



Equilibrium™

BENEFIT COMPANY REPORT

For 2014 Year

INTRODUCTION.

Equilibrium became a certified B Corporation in 2009. We proudly became a Benefit Company in Oregon at the start of 2014, on the first day it was possible to do so. We have been active in helping build the vibrant and growing community of B Corps.

Benefit Companies, by statute, have the purpose of providing a general public benefit, which the statute defines like this:

General Public Benefit:

A material positive impact on society and the environment, taken as a whole,
from the business and operations of a benefit company.

This statutory report describes our progress toward that purpose in 2014, how we go about it, and the challenges we face¹. It also includes an assessment of “the extent to which we met or exceeded a third-party standard” (in our case, GIIRS), and information about that standard.



Equilibrium’s ACM Permanent Crops --
Hazelnut Farm near McMinnville, OR

¹ **Formally:** “The extent to which the benefit company provided a general public benefit and the actions and methods the benefit company used to provide the general public benefit. ... Any circumstances that hindered or prevented the benefit company from providing a general public benefit.” ORS 60.768(2)(a) (A) and (C).



WHO WE ARE.

Equilibrium is a global asset management company. We build and manage portfolios of sustainably driven operating assets for institutional investors. We work in sectors affected by resource constraints and increasing global consumption, on long-lived real assets types:

- Agricultural lands and midstream assets that serve them
- Renewable energy and water facilities and installations
- Urban buildings and the communities they create and enable
- Watershed-scale landscapes, grasslands, permanent crops and herds

We exist in a time of very rapid change. In such times, new ways of operating are not just a question of “value add” – they are a question of survival. We believe those new ways require innovation and flexibility throughout the delivery system for all kinds of basic needs. We believe that effective innovation in capital markets interface, transaction solutions, transactable value, and in general markets, needs to combine with relentless improvement in method and approach. It’s our job to deliver on that belief, and this Benefit Company report is in the nature of a report card on our methods and progress.

PROGRESS TOWARD THE PURPOSE: 2014.

Equilibrium Agriculture and Food Group.

Through our *ACM Permanent Crops, LLC* fund, we initiated at-scale sustainable and organic farming. We acquired and began development of 3,000 acres of Oregon blueberry and hazelnut farms has progressed very well. In 2014 we successfully planted 1248 acres.

We also committed to acquire a 1,200 acre hazelnut property in Oregon, and did acquired several hundred acres of citrus properties in California. The citrus enjoyed a strong initial harvest of both mandarins and tangos.

2014 also saw advance on *Bio-Logical Capital's* Hana Ranch project, proving out a multi-crop stewardship model of agriculture in Hawai'i.

2014 was less successful for our Australian Pastoral Fund work. While results on the ground were excellent in the three pastoral properties in this fund, the fund did not attract new capital in the year.



Native pollinator habitat - Oregon blueberry operations



Equilibrium Renewable Resources Group.

In 2014 we focused on capital raising for renewable resources strategies, enabling us to finish Q1 2015 by achieving first close on our *Wastewater Opportunity Fund (WOF)*. That fund will scale a strategy we tested under a pilot fund, the BioEnergy Capital Pilot, in 2012-2013. It invests in distributed wastewater facilities – bio-digesters – located near industrial food and beverage sites, agricultural operations, municipal wastewater plants and other large organic wastewater sources. These produce energy (biogas used as a fuel, or used to generate electricity on site) and organic fertilizer, while improving adjacent watersheds and air sheds and reducing greenhouse gas impact, over methods generally in use.



Research suggests the U.S could construct over 4,250 of these facilities, if the capital – we estimate over \$30B – can be formed. In the Wastewater Opportunity Fund, we’re leading the formation of the capital, at institutional scale.

Site investor diligence with WOF team, Sacramento, CA

Also in 2014, we initiated premarketing on a new strategy, the

Equilibrium Renewable Energy Company – intending to acquire and operate wind and solar assets – particularly in the Western hemisphere – sustainably for extended yield. In this strategy, we are testing market acceptance of a new open-ended capital formation structure that we believe will allow the investors, the managers, and the other stakeholders’ interests to be better aligned behind long-term sustainable yield.

