

2019

# Impact Report



**EFM**

INVESTMENTS & ADVISORY





*Natural springs, meadows and forested wetlands produce, filter, and store water for approximately 50% of communities in the western US that are dependent upon forested watersheds for water provision.*

*Front Cover: The Scott River Headwaters property contains 40,000 acres of forests with the highest conifer diversity in the world, is a source of cold, clean water, and connects three wilderness areas to a rich agricultural valley below.*



# A Leading Impact Investment Manager



**EFM**

INVESTMENTS & ADVISORY

EFM develops natural climate solutions that aim to generate positive environmental and social impacts, including carbon sequestration, habitat enhancement, and water quality protection while creating investor value. EFM stewards over \$200M of capital under management and advisement via commingled private funds and consulting services. Investments are made through long-term fund vehicles that serve a diverse array of investors, including individuals, family offices, foundations, and institutions. We specialize in blending public, private, and philanthropic capital in investment strategies that address multiple-stakeholder objectives and in managing investments for their full range of financial, ecological and social values.

*The Garibaldi forest is home to the first verified carbon project on private forestland in Oregon and Washington, which was developed by EFM in 2013 and expanded in 2019. These offsets are made possible by EFM's management actions that extend rotations, expand reserves, retain trees in harvest units and protect important habitat.*

# Real Asset Investment & Management

EFM invests in natural climate solutions across the Americas. We create compelling investment opportunities at the intersection of working landscapes, conservation and rural economic development

## Open-Ended Evergreen Strategy

### OBJECTIVE

Creation of productive, long-lived economic assets via implementation of climate-smart forestry leading to increased forest health, species diversity and structural complexity.

### EXIT STRATEGY

Evergreen - a perpetual and open fund to encourage long-term investments in silviculture with the ability to enter into long-term contracts for timber supply, carbon, grazing, and habitat protection.

## Close-Ended Bridging Strategy

### OBJECTIVE

Transitioning properties from industrial ownership to long-term, local strategic owners and to improved forms of management, consistent with FSC® (Forest Stewardship Council) guidelines.

### EXIT STRATEGY

Bridge - serve as a bridge owner of high-priority acquisition targets to allow strategically timed exit to permanent conservation and community-oriented stewards.

# Management Services

With more than fifteen years of experience pioneering innovative silvicultural strategies, EFM provides forestland management services in the U.S. including inventory, GIS and spatial analysis, management planning, and the use of proprietary tools which assess financial, social, and environmental opportunities and outcomes. EFM can also invest and manage separate accounts for investors interested in custom real asset portfolios or direct investments.

# Natural Climate Solutions Consulting

## Conservation Transactions

EFM works with public and private partners to facilitate strategic conservation land transactions.

EFM provides guidance on structuring, negotiating, and developing land transactions with private and public partners that meets multiple stakeholder mandates.

## Investment Consulting

EFM offers sub-advisory and investment consulting services that identify, evaluate and manage climate-smart investments in natural landscapes that draw down carbon while improving livelihoods and supporting healthy, functioning ecosystems.

EFM consults on climate-hedging real asset investments across North and South America.

## Carbon Projects

EFM develops carbon projects on assets under management, as well as advising tribal and non-tribal landowners on carbon opportunities, and provides due diligence and consulting services to buyers of offsets.

EFM has differentiated access to high-quality offsets from forestry carbon projects across the Americas and has sold offsets to General Motors and other corporations.





*EFM identifies and develops investment opportunities for natural climate solutions, including avoided deforestation, improved forest management, reforestation and agroforestry systems like the shade-grown coffee farms depicted here*

## Climate-Smart Forestry Objectives

Since 2004 EFM has been developing climate-smart approaches to natural forest management that are the keys to unlocking value in a carbon-constrained future. Our approach allows us to create value beyond producing logs and wood fiber, including improved carbon storage, habitat, soil formation, climate regulation, and water storage and purification. Additional benefits include community enhancement by creating locally based employment opportunities alongside the economic contributions of timber harvests and forest management and restoration activities.

