



January 22, 2014

Cambridge Associates and Mission-Related Investing
Conservation Finance Workshop

Jessica L. Matthews, Managing Director



CAMBRIDGE ASSOCIATES LLC

Who We Are

Cambridge Associates is a **privately held independent consulting firm** that seeks to help institutional investors and private clients around the globe meet or exceed their investment objectives by providing proactive, unbiased advice grounded in intensive and independent research

Evolution of our MRI Practice

We have been **an advisor to mission-based non-profits for almost 40 years** and have served the various socially-responsible and mission-related investment needs of clients throughout our history

In 2008 we **established a dedicated group** to assist our clients with their MRI programs

MRI Group's Goals and Objectives

Helping clients **make informed decisions** in the broad area of MRI

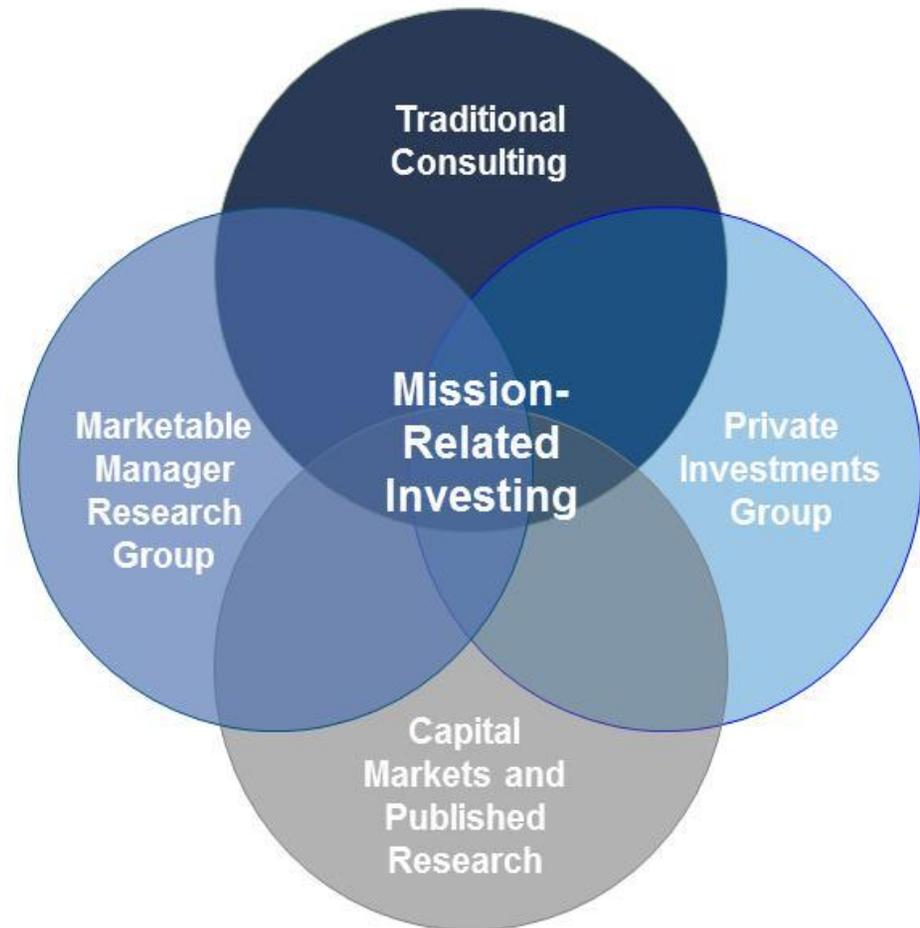
Assisting them in **developing and implementing strategies** for achieving specific MRI goals

Providing clients with a global institutional investment manager database and **in depth due diligence** on a wide range of MRI investment opportunities

