adapting it to the new and growing needs. In this sense, a consulting firm, Deloitte, was hired to suggest the improvements that AF should make in this regard.

The work took six months, and resulted in a series of recommendations already detailed in the previous update. In general terms, these recommendations have been implemented and detailed in previous update reports so it is not necessary to repeat them in this report.

These changes have been reported by the firm in the reports listed below: Advances in Human Capital.

The new structure, that complements and supports the business structure, has been defined, and changes in its different professional positions are regularly reported. It is composed of a Board of Directors, an Audit Committee, and a Compliance Committee.

### **Key persons**

- **Francisco Bonino, Agricultural Engineer**, continues to be the key figure as Chairman of the Board and member of the Audit Committee.
- **Dan Guapura, Industrial Mechanical Engineer**, General Manager
- **Maria Stella. Economist, MSc.**, responsible of reporting to investors, annual valuations (Bolsa Electrónica de Valores del Uruguay Sociedad Anónima (BEVSA)/Independents/AF), financial projections and the evolution of key variables (prices, comparable transactions, etc.).

One point to highlight is that AF has work teams that operate with members residing in Uruguay, Chile and Brazil. In this regard, the incorporation of new personnel had to be planned taking in consideration both the new person joining the company and those who already have their ongoing activities and responsibilities.

### **Economic and financial situation**

The firm closes its balance sheet on December 31. We had access to the latest available balance sheet audited by Deloitte as of 12/31/20.

According to them, the firm shows a positive and growing evolution of assets, consistent with the evolution of results obtained. Its participation in the 4 trusts it manages is worth mentioning. Its assets at the closing of 2020 included a total of participation certificates issued by EFAM amounting to almost USD 6.6 million.

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In view of the above, a favorable opinion continues to be held as to AF's capacity to carry out this and the other transactions mentioned above. It is also recalled that, as trust asset manager, AF is subject to the usual controls in such cases, even contemplating the possibility of its replacement in the event of any of the contingencies provided for in the respective agreements.

### **The Trust<sup>5</sup>**

On 12/17/18, it was concluded the trust agreement between EFAM (trustee) and AF (manager). On 03/18/19, the Central Bank of Uruguay authorized the registration of the Trust in the Securities Market Registry and the consequent issuance of Participation Certificates for up to USD 330 million.

Pursuant to the above, the Trust issued Participation Certificates for USD 330 million (the maximum authorized) already fully integrated into three successive issues made between 04/11/19 and 08/26/19, thus complying with the beginning of the forestry business plan described in another section of this report.

Follows the financial statements of the Trust at the year-end closing of 2020.

**Table 4: Financial Statement of the Trust (thousand USD)**

Item	12/31/2020	12/31/2019
Current Assets	10,259	6,576
Non-current Asset	411,156	321,617
<b>Total Assets</b>	<b>421,415</b>	<b>328,193</b>
Current Liabilities	8,490	1,843
Non-current Liabilities	5,439	201
<b>Total Liabilities</b>	<b>13,929</b>	<b>2,044</b>
<b>Assets</b>	<b>407,487</b>	<b>326,149</b>
<b>Total Assets and Liabilities</b>	<b>421,415</b>	<b>328,193</b>
<b>Current Ratio</b>	<b>1.21</b>	<b>3.57</b>

Source: Financial statements of the Trust

The book equity shows a considerable increase compared to the previous year, mainly due to the valuation of biological assets, which yielded a higher value of USD 86.7 million. As a result, the net worth exceeds the issue received by 23.5 %. This item and the appraisal of the land assets are analyzed in depth in Section IV of this report.

In summary, at the year-end closing of 2020, the book value of the forests was USD 275.5 million, while the book value of the land was USD 113 million. The latter item does not include improvements appraised in USD 23 million.

As for liabilities, there are bank loans with a balance at the closing date of USD 7.6 million. Of these, the most important is a loan for USD 8 million that is being amortized in 36 equal and consecutive monthly installments since March 2020. The rest are short-term bank loans.

<sup>5</sup>. In view of the health crisis, and its uncertain evolution, it is noted that this could affect the values of the assets in the short term, but since this is a long-term business, it is understood that at the time of liquidation of the assets the issue will have been overcome

**Table 5: Revenues Statement of the Trust (thousand USD)**

Item	12/31/2020	12/31/2019
Operating revenues	27,451	243
Changes in the value of biological assets	86,949	
Cost of goods sold	(19,790)	(69)
<b>Gross result</b>	<b>94,610</b>	<b>174</b>
Administration and selling expenses	(7,457)	(3,834)
Financial results	(131)	426
Sundry profits and losses	(3,188)	
<b>Results before Revenues Tax on</b>	<b>83,834</b>	<b>(3,234)</b>
Revenues Tax on Economic Activities	(2,496)	(307)
<b>Profit or loss for the fiscal year</b>	<b>81,338</b>	<b>(3,542)</b>
Issuance costs	-	(310)
<b>Comprehensive profit or loss for the</b>	<b>81,338</b>	<b>(3,851)</b>

Source: Financial statements of the Trust

Revenues recorded in the period, according to the table above, are almost entirely from the sale of wood. As mentioned above, the other major item explaining these results is the revaluation of biological assets. On the other hand, the land valuation resulted in a downward adjustment of USD 3.2, recorded as a loss under the caption "Sundry results" in the preceding table. It is reiterated that the asset appraisal criteria and their implications are analyzed in another section of this report.

