

BENCHMARK

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Private Capital, Ecosystems Service Markets and the Chesapeake Bay

Evolving Investment Strategies for Restoring the Chesapeake Bay

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Goal of the presentation is to ...

- **Introduce** how current needs for Restoring the Chesapeake can be helped with Private Investment Capital and the use of Ecosystem Service Markets.
- **Define** Ecosystem Service Markets (ESM's) as it applies to creating revenue sources from the land for investors and landowners.
- **Identify** existing and emerging projects that use ESM's combined with other revenue to positively benefit the Bay's environment and economy.
- **Describe** Private Capital fund structures that can bring large amounts of money to bear on these important projects.

Time for Action – The Opportunity is NOW!

- What ...
 - ✓ Creating Private Capital Investments in working lands of the Chesapeake Bay region in order to improve the environment, community ***and*** economy.
 - ✓ Building on “lessons learned” (i.e., MicroFinance, Community Development)
 - ✓ Adding a new investment return strategy – ***ESM’s***

- Why ...
 - ✓ Climate Change Accelerating – Globally and Regionally
 - ✓ Financial Crisis has severely restricted traditional funding sources
 - ✓ New environmental initiatives need new funding – ***Private Capital.***

- How ...
 - ✓ Creating Private Capital Pools of Funds invest in...
 - ✓ Projects using ***ESM’s*** to effect change and provide investment returns.

Underlying Asset of All Restoration Efforts – *Land*

- Purifies and filters our water,
- Provides living space for all creatures,
- Creates economy through agriculture and natural resources,
- Rejuvenates the biosphere.

“When we see land as a community to which we belong, we may begin to use it with love and respect.” ~Aldo Leopold, *A Sand County Almanac*

What Needs to be Done NOW...

- Need for a coordinated effort by:
 - Private Capital
 - Land Owners
 - Government

- Capital needed for projects that:
 - Enhance and support the lands restorative capabilities
 - Create sustainable economic and environmental models
 - Provides on-going livelihood for land owners

Traditional funding sources of Government Subsidies and Charitable Donations no longer enough – ***Need Significant Private Capital!***

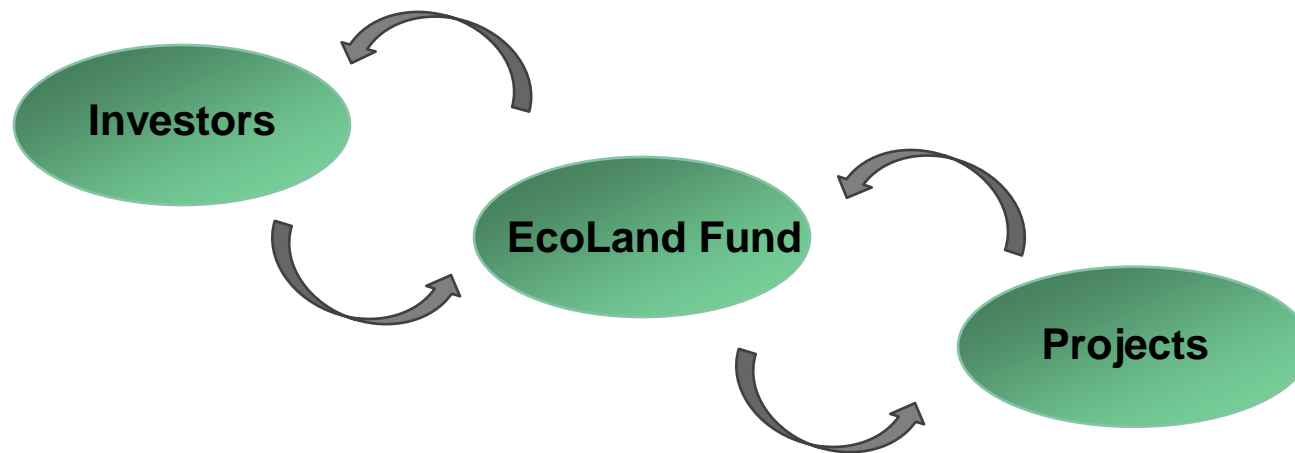
Why Now?



What needs to be done?..

Private Working Lands must be effectively restored and restructured to fit the environment,
Private Enterprise that supports this need must have access to investment capital,
Private Capital must be brought to bear in a scale larger than done before.

