

## Conservation Strategies and Impacts

May 2023

### Summary

Lyme is a leader in executing strategies that deliver financial returns while securing conservation, biodiversity, and ecosystem benefits. Forest conservation is a recognized nature-based climate solution, and we are proud of our long history of conserving land and achieving real conservation and climate outcomes.

We focus on the design of long-term legal instruments – including conservation easements, forest carbon projects, and mitigation banking instruments – to protect and restore forests and other habitats while also generating attractive risk-adjusted returns for our investors.

Conservation is embedded in our strategies, our values, and our culture at Lyme. Our team has deep relationships with conservation NGOs, state and federal natural resource agencies, and other partners who help us source and execute conservation transactions. We have accessed diverse and creative sources of funding for conservation including federal grants, state grants, local governments, restoration and mitigation funds (such as the Deepwater Horizon settlement), and philanthropic sources. We have also secured below-market financing through conservation partners, the federal New Markets Tax Credit program, and state clean water revolving loan funds to improve financial and conservation outcomes. We are engaged in public policy and philanthropic initiatives that support efforts to develop and improve sources of funding for conservation in the US and Canada.

Over the past 30 years, Lyme has protected over 1 million acres of land through a combination of conservation sales (working forest conservation easements and targeted fee sales to conservation buyers), forest carbon projects, and mitigation banking strategies. These strategies have generated over \$225 million in revenue for Lyme investors from over 25 conservation sales, 8 forest carbon projects, and 23 mitigation banks.

Among our accomplishments:

- Lyme pioneered investment strategies focused on selling working forest conservation easements on large timberland properties. Conservation easement sales on Lyme timberlands have returned capital early in the investment cycle and helped investments outperform the NCREIF benchmark since 2006.



- Almost 45% of Lyme's 2.5-million acre current and historical portfolio has been protected through conservation sales, forest carbon projects, and mitigation banks
- Lyme's conservation projects are often the largest in a state's history, including 234,000 acres in New York, 104,000 acres in Tennessee, 72,500 acres in Wisconsin, and 146,000 acres in New Hampshire

## **A Differentiated Approach**

Lyme is differentiated among timberland investors due to our focus on natural forests where climate, biodiversity, and conservation outcomes present significant and unique opportunities. Unlike plantation forests, natural forests tend to be dominated by deciduous hardwood trees and include a diverse mix of species and multiple age classes. Herbicides and fertilizers are generally not used, and silviculture practices are also more varied, with selective harvesting, multi-age management, and treatments to promote regeneration of desirable species. These practices mimic natural disturbance patterns and provide important habitat for wildlife, protect water quality, increase carbon sequestration, and provide public recreational opportunities.

## **Conservation Track Record**

### Permanent Conservation

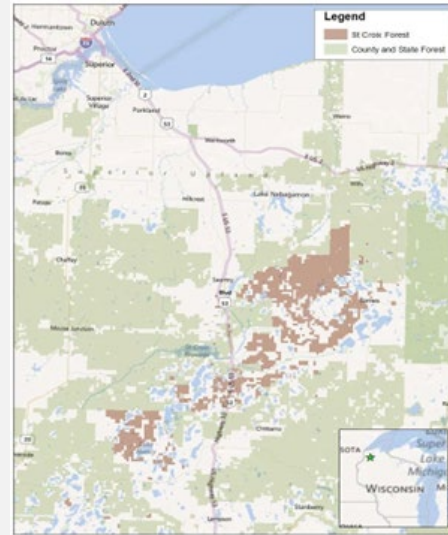
Lyme has executed over 25 projects that permanently protect over 850,000 acres of forestland in the US and Canada over the past 30 years. Our conservation partners have included The Nature Conservancy, The Trust for Public Land, The Conservation Fund, Nature Conservancy of Canada, Michigan Department of Natural Resources, Wisconsin Department of Natural Resources, New York Department of Environmental Conservation, Pennsylvania Department of Conservation and Natural Resources, US Forest Service, National Park Service, and Natural Resources Conservation Service, among many others, including local or regional land trusts such as Vermont Land Trust, Maine Coast Heritage Trust, and the Galveston Bay Foundation.



Conservation easements are legal agreements that restrict future activities on the land to protect conservation values. Typically, conservation easements protect open spaces, wildlife habitat, recreational land, and historically significant landscapes by extinguishing the right to develop or subdivide the property, and sometimes by providing public access. Working forest conservation easements (WFCEs) also protect the economic and community benefits that arise from a forest's production of goods and services (e.g., fiber for forest products). WFCEs allow an owner to retain timber harvesting rights while restricting or extinguishing development rights, which means that the owner forgoes the opportunity to subdivide or develop the property in the future but can continue to sustainably manage the timber resource for income. This not only ensures the forest will remain forested forever (to protect biodiversity and combat climate change) but also protects jobs in the forest products supply chain in rural communities.

