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The impact**DEALS** Forum

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Forum Summary

Model Transactions in Conservation

WITH COLLABORATION FROM



The impactDEALS Forum Impact Investing in Conservation

The impactDEALS Forum, co-hosted by i2 Capital (“i2”) and the Aspen Institute, brings together impact investors from the private, institutional, philanthropic and government sectors to discuss investment strategies through the lens of model transactions. The Forum focused on four key domestic impact investment market sectors: education, health, conservation and energy. This summary report provides a high level review of the discussion, and sets forth key opportunities and challenges for impact investing in the conservation field.

Definition of Impact Investing

i2 defines impact investing as an investment approach that intentionally seeks to create financial return and positive social or environmental impact that meet clearly defined standards of measurability and accountability. Impact investing extends beyond socially responsible investing (“SRI”), which involves negatives screens for environmental, social and governance considerations. These definitions mirror definitions set forth by the World Economic Forum.

Impact Investing in the Conservation Sector

Investments in support of conservation provide benefits to society in the form of species and habitat protection, maintenance of working landscapes, enhanced provision of ecosystem services (such as clean water, timber, fisheries and carbon sequestration) and activities such as tourism, outdoor recreation and cultural observances. Global investment in conservation – estimated at roughly \$50 billion per year – primarily comes from government, multilateral agency and philanthropic sources. Impact investing in the field of conservation endeavors to harness market constructs to monetize the value of conservation investments, thereby generating financial returns to investors while expanding the base of capital available for conservation.

SPECTRUM OF PRIVATE SECTOR CONSERVATION INVESTMENTS



Market Opportunity

A survey report of the Conservation Finance field led by NatureVest (a partnership between the Nature Conservancy and JP Morgan) suggests that private investors deployed nearly \$2.0 billion into conservation-related investments between 2009 to 2013.¹ Further, the report indicates private investors will have more than \$1.5 billion in un-invested capital to deploy in 2014 to 2018, and expect to raise an

¹ NatureVest & EKO Asset Management Partners (2014) Investing in Conservation, A landscape assessment of an emerging market

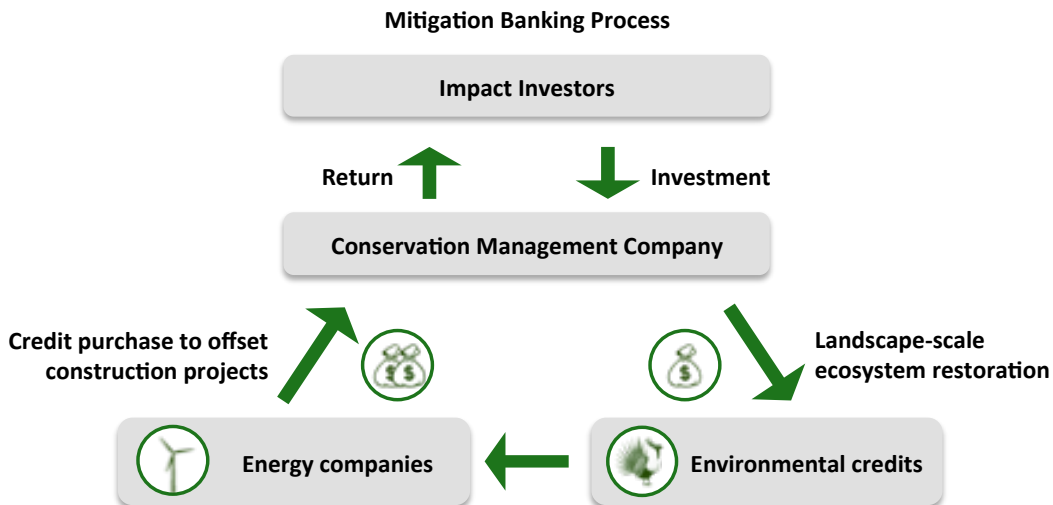
additional \$4.1 billion in capital for deployment during the same period. [NatureVest, Investing in Conservation, 2014]. The impactDEALS Conservation Finance gathering comprised a significant portion of this capital, with funds under management by representative conservation asset managers of \$2.5 billion. These conservation asset managers plan to allocate funds across three core conservation finance segments: (i) sustainable forestry; (ii) sustainable agriculture; and (iii) biodiversity credit operations.

impactDEALS Model Presentations



Sweetwater River Conservancy, Presentation by Jeff Meyer, Managing Partner.

Sweetwater River Conservancy (“SRC”) owns and operates the largest mitigation and conservation banking project in the United States. Located in central Wyoming, SRC has approximately 700,000 acres of prime habitat under management. In December 2014, the U.S. Fish and Wildlife Service granted to SRC the nation’s first Conservation Banking Instrument (“CBI”) for the restoration and protection of core sage grouse habitat in Wyoming. Under the SRC business model, the company invests in the restoration and conservation of core sage grouse habitat on its lands, which gives rise to biodiversity credits (sanctioned by U.S. Fish and Wildlife Service under the CBI). These credits in turn are sold to energy developers (traditional and renewable) to offset the unavoidable impacts of their projects on core habitats. This market-based solution allows for landscape-scale habitat conservation, while providing a balanced approach to responsible development of energy resources. SRC has raised more than \$50 million in equity from corporate and family office investors and approximately \$30 million in debt. SRC environmental return measures include detailed comparisons of habitat health and management methods versus a baseline status, leading to quantitative measures of improvements and related expansion of species.