### Risks considered

**Legal risk**, due to noncompliance with any provision by the trustee or the administrator. This risk is analyzed in detail in the legal contingencies report, which concludes that no risks in this regard have been identified. *Very low risk.*

**Management risk**, considering the suitability of AF S.A. and EFAM to fulfill the function, and according to all the analyses carried out, we consider that the risk of non-compliance of the administrator and the trustee with the project's responsibilities is limited. On the other hand, its replacement is foreseen in the event of deviations that justify it. *Low risk.*

**Risk of conflicts**, derived from the possibility of lawsuits capable of interfering with the mandate received, and of the existence of provisions to face them. For the same reasons as above, it is unlikely that even if conflicts arise, the trustee and the manager could not resolve them to the satisfaction of the project. *Very low risk.*

**Risk due to change of trustee** is adequately provided for in the relevant cases, which leaves this possibility to investors adequately represented.

**Risk due to change of forest manager**, is also provided for in the agreement depending on different results and circumstances.



### IV. UNDERLYING ASSET AND FUTURE CASH FLOW

#### 1. Trust assets and descriptive aspects of the project

An investment was made in the purchase of a forestry undertaking under the conditions set forth in the Agreement, to be integrated into the Trust's assets for forest exploitation according to the provisions of the Business Plan.

The forest exploitation was already formed; hence, for about 20 years, the exploitation of the forests will be carried out. This exploitation consists of the harvesting and selling of wood and replanting the harvested areas with eucalyptus. In the end, land and standing timber will be sold.

#### 2. Evaluation of the return of investment, internal rate of return, associated risks and sensitivities

The project in the original prospectus for the base scenario presented an Internal Rate of Return of 7.67% for the investor. On this occasion, there is a new financial flow for the 2021-2039 period, which allows the calculation of a new IRR for the investor.

The assumptions considered in this last estimate were as follows:

- The projected yields remain aligned with the actual performance of the forests
- Harvesting, pruning and freight costs are adjusted to current values.
- Wood prices are the current ones according to product type and destination.
- Sales to UPM2 as of 2023, which will reduce freight costs, is included.
- Product prices are adjusted according to US inflation (projected by BEVSA). No real price increases are projected for either pulpwood or solid timber.
- Uruguay's devaluation and inflation are projected based on BEVSA's valuation criteria.
- The increase in land prices is 3% per year in current dollars.

CARE agrees with these assumptions in their entirety.

Based on this projection, CARE estimated the IRR for the full project period. The investment is analyzed for the year in which the issue was made (three issues, all in 2019). On the other hand, revenues are those projected for the new cash flow that would begin in 2023 and end with the liquidation of the Trust in 2039. In this case, the IRR would be 9.5% and would be the base scenario.

CARE also raised awareness of this flow, assuming a more favorable and a less favorable scenario. The results are presented in the following table, always assuming the investment in 2019 and the projected income from 2023 to 2039.

**Table 6: Results of IRR under different scenarios**

Scenario	Scenario	IRR
1	Wood adjusts for US inflation; costs adjust by UY	12.4%
2	Wood adjusts for US inflation; costs adjust by UY	<b>9.5%</b>
3	Increase in land prices (3%)	8.2%
4	All other factors unchanged	7.7%

Source: CARE based on the financial flow provided by the operator

CARE considers **Scenario 2** as the most likely scenario, this scenario is also the baseline scenario described above. This scenario considers an increase in the price of wood similar to US inflation, that is, prices unchanged in real terms. World Bank projections for the next ten years assume an increase between 1.1% and 1.3% per year, depending on the origin (see Section V). For land, an increase of 3% per year seems reasonable under the current situation, as the price has undergone a considerable adjustment between 2004 and 2014.

**Scenario 1** further assumes a long-term adjustment in wood prices of 1% per year (above US inflation).

**Scenario 3** assumes that wood prices and production costs will remain constant in nominal terms throughout the period and land price would only increase by 3%.

**Scenario 4** is the most unfavorable. As can be seen, even if there was no increase in wood or land prices in 20 years, the IRR would still remain reasonable (7.7%).

## 2. New appraisal of opportunity cost of capital

The opportunity cost of capital theoretically sets a floor to the expected profitability of a project and is the key indicator for the discount of expected cash flows. In this regard, CARE updated the appraisal of the opportunity cost of capital, using the CAPM (Capital Asset Pricing Model) valuation model, and following Damodaran<sup>6</sup>, we added a premium that considers the specific risk of the market where the project is executed (for this case, we considered the country risk). Consequently, the following formula was applied to calculate the net worth

$$E(r_i) = r_f + \beta_{im}(E(r_m) - r_f) + Er_p$$

Where:

E(ri): Expected rate of return of capital

βim: Own systematic risk compared to market risk<sup>7</sup>.

rf: risk-free rate (10-year US Treasury Bonds).

E (Rm) - Rf: Market risk premium. Specific risk premium for the market where the project operates (difference between yields on equity assets<sup>8</sup> and the risk-free rate).

Erp: Premium for specific risk to the company or project evaluated. Uruguay's country risk (UBI index) is considered.

<sup>6</sup>. A. Damodaran, "Estimating Equity Risk Premiums" Stern School of Business.

<sup>7</sup>. We considered the average betas of primary agricultural commodity companies in emerging markets according to A. Damodaram.

<sup>8</sup>. Equity Risk Premium of the S&P 500

The risk-free rate is generally considered to be the US Federal Reserve 10-Year Treasury Bond yields. The usual procedure consists in using the 5 or 10-year averages of these yields, thus avoiding the high values of the late 1990s and early 2000 (5% to 7%), as well as the very low values of recent years (close to zero in 2020). In the last ten years, this yield was 2.11%, and is currently at approximately 1.6%<sup>9</sup>.