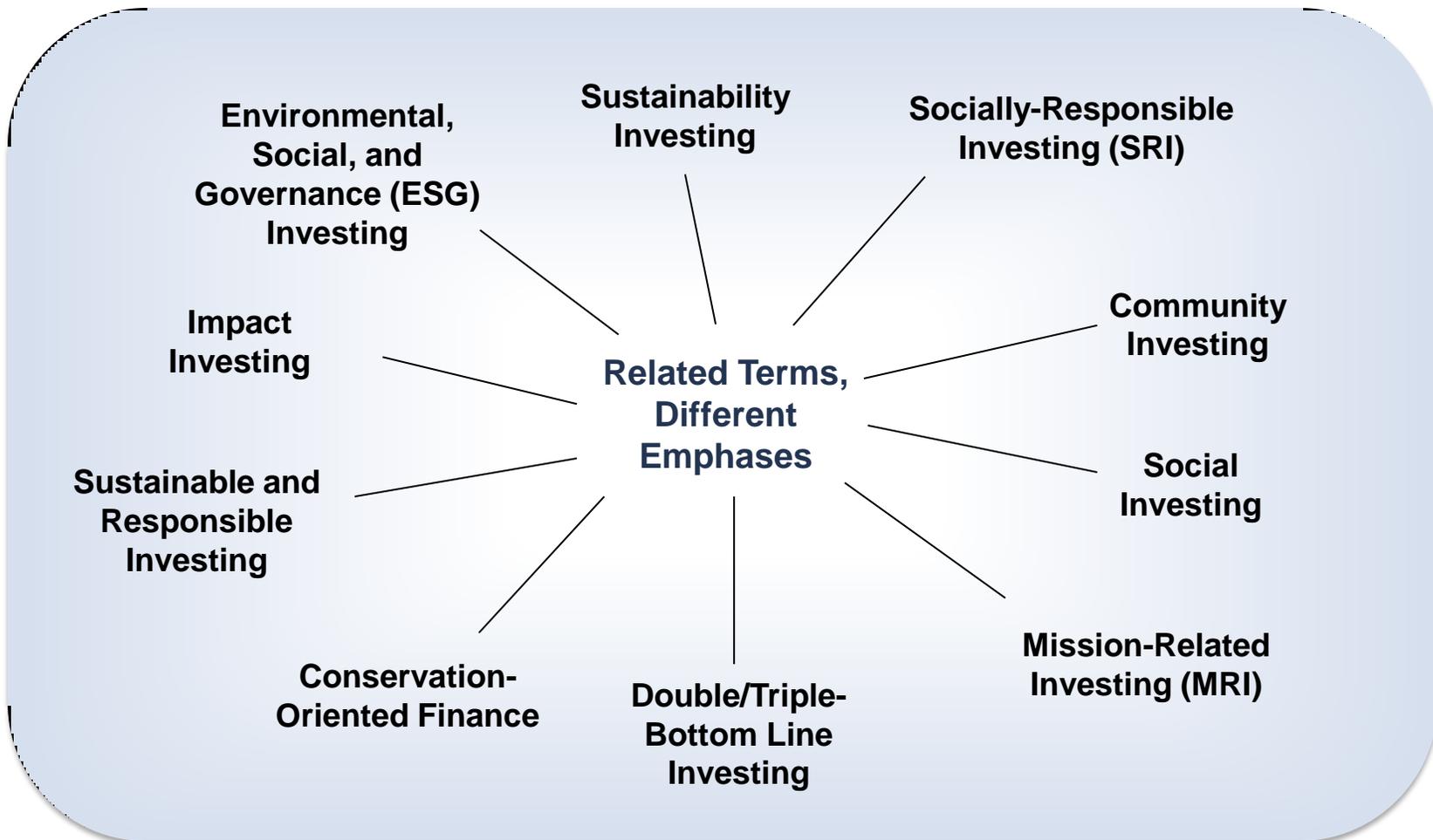
MRI Focus Complements Existing Consulting Services