Finally, we continued work on developmental strategies and policy work in distributed energy solutions, testing the market for our designs for advanced forms of market-financed and performance-transacted distributed energy resources (including energy efficiency).

Equilibrium Sustainable Real Estate. In 2014, one of our earliest investments, *Gerding Edlen Development* (a 2008 investment), saw a continuation of its sustained success. Gerding Edlen has become a brand leader in sustainability- driven, institutionally qualified real estate development and management. As of the start of 2015, its first post-recession fund (Gerding Edlen Green Cities Fund I) was nearing successful exit, its second fund was almost fully deployed, and its third fund was entering market.



Building community in the field



Our internal sustainability report card.

We look at gross metrics of achievement across all our strategies under the following grid.

EQUILIBRIUM CROSS-PLATFORM SUSTAINABILITY METRICS, cumulative through 2014		
Categories	Units	Definitions
Communities served	23	Places we have offices or active projects
Acres under sustainable management	384,746 acres	Total acreage
Quality employment footprint	90 FTE, plus over 130,000 on-farm hours (65 FTE)	Full-time equivalent labor
Water saved, reused, or recovered	Saved over 11 million gallons of water on our active Oregon farms through use of high-efficiency drip irrigation	Savings over typical irrigation and water use
Energy saved or cleanly generated	kWh (TBD)	Savings over typical energy use
Capital markets influenced	\$1.03B AUM	Proprietary and influenced investment

Notes:

- a) All figures include affiliate numbers where available or can be estimated. (Affiliates are companies in which Equilibrium holds an investment interest, such as Gerding Edlen Development, Australia Pastoral Funds Management, Revolution Energy Solutions, EnergyRM, and BioLogical Capital.)
- b) Hourly translated to FTE per hours data base time period, as 40 hrs in 1 wk payroll = 1 FTE; 500 hrs in cal. Quarter = 1 FTE, 1000 hours in cal half = 1 FTE, 2000 hours in year = 1 FTE
- c) Water saved: data in this period limited to Oregon farm operations. Estimated based on current widely used alternative.
- d) Energy saved/generated: data under development.
- e) AUM includes affiliate-managed committed AUM. Directly managed AUM this period at \$350M.



HOW WE GO ABOUT IT.

Equilibrium’s method starts with our mission: ***Transform our planet into sustainable prosperity through markets.***

Organizing to achieve our mission led us to adopt the Benefit Company form of business. It also led us to frame our core values, principles, and policies.

Our Values. These are the values we live by:

We

The essence of benefit companies: we are in this together. At Equilibrium, across our whole company. With our shareholders and investors. With our suppliers and customers. With the communities we draw on and serve. With the environments we inhabit and affect. We.



Reviewing drip irrigation techniques - California blueberry operations

Sustainability at our core

Sustainability as our core organizing principle recognizes – and delivers – on the belief that wealth and social and ecosystem health create, sustain, and enable each other. Oriented that way, capital markets can fund at-scale solutions to global challenges and deliver a future of resilient prosperity. Sustainability is not a finish line. It is a value system, to be lived and integrated every day into every function within the organization. Every role in our business is a sustainability role.

Innovation

Sustainability is dynamic. It requires *continuous innovation*. We must be humble in our conclusions and restless in challenging our conceptions of what’s possible, what’s standard, what will be acceptable.

Excellence and execution over long periods of time

Sustained wealth – the ability to deliver life, liberty, and joy today and to the future – is not about a tradeoff between the present and the future. It’s about the configuration of benefits to all stakeholders that optimally delivers yields today and an even better yields tomorrow.

Community builders

Community magnifies impact. Community extends our power and reach – and gives us access to knowledge, trust, learning, goodwill, and potential that’s vastly larger than our own balance sheet.

Do the right thing

We as people own the responsibility to deliver a robust, resilient, lasting, dynamic equilibrium among shareholders, investors, vendors, customers, employees, communities, and the environment that sustains us all. None of it can happen without trust. Trust comes from doing the right thing, especially when it is hard.



Our Sustainability Principles. We are guided by five core sustainability principles:

Operating assets for long-term productivity

Farmers say: “you don’t eat your seed corn.” Our “seed corn” is the human and environmental matrix that made this year’s productivity possible and will enable the next. We create current value – and are stewards of the robust and resilient capability for creating future value.