In order to measure the country risk, we considered the yields of Uruguayan sovereign bonds measured through the Republica AFAP UBI index. In this case, the “anomalous” values of the 2002 crisis period should also be avoided. While it is a reality that the Uruguayan economy experiences crises of this magnitude in certain periods, it is not considered very likely that this could occur in the medium term.

The value of Damodaram’s “beta unlevered” parameter for January 2021 is 0.89 (1.01 for the average of the last 5 years), indicating that investment in forestry production has almost the same risk and variability as the average of all the activities in that market.

For the calculation of these indicators, we considered the average values of the last 5 years, which are those examined by investors when taking their decisions. In this regard, we considered 1.96% as the yield of U.S. Bonds, and 1.63 basis points for country risk (UBI index). Both values are particularly low in relation to historical values.

The application of these values gives an expected rate of return on equity of 6.49%. This value would be higher than the last calculated IRR for the most likely scenario (4.8%)<sup>10</sup>. While these comparisons cannot be taken in a strict sense, they constitute a reference that, among others, helps to form a judgment about the investment.

The opportunity cost of equity capital with the parameters used is low compared to the past; this is a consequence of the fall in both the returns of US treasury bonds (risk-free rate) and country risk.

This indicates that according to these methodologies, the project’s discount rate is adequate and would reinforce the business return calculations for the investor.

### **3. Economic and productive management**

The characteristics of the project make the economic results sensitive to the actions carried out by the operator: purchase of land, establishment of forests, forest maintenance, reconversion of species, operating costs, harvest and sale, etc. For this reason, the Trust Agreement included minimum performance standards for the manager.

<sup>9</sup>. In recent weeks, the rates of these bonds have been rising, probably as a consequence of a higher inflation forecast in the US

## RISK RATING AGENCY

As previously reported, the Trust bought fields that were already forested; therefore, revenues from timber sales were already recorded since the first year.

Pine sales in 2020 (mainly from clear-cutting) were destined for export and were higher than projected both in volume and price. The Trust took advantage of market opportunities due to the absence of some competitors (New Zealand), but also due to an increase in demand from some countries. On the other hand, eucalyptus solid wood sales were lower than projected. The final result was an alignment between the total and the projected revenues.

**Table 7. 2020 sales, real and budgeted (USD).**

	Actual	Budget	Difference
grandis stock in 2019	10,565,291	7,572,360	2,992,931
Pine thinning	392,995	877,540	-484,545
Pine clear-cut +20	10,738,808	4,410,000	6,328,808
Eucalyptus +30	1,548,184	9,300,000	-7,751,816
Eucalyptus +20	1,270,714		1,270,714
Eucalipus internal market	750,609		750,609
Eucalyptus pulp thinning		3,477,821	-3,477,821
Firewood	153,123		153,123
<b>Total</b>	<b>25,419,724</b>	<b>25,637,721</b>	<b>-217,997</b>

Source: operator

The return on investment is 86% dependent on wood sales; therefore, forest management and monitoring are key elements.

Production costs were higher than projected; this is explained by the export costs incurred on the three pine vessels. Real costs and investments were also very much in line with budget, with minimal deviations.

**Table 8. 2020 Costs and Investments, real and budgeted (USD).**

	Estimated	Budget	Difference
Production costs	21,584,498	21,185,950	398,548
Implantation	2,867,584	2,926,412	-58,828
Management	554,590	532,582	22,008
Expenses	5,823,555	6,056,242	-232,687
<b>Total</b>	<b>30,830,227</b>	<b>30,701,186</b>	<b>129,041</b>

Source: operator

#### 4. Land and forestry appraisal

Forestry projects are highly sensitive to the valuation of land and biological assets. Every year, these two items must be appraised according to methods that differ significantly depending on the appraiser, to reflect their fair value in the financial statements. CARE understands that such differences in criteria significantly alter (to a greater or lesser extent) the book equity value depending on the adopted criterion and assumptions that are not always shared. For this reason, CARE considers these appraisals as one more input, among others, to form its judgment.

## RISK RATING AGENCY

On this occasion, we present the first appraisal of the fields and forests of the Trust as of December 2020, performed by BM2C. The operator also requested an additional appraisal of the fields (land only) from a national company (Agroclaro), in order to complement the appraisal information.

BM2C's appraisal estimates a total value for the assets as of December 31, 2020 of USD 388.44 million. This appraisal consists of 275.46 million dollars in forests and 112.98 million dollars for land.

The methodology used assumes that the present value is the future revenues flow minus an 8% discount, and assumes the sale of the land immediately after harvest. This has the disadvantage that it does not include the value of the plantations carried out on the harvested fields.

Also, the methodology estimates flows from wood and land separately. Forestry production pays a fictitious lease to the land (USD 128/forested ha, and USD 34/cattle ha), and the land has this revenues for its use. Wood has no price increases during the period, while land does, but only 10.6% at the end of the period.

Thus, since land only has a fixed annual revenues from rents, which has increased just 10.6% in the period, and 8% is discounted of the revenues flow, for accounting purposes the value of the land is USD 2,041/ha, a price lower than the market price according to the appraiser (2,680 USD/ha). Assuming a reasonable hypothesis, such as an annual increase in the price of land between 3 and 4 per cent, the value of the future sale minus the discounted 8%, would result in a value very similar to the current market value, which is quite more reasonable.

Thus, the value of the forest asset, considering the flow of wood plus the market price of land, would reach USD 423.82 million instead of USD 388.44 million.

On the other hand, the valuation of wood, included in the biological assets of the financial statements, considers average situations that do not necessarily reflect their adjusted value.

For BM2C, the value of the land asset alone, according to its calculation methodology, would be USD 112.98 million. However, Agroclaro, based on the revenues potential methodology and considering the value of similar lands, estimates a current value for the land of USD 148.37 million.

