

2020 IMPACT REPORT

INVESTING IN NATURE



CONTENTS

- MANAGING DIRECTOR'S LETTER2
- INTRODUCTION AND PORTFOLIO SUMMARY.....4
- NEW DEALS AND IMPACT TARGETS7
 - Sustainable Food Systems: Local Fish Fund.....8
 - Sustainable Food Systems: Great Cumbung Swamp Acquisition.....9
 - Sustainable Food Systems: Sustainable Water Impact Fund10
 - Clean Water: TNC/Opti Development Partners11
- NEW DEAL SPOTLIGHT12
 - Healthy Forests: Cumberland Forest, L.P.12
- IMPACT PERFORMANCE SPOTLIGHT15
 - Healthy Oceans: Seychelles Debt Conversion.....15
- KEY LESSONS18
- APPENDICES21
 - Appendix I: Global Impact Metric Indicators.....22
 - Appendix II: TNC Impact Capital Portfolio Targets and Progress to Date23



Cover: View of Cumberland Gap, Kentucky © Cameron Davidson; This page, from top: Wetlands irrigation, Murray-Darling Basin, Australia © Andrew Peacock; Western larch, Great Western Checkerboards Project, Montana © Steven Gnam



MANAGING DIRECTOR'S LETTER

As I sit to write this foreword, 2020 has become a year unlike anything we expected. In a matter of months, what started as a seemingly localized



health crisis exploded into a global pandemic that has exposed the fragility of our economies and social systems worldwide. Particularly in the United States, the violent deaths of Black citizens at the hands of white police and civilians have erupted into a desperately needed reckoning on the systemic racism that paralyzes our ability to solve global problems. We will be tackling these immense challenges, day after day, for months and years to come. But I am hopeful that tomorrow's history books will narrate a series of transformative changes in how governments, businesses and individuals act, and how this deeply troubling year spurred important gains toward a more just, equitable and resilient world.



Private capital will be no small part of the transformation that we need. We now have stunning evidence of the risks of the status quo, of relying only on old models. Inaction costs lives, it founders economies, and it allows grave injustice to fester. These are lessons that the finance and investment community must internalize and use to shape our decision making going forward.

These lessons clearly drive the work of investing in the conservation of natural systems on which we rely. The pandemic is a swift, shocking, and deeply painful experience that foreshadows the longer, slower burn of climate change and loss of nature that we unfortunately still face.

When I joined The Nature Conservancy (TNC) in 2009, it was just after the financial crisis of that

time took hold. It was only the early days of impact investing, yet TNC and others were convinced that private capital would become an essential part of the solution to the toughest challenges that nature faces. Since then, a decade's worth of developments in our science, increased global focus on policies to protect our planet, and continued spread of awareness have been energizing to those of us pushing for progress.

The logic was and still is inescapable: the scale of the planet's challenges go far beyond what governments can fund and what philanthropists can support. If we are to secure a sustainable future, conservation needs to receive orders of magnitude more funding than it currently does. But the amount needed for conservation represents only a tiny slice of the private investment dollars that are out there. Private capital opens up a new scale of possibilities

that build upon—but do not replace—the crucial work that philanthropy and grants sustain.

This is the foundation of the work of NatureVest today. If we can connect TNC's specific, measurable conservation outcomes with new business models that meet competitive, risk-adjusted financial return expectations, the path to conservation at large scales is cleared. Put simply, our role is to show that the outcomes are possible alongside returns.

In part, that's because our deals must deliver on TNC's conservation mission. But more than that—and fundamental to NatureVest's supporting mission—we think that clear and significant outcomes can fundamentally transform how capital is invested, and therefore how nature itself is valued. This audacious goal requires opportunism. Opportunism requires flexibility in sectors, geographies, deal structures, and capital stacks. So we have built this team as a deal shop, with the skills and creativity to tackle a diverse set of conservation challenges with a range of new structures. Now, after six years and \$1.3 billion of committed capital, the breadth of TNC's impact capital portfolio reflects the many possibilities this team has helped uncover.

The time is now right to share which ideas are working, which ones might be struggling, and most importantly, shine a light on progress that the environmental and finance sectors can build upon. We are excited to provide this deeper level of detail for public review, to help everyone solve for the risks of inaction and accelerate our progress toward a world in which all people and nature thrive together.

Charlotte Kaiser
Managing Director, NatureVest

INTRODUCTION AND PORTFOLIO SUMMARY

NatureVest is the in-house impact investing team at The Nature Conservancy, established in 2014 and charged with developing and supporting TNC's impact capital portfolio to achieve conservation at scale. Working together with conservation colleagues across the globe, NatureVest has helped TNC and its partners originate, structure, fund, and close a portfolio of 11 investment vehicles to date, representing some \$1.3 billion of committed capital. This report details the full portfolio that NatureVest either manages or supports, with an update on each investment's progress toward its respective impact goals.



TNC Mission and Priorities

The NatureVest portfolio is a collection of investments that seek to achieve specific conservation outcomes while providing competitive, risk-adjusted financial returns to investors through a variety of capital structures. By pursuing these transactions, NatureVest aims to attract significant additional capital for projects in service of TNC's mission to conserve the land and waters on which all life depends.

As an organization, TNC is achieving results toward that mission by focusing on Healthy Lands, Oceans and Freshwater, and Climate Change Mitigation and Adaptation. Together, these objectives are concentrating TNC's science and execution capacity and applying its global capabilities to strategies that we believe can change our course away from a bleak future defined by biodiversity loss, food and water scarcity, pollution and climate impacts, and toward one in which nature and people thrive together.

Contributing toward this vision, in measurable and scalable ways, is the primary organizing principle for NatureVest's investments. Conservation is the core focus around which we develop transactions.

In this **Introduction and Portfolio Summary**, we provide context for NatureVest's investment focus and a brief orientation to the portfolio's conservation, geographic and financial attributes. The **New Deals and Impact Targets** section provides discussion of all new investments closed between January 2019 and the publication of this report. In the **New Deal Spotlight**, we dive deeper into a transformative sustainable forestry transaction in the Central Appalachians. The **Impact Performance Spotlight** revisits the 2016 Seychelles Debt Conversion in recognition of that project's significant conservation milestone reached in March 2020.

The report concludes with **Key Lessons**, synthesizing our experiences with this portfolio into three observations and recommended actions. Finally, the **Appendices** include detailed tables for the entire portfolio and an aggregation of impact metrics in accordance with the United Nations' Sustainable Development Goals and standards set by the Global Impact Investing Network.

Photo: Brown Tract, near the Central Platte River, Nebraska © Chris Helzer/TNC

NatureVest Focus and Outcomes

As a dedicated investment team, with functional expertise including origination, structuring, capital raising, legal, and asset management, NatureVest has significant flexibility to design deals that maintain conservation's primacy. The resulting structures typically deploy one or more of the following strategies to benefit nature:

- » Manage natural assets sustainably
- » Generate revenue streams that pay for conservation, mitigation or restoration
- » Demonstrate viability of new markets for nature-based solutions
- » Provide scientific input on the positive or negative environmental impacts of investment decisions

The development of specific deals may take various routes, whether forming an operating company, special purpose vehicle or investment partnership; whether sourcing private equity, commercial debt or concessionary financing. Deals also range from the familiar, in established asset classes like forestland, to the novel, where nature itself is a new and promising asset that has yet to be priced in the market.

