REPORT TO
THE U.S. ENDOWMENT FOR FORESTRY AND COMMUNITIES

August 2015

Executive Summary

In 2009, The U.S. Endowment for Forestry and Communities (Endowment) challenged The Conservation Fund (TCF) to explore the feasibility of utilizing crowdfunding to fund small-scale forest products companies. Through Kiva (www.kiva.org), thousands of small philanthropists were funding millions of dollars in loans to microentrepreneurs in the developing world -- Asia, Africa and Latin America. Could the tools of crowdfunding be harnessed to enable individuals to provide financing to small biomass firms and other entrepreneurs in the forest products sector? And, could this be done in the form of lending (not grants)?

In 2009, crowdfunding was a promising novelty—an innovative approach to democratizing financing for enterprises and projects. Adapting Kiva's groundbreaking approach, websites like IndieGoGo and Kickstarter began to generate funding for creative projects and start-up enterprises in the U.S. All had one thing in common – using an internet platform to aggregate small contributions that could be bundled to provide relatively small amounts of financing (from $100 to $50,000).

The forest products industry in 2009 was reeling from the Great Recession, which added considerable stress to an already beleaguered industry. Simultaneously, the market for lumber and traditional forest products declined precipitously as new housing starts plummeted and financing for small businesses dried up as banks scrambled to reduce their exposure to losses in home lending and business lending. The greater economy weakened and unemployment soared.

The goal of the Endowment's grant to TCF was to create an internet-based crowdfunding mechanism to provide financing for small-scale forest products entrepreneurs. TCF, founded in 1985, has a 20 + year history of using innovative financing strategies to support land and water conservation *and* economic development in communities blessed with these resources. In 2001, TCF launched the Natural Capital Investment Fund (NCIF) to provide financing to natural resource-based companies that supported this overall objective, and NCIF had made a number of loans to forest products companies – sawmills, molding and veneer companies and logging contractors. TCF was a logical choice to pursue this challenge.

Ultimately, TCF and the Endowment determined that the crowdfunding model (ShadeFund in this case) was not feasible as a funding mechanism for small, domestic forest products companies, for a number of reasons:

- Successful crowdfunding sites are deceptively complex to build, challenging to maintain, and expensive to operate. Successful crowdfunding sites require constant subsidy and resources well beyond the generous multi-year grant provided by the Endowment.
- Successful crowdfunding for an enterprise typically requires an entrepreneur who: has ready access to the internet and is savvy about the use of social media; has significant time to run a social media campaign; has an *existing* circle of friends, family and community who can serve as the core of the fundraising effort; and has a business that appeals to the charitable instincts of a potential

donor. Unfortunately, these are not characteristics that forest products entrepreneurs typically possess. They often work in rural communities where internet access can be spotty and community and family resources can be limited. Busy running their businesses, they lack time to devote to social media efforts. Furthermore, their enterprises may lack charitable appeal; an innovative use of biomass does not tug on heartstrings in the same way as the stories of a developing world entrepreneur or an under-resourced filmmaker with a fascinating story to tell.

Coupled with a weak economy, these factors led TCF to pivot its strategy in a few key ways. Here are the challenges we faced and how we sought to address them:

1. <u>Lending nationwide with a small (2 full-time-equivalents) staff limited our ability to market ShadeFund (SF), made thorough due diligence expensive, and increased the risk of losses.</u>
    - *Solution:* We sought out organizations with expertise in the forest products and sustainable agriculture sectors (but no financing arm) to become SF Field Partners. In return for their help marketing SF to their networks, SF created a page on its website devoted to the Field Partner's work. By 2012, SF had created a network of 30 + Field Partners, ranging from the Farmer Veteran Coalition to the Vermont Council on Rural Development, and from Dovetail Partners to the Forest Business Network.
    - *Solution:* Wherever possible we partnered with local banks and community lenders to share financing (and risk) in close proximity to the borrowers.
    - *Solution:* SF limited its maximum loan amount to $50,000. While this necessarily limited the scale of enterprises SF could finance, it reduced the risk inherent in lending.

2. <u>Companies balked at the challenge of raising the funds for their own loan.</u>
    - *Solution:* We moved away from soliciting individual contributions through the website and focused instead on attracting corporate and foundation contributors interested in SF's "green" hue.

3. <u>Small business growth during the Great Recession was limited.</u>
    - *Solution:* We expanded SF's sector focus to include small scale agricultural enterprises, which, like small forest products companies, were essential to the health of rural communities. The explosion of the local foods movement across the country resulted in more "deal flow" for SF.

In 2012, TCF transferred SF's assets and operations to its green business lending subsidiary, Natural Capital Investment Fund (NCIF). This had several positive implications.

