

## Truffle Farms Europe - General Questions & Answers – PART 1 of 3

### The Basics About Truffles

**What is a Truffle?** – A truffle is the fruiting body of a spore (mycorrhiza) that lives on the roots of certain trees and shrubs. There are millions of such spores and many produce a fruiting body annually, like an underground fungus, tuber or mushroom. Only 4 have any commercial value and two of these are highly prized and highly valued - We grow one of these two. **Fungivores** – think pigs and other rooting woodland animals are attracted by the pungent smell and delicious taste and rich nutrients of the truffle to dig them up and eat them. Inevitably, they get them all over their faces and feet etc. The actual truffle is packed full of spores for pro-creation and these are carried to other trees and their root spores. It's like bees going from flower to flower and passing on pollen.

**The spore (mycorrhiza) is not a parasite.** In fact, it actually helps the tree to gain better nutrients from the soil through the root system it exists on. The tree repays the spore with sugars so it can develop its truffle(s) every year.

### Why we are different?

**We enhance this whole process naturally,** by germinating acorns of the best-known tree host - the Mediterranean OAK for our truffle – Périgord or Black Winter Truffle – (Tuber Melanosporum).

**Superbly controlled world class nursery facilities** - By controlling the timing of the inoculation of the tree's roots with spores, from the best truffles and carefully controlling the nursery environment the trees develop in, we can really enhance the quantity and quality of spores on the tree's roots before planting.

**World Class Plantation Management** - Our plantations have fully automated irrigation systems with humidity sensors and water filtration. These are only one component that separates us from the rest.

**Applied World Class Science** - We manage our trees carefully and pot and plant them with substrates created by our World Class Scientific partners. These enhance the sexual (pollinating) performance of the spores and include bacteria types that are known to associate and enhance truffle production – all created from our partners world leading per reviewed research. This and the continuing world leading excellence of our developing applied science is what separates us from other truffle farms.

So not only are we way ahead technically of anyone else farming truffles, it should also be noted that 80% of the world's truffles are still wild and conform to the basic statement – “**no rain; no truffles**” in any given season. The increasing drought in the Mediterranean basin has seen crops continue to fall dramatically over the last 3 decades.

### In Summary

**Which truffle do we grow?** – Black winter or Périgord Truffle; Latin Name - Tuber Melanosporum

**Why do we grow this truffle?** – It's proven to be cultivatable with expertise and a value at retail of over \$2,500 p/kg.

**Which tree do we grow it on** – Its best host – The Mediterranean or Evergreen OAK – Latin Name; Quercus Ilex.

**Where do we grow it?** – On our new 140-hectare (350 Acre Estate) Yecla in Murcia in Spain. It's 45 minutes in land from the city of Alicante on the Costa Blanca, Spanish Mediterranean.

**How long does it take for the trees to produce truffles?** – It used to take many years, but using superb natural world class science, we have got this down from a typical period of 12 – 15 years, to 3 years.

**How many years does a tree produce truffles for?** - Once it starts producing a tree can produce for 40+ years but we have seen some very high yielding plantations recently have a length-of-years, yield reduce by as much as 25%.

**Why are we different?** – The science, management and husbandry are technically way advanced beyond anyone else today.

**Has TFE achieved a Truffle Crop** – Yes on the very plantation you are investing in. We achieved our first crop in 2021 and it was 22.4% above Brochure Forecast.

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### What am I buying?

**Exactly what are our investors investing in?** - Our investors are purchasing their trees and the cropping rights to Black Winter Truffles that grow on them during the life of their **15** or **30 Year** holding and returns period. This is a typical forestry holding structure and ensures specific tax benefits related to European Economic Area (EEA – wider than the EU) planted forestry for UK and other European purchasers. It also means that non-European purchasers can receive the returns free of withholding tax.

