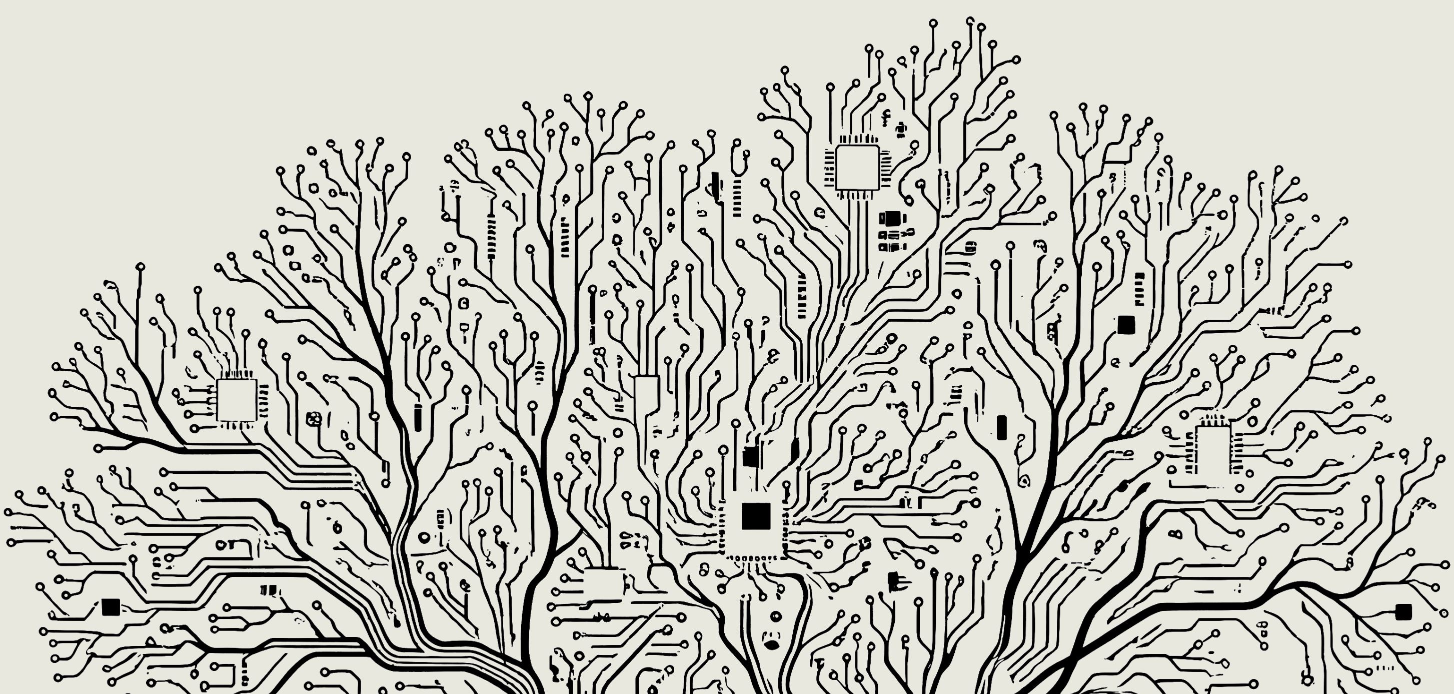
AN **Allocator Guide** *TO*
Climate Solutions Investing

CASE STUDY

The Nature Conservancy



CASE STUDY:

The Nature Conservancy

The Office of Investments at The Nature Conservancy (TNC) oversees over $5 billion in assets, including a Long-Term Portfolio of over $3 billion (henceforth referred to as the "Endowment"). Its mission is to fund TNC's global conservation priorities by increasing the organization's purchasing power through prudent, sustainable investment management. The Office of Investments is guided by dual pillars of returns-driven investment excellence and alignment with TNC's mission, to conserve the lands and waters on which all life depends. Consistent with these pillars, TNC has committed over $250 million to climate solutions companies and funds to date.