We deploy our investors' capital alongside conservation finance tools to acquire forestland assets with unique environmental and social attributes. We specialize in the use of tools like conservation easements, carbon offsets and public financing that can monetize the value of the standing trees without harvesting the logs for lumber. We manage these lands to FSC® standards – the highest benchmark for responsible forestry. As an active forestland manager, we work to enhance forest health and productivity, harvest timber sustainably and develop non-timber forest products to create jobs in economically distressed rural communities.

## Long-Term Sustainable Outcomes

Our objective is to create permanent responsible stewardship outcomes by selling properties to long-term, conservation-aligned owners like tribes, conservation groups, land trusts, municipalities, community forest groups, and public agencies. We also seek permanent easement protection on properties to ensure the impact of our management is lasting. We often function as a potential bridging partner to allow aligned owners the time needed to purchase these strategic properties from us while providing EFM the opportunity, in the interim, to improve these landscapes and generate value for our investors through conservation finance tools.

Our work meaningfully contributes toward reaching the following U.N. Sustainable Development Goals (SDG) objectives through conservation, restoration and climate-smart management, practices that have been core to EFM's strategy for over fifteen years.





#### OBJECTIVE:

# Conservation & Restoration

**Our forests protect habitat for over 35 rare, threatened, and endangered species, including Chinook, coho, and chum salmon, bull trout, and steelhead, the northern spotted owl, the marbled murrelet, and other forest-dependent species.**

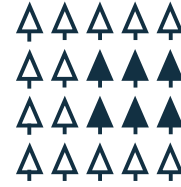
Accordingly, conservation priorities and monitoring are integrated into our forest management plans. Our management practices also increase diversity of tree species, resistance to disease and pests, and age diversity, thereby increasing resilience. Additionally, we work in partnership with conservation groups and public agencies to acquire and transition the management of high-priority conservation forestland into the hands of permanent stewards, which allows us to integrate conservation priorities into our management approach during ownership.



## OUTCOMES:

# Conservation

EFM is dedicated to creating permanent ecological uplift through easements and exits to aligned long-term partners. EFM monetizes conservation values through the sale of conservation easements, in addition to mitigation payments and grants. Easements are the sale of “property rights” to land trusts or government agencies that compensate investors for foregone timber income or development rights and ties current and future owners to the desired management practices for the life of the easement.



## 6,525 acres

transitioned to permanent long-term owners or protected by permanent easements.



## 40,000 seedlings

planted in 2019 from a mix of species, to restore ecosystem health and function.

*EFM collaborated with the Coquille Tribe on management of this coastal Oregon property which began a process of repatriation eventually resulting in the acquisition of the property by the Tribe. The 3,200-acre forest is now named Sek-wet-se.*





*Cider produced by Finn River cidery with salal berries supplied by EFM and harvested by Latinx harvesters as part of EFM's non-timber forest product initiative.*



*An aerial view of the Chimacum property and the surrounding community.*

## HIGHLIGHT:

### Chimacum Ridge

Chimacum Ridge, which encompasses 865 acres, is both the smallest stand-alone property acquired by Fund II and the most expensive acquisition on a per-acre basis. This relatively high value reflects the property's strategic geography in the coveted "rain shadow" region of the Olympic Peninsula, surrounded by Puget Sound and the beauty of the Olympic National Park, coupled with the high proportion of desirable and merchantable Douglas fir. In addition, Chimacum Ridge is a key element of a bold, regional strategy developed by the Jefferson Land Trust, our key conservation partner in this area, to permanently protect and enhance Jefferson County's most fertile farmland, most critical forest headwaters, richest salmon spawning grounds, and busiest wildlife corridors. Chimacum Ridge feeds two forks of Chimacum Creek, the circulatory system for nutrients, fish, and wildlife.