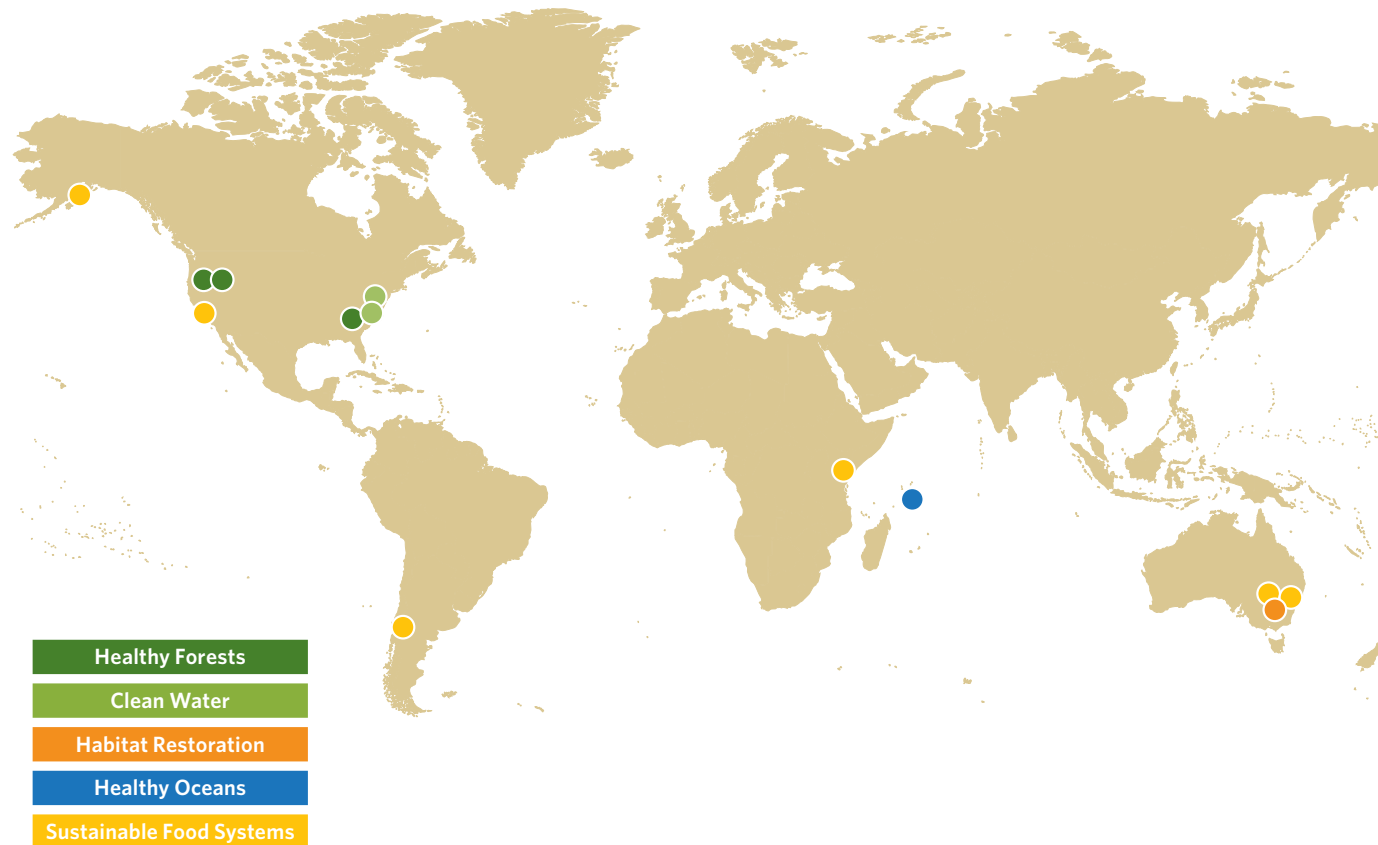
This report categorizes the NatureVest portfolio according to investments' primary conservation outcomes, with the understanding that deals often provide multiple benefits to the environment and biodiversity. The portfolio currently focuses on:

Healthy Forests	<ul style="list-style-type: none"> ▪ Great Western Checkerboards Project ▪ Olympic Peninsula Acquisition Project ▪ Cumberland Forest
Clean Water	<ul style="list-style-type: none"> ▪ District Stormwater ▪ TNC/Opti Development Partners
Habitat Restoration	<ul style="list-style-type: none"> ▪ Murray-Darling Basin Balanced Water Fund
Healthy Oceans	<ul style="list-style-type: none"> ▪ Seychelles Debt Conversion
Sustainable Food Systems	<ul style="list-style-type: none"> ▪ Livestock to Markets ▪ Great Cumbung Swamp Acquisition ▪ Local Fish Fund ▪ Sustainable Water Impact Fund

Together, the 11 deals in the portfolio span four continents and have begun to generate promising conservation outcomes toward TNC's priorities, including:

- » **Protection and/or improved management of 511,000 acres (207,000 hectares) of land**
- » **Protection of 158,000 square miles (410,000 square kilometers) of ocean**
- » **More than 1 billion gallons (3.9 gigalitres) of increased environmental freshwater flows**

As detailed in the Appendices, each deal has identified additional target outcomes that would either contribute to or expand upon these three outcomes going forward. The portfolio is expected to significantly increase its reach and results, continuing to highlight where investments in natural assets and nature-based solutions are successfully delivering both impact and financial returns.





Aldabra giant tortoise, Curieuse Island, Seychelles © Jason Houston

NEW DEALS AND IMPACT TARGETS

During 2019 and into 2020, NatureVest worked with financial and execution partners to close five new transactions in three key conservation areas:

SUSTAINABLE FOOD SYSTEMS

- Local Fish Fund
- Great Cumbung Swamp Acquisition
- Sustainable Water Impact Fund

CLEAN WATER

- TNC/Opti Development Partners, LLC

HEALTHY FORESTS

- Cumberland Forest, L.P.

In this section, we provide details on these new deals and the impact targets we hope to achieve over each deal's term, with the exception of Cumberland Forest, L.P., which we highlight in a subsequent spotlight section of this report. We look forward to reporting on the progress of these transactions in future impact reports.



Sustainable Food Systems: Local Fish Fund

CLOSED February 2019

DEBT \$1.5 million

PARTNERS:



Problem

TNC science shows that Alaskan fisheries, which account for more than 60% of U.S. seafood production, need to expand sustainable practices in order to meet growing demand for fish protein or face eventual collapse. Alaska pioneered the use of “rights-based management” for its high-value fisheries, a policy that allocates transferable quota shares that provide the holder with a dedicated portion of allowable fishing and a financial stake in the fishery. Quota shares are often traded, and over time have tended to transfer to individuals or businesses with greater access to capital, diminishing fishing opportunities for local fishing businesses that have historically been the strongest stewards of these resources.

Solution and Deal Structure

The \$1.5 million Local Fish Fund pilot is a collaborative effort spearheaded by the Alaska Sustainable Fisheries Trust (ASFT), a Sitka-based nonprofit organization that protects and promotes local fishing and fisheries. Using an innovative revenue share model, the loan fund aims to support Alaska’s fishing communities by reducing barriers to entry into commercial fisheries and engaging next-generation fishermen to promote sustainable fisheries management, protect biodiversity and increase industry stewardship. ASFT was supported in setting up and funding the Local Fish Fund by TNC, loan servicer [Craft3](#), and investors [Rasmuson Foundation](#) and [Catch Together](#).