**Cash Flow Generation Risk:** *Considering the management, biological and physical variables, as well as the economic and financial variables included in the sensitivity analysis; it is concluded that the cash flow generation risk is minimum.*

**Risk of currency mismatch.** The most relevant income and expenditures are foreseen in the same currency, so this risk is *virtually nil*.

### V. ENVIRONMENT

The environment analysis refers to the evaluation of future factors that may affect the generation of the proposed cash flows, but which derive from circumstances beyond the company's control and refer to the overall framework. They are related to the expected evolution of domestic or international markets for inputs and outputs, as well as to the analysis of public policies that may have a direct impact on the fulfillment of the proposed objectives.

By public policies we mean not only domestic policies, but also those of the countries with which there is established trade. With regard to the country's sectoral policy, we must highlight a draft law that proposes to limit afforestation to those lands classified as priority forest lands and to limit the planting of yielding forests; although this bill has been approved by the house of representatives, it does not seem clear that it will be approved in its current form by the senate. The first reading is that this law would be detrimental for the sector, although not for this trust, which has already practically culminated its investments in fields and made progress in plantations. As for the international market for forest products, at least so far, barriers are relatively subject to predictable elements, hence no major risks are foreseen; and as for the possible extension of environmental barriers, the country, and especially this project, stand out for their care and related certifications in this regard.

The Covid-19 pandemic has had an impact on both the international wood supply and demand for almost the whole of 2020, but from 2021 onwards it is beginning to show some signs of recovery.

Given the extended time frame of the projections, that corresponds to the nature of the project itself, the environmental analysis is stated in terms of major trends linked to the evolution of wood and land prices.

#### 1 .- Economic and market risk

In this case, the report will focus on the issue of wood and land prices, that are key elements in the trust business.

#### 2 .- Wood price

It is the most important price and, therefore, the most decisive item for the rating agency. This is based on the fact that the price of wood explains 84% of investment returns.

In the specific case of this project, the price that will have the most significant impact on the final result is that of quality eucalyptus and pine wood. As already mentioned, the business plan assumes replacing the pine trees with eucalyptus, for the production of quality wood. While the long-term target will be solid eucalyptus timber, the acquired land had 39% of its area planted with pine trees, which will be marketed during the first few years of the project. Finally, as in all forestry projects, there are areas planted for pulp; thinning and commercial waste from quality forests are also destined for this purpose.

The expected long-term trend for wood prices is an upward trend, at least in nominal values, based on the fact that demand will grow in line with the increase in world population and the economic growth of emerging countries. This increased demand is expected for both solid wood for furniture or housing construction, and for cellulose, due to increased consumption of tissue paper.

This increase in demand faces a supply that has been constrained by increasing measures for the protection of native forests, as well as the control over yielding forests. Meanwhile, policies aimed at mitigating the impacts of climate change also promote the protection of forests due to the fact that they are important carbon sinks.

However, in the short term, the sector is experiencing an unfavorable situation. After a strong spike in prices in 2018, international, regional and domestic prices experienced a significant drop of approximately 35-40%; the largest drop was in 2019, afterwards, prices showed an attenuated fall or remained at those depressed levels. The current situation began as a result of some trade conflicts between the US and China, and to the existence of high stocks and an abundance of cellulose pulp on the market due to an oversupply of some countries. The effects of the Covid-19 pandemic added distortions in the timber trade, as there was a temporary fall in the demand in some developed countries due to economic recession, confinement, and reduced mobility.

As for pulpwood, the reduction in the consumption of different types of paper (printing, packaging, office paper) was not compensated by the increase in the consumption of tissue paper, and some industries had to temporarily stop their activities as a result of cases of Covid-19 among their employees. This situation led to a decrease in the imports of pulpwood and wood for cellulose production (logs and chips) by the main markets (China, Japan, Europe). By the end of 2020, and especially in the first months of 2021, international pulp prices seem to start to recover.

In the case of eucalyptus wood for sawmilling, prices and demand has shown a behavior similar to that of cellulose, although the recovery of demand seems stronger. After a very uncertain start of 2020, marked by the slowdown in exports at the end of 2019 and the declaration of a pandemic at the beginning of 2020, the second half of the year showed great momentum and consolidated the market recovery. It should be noted that the record of Uruguayan exports for the fourth quarter of 2020 is the highest in the historical series. Nevertheless, at the closing of the year, the accumulated exports of this product were below the peak of 2018.

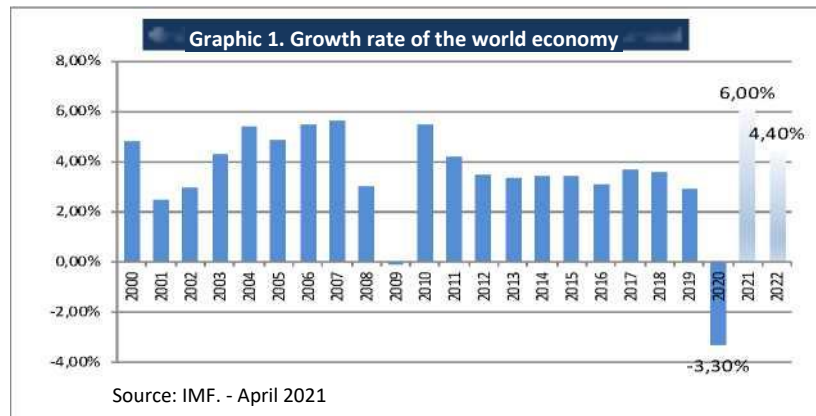
The market for pine also showed a strong recovery, also from the second half of 2020, and especially in the last quarter. Uruguay was able to take advantage of the arrest of harvesting and marketing activities in New Zealand and managed to restart its exports, which afterwards continued at a very good pace.