- SF's pool of capital expanded significantly, as it was able to make use of NCIF capital available for lending to the types of enterprises in which SF specialized.
- SF's lending team expanded from 2 to 6, with NCIF's team of lenders able to market SF to potential businesses across its 9 state Central Appalachian and Southeastern U.S. geography.

- SF is able to take advantage of NCIF's knowledge and experience in environmental and mission-related lending and its loan processing and monitoring infrastructure.
- SF serves as NCIF's lending arm outside of its 9 state geography, where the practice of partnering with other lenders to reduce risk and share due diligence continues. SF provides a way, albeit limited, for NCIF to share its expertise in natural resource-based lending with other community lenders.

We've learned over time that SF's "secret sauce" is its ability to provide businesses marketing and social media exposure through their unique page on the SF website. For consumer-facing businesses, these services can be essential to business success, but they are expensive. SF can give small businesses access to "big company" marketing services.

Ultimately, the Endowment's investment in SF leveraged $1.43 M in loan capital not from individuals, but from institutional funders: corporate partners (e.g., Mercedes-Benz USA), foundations (e.g., ACE Charitable Foundation and the Ford Foundation), and government agencies (e.g., Appalachian Regional Commission). Equally as important, SF's $1.43 M in loans leveraged *another* $1.37 M in funding from other lenders, for a total of $2.8 M leveraged by the Endowment's $1 M investment over a five year period (2009-2014). SF continues to operate, so this leverage will continue to grow.

Perhaps most importantly, every one of SF's borrowers has repaid its loan or is current on repayment. They have created new jobs and generated tax revenues in forest-dependent communities, and the economic "multiplier" effect means their overall impact is even greater.

ShadeFund Lending Overview

ShadeFund began lending in 2011, while the nation was still in the throes of the Great Recession (unemployment stood at 9.0% when SF made its first loan to CityBench, a Connecticut-based company creating one-of-a-kind furniture from urban trees that must be removed.) As the chart below indicates, SF's loan volume remained modest, growing from 4 in 2011 to 8 in 2014. Overall, as of 12/31/14, SF has lent $1.43 M to 27 businesses, and leveraged another $1.32 M. This $2.75 million of lending is admittedly a drop in the bucket when it comes to small business lending levels, but it's important not to underestimate the impact loans to core industries in forest and agriculture dependent small communities can generate.

SF loans helped small businesses and farms accomplish a wide range of tasks essential to business growth: buy and repair equipment, stock inventory, purchase seed and inputs for the upcoming agricultural year, add staff to explore new product lines, and fulfill purchase orders. In the case of New Beat Farm, a fledgling Maine organic farm, SF played a key role as a source of bridge financing for a reimbursable cost share grant from the U.S. Department of Agriculture's Natural Resources Conservation Service. New Beat Farm's owners lacked the upfront cash they needed to erect their hoophouse; SF's small loan provided the capital. The loan was repaid through the NRCS grant. See Exhibit 1 for a list of SF loans.

ShadeFund loan history (2011 - 2014)

Period (# of loans)	Total Loans	Avg loan size	Avg term	Weighted avg int rate	Leverage	$ Leverage per $1 ShadeFund
2011 - 2014 Total (27)	**$ 1,430,678**	**$ 52,988.07**	**5.1**	**5.34%**	$ 1,320,627	0.92
Period (# of loans)	**Total Loans**	**Avg loan size**	**Total loan amount increase**	**Avg loan amount increase**	**Leverage**	**$ Leverage per $1 ShadeFund**
2011 (4)	$ 61,500	$ 15,375	N/A	N/A	$ 17,000	0.28
2012 (6)	$ 119,200	$ 19,867	94%	29%	$ 199,752	1.68
2013 (9)	$ 332,000	$ 36,889	179%	86%	$ 306,000	0.92
2014 (8)	$ 917,978	$ 114,747	176%	211%	$ 647,875	0.71
Sector (# of loans)	**Total Loans**	**Avg loan size**	**% of total SF loans**		**Leverage**	**$ Leverage per $1 ShadeFund**
Forest Products (14)	$ 973,700	$ 69,550	68%		$ 1,280,752	1.32
Agriculture (13)	$ 456,978	$ 35,152	32%		$ 39,875	0.09

Forest products loans constitute 68% of the total lent, and the average SF forest products loan is $70K, twice as large as the average agriculture loan. SF forest products loans also have leveraged significantly higher financing from other sources ($1.32 vs $.09 for each $1 of SF financing) than loans to agricultural enterprises. Forest products companies tend to be capital intensive, which makes access to financing all the more important for young companies.