Intended Impact

Local Fish Fund borrowers are required to comply with a conservation incentive program that supports the health of the fisheries. Program requirements will vary by the borrower’s chosen conservation actions, but overall will support:

- » Reducing impact on sensitive habitats and bycatch (untargeted species) by mapping and sharing hotspots
- » Avoiding conflicts with marine mammals through information sharing
- » Participating in marine research to promote solutions that protect ocean health and sustainable fisheries
- » Providing leadership in policy and decision-making forums to promote business practices in sustainable fisheries management

Outcomes to Date

To date, the fund has nearly committed all available capital in six loans (plus two pending). Borrowers have purchased 60,500 pounds of halibut and sablefish quota from non-Alaskan quota share owners.¹ Evidence for the success of the business practices and observable improvements to fisheries health will be used to attract additional capital and expand the geographic scope of the program.

¹ 2020 individual fishing quota allocations for Alaskan halibut and sablefish were 16.1 million and 31.7 million pounds, respectively. Source: <https://www.fisheries.noaa.gov/sites/default/files/akro/20ifqland.htm>

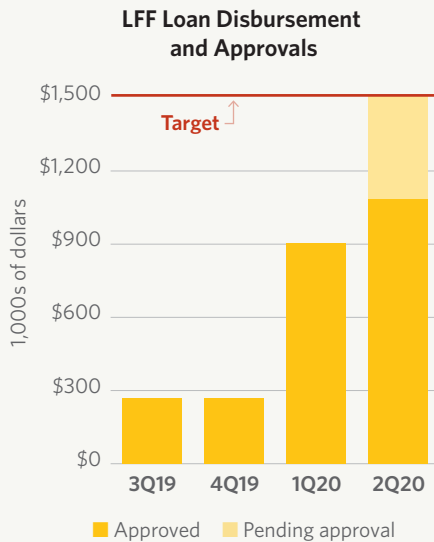


Photo: Salmon catch, Coffman Cove, Alaska
© Chris Crisman



Sustainable Food Systems: Great Cumbung Swamp Acquisition

CLOSED January 2019

EQUITY AND DEBT \$35.9 million

Problem

Known as the breadbasket of Australia, the 250 million acres encompassing the Murray-Darling Basin are one of the most critical agricultural, ecological and indigenous areas in the country. The region is responsible for half of Australia's wheat production, home to a quarter of its cattle and half of its sheep. The Murray-Darling also contains 200 wetlands nationally recognized as biodiversity hotspots. Natural landscapes in this region have been progressively converted to irrigated cropping, which now dominates the landscape and has drastically impacted water supplies and biodiversity habitats.

Solution and Deal Structure

In 2019, TNC formed a \$35.9 million joint venture with Tiverton AG, one of Australia's leading agriculture investors, to acquire two adjoining cattle stations totaling over 83,000 acres in the Murray-Darling Basin in western New South Wales. The properties support a livestock business and encompass almost 40,000 acres of high conservation value reed and river red gum wetlands—one of the largest remaining such wetlands in the Murray-Darling Basin. Together with the adjacent 217,000-acre Gayini Nimmie-Caira property which TNC transferred to the Nari Nari Tribal Council in 2019 and the Yanga National Park, the acquisition creates over 476,000 acres of contiguous wetland and floodplain conservation area.

Intended Impact

The property will be managed to demonstrate sustainable logging and grazing practices as an alternative to the transition to intensive irrigated cotton farming experienced by much of the surrounding area. The project's impact targets include:

- » Conserving 9,884 acres through a conservation covenant by December 2020
- » Conserving the full 83,000 acres of high conservation value property through a conservation covenant by 2029
- » Creating 50+ jobs in land management, tourism, research, and timber operations
- » Exiting the investment to indigenous ownership by 2029

Outcomes to Date

To date, progress on achieving the conservation restrictions to protect biodiversity are behind schedule by six months due to the COVID-19 pandemic. In addition, and in parallel with the property acquisition, TNC purchased and sold 3.4 billion gallons of water rights to Australia's Commonwealth Environmental Water Holder to maintain water in the system for environmental benefits.

PARTNER:



**TIVERTON
AGRICULTURE
IMPACT
FUND**

From top: Cracked earth, Murray-Darling Basin, Australia © Andrew Peacock; River Murray, Mildura, Australia © Andrew Peacock



Sustainable Food Systems: Sustainable Water Impact Fund

CLOSED April 2020
EQUITY \$900+ million

Problem

Nearly three-quarters of all irrigated land globally is at risk of lost production due to water scarcity. Aging or nonexistent infrastructure, population growth, urbanization, pollution, and climate-driven changes are subjecting both agriculture and ecosystems to unprecedented levels of stress. One example is California's Central Valley, one of the world's most profitable agricultural regions, where groundwater depletion and the implementation of the state's 2014 Sustainable Groundwater Management Act are significantly changing the business of farming.

Solution and Deal Structure

Seeking to address the challenges in the Central Valley and other regions, RRG Capital Management LLC (RRG)—an investment and asset management and development firm focused on sustainable, innovative approaches to agriculture, water, and renewable energy—closed the \$900+ million Sustainable Water Impact Fund in April 2020. RRG seeks to provide competitive, risk-adjusted returns to investors by acquiring land and water assets to more sustainably manage resources, support farming long-term, and benefit the environment and the agricultural economy. To help increase the sustainability benefits of this strategy and support for biodiversity and ecosystems, TNC established a partnership with RRG, assigning a dedicated team to assess the conservation opportunities of portfolio investments that RRG is considering and to help ensure investments continue to deliver the targeted benefits.

Intended Impact

While generating market returns for institutional investment capital, the fund intends to achieve meaningful, direct conservation outcomes over the next 10 years, such as:

- » Restoration of critical habitat, improvement of surface water flows and creation of seasonal wetlands for species that rely on them
- » Implementation of sustainable farming practices and support for farmworkers, their families, and communities

Success will demonstrate that profit-driven investment in agricultural, water and renewable energy assets can support livelihoods, protect farmland, and achieve important conservation benefits in water-scarce regions worldwide.

Outcomes to Date

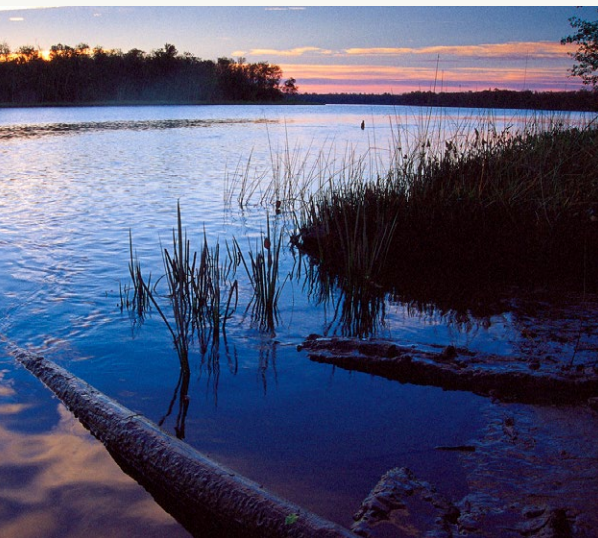
One of the fund's investments is in a large dairy and feed-crop farm in California, which is being transitioned in part into groundwater recharge storage basins that will also provide wetland habitat for migratory birds. Another investment, in an avocado and walnut orchard in Chile, is contiguous to high-priority native Mediterranean habitat. The fund intends to continue the farming operation until disposition and is in the process of designing on-farm pilot projects to test and demonstrate wildlife-friendly agricultural practices. The team is also seeking to implement one of Chile's first conservation easements on the portions of the property with intact, native habitat.

