**THE CHALLENGES**

- Rising temperatures and climate change can trigger stricter environmental regulation, jeopardizing profitability and reputation for businesses around the globe.
  - The Paris Agreement has set the direction of climate action; 195 countries agreed on achieving net-zero emissions by 2050 to stay well below 2°C. However, current NDCs\(^1\) will deliver 3–4°C. National targets will have to be raised.
  - The G20 Task Force on Climate-related Financial Risks\(^2\) recently released ambitious recommendations on corporate climate-related financial risks disclosure.

- Deforestation in the tropics is a critical social and environmental issue driving climate change, biodiversity losses and livelihood deterioration. Changes in land use cause ¼ of the world greenhouse gas emissions\(^3\).

**THE OPPORTUNITY**

Today, +1,200 companies measure, disclose and manage their emissions\(^4\). Countries and non-state actors understand bolder climate action is required to be Paris-compliant. Scientists point to 2020 as the necessary turning point in emissions\(^5\).

Against this backdrop, a growing number of companies are shifting from being managers to stewards of their footprint. 222 companies have committed to follow decarbonization pathways aligned with science-based targets\(^6\). While many will shift their energy source and improve energy efficiency, becoming net-zero needs offsetting. Demand for voluntary carbon offset is expected to grow 2-5x in 2025\(^7\), and ICAO agreement can potentially drive demand beyond $2.5B\(^8\).

**Carbon Capture Fund Characteristics**

**Cost Structure**

COIP will act as an extension of Members’ in-house investment staff to source, diligence, and structure transactions, as well as to provide asset-monitoring services. COIP is not motivated by fee generation and operates “at cost”. Members will fund COIP costs on a pro-rata basis. Annual budget is estimated at c. 800k (1.6% on an initial fund of $50m).

**Target Geography**

Developing countries where deforestation is an acute problem and that have stable political environments; initial target areas will be West, Central and East Africa, and the Amazon region.

**Investment Highlights**

- Highly scalable opportunity
  - Robust and growing corporate demand for long term tailored carbon offsets programs.
  - Existing carbon offset capacity is used as gateway to unlock additional resources.
- Significant asset coverage with royalty-like revenue stream.
- Members retain 1st ranking pledge over the revenues and over the leased property (“New Land”).
- Attractive risk-return profile
- Currency alignment: Members’ investment and carbon offset program are both USD-denominated. Foreign exchange risk is only born on the value of the collateral “New Land”.

**Platform Risks and Mitigants**

- Weak land tenure systems and political instability could lead to loss of 1) biological assets producing carbon offsets and 2) collateral (New Land).
  - This largely depends on the idiosyncrasy of the country. COIP will select only countries with optimal conditions and conduct due diligence on these aspects.
- Counterparty risk
  - COIP expects to secure deals with A-and-above-rated companies. Data shows that companies voluntarily managing their footprint are largely investment grade\(^9\).
  - Plagues and fire can threaten ability to offset carbon
  - Verification standards require 20% capacity buffer.
  - Partial insurance will be put in place.
- Limited investment opportunities
  - COIP connections will allow for rapid identification of opportunities.
  - Abundant carbon-offset assets ready to be monetized.

**COIP Term Sheet**

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Carbon Offset Investment Platform I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure</td>
<td>Registered Investment Advisor (RIA) Public Benefit Corp</td>
</tr>
<tr>
<td>Types of Assets</td>
<td>Carbon offsets for corporates</td>
</tr>
<tr>
<td>Investment Period</td>
<td>4 years</td>
</tr>
<tr>
<td>Term</td>
<td>12 years</td>
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<tr>
<td>Target Fund Size</td>
<td>USD 50m</td>
</tr>
<tr>
<td>Commitment Size</td>
<td>Minimum USD (4m) commitment</td>
</tr>
<tr>
<td>Investment Decision</td>
<td>Discretionary on each investment</td>
</tr>
<tr>
<td>Fees</td>
<td>At cost; pro-rata based on commitments</td>
</tr>
<tr>
<td>Target Return</td>
<td>(10-20%)</td>
</tr>
</tbody>
</table>