## RISK RATING AGENCY

In 2020, there was a significant change in the destination of pine exports. Until 2019, almost all pine exports were destined to China. In 2020, India multiplied its imports tenfold and became the destination for 40% of Uruguay's pine logs exports.

For the long term, there are no elements to assume changes in the trends described in the underwriting prospectus. For this rating, CARE updated key information on the sector, confirming that there should be no major deviations in the future with respect to the expected trajectory, once the current economic situation has been overcome. As it can already be seen, as stocks are consumed and the global economy starts to recover, the prices of forest products will continue to increase so as to balance supply and demand. This perspective is supported by the fact that low prices limit supply, and that demand will recover its trend.

The International Monetary Fund (IMF), in its world economic outlook for the coming years, has been adjusting its projections, which it describes as highly uncertain given the impact of the Covid-19 pandemic that has led the world to an unprecedented crisis. In its last report of April 6, 2021, the IMF estimates a 3.3% decline in the world economy for 2020, and a 6 per cent increase for 2021, and a 4.4% increase for 2022. The upward revision reflects the stronger fiscal support in a few large economies, the expected recovery in the second half of 2021 due to vaccines, and the continued adaptation of economic activity to reduced mobility. In 2020, China was the only country to experience economic growth, of about 2.3%.

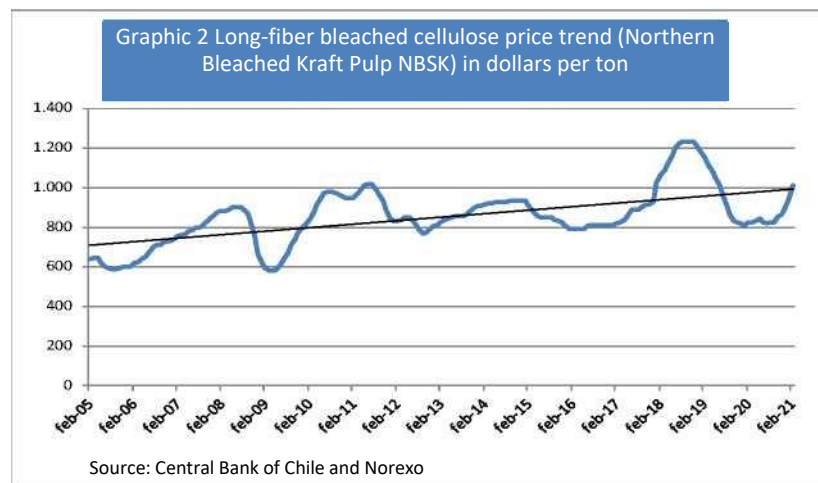


The latest IMF report shows that, while “the contraction of activity in 2020 was unprecedented, the extraordinary supporting measures prevented even worse, economic consequences. One year after the onset of the Covid-19 pandemic, the end of its health and economic crisis looks increasingly close, but the outlook remains highly uncertain. The strength of the recovery will depend to a large extent on the speed and effectiveness of vaccination worldwide. The outlook is subject to great uncertainty, which is related to the course of the pandemic, the effectiveness of support during the transition until vaccines provide a way to normalization, and the evolution of financial conditions.”



In the last 30 years, the forestry sector in Uruguay has made great progress, both in terms of cultivated area and industrial development for the processing of raw material. Currently, the forested area exceeds one million hectares, most of which is certified for sustainable environmental management. In this way, wood production is a source of raw material for both the chemical and mechanical processing industry, with access to the world's most demanding markets.

Prices of long-fiber pulp in Europe, which are taken as a general reference to define price trends (NBSK conifers <sup>10</sup>), are currently around USD 940 per ton, compared to USD 1,230 at the end of 2018.

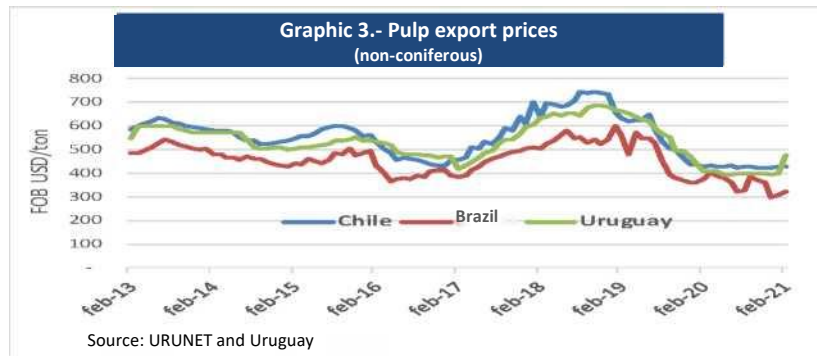


After having remained relatively stable and low in 2020, by the end of the year some recovery can be noticed, which is very much in line with the rest of the commodities (food and non-food). Everything seems to indicate that the prevailing bearish and uncertain scenario is being left behind. For the medium term, J.P. Morgan Chase advisors project that in the next 4 years, pulp prices in China's ports will show an annual cumulative increase of 5.2 and 3.3% for BHKP<sup>11</sup> and NBSK respectively.

The sharp fluctuations in international prices impacted on local and regional exports, and thus regional prices of pulp exports showed inter-annual variations greater than 30% between January 2018 and December 2019. For the specific case of Uruguay, pulp export prices in December 2020 were USD 394 per ton, 43% lower than the peak values of November 2018, becoming the lowest in the series. In recent months, pulp export prices from Uruguay and its regional neighbors have started to show signs of recovery in recent months.