In 2014, the integration with NCIF equipped SF with additional staff and loan capital, and the average loan size and total loans deployed increased significantly, 176% and 211%

respectively. Approximately $857K of NCIF capital was used in 2013 - 2014 for SF loans, supplementing the $430K that was raised for SF loan capital prior to its transfer from TCF to NCIF in early 2013. A total of $143K in repaid loans has also been relent. This ability to tap into more capital was one of the primary objectives in transferring SF from TCF to NCIF.

SF continued to partner with other sources of financing for forest products transactions, a strategy essential to mitigating risk in a risky sector. For example, SF partnered 50/50 with Mountain Association for Community Economic Development (MACED), NCIF's sister Community Development Financial Institution (CDFI) based in Berea, KY, to fund the $750,000 restart of Heritage Millworks in KY. Partnership is also useful for building local commitment to projects. SF participated with the Endowment and local forest products and trucking companies in funding fuel depots for South Carolina timber harvesting firms. In 2014, SF made 3 logging related loans, including loans to SC and NC logging contractors, and a 2nd investment in the expansion of the Southern Loggers Cooperative's fuel depot network.

SF's website and social media resources continued to provide social media and marketing assistance to borrowing companies. SF's publicity about the launch of the Coleman Brothers operation (see article attached) was picked up by several print and digital news services. The aging of the logging workforce is a concern for the forest products industry generally, so the fact that Will and Wesley Coleman are both in their mid-twenties is noteworthy. The website SF developed for Swift Level Land and Cattle (see Exhibit 4) is a good example of the marketing assistance that SF, with its social media capabilities, is well-positioned to provide. The SF website is where NCIF will continue to highlight its forest products and agricultural transactions.

1. Marketing and Deal Flow

In addition to the marketing assistance that SF provides to its borrowers, the website serves as an important tool for reaching out to prospective clients. In 2014:

- **Deal Flow**: The SF website continued to be an effective outreach tool nationally, though on-line inquiries still tend to be agricultural start-ups and not as "credit-ready" as referrals we receive from Field Partners, the network of forestry-, agricultural-, and rural development-oriented organizations that assist in marketing SF nationally. We received 87 "Apply for a Loan" on-line inquiries through the SF website in 2014 versus 76 in 2013.

- **Website**: New visitors to the SF website grew slightly, while overall page views decreased:
  a. 6,115 new visitors to the SF website (a 9% increase from 2013).
  b. 14,248 page (FY14) views versus 19,883 (FY13).

- **Social Media**: Following overall trends in the digital world, our social media tools took on increased importance.
  a. Facebook subscribers (“Page Likes”) increased to 2,320.
  b. 39,807 unique visitors ("Page Reach").
  c. Increased Twitter subscribers (“Followers”) to 709.
  d. 21,177 impressions (i.e. views), with 520 engagements (e.g. retweets and replies).

- **Outreach/Presentations**: “Old fashioned” in-person outreach by our staff in 2014 was also an important source of deal flow. We concentrated this outreach in NCIF’s core geography. We attended, presented or exhibited at:

  Forestry:
  Ohio Forestry Association (OFA) Paul Bunyan Show; OFA Annual Meeting; Forest Resources Association (FRA) annual meeting (Parkersburg, OH) ; FRA Southeast Region Policy Committee (Myrtle Beach, SC); NC Forestry Association Annual Meeting (Greensboro, NC); NC Association of Professional Loggers (Myrtle Beach, SC); SC Timber Producers Association (Myrtle Beach, SC); WV Logging Industry Listening Session.

  Agriculture:
  Carolina Farm Stewardship Association –Sustainable Ag Conference; Small Farms Conference, NC A&T; High Tunnel Field Day, NC A&T; Food Hub-Connecting Markets and Communities (Mt Olive and Boone, NC); Food Hub Financing Workshop (Winston-Salem, NC); Ohio Ecological Food and Farm Association; Ohio Bioproducts Innovation Center; Value Chain Cluster Initiative, WV Small Farms Conference (and a dozen additional presentations around WV).

2. Line item expenditures

Expenditures for SF in 2014 were $205,060. See Financial Report in Exhibit 2.

3. Summary of learning from the entire project

In 2009, crowdfunding was a new and relatively untested way of providing financing for small enterprises and projects. It is no secret that lending to natural resource-based companies is challenging. This was especially true at that time, as the U.S. economy was reeling from the Great Recession and the housing sector, a key driver for the forest products industry, was at a virtual standstill.

With the Endowment’s generous support and partnership, The Conservation Fund set out to create a vehicle designed to answer the questions: Could the tools of crowdfunding be harnessed to provide financing to the forest products sector? And, could this be done in the form of lending (not grants)?