These features allowed us to pursue a range of strategies, making the small but mighty Chimacum Ridge the best example of the full array of EFM's conservation finance tools to monetize the timber, environmental and social

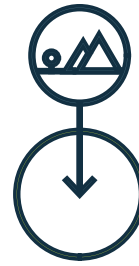
dimensions of our strategy. On our way to the final sale of the property to the Jefferson Land Trust to create a community forest, we have purchased and retired timber rights; sold a development easement to the U.S. Navy; incorporated tax credit financing; completed three years of commercial thinning to improve forest health, structural complexity and species diversity; collaborated on a "forest understory" cider with our neighbor, Finn River cidery; sold a working forest easement dedicating the property permanently to ecological forest management; and toured hundreds of foresters, community members, and legislators through the property to learn about forest health, ecological forestry, and how to manage forests as if they truly matter – for now and forever. We look forward to the final phase of our engagement: the sale to Jefferson Land Trust of the fee interest and the creation of an innovative and successful community forest that will serve the human and non-human residents of the region in perpetuity.



## OUTCOMES:

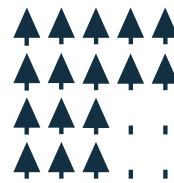
# Restoration

EFM's restoration efforts include increasing forest resilience and reducing risk, as forest complexity, health and species diversity provide the greatest resilience to threats like fire and pests, in the face of changing ecological and market conditions.



## 3,200 acres

of forestland transitioned to Tribes to date



## 287 acres

treated for fire risk reduction in 2019



Youth crews installing bird monitors in a stand of protected aspen on the Desolation Creek property.

## HIGHLIGHT:

### Desolation Creek

2019 marked the five-year anniversary of the acquisition of Desolation Creek, a 13,300 acre mixed conifer property in the Blue Mountains of eastern Oregon. We were drawn to the property's spring-fed salmon spawning streams which feed the John Day River, the third longest free-flowing river in the contiguous U.S. Upon acquisition EFM embarked on an ambitious restoration plan to remedy decades of prior overharvesting, involving dozens of partners including the Confederated Tribes of Umatilla Indians, the Confederated Tribes of Warm Springs, the U.S. Forest Service, the North Fork John Day Watershed Council, the Oregon Department of Fish and Wildlife, the Rocky Mountain Elk Foundation, the Savory Institute and many others.

Five years into our ownership and management there are thriving populations of elk, deer, bear, bobcat, Chinook salmon, bull trout, long-toed salamanders and many other species, including a breeding pair of wolves. Through an arrangement with the Oregon Department of Fish and Wildlife, the property is open to the public for recreation, foraging and hunting, providing food and other benefits to local communities, many of which are economically distressed.





*The Fort Rock property generates carbon offsets, while simultaneously being managed for habitat restoration, recreation, and ecosystem health.*



OBJECTIVE:

# Climate Action

**EFM combats climate change by both increasing the amount of carbon sequestered by our forests through climate-smart forest management practices and by reducing emissions as compared to conventional harvesting methods.**

We believe our management approach, which includes increasing rotation (time between planting and harvest) and retention (trees remaining on the landscape), can enable forests to absorb at least 30% more carbon from the atmosphere after harvest than business as usual approaches.<sup>†</sup>

<sup>†</sup> — <https://www.mdpi.com/1999-4907/9/8/447>



## OUTCOMES:

# Climate Change

Increased carbon sequestration: western forests have tremendous untapped potential to act as sinks, or reservoirs, for carbon. Improved forest management techniques can harness the forest ecosystem to drawdown more carbon into soil and forest ecosystems, thereby reversing the buildup of greenhouse gases in our atmosphere.



**6%**

increase in above-ground carbon absorbed by our forests in 2019.



**6.6 million**

tons of CO<sub>2</sub> stored by our forestland—equivalent to the annual emissions from over 1.4 million cars.



