

The background image shows a lush green forest with tall, slender trees. In the foreground, a large pile of cut logs is stacked, with some red markings visible on the wood. The scene is set in a rural area, with a small building and more trees visible in the distance under a bright sky.

Sustainable Livelihoods Opportunity Fund

*Revitalizing rural economies via Opportunity Zone investment in
sustainable forest products facilities*

Alex Bergonia | Katharine Hawthorne | Kristine Leary | Gordon Vermeer

Hard Times in Ontonagon, Michigan



- Smurfit-Stone Container Corporation paper mill closed in 2009
- 182 direct jobs lost (total population 1,400), mill was once the county's largest employer with generations of residents serving as employees
- Ontonagon struggling to recover from the Great Recession: high unemployment rates, low education levels, declining population



Rural American Communities are in Distress



- 20% of America's population lives in small-towns and rural areas
- These areas have seen persistent decline over the past 25 years
- Rural areas hit hard by the Great Recession in 2008 have yet to recover: By 2017, large metropolitan areas had 10% more jobs than in 2008. Rural areas had fewer jobs than before the start of the crisis
- Rising unemployment and decreasing real incomes threaten rural livelihoods

Sustainable Forest Products Drive Rural Regeneration



Resource-based industries will continue to be the economic foundation of rural communities.

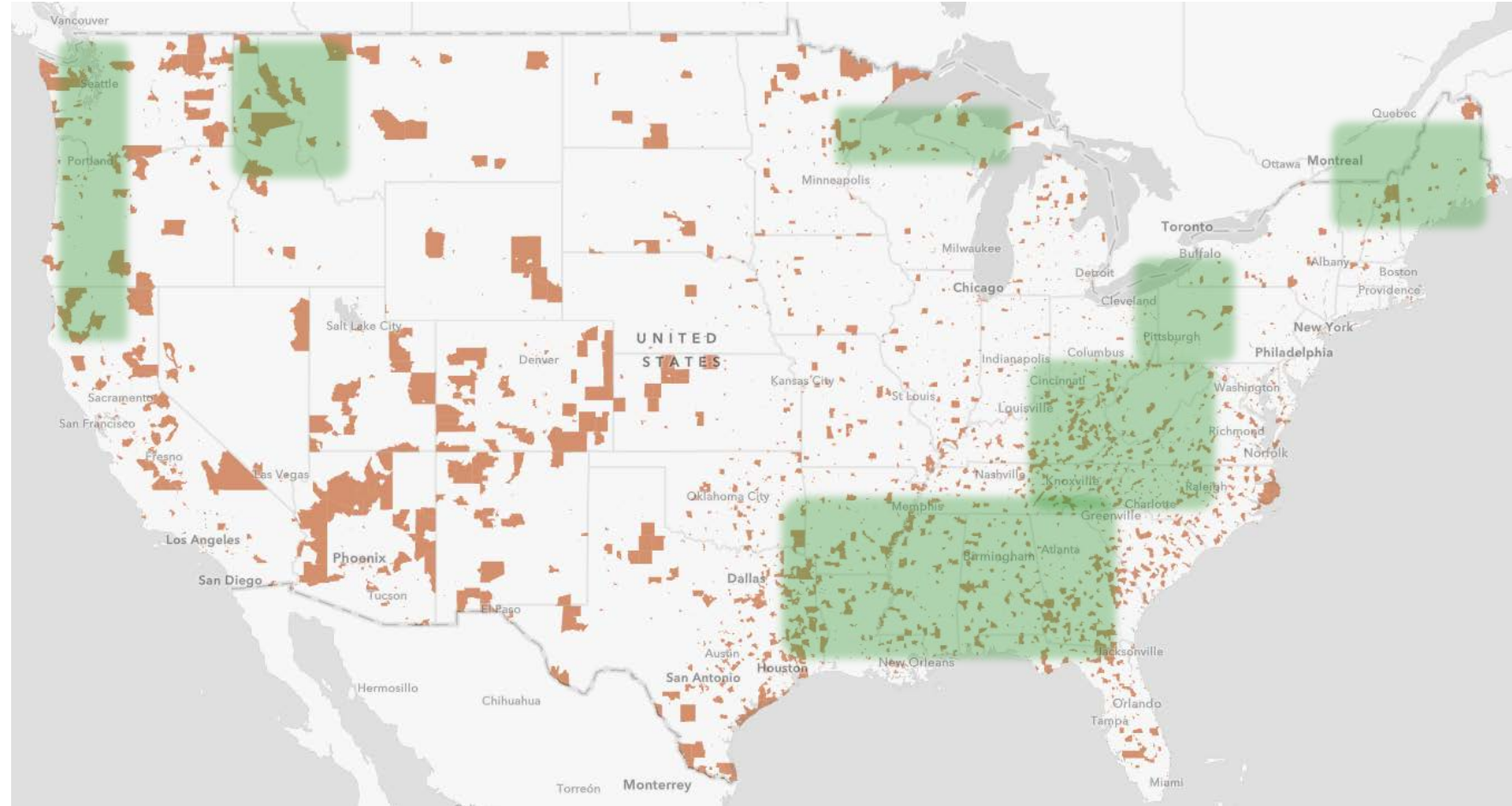
Historically, traditional forest products industry—such as pulp, paper, and commodity lumber—anchored these communities.