The effort has been challenging on both fronts. Crowdfunding is an enormously expensive and labor-intensive model (despite its digital platform) for fundraising. Deep-pocketed philanthropy or significant equity investments are needed in order to create and subsidize the complicated on-line infrastructure and marketing necessary to create visibility for the site and the enterprises being funded. Even the most successful sites, such as Kiva and

Kickstarter, continue to rely heavily on subsidy in the form of "patient" capital (philanthropy and venture capital).

U.S. securities laws make it all but impossible for a site to earn a return on a crowd-funded project, which makes self-sufficiency for a site problematic (if not impossible). It remains to be seen whether the recent (Spring 2015) completion of the regulations for raising true equity for enterprises through crowdfunding platforms, as authorized by the Jobs For America Act, will make this easier.

And, natural resource-based businesses (especially those that aren't established enough for traditional funding sources) are (still!) risky and hard to finance, even as the forest products sector has been recovering from the 2008 crash.

a. **Crowd funding for natural resource entrepreneurship** proved difficult for a number of reasons, including the following:

   i. It is difficult to create a positive emotional or personal connection between forest products industry entrepreneurs and would-be crowdfunders. While the end products of the industry (paper, furniture, etc.) are familiar, useful and often elegant, the process of cutting down and processing trees is opaque and often unpopular.

   ii. Many of the companies SF sought to finance are not consumer facing, and don't necessarily want to be seen in fundraising mode. Business-to-business (B-to-B) companies don't want to be seen crowd funding because it connotes they are not adequately capitalized and therefore not reliable.

   iii. Kiva founder Jessica Jackley shared with us that the 80/20 rule prevails in crowdfunding, just as it does in many settings: 80% of the funding for a project comes from 20% of the funders. In other words, the majority of the funding must still come from a relatively small number of individuals. So, successful crowdfunding for businesses works best when an entrepreneur has an inner circle of internet savvy friends (the 20%). Forest products entrepreneurs working in economically challenged rural communities tend not to fall into this category.

   iv. Crowdfunding takes a significant time commitment on the part of the entrepreneur. It is hard for existing businesses (which are better candidates for debt financing because they have cash flow and some track record) to take the time to market a crowdfunding campaign, since they are operating full time and not just fundraising. Finally, individuals who are farmers and forest products entrepreneurs often have chosen those sectors primarily because they don't want to be involved in marketing, which is essential to successful crowdfunding.

   v. Natural resource-dependent rural communities often lack access to reliable internet service, making an internet-dependent fundraising strategy and internet-based marketing problematic.

b. Elements of success in lending to natural resource entrepreneurs

Faced with the challenges enumerated above, we decided to restructure SF as a revolving loan fund that could leverage the experience of Natural Capital Investment Fund, which has been making loans to natural resource based businesses since 2001. The following are the lessons we've learned through the process of lending to forest products and agricultural entrepreneurs in fourteen states:

i. **One-on-one connection is key.** Natural resource entrepreneurs value lenders who are in close proximity to their company, and lenders who are close to their clients are better able to understand their business model and assess cash flow strength. When SF has worked with borrowers from a distance, we've had the best luck when partnering with a local financing source (e.g., NRCS with New Beat Farm in Maine and the Upper Arkansas Area Development Corporation with Rogue Resources in Colorado) that has a vested interest in the success of the entrepreneur.

ii. **Technical assistance is critical.** Businesses can always, regardless of stage, benefit from professional and targeted help on a wide range of business aspects, especially in financial management, marketing, and product development. SF assistance with marketing and technology has been very helpful for some companies, particularly those with value- added products (e.g., Sustainable Lumber Co.) and those just starting out (e.g., Coleman Brothers). NRCS connections with farmers (e.g., Roger Outlaw and Babe & Sage) have been essential in helping those farmers build business savvy.

iii. SF's goal has been to extend access to capital to companies that are not "bankable." To do this successfully, **lenders must be comfortable with the following risks and mitigants:**

Risk: Less than optimal collateral coverage. Natural resource based companies (particularly those in the forest products sector) are capital intensive. But often, equipment is old and significantly depreciated, and land is not always available for security.

Mitigant: Company cash flows must be adequate to repay the loan, so understanding the reliability of cash flows and the entrepreneur's marketing skills is vital. Ryan Palma, the President of Sustainable Lumber Company, had demonstrated the ability to generate sales from a range of customers, who continued to purchase from the company.

Risk: Short track records. Innovative models are by definition young, so frequently we haven't been able to rely on a business' long history of success.

Mitigant: Require some commercial production or history of managing a previously successful business. When we were considering a loan to the start-up Sexton Forest Products, it was reassuring that Cliff Sexton (pictured at right) had managed a successful logging company before.