**Key Points**

1. **COIP believes that there is a solid and growing underlying corporate demand for tailored long term carbon offset programs.**
2. **COIP is a mission-driven investment advisory platform created to monetize carbon offset value of forestry companies and direct private capital into the forestry sector in certain developing countries.**
3. **COIP will select only countries with optimal conditions and conduct due diligence on these aspects.**
4. **COIP will source, diligence, structure, and monitor carbon offset programs that satisfy specific risk-adjusted return requirements.**
5. **COIP will also provide market intelligence and share “best practices” among Investees.**
6. **COIP will leverage long-standing relationships across development organizations, governments, and NGOs, as well as partner with verification bodies to source unique investment opportunities for its Members.**
7. **Fiduciary Control does not require that all Members invest in a given opportunity. Members retain full fiduciary control of their investments and each Member decides which investments to pursue.**

---

[1] Carbon Offset Investment Platform (COIP)

[2] Solving climate change and fighting deforestation: an unprecedented opportunity for wealth creation through forest finance

[3] Diagram of the Platform


[5] Target Geography

[6] Investment Highlights

[7] Platform Risks and Mitigants

[8] COIP Term Sheet

[9] Key Points
Appendix

Opportunity 1: New Forests Company (Tanzania, Rwanda, Uganda)

COIP Investee Profile
- New Forests Company ("NFC"), founded in 2004, is a sustainable, socially responsible forestry and timber products business in Uganda, Rwanda and Tanzania.
- Strong management team and institutional support.
  - Among founding shareholders are HSBC and Agri-vie, a mid-market food & agriculture investor in Sub-Saharan Africa.
  - Robert Devereux, former Chairman of Virgin Entertainment, and Jon Aisbitt, former Partner at Goldman Sachs, sit in the Board.
  - NFC has received significant debt financing from numerous Development Finance Institutions including Germany (DEG), Finland (FinnFund), the Netherlands (FMO), and South Africa (IDC).
- To date, the company has planted 25m trees on over 30,000 hectares, which offset +200,000 tons of carbon annually.
- NFC manages its forestry data with the state of the art MicroForests system and regular plantation audits.
- Employing 1,700 (216 women), NFC has contributed $7.2 m to the local economy.
- NFC values their biological assets at $134 m. 2016 sales stood at $20 m, and EBITDA at $0.5m.
- NFC complies with the best forestry, social and environmental practices. Its vision is to be the most successful and sustainable, integrated Pan-African timber business.

Deforestation in East Africa
- Rapid deforestation is a major problem in East Africa, affecting desertification and climate change. Fuelwood use and population growth are important contributors[9].
- In 2010 there were 73.7m Ha of forest in East Africa. Annual forest loss was c. 0.7m Ha, 1% per year[10].

Investment Opportunity

| COIP believes that NFC’s ability to offset carbon emissions are worth a minimum of $720k/year and is seeking to raise an loan of $3.25m. |
| The term of the investment is 8y, with a target return of ~12.8% |

Cash Flows and Expected Returns and Uses & Sources ($m)

<table>
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<tr>
<th></th>
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<td>0.7</td>
<td>0.7</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.9</td>
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<tr>
<td>Lease</td>
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<td>-</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
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<tr>
<td>Employees</td>
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<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
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<tr>
<td>Maintenance</td>
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<td>(0.2)</td>
<td>(0.2)</td>
<td>(0.2)</td>
<td>(0.2)</td>
<td>(0.2)</td>
<td>(0.2)</td>
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<tr>
<td>Community Investment</td>
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<td>-</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Transaction Costs</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Overfund</td>
<td>(0.3)</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Total Costs</td>
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<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.2)</td>
<td>(0.2)</td>
<td>(0.2)</td>
<td>(0.2)</td>
<td>(0.2)</td>
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<tr>
<td>FCF</td>
<td>(3.3)</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.6</td>
<td>0.6</td>
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<tr>
<td>Loan Recovery ($m)</td>
<td>0.0</td>
<td>0.7</td>
<td>1.5</td>
<td>2.2</td>
<td>3.0</td>
<td>3.8</td>
<td>4.7</td>
<td>5.5</td>
<td>6.4</td>
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</tbody>
</table>

Term Sheet – Opportunity 1: NFC
- Commitment Size: $3.25 m
- Term: 8 years
- Expected Return: 12.8% IRR
- Security: 1st Ranking Pledge over revenues of Carbon Offset Program and 1st ranking pledge on New Land leases
- Counterparty Risk: TBD, expected above A
- Use of Funds: Lease New Land for reforestation purposes, capex and transaction costs
- Maturity: Amortizing, final maturity date 31 Dec 2025
- Covens: Non additional liens on collateral, no dividends arising from New Land economic activity, no additional liens on original land