Dedicated MRI practice includes 19 professionals across five global offices

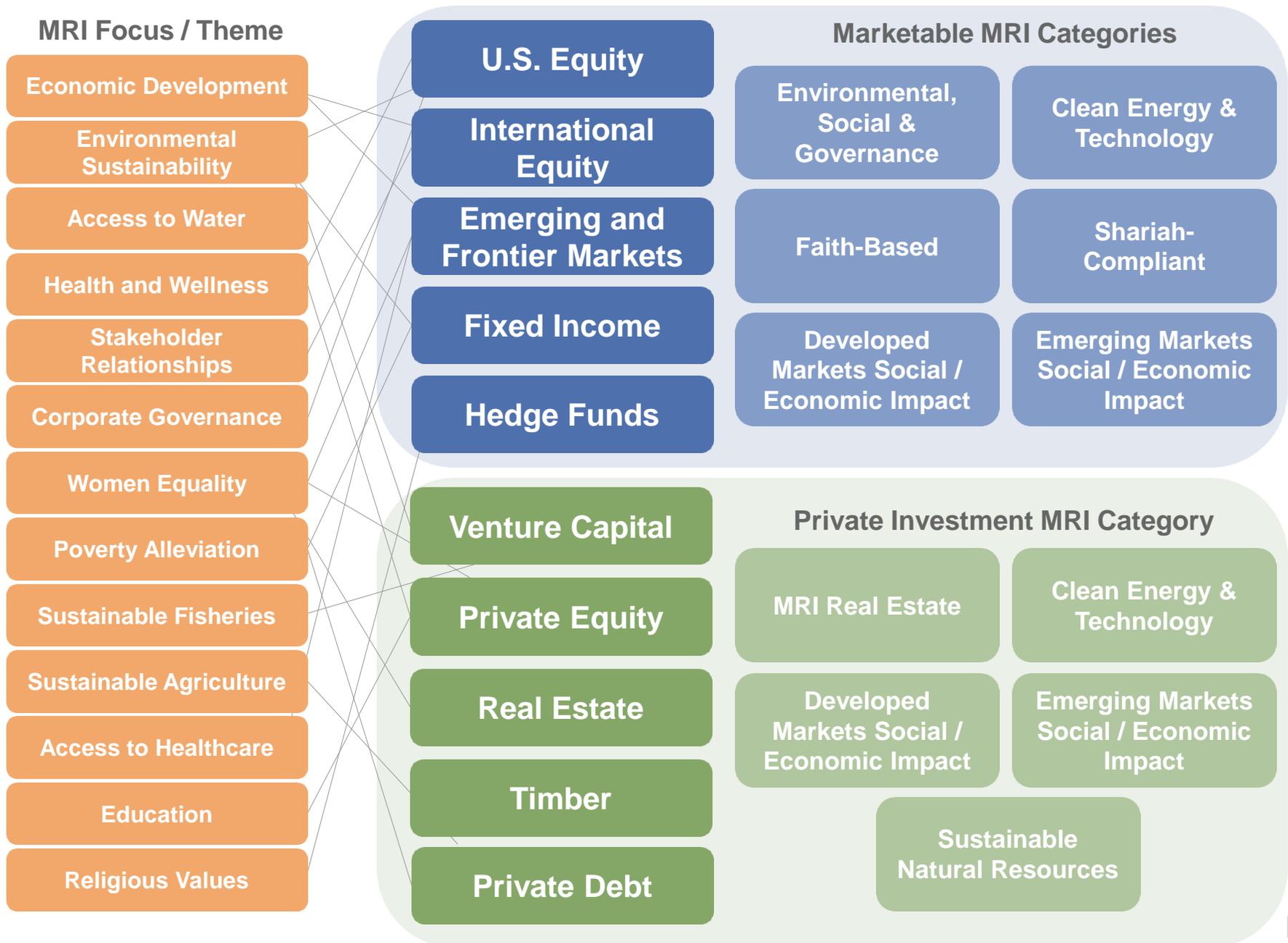
- ◆ Provide Mission-Related Investing Consulting Expertise
- ◆ Evaluate MRI managers
- ◆ Expand MRI manager database
- ◆ Increase institutional knowledge in areas of interest
- ◆ Demonstrate Thought Leadership
- ◆ Engage the MRI Field



- ◇ MRI generally refers to the incorporation of social and environmental considerations into the investment decision-making process
- ◇ Sustainability and conservation-oriented investments are a common theme among our MRI clients