Risk: Wide range of historical financial performance, business acumen, and credit. Natural resource businesses are very sensitive to macroeconomic trends and weather, which can make revenues "spiky" and leave even good business owners with spotty credit histories.

> *Mitigant:* First, the discipline to use sensitivity and breakeven analysis that takes a gloomy "what if" view of future performance is important. Distinguishing between a successful employee and a successful business owner is critical; we've turned down any number of loans to farmers or loggers who are very knowledgeable about running *a tractor*, but not about how to run a *profitable farm or logging business.*

Risk: Family businesses. Natural resource based companies are frequently characterized by non-professional staffing, management, procedures, and accounting. It can often be difficult to separate business financials from personal ones.

> *Mitigant:* Require that someone with the proper professional skills be dedicated to keeping books on a regular basis. Companies that only rely on an accountant to generate tax returns tend to have a poor handle on their costs.

Risk: These sectors require special knowledge to assess and underwrite successfully.

> *Mitigant:* We have created an agricultural loan committee with members steeped in the financial realities of farming. We rely on advisors with extensive forest products expertise to help us assess companies in the logging sector.

c. Advancing logging businesses through lending and technical support

SF's strategy in serving the logging industry has been to focus on "A-/B+" loggers, those with good operational practices in the woods and industry connections, but without the financial strength to easily obtain credit for equipment purchases. This has been a challenging market, to say the least. Here are a few lessons, observations and strategies:

i. **Loan guarantees** by established entities in the forest products value chain are an important strategy. Our loan to Coleman Brothers Logging was possible because an established logger, Tommy Barnes of Ideal Logging, was willing to take the Colemans under his wing, for personal reasons. (See Coleman Brothers story in Exhibit 3). Weyerhaeuser Company began providing guarantees for NCIF loans to West Virginia and North Carolina loggers in 2015.

ii. **Sharing risk** with other financing entities is a useful way to reduce lender risk and take advantage of additional knowledge about lending in this sector. Our partnership with, Farmers Bank, a Virginia-based community bank, was instrumental in underwriting the loan to Sexton Forest Products.

iii. There is certainly a need to provide small logging firms with additional financial and operational expertise. However, we continue to search for an **efficient way to deliver financial training**. We are actively working with our community partners across the central Appalachian region to develop and implement cost effective strategies for delivering 1-1 technical assistance; the NC Association of Professional Loggers is interested in incorporating financial training into its ProLogger training, but this seems to reach mostly equipment operators rather than business owners. Another potential strategy, given that many contractors are family businesses, is to reach the family members (usually the wives) who are responsible for bookkeeping.

iv. **Non-contractual buying relationships** in the forest products value chain are problematic for loggers (and their would-be lenders). Lenders must rely on assurances from broker dealers and fiber buyers, who are themselves subject to the macro uncertainties facing the industry.

v. **Addressing key operating costs (e.g., fuel) for loggers is critical.** Growing the Southern Loggers Cooperative's network of fuel depots is a promising strategy that we've championed along with the Endowment.

d. Bright spots for future investment in wood-based entrepreneurship

The following seem to be opportunities for small businesses in the forest products supply chain:

i. **Bioenergy** (e.g., wood pellets in the Southeastern U.S.) is creating demand, with a side benefit that end users have increased awareness of the importance of a strong supply chain. This is creating opportunities for loggers to expand or restart operations that have languished because of softness in traditional wood fiber markets.

Though biomass energy has lost some of its competitiveness in areas with access to natural gas at low prices, long-term opportunities still exist for local governments, schools, businesses and residences to convert to biomass-based heating. This would seem to be particularly true in rural communities that lack natural gas infrastructure and have a natural resource based economy. Numerous small business opportunities – from boiler installation and maintenance to transportation of feedstocks – could grow out of such a transition.

ii. **The local angle.** SF portfolio companies City Bench and Sustainable Lumber have built successful business models around their use of local wood (see text from the Sustainable Lumber Co. website below). For retail-facing businesses like these, there appears to be an opportunity to capitalize on the "buy local" ethos that has transformed agriculture. This could also favor furniture manufacturing that returns to the U.S. from offshore.

iii. **Experimentation in new building materials and strategies** (e.g., cross-laminated timber (CLT) for multistory buildings) has the potential to provide opportunities for innovation by small businesses.

What's next for ShadeFund?

SF will continue to play an important role within NCIF in the months and years ahead. We expect that NCIF's agriculture- and forestry-related loan volume will continue to grow, and SF will be a key outreach mechanism for attracting deal flow and creating visibility for NCIF's lending in these sectors.