Sources
- Members’ Loan: 3.25
- Total Sources: 3.25

Uses
- Capex in New Land: 1.75
- Diligence Specialists: 0.20
- Gold Standard Certificates: 0.03
- Gold Standard Verification Cost: 0.05
- Environmental Impact Assessment: 0.02
- Insurance: 0.15
- Legal Fees: 0.70
- Retailer Fees (2.5%): 0.08
- Cash Available for Greenfield: 0.28

Return Sensitivities based on Offset Price
- New Land does not produce offsets

<table>
<thead>
<tr>
<th>/t</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
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<tbody>
<tr>
<td>0</td>
<td>4.9%</td>
<td>10.3%</td>
<td>15.2%</td>
<td>19.7%</td>
<td>24.0%</td>
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<tr>
<td>7</td>
<td>7.1%</td>
<td>12.1%</td>
<td>16.7%</td>
<td>21.0%</td>
<td>25.2%</td>
</tr>
<tr>
<td>8</td>
<td>7.4%</td>
<td>12.3%</td>
<td>16.9%</td>
<td>21.2%</td>
<td>25.4%</td>
</tr>
<tr>
<td>9</td>
<td>7.7%</td>
<td>12.6%</td>
<td>17.1%</td>
<td>21.4%</td>
<td>25.5%</td>
</tr>
<tr>
<td>10</td>
<td>8.0%</td>
<td>12.8%</td>
<td>17.3%</td>
<td>21.6%</td>
<td>25.7%</td>
</tr>
<tr>
<td>11</td>
<td>8.2%</td>
<td>13.0%</td>
<td>17.5%</td>
<td>21.8%</td>
<td>25.8%</td>
</tr>
</tbody>
</table>

Investment Highlights
- Attractive risk-adjusted return: +1,000 bps premium on A-rated corporate bonds.
- Benchmark of A-Rated Bonds – in bps (levels as of 24 Mar 2017)

<table>
<thead>
<tr>
<th>US Treasury</th>
<th>Corporate</th>
<th>A Corporate</th>
<th>Target Return</th>
<th>A COIP Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>5Y</td>
<td>192</td>
<td>224</td>
<td>32</td>
<td>1,280</td>
</tr>
<tr>
<td>10Y</td>
<td>239</td>
<td>324</td>
<td>85</td>
<td>1,280</td>
</tr>
</tbody>
</table>

- Robust asset coverage: royalty-like revenues land value.
- Low counterparty risk: revenues are contracted from high rate corporates (A-rated and above).
- Stabilized and profitable operating company with robust management and institutional support.
- Currency alignment: loan and carbon offsets in USD.

Investment Risks and Mitigants
- Loss of security on the asset due to political unrest.
  - Tanzania, Uganda, Rwanda have enjoyed 15, 31 and 22 years of political stability, respectively.
  - Rwanda ranks #2 in terms of business friendliness in South-Saharan Africa. Uganda and Tanzania rank #12, and #14, respectively, out of 48 countries[11].
- Loss of biological asset value through disaster or attack.
  - Good relationships with local communities reduce risk.
  - Official carbon price set below $10.
  - Investment is reassessed; price is fixed at inception.

Assumptions
- 50% of the total carbon offsets are securitized and kept untouched. Additional buffer for verification is also kept.
- Overfund intends to cover initial lossmaking period.

Notes
- (1) NDCs stands for National Determined Contributions, which are the commitment in greenhouse gas emission reductions by each country under the Paris Agreement
- (2) Launched at COP21 in Paris, the Task Force was mandated by the G20 Financial Stability Board to produce recommendations on best practices for climate-risk financial disclosure
- (3) International Panel for Climate Change, 2014
- (4) Putting a price on risk: Carbon pricing in the corporate world, CDP, Sep 2016
- (6) Climate-based targets provide companies with a clearly defined pathway to future-proof growth by specifying how much and how quickly they need to reduce their greenhouse gas emissions.
- (7) Forest Trends’ Ecosystem Marketplace project, Feb 2015
- (8) Opinion of industry specialist
- (9) Investigation of Deforestation in East Africa on Regional Scales, FAO, Stockholm University, 2011
- (10) Global Forest Resources Assessment, FAO, 2010
- (11) World Bank
- (12) Certificates differ from ‘offsets’ in that there is no additionality of carbon sequestration.
- (13) The Gold Standard is the global benchmark for the highest integrity and greatest impact climate and development initiatives.
- (14) Raising Ambition: Statement of the Voluntary Carbon Markets 2016, Ecosystem Marketplace
- (15) Wildlife Works is the largest developer of REDD+ projects