

CO-INVESTMENT POLICY STATEMENT

The Nature Conservancy

February 8, 2022

I. SUMMARY

The Nature Conservancy (“TNC”) will seek to build a portfolio of co-investments through existing and future private investment managers with the primary goal of enhancing the return potential of its private investments program through a combination of reduced fees, shortened, or eliminated J-curve, and investment selection. In addition, through the Co-Investment Program, TNC will seek to develop stronger relationships with high conviction managers, gain additional control over portfolio and risk exposures, increase knowledge in various industry segments, and further TNC’s mission, among other strategic objectives. The Chief Investment Officer (“CIO”) is authorized to approve all co-investments consistent with this policy. For co-investment opportunities that are outside of this policy, the CIO would require Investment Committee (“IC”) approval before proceeding.

II. CO-INVESTMENT PROGRAM OBJECTIVES

- **Primary:** TNC will seek to enhance the return potential of its private investments portfolio by making select co-investments in mission-aligned venture capital, growth equity, private equity, private real assets, and other private companies and platforms. TNC’s Office of Investments (“OOI”), led by the CIO, will utilize existing and future fund commitments to help source opportunities, gain access to capacity-constrained opportunities, and to evaluate opportunities. Through this, the OOI additionally hopes to strengthen TNC’s relationships with high conviction investment managers.
- **Secondary:** TNC will seek to achieve the following secondary benefits through its Co-Investment Program:
 - Increased exposure to private investments, with more selective risk and portfolio exposures
 - Targeted capital allocation according to various portfolio objectives
 - Increased industry knowledge
- **TNC Specific:** TNC’s Co-Investment Program can additionally benefit from the following:
 - 400+ scientists on staff, with deep expertise across sectors, to aid in due diligence
 - Existing portfolio with hundreds of companies for advantaged deal access
 - Advancement of TNC’s mission through strategic investments in mission-aligned companies

III. CO-INVESTMENT PROGRAM PARAMETERS

- **Target Sector(s):** Primary focus on mission-aligned sectors including, but not limited to, Clean Energy, Agriculture, Carbon Markets, and Aquaculture.
- **Allocation:** Aggregate \$10M per year, for the first two years, beginning July 1, 2022. Any unused portion of the \$10M annual maximum will be carried over to the next calendar year. The maximum co-investment amount within any calendar year will not exceed \$12.5M.
- **Pacing:** 5 – 15 investments per year, for the first two years, beginning July 1, 2022.
- **Sizing:** Check sizes will range from \$500,000 to no more than \$2,000,000 per opportunity. A maximum of 5 investments can be sourced per investment manager.
- **Manager Criteria:** OOI will seek to co-invest alongside existing managers. Co-investments with managers where TNC does not have an existing relationship within the Long-Term Portfolio are

outside the scope of this policy. Such co-investments would require a formal IC review and approval.

- **Structure/Stage:** TNC's Co-Investment Program will primarily co-invest in minority ownership, passive transactions, typically structured as Limited Partnerships in limited liability entities. Investments will primarily be initiated in Series B financing rounds, with the opportunity to follow-on in later rounds. Opportunistic investments in Series A financing rounds are permitted.
- **Terms:** TNC's Co-Investment Program will seek to make co-investments at a reduced fee basis relative to the funds from which the opportunity originated.
- **Review:** As the second year of this program draws to a close, the CIO will produce a comprehensive report reviewing the program to the IC. This report would seek to obtain IC approval to extend, and possibly expand, the Co-Investment Program. It is universally accepted that co-investment programs, when properly structured, should be long-term initiatives.
- **Target Return and Risk Profile:** Given certain additional risks presented by pursuing direct investments in companies and platforms, the dispersion of returns are expected to be wider than a well-diversified private equity program. The Co-Investment Program will target opportunities with projected returns, at a minimum, similar to those pursued by the sponsoring manager's strategy. In other words, the ideal co-investments will have return expectations that would qualify them for the relevant fund strategy that OOI has conducted due diligence on. OOI will additionally pursue investments where there is an information advantage or where prospective TNC engagement with company management can help to de-risk the opportunity. TNC's ownership stake in any co-investment cannot exceed 10%.

IV. CO-INVESTMENT DECISION-MAKING

Co-investments typically occur within short timeframes and as such, the CIO will have discretionary authority over co-investment decisions. However, the CIO shall provide a one-page summary of any potential co-investment to the IC via email at least two weeks before deal commitment. Due diligence materials will be shared with the IC post-investment.