*In 2019, EFM began the verification process to certify the offsets generated on the Garibaldi property, featured above, between 2015-2019.*

## HIGHLIGHT:

### Garibaldi Carbon Project

The Garibaldi property is home to EFM's first carbon project which was also the first verified voluntary carbon project in Oregon and Washington State. The project was verified in 2014 and sold its first 5 year stream of credits mainly to General Motors to offset the emissions associated with the production of the Volt. In 2019 we developed a relationship with a large corporation which allowed us to expand the project beyond the initial 980 acres in the Moss Creek portion of the property to include an additional 1,358 acres in the Kilchis and Stewart drainages.

Recently we expanded the project with the financial support of a corporate buyer that committed to purchase the next 5 year stream of credits. The expanded project includes an additional 1,358 acres in the Kilchis and Stewart drainages, areas chosen for both their ecological value to the Miami river basin and the limited access to merchantable timber inventory. The verification process for the expanded project was completed in 2020 and certifies offsets generated between 2015-2019. The Garibaldi carbon project is just one part of EFM's larger carbon portfolio, which has generated 68,900 offsets to date.





*EFM's new fund acquisition, the Henry Creek property, includes the headwaters of the Molalla River which provides water to the city of Molalla.*



## OBJECTIVE:

# Water Protection

**In the western U.S., over 50% of the fresh water supply comes from forested watersheds.**

There is increasing recognition of forestland protection for purposes of water protection, creating opportunities for landowners to sell riparian or working forest easements to public interest groups like water and sanitary districts. EFM contributes to improving water quality by enhancing riparian reserves (areas next to streams and rivers), implementing watershed restoration plans on forestland properties and acquiring select properties with the goal of ultimately selling the properties to water districts or other partners that will protect watersheds permanently.



## OUTCOMES:

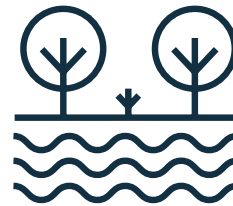
# Water Protection

EFM's forestland investment strategies recognize that healthy forests are the key to water quality and drinking water provisioning in many urban areas and rural communities that are more susceptible to the impacts of climate change. By acquiring forests that are critical to drinking water provision, and by improving forest management practices and transitioning ownership to local communities and water districts, we can significantly influence drinking water outcomes and resilience of local communities.



## 9,206 acres

managed to improve drinking water for local communities



## 666 miles

of streams protected with enhanced riparian buffers



*The Onion Peak property features dramatic views of the Pacific Ocean and supplies water to four coastal communities.*

## HIGHLIGHT:

### Onion Peak

EFM's Onion Peak property consists of 5,055 acres located on the north coast of Oregon and serves as the viewshed, recreational backdrop, and water supply for the Cannon Beach and Arch Cape communities. This forest property shares a boundary with the beloved Oswald West State Park and lies at the heart of the "Coastal Edge"—an area between Tillamook Head and Nehalem Bay, where rocky peaks rise abruptly 3,000 feet right next to the ocean, creating dramatic views and supporting a unique compressed ecosystem unlike anywhere else in Oregon. The Coastal Edge strategy was developed by our conservation partner the North Coast Land Conservancy, and the long-term conservation of Onion and Angora Peaks, with their unique habitat and endemic species, is key to this strategy. EFM is also partnering with the Arch Cape Domestic Water Supply District, which is currently working to purchase a portion of the property as a community forest dedicated to water protection.





## OBJECTIVE:

# Responsible Production & Consumption

**Natural forests are a globally significant and commercially valuable resource. Coniferous forests in the western U.S. produce softwood to meet consistently strong demand from domestic and international markets.**

EFM's objective is to transition management from short-term intensive fiber maximization strategies to an FSC-certified management approach that produces high-quality logs for sale into local and regional markets alongside creating value through the full attributes of the forest ecosystem.