Building resilience

Resilience needs reserves. Financial reserves. Environmental reserves. Innovation reserves, tested, characterized, prepared. Reserves of human trust and strength and will. We build these reserves every day, inside and outside our company.

Accessing efficiencies through appropriate integration

Sustainable solutions do not lie in better financial, transactional, social, or environmental awareness. They lie in the integration of these worlds into systems of value.



Installing drip irrigation - Oregon blueberry operations

Purpose needs scale

Transforming the planet into sustainable prosperity through markets is about forces at the scale of the human population on earth. Our solutions must embrace and be designed with that scale in mind. They must engineer with the systems– capital and commodity markets, ecological systems, social and behavioral realities – that characterize that scale.

Humility

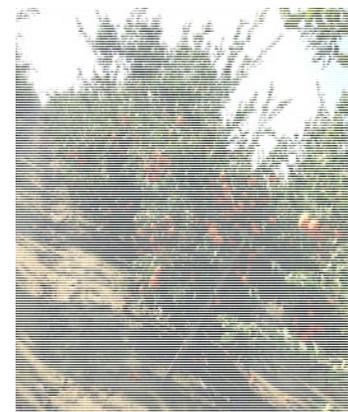
Humility is powerful. Humility enables us to know what we are doing can be made better – to listen and to see change to which we need to respond. It also enables us to act on the good we’ve created, because we allow ourselves to know perfection is not available.

Our ESG Policy. Our Environmental, Social, and Governance policies express our sustainability core: to deliver returns from impact. In our view, our ecosystem and our communities, neither of which can be owned, form the frame that delivers all the value we can create. And they are in our charge.

Environmental. We are good stewards of the bounty of the earth: its productivity, its beauty, its diversity, and its health.

We apply this principle not just for the lands and properties under our direct control but, through our influence, to those we deal with as well.

We teach – and expect – a deeply-rooted environmental consciousness throughout our operations. We innovate better practices and remember that what is optimal today may, because of changing conditions, be less than optimal or even wrong tomorrow. We learn from others through benchmarking and test, and remember both that we can benefit from standards and practices developed by others and that we cannot allow ourselves to accept such standards and practices as defining the limit of what is good or possible to achieve.



California citrus operations



We measure our effect on the earth, its soils, waters, air sheds, and renewable value. We work to improve what and how we measure. Consistent with our purpose to earn our return from the sale of embedded positive impact, we seek to identify, strengthen, and invest behind the correlation between environmental wellbeing and our yields, long-term value, and financial results.

Social. We treat our people well and with respect.

“Our people” are our employees, colleagues, board members, consultants, service providers, and those we touch and serve through our suppliers, customers, and investors. They are the people our institutional investors serve, who rely on our earnings for their sustenance in their old age. They are the people who buy what our institutional customers distribute, who rely on us for healthy and sustainable



Early plantings – Oregon hazelnut operations

products delivered in a way that protects and enhances a healthy and sustainable world.

Our people have families and lives and communities, which we serve.

We deploy benefits, health insurance, wages and salaries, training, family outreach, and other policies to insure the people within our own company are well treated. We recognize these programs – like the earnings we deliver to the people who invest in us and the value we deliver to the people who are our customers – are part of a system of value, within which, as a benefit company, our job is to seek the optimum configuration that delivers on

our core obligation of general public benefit and on our mission of transformation. We understand that the optimum is dynamic (and therefore unattainable) but is nonetheless the goal.

We measure how we affect our human community. Consistent with our purpose to earn our return from the sale of embedded positive impact, we seek to identify, strengthen, and invest behind the correlation between social wellbeing and our yields, long-term value, and financial results.

Governance. We are a benefit company. As such, we consider these stakeholder interests in our board decisions and our discretionary management decisions:

- Our shareholders and investors – and the people they serve.
- Our employees and contractors.
- Our subsidiaries and suppliers – and their employees or contractors.
- Our customers’ interest in our products and our general public purpose.
- Our communities, both where we are located and where our effects are felt.
- Our environment, locally and globally.
- Our company, and its ability best to fulfill its purpose.



We maintain our certification as a “B Corporation,” a community of companies dedicated to adhering to and advancing these principles.

