



# Sustainable Livelihoods Opportunity Fund

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

## 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 both fewer jobs and fewer business today than in 2000.<sup>(1)</sup> 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

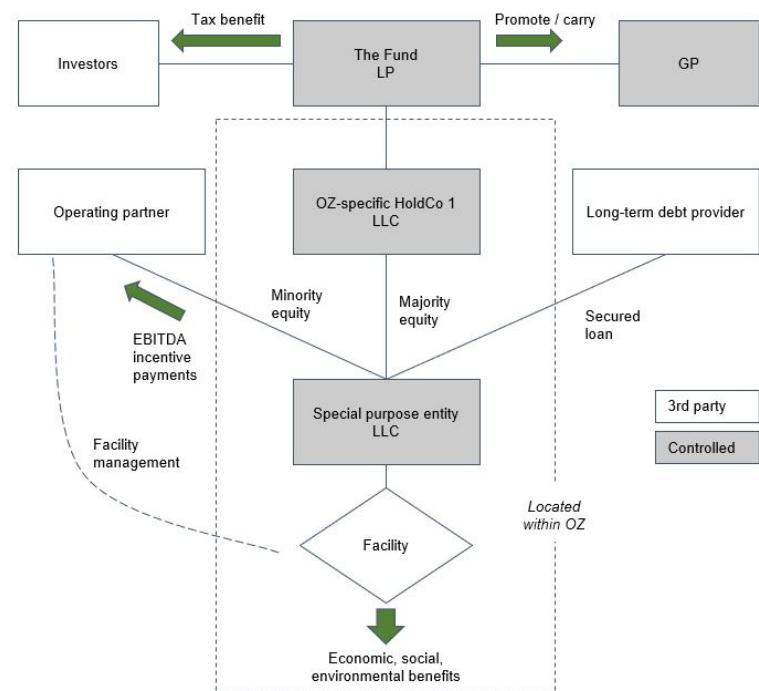
The US Tax Cuts and Jobs Act of 2017 allowed states to designate census tracts as Opportunity Zones in which qualified investments generate substantial tax benefits for investors. To be eligible, OZs must have poverty rates >20% and median family income <80% of benchmark. While states had latitude in 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.<sup>(2)</sup>

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 maximize 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.<sup>(3)</sup>

## 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.<sup>(4)</sup> 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 strength of the proposed Fund is its technical resemblance to existing offerings.



## Fund Terms

Total commitment	Fund 1 (pilot project) \$20-50m, Fund 2 (4-6 projects) \$100-300m. \$500k minimum investment.
Fund term	10 yrs + 2 yr liquidation + extensions at LP discretion. 4 yr initial investment period.
Target returns	10-12% IRR (net, nominal)— <b>equivalent to 14-16% IRR with OZ tax benefits*</b>
Fee structure	1.5% management fee + 20% promote 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

## 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

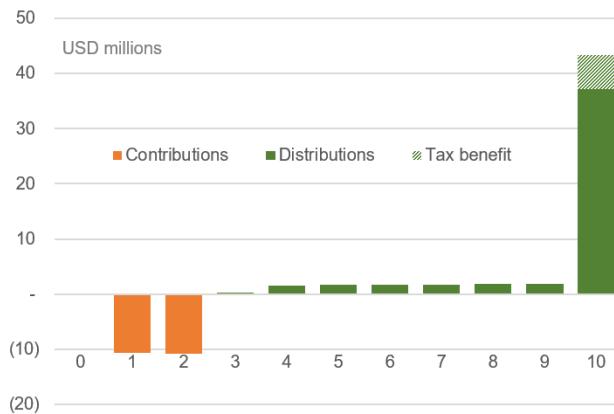
In operating partners, we will seek the following qualifications:

- 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.<sup>(5)</sup>

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 <sup>(6)</sup>	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) <sup>(7)</sup>	\$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 <sup>(8)</sup>	\$80m, ~100 direct jobs <sup>(9)</sup>	up to \$100m <sup>(10)</sup>	\$300m, ~100 direct jobs <sup>(11)</sup>

## Cash Flows and Returns



Cash flows shown are for \$30m pilot project. Key modeling outputs and assumptions:

- Investor IRR 10.9% (full net, nominal) **equivalent to 15% IRR inclusive of tax benefits to LPs**
- Operating partner 5% equity stake
- 2 year construction period, 2 year operational ramp-up
- 30% leverage at 6% interest rate
- Fund expenses 50 bps of NAV
- 200 bps cap rate compression from de-risking over project lifetime

## Sustainable Forest Products

The forest products industry is a top-10 manufacturing employer in 45 states, employing over 950,000 people.<sup>(12)</sup> **Sustainable forest products are a critical piece of rural regeneration.** The table above showcases illustrative forest products that The Fund could target; including their environmental benefits. Product-OZ pairings will be made on a case-by-case basis depending on the transferability of skilled labor and existing infrastructure at the site, regional wood supply dynamics, and the growth and access to end markets both regionally and globally.

## Pilot and Scaling

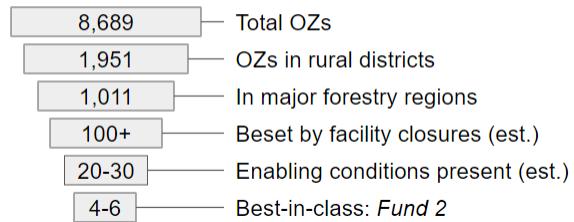
Fund 1 is a pilot project to demonstrate viability. This would likely rely on a mission-oriented "anchor investor" to commit \$5m+. The figure below profiles an indicative potential pilot site. Fund 2 would invest in 4-6 facilities across a **diversity of geographies and products**. The 'Funnel' diagram 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*<sup>(13)</sup> are committed to the support of skilled labor training and development in Lawrence County.

## Sustainable Livelihoods Pipeline / Funnel



## Risks and Mitigation

Risk	Mitigation
<b>Political</b>	
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
<b>Operating</b>	
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
<b>Financial</b>	
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 Beneficiaries and Measurement

Beneficiaries	Impact	Metric/Measurement
<b>Economic</b>		
Rural labor force	High quality jobs	Job retention, job growth
Local economy	Income multiplier effect	Indirect jobs created, contribution to GDP
Municipalities	Local tax revenue	Tax revenue generated
Supply chain participants	Indirect job creation (supply chain)	Supply chain relationships
<b>Social</b>		
Rural populations	Community resilience	Health outcomes, economic stability
Employees	Economic mobility	Access to benefits, median wage growth
Communities	Local partner engagement	Number of local partnerships, quality of partnerships
<b>Environmental</b>		
Global	CO <sub>2</sub> sequestration	Tons of CO <sub>2</sub> in products
Global	CO <sub>2</sub> emissions avoided	Acres of forest thinned, higher CO <sub>2</sub> products displaced
Area watersheds	Water quality improvements	Water table replenishment

## Sources and Credits

- (1) [RCAC](#) (2) [Economic Innovation Group](#) (3) [EIG](#) (4) [Investing in Opportunity Act](#) (5) [Heron Foundation](#) (6) [USDA](#) (7) Grand View Research: [CLT](#), [Biomass](#), [Biochar](#), [Biofuels](#) (8) [International Beams](#) (9) [Tidewater News](#) (10) [Cool Planet](#), in combination with biorefinery (11) [Synsel](#) (12) [AFPA](#)
- (13) [NAWDA](#); Other credits: Kyle Cubin, Zach Knight, Quinn Moss, George Motta, Bill Rindfuss, Wendy Rowden, Felix Schadeck, Paul Simon, Forest Economic Advisors