A Sustainable Cycle to Maximize Impact



Investors: A well-diversified, risk-managed portfolio with market returns & strong environmental impact.

Projects: Expansion of capital to accelerate projects that support Chesapeake region's environmental and economic needs.

Ecosystem Service Markets

Providing the Additional Investment Return

Definition

Ecosystem Service Markets (ESM's) is a concept of applying monetary value to environmental resources that can be traded and sold. This transforms them from economic liabilities into assets and, therefore, converts them into tangible value.

Examples of ESM's include

- Water Quality Credits
- Wetland Mitigation
- Carbon Sequestering

Value is assigned through voluntary and regulatory markets.

By Using Ecosystem Service Markets...

- Additional, sustainable revenues based on sustainable land use are now realized.
- Environmentally friendly land use can compete financially with traditional land use not in sync with the local environment's needs.
- Capital Markets can effectively price these additional values into the worth of the land that is using sustainable land practices.

Therefore, the true value of land being used in a manner that fits the region's environment and adds value to the local economy is realized.

Public Policy is key to unlocking ESM's and the related Private Capital.

- *Creation of Market Regulation* – Allows certainty, and definition for investors, land owners and capital markets,
- *Regulating Market* – Government must police the market to ensure that no party is “gaming” or abusing the system,
- *Target Public Subsidies* – By coordinating public subsidies in related efforts (i.e., Farm Bill support payments) impact can be enhanced,
- *Reduce Risk by Guarantees* – In addition, government agencies can offer guarantees and risk mitigation strategies allowing private investors added confidence in the emerging ESM's.

By coordinating and combining the power of policy and public funding, the type and amount of private capital available is greatly expanded.

Projects

Existing...

to

Emerging...

Private Equity

➤ A private equity investment in a sustainable forest land fund providing FSC timber and carbon sequestering.

Business Loans

➤ Loan to “Land Bank” purchasing working farm and forest lands, remediating the land to fit the Bay environmental needs and then selling to new farmer at a market discount.

Bridge Loans

➤ A bridge loan facility for financing the remediation of wetlands, brownfields, and other lands due to development and/or infrastructure building.

Debt Guarantee

➤ A debt guarantee facility that provides “back stop” for the issuance of tax exempts bond for sustainable land practices without having the State government being obligated in any way.

These are just examples. Many new opportunities are emerging and need capital!

Current Projects based on Private Equity

- **Forest Land Private Funds** – Using sustainable timbering management and fees from carbon sequestering to provide market returns.
- **Large EcoLand Development** – Equity investors purchase large tracts of land with potential ESM’s revenues augmenting traditional revenue sources of timber, farming and eco-tourism.
- **Wetland Mitigation Banks** – Mitigating wetlands financed by private investors who receive a return through future sells of credits.
- **Volunteer Carbon Funds** – Investors purchase carbon credits at “volunteer” price hoping to profit when regulated markets emerge.

Emerging Projects based on Debt Financing

- **Bridge Financing for Remediation Projects** – As the markets mature and become more certain future payments become more certain and debt financing becomes available.
- **Debt Pools for Large EcoLand/Sustainable Ag Development** – With more potential ESM's revenue land projects can use debt to finance transactions with repayment from these new sources (i.e, water quality or carbon credits).
- **Debt Guarantee Funds** – Pools of capital invested in short term debt can act as bond guarantee funds allowing the leveraging of capital for projects with repayment coming from many sources including ESM's.

Certainty brings new, lower cost capital – debt.

The inflow of investment transform the region...