PARTNER:

RRG

Capital Management

From top: Flocks of Dunlin, Colusa, California
© Drew Kelly; Flooded rice fields, Colusa, California
© Drew Kelly



Clean Water: TNC/Opti Development Partners

CLOSED April 2019

DEBT/EQUITY \$3.3 million

Problem

Access to clean water is one of the great challenges facing nature and people. The Chesapeake Bay is the largest estuary in North America and is a prime example of a coastal water body experiencing the growing impacts of polluted water. Stormwater runoff has grown over the past decades, and it now represents the second largest source of nutrient pollution to the Chesapeake. For decades, stormwater ponds have been the most ubiquitous form of stormwater management. There are over 60,000 ponds in the Chesapeake watershed and over 1 million nationally. While these traditional ponds manage some urban runoff, they do not deliver high rates of pollutant removal. As water levels rise, these ponds have a continuous outflow rate that does not allow sediment and nutrients to settle before flowing into streams, rivers and ultimately the Bay. Overflows and stream erosion can also occur during heavy rains.

Solution and Deal Structure

TNC is working to transform the effectiveness of existing stormwater ponds through scientific watershed analysis and market-based landowner incentives. In 2019, TNC and OptiRTC—a technology company that monitors and controls real-time stormwater pond conditions such as water level and flow rates—created TNC/Opti Development Partners. The joint venture's initial \$3.3 million pilot is focused on retrofitting stormwater ponds on Walmart properties in Maryland in conjunction with the Maryland

Department of Transportation (MDOT), which is providing the payment to finance the pilot through the purchase of water quality improvement credits generated by the retrofits under the Chesapeake Bay's water quality trading regime.

Intended Impact

The pilot seeks to improve water quality, prevent flooding and restore the natural hydrology of the streams, creeks and rivers that flow into the Chesapeake Bay while delivering 100 water quality improvement credits to MDOT. Over a 20-year period, the joint venture intends to remove pollutants from the Chesapeake to improve aquatic habitat, reduce coastal flooding risk, and lower incidents of algal blooms and chemical contamination that threaten wildlife and drinking water. The project specifically seeks to reduce annual pollutants as follows:

- » 42,000 pounds of sediment
- » 6,000 pounds of nitrogen
- » 3,800 pounds of phosphorus

Going forward, the joint venture will seek to build on its work in Maryland to retrofit additional ponds across the United States, leading to further stormwater pollution reductions.

Outcomes to Date

The joint venture has initiated design engineering on three Walmart stormwater ponds, representing an estimated 65.5 water quality improvement credits.

PARTNER:



From top: On the Chesapeake Bay, Virginia
© Jason Houston; Nanticoke River watershed,
Maryland © Alan W. Eckert



NEW DEAL SPOTLIGHT

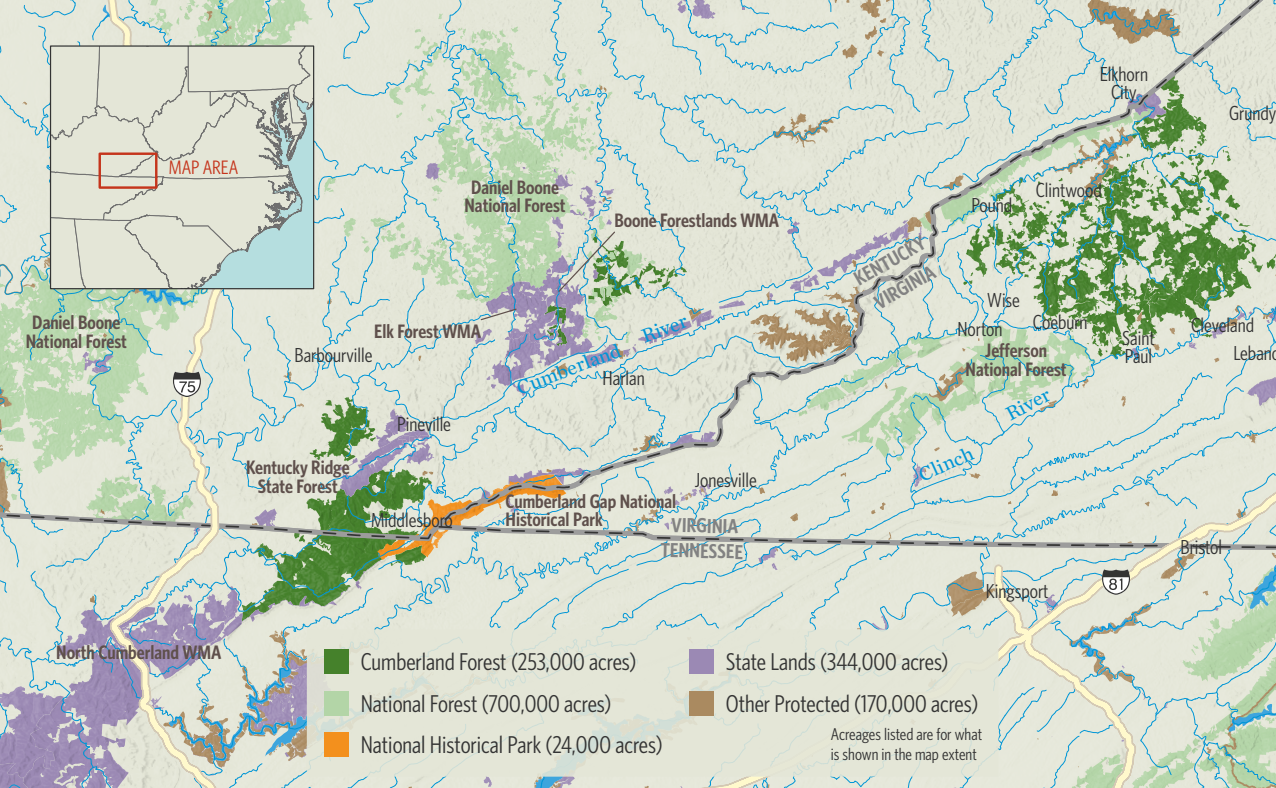
Healthy Forests: Cumberland Forest, L.P.

CLOSED April 2019

DEBT/EQUITY \$130.8 million

Problem

The Central Appalachian region spans six states and, at more than 50,000 square miles, is a globally significant biodiversity hotspot, a major North American migratory corridor, and home to a network of watersheds vital to both people and nature. However, landscapes at this scale are too large to be protected with philanthropic support and are most often controlled by private capital that has not yet acted on the value of sustainable management. Government agencies often lack the resources to acquire lands at a fast enough pace to combat biodiversity loss and climate change.