Anchoring

TNC's mission-aligned investing approach has been shaped over time by the market's maturity and the organization's growth. Prior to 2014, TNC had no formal policy to align the Endowment with its mission, believing, along with most endowments at the time, that the best way to serve the organization's mission was to deliver the highest financial returns through a purely risk-adjusted return lens. With the goal of incorporating TNC's mission into its investing practices, the Endowment officially adopted a divestment policy in 2014 to exclude the highest-emitting companies from its portfolio.

As more evidence emerged that "mission-aligned" investing and competitive returns could be pursued in tandem, TNC decided to initially participate in the ecosystem by establishing a $75 million carve-out within the Endowment dedicated to market-rate impact investments in the private markets.

As the Endowment grew, TNC established the Office of Investments in 2020, its first-ever internal investment team, which provided the organization with the resources needed to broaden its integration of mission into investment activities.

Today, the Office of Investments explores mission-aligned investing in three primary ways: ***1) Excluding mission-inconsistent investments through an expanded***

CASE STUDY: The Nature Conservancy (TNC)

exclusions list; 2) Expanding impact fund investments through private funds with mission-aligned strategies; and 3) Co-investing in emerging climate technology companies through a dedicated co-investment program to enhance portfolio returns and impact.

This case study focuses on TNC's mission-aligned fund investments and co-investing program.

Strategy

As a broader organization, TNC set 2030 impact goals related to the dual climate and biodiversity crises. Grounded in the latest scientific requirements for avoiding the worst impacts of climate change, including limiting warming to 1.5ºC and conserving enough land and water to slow the rapid acceleration of species loss, these institutional priorities form the backbone of mission alignment in the Endowment:

- Reduce or store 3 gigatons of CO_2 emissions yearly.
- Benefit 100 million people at severe risk of climate-related emergencies by protecting and restoring the health of natural habitats.
- Conserve 4 billion hectares of ocean, 1 million kilometers of river systems, and 30 million hectares of lakes and wetlands.
- Conserve 650 million hectares of land.
- Support 45 million local stewards by partnering with Indigenous People and other local communities.

With the support of TNC leadership, the Office of Investments codified its relationship with TNC's mission in a Sustainable Investment Policy:

"The Conservancy's mission and collaborative ethos inform the strategy and implementation of the [Endowment]... In addition to portfolio restrictions, as stewards of the Conservancy's [Endowment], the Investment Committee, the CIO, and the internal investment team will proactively seek sustainable and mission-aligned opportunities. The opportunity set of investments that meet both financial and mission objectives is growing and evolving, and the internal investment team will actively explore and monitor these opportunities for suitability for the [Endowment], across asset classes."

Impact fund investments

After the formation of the Office of Investments in 2020, there was a renewed focus on identifying more opportunities to deploy capital into market-rate mission-aligned investments. Instead of continuing the carve-out strategy, all impact investments were integrated into the broader portfolio, competing for capital against other private market opportunities. This was during a period where significant talent and dollars were flowing into climate technology funds and companies, creating a robust ecosystem into which TNC could leverage the organization's expertise and knowledge in the space to make investments. To date, TNC has now committed over $250 million into mission-aligned private funds.

Climate technology co-investments

In 2022, the Office of Investments established a climate co-investment program with the dual goal of

CASE STUDY: The Nature Conservancy (TNC)

enhancing investment performance while supporting impactful operating companies. As designed today, the co-investment program aims to allocate up to $15 million per year into Series B funding rounds, with select Series A and follow-on investments.

To segment the investible universe for the co-investments program, the Office of Investments developed a climate tech taxonomy of market segments with investment opportunities that are both mission-aligned and consistent with the Endowment's risk-return objectives. The chart below illustrates these seven sectors and respective sub-sectors.

