



## Risks and risk disclaimer

### A frank word

### Risks? And tips for dealing with risks!

Yes, an investment in forest carries risks, just like any investment; risks that could even lead to complete loss. Our products are direct investments in natural resources (growing trees or cocoa trees). For this reason, the final economic result is not yet known and can only be forecast by us. There is no guarantee for the payback of invested capital or for the forecast returns. **All investments in forest or agroforest are no deposit banking. This means there is no deposit insurance like there is for bank deposits. Therefore, this direct investment is linked to significant risks and can even lead to the total loss of the invested capital.** Every interested person should consider this aspect in the process of decision-making.

Our products are not recommended to investors who have to be able to sell an investment at short notice. Since there is no stock market for our products, an individual sale of the direct investment prior to maturity cannot be guaranteed and may result in financial losses.

However, an investment in timber or cocoa is by nature a rather conservative investment insofar as it is linked to real values. Ultimately you are investing in the production of agricultural goods (timber and cocoa) and, thus, in a renewable resource that is much in demand. The ForestFinance

website, brochures and current prospectus (available in German) contain all the information deemed necessary by ForestFinance to make a decision either for or against one of our forestry products. In our view the opportunities outweigh the risks.

Please feel free to consult independent experts (tax consultants, forestry experts, consumer protection agencies) for advice. Long-term forest investments are not recommended for inexperienced investors and require thorough information about the underlying business model and forestry.

## Probability of occurrence and safety measures

Risks that are, in the opinion of the forestry and agroforestry manager, linked to the investment, are classified in the following scheme under the aspects risk description, probability of occurrence, extent of damage and risk management. Each risk is attributed with the risk classes high, average or low. These are the risks that are, according to the forestry and agroforestry manager, most likely. Even if the forestry manager has taken all measures to ensure the economic success of the investment, a damage that could even lead to total loss for the investor is not impossible.

## Unusual weather events

**Risk description:** Wind breakage due to storms and heavy thunderstorms, harvest losses due to droughts.

**Probability of occurrence:** *low*; our project locations are outside the zone affected by hurricanes. However, smaller damages due to wind breakage are more common on the fincas and plantations.

**Extent of damage:** *differs*, depending on the extent of the respective weather event. So far no extensive damages have occurred.

**Risk management:** Establishment of the fincas and plantations in regions where extreme weather events are rather rare. Planting of hedges as wind shields on the edges of the areas. Use of storm resilient shading trees, construction of drainage canals.

## Prices

**Risk description:** Fluctuation of demand and prices.

**Probability of occurrence timber:** *average*; the fluctuation of prices is subjected to international changes on supply and demand. **Cocoa:** *high*; the stock market price for bulk cocoa is fluctuating due to individual events in important cultivation countries and speculating. **Olives and dates:** *average*; the price fluctuation for organic olives and dates on national and international markets is average.

**Extent of damage timber:** *high*; a fall in prices has a significant influence on the earnings of the operation. **Cocoa:** *average*; ForestFinance produces fine cocoa, the price of which is, contrary to bulk cocoa, completely independent from the stock market. **Olives and dates:** *low*; in the long run, the date palm industry has good growth perspectives since the demand exceeds the supply;

especially for certified and traceable premium productions, which also applies to olives.

**Risk management:** The goals of the company's wood and cocoa processing facilities is to expand the value chain, increasing the adaptability to international trends. We adapt the timber harvests to the current market situation and harvest when the timber price brings the best revenues. The sale of fine cocoa as well as organic olives and dates is mostly regulated by contracts with negotiated prices that are stable in the long term and independent from the stock market.

## Fire

**Risk description:** Forest fire during dry season or due to lightning strikes or risk of fire due to heat and drought.

**Probability of occurrence timber:** *average*; during dry season a risk of forest fire exists. Lightning only occurs in thunderstorms during rainy season. **Cocoa, olives and dates:** *low*; dry season only lasts three weeks on our cocoa fincas; neighbours supervise their forestry methods on a mutual basis.

**Extent of damage timber:** *average to high*; damages caused by fire have only occurred selectively. **Cocoa, olives and dates:** *average to low*; there is no real drought in general on cocoa areas; Oasis 1 project areas are constantly being irrigated, and in all cases measures against fire are taken immediately.

**Risk management:** Fire protection strips prevent damage caused by overlapping fires. Patrols control the tree stands during dry season round the clock. In addition, our forests in Panama and Peru are covered for fire damage by fire insurance and a replanting guarantee for the risky first five years. Neighbours supervise their forestry methods on a mutual basis on the cocoa plantations in Peru and can be held accountable in case of damages. Permanent fire monitorings on site by our employees secure the areas in Morocco, as well.

## Political risks

We closely observe the developments at all our project locations and are able to react to them together with our long-term partners on site. Read more about our investment locations [here](#).

## Diseases and pests

**Risk description timber:** Infestation by insects and pathogenic organisms. **Cocoa:** Fungal diseases such as Witches' Broom Disease (*Moniliophthora perniciosa*), *Monilia* (*Moniliophthora roreri*) and black pod rot (*Phytophthora spec.*), pests such as cocoa mirids (e. g. *Sahlbergella singularis*), butterflies (e.g. *Carmenta foraseminis*) and termites or leaf-cutting ants. **Olives and dates:** Red palm weevil (*Rhynchophorus ferrugineus*) and the Bayoud fungus (*Fusarium oxysporium*) and olive fruit fly (*Dacus oleae* or *Bactrocera oleae*).

**Probability of occurrence timber:** *low*; insects and harmful organisms occur mostly species-selective. Planting of various and robust species as well as selection of suitable locations decrease the risk of a large-scale infestation. **Cocoa, olives and dates:** *low*; for strong infestation in case of suitable locations, selection of resilient cocoa, olive and date varieties and sound planting systems as

well as monitoring to keep pests and diseases below an economically significant level.

**Extent of damage timber:** *average to high*; in the case of inadequate forestry management diseases and pest can lead to reduced growth, in rare cases even to the death of trees. **Cocoa, olives and dates:** *high*; in the case of inadequate plantation or agroforestry management respectively.

**Risk management:** Mixed cultivations reduce the risk of epidemic infestation. Vulnerable tree species are preventively protected and the management aligned to the situation. We commit to replanting poorly developed trees during the first five years of growing. All our plantations are regularly monitored by qualified employees, infested cocoa fruits and plant parts are removed mechanically, use of mostly organic pesticides in rare cases. These events can be prevented by using non-infested seedlings and by adhering to high hygienic standards.

## Mismanagement

**Risk description:** Flaws in the forestry and agroforestry management.

**Probability of occurrence:** *low*; the staff is qualified and has much experience in cultivating cocoa, timber, olives and dates. Compliance with the forestry management plan is reviewed and documented every third month.

**Extent of damage:** *average to high*; damage caused by wrong forestry decisions can be reduced by employing functioning control mechanisms and corrective measures. Flaws or lacking knowledge of the forestry or agroforestry manager could have a negative impact on the production.

**Risk management:** Internal and external audits performed by FSC, UTZ and Gold Standard ensure the ongoing control of social, ecological and economic sustainability in our projects. In Panama and Peru we offer a replanting guarantee for poorly developed trees during the first five years. The ForestFinance cocoa fincas in Peru are considered to be model fincas in the region. Our local partner in Morocco has extensive experience in agricultural large-scale production.

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