2021 Impact Report



A silver fir mixed into a stand of Western red cedar on the EFM managed Cedar Flats property. in s

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Front Cover: The second and final portion of the Onion Peak property was sold to form a new community forest on the Oregon Coast that will support clean drinking water for local communities.

Investing in Nature's Best Climate Solutions



EFM invests in natural climate solutions across the Americas to create longterm financial value and enduring environmental and social impact. Our investments in forests and at-risk ecosystems use climate-smart approaches to create carbon sinks, protect biodiversity, preserve fresh water, and create local jobs.



Fund Management

Our three co-mingled private equity funds focus on acquiring industrially managed forests in the Western U.S. We believe managing forests to co-produce environmental services alongside high-quality timber leads to a differentiated investment strategy and a more valuable asset. Our funds are structured to attract long-term mission aligned capital that seeks financial returns alongside positive outcomes for the environment and rural communities, including more equitable land ownership.

EFM Evergreen Fund

(Perpetual, Open for Investment)

OBJECTIVE

Construct a diverse portfolio of productive, long-lived forest assets that create financial, ecological and social value. Continue ownership in perpetuity except when a sale enhances Fund's stewardship goals. Provide investors with an alternative approach to the intensive forest management techniques that have become commonplace.

EXIT STRATEGY

Perpetual and open fund developed to encourage long-term investments in climate-smart forest management, a stewardship technique that leads to increased forest health, species diversity, and structural complexity. Fund raises capital and provides liquidity independent of typical fund cycles.

EFM Funds II & III (Closed)

OBJECTIVE

Identify and acquire forests with cultural and strategic significance that can be transformed through a climate-smart forest management and restoration plan and sold to permanent conservation-oriented owners. Attract traditional private equity capital to natural climate solutions through a 10-year term fund.

EXIT STRATEGY

Sell restored, FSC-certified properties to local, strategic owners including tribes, land trusts, water districts and state and federal agencies. Return appreciated investor capital at the termination of the fund.

Where We Work

EFM Funds works across the American West, offering investment management, property management and consulting services since 2004.

OREGON

IDAHO

Natural Climate Solutions Investment Consulting

EFM works with corporations and investors to invest in Natural Climate Solutions around the globe, with a focus on tropical regions. We support the investment process end-to-end, from sourcing to diligence to post-investment structuring and monitoring. These relationships can be structured as separate accounts, consulting contracts or co-investments.

Separate Accounts

Consulting

EFM is investing family office capital in strategies that provide the portfolio with diversification, climate-risk mitigation, and exposure to real asset and natural resource sectors. Examples include sustainable forestry, agro-forestry, reforestation, and avoided deforestation projects. In 2O22, EFM began working with a U.S. corporation to support business case development for a forestland investment strategy. We developed a top-down national geographic prioritization strategy that took into consideration store locations, DEI priorities, carbon and recreation resources. We also helped to create a pipeline of opportunities and performed investment diligence on prospective forestland properties.





Impact Objectives & Outcomes

For over fifteen years we have been developing climatesmart forestry approaches to natural forest management that are the key to unlocking value in a carbon-constrained future. These approaches allow us to create value beyond producing logs, including improved carbon storage, habitat, climate regulation, and water storage. Additional benefits to communities include job creation, economic growth related to timber harvests, healthy local forests and ecosystem restoration.

We deploy our investors' capital alongside conservation finance tools to acquire forestland assets with unique environmental and social attributes. 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 to minimize impacts, and develop non-timber forest products to create jobs in economically distressed rural communities.

Our objective is to create long-term responsible stewardship outcomes by protecting landscapes and selling properties to long-term, conservation-aligned owners like tribes, conservation groups, land trusts, municipalities, community forest groups, and public agencies. We also ensure permanent protection through easements on properties to ensure the impact of our management is lasting. We are often seen as bridge that allows future owners the time to organize and fund a purchase. EFM improves these landscapes during its ownership period and generates value for our investors using conservation finance tools.

Our work meaningfully contributes toward reaching the following U.N. Sustainable Development Goals (SDG) through conservation, restoration and climate-smart management practices that have been core to EFM's strategy since 2004.







SDG 15 OBJECTIVES:

Protect & Restore Terrestrial Ecosystems

The Life on Land U.N. Sustainable Development Goal is to protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss.