All of EFM's forests are certified by The Forest Stewardship Council (FSC), the leading global standard for forest management that expands protection of water quality, prevents loss of natural forest cover, and prohibits highly hazardous chemicals, along with having a democratic governing body that sets it apart from other standards. We believe this certification can lower operating and regulatory risks as it includes diverse stakeholder perspectives and provides investors with an independent annual audit of the Funds' forest management activities.



**OBJECTIVE:**

# Forest Management

EFM has been pioneering climate-smart forestry methods within a commercial investment context since our founding. Our forest management approach not only results in increased carbon storage, but also more productive forests, reduced risk of fire and disease, and lowered financial risk for investors. Our approach is best described using our 5Rs™:

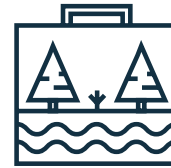
Rotation, Reserves, Retention, Restoration, and Relationships.

*All metrics current as of end of 2019.*



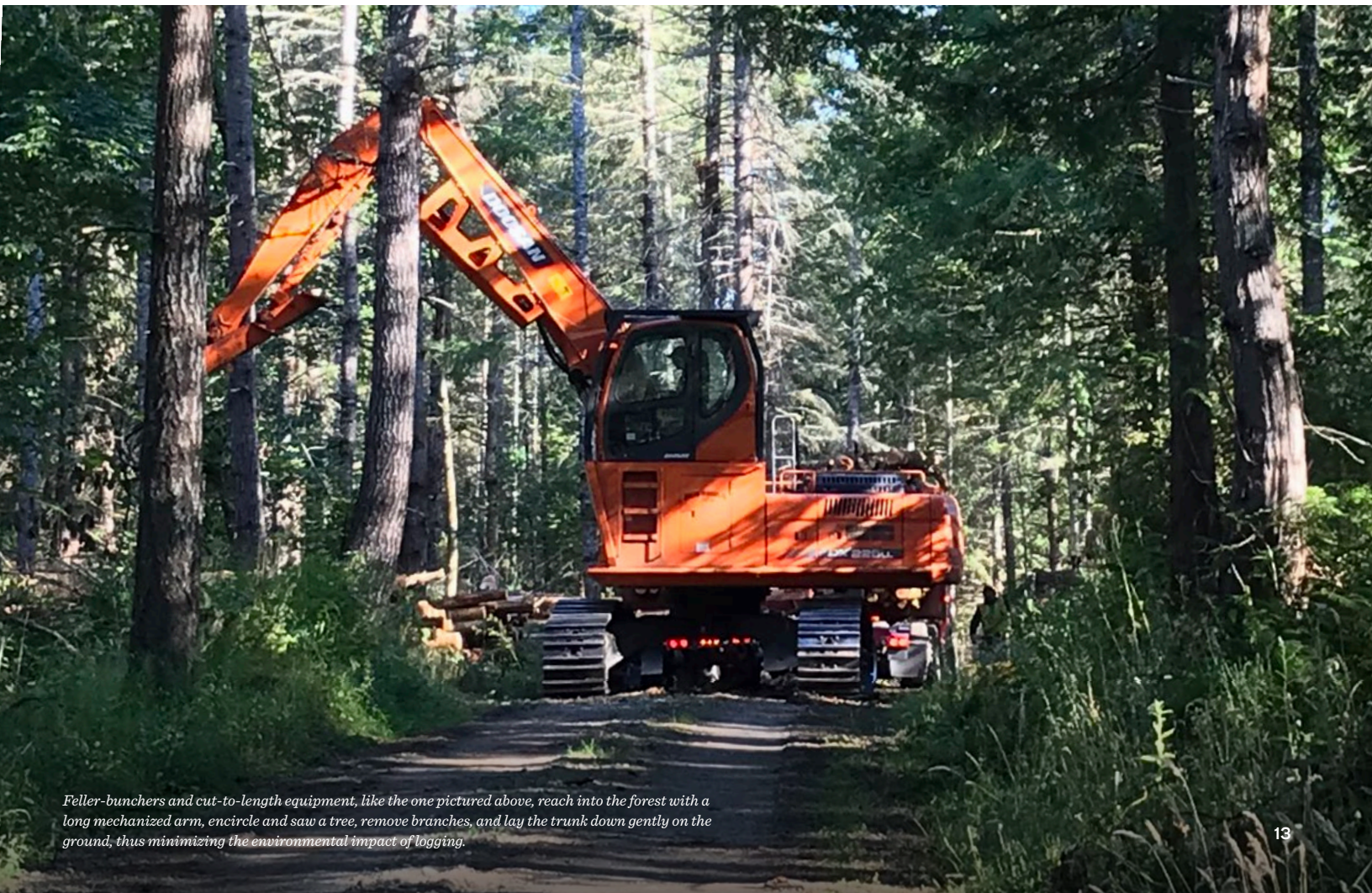
**100% of land**

under FSC certification, the gold standard of sustainable forestry certification.



**554 million**

board feet of timber under FSC-certified management.



*Feller-bunchers and cut-to-length equipment, like the one pictured above, reach into the forest with a long mechanized arm, encircle and saw a tree, remove branches, and lay the trunk down gently on the ground, thus minimizing the environmental impact of logging.*



# EFM's 5 R's of Climate-Smart Forestry

## 1. Rotation

Rotation is the time between when a tree is planted and when it is harvested. We extend average rotation ages by 15-20 years, resulting in higher-value logs, enhanced habitat, and increased carbon storage over time.

## 2. Reserves

Reserves are areas with unique ecological, cultural or recreation or scenic values, where the primary goal is to protect the unique values rather than to harvest for timber. Over 20% of our lands are held in reserves, providing significant benefit to wildlife, streams, and surrounding communities.

## 3. Retention

When timber is harvested, we retain 10 - 30% more trees on the landscape. Retaining trees is important for natural generation, habitat, carbon storage, and for maintaining the underground network of connected roots that help young trees get established.