SF will remain NCIF's vehicle for lending outside our core geography of WV, NC, VA, SC, GA and the Appalachian regions of OH, KY, TN, MD. To manage our risk in areas where we do not have an on-the-ground presence, we will continue the practice of limiting SF loans to $50,000 and partnering with other funding agencies. In particular, SF will continue to be a useful means of partnering with other CDFIs to increase access to capital for agricultural and forest products enterprises.

We plan to expand some SF practices to all of NCIF's lending operations through a "refresh" of the site.

- The SF Field Partner program has been an excellent way to build connections with agricultural and forestry sector organizations; there are opportunities to expand on this approach to connect with community partners and industry in other sectors.

- SF's ability to accept on-line inquiries can be useful for all of NCIF's deal flow, and its marketing platform can be useful for portfolio companies across all of NCIF's sectors.

- SF will be instrumental in supporting two particular NCIF Initiatives:

  Farmers of Color: NCIF is working with a cohort of CDFIs to develop strategies to support African-American and Latino farmers, through a project funded by W.K. Kellogg Foundation and managed by Michigan State University. Our particular project will be to systematize our "gap financing" for limited resource and minority farmers who have received NRCS cost share grants.

  We believe this will best be accomplished by focusing on a few states. North Carolina (and in particular the northeastern NC "Black Belt") is one area we will target; we are also working with a group of Black farmers in southeastern Alabama. Loans and marketing assistance through SF will be available to farmers who need to develop a strategy for effectively utilizing hoophouses, drip irrigation, and other infrastructure.

  Logging Initiative: SF's social media presence and marketing capabilities will continue to contribute to NCIF's efforts to increase access to capital and technical assistance for small-scale logging companies. Web exposure is beyond the reach of most of these entities who have neither the time nor skills to write up a company narrative, accompany that with photos, and post it online.

Additionally, by using SF to publicize achievements made with NCIF support and investment, we can expand industry knowledge of what can be achieved with training and appropriate funding.

Conclusion

We are extremely grateful to the Endowment for its support and partnership in the development of ShadeFund. While the ultimate design of SF is different from the original crowdfunding concept, the Endowment's support has enabled The Conservation Fund to create an internet-based vehicle that lends, supports and promotes the viability of natural resource-based businesses. There will undoubtedly be forest products companies with a profile appealing to a crowdfunding audience of individuals; but, for the vast majority a revolving loan fund with the right characteristics and risk tolerance will be the best strategy for supporting these innovators.

NCIF, a national leader in lending to natural resource based businesses, is a logical home for SF, since it brings additional human and financial resources capable of growing SF's impact in forest-dependent communities going forward. SF has demonstrated that a coordinated mix of lending, technical assistance, and sector expertise and commitment can serve as a useful tool to help small, innovative forest products companies access the capital they need to take their businesses to the next level.

Exhibit 1: ShadeFund Loans 2011 – 2014

SHADEFUND PORTFOLIO SUMMARY				***as of 12/31/2014***	
Year	**State**	**Name**	**Status/loan balance**	**Sector**	**Line of business**
2011	CT	City Bench	*Repaid*	Forestry	High end furniture from urban trees
2011	NC	Bluebird Hill Farm	Current	Ag	Lavender farm and value-added products
2011	ME	New Beat Farm	*Repaid*	Ag	Organic farm
2011	NY	Fern Studios	*Repaid*	Forestry	High end furnishings
2012	OR	Trillium Pacific Millwork	*Repaid*	Forestry	FSC certified millwork
2012	MN	Superior Thermowood	*Repaid*	Forestry	Thermally modified wood
2012	MI	Outlaw Farm	*Repaid*	Ag	African-American farmer
2012	MI	Ten Hens Farm	Current	Ag	Organic farm
2012	MI	Shannon Brines	Current	Ag	Organic farm
2012	CO	Rogue Resources	Current	Forestry	Wood straw from beetle kill lumber
2013	MI	Roger Outlaw	Current	Ag	African-American farmer
2013	MT	Sustainable Lumber Co.	Current	Forestry	Flooring/cabinetry from Montana beetle kill
2013	NC	Appalachian Design	Current	Forestry	Specialty woodworking
2013	NC	Firsthand Foods	Current	Ag	Aggregator of pasture-raised meats
2013	NC	Joyner Farm	Current	Ag	African-American lamb producer
2013	NC	New River Organic Growers	Current	Ag	Organic aggregator
2013	WV	Swift Level Land and Cattle	Current	Ag	Grass-fed beef operator
2013	SC	Georgetown Depot	Current	Forestry	Diesel fuel depot for loggers
2013	WV	Rainco Forest Resources	Current	Forestry	Log concentration yard
2014	NC	Sexton Forest Products	Current	Forestry	Logging contractor
2014	SC	Coleman Brothers	Current	Forestry	Logging contractor
2014	SC	Allendale Depot	Current	Forestry	Diesel fuel depot for loggers
2014	MD	Firefly Farm	Current	Ag	Value-added goat's mik products
2014	GA	Babe and Sage	Current	Ag	Organic farm
2014	WV	Swift Level Land and Cattle	Current	Ag	Grass-fed beef operator
2014	KY	Heritage Millworks	Current	Forestry	Millwork
2014	WV	LTC Logging	Current	Forestry	Logging contractor