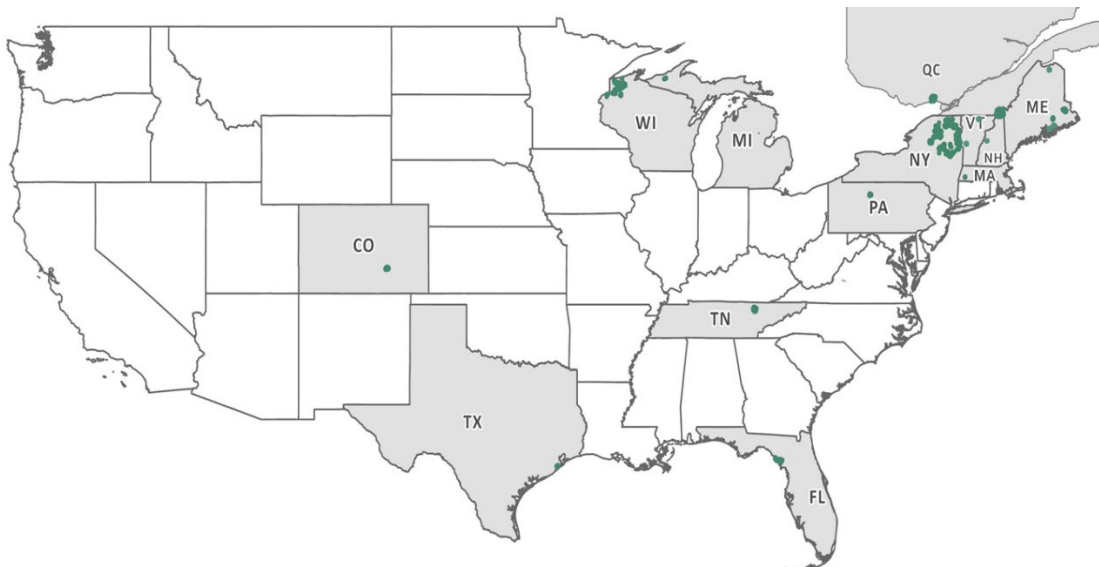
## CASE STUDY

Lyme's Fund III and Fund IV invested in 85,000 acres in northern Wisconsin between 2011 and 2015. In what became the largest land conservation effort in Wisconsin's history, Lyme, in collaboration with The Conservation Fund, conveyed to Wisconsin's Department of Natural Resources conservation easements on 72,500 acres of timberland in three separate transactions (85% of the property). The conservation easements ensured the lands are available for sustainable forest management and timber production to provide raw material to the forest products industry and remain open to the public for nature-based recreational activities in perpetuity. It was an important conservation target due to its adjacency to over 950,000 acres of existing public lands, unique and important wildlife habitat, and economic development benefits.



Conservation fee sales are outright property sales of lands with high conservation values. Typically, these are inholdings within networks of public lands (national parks, national forests, or state forests), or include critical habitat or water resources that need to be preserved. For example, in 2011, Lyme facilitated the largest addition to a National Park in the eastern US by purchasing 3,200 acres of threatened forestland and structuring a transaction that culminated in the addition of the property to Acadia National Park.

**Figure 1: Map of Lyme's significant permanent conservation outcomes over the past 30 years**

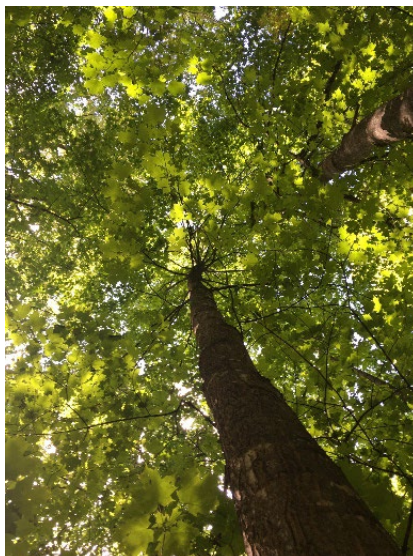




### Forest Carbon Sequestration Projects

Forests are often referred to as a natural climate solution because of their ability to sequester and store carbon as trees grow. Companies can purchase carbon offsets from forestland owners to offset their CO2 emissions and achieve emission reduction targets. In the US, natural forests have been a major source of forest carbon offsets through the California compliance market and voluntary carbon market protocols.