We deploy best governance practices, which include a board dominated by independent members; compensation policies that guard against bias or self-dealing; and reporting, financial, transparency, and accounting solutions. We honor and meet fully the compliance rules and regulations of all societies in which we operate.

We train and manage our workforce (including ourselves) through our purpose, mission, values, and principles.

We test ourselves against good governance outcomes, through board oversight, through internal systems that test our performance against our values, and through appropriate audit and third party test. We report regularly both our shortcomings and our successes.



Our Organization As Of 2015. Our mission, values, principles, and policies frame our operations. As of the start of 2015, we are organized to approach these values, principles, and policies through three deeply interlocking areas of global concern -- food, renewable resources (energy and water), and shelter. Our business units are designed to deliver on our purpose by delivering owner-operated solutions that can attract institutional capital for scale.



Equilibrium Agriculture & Food

Invests in agricultural and midstream assets to create integrated, sustainable, market-oriented farming and food delivery solutions. Started with permanent crops and midstream assets and pastoral agriculture; expects to grow into annual crops and integrated innovative production and delivery solutions and brands.



Equilibrium Renewable Resources

Invests in no-carbon energy sources to create bountiful sustainable energy supplies. Started with bioenergy from agriculture, food and municipal waste streams and at-scale renewables, expects to grow into distributed and integrated energy solutions connected to green buildings and other major systems.



Equilibrium Sustainable Real Estate

Invests in sustainable real estate to create sustainable low-impact communities. Started with urban, infill, office, apartment and mixed-use properties in the U.S. in collaboration with one of the world's leading developers of LEED-certified properties. Expects to grow into additional building types, focusing on harvesting the value from more comfortable and productive environments rooted in sustainability principles.



CHALLENGES WE FACE.

Operations. In operations, our challenges are those of growth. We are in transition from a small organization to quite a large one, and we are working to put in place the systems that can deliver on our policies and methods and, of course, on yield, as we scale.

As of the end of 2014, most of our goals for metrics were aspirational, not yet operational.

On the social front, we instituted at the end of 2014 our first full employee review. The process was humbling, not just to some of us individually but to us as an organization, and it leads to 2015 operational requirements to upgrade our human resources processes and systems across the board. We have not yet developed sufficient contracting and operational solutions to extend our social policies through our supply chain; this is on our to-do list.



On the environmental front, as of the end of 2014, our goals for sustainability-metrics-driven operations in our internally-managed strategies were frankly lagging. Yet this is an area in which we must be leaders, not just in philosophy but on the ground.

To address this, in 2015 our plan adds staff to our sustainability reporting solutions, tasked with identifying and developing metrics delivery and reporting solutions for three constituencies: investors, customers, and internal operations.

We are focusing on developing those systems for our agriculture and food operations, where our production operations are most advanced, followed by integrating these designs into our renewable resources operations as they come on line.

We will also be upgrading our accounting and reporting information systems, as we have outgrown our startup systems.

Challenges: Capital Markets. As 2015 began, we saw increasing recognition from major institutional and high net worth investors that the values, principles, and policies around which we are organized are the *necessary* frame to best optimize values in the asset types we represent.

Metrics. The result, though, is that institutional investors are setting the pace for measurement and accountability on sustainable outcomes, as to which they have their own frames under which they will insist on measured results. That will require us to walk our talk in increasingly sophisticated ways.

The metrics-driven work described in our operational section is, therefore, important to our capital markets work. In 2015, our capital markets task will include getting and staying on top of emergent reporting and measurement systems of current and emerging interest to investors. These include the United Nations Principles for Responsible Investment, the work of the Sustainability Accounting Standards Board (SASB), the Global Real Estate Sustainability Benchmark (GRESB), and others.

Structures. We also recognize a capital markets challenge in the structure and design of the capital markets products that fund our goal of scale. This is an area in which our thinking has historically led, but where continuous innovation, leavened by institutional investor comfort, is mandatory.



In 2014, we realized we needed to raise the bar further. In 2015, we will be testing capital markets products designs that may better align the capital instrument with the underlying sustainability value proposition, being mindful of the experiences of our investors in private investment structures as we do.

Pace of Scale. We have for several years been working to scale the funding of our affiliated protein strategy and to shape for markets our most advanced work in energy efficiency. Both efforts fell short in 2014. The failure modes were different.

