Session 7 – New Developments in Impact Investment

Notes submitted by J. Mason Harris, Duke University

Moderator: Peter Stein, Lyme Timber

Panelists: Dominick Grant, Dirt Capital; Harry Guinness, New Leaf Climate Partners; Catherine Godschalk, Calvert Impact Capital; Paul Parker, Catch Together

Key Takeaways:

- In agriculture, Dirt Capital over 10 years has successfully pioneered a model for enabling farmland ownership and environmental outcomes through a real estate fund structure
- In forestry, New Leaf Climate has created a $50M forest resilience input fund to support nurseries and strengthen public sector partnerships
- In fisheries, Catch Together has developed community organizations to improve advocacy amongst fisherman and enable equity ownership of commercial permits
- In broader impact investing, Calvert continues expanding its diverse product offerings including a carbon note focused on decarbonizing real estate

Session Summary

Peter began the panel by outlining that, historically, conservation finance focused on three pillars (public, philanthropic, and private profit seeking capital) and that we are focusing on the private capital here. Peter described the history and background of Lyme Timber, and then allowed the panelists to introduce themselves and describe their work.

Dominick Grant: Dirt Capital

Dominick worked with USDA's Office of Environmental Markets early in his career, and throughout his experiences, there was always a thread of thinking about sustainable/organic agriculture. Dirt Capital seeks to address agricultural issues by using financing mechanisms as a tool in the toolbox for environmental impact. Key tools for enabling farmer transitions are partnerships with state agencies and enabling co-financing from other investors to create an optimal capital stack.

Dirt Capital is 10 years old and is structured as a closed end real estate fund (now in Fund IV). The most recent fund closed in 2018 had 30 different LPs with a mix of individuals, family offices, foundations delivering products structured for regenerative agriculture and community benefit. The strategy and deal structure with downside protection helps comfort investors with patient capital and assurance of impact outcome. They work together with farmers to solve land acquisition and real estate challenges.

The basic thesis is for regenerative producers, land access and stability of land ownership is a real barrier to investing in soil health practices and wealth creation, especially young and historically excluded farmers. They bring real estate, structuring, and financing expertise including conservation easement access (currently about to close on project number 38). Dirt

Capital finances and acquires land, then over a 5-10 year pathway they transfer ownership to producers and include technical assistance and financing at the end for producers.

Harry Guinness: New Leaf Climate Partners

Harry previously worked on debt capital in emerging markets funded by governments, Development Financial Institutions, corporate/private philanthropy with Program-Related Investments/Mission-Related Investments, and impact investors or energy companies. New Leaf currently sees a need for intermediate financing and came up with the idea for an NDFI (nature development finance institution).

There are small- and mid-scale enterprises like forest input companies and forest seedling nurseries with financing needs, so they created a $50M forest resilience input fund to lend to nurseries. Three uses of funding for nurseries include: expansion and modernization of infrastructure and equipment, ownership transition for owners aging out, and creating operator partners. They also help ensure nurseries align with impact and sustainable practices by partnering with state agencies and NGOs.

An example of filling the gap between project origination and transacting is a conservation NGO initiative in the southwestern US who needs plants that require a 3-5 year growing period and the nursery needs financing to grow the plants now. New Leaf provided pre-financing for the nurseries to grow the plants until the NGO needs them.

Catherine Godschalk Discussion: Calvert Impact Capital

A core focus of Calvert has been how to engage private capital for impact. Calvert was spun out of a mutual fund because direct community investing is very different than any other sort of public investing. Part of Calvert's DNA has been enabling anyone to invest and create democratized investment products.

One of the flagship products is a note that is a shelf-offering open-vehicle where anyone can invest. Historically, they have engaged over $3 billion with close to 6,000 institutions and individuals. The organization has transformed into a diverse product platform deploying capital that reduces inequality and drives impact.

Catherine came into impact investing from previous work in community development and was attracted by the intersection of people, finance, and policy.

Paul Parker Discussion: Catch Together

Paul finished his Master of Environmental Management from Duke's Nicholas School and then moved to Cape Cod working as a commercial fisherman. Over time, he built a fisherman's organization to improve advocacy amongst fishermen (the Cape Cod Fisheries Trust). The goal was to create a system for cash flow or endowments for the fishing community. Many of the nation's most valuable fisheries are regulated by a quota system. Quotas have been doled out and grandfathered by perpetual rights, which is an unstable system. Their overall thesis was that if you're good stewards that should lead to wealth.

In the beginning, funding came from family foundations and various other organizations. Now, they have organized deals with First Nations in Alaska, Maine, and other states where they have brought in co-funding along with their loans. Businesses also rent quotas with aligned services for fisherman around best practices.

One of the biggest challenges has been volatility in the quota systems which has led to less growth in the assets over the duration of a loan. Unfortunately, in these cases, much of the cash flow for fisherman is going towards debt repayment instead of organizational growth.

Question from the audience: What is going on in the universe of shellfish markets?

- Paul: One example is that Catch Invest has historically invested in quotas and became aware of a hatchery going out of business. Catch Invest brought equity into a deal that saved the hatchery, which anchors about 1,600 jobs on Cape Cod, and also does oyster restoration. The project was catalyzed by the idea that if some of these fishing organizations have cash flow, they can act on opportunities like that.

Question from the audience: Latest Dirt Capital fund is focused on small and underserved farmers; what have you had to change about how you work to serve these landowners?

- Dominick: We try to make sure to allocate projects across the band of returns they are looking for. We have also expanded and diversified our team, and allowed space to put real thought into where we look for projects and how we prioritize impact by looking at new places, which makes a big difference.

Question from the audience: How do you balance prioritizing financing sources, investment returns, and impact?

- Paul: Catch Together's underlying asset class is a natural resource. Initially experimenting with PRIs, concessionary debt, and others but most fisherman are using traditional bank financing at higher rates. We have created $15M of ownership equity for fisherman at this point. However, we're leaning more concessionary the older the organization gets and unfortunately the less the fishing quota market grows.
- Catherine: For the community note, we pay 1.5% for someone who lends money for one year and 5% for institutions that lends money for 5 years. We try to price it for the community's needs and area of interest. We do not benchmark to the market, but we do exist in the market. We had to raise rates last year to account for investor needs and financial return. The carbon note is focused on decarbonizing real estate structured as a tranche asset-backed security with commercial property assessment loans. The last one raised $30M and was below market rates because of the timing in 2022.
- Dominick: Targeting 5-10% return over life of project but it can vary widely depending on circumstances. Often able to offer rates 2-3% of purchase price for the farmer and structure leases depending on timing of farmer going to market and other factors.
- Harry: We think outcome first. We could do a private equity roll-up fund for nurseries right now and generate a great return, but we won't get the outcome we want. We sculpt the returns to the investor and try to maximize impact.

Question from the audience: How do you go about catalyzing investment for impact?

- Paul: The Cape Cod Fisheries Trust has been focused on catalyzing more investment, community ownership, and overall growth amongst the local fishing stakeholders.
- Catherine: Calvert has been catalytic in the field of growing impact investing and one of the first impact lenders to CDFIs. There is a broad effect of what first movers can catalyze. In our portfolio, we are senior debt. We can't take a ton of early stage catalytic first-loss risk. We try to narrow that gap between real and perceived risk. The theory is over time you need less and less of that catalytic capital.
- Dominick: We started this idea 10 years ago with a lease/purchase impact investment that others have now followed. Now co-investing with others doing the same thing. We recently created a structure of a joint venture between different organizations.