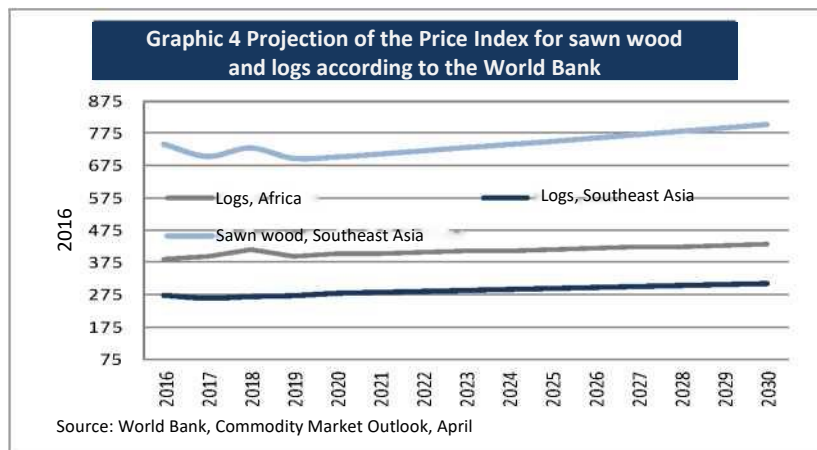
<sup>10</sup>. Northern Bleached Softwood Kraft. Long fiber bleached pulp

<sup>11</sup>. Blanched Hardwood Kraft Pulp



The prices of raw wood and panels were also lower in 2020 than in 2019, although the reduction in values was lower than that of 2019 compared with its previous year. Notwithstanding this further reduction in prices, volume exports grew significantly, especially over the second half of the year, as a result of the consolidation of new markets in addition to China (Cambodia, India, Vietnam) and the reduction of competition from New Zealand, as a consequence of the drop in activity due to Covid-19.

Notwithstanding this less favorable situation, the medium-term outlook for raw wood for sawmill or sawn wood shows the same trend as for cellulose, that is, a slight growth in nominal values in the long term, as detailed by the World Bank<sup>12</sup> in the graphic below. In the case of raw wood, the latest World Bank report shows a slight growth between now and 2030, averaging 1.0% cumulative annual growth for logs, and 1.27% annual growth for sawn wood. These price increases would not cover the devaluation of the dollar, so they could experience a slight fall in real terms.



As a result of this international situation, a significant reduction in revenues from exports of forest products was verified in Uruguay for 2020. Thus, compared to 2019, total exports in 2020 fell by 23%.

<sup>12</sup>. World Bank commodities Price Forecast. October 2020.

**Table 9. Export of selected forest products (in millions of dollars FOB)**

	2015	2016	2017	2018	2019	2020	Variation
Cellulose	1,266	1,222	1,310	1,660	1,527	1,107	-28%
Logs (except eucalyptus)	1	5	88	150	89	132	49%
Plywood boards	62	58	64	76	55	67	22%
Chips (eucalyptus and pine)	57	82	64	95	102	21	-80%
Non-coniferous sawn wood	42	38	47	53	46	44	-4%
Coniferous sawn wood	23	27	46	62	52	60	17%
Paper and cardboard	79	52	31	29	28	18	-37%
Eucalyptus logs	24	17	21	29	14	21	48%
<b>Total</b>	<b>1,555</b>	<b>1,500</b>	<b>1,670</b>	<b>2,156</b>	<b>1,914</b>	<b>1,471</b>	<b>-23%</b>

Source: Care, based on data from URUNET, Uruguay XXI and OPYPA

**Note:** Exports to the Free Trade Zone are not considered, as we consider pulp exports from this destination.

The lower level of exports is mainly explained by the situation derived from low pulp prices. Pulp exports fell by 28% in value, while chip exports - for pulp production in other countries - fell by 80%.

Exports of eucalyptus and pine logs experienced a highly significant increase in their value, but nevertheless they remain below 2018 exports, mainly as a consequence of lower prices. Pine exports began to increase from the second quarter of 2020, taking advantage of market opportunities, mainly New Zealand's lock down, which favored the sale of pine from Uruguay. China remains the main buyer, although India is now beginning to appear after some phytosanitary restrictions have been lifted.

As already mentioned, the current international price scenario is affected by the high stocks in China, the Coronavirus pandemic, and trade conflict between China and the USA, all of which have strongly affected prices. Notwithstanding this adverse situation, the market appears to be improving and its outlook in terms of long-term demand is maintained; hence, wood prices continue to be auspicious for the medium and long term.

### B) Land prices

According to the reports of the Directorate of Agricultural Statistics of the Ministry of Livestock Agriculture and Fisheries, for the average of operations throughout the country, the price of land - the second item in importance - has modified its tendency towards a strong appreciation in dollars, has been falling since 2015, and has shown a certain stability in recent years, with variations typical of small number of transactions.

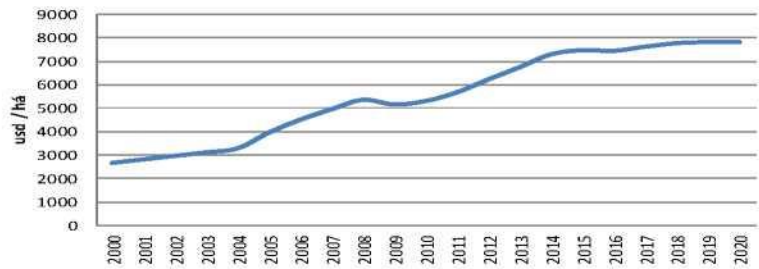
Prospects for international demand for land continues to be encouraging, placing prices at increasing levels for the short and medium term, but at more moderate rates than in the past. However, price increases above trend are expected in the short term. The drop in international interest rates, the expansionary policy of developed countries, and the dollar's weakness could have positive effects on land values in the medium term due to a greater flow of capital in search of real assets, although this effect is not immediate.