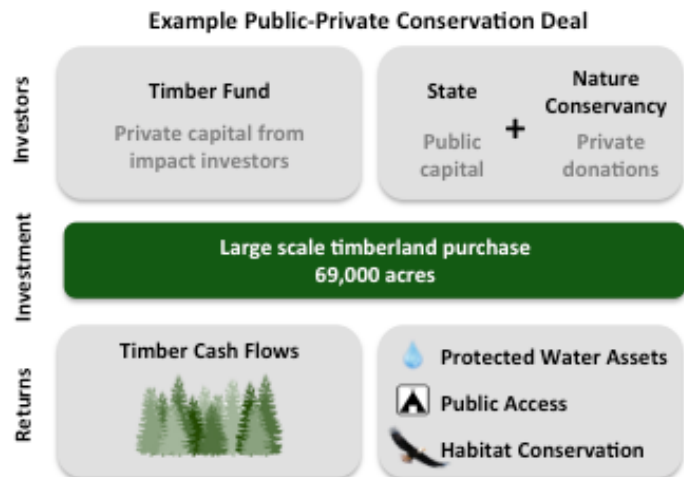
Agriculture Capital Management, Presentation by Dave Chen, CEO,

Equilibrium Capital. Equilibrium Capital (“EQ”) manages a portfolio of sustainability-driven real asset investments across the sustainable food and agriculture, renewable energy, and sustainable community infrastructure sectors. EQ’s Agriculture Capital Management Permanent Crops Fund (“ACM”) invests in permanent cropland and synergistic midstream assets to create a vertically integrated, sustainable farming enterprise that grows, packs and markets high-value produce. Permanent crops, including citrus, berries, table grapes and nuts, are high value, differentiated crops grown with sustainable and organic methods. Economic benefits derive from increasing demand for organic produce and only moderately higher costs, while environmental benefits include reduced water use, environmentally friendly pest control, fewer particulates in the air, increased soil organic matter and carbon sequestration. ACM recently closed a \$250 million fund, with 95 percent of this funding coming from institutional investors. The company’s environmental return measures include water and pesticide use, amount of organic soil matter and carbon sequestration and waste recovery.

Conservation Forestry, Presentation by Paul Young, Managing Partner.

Conservation Forestry owns and manages over 600,000 acres of U.S. timberland across all timber regions. The company’s investment strategy combines private investor capital with conservation capital (state and non-profit) to yield competitive risk adjusted returns while advancing a broad conservation agenda. Conservation Forestry revenues come from harvested timber, while conservation outcomes are derived from tracing and facilitating management of endangered or threatened species, placing acreage under protection in perpetuity by conservation easement, sustainably managing forests, preserving and conserving rivers and lakes on owned property, and opening land to public access recreation opportunities.

Approximately 85 percent of the company’s forests have received Forest Stewardship Council certification for sustainable forest management practices. Conservation Forestry presently manages approximately \$800 million in invested and committed capital from more than 100 investors, 58 percent of whom are located outside the U.S. The company’s environmental return measures include volume of water conservation/ protection, measures of critical habitat protection, existence of buffer zones, and total percentage of owned land permanently protected via sustainable practices.



Midwestern BioAg, Presentation by Tony Michaels, CEO. Midwestern BioAg (“MBA”) provides biological farming products and services to more than 4,000 farm customers in 27 states in the U.S. and 3 Canadian provinces. MBA advances a comprehensive approach to soil fertility that addresses an entire farm ecosystem through better management of soils. This approach ultimately leads to higher yields and greater profits for farmers. Conservation benefits include reduced run-off, lower carbon footprint, reduced chemical residuals, and greater nutritional value from crops. MBA plays a transformational role in advancing sustainable agriculture processes, with its expertise leveraged across an increasing footprint of farm assets in the U.S. and internationally. The company’s strategy intersects with new corporate mandates calling for supply chain transparency and increases in the percentage of consumer foods sourced from sustainable farming operations. MBA has secured several rounds of growth capital from family office and individual investors. The company’s environmental return measures include run-off, carbon footprint, chemical residuals and nutritional values.

Key impactDEALS take-aways:

- **Conservation Finance provides an established, balanced risk/return entry point into impact investing.** The conservation finance segments of sustainable forestry and agriculture are well established, with long track records of delivering market rate risk adjusted returns.
- **Access to retail investors remains limited.** While several of the investment platforms highlighted provide a scaled on-ramp for conservation investing, these vehicles have relatively high investment entry points, thereby limiting access to retail investors.
- **Regulatory-driven credit businesses offer entrance.** Emerging markets for water- and biodiversity credit operations create new opportunities for impact investors to participate in landscape scale conservation. Most opportunities in this segment have not realized requisite scale to support significant capital deployment.
- **Clear environmental return metrics are emerging.** While environmental returns remain difficult to capture and measure, companies are making progress in tracking ecosystem values related to increased habitat health, reduced water and chemical use, reduced carbon footprint and conserved water and land.
- **Leverage through government participation in Conservation Finance.** Several active government and government-backed loan and grant programs provide potential development and expansion capital to the conservation finance field.
- **Mixed capital stacks expand financial capacity.** The field of conservation finance provides significant opportunity to combine private capital with

government or philanthropic capital to deliver risk adjusted financial returns alongside compelling environmental returns.

- **Private sector models for water conservation are still emerging.** While business models for investing in water conservation continue to evolve, at this juncture, none meet the market test for impactDEALS “model” transactions. Private sector investment in water funds will require further evolution of regulatory and market constructs.

Notable Conservation Finance Quotes

“If you want to do impact investing, you need to be able to find your way around a balance sheet.” - David Chen, CEO, Equilibrium Capital

“Landscape scale problems need landscape scale solutions.” - Jeff Meyer, Managing Partner, Sweetwater River Conservancy

“USDA Conservation Innovation Grants program supports capacity for development and sharing of best practices in conservation.” – Matt McKenna, Special Assistant to the Secretary, USDA

“Impact investors are interested in current yield over long periods of time.” – Peter Stein, Managing Partner, Lyme Timber

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