EFM OBJECTIVES:

Protect & Restore Forested Landscapes

EFM-managed landscapes protect habitat for over 48 rare, threatened, and endangered species. These include Chinook, coho, and chum salmon, bull trout, steelhead, the northern spotted owl, the marbled murrelet, and other forestdependent species.



Forests Transitioned to Impact Partners

EFM is dedicated to creating permanent ecological uplift through conservation easements and property sales. EFM seeks strategic partnerships with organizations interested in acquisition and long-term ownership of high-conservation value land. Working closely with entities like local land trusts, public agencies, governments and tribes, EFM identifies properties of mutual interest, negotiates the sale and purchase of the property, and then manages the property until the sale to a strategic owner.



63,975

acres transitioned to permanent long-term owners or permanently protected



134,600 total acres under climate-smart management





HIGHLIGHT:

Conserving the Galapagos of Oregon

Onion and Angora peaks were once rapidly chilled mounds of lava 3,000 feet under the Pacific Ocean off the coast of Oregon. Over time, a submarine lava flow rose out of the ocean and these peaks became isolated nearshore islands home to an unusual mixture of plants and animals. Eventually they became part of the mainland and rose to be the highest peaks in the area, forming the backdrop of the northern Oregon Coast skyline. These coastal peaks, known as the Galapagos of Oregon, now are home to species that exist nowhere else on Earth.

In November 2016, EFM Fund II acquired these peaks and the surrounding 5,000 acres of forestland from a privately owned forest products company. The area is located between Tillamook Head and Nehalem Bay, shares a boundary with the beloved Oswald West State Park, and had been identified by the North Coast Land Conservancy (NCLC) as an outstanding habitat that supports a compressed ecosystem unlike anywhere else in Oregon. The NCLC, a nationally accredited land trust, has been working since 1986 to conserve and connect the landscape of the Oregon Coast. This vision includes a corridor of coastal watershed between two state parks, conserved to benefit wildlife and protect clean drinking water.

With recognition of the property's unique habitat, adjacency to a state park, and importance for local drinking water, EFM entered into an agreement to sell approximately 3,500 acres of the property to NCLC, which gave the land trust the time to raise the funds necessary to complete the purchase. In October 2021 the deal was finalized, and the two organizations were able to create an unmatched land-to-sea conservation corridor in the northern Oregon Coast. This area, now named the "Rainforest Reserve," is part of a unique 32-square-mile geography that will permanently conserve critical habitat for a wide array of wildlife and plant species, while also supporting the surrounding communities.



"Bringing this land into conservation allows us to unlock its future," said Katie Voelke, Executive Director of NCLC. "It is a living, breathing, flowing and evolving place. Conservation allows it to live its most dynamic and abundant life. This is a living museum, a living laboratory, a globally rare and precious place, and it's our community backdrop. Conserving this land gives us all a chance to be in the right relationship with the land and the people it sustains."The remaining 1,500 acres of EFM Fund II's holdings have been acquired by the Arch Cape Domestic Water Supply District, which has been working alongside the NCLC to protect the watershed and create a community forest. This Arch Cape Forest watershed project was funded by the Land and Water Conservation Fund (LWCF) and the U.S. Forest Service Forest Legacy Program and achieved its goal of providing clean, safe, and affordable drinking water to Arch Cape residents and vis-itors while concurrently creating a working community-owned forest.

These property sales are a recent example of what success looks like for EFM. EFM's objective is to identify high-priority acquisition targets with unique landscape attributes, transition the forests to Forest Stewardship Certified (FSC®) management, complete restoration

projects to improve and protect the landscapes, and exit to permanent conservation-oriented owners. EFM has protected and transitioned more than 63,000 acres to tribes, state agencies, and other conservation-oriented owners or protected these acres by permanent easements; EFM's currently managed forests store 6.8 million tons of carbon; and EFM has entered into agreements with General Motors and Nike to offset their emissions.

During its ownership, EFM has managed this property as a working forest in accordance with FSC® principles and standards. EFM's forest management approach values the full array of forest products and services and aims to integrate the production of timber and the enhancement of valuable ecosystem services such as clean water, wildlife habitat, and carbon storage.