In this case, we updated the trends of prices in different countries we consider important.

Regarding the price of land in the United State, in the twenty-first century there has been a continuous trend for increased prices, with some exceptions (2009 and 2015) where minimal reductions were verified, but without modifying the trend. The price in the United States fell only in the early 1980s due to the change in its monetary policy -called the "Voelker Plan"- and, to a lesser extent, after the Lehman Brothers financial crisis; in both cases very moderately. Both negative price-level shocks were reversed within a few years. However, in recent years, while the trend continues, these increases appear to be smaller.

In 2018, (average) land prices increased by 2%, in 2019 the USDA reported an increase of 0.6% in nominal terms, and in 2020 it maintains the same nominal value as in the previous year. If the data for agricultural land and livestock are analyzed separately, both show the same pattern of evolution of prices.

Graphic 5.- Evolution of land prices in the USA (USD/ha)

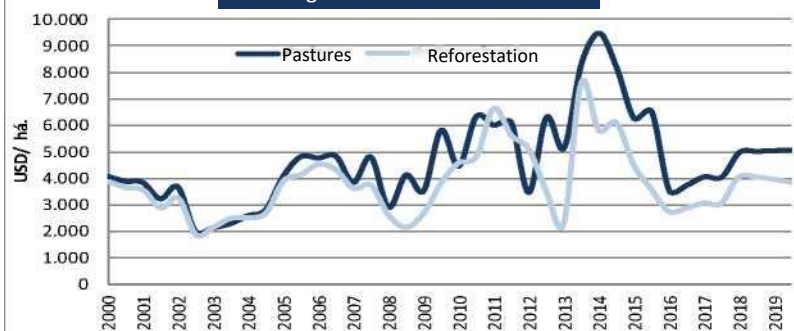


Source: USDA. August 2020

Land price in Brazil is affected by the exchange rate, as in this country all the prices of lands are quoted in local currency. Therefore, price fluctuations are amplified by this effect. In 2014, it began a sharp fall in land prices, which started to reverse in 2017.

In 2019, the last year reported by the Institute of Agricultural Economics of Sao Paulo, land prices for pastures experienced a slight growth (1%), while those for forestry and natural pastures fell by 4.9%.

Graphic 6. Land price in Brazil according to destination - Estimated

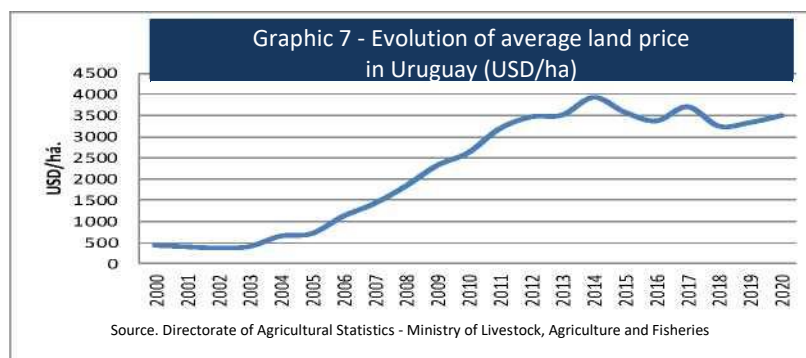


Source: Instituto de Economía Agrícola [Agricultural Economy Institute]

In the case of Argentina, its particular situation makes it impossible to have an updated and reliable series of land prices. The high volatility of its policies, high export taxes to agricultural production, macroeconomic imbalances, and restrictions on foreign exchange, generate distortions in values that have nothing to do with the trend that land prices should show. On the basis of some technical works consulted by CARE, in 55 years (1956 to 2011) the price of agricultural land (of very good quality) in Argentina increased at an average annual cumulative rate of 3.5% in real terms.

In the case of Uruguay, the information reported by the Directorate of Agricultural Statistics of the Ministry of Livestock, Agriculture and Fisheries for the average of land transactions, shows a very strong appreciation from 2004 to 2014, when the maximum value was reached. From 2015 onwards begins a certain downward adjustment, but with a somewhat erratic behavior, surely as consequence of a low number of transactions where both quality and location of traded fields had a great influence on the average values. Thus, in 2017 the Directorate of Agricultural Statistics reported a 9.8% increase in the value of land, then in 2018 the same directorate reported a 12.3% reduction. a slight increase of 2.6% in 2019, and a new fall for the first half of 2020<sup>13</sup>, the average price of the average hectare in the country would be showing a recovery of 5%.

The low number of transactions of the latest years raises some doubts as to the values obtained, which should be corroborated in the following years.



<sup>13</sup>. "Precio de la Tierra" Compraventas Primer Semestre de 2020 [Land Price - Purchases and Sales for the First Half of 2020], published in September 2020.

<sup>14</sup>. SERAGRO, Agroclaro and private operators.

<sup>15</sup>. B. Lanfranco and G. Sapriza (Serie Técnica N° 187 de INIA) [Technical Series No. 187 from National Institute of Agricultural Research], "El índice CONEAT como medida de productividad y valor de la tierra" [The CONEAT Index as a Measure of Land Productivity and Value], 2011)

There are other information sources provided by consulting firms and market operators<sup>15</sup>, which seek to contemplate land quality by correcting the values by the CONEAT index and thus make values more comparable. There is a proven relationship<sup>16</sup> between the CONEAT index and land price for fields with CONEAT values above 100, but when the index is below 100, prices also fall but not exactly in the same proportion as when they are above 100. This is basically explained by the fact that many of the fields with a CONEAT value below 100 are demanded for productions other than meat and wool (rice, afforestation), these items being taken in consideration for calculation of this index.