MRI Manager Research – Across Asset Classes and Themes

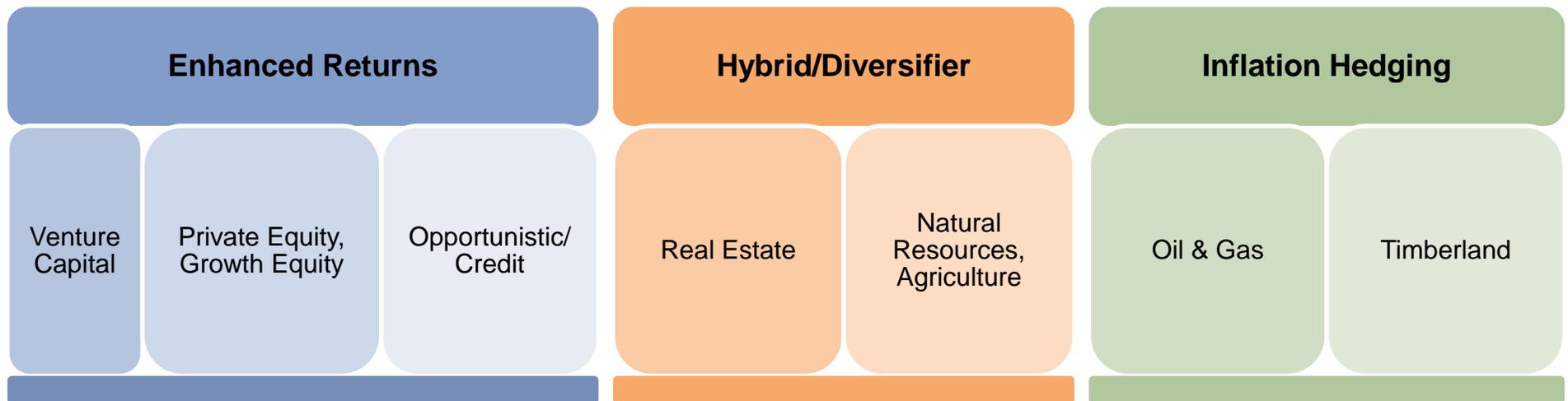


Understanding Asset Classes and Their Roles

Goal	Maximize Return at an Appropriate Level of Risk			
Role	Diversified Growth		Macroeconomic Risk Hedges	
	<p><u>Growth Engine</u> Support spending needs while maintaining corpus over long term</p>	<p><u>Diversifiers</u> Mitigate volatility while attempting to improve risk/return profile</p>	<p><u>Inflation Sensitive</u> Stable value or appreciation in rising inflation environment</p>	<p><u>Deflation Hedge</u> Stable value or appreciation in economic contraction (e.g., deflation) flight to quality</p>
Examples of Asset Classes	<p>Global public equities Long/short equity (long biased)</p> <p>Venture capital and buyouts</p> <p>Opportunistic and Value-Added</p> <p>Private hard assets</p> <p>Event arbitrage Credit</p>	<p>Long/short equity (less directional)</p> <p>Capital structure arbitrage</p> <p>Convertible arbitrage</p> <p>Global macro</p> <p>Active currency</p> <p>Event arbitrage Credit</p>	<p>Core private real estate</p> <p>Commodities</p> <p>Natural resources</p> <p>Inflation-linked bonds</p> <p>Gold Cash</p>	<p>High quality/intermediate long-term fixed income</p> <p>Gold Cash</p>

Within private investments, additional consideration should be given to different strategies for the exposure they provide:

