**CO-INVESTMENT POLICY STATEMENT**
**The Nature Conservancy**
**May 3rd, 2024**

## 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. The original co-investment policy was approved in February 2022 with this latest version approved as of May 2024.

## 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:
    - 900+ scientists and support staff, with deep expertise across sectors, to aid in due diligence in relevant opportunities
    - Existing portfolio with hundreds of companies for advantaged deal access
    - Advancement of TNC's mission through strategic investments in mission-aligned companies

- **CO-INVESTMENT PROGRAM PARAMETERS**

- **Target Sector(s):** Strive to build a best-in-class mission-aligned portfolio of technologies that directly or indirectly benefit both people and the environment. Diversified along subsectors including, but not limited to, Built Environment, Carbon, Climate Management, Energy, Food, Water & Land Use, Industry, Transportation and Health.
- **Allocation:** Aggregate $10M per year for new investments, with up to $5M investable in follow-on funding rounds within the existing portfolio, beginning July 1, 2024. Any unused portion of the $10M annual maximum for new investments and the $5M for follow-on investments will be carried over to the next calendar year.
- **Pacing:** 5-10 new investments per year, beginning July 1, 2024.

- **Sizing:** Check sizes will typically range from \$500,000 to no more than \$2,000,000 per opportunity.
- **Manager Criteria:** The OOI will seek to co-invest alongside existing investment 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. Co-investments without a pre-existing relationship or exposure 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 either limited partnerships formed by the applicable investment manager or direct investments into corporations. Investments (for venture-backed companies) will typically be between Series A and Series C financing rounds, but the primary focus will be at the Series B stage, with the opportunity to follow-on in later rounds.
- **Terms:** TNC's Co-Investment Program will seek to make co-investments at a no-fee basis relative to the funds from which the opportunity originated.
- **Target Return and Risk Profile:** Given certain additional risks presented by pursuing direct investments in companies and platforms, the dispersion of returns is 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 investment manager's strategy. In other words, the ideal co-investments will have return expectations that would qualify them for the relevant fund strategy on which the OOI has conducted diligence. The 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%.
- **Diligence:** Rigorous due diligence will be conducted by the OOI, leveraging TNC's science, conservation, and corporate engagement teams.

## 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 list of pending co-investments to IC members periodically and one-page summaries of recently completed co-investments will be shared with the IC at regularly scheduled meetings. Due diligence materials will be shared with the IC post-investment as needed.

The anticipated co-investment process:

- Manager notifies the OOI of the co-investment opportunity, or the OOI proactively initiates company-specific co-investment conversations.
- The OOI considers the opportunity in light of the specific parameters above.
- The OOI performs initial diligence on the opportunity, assessing the commercial opportunity and alignment of interests. The 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.
- Co-investment decisions and corresponding due diligence materials, including one-page summaries of recently completed co-investments, are shared with the IC at the subsequent meeting.

## V. SOURCING AND PREFERRED MANAGERS

A successful co-investment program is predicated on building and maintaining strong relationships with managers. TNC's deal flow will come from its existing private investment 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

The OOI will conduct due diligence on the underlying co-investment opportunity with the goals of mitigating adverse selection and ensuring that investments meet the desired objectives of the Co-Investment Program. 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. The OOI will review all quarterly letters and financial statements of the underlying holdings of the Co-Investment Program. The OOI will track and reconcile all annual cash flows and fair market values in order to calculate returns on an annual 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 these opportunities from both a business and scientific perspectives.
- **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, Sustainable Debt team, Blue Revolution Fund, Agriculture Innovation team, Nature4Climate, etc. and support information share across the organization.
- **Opportunity for Concentrated, Outsize Returns:** Through no fees and targeted exposure to managers' best ideas, the Co-Investment Program has the potential to enhance investment returns.