Conservation & Restoration

EFM's forest management practices integrate conservation and restoration objectives. This includes diversifying tree species and age, putting portions of each forest in reserves, and protecting significant riparian areas – steps that can increase forest resilience. Additionally, via grant funded programs, we work in partnership with local conservation groups and public agencies to promote forest health, restore waterways and protect biodiversity in the ecosystem.





seedlings were planted, including mixed species plantings, to restore ecosystem health and function



76 species

of rare threatened and endangered mammal, fish and amphibians are supported by our activities



HIGHLIGHT: Red Hill Creek Restoration

The 339-square mile Hood River Basin originates on the eastern side of the Cascade Mountain Range in Oregon. Its rivers, including the West Fork of Hood River, flow north from the 11,245 foot peak of Mt. Hood to the Columbia River, elevation 74 feet.

The Red Hill Creek Restoration project is part of a multi-year effort to restore habitat on the West Fork of Hood River, which is vitally important for Chinook salmon, coho salmon, and steelhead trout. The Creek runs through EFM property, is a main tributary of the West Fork, and was restored in 2021 in partnership with a coalition of organizations including the Hood River Watershed Group, the U.S. Forest Service, and the Confederated Tribes of Warm Springs.

For its part, EFM donated trees that were used to create woody debris features in the creek that provide shelter for young salmonids (see photo left.) The project also reconnected relict stream channels to restore complex habitats that benefit these species at all stages of life.





SDG 13 OBJECTIVES:

Combat Climate Change

The Climate Action U.N. Sustainable Development Goal is to take urgent action to combat climate change and its impacts.

EFM OBJECTIVES:

Increase Carbon Storage

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

Increased Carbon Sequestration

EFM tackles emissions-related climate change issues in two ways: using climate smart forest management to increase the amount of carbon stored in working forests, and harvesting timber with methods that use less emissions than conventional forest managers.

We believe our approach, which includes increasing rotation (time between planting and harvest), retention (trees remaining on the landscape after harvest), and creating reserves around rivers and other important ecological features can enable forests to absorb at least 30% more carbon from the atmosphere than a conventional forest management approach.*





tons of CO2 stored by our forestland—equivalent to the annual emissions from over 1.4 million cars.



4% increase

in above-ground carbon absorbed by our forests in 2021**

* https://www.mdpi.com/1999-4907/9/8/447

**Carbon metrics include above ground and live carbon pools and exclude the Henry Creek property, which experienced fire damage and no carbon removals were estimated.



HIGHLIGHTS:

Carbon Offset Integrity

Market sentiment around carbon offsets has recently been tempered by several high-profile articles that have called the additionality of specific projects into question. At the heart of the scrutiny are projects that seemingly reward landowners for actions that would have occurred anyway, or methodologies that generate large, upfront issuances of credits to reward landowners for having forest inventory levels that are above regional baselines.

EFM's carbon projects to-date have used a conservative Verra IFM methodology, developed in collaboration with non-profit Ecotrust. The project has been in place for a decade, and is undergoing it's 10 year baseline re-validation. The VM0003 methodology is also being updated to incorporate the learnings accumulated by market participants over the last 10+ years. In this methodology credits are earned through improved forest management techniques such as increased harvest rotation age, reduced harvest intensity and increased tree growth, all of which improves a forest's capacity to remove carbon dioxide from the atmosphere.

Methods of verifying project baselines are at the heart of the debate around offset integrity and are forcing regulators to pay attention to loopholes that may create value for low-quality offsets. At EFM, we continue to believe that



carbon markets are a valuable tool that attract capital to projects that reduce and remove green-house gas emissions from the atmosphere. We look forward to the release of a global benchmark for carbon credit quality, which is expected in 2022. These Core Carbon Principles (CCPs) and the Assessment Framework will set a high bar for quality carbon projects.

New Reforestation Offsets

EFM's reforestation work on the Henry Creek property, a 2,500 acre property located in western Oregon that burned in the 2020 Beachie Creek fire, is now part of an new approach to measuring the carbon from reforestation projects.

Historically, the majority of forest carbon offsets have been generated from projects protecting mature forests. The non-profit Climate Action Reserve (CAR) recently created a new protocol to establish offset sales as a mechanism for investing in reforestation. These offsets are forward-looking, also known as "ex ante," meaning that buyers are investing in the carbon that will be absorbed and stored by re-seeded and replanted forests as they grow. The offsets are called Forward Mitigation Units (FMUs) and represent carbon which will be absorbed by seedlings in the future. EFM has partnered with Droneseed to reforest a portion of the hard-to-reach acreage using drone assisted seed-pucks. We are now working with partners to market FMUs from this project.