## 4. Restoration

We engage in the restoration of aquatic and upland habitat, working with conservation groups, tribes and government agencies to create local employment and improve the health and productivity of the ecosystem. Reducing fire risk through thinning overcrowded stands has significant climate benefits, as does planting more trees along streams.

## 5. Relationships

Healthy forests depend on vibrant, healthy communities. We strive for strong, mutually beneficial relationships with local communities, tribes and stakeholders who depend on forests for employment, recreation and food. In addition, we look for opportunities to transition forests to community and conservation owners.



*The Henry Creek property includes a 7-acre remnant old-growth stand.*

### RESERVES HIGHLIGHT: Henry Creek

In late 2019 EFM acquired the Henry Creek property in western Oregon. With the Table Rock Wilderness to the north, the Opal Creek Wilderness to the south and east and the Santiam State Forest to the west, Henry Creek is well situated in the midst of outstanding protected areas. The property itself includes a 7-acre remnant old-growth stand and 230 acres reported to be over 100 years old. The Henry Creek watershed is a headwater tributary to the Molalla River, the largest free-flowing tributary of the Willamette, and the City of Molalla drinking water source. The lower sections of Henry Creek and the Molalla River are critical habitat for Chinook and steelhead and the property also potentially contains harlequin duck habitat - a special status species.

With this acquisition, EFM can help preserve old-growth and support water quality, while improving environmental outcomes at a landscape scale.



## RESTORATION HIGHLIGHT: Scott River Headwaters

Collaborating with local community groups, in 2019 EFM began a reforestation and thinning project on the Scott River Headwaters property in California to protect the property and the adjacent communities from forest fires. This project includes reducing hazardous fuels by removing some trees and understory shrubs as well as reforesting 1,000 previously burned acres with over 400,000 Douglas fir and ponderosa pine. Climate change was considered during project development and species currently at lower elevations will be planted higher up.