**Shared and Transparent Relationships** -The Member receives 80% of the money generated from the annual crop sales and TFE retains 20% as its management charge. Our relationship is for 15 or 30 Years, the choice is yours. We automatically buy the tree back off the Member in Year 31. We do this for the following 3 key reasons:

1. HMRC (The UK's IRS) have shown an aggressive approach to tax litigation in the past decade. Whilst we are fully outside the tax system under standard HMRC forestry legislation and even through that has been further strengthened recently, we simply accept that at some point in the they can change the legislation. In recent years HMRC have also increased their actions in a number of previously thought tax excluded areas. Whilst we don't anticipate this happening in the forestry sector, we are confident of being able to robustly defend this. They might try to argue for example that we have "not really sold the trees." The only way to be legally absolute on this is, to have an exercisable "buy back" clause that is in TFE's exclusive power. It is in English law that the "selling of the actual tree" ensures the carriage of the tax exemption.
2. Martin Waddell – our Founder will be 86 in the 30<sup>th</sup> year. He very much holds a personal duty to Members and feels this is as long as he can, at maximum offer his personal guarantee of Stewardship. (That is not to say that our children who may be the beneficiaries in the long run of all our collective investment and efforts might choose to make a different decision at that time.
3. As stated in the summary above, we have seen very high yielding plantations in particularly SW Australia with Hazel Trees, reduced against typical old style (lower) plantation yields from 28 years to crop decline in as low as year 20. Applying this proportionally to our Oaks longer yield life of 40+ years, could see crop life begin to decline on or shortly after year 30. We neither want to manage an asset for ourselves and all the costs entailed that may be reducing rapidly to loss making or do the same for our Members. We think a fair payment of last year's harvest as a buy back exit given forecast returns achieved and the factors set out here, is a fair and balanced way to deal with these issues.

It also, ensures TFE as a management company have fully aligned interests directly with each Member.

**Why can't I own the Land?** - It would be hugely expensive and very tax inefficient to take title to land in Spain – especially in these parcel sizes. TFE has provided a tax efficient structure that gives you all the security of an asset backed investment within a highly tax efficient structure. This has been achieved by utilising the bi-lateral Tax Treaty provision between the UK and Spain, standard UK Forestry legislation and standard tax treatment of truffles being low income tax and garnering a range of investment tax offsets and subsidies in Spain. Individual non-residents could not access these benefits.

**OK I understand the TAX and other reasons for buy back but, it seems such a shame to be selling something at the time it's continuing according to forecasts to be giving me the greatest annual returns. Is there any way I can stay in this beyond 30 years?** – Please see the bracketed point made at 2 above.

**Are all investors eligible to invest in this opportunity?** – Yes

**Is eligibility cash only or is this SIPPS (UK) IRA/LLC Compliant (US) ?** You can acquire this asset as a part of a tax efficient retirement portfolio. Where the details of such a holding can be provided and proven to comply with UK and European Money Laundering Regulations TFE will contract with your holding organisation/company/foundation as requested. In respect of SIPPS Forestry is a class of investment most SIPPS providers will accept but, you should check with them.

**What securities/cover does the investor have on their initial outlay. Is it asset backed?** - This is a fully asset backed investment. The land is held in a non-trading SPV (Special Protection Vehicle) which, has no debt attached to it. There are no crop or specific Government farm insurance schemes for truffles but, we have our own farm insurance and TFE offer like for like tree replacement (where possible) included in the costs for the first 3 years. TFE has no liabilities no debts. In the unlikely case where TFE (The Trading Company) fail we (Ourselves and our Members) are protected as the SPV (land holder) will be unaffected and the trees can continue to be professionally managed as before delivering the forecast pay outs as per the agreement. **TFE retain over 90% of their tree holdings.**

**How is the investment valued?** – The valuation method is a standard accounting “Biological Assets” valuation. This will in time transition to a “Crop Average” valuation. However, the intrinsic value of the tree would be based on the valuation of those items at that point in time and the price someone is willing to pay. However, the demand/supply curves in the truffle market are so exponentially divergent and the barriers to entry so high, that it makes for example, the prime London property market look like a buyer’s dream.

**How is the yearly land valuation determined?** - The land valuation is irrelevant to the client position. We are not selling or licencing land. The Members ownership is of Trees and Cropping Rights therefrom. If they have the land they will have the costs and brutal Spanish taxes and social charges that go with them without the ameliorating structures TFE can benefit from and pass through to Members. The valuation is in the productive value of their trees against a multiplier of crop performance. TFE agreed this with independent prospective purchasers, - 2 French Merchant Banks and 2 European Boutique Pensions Funds. The consensus was between 6 and 12 times average, of last 3 years crop value. The forecast figures for Members are based on 4 times crop value. Our then independent Alternative Fund Management Regulation provider IGS Advisory set out the annualised NAV’s that formed the basis of our forecast in 2012.