The Henry Creek Reforestation project aims to plant 2,100 acres, using a combination of manual planting and cutting-edge drone technology to reestablish a native, old growth ecosystem that was burned in the Beachie Creek fire of 2020. Over 450,000 seedlings including western white pine, Douglas fir, noble fir, grand fir, and western red cedar were planted on the property in 2021, with planting slated to continue through 2023.





SDG 6 OBJECTIVES:

Clean Water for All

The Clean Water and Sanitation U.N. Sustainable Development Goal is to ensure access to water and sanitation for all.

EFM OBJECTIVES:

Restore Watersheds & Streams

50%+ of the fresh water in the Western United States originates on forestland, and its estimated that the cost of treating drinking water increases 20% for every 10% of deforestation in a watershed. EFM's investment strategies recognize that healthy forests are the key to water quality and that drinking water sources in many urban and rural communities are susceptible to the impacts of climate change.



A Pacific tree frog swimming in the cold waters of Desolation Creek on the EFM Desolation Creek property in eastern Oregon. Amphibians are sensitive to changes in temperature and water quality and their presence is a sign of ecosystem health.

Water Protection

There is increasing recognition of the role that forestland plays in protecting our watershed. This has produced additional 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 that will appeal to water districts and other buyers whose intention is permanent protection.



CLEAN WATER AND SANITATION

7,876 acres

managed to improve drinking water for local communities

of streams protected with enhanced riparian buffers

701 miles



HIGHLIGHT:

FSC & Water Quality

100% of EFM's eligible lands are Forest Stewardship Council® (FSC®) certified, an internationally recognized voluntary standard for forest management that includes the following water quality protections:

Required reserves in areas that may contain significant concentrations of biodiversity, rare, threatened or endangered ecosystems, or provide watershed protection.

Larger riparian buffers, or vegetated areas adjacent to streams that provide habitat, reduce flooding and erosion, filter pollution, and support drinking water quality.

Banning the use of highly hazardous pesticides, including chemicals such as astrazine, a pesticide legal in the US but banned in Europe, and the aerial spraying of this chemical. Pesticides have the potential to effect wildlife and contaminate drinking water supplies.



Forest-related natural climate solutions offer over two-thirds of cost-effective and over half of low-cost mitigation opportunities globally that fall below US\$100.

SPECIAL FEATURE:

A Tool for Addressing Climate Change

Forests are the biggest terrestrial carbon sink we have. Carbon stored in forestland represents 60% of the stock of terrestrial carbon pools and exceeds the total carbon stored in fossil deposits by 40%. If we burned all the carbon in terrestrial carbon pools, we would exceed the 2°C goal of the Paris Agreement by 450%!¹

Forest carbon storage is considered one type of Natural Climate Solution (NCS). Natural Climate Solutions are a portfolio of conservation, restoration, and improved land management actions that increase carbon storage and/or avoid greenhouse gas emissions. This portfolio of activities occur across global forests, wetlands, grasslands, and agricultural lands and include avoided deforestation (REDD+ projects), improved natural forest management, reforestation, avoided conversion of wetlands and more.²

Worldwide, the interest in Natural Climate Solutions has grown among investors and institutions alike. In 2017, widely cited research published in the Proceedings of the National Academy of Sciences (PNAS) showed that the climate mitigation potential of NCS had been vastly underestimated. In 2018 the Intergovernmental Panel on Climate Change (IPCC) Lands Report identified carbon sinks, especially from NCS, as critical to meeting the Paris Climate Agreement's target of keeping global warming below 2°Celsius. It is now widely accepted that to meet the goals for emissions reduction laid out in the Paris Climate Agreement, we must maximize the potential of our natural ecosystems to sequester carbon.

Scientists estimate that the carbon mitigation potential from NCS, when constrained for meeting demands of food security, biodiversity and fiber

production, is 23.8 gigatons of C02e and one third of these emissions reductions can be achieved for under \$10/ton. This requires capital investments, changes to land management strategies, development of new end-markets for products and developing the infrastructure to support changing consumer behavior. This is perhaps the most significant investment opportunity of this decade.

Forest-related natural climate solutions offer over two-thirds of cost-effective and over half of low-cost mitigation opportunities globally that fall below \$100/ton. Given this immense potential, it is critical for investors to coalesce investment capital around forestry solutions that are truly additional to climate mitigation efforts.

Concerns about the methods being used to satisfy net zero commitments by corporations and governments are warranted. Simply directing capital into forestry-as-usual, which employs intensive silvicultural practices and accelerates loss of biodiversity and native ecosystems, will ultimately extend our problems. Forest-based natural climate solutions must offer improved management strategies and consider the entire ecological picture as they strive to amplify the forest's role as a tool to address climate change.