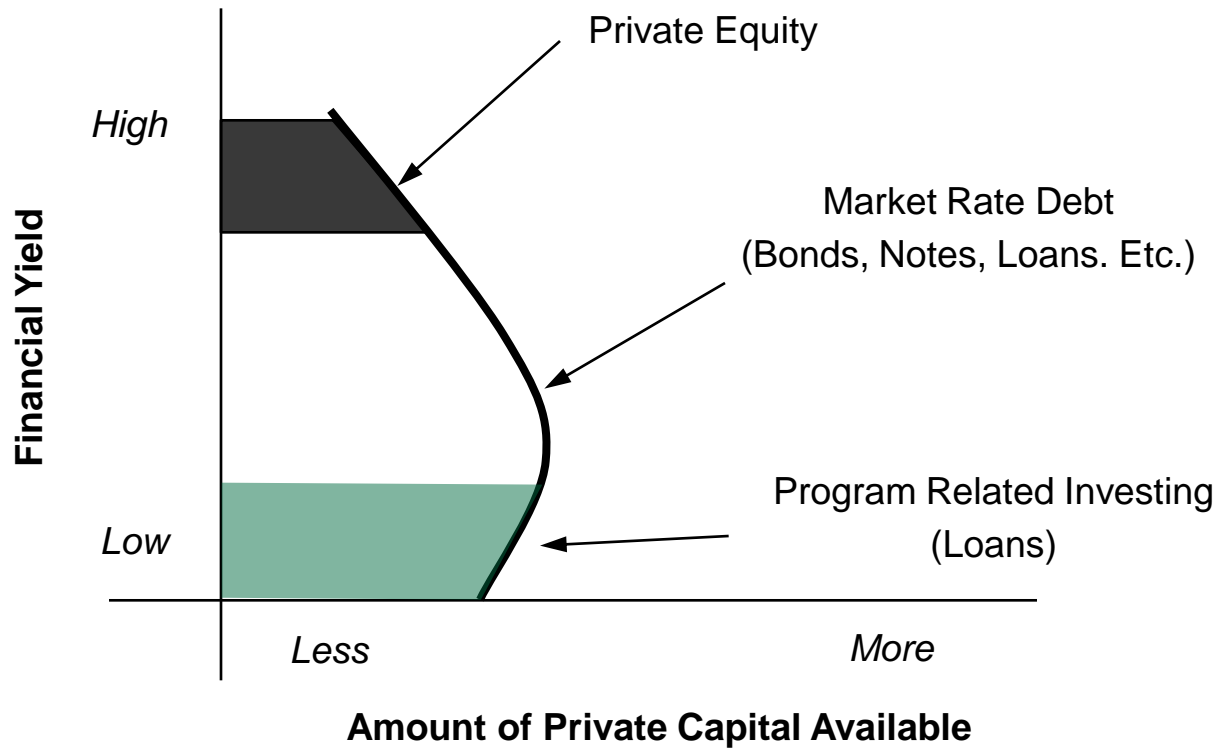
- **Eco Markets & Exchanges** develop providing places to buy/sell ESM values derived from the land at regional level and nationally.
- **Regional “EcoBanks”** emerge providing financing for many sustainable and environmental friendly projects based on the growing revenue value of ESM’s.
- **Large EcoLand Developers** make use of more potential ESM’s revenue to finance land projects that combine farmland, conservation and smart growth ecodevelopment and tourism.
- **Sustainable Agricultural and Aquaculture Businesses** grow and become financially viable due to being paid as stewards of the land and water as opposed to just resource harvesters.