Types of Private Investments

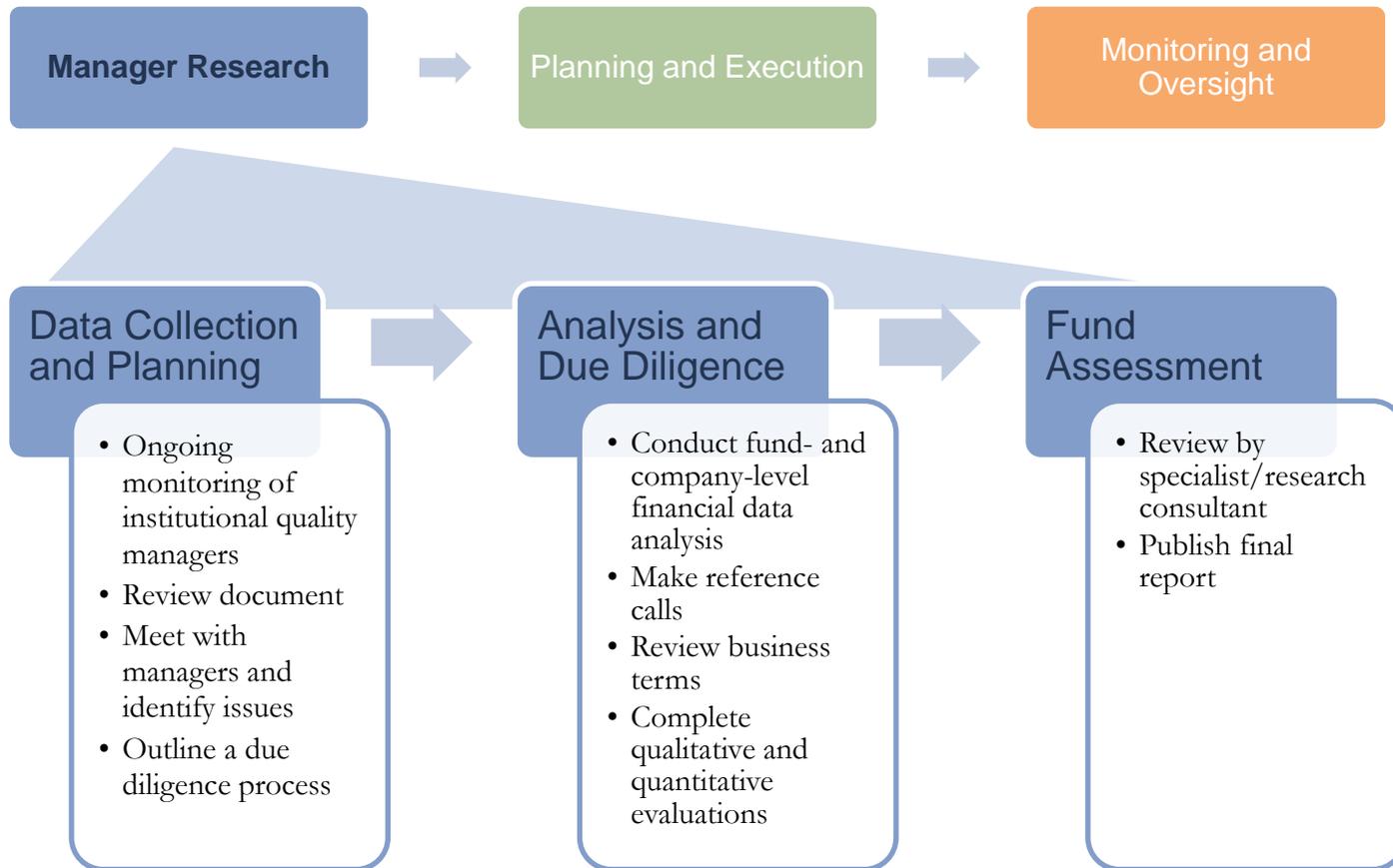


Investment	Investment Role	Expected Returns	Return Drivers ¹	Investment Risks ¹	Typical Terms
Timber	<ul style="list-style-type: none"> Inflation hedge Diversifier 	<ul style="list-style-type: none"> US: 8% to 10% Int'l: 10% to 15% 	<ul style="list-style-type: none"> Wood prices Biologic growth Land prices Conservation credits 	<ul style="list-style-type: none"> Production risk Market risk Liquidity risk Regulatory risk 	<ul style="list-style-type: none"> Fund Term: 10-20 years Fees: 1.0-1.5% Carried Interest: 15-20%
Water (Technology)	<ul style="list-style-type: none"> Growth driver 	<ul style="list-style-type: none"> 15% to 20%+ 	<ul style="list-style-type: none"> Sale of company or its securities 	<ul style="list-style-type: none"> Technology risk Adoption/scale risk Regulatory risk General business risk 	<ul style="list-style-type: none"> Fund Term: 10 years Fees: 2.0-2.5% Carried Interest: 20%
Green Infrastructure: Water, Waste, Energy	<ul style="list-style-type: none"> Diversifier Inflation hedge 	<ul style="list-style-type: none"> 12% to 20% 	<ul style="list-style-type: none"> Project cash flows Sale of assets Sale of RECs² 	<ul style="list-style-type: none"> Project financing Pricing Operational complexity Leverage Technology risk Regulatory risk 	<ul style="list-style-type: none"> Fund Term: 10-12 years Fees: 1.5-2.0% Carried Interest: 15-20%
Carbon & Ecosystem Credits	<ul style="list-style-type: none"> Diversifier 	<ul style="list-style-type: none"> 12% to 20%+ 	<ul style="list-style-type: none"> Sale of credits Land appreciation Conservation easements Other monetized ecosystem services 	<ul style="list-style-type: none"> Project implementation Pricing Macro economy/demand for credits Regulatory risk 	<ul style="list-style-type: none"> Fund Term: 10+ years Fees: 1.5-2.5% Carried Interest: 20-30%

¹ Varies depending on each specific opportunity

² Renewable Energy Credits

Refined and Tested Private Investments Research Process



Note: Given that we make customized recommendations to each client based on that client's individual investment goals, circumstances, and risk tolerances, consultants may rely on their own research in making recommendations, and may recommend investments that have not undergone the full due diligence process and may not be subject to ongoing monitoring.

Key Criteria for Manager/Product Due Diligence

To identify the most attractive managers and funds, we look for those with the following characteristics:

Organization	<ul style="list-style-type: none">• A viable organization with appropriate operations and compliance policies
Team	<ul style="list-style-type: none">• A strong investment team with relevant experience
Strategy	<ul style="list-style-type: none">• One that makes sense given the team's collective expertise & market opportunities