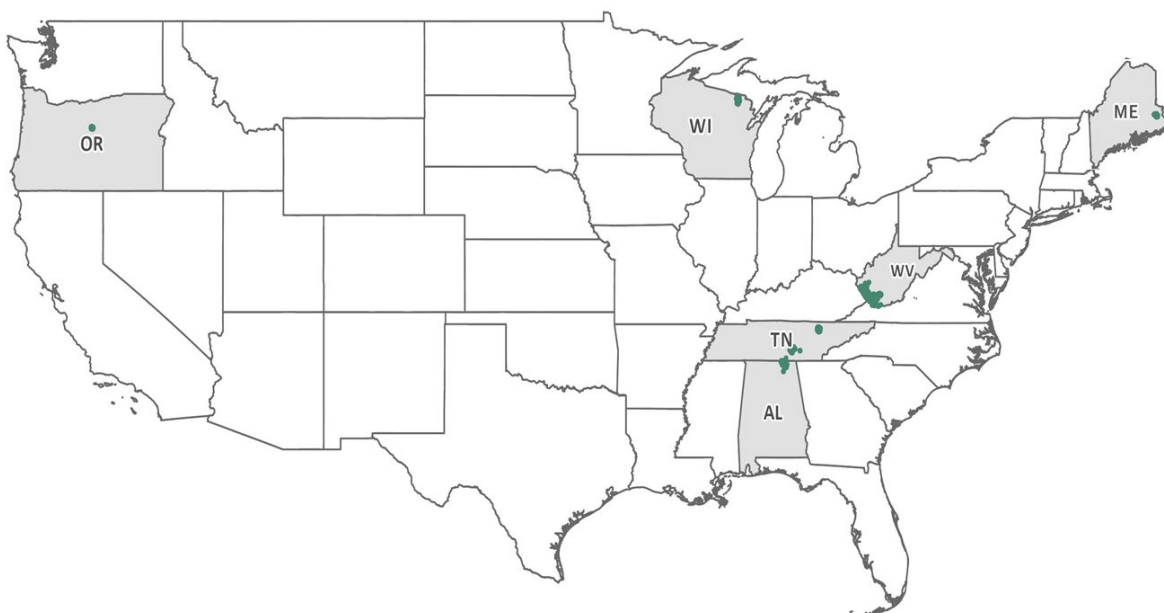
Lyme has developed Improved Forest Management projects under the California Air Resources Board's Cap and Trade carbon protocol. We have developed eight forest carbon projects in Maine, West Virginia, Tennessee, Alabama, Wisconsin, and Oregon. Our current portfolio of lands encumbered by carbon offset projects total over 215,000 acres. Offsets generated from these projects have been sold to regulated entities in California.



Historically, we have partnered with Finite Carbon, a leading developer of forest carbon offsets in the US. More recently, we have begun to build out Lyme's in-house capacity to develop, analyze, and manage these projects.

Carbon offsets sales from Lyme's projects have generated over \$55 million in revenue since 2019 from the sale of over 4.75 million carbon offsets. We plan to continue to sell offsets generated from unharvested annual growth from these existing projects but have no new projects currently under development.

**Figure 2: Map of Lyme's forest carbon offset projects over the last 10 years**



### Wetland and Stream Mitigation Banking

Mitigation banking is a market-based mechanism for monetizing ecosystem services in the US. Federal laws, namely the Clean Water Act and the Endangered Species Act (as well as some state laws), require public and private entities to mitigate the ecosystem impacts of development and infrastructure projects by restoring ecosystems similar to those damaged or destroyed. The owner of an approved mitigation bank can sell credits to public and private entities to offset their environmental impacts.



Since 2009, Lyme has developed 23 wetland and stream mitigation banks throughout the US on approximately 14,000 acres. We have also analyzed and continue to explore investments in endangered species banks but, to date, have not made any investments. Our mitigation bank investments tend to be smaller in size but have generated attractive returns. Since 2009, Lyme has generated \$41 million from wetland and stream mitigation credit sales.

Since 2013, we have partnered with Eco Capital Advisors, LLC (ECA), a leading investor, developer, and manager of mitigation banks. ECA's principals have deep expertise, with a track record of investing in and managing over 100 discrete mitigation assets spread across the US. ECA brings Lyme a national network of operating partners and environmental consultants.

**Figure 3: Map of Lyme's mitigation bank investments in the last 14 years**