Solution and Deal Structure

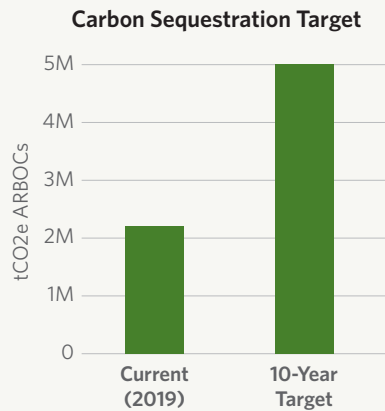
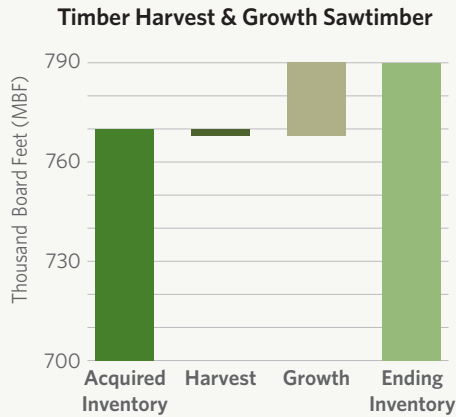
In 2019, TNC closed Cumberland Forest, L.P., a \$130.8 million fund, to acquire 253,000 acres of working forests in Virginia, Kentucky and Tennessee. The properties include more than 700 miles of headwater streams that feed into globally important river systems. The fund raised \$71.9 million in equity commitments, as well as \$62 million in debt and seller financing. As General Partner and Manager of the fund, TNC is deploying its global reputation and relationships to demonstrate that sustainable forest management, long-term protection, carbon sequestration, recreational access, and local economic development can deliver outsized impact as well as competitive risk-adjusted financial returns. TNC is able to amplify its conservation efforts in the region via these properties by leveraging its existing staff, expertise and knowledge of grant programs and local government partners.

Map: Cumberland Forest Holdings and Adjacent Protected Lands;
Photo: Clinch River near Artrip, Virginia © Cameron Davidson

Intended Impact

Cumberland Forest, L.P. employs a number of different strategies in service of its social and environmental impact goals, including:

- » **Protection:** The fund has a goal of protecting as much of the acreage as possible through sales of conservation easements and fee land sales to public agencies, as well as the long-term forest management requirements associated with forest carbon projects.
- » **Forestry:** The fund has a goal of managing all forest properties under Forest Stewardship Council (FSC) certification and increasing timber stocking over time to both sequester carbon and increase the amount of higher value sawtimber present.
- » **Carbon:** The fund has an overall goal of sequestering 5 million tCO₂e through 2028.
- » **Recreation:** The fund has a goal of expanding recreational access on the property while at the same time minimizing environmental impact and generating revenue for the fund.
- » **Community Economic Development:** Due to the ownership structure common in this region, the fund owns the surface estates of the properties, while unrelated third parties retain ownership of the subsurface mineral rights. As stipulated by the property deeds, mining royalties are paid to the surface owners on a periodic basis. The fund has committed to redirecting mineral royalties, estimated at up to \$5 million over the life of the fund, into grants to local, nature-based community economic development projects.

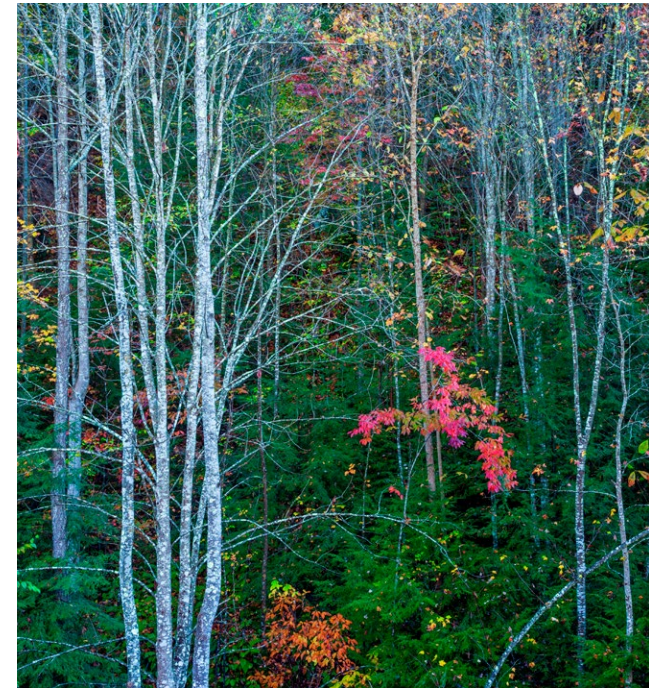


Outcomes to Date

Within its first year of operation, Cumberland Forest, L.P. has made notable progress toward its impact goals, for which it was named Impact Fund of the Year in *Environmental Finance's* 2020 Sustainable Investment Awards.

- » **Protection:** As of June 2020, the fund had secured permanent protection of 9% of its total acreage by placing a 22,856-acres open-space easement held by the Virginia Department of Forestry. The area protected with this easement—the largest land easement in Virginia state history—drains into the Clinch River, a globally important river for freshwater mussels and biodiversity.
- » **Forestry:** During 2019, the fund successfully obtained FSC certification on the entire forested area of the properties, and timber stocking increased as harvest levels were kept below growth levels.
- » **Carbon:** To date, the fund has verified sequestration of 2.2 million tCO₂e of carbon, or 44% of target, based on the California Air Resources Board Offset Credits (ARBOCs) issued to the fund. The fund's carbon sequestration in 2019 was equivalent to taking more than 480,000 cars off the road for one year.²
- » **Recreation:** The fund currently provides public access to 50% (126,307 acres) of the fund's property as well as hunting and fishing licenses for private individuals and hunt clubs in over 100,000 acres in Tennessee and Virginia. Since acquiring the properties, the fund has initiated reviews and upgrades of trails to improve safety and reduce environmental impacts from runoff, sedimentation and stream crossings. To date, the fund and partners have improved 12 miles of trails. In addition, TNC secured a \$222,000 grant independent of the fund to complement trail maintenance and upgrade work on the properties.

² Based on EPA average vehicle greenhouse gas emissions data. As accessed on January 10, 2020: <https://www.epa.gov/greenvehicles/greenhouse-gas-emissions-typical-passenger-vehicle>



- » **Community Economic Development:** The fund has selected The University of Virginia's College at Wise Office of Economic Development and Engagement (UVA-WISE), The Clinch-Powell RC&D Council (CP RC&D) and the Kentucky Center for Agricultural and Rural Development (KCARD) as partners in each state where the fund owns property and initiated contributions in 2020. UVA-WISE and CP RC&D are establishing local grant programs that will support nature-based economic and community development projects. KCARD is conducting a viability analysis for a new cross-laminated timber manufacturing facility and a commercial firewood processing facility that would both utilize low-grade timber.