Exhibit 2: ShadeFund Financials, 2009-2014

SHADEFUND DETAILED FINANCIALS	2009	2010	2011	2012	2013	2014	2009-2014
	ACTUALS	ACTUALS	ACTUALS	ACTUALS	ACTUALS	ACTUALS	TOTAL
Number of Loans Issued			4	6	9	8	27
Number of Loans Outstanding			4	8	15	22	
Average Loan Size			$ 15,375	$ 19,867	$ 36,889	$ 114,747	
Total Loans Issued ($$)			$ 61,500	$ 119,200	$ 332,000	$ 917,978	$ 1,430,678
Cumulative Loans Issued			$ 61,500	$ 180,700	$ 512,700	$ 1,430,678	
Revenues							
11-4005 **Foundation Contributions**							
Grant Income-USE (OPERATING)	$ 250,000	$ 250,000		$ 125,000	$ 125,000	$ 250,000	**$ 1,000,000**
Grant Income- ACE ($90 CAPITAL, $10K OPG)			50,000	50,000			**$ 100,000**
Grant Income - McCance (CAPITAL)		$ 40,000	$ 40,000				**$ 80,000**
Grant Income - Kellogg (CAPITAL)				15,000			**$ 15,000**
Grant Income - Ruth Mott Fdtn (CAPITAL)					$ 20,000		**$ 20,000**
NCIF CAPITAL (CDFI Fund/Other)						857,678	**$ 857,678**
11-4010 **Corporations** Grant Income-MBUSA (CAPITAL)		$ 225,000					**$ 225,000**
Total Foundations & Corporations	**$ 250,000**	**$ 515,000**	**$ 90,000**	**$ 190,000**	**$ 145,000**	**$ 1,107,678**	**$ 2,297,678**
Earned Revenue							
11-6110 Loan Interest Income			$ 2,022	$ 5,252	$ 16,157	$ 23,381	**$ 46,812**
11-4430 Origination Fees paid by Borrower			$ 1,089	$ 1,585	$ 2,820	$ 5,430	**$ 10,924**
12-4000 Crowd-funding for loans (CAPITAL)			255			-	**$ 255**
Total Earned Revenue	**$ -**	**$ -**	**$ 3,366**	**$ 6,837**	**$ 18,977**	**$ 28,811**	**$ 57,991**
TOTAL REVENUE	**$ 250,000**	**$ 515,000**	**$ 93,366**	**$ 196,837**	**$ 163,977**	**$ 1,136,489**	**$ 2,355,669**
Expenses							
11-5000 Salaries	$ 28,269	$ 37,182	$ 78,951	$ 101,776	$ 108,432	$ 114,850	**$ 469,459**
FTE at Year End	*0.5*	*0.5*	*1.2*	*1.5*	*1.5*	*1.5*	
11-5010 FICA Employers Match 7.20%	$ 2,164	$ 2,294	$ 7,349	$ 11,969	$ 7,879	$ 8,269	**$ 39,924**
11-5015 Workers Compensation *0.3%*			321	555	241	368	**$ 1,484**
11-5025 Employee Benefits *11%*	$ 2,599	$ 3,344	$ 8,099	$ 9,852	$ 12,485	$ 12,921	**$ 49,300**
11-5100 Contractual Services					90		**$ 90**
State registration fees					$ 1,538		**$ 1,538**
Web Design	101,281	46,422	43,915	5,000			**$ 196,617**
11-5105 Prof Services (Legal, Trademark, etc)	$ 1,258	$ 143	$ 1,343	$ 1,000			**$ 3,744**
11-5200 Postage & Shipping	1	40	216	252		218	**$ 727**
11-5205 Printing				$ 580	$ 34		**$ 614**
11-5210 Public Relations & Internet Marketing				226	429	1,736	**$ 2,391**
11-5215 Publications & Membership	$ -	$ 17	$ 2,824	$ 175	$ 463	$ 1,785	**$ 5,264**
11-5220 Graphics & Photography	11	-	73	-			**$ 83**
11-5315 Computer Hardware			$ (100)	$ 80		$ 55	**$ 35**
11-5315 Computer Software			105	196	6,041	1,812	**$ 8,154**
11-5405 Telephone, internet, communications	$ 24	$ 14	$ 77	$ 459	$ 580	$ 2,684	**$ 3,838**
11-5410 Office Supplies		15	20			583	**$ 618**
11-5700 Air/Train	$ 2,007	$ 5,664	$ 3,841	$ 2,832	$ 1,790	$ 1,395	**$ 17,531**
11-5705 Local Transportation	-	299	1,376	2,011	663	5,769	**$ 10,118**
11-5710 Lodging	$ -	$ 1,114	$ 1,179	$ 2,410	$ 1,089	$ 3,775	**$ 9,566**
11-5715 Meals/Entertainment	487	849	1,001	1,151	542	1,876	**$ 5,906**
11-5805 Contributions/Grants/Awards	$ -	$ 6,250		$ -		$ -	**$ 6,250**
11-5850 Seminars/Training/Conferences		-	1,991	6,233	4,398	2,493	**$ 15,116**
11-5875 Registration Fees (Hosting; Internet Marketing)		$ 331	$ 1,049	$ 1,281	$ 420	$ 1,300	**$ 4,381**
11-5890 Loan Processing Expenses (UCCs, etc)			13	72	128	801	**$ 1,014**
11-7105 TCF Local/National Overhead (rent, etc)	$ -	$ 41,668	$ 55,000	$ 20,833	$ 49,318	$ 42,150	**$ 208,969**
11-5800 Miscellaneous			71	47	175	219	**$ 512**
TOTAL OPERATING EXPENSES	**$ 138,101**	**$ 145,646**	**$ 208,715**	**$ 168,991**	**$ 196,736**	**$ 205,060**	**$ 1,063,242**
Transfer to Capital Pool	**$ -**	**$ 265,000**	**$ 85,255**	**$ 60,000**	**$ 20,000**	**$ 857,678**	**$ 1,287,933**
Total Operating Expenses + Capital Transfer	**$ 138,101**	**$ 410,646**	**$ 293,970**	**$ 228,991**	**$ 216,736**	**$ 1,062,738**	**$ 2,351,175**
NET OPERATING INCOME	**111,899**	**104,354**	**(200,603)**	**(32,154)**	**(52,760)**	**73,751**	**4,487**