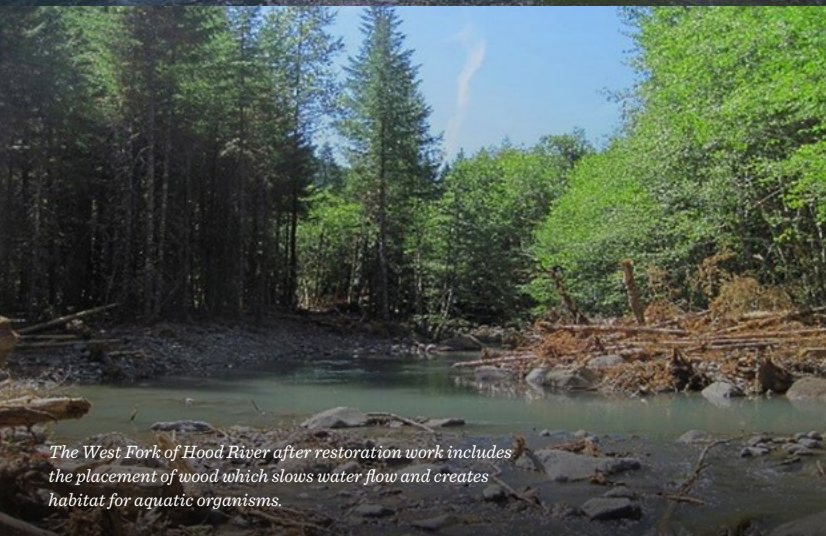
This project attracted funding through the state of California's cap-and-trade carbon revenue program and, in addition to reducing fire risk, will result in significant carbon sequestration, habitat enhancement and other watershed benefits. The project area includes 59 miles of streams which are key to wild coho populations in the Klamath Basin. The success of this project is only possible through community collaboration amongst landowners, agencies, community groups, and local mills and is supported at the local, state, tribal, and federal levels.



*Douglas fir seedlings destined for the Scott River Headwaters restoration project.*



*Hood Uplands before restoration project.*



*The West Fork of Hood River after restoration work includes the placement of wood which slows water flow and creates habitat for aquatic organisms.*

## RELATIONSHIP HIGHLIGHT: Hood Uplands

Located on the west slopes of Mt. Hood near Lost Lake and the Bull Run reservoir, the 1,880-acre Hood Uplands property contains the headwaters of the West Fork of Hood River, which is critical habitat for coho, steelhead, Chinook, and bull trout. EFM has partnered with the Confederated Tribes of Warm Springs and the U.S. Forest Service, alongside the local watershed council and conservation groups, on the restoration and habitat enhancement of this river.

Restoration work targets correcting steep banks; reconnecting the river to its flood plain; introducing large, woody debris to slow the river's current; and expanding spawning, resting and rearing habitat for salmon. The Confederated Tribes of Warm Springs is providing funding and restoration expertise through technical input from their staff biologist and drawing on ancestral knowledge on how to best reestablish the ecological function of the West Fork of Hood River.





# Dedication to Landscape & Investors

The natural forests of the western U.S. have unique social, environmental and cultural dimensions that are largely ignored by traditional investment approaches. This creates opportunities for differentiated approaches and nuanced management strategies that allow us to target market rate returns that are only possible by achieving our impact goals. EFM acquires assets that are largely overlooked by conventional investors because of unique operational, environmental, or social attributes—targeting landscapes that will benefit from our management strategies and conservation finance expertise. We specialize in the use of tools such as conservation easements, carbon offset and tax credits that can monetize the value of standing trees, thus expanding the monetization options beyond timber harvesting.

Thanks to our investors and partners, we are proud of the work we've accomplished to date; however, there remains an urgent need to continue our work to create natural climate solutions that promote permanent responsible ownership for the benefit of our investors, the landscapes and the communities in which we invest.





*Seedlings naturally regenerating on a nurse log in the rich understory of the Onion Peak property. Nurse logs are fallen trees which provide shade and support to other plants.*



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