**Investment Thesis**

The Sustainable Livelihoods Opportunity Fund is designed to identify and capitalize new sustainable forest products facilities in Opportunity Zones ("OZs"), revitalizing rural economies and accruing regionally relevant environmental benefits.

- Sustainable businesses reinvigorate economically challenged towns in rural regions of the US.
- Forest products manufacturing has historically anchored many of these towns. Investing in a new class of sustainable forest products builds on existing infrastructure and workforce expertise, and promises environmental benefits.
- There is a large and ready pool of capital seeking to invest in OZ opportunities to achieve impact and benefit from the associated tax relief.

**Problem Statement**

Small towns are in distress. Small towns across rural America face the daunting socioeconomic challenges of urban migration and job losses due to automation and workforce modernization. Most economically distressed communities contain fewer jobs and fewer business today than in 2000. Forestry and tangential industries have been particularly hard-hit, and the shuttering of forest product facilities has devastated small towns across all major forestry regions of the US.

When forest products markets diminish, there are also environmental costs. Forest products manufacturing has direct and indirect environmental benefits. Direct benefits include long-term carbon sequestration in wood products, the displacement of more carbon-intensive alternatives, and the regeneration of soils (see table on pg 2). Perhaps with greater consequence, robust markets for forest products enable forest thinnings to be performed in fire-prone regions, which improves fire resilience. This in turn yields water, biodiversity, and carbon benefits.

Sustainable forest products markets need capital to scale up. Innovative and sustainable forest products facilities have the potential to rejuvenate American small towns, but as of 2019 these types of facilities lack the private investment to scale up, achieve commercial viability, and realize social and environmental impacts.

**The Opportunity**

The US Tax Cuts and Jobs Act of 2017 allowed states to designate census tracts as Opportunity Zones in which qualified investments generate substantial tax benefits for investors. To be eligible, OZs must have poverty rates >20% and median family income <80% of benchmark. While states had latitude in their OZ selection process, the evidence suggests that the tracts selected have—in addition to significant need—significant potential for revitalization because of workforce availability.

There is remarkable overlap between Opportunity Zones and towns with obvious potential for a new forest products facility, in particular because of an available skilled workforce, a ready supply of wood fiber, and sometimes a suitable brownfield site.

The Fund is structured to allow taxable investors such as high net worth individuals and multi-family offices to realize tax benefits of investing in OZs. As of the end of 2017, there were $6.1 trillion dollars of unrealized capital gains eligible for OZ investments.

**Fund Structure**

The Fund is structured as a closed-end, private equity vehicle designated as an Opportunity Fund ("OF"). To qualify as an OF the fund must invest at least 90% of capital in qualified OZ property and satisfy IRS filing and registration requirements. OZ investment rules are compatible with a typical commercial private investment fund model, where a Limited Partnership invests through holding companies into leveraged Special Purpose Entities alongside operating partners. We believe a material proposition of the proposed Fund is its technical resemblance to existing offerings.

---

**Fund Terms**

<table>
<thead>
<tr>
<th>Total commitment</th>
<th>Fund 1 (pilot project) $20-50m, Fund 2 (4-6 projects) $100-300m, $500k minimum investment.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund term</td>
<td>10 yrs + 2 yr liquidation + extensions at LP discretion. 4 yr initial investment period.</td>
</tr>
<tr>
<td>Target returns</td>
<td>10-12% IRR (net, nominal)—equivalent to 14-16% IRR with OZ tax benefits*</td>
</tr>
<tr>
<td>Fee structure</td>
<td>1.5% management fee + 20% promote to GP over 8% hurdle</td>
</tr>
<tr>
<td>Target investors</td>
<td>High net worth individuals, family offices, and other taxable investors; mission-aligned tax-exempt investors</td>
</tr>
</tbody>
</table>

*Equivalent IRR calculated by treating OZ tax benefits as cash flows

**Operating Model**

The Fund’s success depends critically on our operating partners ("OPs"). OPs will be responsible for site development and managing facility operations. The following terms ensure alignment between the Fund and OPs:

- Equity ownership in project SPE between 5-20% depending on appetite and scale of project
- EBITDA-based incentive fees paid to OP
- Right of first offer to buy the Fund’s equity stake at exit

In operating partners, we will seek the following qualifications:

- Key management personnel with local knowledge and relationships in the OZ region
- Proven experience with 1 or more facilities of similar or greater size
- Desire to put “skin in the game” via equity and fee structure

The Fund will partner with the USDA Rural Development agency on technical assistance programs and loan guarantees, and with local CDFIs and workforce development organizations to support skills training, job growth and retention, and community resiliency. The Heron Foundation reports that CDFIs have deployed over $35 billion in investments over the past 20 years, resulting in the creation of 721,000 jobs.
The forest products industry is a top-10 manufacturing employer in 45 states, employing over 950,000 people. Sustainable forest products are a critical piece of rural regeneration. The ‘Funnel’ diagram at right leads to the total addressable market for our thesis of over $1 billion—25 deals of $40 million or more.

Pilot and Scaling
Fund 1 is a pilot project to demonstrate viability. This would likely rely on a mission-oriented “anchor investor” to commit $5m+. The figure below profiles an indicative potential pilot site. Fund 2 would invest in 4-6 facilities across a diversity of geographies and products. The ‘Funnel’ diagram at right leads us to believe there is a total addressable market for our thesis of over $1 billion—25 deals of $40 million or more.

Pilot OZ: Census Tract 9791, Lawrence County, Alabama

Until 2013, the nearby town of Courtland hosted one of International Paper’s flagship mills, employing about 1100 people in the production of magazine, envelope, and copy paper. Declining national demand forced its closure, and the facility was torn down in 2017. Lawrence County is in the heart of institutional timber ownership, guaranteeing the availability of supply contracts and the familiarity of local officials with large-scale forest products facilities. Organizations like Northern Alabama Workforce Development Alliance are committed to the support of skilled labor training and development in Lawrence County.