Private Capital Funds

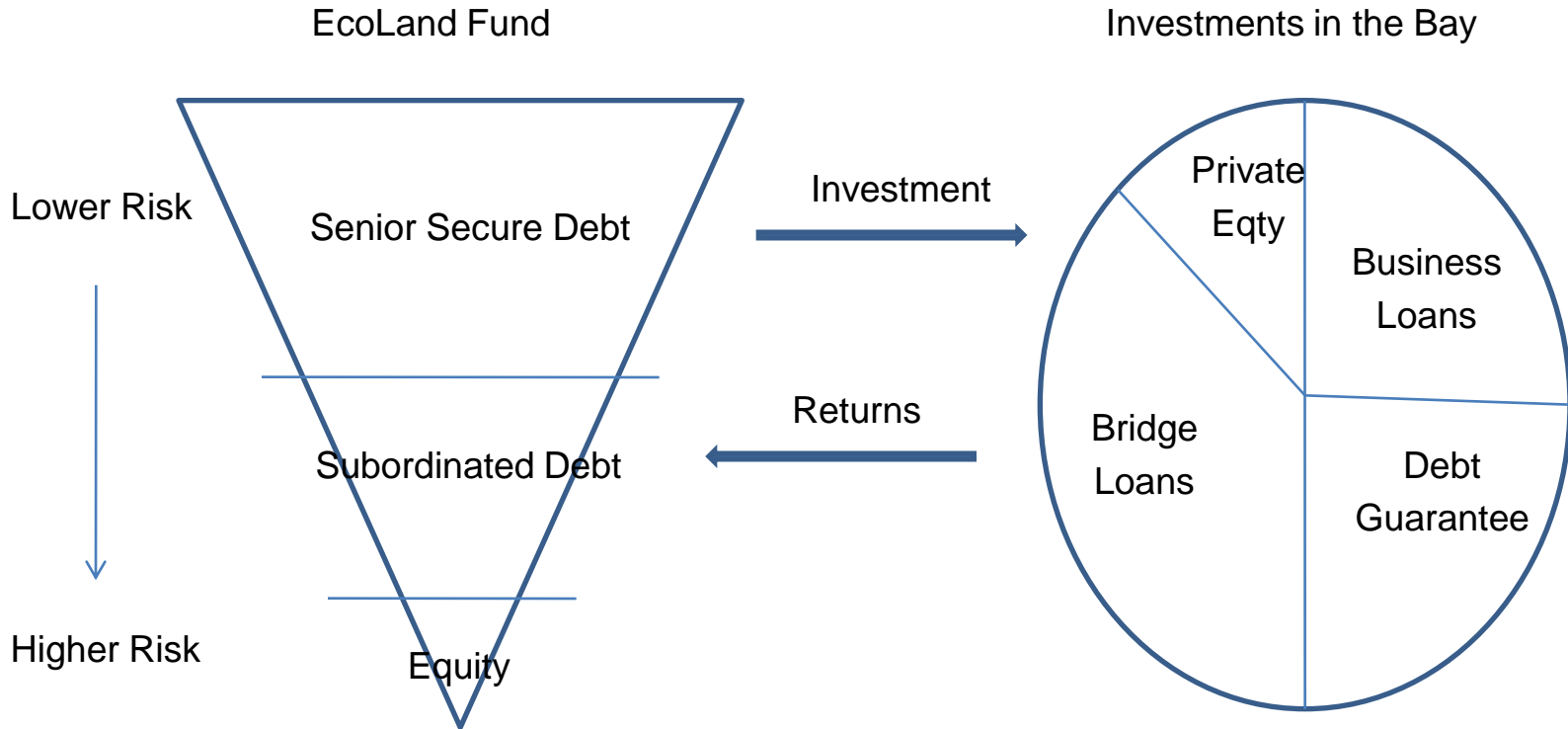
Build on the “lessons learned” ...

- Establish capital-markets based paradigms for:
 - ✓ Social & Environmental Impact
 - ✓ Diversification
 - ✓ Risk Management
 - ✓ Financial Returns
- Copy prior successful investment models (poverty alleviation, community development, etc.) for sustainable, market-based solutions
- Fund capital-constrained land owners in order to support land preservation, sustainable ag, and other related “green” initiatives
- Measure & evaluate social & financial impact to create a positive feedback loop creating replicable model.

Different Type of Capital



Build on Existing & Proven Capital Models...



Benefits at All Levels...