Built Environment	Carbon	Climate Management	Energy	Food, Water & Land Use	Industrial	Transportation
Air quality	Carbon Capture	Climate Risk & Intelligence	Clean Power Generation	AgTech	Circular Economy	Batteries
Energy Efficiency	Carbon Removal	Emissions Accounting & Reporting	Distributed Energy Resources	Alternative Protein/Food	Efficient Manufacturing	Electric Autos & Charging
Heating & Cooling			Scaling Clean Energy	Food Waste	Mining	Low-Carbon Fuels
				Livestock & Aquaculture	Recycling Infrastructure	
				Sustainable Fertilizers & Pesticides	Steel, Cement & Chemicals	
				Water Management	Sustainable Materials	

While requiring additional resources from the Endowment's investment team, the co-investment program enables the Office of Investments to more directly apply TNC's expertise in climate science—effectively enabling the Endowment to increase its exposure to investments with both outsized potential for financial returns and climate outcomes. The program also enables TNC as an organization to participate in a complementary part of the climate ecosystem that the organization's operational activities are not inherently suited for, broadening TNC's impact beyond traditional conservation activities.

CASE STUDY: The Nature Conservancy (TNC)

Governance

Mission-aligned fund investments and the co-investment program are governed in the same manner as the broader Endowment. The investment team sources and underwrites investment opportunities, the CIO oversees asset allocation, manager selection, and mission-alignment, and the IC sets risk tolerance and overarching governance. However, recognizing the additional expertise needed to invest in these areas, the Office of Investments collaborates closely with other teams at TNC—such as the Science, Impact Markets and Finance, and Conservation teams—to bring additional rigor and mission-alignment to the Long-Term Portfolio.

Diligence

The Office of Investments completes the same standard diligence process on all potential investments. Diligence is guided by the "8Ps" Framework—people, philosophy, process, portfolio, partnership, performance, price, and planet. When evaluating a mission-aligned fund, the team holistically assesses alignment of strategy, target sectors, and overall ethos to TNC's mission in addition to the rigorous 8P framework. This diligence approach enables the Office of Investments to maintain both rigor and flexibility in determining how mission alignment is defined and applied over time.

In the co-investment context, the Office of Investments uses a three-pronged framework to assess climate technology investments:

- **Market:** Special attention is paid to understanding the specific market dynamics in which a company operates, including total addressable market size, competitive landscape, and macro indicators, such as consumer preferences or regulatory environment.
- **Technology:** TNC leverages its deep scientific resources, as well as the Office of Investments' network of investors and technologists, to diligence technology readiness, commercialization pathways, and cost-effectiveness.
- **Impact:** Each potential investment is assessed to understand the company's direct or indirect contribution to TNC's 2030 climate and biodiversity goals.

A key factor in the Office of Investments' ability to deeply understand a climate solution's market, technology, and potential impact is the in-house expertise TNC brings. TNC currently employs more than 1,000 science staff across its global operations. The team is also supported by a Science Advisor, who also serves as Science Director for North America Region at TNC. The Advisor, Joe Fargione, supports the assessment of co-investment companies' operations and any ancillary impacts to ensure they are consistent with TNC's mission.

CASE STUDY: The Nature Conservancy (TNC)

Monitoring

Because of the diverse nature of investments across the Endowment, the Office of Investments has not prioritized quantifying impact outcomes at this stage. Instead, the team closely monitors the underlying portfolios of its mission-aligned funds to ensure ongoing alignment with strategy and potential for impact. While many of the underlying portfolio companies are likely generating measurable outcomes that could contribute to TNC's 2030 goals, the organization has chosen not to attribute those outcomes to the Endowment, given the challenges of impact attribution and the indirect nature of diversified investment portfolios. The team continues to actively monitor developments in the field of impact measurement to stay abreast of approaches and tools that may be appropriate to adopt in time.

Mission-alignment within TNC's Endowment continues to evolve as the team, portfolio and ecosystem mature. The Office of Investments is committed to continue building on the foundation established to date and further integrating TNC's mission across the Endowment in new and innovative ways.