21st century rural development requires socially, environmentally, and economically sustainable businesses.

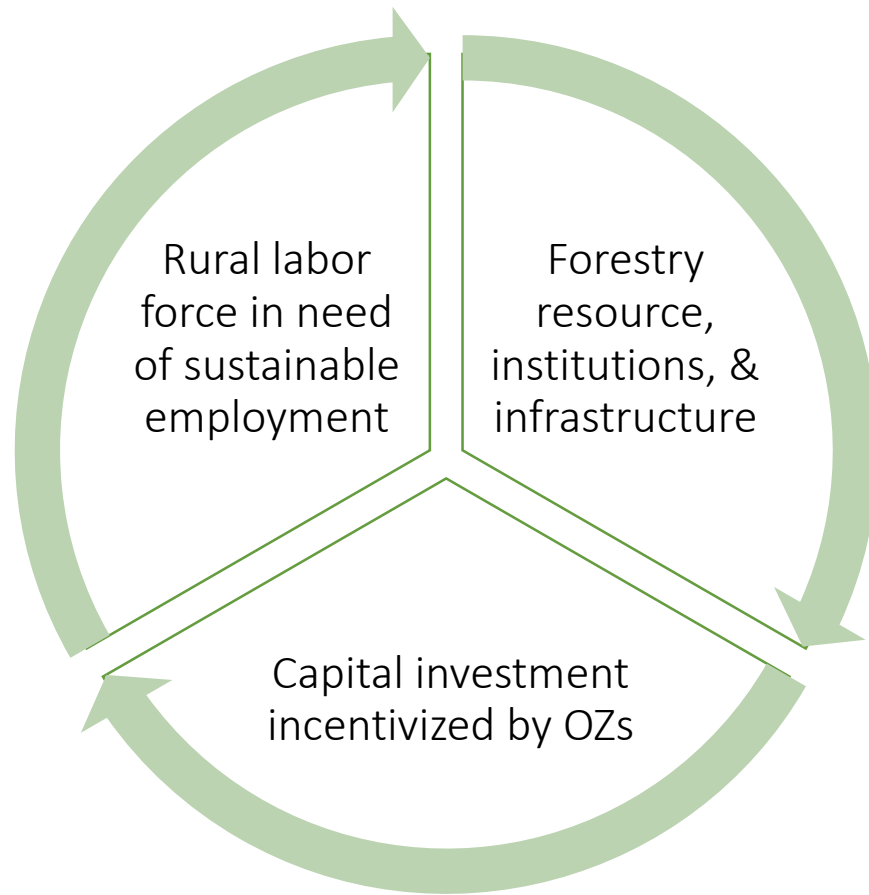
A new class of sustainable forest products revitalizes rural economies by drawing on existing resources, infrastructure, and expertise.

Opportunity Zones Incentivize Investment

- Opportunity Zones (OZs) were introduced in the *Tax Cuts and Jobs Act of 2017*
- In 2018, each state nominated high-poverty, low-income census tracts to be OZs
- Certain types of investments in these zones are eligible for substantial tax breaks for investors
- Cross-referencing OZs with major commercial forestry areas reveals considerable overlap between forest products facility closures and census tracts designated as OZs



Investment Thesis



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

What are Sustainable Forest Products?



Socially sustainable

- Utilize skilled labor force + existing infrastructure
- Supported by local institutions
- Offer new uses for existing fiber supply



Environmentally sustainable

- Sourced from responsibly managed forests
- Incentivize forest management → carbon, water, air quality benefits
- Sequester CO₂ and/or displace high-CO₂ alternatives



Economically sustainable

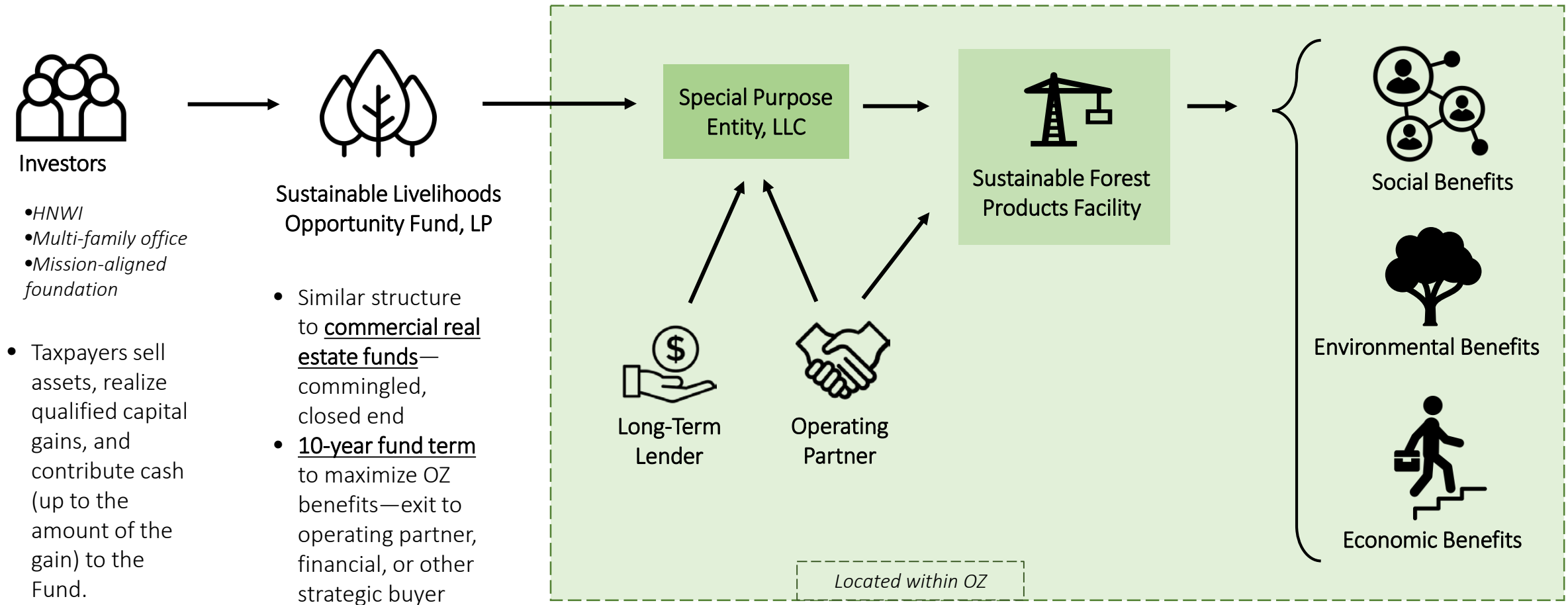
- Proven technologies and/or large upside
- Access to robust end markets
- Acknowledge regional wood supply and competitive dynamics