Old Port, Victoria, Seychelles © Jason Houston

IMPACT PERFORMANCE SPOTLIGHT

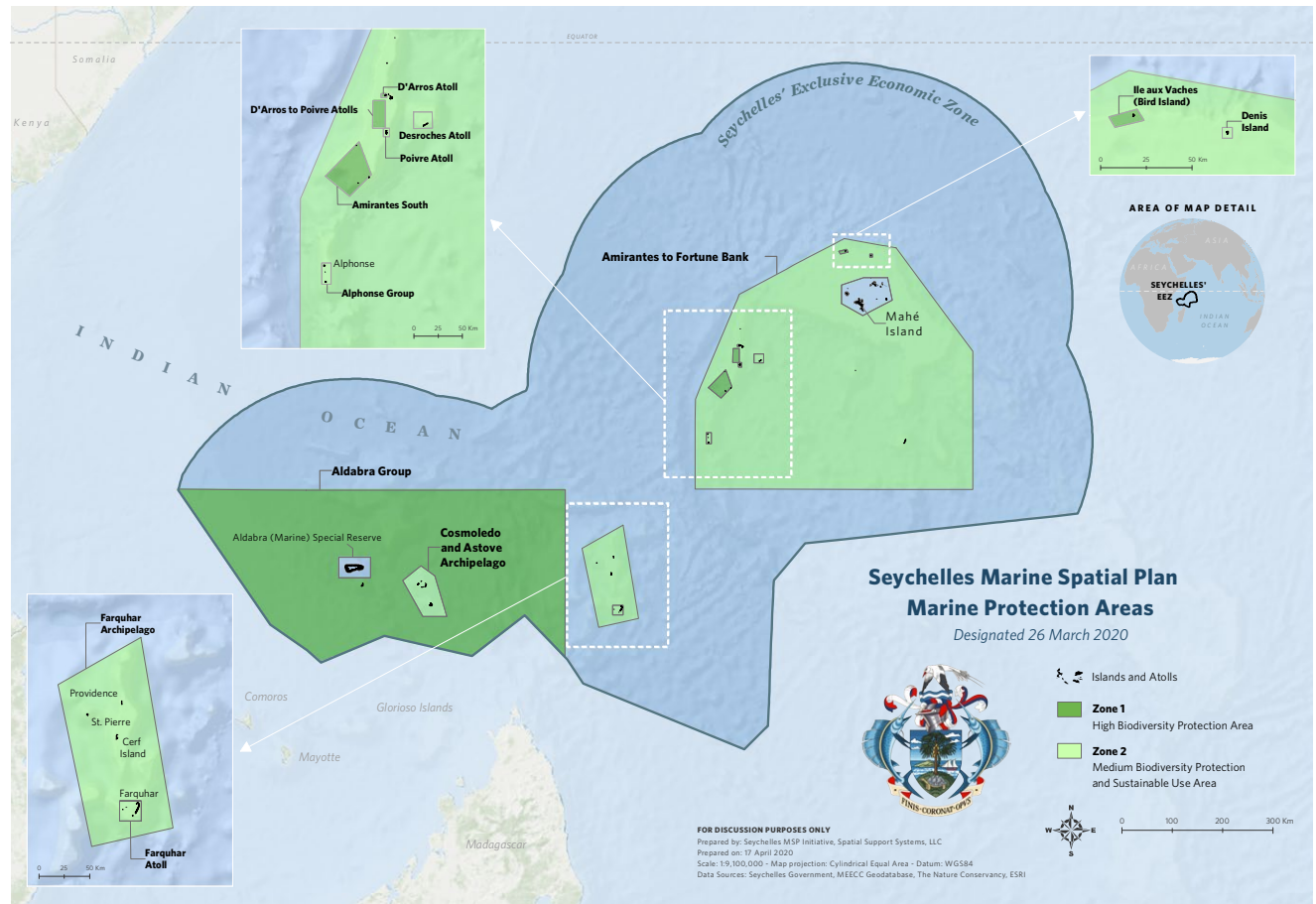
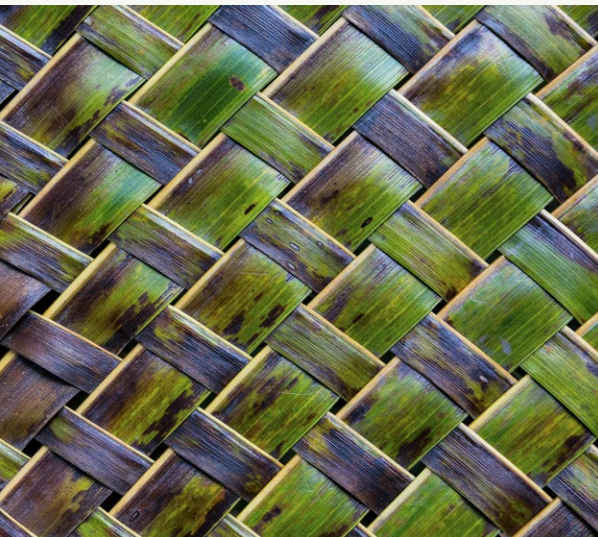
Healthy Oceans: Seychelles Debt Conversion

CLOSED December 2014

DEBT/GRANT \$20.2 million

Problem

The Seychelles, a nation of 115 islands about 1,000 miles off the coast of East Africa, controls over 540 million square miles of the Western Indian Ocean, an area six times the size of the United Kingdom. The Seychelles' "Blue Economy" economic development strategy is based on tuna and tourism; however, these strategies, along with the country's low-lying island geography, make its people and economy particularly vulnerable to the threats of climate change. More severe storms and rising sea levels are battering coastal areas that attract important tourist dollars to their economies; warmer ocean temperatures are diminishing fish stocks; and increasing ocean acidity from rising carbon levels is destroying coral reefs that buffer the force of storms and provide vital habitat for numerous marine species, many of which are unique to the region. In order to reduce its sensitivity to climate change, and despite historically high national debt burdens, the Seychelles needs to invest in developing coastal and marine management plans, enforcement and restoration.



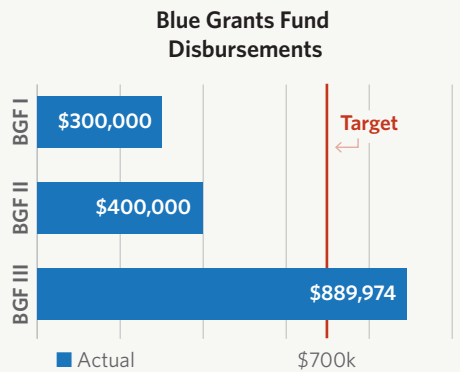
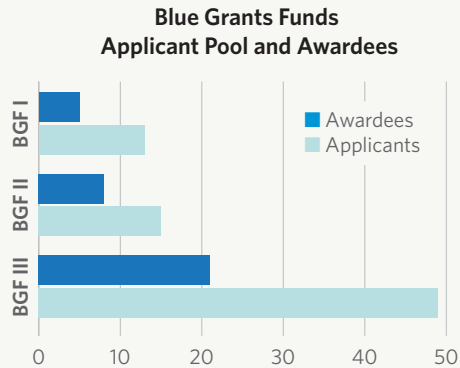
Solution and Deal Structure

TNC worked with the Seychelles government to acquire and restructure \$21.6 million of the country's sovereign debt to provide a funding stream for marine protection and climate adaptation. In exchange for the restructuring, the Government of Seychelles committed to placing 30% of its waters into permanent protection, with half of that area permanently protected from fishing. The result is the Indian Ocean's second largest marine reserve and creation of a model for island and coastal nations worldwide to

achieve the transformative conservation and development goals critical to their livelihoods. The transaction is the first debt conversion to use impact capital (\$15.2 million) and philanthropy (\$5 million) to generate conservation outcomes.³ As part of the transaction, the Government of Seychelles established the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT)—an independent public-private trust fund responsible for distributing the annual debt conversion proceeds to a range of marine conservation organizations and for managing an endowment that will enable ongoing conservation work.

³ \$21.6 million Seychelles public debt purchased from the Paris Club of major creditor countries at a 6.5% discount, or \$20.2 million of invested capital.

