Working Lands Impact Fund, LP

Working Lands Impact Fund, LP ("WLI") is a for-profit ranchland investment fund that preserves the cultural and economic independence of ranching communities, restores the ecological health of ranchlands, and provides a secure, risk-adjusted financial return to impact investors.

The Problem: American ranchers increasingly face higher debt levels, higher operating costs, and negative cash flows.[1] As a result, many are forced to find alternate work or sell out to property developers and larger agriculture operators. Simultaneously, as the average age of U.S. farmers tips past 55 and they face retirement without operational heirs, the fate of an increasing number of farms falls into the hands of a few powerful industrial players. The net result of these demographic shifts is the loss or misuse of American ranchlands, a landscape that supports essential social and ecological functions. This consolidation represents a major shift away from the small, community farmer and towards a food system that increasingly lacks diversity and security.[2]

> "The farm's a losing proposition as it is now."
>
> – Bruce Snelson, Asheville, NC cattle farmer[3]

The Solution: WLI offers an alternative and a range of incentives to distressed and non-distressed ranchers that result in the long-term preservation of community-based working lands. The fund improves upon the traditional private equity model for land-based investment by incorporating an innovative financing mechanism. Through a sale-leaseback transaction, WLI purchases the rancher's land deed with fund units, allowing ranching families to become investor-partners, while maintaining a daily relationship to the land. Up to 25% of the acquisition cost is paid in cash invested by institutional investors and high net worth individuals (HNWI), which provides ranchers with liquidity to reduce debt burdens and reinvest in ranch operations. Additional liquidity is provided through scheduled liquidity events.

Rancher Incentive: Ranchers are motivated by several factors: **1**) the fund provides an option to distressed ranchers where the next best alternative is to sell the land and abandon their heritage; **2**) the fund acts as a financial partner, helping ranchers stabilize and build more wealth; **3**) the fund offers consultative expertise, best practices, and economies of scale from across the portfolio; **4**) the conversion of net worth from land to securities allows rancher families to mitigate the effects of the federal estate tax resulting from intergenerational transfer; **5**) the fund hedges against market volatility through geographic portfolio diversification.

Finally, the rancher is motivated by the ability to increase production through enhanced cattle grazing using the Holistic Ranch Management (HRM) method. Pioneered by Allan Savory and currently employed by less than 2% of U.S. ranchlands, this approach requires fewer petroleum-based inputs and can increase rancher yields by up to 400%[4] through improved biomass and increased soil organic matter. Since HRM is an environmentally responsible grazing system, it preserves and enhances ecosystem services, which can be monetized through emerging environmental markets (e.g., carbon offsets, water quality trading, etc.).

Fund Profile

- **Target Fund Size:** $100,000,000
- **Minimum Investment for Individuals:** $250,000
- **Minimum Investment for Institutions:** $1,000,000
- **Term:** 10-years with two one-year extensions
- **Target Impact Investors:** Institutional capital, HNWI, in-kind ranchland investors, foundation program related investments (PRI)
- **Target Return:** 11.0% unlevered Gross IRR
- **Fees:** 1.5% management fee, 20.0% carried interest with 8.0% preferred return, no transaction fees
- **Leverage:** Maximum 50.0% of total fund assets, excluding PRIs
- **Asset Class:** Real estate private equity model for ranchlands

1 USDA Economic Research Service, "Agricultural Income and Finance Outlook", December 2011. **2** USDA Economic Research Service, National Agricultural Statistics Service. **3** Clary, Maggie. "Voices of North Carolina Agriculture: Current Issues and Innovations in Farmland Preservation." Duke University Nicholas School of the Environment. Masters Project, 2011. **4** Howell, Jim. "Restoring the Grasslands of the World through Critical Thinking." Savory Institute, 2011.

Market Opportunity & Return Profile:

Global investor demand for agricultural assets is expected to grow from $14 billion to $150 billion by 2020[5], as institutional investors discover strong sector fundamentals. Supply is abundant; there are 614 million acres[6] of rangeland and pasture in the United States, representing nearly 27% of all land area.

WLI will target an 11.0% gross unlevered IRR. This estimated return is based on $100mm of capital, deployed equally over the first three years of the fund, and assumes a 3.0% base rent[7] on invested capital and 5.1% annual farmland appreciation.[8] Additional "alpha" revenue opportunities are excluded from the advertised target return, yet offer the potential for upside above an 11.0% return. These "alpha" opportunities include eco-tourism, payments for ecosystem services, and flex rent, i.e. rent payment above specific annual revenue hurdles. Furthermore, Figure 1 indicates that U.S. farm and ranchland are correlated with inflation and uncorrelated with many traditional investment assets. Given the historical return and correlation profile of U.S. farmland and ranchland, WLI provides strong diversification opportunities for impact investors, particularly as compared to conventional VC-like impact investments.