Example: California



Creating markets in northern California for small diameter wood and residuals—for example, in making biomass pellets—enables critical forest thinning activities and aids wildfire mitigation. This in turn yields air quality, water quality, and CO₂ emissions avoidance benefits.

Fund Structure



* To qualify as an Opportunity Fund, must invest 90%+ of capital in OZ property and meet other IRS filing and investment requirements

Market and Scalability

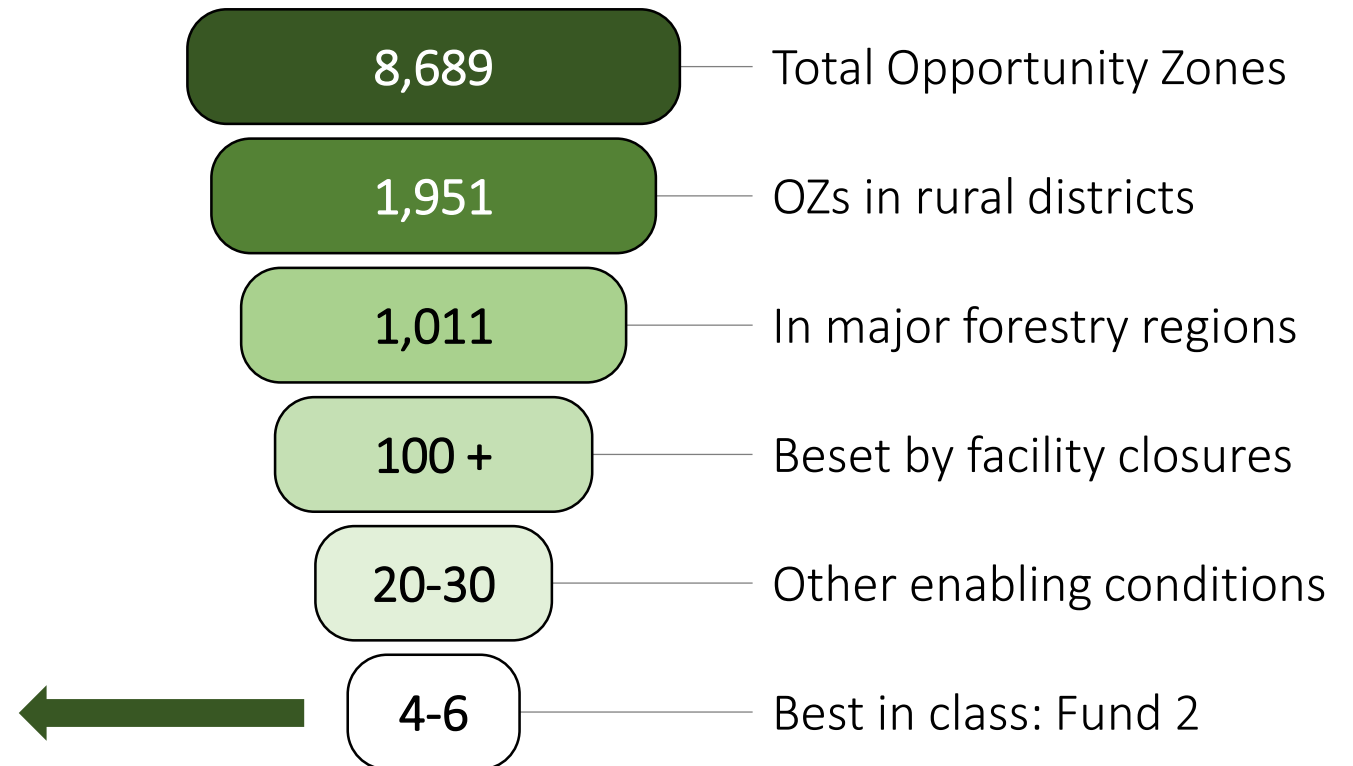
Fund 1

- Pilot
- Demonstrate concept viability
- Rely on mission-oriented anchor investor (\$5m)