- Our protein strategy, in grass-fed Australian cattle and sheep, achieved first close but never was able to add to first-close capital. We think in the words of the statute that the “circumstances that hindered or prevented” our success here were about the process of attempting to scale an affiliated group at a distance. Accordingly, we have doubled down on our conviction that we must bring both capital management and operating expertise (asset operations and asset development) to our strategies: we need to be investor-operators.
- Our energy efficiency strategy had achieved operational and commercial breakthroughs by the end of 2013. In 2014, we attempted to bring the transaction strategy to commercial scale, seeking to put in place the at-scale contract systems (long-term utility power purchase agreements for the metered energy in energy efficiency, covering hundreds of buildings) that would allow deep energy efficiency in a win-win pattern for utilities. We fell short. Our work with regulators (see, for example, *Cracking the Code in Energy Efficiency*, <http://vimeo.com/106023463>) had been extensive. We had been encouraged by both regulators and utility officials to make a bid, in the expectation that a path for the innovation was available. In the event, it was not. We learned that a regulatory environment in which innovation is understood as incremental and permission-based is itself a “circumstance that hinders or prevents” game-changing fundamental innovation: there is no one who can say “yes.” We’re proud of this work but need to find a different path for it.

REPORT AGAINST THIRD PARTY STANDARD.

Our standard. We assess our overall environmental and social performance under the **Global Impact Investor Rating System (GIIRS)**. GIIRS was developed by B Lab as **the rating system used by B Lab to certify Benefit Corporations**. The B Corporation framework underpins Benefit Company laws in many jurisdictions, including Oregon. GIIRS is a recognized standard for accomplishing the Act’s purpose.

Minimum Rating to Meet GIIRS Standard. GIIRS operates on a 200 point scale. B Lab does not define a “passing grade,” but it does establish a minimum score – 80 points – as the score that must be achieved to earn the Certified B Corp qualification.

Equilibrium’s Scoring:

Equilibrium has been a Certified B Corp since February 2009. As we’ve grown and established stronger employee support and institutionalized our values better, our scores have been increasing. Our current score is 118, which



ranks well up in the B Lab index and is significantly higher than the median score of 80 for all companies completing the B Corp Impact Assessment.

Meaning of “Third Party Standard.”

The third-party standard has a very particular meaning. Our status as a benefit company imposes duties on our board and our management, to consider particular interests as we make our decisions. The Oregon Benefit Company Act (the “Act”) describes these interests in ORS 60.760(1):



SECTION 60.760 (1) ... In determining the best interests of the benefit company, the governor shall consider how an action of the governor or of the benefit company, or a decision not to act, will affect:

- (a) The shareholders or members of the benefit company;
- (b) The employees and work force of the benefit company and ...[of its] subsidiaries and suppliers;
- (c) The benefit company’s subsidiaries and suppliers;
- (d) The interests the benefit company’s customers have in receiving a portion of the general public benefit or specific public benefit that the benefit company provides;
- (e) The communities that the benefit company’s activities affect ...;



- (f) The local and global environment;
- (g) The short-term and long-term interests of the benefit company...; and
- (h) The benefit company's ability to fulfill the benefit company's general public benefit purpose ...

However, the Act requires that a third-party standard address *just parts (b) through (g)* of this list,² which deal with the interests of stakeholders other than shareholders. The GIIRS standard therefore does not deal with an entity's *overall ability* to fulfill its general public benefit purpose. The GIIRS scale, therefore, should not be understood as an *overall* "benefit company goodness" scale.

Compliance with Benefit Company Requirements.

The Benefit Company law requires that the third-party standard we select be developed by an organization not under our control, which has information publicly available concerning the criteria the standard uses to measure social and environmental performance, the process by which the standard is developed and revised, and enough information to establish the organization's own independence from us. GIIRS meets these requirements.

CONCLUSION

The benefit company report process is rather humbling, especially its requirement that we confront our shortcomings and report on them. One of our shortcomings has been hitting our dates for this, our first benefit company report.

That too will be rectified in 2015.

Respectfully reported.

William C. Campbell

Wood Turner

Structures and Sustainability, Equilibrium Group.



² ORS 60.750(6).