Exhibit 3: Coleman Brothers press release

THE CONSERVATION FUND

PORTFOLIO COMPANY SPOTLIGHT

Young Loggers Buck the Trend, Grow Business

Logging crews are aging, and struggling to attract young people to the profession. Even NPR has picked up the story, reporting on June 16, 2014 about the looming shortage of loggers in the American workforce. But not all the news is bad.

Enter Will (26) and Wesley (24) Coleman of Richburg, SC. This entrepreneurial duo are not only logging, but are growing their own new business. They formed Coleman Brothers Logging, LLC in December 2012 along with a third owner, Katherine Suaso. Together, they have been steadily increasing their pulpwood and saw timber harvesting in and around Chester County, which is used in everyday products like paper and furniture.

The company has had lots of help from Ideal Logging, Inc., which provides Coleman Brothers with a steady supply of tracts requiring first thinings or final harvesting. Ideal's Tommy Barnes, a board member of the South Carolina Timber Producers Association, has been a mentor and a source of encouragement to Will and Wesley, who got their start working for Tommy and his business partner, David Cox, at Ideal.

"They're hard-working guys," says Tommy Barnes, who himself started his business in his late 20s. "I've known them all their lives, and you don't find many young people who are dedicated to logging. They deserve a chance."

Wesley Coleman at work.

(L to R) Tommy Barns, Will and Wesley Coleman.

In June, Coleman Brothers Logging was able to purchase a used TigerCat skidder and feller/buncher with a loan from The Conservation Fund's Natural Capital Investment Fund (NCIF).

"Running the equipment we purchased with the NCIF loan, we doubled our loads in the first week," says Will Coleman. "We really appreciate the chance to show we can make it on our own."

Rick Larson, Senior Vice President for NCIF, is confident that the financing provided will help the company move to the next level. "They convinced us this new equipment will help them work more profitably. And, the fact that Ideal Logging stands behind them is extremely important."

NCIF launched its Logging Initiative in 2014 with support from CEI, a leading Community Development Financial Institution (CDFI), and the U.S. Endowment for Forestry and Communities – two organizations that share NCIF's commitment to the forest products industry and loggers in particular. The program funds equipment purchases by existing certified loggers who cannot raise all the financing they need from traditional sources.

Well-equipped loggers are essential for healthy forests and a vibrant forest products industry. "The opportunity is there for young hard-working loggers to grow a business and, with the right help, they will succeed," says Larson.

"Running the equipment we purchased with the NCIF loan, we doubled our loads in the first week." —Will Coleman

Exhibit 4: Website pages developed for Swift Level Land & Cattle