Fund 2

- Fund of 4-6 investments
- Geographic and forest products diversification
- Fund size \$100-300m

Pipeline



Operating Partners

The Fund's success depends critically on Operating Partners—responsible for site development and facility operations + management

Qualifications



Local knowledge and relationships



Proven facility-level experience



Desire to put 'skin-in-the-game'

Alignment



Equity ownership (5-20%)



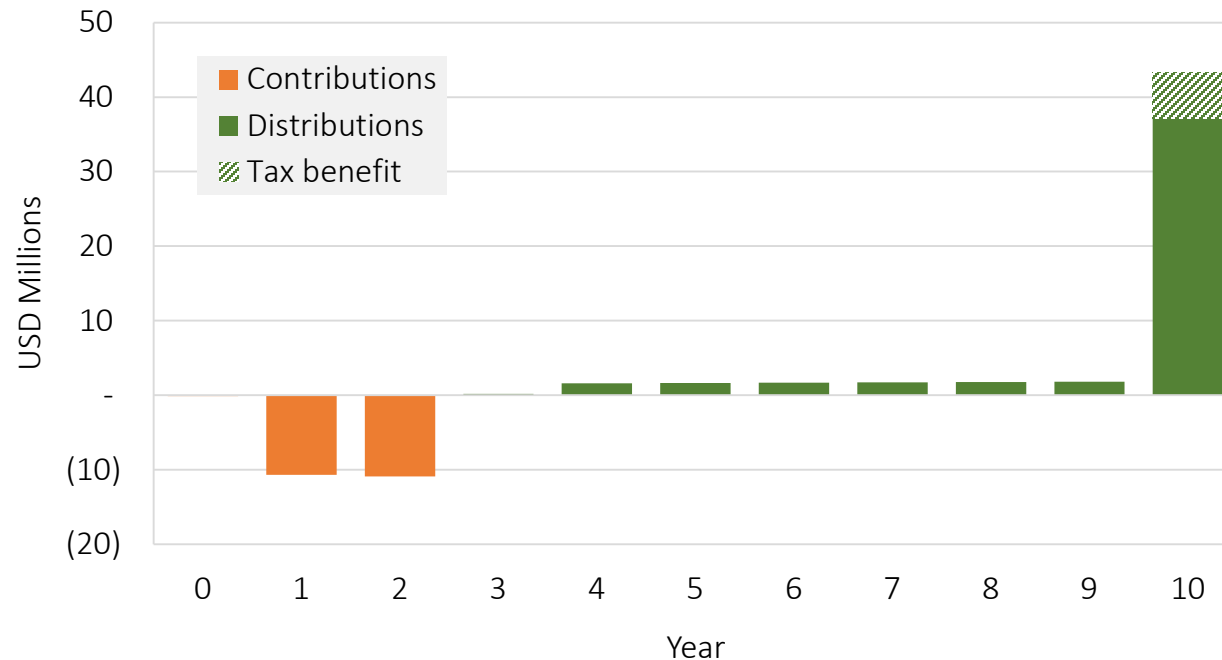
EBITDA-based incentive fees



Right of first offer at exit

Cash Flows and Returns

Net, nominal IRR of 11%—equivalent to 15% IRR inclusive of OZ tax benefits



Key modeling assumptions:

- Cash flows shown for \$30m pilot project
- Facility economics based on industry benchmarks
- 2 year construction period, 2 year ramp up
- Operating partner 5% equity stake
- 30% project leverage at 6% interest rate
- Fund expenses 50 bps of NAV

Risks & Mitigation

	Risk	Mitigant
Political	Local policy accommodation	Buy-in from local/regional govt and NGOs (e.g. Chamber of Commerce)
	Legislative clarity on Opportunity Zones	Monitor OZ precedent transactions and ongoing regulatory guidance
Operating	Operating partner (OP) viability	Due diligence process and OP incentive structuring
	Wood supply	Wood Supply Agreements (WSAs) where possible
	Workforce availability	Due diligence and job training
	End product markets	Product market research and selection
Financial	Timing delays	Counterparty / OP selection; subscription line of credit at fund outset if needed
	Exit	Right of first offer to operating partners; exits also possible to strategic (e.g. integrated forest products) or financial (e.g. PE) buyers



Impact Potential



	Beneficiaries	Impact	Metrics
Economic	Rural labor force	High quality jobs	<ul style="list-style-type: none"> • Job retention • Job growth
	Local economy	Income multiplier effect	<ul style="list-style-type: none"> • Indirect jobs created • Contribution to GDP
	Municipalities	Local tax revenue	<ul style="list-style-type: none"> • Tax revenue generated
	Supply chain participants (e.g. forestry contractors)	Indirect job creation (supply chain)	<ul style="list-style-type: none"> • Supply chain relationships
Social	Rural populations	Community resilience	<ul style="list-style-type: none"> • Health outcomes • Economic stability
	Employees	Economic mobility	<ul style="list-style-type: none"> • Access to benefits • Median wage growth
	Communities	Local partner engagement	<ul style="list-style-type: none"> • Number of local partnerships • Quality of partnerships
Environmental	Global	CO ₂ sequestration	<ul style="list-style-type: none"> • Tons of CO₂ in products
	Global	CO ₂ emissions avoided	<ul style="list-style-type: none"> • Acres of forest thinned • Higher CO₂ products displaced
	Area watersheds	Water quality improvements	<ul style="list-style-type: none"> • Water table replenishment