Process	<ul style="list-style-type: none">• Strong due diligence processes on both the financial side and social impact side of an opportunity
Terms	<ul style="list-style-type: none">• Reasonable fees and liquidity given the space and type of fund
Financial Performance	<ul style="list-style-type: none">• Financial return expectations that are in-line with the strategy
Impact Assessment	<ul style="list-style-type: none">• Identify the manager's targeted impact areas and screens• Evaluate the manager's ability to execute

These challenges apply to the MRI/Impact Investing opportunity set broadly, and are applicable to many of the conservation-oriented funds discussed here

◆ **Narrow opportunity set**

- ◆ As many organizations tend to have fairly focused missions, the range of potential investments that specifically address those missions is likely to be similarly narrow by asset class, geographic region, economic sector, vehicle type, etc.

◆ **Unproven strategies**

- ◆ Impact investments often address as-yet-unresolved social challenges, and thus may be more experimental in nature. Thus they are often relatively unproven, either with respect to the strategy's overall track record, the management team's experience in implementing it, or both.

◆ **Small and illiquid investments**

- ◆ Consistent with the nascent nature of the 'sectors' impact investors often target, many of these investments are relatively small in scale and illiquid in nature.

◆ **Added level of diligence**

- ◆ The combined 'social & financial' objectives of impact investments requires that the team responsible for overseeing these investments will need a multidisciplinary skill set.

In 2010, OPIC announced a Global Renewable Resources Funds Call for Proposals to help catalyze and facilitate private sector investments promoting renewable resources globally.

◆ Objectives

- ◆ Promote the global renewable energy and energy efficiency sectors, and promote sustainable utilization of natural resources such as water, land, and forests in emerging markets
- ◆ Identify funds focused primarily on achieving long term capital appreciation through investments in renewable energy, resource efficiency and preservation of scarce natural resources

◆ Process

- ◆ Market analysis and identification of qualified emerging market private equity managers
- ◆ Development of a comprehensive candidate questionnaire and request for proposal
- ◆ Establishment of the key criteria to be used for fund manager evaluation.
- ◆ Comprehensive due diligence on the finalist candidates and preparation of a written recommendation to OPIC on each finalist candidate

◆ Outcome

- ◆ 56 managers submitted substantive proposals to the Call
- ◆ OPIC approved five renewables resources funds to receive OPIC financing totaling \$500mm