**What is the net return? Is it assured and how long is the term?** - See the Tables in the TFE brochure. These are projected annualised net returns up to a 30-year period subject to harvest. No harvest no return.

**How often or when is the net return payable to the investor, quarterly, annually or term end?** - The Net returns are annual subject to harvest payable no later than May 31st.

**Are investment reports provided?** – Yes, annual reports in terms of harvest yield and payments, as well as plantation management and development are provided. Regular Newsletters are also provided on a seasonal/quarterly basis.

**Is there a secondary market?** - At present there is no secondary market for the 'physical trees' (simply because successful truffle farms rarely come on the market). There is a long-established global market in both wholesale and retail for the luxury food which is the truffle. This includes international and regional bourses and auctions.

**What is the maximum subscription?** - There is no maximum subscription. Our brochure offer – covers investments from:

100 trees Half Acre) at \$51,563\* to 500 trees (Hectare = 2.5 acres) at \$195,000\*

\*Prices subject to seasonal, annual and new scientific treatment reviews

**Can you confirm the minimum holding is 5 years?** – Yes, the minimum holding is 5 years. This has been necessary up to now and is partly a cultural approach to our investment model and getting Members to think about the ecological aspects of this type of investment.

**Can I pay in Dollars?** - Yes we price in USD and you can also buy in EUROS and Sterling against the Dollar equivalent at the time of purchase.

**What Currency are Truffle Sold in?** - Truffles being very European dominant in crop volume are sold almost always in Euros?

**Can I be paid in Dollars?** - Yes. We will pay your annual returns when they come in Dollars, should you choose. We will use our purchasing power, to gain the very best exchange rates and then allocate that out to your annualised statement of returns by wire transfer. You can be paid in Euros or Sterling too.

#### **Where are the sites?**

Spanish sites: Outskirts of Barcelona (Nursery) 1 IRTA Torre Marmion; Yecla, Murcia Province (Spanish Plantation 1)  
UK Head office: 31 Charlotte Square, Edinburgh, Eh2 4ET

**Do you do client visits?** – Yes, annual visits are usually done in January but we may look at December. In time we hope to be able to host people out of season in Yecla and will keep Members informed of that and other planned Benefits as they develop.

**I want to visit and see the facility before I buy?** - You can visit the IRTA, a government facility subject to an appointment. From January 2020, you will be able to visit Yecla in Murcia and a schedule of visits will be available in time. There are a lot of pictures and videos on our website [www.trufflefarms.com](http://www.trufflefarms.com) – Gallery and News pages for up to date information as well.

**What is the exit strategy for the investor prior to 30 Years?** – The contract is made up of two 15 year - rolling contracts. Investors are required to hold for a minimum of 5 years. Investors can sell after 5 years but must inform TFEL in writing 60 days in advance and two options are provided for them. You can also choose to give us a minimum of 6 months, notice before the first 15 - year period end and we will pay you an average multiplier of 3 times the previous 3 years average (Years 13, 14 and 15) Harvest Returns you received. Option A: TFEL can arrange a sale to another client on their behalf for nominal costs. Option B: TFEL will buy back from them – but cannot guarantee a price.

#### **What are the Exit Charges?**

Q) Transferring registration to another person

A) Cost is £295.00 + VAT

Q) Independent analysis

A) Cost is £1100.00 + VAT

**If a client wanted to sell after year 5?** - 2.5% sale fee would be applied subject to sale price or the fee of £295 whichever is the greater. Disposals are not likely to occur until Year 8 and 9 but TFE would begin to look at offers where the value is of sufficient level to warrant the returns forecast in respect of IRR or ROI. Client's interests are fully and fairly provided for in the Terms and Conditions.