Partners and Execution

Industry stakeholders

- Project advocates
- Coalition builders



Operating partners

- Regional connections + expertise
- Established track record
- Growth appetite



Impact partners

- Environmental certification of supply
- Impact strategy and measurement



Investors

- Tax-motivated, impact-oriented
- Mission-aligned foundation
- Loss guarantees



Family offices



High-NW



Others

- Lenders
- Technical partners
- OZ specialists
- Local governments



Meet the Team

Alex Bergonia



Real assets + social enterprise

Katharine Hawthorne



Impact investing

Kristine Leary



Investment advisory

Gordon Vermeer



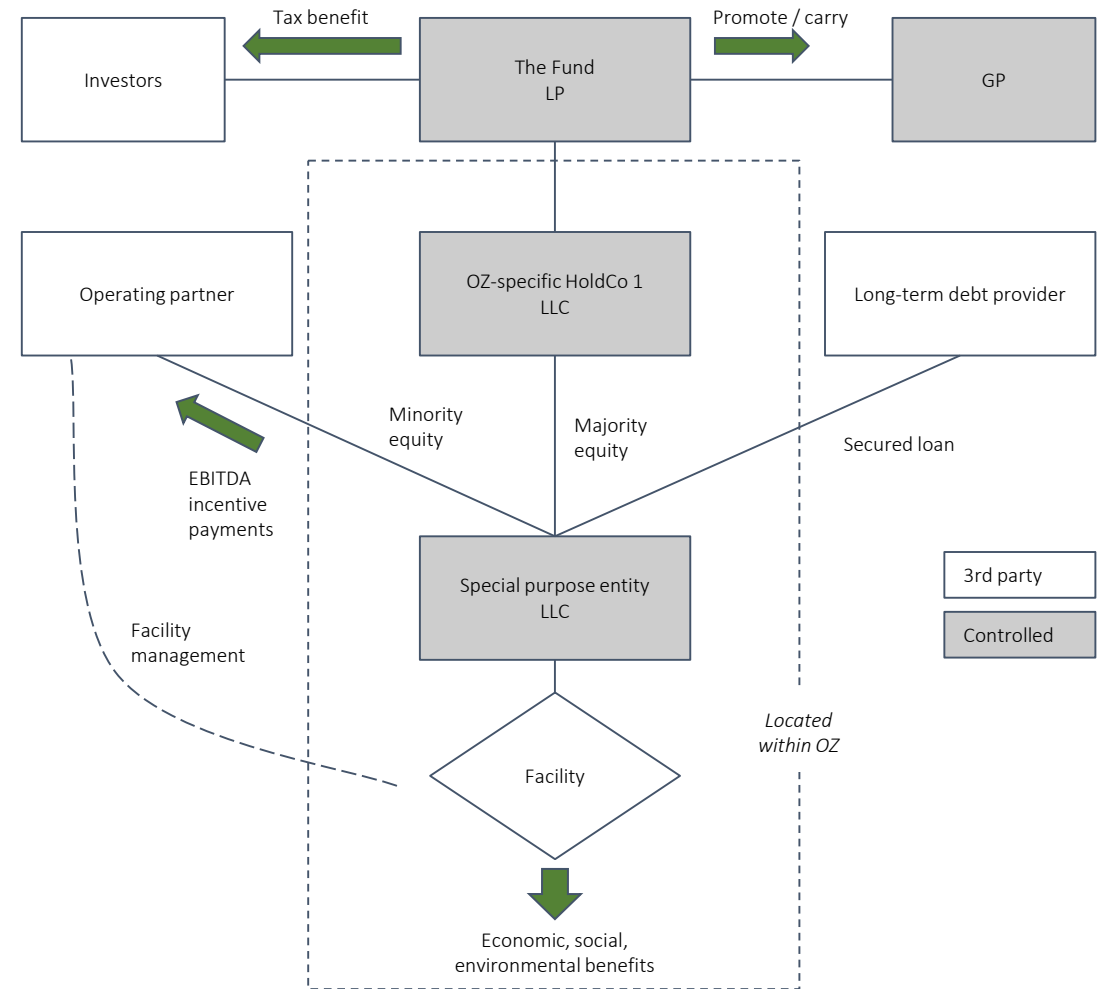
Forestry finance

Appendix

Detailed Fund Structure and Terms

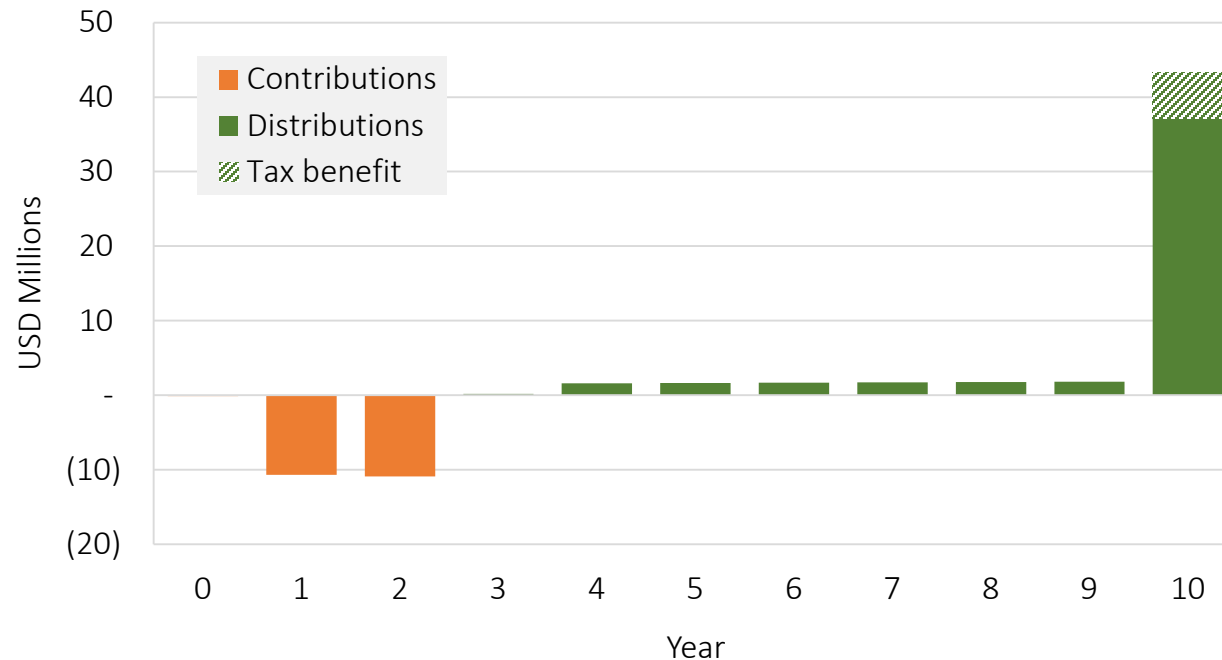
Total commitment	Fund 1 (pilot project) \$20-50m, Fund 2 (4-6 projects) \$100-300m
Minimum Investment	\$500,000
Fund term	10 yrs + 2 yr liquidation + extensions with LP consent; 4 yr initial investment period
Target returns	10-12% IRR (net, nominal)— <u>equivalent to 14-16% IRR with OZ tax benefits*</u>
Fee structure	1.5% management fee + 20% carry to GP over 8% hurdle
Target investors	High net worth individuals, family offices, and other taxable investors; mission-aligned tax-exempt investors