Investor

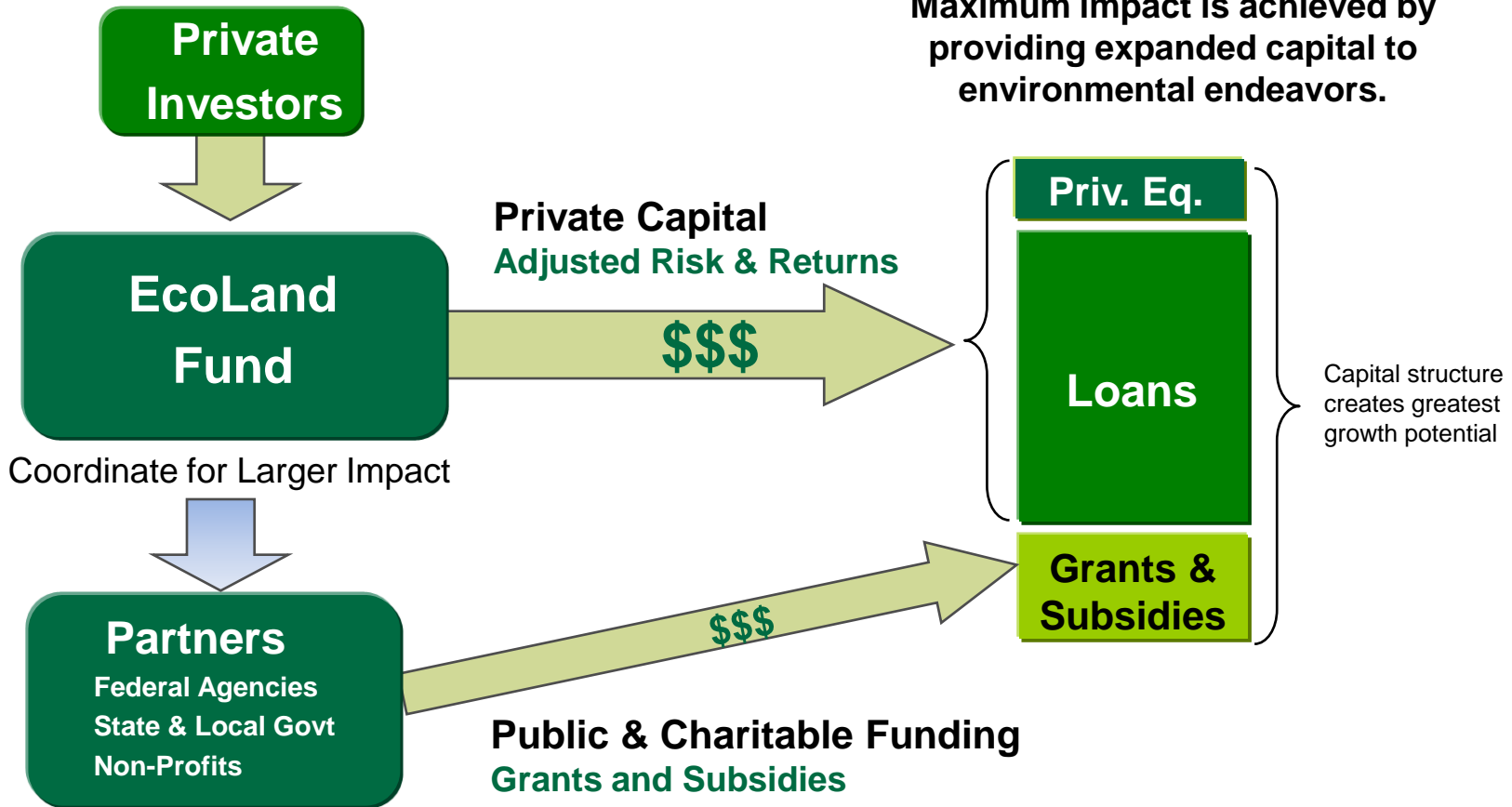
- Use of capital markets for sustainable development
- Includes ESM's revenue to create market returns
- Tiered risk-return options attract more potential investors
- Has scale for diversification & risk management
- Leverages public dollars and guarantees by govt. agencies

Project

- Provide capital for projects run by regional experts with intense "On the Ground" expertise in monitoring & project management
- Formalized credit processes
- Rigorous financial standards

More Capital = More Growth = More Impact

Maximum impact is achieved by providing expanded capital to environmental endeavors.



“Belt, Suspenders, 2nd Belt & 2nd Suspenders”

- Fund Manager
 - ✓ Fund Manager established track record and installed infrastructure
 - ✓ Specific focus on sustainability
 - ✓ Specific focus on risk management

- Individual Project/Program Managers (“investees”)
 - ✓ Sector experts with regional “on the ground” expertise
 - ✓ Sector expertise in specific sectors and deal types

- Investment Committee
 - ✓ Formal processes established
 - ✓ Investment & sector professionals with specific eco expertise

- Board of Advisors
 - ✓ Operational guidance provided to investees where & as needed
 - ✓ Methodology focused on best-practices that deliver both financial return and measurable environmental impact results

Summary

The Chesapeake Bay region can be restored...

- **Ecosystem Service Markets** create new financing opportunities for projects focused on land conservation and sustainable agricultural.
- **Coordinated Public Policy** makes for greater & consistent impact.
- **Private Capital** flows to projects providing market rate returns for all types of capital (debt and equity).
- **Region Economies** including rural areas and agricultural grow and benefit from renewed investment and projects

The Chesapeake Bay Region transformed!

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