

SAIL Annual Letter

Dear Client,

6 years ago in March, SAIL was founded in Amsterdam. Opportunistically, in many ways, but it didn't necessarily feel like that for me as I'd been thinking about how to come to this point for some time. In 2017, the opportunity arose thanks to discussions with an unexpected investor (Norwegian Ministry of Environment), a leading Dutch NGO (IDH Sustainable Trade Initiative) and a retired development banker (ex-CEO of FMO) who formed the genesis of what became the &Green Fund. We might have had the investment solution to the problem the Ministry posed, but the others brought the credibility, the vision and the bravery to try something untested.

Since then, SAIL has been bootstrapping its way towards a track record of managing money and delivering deep transformative value for our clients. We've brought onboard a small, but highly credible, group of partner investors, not many of them traditional institutional types, but highly valuable during this initial period of us building a fund management capability and importantly, taking our investing ideas and turning them into an actual process. We have also been able to attract talent so we can implement and ultimately perform on our promise to investors. All these initial partners, team members, and supporters have provided SAIL with their trust and our aim is to treat that with the utmost respect and care. Every dollar is someone's bet on us to deploy it in a way that the owner of said dollar would be proud to put on the front of their internal, and external, personal scorecard. The same goes for an hour worked at SAIL.

When SAIL started our mission was to go deep into industries, often unloved ones - but for sure ones which the world needs, and insert capital smartly to shift the outcome trajectory of these supply chains and industries towards sustainable organic sector growth. Therein lies a big opportunity to unlock climate and financial alpha. As an example, deforestation is terrible for the planet, so is the degradation of land, but palm oil (the most efficient oilseed on the planet) doesn't require either to thrive. Removing downside impacts in land-use and converting them into actual upside growth value is an investment thesis that we like and think the world will only increasingly value going forward.

We started with land-use, because the opportunity to move the same asset from a vicious to a virtuous cycle is appealing, but also because it is hard and thus we could carve a niche out for ourselves. We could learn how to do hard things because it will only make it easier for us to look at other opportunities. At SAIL we prefer pioneering a new space within an existing one, rather than competing with everyone else to eke out basis points differences. That is often just a cost play...and one ultimately trending to zero anyway. Ending that play.

Our focus is forcing us to think deeply about our investment process by which we assess potential investees whom we ultimately choose to support and, together, create pathways to success. Running probabilities on those pathways becomes part-science part-art and not only is it fascinating, it is also where we can create alpha over the long-term. Our view is that a minimal amount of 'transition capital' can have a disproportionate impact if properly injected into an existing system. Critically, that capital needs to 'back the right horse' - not a 'unicorn', but rather a strong market participant that others want to imitate

and feel that they can realistically emulate. The result is that we provide capital in a way that the 'herd' following our 'stallion' does not erode our advantage but amplifies it.

Ultimately SAIL' sees itself as a change agent. Helping industry pioneers to make that change, keeping it grounded but still ambitious, and rooting it in sound growth fundamentals.

In the past 12 months, SAIL has closed four transactions, structured in different domiciles (Luxembourg, Netherlands, Colombia and Indonesia) but all moving our thesis forward. Our pipeline is strong, and I am happy that we are finding the right investee base with which we can scale.

Capital raising feels harder. Much harder. But we will keep bootstrapping our way to a track record and that is OK. SAIL's focus is first and foremost on the asset side. We are asset managers, not fundraising machines. That said, we are learning how to simplify our explanations of what we do and we realise the importance of educating investors and taking time to bring them along on our journey. There is so so much noise in this broader space. Some shout loudest to get ahead, we prefer to perform, then educate, and only then can we hope to manage (someone's money). We will earn that relationship. Those are the best ones. Built on trust, integrity, and humility. Thus we should end up with clients who are aligned with us on values.

The past years have taught me a few important lessons. Some I have read many times before but clearly didn't actualize. For example, Warren Buffet's quote that "the difference between successful people and really successful people is that really successful people say no to almost everything;". I nodded along and accepted this in the past when reading, but certainly did not implement it. However, I have subsequently realised the power of staying focused and shifting the noise off your desk. Especially when developing a new idea in a noisy space. ESG, impact, climate investing, and blended finance are noisy spaces at the moment. All chasing a few investors and thus shouting and contorting in all ways to be the chosen ones. The last of those three – blended finance - has maybe the highest amount of 'transaction costs' associated with it, with a multitude of 'actors' in the space, running studies, wanting to provide technical assistance, requesting interviews, workshops and round tables, asking questions... but very few (if any) are willing or able to take decision risk. So they deliberate, ponder, ask more questions, require more checkboxes. Bureaucracy has ultimately killed blended finance. I am writing another letter on how we think it should be deployed but in general, the way it is working now is not viable and is just a distraction. The most logical conclusion today, seems to be that if you want to scale, within a relevant time period, you shouldn't consider blended finance a viable option.

So 6yrs in, we are ready: to begin; to scale. Without progressing to scale we are like that ubiquitous children's character Peppa Pig - jumping up and down in muddy puddles. That may be a lot of fun, but it is ultimately pointless. Although it is perfectly appropriate for my young family to engage in such activity (of course, who doesn't like jumping in puddles) - SAIL's investors deserve more from us: drive, initiative, and direction. There can be no replication, no repetition, no real impact creation without true scale. We intend to deliver that scale, while all the time delivering deep transformative value to each dollar that our clients have entrusted with us.

An exciting year ahead.

Yours sincerely,

Johnny Brom (Chief Investment Officer, SAIL Ventures)