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



Cash Flows and Returns

Net, nominal IRR of 11%—equivalent to 15% IRR inclusive of OZ tax benefits

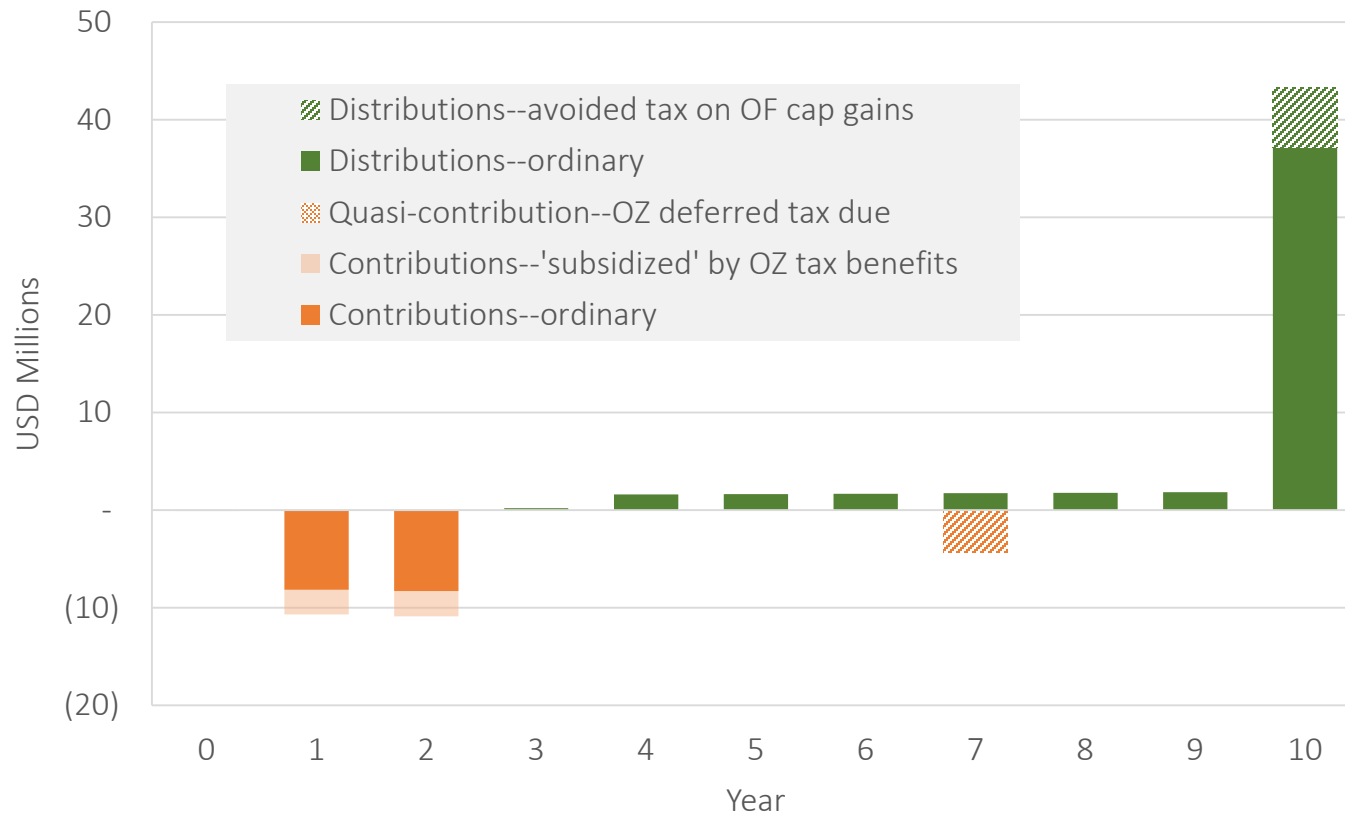


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Cash Flows and Returns—Detail

Net, nominal IRR of 11%—equivalent to 15% IRR* inclusive of OZ tax benefits



“Equivalent IRR” calculated by:





- Deferring capital gains tax on contributed principal until year 7
- Voiding capital gains tax on Fund gains
- Based on 23.8% blended tax rate

Additional modeling assumptions:

- 2.0% of cap rate compression over 10 year hold due to project de-risking
- Operating partner fees 10% of EBITDA
- Working capital, entity expenses assumed
- 2% inflation

*before GP incentive fees / carry

Sustainable Forest Products—Examples

Product	Cross Laminated Timber (CLT) 	Biomass pellets 	Biochar 	Biofuels 
Description	Prefabricated construction material with glued crosswise layers	Condensed, pelletized biomass used for home, commercial, and industrial heat and energy	Carbon-dense transformed waste product used for soil amendment and reclamation, water filtration	Liquid biofuels produced from wood waste, “tank ready” alternative to gasoline or diesel
Environmental benefits ⁽⁶⁾	Carbon sequestration; displacement of more carbon-intensive construction methods (steel / concrete)	Renewable energy source; aids in fire resilience by creating market for small-diameter trees	Carbon sequestration; improve soil resilience to drought	Reduce carbon, sulphur, and pollutant matter emissions through fossil fuel displacement
Expected global market size (2025) ⁽⁷⁾	\$2.07bn (15% CAGR)	\$15.47bn (9.2% CAGR)	\$3.45bn (13.2% CAGR)	\$54.8bn (7.3% CAGR)
Illustrative facility	\$20m, ~85 direct jobs ⁽⁸⁾	\$80m, ~100 direct jobs ⁽⁹⁾	up to \$100m ⁽¹⁰⁾	\$300m, ~100 direct jobs ⁽¹¹⁾

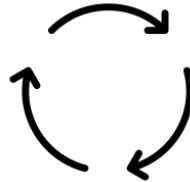
Impact Measurement and Management

Identify impact goals



- Review OZ qualification documents to understand key regional social and economic issues
- Align with local partners (non-profits, universities, government entities) on impact potential and key metrics to measure success

Ongoing monitoring



- Frequent dialogue with operating partners and local players to assess progress on impact objectives
- Use feedback to iterate on impact strategy as necessary to ensure expectations for all stakeholders are upheld

Report outcomes annually



- Publicly publish annual impact report to maintain accountability and transparency
- Pursue third-party verification of impact outcomes (GIIRS, B Lab, Global Reporting Initiative, etc.)

Pre-Investment

Post-Investment

Ontonagon Case Study



- The town of Ontonagon, Michigan has been designated an Opportunity Zone
- \$300 million deal announced in 2018 to construct a synthetic biorefinery on the Smurfit-Stone site
- Financed by Lost Bowl Development LLC (property owner), and co-developed and operated by SynSel Biofuels, Inc., an Illinois-based company specializing in developing environmentally sound fuel alternatives
- 250 stable, career jobs, SynSel prioritizing local hires; future plans for an energy park with an additional 200 jobs
- Facility will use the region's abundant waste wood and pulp to produce renewable biofuel
- Community support and collaboration from Ontonagon County Economic Development Corporation
- 3 year construction timeline

Lawrence County Pilot



- Much of Lawrence County, Alabama has been designated an Opportunity Zone
- Until 2013, the adjacent town of Courtland hosted one of International Paper's flagship mills, employing around 1100 people in the production of magazine, envelope, and copy paper
- Declining national demand forced its closure—facility 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