From top: Coral restoration, Cousin Island, Seychelles © Jason Houston; Woven palm fronds, Seychelles © Jason Houston; Mahé Island, Seychelles © Jason Houston



Source: SeyCCAT 2019—A Year in Review



Intended Impact

The transaction involved the purchase of \$21.6 million of Seychelles public debt purchased from the Paris Club of major creditor countries at a 6.5% discount, or \$20.2 million of invested capital funded by a \$15.2 million TNC corporate loan and a \$5 million philanthropic donation. Impact targets over the 20-year debt conversion term include:

- » \$8.0 million in proceeds for marine conservation, including \$700,000 in grant funding deployed annually to support marine conservation
- » \$6.6 million to capitalize an endowment for long-term marine conservation
- » 30% of the Seychelles' Exclusive Economic Zone (EEZ) demarcated as Marine Protected Areas (MPAs)
- » 50% of MPAs demarcated as no-take fishing areas

Outcomes to Date

In March 2020, the Seychelles announced the protection of a total of 32% of its ocean⁴ through MPAs, exceeding the debt conversion goal and an increase from less than 1% protected prior to the transaction. MPAs now cover 158,000 square miles of ocean—an area larger than Germany—that will be fully or significantly protected to encourage sustainable development and to adapt to the effects of climate change. The goal was reached two years ahead of target, and Seychelles is well ahead of the UN goal of 10% of coastal and marine area protected by 2020. Fifty percent of the new MPAs are demarcated as no-take fishing areas to help protect important tuna feeding grounds, which will increase fish stocks and improve Seychelles' tuna industry, which is so critical to its economy.

Since inception, SeyCCAT has deployed \$1.6 million of debt conversion proceeds via the Blue Grants Funds (BGF) for immediate adaptation to climate change activities on the ground, including the improved management of coasts, coral reefs, and mangroves. The charts at left show the growth of both applications received and grants awarded by SeyCCAT through three rounds of BGF.

⁴ 32% Marine Protected Areas demarcated from Seychelles' Exclusive Economic Zone



KEY LESSONS

Like many investment startups, NatureVest began as the pursuit of a transformational opportunity in the market. The team was built on the premise that private capital could be applied to conservation, delivering results at a new, much greater scale. Market research showed a large pipeline of potential deals and a robust pool of capital that had been allocated to conservation investments, which supported an ambitious goal of developing \$1 billion in transactions over three years.

NatureVest also had an advantage rarely seen among startups: it was born within a global nongovernmental organization. TNC currently operates in 79 countries and all 50 U.S. states, and it employs a highly respected, 400-person-strong science division. Traditional investment firms rightly pride themselves on their external deal origination networks and stable of advisors that help shape and manage impact. NatureVest prides itself on being directly embedded within perhaps the strongest organization in the world with respect to geographic reach and conservation knowledge.

Another benefit has been the combination of TNC's long history of conservation transactions, its culture of scientific rigor, and the NatureVest team's collective career experience in the investment and banking fields. These factors have established a rigorous review and due diligence process for every deal, while the substantial pipeline of internal and external opportunities have yielded a healthy success rate of 1-in-10, producing the 11 investment structures comprising today's portfolio.

However, reaching the \$1 billion threshold took significantly longer than originally anticipated and revealed paradoxes in this model. TNC has tremendous execution capacity and credibility but has lacked a comparable investment track record. TNC's strength in financial discipline and risk management, exhibited in its \$7-billion balance sheet and Aa2 rating, does not directly translate to investors' own assessment of deal risks. And despite the urgent and well-known need to tackle nature's challenges at immense scale, the broader market is slow to recognize the role conservation can play in investment strategies.

With the backdrop of these challenges, the NatureVest team has identified three key lessons that have shaped its deal development process and may prove valuable to others pursuing novel impact investments.

LESSON 1

The intricacies of novel deals are difficult for even impact-oriented investors to digest, but streamlining the risk factors can help overcome that hurdle.

Impact investors define themselves in many different ways, but the majority seek to achieve impact without sacrificing financial returns. When presented with novel deal structures or unfamiliar asset classes and businesses—stormwater management, for example—many investors tend to gravitate instead to perceived lower-risk alternatives and to accept lower conservation impact.

This is a particular challenge for NatureVest's smallest deals, like Livestock to Markets, where a startup business in northern Kenya is highly exposed to external market factors and the relative scarcity of executive talent. Or District Stormwater, where a novel structure and its reliance upon nascent stormwater credit regulations has led to slowdowns in execution and difficulty in fundraising. Despite TNC's efforts to analyze and mitigate risks like these in our deal selection and investor discussions, they remain hard for investors to value and often create a barrier to investment.

Solution ▶ *Today NatureVest's search image for new deals seeks to restrict novelty to a single element. A novel structure in a proven market or a proven structure in a new market both have a greater likelihood of success in closing the gap between lower risk appetite and higher potential impact.*

LESSON 2

Sub-scale pilots are often needed to prove out a new approach, but a successful pilot is rarely enough on its own to engage large-scale capital.

Traditional theory for new ventures is to start small, prove success, then expand. But throughout the investment space, the so-called "valley of death" between small- and large-scale execution is pervasive, and impact investing is no exception. Taking a leap of faith that a successful pilot will be destined for mainstream success means taking a gamble with the substantial resources required to originate, develop and close a novel impact deal.

This challenge was evident in the Murray-Darling Basin Balanced Water Fund, in which family office and foundation investors participated in an AUD 25-million first round fundraise supported by the deal's asset manager, Kilter Rural. While this is substantially larger than a typical pilot, it turned out not to be an indicator of future scale, and the fund has since struggled to attract institutional capital to support the originally intended level of impact. More recently, the Local Fish Fund is an example of a small pilot in which the engagement of partner ASFT and loan servicer Craft3 provides the deal with a credible pathway to scale in Alaska and beyond if it proves successful.

Solution ▶ *Today, NatureVest's pilot-scale deals seek to engage partners and funders that can help build the bridge to larger capital investments. Deals are often pre-tested with those larger investors to identify a viable path to the institutional market segment.*

LESSON 3

Partnerships can be crucial in attracting capital at scale, but more capital only equates to more impact if there is structural alignment.

Relative to full-fledged asset or investment management firms, NatureVest and TNC are only beginning to build an independent track record in delivering financial performance. At the same time, the organization has a deep track record of delivering science-based conservation results across land, water, oceans and climate targets, and also has a decades-long history of successful partnerships across for-profit, government and non-profit stakeholders.

Successful partnerships like these have arisen more recently in TNC's impact capital portfolio. Private sector investment partners bring credibility and track record with investors, while TNC brings strong science, conservation, and structuring capacity to deliver investment vehicles with robust financial and conservation returns. With the Great Cumbung Swamp Acquisition, Tiverton AG brought sustainable agriculture expertise and the capital necessary to close the transaction, while TNC provides conservation expertise that is critical to realizing the deal's financial and impact potential. With the Sustainable Water Impact Fund, RRG brings a track record of managing institutional-scale vehicles for more than a decade of institutional-scale vehicles, while TNC's embedded role provides deep value in assessing and executing on conservation opportunities

Solution ▶ Today, NatureVest designs deal structures in collaboration with credible partners that establish firm, durable conservation commitments via TNC's scientific input and execution capacity.



Taken together, these three lessons are helping NatureVest tackle the challenges of achieving scale, but success is not always measured strictly in terms of dollars invested or square miles protected. Sometimes, success is the ability to tackle a big conservation problem, even if at a smaller scale, when other approaches have failed to make progress. When making careful selections that can attract capital both today and tomorrow, and that can deliver meaningful, durable conservation outcomes, the NatureVest team believes that conservation investments will continue to accelerate and provide viable, effective and large-scale solutions to nature's toughest challenges.