Investment Criteria & Due Diligence:

WLI will target working lands in the U.S. greater than 5,000 acres with a potential for grazing of marketable livestock. Additional criteria include opportunities to improve land management, monetize ecosystem services, and advance rural economic empowerment. WLI will source deals through a strong network of HRM managers, cattleman's associations, and investment partners in the agriculture and ranching industries. Once a target property has been identified, due diligence will consist primarily of *in situ* assessments and third-party appraisals. Select properties will then pass to the investment committee for an in-depth financial analysis.

Risk Factors:

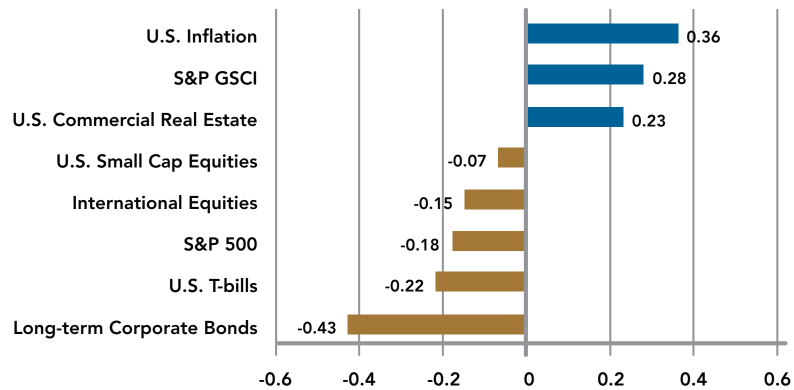
WLI acknowledges the following potential risks:

Lower Realized Return: The target gross return of 11.0% is subject to market conditions, fund fees, investment exit opportunities, and regulatory environments. Land appreciation accounts for more than half of the projected return and although long-term trends in farmland and real estate support these projections[9], there is a risk that returns are not met due to land depreciation, commodity price volatility, livestock epidemics, etc.

Lease Default: As with traditional commercial real estate investments, leaseholder default has the potential to reduce investor returns. WLI's broad ranching and agriculture network will provide flexibility for re-leasing land where the landowner defaults on lease payments or chooses to retire.

Figure 1

Historical Correlations with U.S. Farmland (1970 – 2009)



Source: Hancock Agricultural Investment Group using NCREIF and Morningstar Data. Ibbotson 1970-1990 (predecessor to the NCREIF Farmland Index); NCREIF Farmland Indices 1991-2009. Farmland data includes ranchlands.

Investment Exit: WLI will attempt to sell landholdings to investors or individuals that agree to maintain the social and environmental objectives of the fund. This policy may hinder transactions during investment exits.

Delivery of Social & Environmental Impact: WLI will not require ranchers to incorporate conservation measures or implement HRM techniques. Although the fund will incentivize implementation of these practices via the lease structure, there can be no guarantee that environmental objectives will be achieved. Furthermore, WLI will also pursue in-kind ranch investments from non-distressed landowners, which may dilute social impacts (while preserving environmental objectives).

WLI's geographic diversification, as well as broad ranching and agriculture network, will mitigate the potential impact of these risks.

Social Impact & Reporting:

WLI plans to develop custom impact measurements that incorporate language and standards from IRIS Version 2.2 and the Global Impact Investment Rating System (GIIRS) Fund Manager Assessment. Custom assessments will include the following: acreage under production, acreage with improved environmental services (e.g. riparian zone buffer size, water quality, nutrient levels), reduction in rancher debt, maintenance of family connection to the land, increase in grassland biomass and species diversity, carbon sequestration, etc. WLI will consider an official GIIRS impact rating and would target 4 out of 5 stars. WLI is aware that impact assessment and social responsibility may deter certain prospective investors and ranchers. While this creates additional complexity for fund documentation, impact measurement, incorporation of GIIRS, and wording of marketing materials, it will not diminish social and environmental impacts.

5 HighQuest Partners. *Private Financial Sector Investment in Farmland and Agricultural Infrastructure*. OECD Food, Agriculture and Fisheries Working Papers No. 33. 6 USDA Economic Research Service. 7 USDA Economic Research Service, Trends in U.S. Farmland Values and Ownership, February 2012. 8 Hancock Agricultural Investment Group using Hancock Broad Farmland Index and NCREIF Farmland Index. USDA Economic Research Service indicates 6.2% return over a 40-year period. 9 Hancock Agricultural Investment Group & USDA Economic Research Service.