¹ (Le Quéré 2016) (McGlade 2015)

²Griscom 2017



of cost-effective climate mitigation opportunities are forest-related



of terrestrial carbon pools are represented by forestland

60%



EFM retains up to 30% more trees on the landscape when timber is harvested. Pictured here, a thinning on the Dickey property on the Olympic Peninsula in Washington State.



SDG 12 OBJECTIVES:

Ensure Responsible Production

The Responsible Consumption and Production U.N. Sustainable Development Goal is to ensure sustainable consumption and production patterns.

EFM OBJECTIVES:

Transition to Climate-Smart Forestry

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. We believe our climate-smart approach results in increased carbon storage, more productive forests, reduced risk of fire and disease, and lowered financial risk for investors.

Sustainable Forest Management

EFM has been pioneering climate-smart forestry methods within a commercial investment context since its founding. All of EFM's eligible 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. The FSC also has 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 forest management activities.



RESPONSIBLE Consumption And production

of eligible land is under FSC certification, the highest standard of sustainable forestry



board feet sustainably harvested this year, enough



HIGHLIGHT:

Our Management and Harvesting Approach

EFM's ecosystem-based forest management approach encourages the development of a multi-canopied, diverse, structurally complex forest. We accomplish this through silvicultural techniques like variable retention harvests, patch cuts, thinning and planting with multiple site-adapted species. This style of forest management is designed to promote forest health, productivity, and resilience, and is consistent with the standards developed by the FSC for well-managed forests.

Our process starts with a detailed property assessment and management plan for each forest we steward. This includes analyzing and developing a management strategy for the following elements:

- the physical environment: climate, soils, and water resources
- the vegetation: forest, disturbance regimes, rare and listed plants, non-timber forest products, and other elements
- fish and wildlife, particularly threatened and endangered species



- infrastructure: roads and water sources
- the surrounding community: socio-economic conditions, adjacent landowners, historic uses, and cultural resources

EFM strives to establish a desired future condition based on the property's natural and cultural history, current condition, and our financial, ecological and community objectives. This desired future condition describes forest health, species diversity, structural complexity (age class and presence of wildlife trees and downed wood), includes community and tribal use, and often addresses special topics like aesthetics, and landscape-scale considerations like wildlife migration corridors. The plan then describes a set of activities designed to reach the desired future condition and a monitoring plan to assess our progress.

Each property has a three-year and annual management plan that includes harvest planning. We approach harvest planning with thought and care to ensure we are advancing towards our desired future condition and meeting FSC® standards.

First, candidate stands for treatment are pooled based on desired rotation age, which is the amount of time between when a tree is plant-ed and when it is harvested. We generally extend average rotation ages by 15-30 years, which results in older, higher value logs, , enhanced habitat, and increased carbon storage. These selected stands are then analyzed based on their location, road system, acreage and volume target, key ecological features, location relative to recent or other planned harvests, and the current timber market environment. The level of harvest is constrained to allow total volume to continue to accumulate, an important component of climate-smart forestry.

When an area is chosen for harvest, the boundaries are clearly marked and sensitive areas are protected. The quantity of trees that will be retained is calculated for each area and there is careful consideration of other factors including future erosion and wind damage. Species of high ecological and cultural value such as western red cedar are almost always retained. The type of logging system used plays a key role in limiting impacts to soils and remaining trees. EFM uses advanced techniques and equipment on its operations and maintains its road network to reduce erosion into streams while maintaining fish passage at stream crossings.



Dedication to Landscape & Investors

The natural forests of the Western U.S. have unique social, environmental and cultural dimensions that are largely ignored by industrial management approaches. This creates opportunities for differentiated approaches and nuanced management strategies that allow us to target market-rate returns without eroding 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 offsets and tax credits that can optimize the value of standing trees, thus expanding monetization options beyond timber.

Thanks to our investors and partners, we are proud of the work we've accomplished to date. There remains an urgent need to continue transitioning forests to permanent responsible ownership for the benefit of our investors, the land-scapes and the communities where we work.





CONTACT US

EFM 721 NW 9th Ave, Suite 230 Portland, Oregon 97209

Email: info@efmi.com Call: 503 467 0829

For Investment Queries Email: investors@efmi.com

For additional information please visit our website at www.efmi.com

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