APPENDICES



APPENDIX I: GLOBAL IMPACT METRIC INDICATORS

NatureVest tracks or will track multiple metrics that align with globally recognized impact reporting standards. The table to the right details NatureVest's progress against relevant metrics identified by the Sustainable Development Goals (SDGs) formulated by the United Nations General Assembly, as well as select metrics defined by the Global Impact Investing Network (GIIN) Impact Reporting and Investment Standards (IRIS). **Generally, NatureVest's strategy supports the following SDGs:**















Table 1: Standardized Impact Metrics





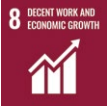







GIIN IRIS	March 31, 2020	Transaction(s)
Area of Trees Planted: Total (acres)	1,783	Cumberland Forest, L.P., Great Western Checkerboards, Olympic Peninsula Acquisition Project
Charitable Donations (NatureVest core funding, transaction partners, and deployed alongside transactions, USD)	\$20,805,064	Cumberland Forest, L.P., District Stormwater, LLC, Great Western Checkerboards, Livestock to Markets, Olympic Peninsula Acquisition Project, Seychelles Debt Conversion
Client Individuals: Smallholders	5,288	Livestock to Markets
Greenhouse Gas Emissions Avoided due to Carbon Offsets Sold (tons CO ₂)	2,249,018	Cumberland Forest, L.P.
Land Directly Controlled: Sustainably Managed (acres)	513,600	Cumberland Forest, L.P., Great Western Checkerboards, Olympic Peninsula Acquisition Project, Sustainable Water Impact Fund
Protected Land Area: Permanent (acres)	63,000	Cumberland Forest, L.P., Great Western Checkerboards, Great Cumbung Swamp Acquisition
Protected Ocean Area: Permanent (square miles) ⁵	158,000	Seychelles Debt Conversion
Payments to Suppliers (income to pastoralists, USD)	\$3,159,502	Livestock to Markets
Stormwater Runoff (gallons/year)	22,000,000	District Stormwater, LLC, TNC/Opti Development Partners, LLC
Value of Loans Disbursed (USD)	\$939,000	Local Fish Fund
Water Conserved (gallons)	1,033,600,000	Murray-Darling Basin Balanced Water Fund, Sustainable Water Impact Fund

⁵ Protected Ocean Area: Permanent is not an IRIS database metric; however we considered the Marine Protected Areas established in the Seychelles Debt Conversion to be distinct from Protected Land Area: Permanent represented by land and forestry transactions.

APPENDIX II: TNC IMPACT CAPITAL PORTFOLIO TARGETS AND PROGRESS TO DATE










Table 2: TNC Impact Capital Portfolio Impact Targets and Progress to Date

Deal Name	Closing Date	SDGs Targeted	Impact Targets (over investment term)	Realized Impact (as of Mar-20)	Impact Status
Cumberland Forest, L.P.	Apr-19	  	<ul style="list-style-type: none"> » Sustainable management of all forested property » Maximize long-term forest protection » 6 million tCO2e carbon sequestered » Recreational access » \$5.5 million donated to local economic development 	<ul style="list-style-type: none"> » All forest property (230,000 acres) FSC certified » 22,856 acres under conservation easement » 2.2 million tCO2e sequestered » 3 leases provide public access to 50% of property, 12 miles of trail upgrades 	On Plan
District Stormwater, LLC	Mar-16	  	<ul style="list-style-type: none"> » 760,000 gallons of annual retention capacity through 2021 	<ul style="list-style-type: none"> » 161,000 gallons annual retention capacity from first two projects » Slower than expected scaling of novel deal in new market 	Behind Plan
Great Cumbung Swamp Acquisition	Jan-19	  	<ul style="list-style-type: none"> » 9,884 acres under conservation covenant by December 2020, full 83,000 acres protected by 2029 » 50+ jobs created » Exit to indigenous ownership 	<ul style="list-style-type: none"> » No realized impact to date » 9,884-acre protection target extended to June 2021 due to effects of COVID-19 	Behind Plan
Great Western Checkerboards	Dec-14	  	<ul style="list-style-type: none"> » Sustainable forest management for habitat restoration, water improvement » Exit to conservation buyer 	<ul style="list-style-type: none"> » Forest management on plan » 40,000 acres sold to government agencies to date 	On Plan

Deal Name	Closing Date	SDGs Targeted	Impact Targets (over investment term)	Realized Impact (as of Mar-20)	Impact Status
Livestock to Markets	Feb-14	   	<ul style="list-style-type: none"> » 8,500 cattle purchased annually by year 6 » Up to \$2.5 million in pastoralist payments annually 	<ul style="list-style-type: none"> » 10,000 cattle traded since 2015 » \$3.2 million paid to pastoralists since 2015 » Slower than expected scaling of novel deal in highly risky market 	Behind Plan
Local Fish Fund	Feb-19	  	<ul style="list-style-type: none"> » 8 to 10 loans » Compliance with conservation covenants 	<ul style="list-style-type: none"> » 6 borrowers purchased \$939,000 of sablefish and halibut quota » First covenant review in 3Q20 after first year of loan terms 	On Plan
Murray-Darling Basin Balanced Water Fund ⁶	Dec-15	 	<ul style="list-style-type: none"> » 55 to 79 gigalitres of water donated to ecologically important wetlands » Work with traditional owners for restoration » 157 to 173 gigalitres of water provided to irrigators 	<ul style="list-style-type: none"> » 3.9 gigalitres of water (1.3 gigalitres Fund water) delivered to ecologically important wetlands to date » 36.0 gigalitres of water provided to irrigators » Sub-scale fundraising 	Behind Plan
Olympic Peninsula Acquisition Project ⁷	Dec-14	  	<ul style="list-style-type: none"> » Sustainable forest management for habitat » Restoration, water improvement » Exit to conservation buyer 	<ul style="list-style-type: none"> » Forest management, restoration on plan » No out-sales to date 	On Plan

6 MDBBWF impact targets based on \$68.5 million target fund size, actual invested capital \$27.6 million as of April 2020

7 In December 2019, TNC retired the outstanding debt for the Olympic Peninsula Acquisition Project and continues to sustainably manage the property with a goal of long-term protection. We consider this to be an exited transaction with continued TNC ownership and will continue to report on impact outcomes.

Deal Name	Closing Date	SDGs Targeted	Impact Targets (over investment term)	Realized Impact (as of Mar-20)	Impact Status
Seychelles Debt Conversion	Feb-16	   	<ul style="list-style-type: none"> » 30% of EEZ to MPA, 50% no-take » \$8.0 million proceeds for marine conservation, \$6.6 million for endowment 	<ul style="list-style-type: none"> » 32% MPA (50% no-take) areas demarcated by government in 2020 » \$1.6 million dedicated to marine conservation, \$606,000 endowment 	On Plan
Sustainable Water Impact Fund	July-19	  	<ul style="list-style-type: none"> » Temporary wetland habitat creation » Permanent agriculture land habitat protection and restoration » Instream flow improvements and river habitat restoration 	<ul style="list-style-type: none"> » Retirement of 80,000 dairy cattle, remediation of effluent ponds, stopping groundwater overdraft, building temporary recharge basins 	On Plan
TNC/Opti Development Partners, LLC	Apr-19	 	<ul style="list-style-type: none"> » Remove the following pollutants from the Chesapeake Bay annually: 42,000 lbs. of sediment, 6,000 lbs. of nitrogen and 3,800 lbs. of phosphorus 	<ul style="list-style-type: none"> » Due to timing constraints related to contracting, the joint venture is likely to deliver 65-75% of intended impact 	Behind Plan

WORLDWIDE OFFICE
The Nature Conservancy
4245 North Fairfax Drive, Suite 100
Arlington, VA 22203-1606