The anticipated co-investment process:

- Manager notifies OOI of the co-investment opportunity or OOI proactively initiates company-specific co-investment conversations.
- OOI considers the opportunity in light of the specific parameters above.
- OOI performs initial diligence on the opportunity, assessing the commercial opportunity and alignment of interests.
- OOI performs secondary diligence on the opportunity, assessing across a range of relevant criteria, soliciting guidance from internal TNC scientists and subject matter experts, and performing reference checks.
- The CIO assesses the opportunity in the context of TNC's Co-investment Program and overall portfolio and decides whether to invest.
- At least two weeks prior to deal commitment, the CIO provides the IC a one-page summary of the pending co-investment opportunity via email.
- Co-investment decisions and corresponding due diligence materials are shared with the IC at the subsequent meeting.

V. SOURCING AND PREFERRED MANAGERS

A successful co-investment program is predicated on a robust sourcing strategy and efficient, transparent feedback to managers. TNC's deal flow will come from its existing private investments managers and future managers in venture capital, growth equity, private equity, private real assets and private diversifiers. At inception of any fund (as well as for relevant existing managers), the OOI will make clear that TNC would be interested in participating in co-investment deal flow.

Additionally, the OOI will proactively source opportunities, leveraging its private investment portfolio monitoring tools and analyzing near-term co-investment opportunities through portfolio company look-through and manager outreach.

VI. CO-INVESTMENT DUE-DILIGENCE

OOI will conduct due diligence on the underlying investment opportunity with the goal of ensuring that investments meet the desired objectives of the Co-Investment Program and mitigating adverse selection risk. Due diligence may include:

- **Manager Assessment**
 - Strategic alignment
 - Organizational structure and history
 - Investment team
 - Strategy and fit with current market opportunity
 - Recent and historical deal activity
 - Track records
 - Reference and background checks
 - Operations and administration
- **Strike Zone Assessment**
 - Track record and sector expertise of manager, lead partner(s)
 - Sector, strategy, and geography of deal compared to manager's experience
- **Market Environment**
 - Attractiveness and size of market opportunity
 - Demand/supply characteristics of sector
 - Industry profitability and trends
 - Market segmentation, customer profiles, surveys, etc.
 - Competitive environment, potential substitutes
 - Relevant market factors
 - Regulatory, macro risks
- **Investment Specifics**
 - TNC mission-alignment
 - Leverage in-house science expertise for product/technical review
 - Information advantage
 - Measure of impact
 - Organization, operations, and assets
 - Market position and sustainability of competitive advantage
 - Revenue and profitability analysis
 - Commercial terms

- Value creation opportunities (organic expansion, M&A)
- Financial modeling and valuation analysis: business plan forecast; sensitivity analysis and return scenarios; comparable analysis (M&A, public)
- Other key considerations (e.g., tax, debt financing and deal structuring)

VII. CO-INVESTMENT MONITORING AND BENCHMARKING

Monitoring: Ongoing monitoring will be performed by the OOI. OOI will review all quarterly letters and financial statements of the underlying holdings of the Co-Investment Program. OOI will track and reconcile all quarterly cash flows and fair market values in order to calculate returns on a quarterly basis.

Benchmarking: Given the timeframe required to build a diversified portfolio of co-investments, the performance of the overall program may take several years to effectively measure. The Co-Investment Program will be benchmarked against the Private Investments Policy Benchmark.

VIII. ENTERPRISE BENEFITS

TNC is in a unique position to garner all the traditional advantages of a co-investment program, while also creating a conduit for information sharing and furthering TNC’s mission, among other strategic enterprise benefits, including:

- **Interconnectedness of the Organization:** Through mission-aligned co-investment opportunities, different internal teams will work together to evaluate opportunities from both a business and scientific perspective.
- **Strategic Connections Between Managers and TNC Science:** TNC can enhance relationships with managers through the involvement of TNC’s science resources.
- **Knowledge Compounding / Internal Share:** Coordination with NatureVest, Blue Revolution Fund, Agriculture Innovation team, etc. and support information share across the organization.
- **Opportunity for Concentrated, Outsize Returns:** Through lower fees and targeted exposure to manager’s best ideas, TNC has the opportunity to enhance returns through the Co-Investment Program.