By making these corrections to the available information, we obtained a price series with a behavior very similar to that of the Directorate of Agricultural Statistics: a sustained and very important increase until 2014, and then a continuous decrease up to the present.

## RISK RATING AGENCY

Our model differs in that it assigns the current price a greater drop (30%) than the one calculated from the mean values of the Directorate of Agricultural Statistics' Series (11%). This would be explained by the high proportion of agricultural and forestry fields (some already forested) in the sales and purchases of recent years.

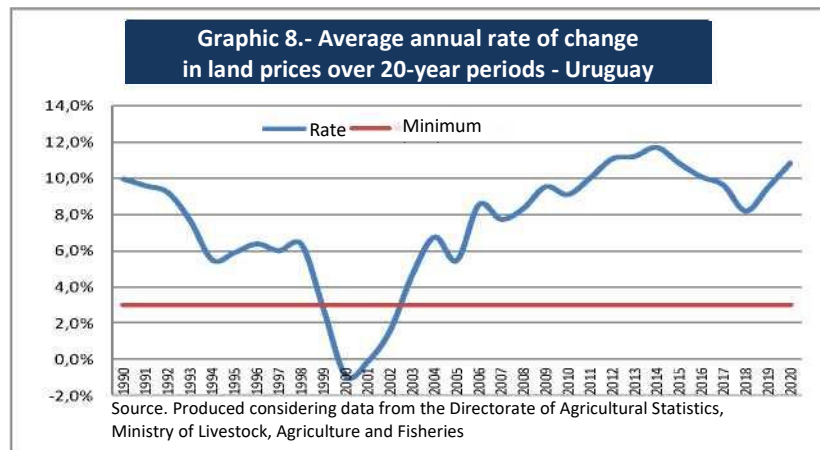
Land price appreciation is a relatively important component of the trust's final revenues (20.5%), so its evolution will have a significant weight for the final return of the investment. The financial model assumed a cumulative annual valuation of 3% for 20 years, so it is important to know what has happened in the past so as to have some predicting capability regarding what may happen in the future.

For this purpose, CARE analyzed the annual variation of land prices (in current US dollars) for a 51-year series (1970 to 2020) for 20-year periods, which shows the following:

- On average, the annual evolution of land prices for 20-year moving periods was 7.5%.
- The annual growth rate was only less than 3% in the case of the fields between 2000 and 2002, that is, land purchased between 1980 and 1982.
- For the remainder of the period, annual land price growth exceeded 3%.

If the same analysis is carried out for 30-year periods, the annual growth rate falls slightly (7.3%), and the minimum annual growth is 5%; therefore, in practically no period the increase in land price would be below the value considered in the prospectus.

The annual evolution of this indicator - for 20-year intervals - shows an upward trend until 2014, and then starts to fall but remains well above 3% (around a 10% annual growth).



CARE understands that although sustained increases in land prices are to be expected in the medium and long terms, they would not be of similar magnitude than those of the past.

Most likely, price increases will compensate US inflation, plus a small component of increased land productivity, so this increase should be between 2 and 4% per year.

### **5.4 Public policies, political risk**

The risk of public policies refers to the threat, by the State, of acting against the ownership and exploitation modalities proposed by the trust.

In this regard, it is worth mentioning the existence of a draft law to regulate afforestation, which has already been approved by the House of Representatives, its approval by the Senate still pending. This project proposes to limit forest planting to priority forest lands, as well as to set a limit on the total forested area of 10% of the country's agricultural area. This bill does not affect this particular undertaking, since it has already completed its land and plantation investment stage. However, if this law is approved, a regulation that may have an impact on the forestry sector would be implemented. The law has been approved by the House of Representatives and is very likely to undergo changes in its subsequent treatment by the Senate, or even eventually not being enacted, thus its possible effects on the sector are not yet known.

In short, we will have to wait to see how the parliamentary process ends, and thereafter assess whether or not there will be threats from public policies.

**Environmental risk:** *In conclusion, the environment risk both in terms of markets and public policies is considered low.*

### VI. RISK RATING

Our opinion is built from the assignment of weightings and scores to the risk factors making up each risk area (securities, trustee and manager, underlying assets and cash flow, and environment). Arranged in a matrix, the indicators of each factor in each risk area generate scores according to the opinion of the rating committee, that make up the final score. This corresponds to a grade according to the rating manual. In the rating matrix, the areas are divided into factors, and these into indicators.

Based on the analysis of the main risks identified in each section; bearing in mind the various technical approaches -legal, qualitative, and quantitative- both those presented by the structurer and those carried out by CARE, and with the information publicly available, CARE's rating committee understands that the securities are rated BBB (uy) <sup>16</sup> on the scale of our methodology. This is an investor grade rating.

Rating Committee



Julio Pieve, Engineer



MARTÍN DURÁN MARTÍNEZ, CA



Adrian Tambler, Agr. Eng.

<sup>16</sup>. **BBB (uy)**. These are instruments with a medium-low risk for investment, with an adequate performance and payment capacity, according to the agreed terms. Its own role, the status of the administrator and of the companies involved, the quality of the assets, their capacity to generate resources and the investment policy, and the characteristics of the environment, give an overall moderate satisfaction to the analyses carried out, without prejudice to some weakness in any of the four risk areas. The risk of the instrument could be increased in the event of foreseeable changes in the assets or their flows, in the economic sectors involved, or in the economy as a whole. The probability of foreseeable unfavorable changes in the environment is low to medium low, and is compatible with the company's capacity to manage them, although with a somewhat increased risk than in the previous categories. **Minimum investment grade.**