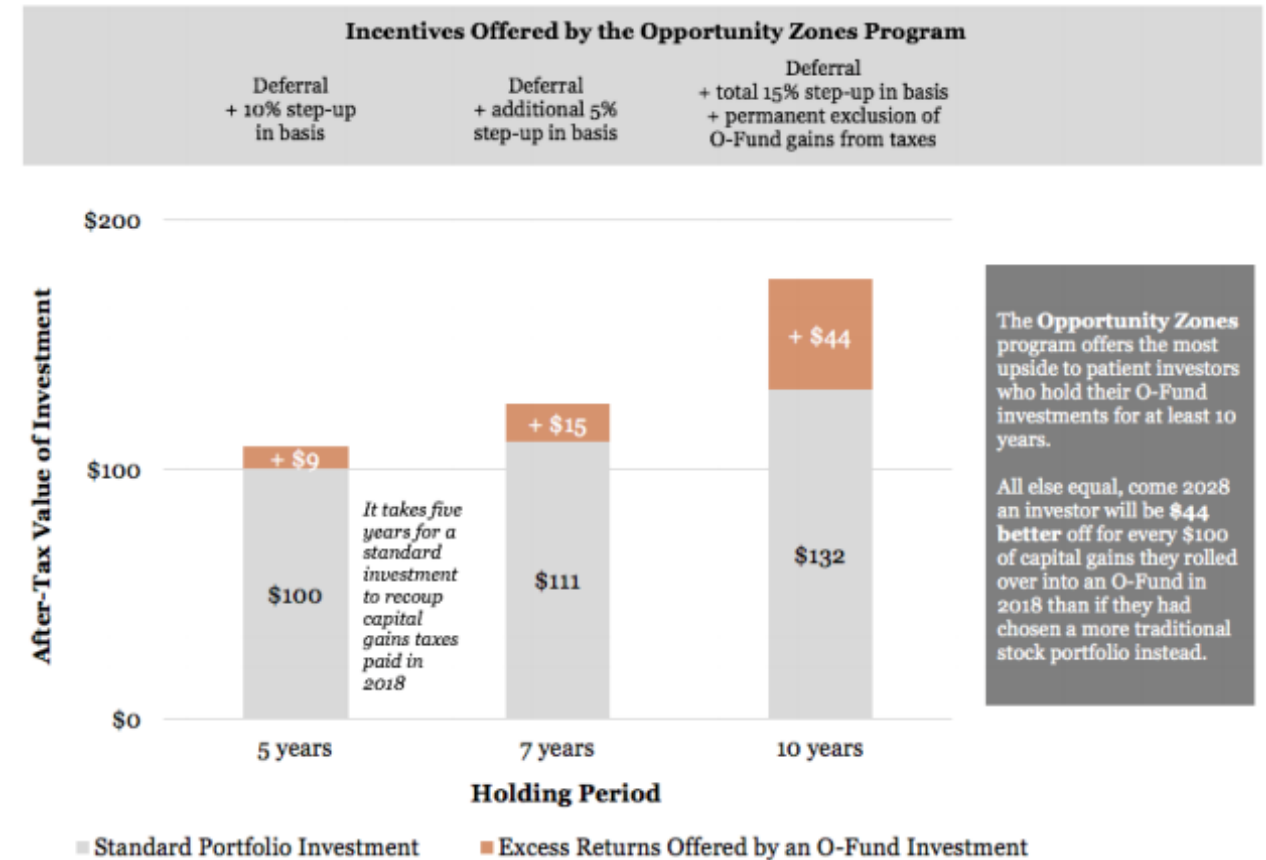
Opportunity Zone Tax Benefits

Three tax benefits for equity investing in Opportunity Zones:

- 1) **Temporary deferral of capital gains.** Investors can place proceeds from sale of existing assets with accumulated capital gains into Opportunity Funds. Those capital gains are not taxed until the end of 2026 or when asset disposed.
- 2) **Basis step-up of capital gains invested.** For capital gains placed in Opportunity Funds for at least five years, investors' basis on the original investment is increased 10%. If invested for at least seven years, investors' basis on the original investment is increased 15% percent.
- 3) **Permanent exclusion** of taxable income on **new gains** for investments held in Opportunity Funds for at least 10 years.

Example of Tax Benefits from Opportunity Fund Investment Scenario (by Economic Innovation Group):

Figure 1. Investing in an Opportunity Fund vs. a Standard Stock Portfolio
Scenario: A Capital Gain of \$100 is Reinvested in 2018



* Note: Assumes long-term federal capital gains tax rate of 23.8%, no state income tax, and annual appreciation of 7% for both the O-Fund and alternative investment.

Opportunity Zones – Regulatory Updates & Public Criticism

Regulatory Ambiguities & Concerns:

- **Asset & income tests**: Semi-annual asset testing to insure 90% within QOZP and no greater than 10% in cash or intangibles. 50% of gross income must be generated within QOZ. *Implications for working capital management and investor capital calls*
- **Exits**: Tax exemption realized when investors sell interest in the fund or fund is liquidated, not when fund sells portfolio company or other underlying assets. *Implications for fund diversification and exit timeline*
- **Holding period**: 2026 is the final year to make investments subject to gain deferrals. OZ census tract designation ends 2028 and the tax exemption extends through 2047. *This helps investors avoid selling at an economically inopportune time in order to be eligible for the tax exemption*
- **Non-pro rata distributions**: Current regulation unclear, but non-pro rata distributions before year 10 will likely not be allowed. *Different classes of equity, carried interests, and waterfall structures are permitted*

Criticisms:

- OZs target the **wrong districts** (ex: Amazon in Queens). *The Fund invests in economically distressed communities that have seen a forest products facility closure*
- Majority of investments to date in **urban** OZs. *The Fund focuses solely on rural areas*
- OZ investment may result in **gentrification and displacement** of local communities. *The Fund aligns with rural development organizations to attract talent back to local communities*
- OZs best suited for **shovel-ready real estate deals** that would have been implemented even without the tax incentive. *The Fund capitalizes new sustainable forest products facilities by partnering with operator in need of financing*