**If a client needed to sell before year 5 (60 months) e.g. death in the family?** - TFE doesn't do "exits" before year 5. On death of the rights holder (at any time) it will pass to their spouse/chosen heir. TFE are happy to give a separate undertaking to a client in this respect. TFE cannot put this in the T's & C's because those looking for an Inheritance Tax Solution (IHT) solution, can take out a two-year insurance policy from a Lloyd's broker to indemnify them against early death in the two-year period. Lloyd's have informed TFE that putting an automatic right of "transfer on death" in the contract would void the insurance and the heir would lose the tax indemnification paid for in the policy. Any "crisis" situation of one of TFE's s would be looked at sympathetically on an individual basis by TFE's Founder. There is a provision for this in Clause 18 to pay a fair market value, etc. If TFE can help, TFE always will, but we are not obliged to do so.

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**How do I Order?** – Prospective Members are directed to a URL on the TFE website:

<https://trufflefarms.com/forestry-purchase-options/>, where they can press the “I am Ready to Order Truffle Trees Now” - Button which, will take you to our order page. TFE banks with Barclays PLC International.

**How do I Pay?** - For compliance and to meet anti-money laundering regulations, payments can only be made through wire transfer using International banking codes IBAN and SWIFT. Once you have Self Certified as above and placed your ORDER, we will acknowledge it through our online system and deal with you personally thereafter, raising your paperwork and guiding you through the completion process with us.

**How healthy is the company?** - TFE has a valuation in excess of £72m Sterling, zero debt, no charges. Has assets in reserves and average net cash reserves in excess of £500k Sterling. Our accounts can be found at the UK Official Government – Companies House Website: <https://beta.companieshouse.gov.uk/company/SC510853/filing-history> This is a free UK Government Service.

### What are the Returns?

\*The ROI Table below is based on wholesale ‘All’ season prices of €500/kg. (The species of truffle we grow has been regularly selling for up to and beyond €1,000/kg in recent years).

Land Area		1/4 Acre	1/2 Acre	1/3 Hectare	Acre	2/3 Hectare	Hectare
Number of Trees		50	100	165	200	335	500
Yr1	Kg's/H	\$34,585	\$58,173	\$87,960	\$105,138	\$152,364	\$220,000
Yr2	0	0	0	0	0	0	0
Yr3	3	138	276	455	552	924	1,379
Yr4	8	368	736	1,214	1,471	2,464	3,678
Yr5	19	874	1,747	2,883	3,494	5,853	8,736
Yr6	37	1,701	3,402	5,614	6,805	11,398	17,011
Yr7	78	3,586	7,172	11,834	14,345	24,028	35,862
Yr8	94	3,803	7,606	12,551	15,213	25,482	38,032
Yr9	178	7,202	14,404	23,766	28,807	48,252	72,018
Yr10	288	11,652	23,305	38,453	46,610	78,071	116,524
Yr11	335	11,994	24,378	40,546	49,146	82,973	129,690
Yr12	393	14,341	29,071	48,290	58,533	98,696	153,157
Yr13	417	15,312	31,013	51,494	62,417	105,202	162,867
Yr14	436	16,080	32,551	54,031	65,492	110,352	170,555
Yr15	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr16	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr17	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr18	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr19	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr20	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr21	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr22	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr23	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr24	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr25	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr26	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr27	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr28	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr29	453	16,768	33,927	56,301	68,243	114,960	177,433
Yr30	453	16,768	33,927	56,301	68,243	114,960	177,433
<b>Total Harvest</b>		<b>\$355,344</b>	<b>\$718,487</b>	<b>\$1,191,938</b>	<b>\$1,444,774</b>	<b>\$2,433,061</b>	<b>\$3,748,434</b>
<b>Tree Sale</b>		<b>\$16,768</b>	<b>\$33,927</b>	<b>\$56,301</b>	<b>\$68,243</b>	<b>\$114,960</b>	<b>\$177,433</b>
<b>Total Return</b>		<b>\$372,112</b>	<b>\$752,414</b>	<b>\$1,248,239</b>	<b>\$1,513,017</b>	<b>\$2,548,022</b>	<b>\$3,925,867</b>
	IRR	16%	17%	18%	18%	20%	20%
	ROI	976%	1193%	1319%	1339%	1572%	1684%