

Mission Related Investment (MRI) Evaluator

Investment Name: Beartooth Capital I, LP

Investment Amount Considered: \$300,000

Investment Due Diligence by: Raúl Pomares

Signature: _____

Date: 15 Sept 07

Mission Due Diligence by: Lisa Kleissner

Signature: _____

Date: 15 Sept 07

Summary Description of Investment:

Extracted from the Guggenheim Fact Sheet dated 8/15/07:

Beartooth Capital I, LP is a private real estate Fund investing in the ranch land market to generate strong financial returns through the restoration and protection of ecologically important land. The Fund focuses its work on ranch properties in the Western United States- primarily the Greater Yellowstone region of Wyoming, Idaho, and Montana, and selected markets in Colorado and California- working in partnership with conservation organizations and others to acquire ranches and create value through habitat restoration, land protection, ecologically appropriate limited development and other means.

Main Contacts:

Carl Palmer and Robert Keith, Principals
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Supporting Documents:

Beartooth Capital I, LP Confidential Offering Memorandum, March 2006
Guggenheim Fact Sheet, 9/10/07
Beartooth Capital I, LP Subscription Package April 2007
Beartooth Capital 2006 Report to Investors
Guggenheim completed a Fact Sheet dated 8/15/07. See attached.



KL Felicitas Foundation

KL Felicitas Foundation Post Office Box 37 Los Gatos, California 95031-0037 USA www.kfelicitasfoundation.org

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Focus Area & Questions	Other Considerations	Score -1 0 +1
Investment Due Diligence (Investment Advisor)		
Investment Structure & Portfolio Implications		
Question 1: What investment due diligence process will be required to assess the financial viability of this opportunity?	Foundation's Investment Advisor responsible for performing financial due diligence process.	+1
Response 1: Guggenheim completed a Fact Sheet dated 8/15/07. See attached.		
Question 2: What is the structure of the investment under consideration? a. Is the investment structure ideally suited to achieve both the appropriate risk adjusted rate of return and Mission Impact?	Direct public or private, Fund or Fund of Funds. Consider structure's ability to offer sufficient or appropriate diversification to mitigate risk. Consider investment cost structure's implication on Mission Impact.	+1
Response 2: The investment is organized as a Delaware Limited Partnership investing in direct real estate holdings. The Fund targets ranch properties in the general range of 500 to 5,000+ acres in the Western United States and may not invest more than 25% of the portfolio in a single property. a. Use of leverage is limited per the LP agreement, reducing investment risk. Overall fees structure is in-line with industry standards and should not detract from investment or Mission return. The fund is structured so that the GP's carried interest is paid out on a portfolio basis, as opposed to an investment-by-investment basis as is sometimes the case, so the GP's financial incentives are aligned with LPs' incentives for the life of the fund. Since the fund's business model is dependent on the good will of conservation partners and the resulting deal flow, easement purchases and restoration funding, the GP needs to generate Mission Impact on all fund deals to maintain and enhance its conservation reputation and its relationships with conservation partners. Thus the fund's mission related work is integral to the fund's business model and financial performance, rather than being peripheral or supplemental to the core model.		
Question 3: What is the asset class? a. Does the investment fall outside the currently established asset allocation targets of the Foundation? b. If so, has the appropriate analysis been completed to evaluate a change in targets? c. Has this change been accepted and adopted under the investment policy guidelines of the Foundation?	While it is the intent of the Foundation to pursue MRIs, there is also a firm commitment to remain within the established investment policy guidelines and risk budget.	+1
Response 3: "Real Estate – Opportunistic"		

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<p>a. This investment does not fall outside the asset allocation targets. b. NA c. NA</p>		
<p>Question 4: Will members of the Foundation play an active role in the investment? a. If so, will questions of self-dealing arise? b. Should the investment be considered in conjunction with a Foundation grant? c. Outside the Foundation?</p>	<p>Consider additional Mission Impact, regulatory concerns or sizing constraints.</p>	0
<p>Response 4: No. a. Not applicable. b. Not appropriate. c. Given sizing constraints for Real Assets within the Foundation and based on assessment of the opportunity, additional investment will be made through a Family Limited Partnership.</p>		
Investment Monitoring & Reporting		
<p>Question 5: What is the financial benchmark that will be used to evaluate this investment? a. Over what period(s) of time will we measure the investment performance?</p>	<p>Investment benchmarks are established by the investment due diligence process. Similar to investments made without regard to Mission Impact, investment performance is reported when available and as appropriate for the investment structures and/or asset class.</p>	+1
<p>Response 5: The investment will be benchmarked to the NCREIF Index. a. Although annual reviews of distributions and our pro forma performance will be assessed, actual performance will be measured at 3, 5, and 10 year intervals along with the final duration of the fund.</p>		
Mission Due Diligence (Foundation Directors and Philanthropic Advisors)		
Mission Alignment		
<p>Question 6: How does this investment align with the Mission of the Foundation? a. In what area(s) does the Foundation believe this investment will contribute the greatest degree of Mission impact?</p>	<p>Identify specifically how this investment will impact the Foundation's Mission.</p>	+1
<p>Response 6:</p>		

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<p>Foundation's mission is to empower rural communities and families through systemic economic and social change. Additionally, a core value of the Foundation is to encourage sustainability into both our grant and investment programs. And the Foundation has a program in development that focuses on rural communities and their economic well-being. Beartooth's investment strategy is in alignment with our Foundation in that it seeks to achieve sustainable economic and social change through real estate investments in rural communities and ranchland. We believe this investment has the opportunity be a win/win for investors, rural property owners, rural communities, conservation organizations, and government agencies.</p> <p>a. This unique public private partnership uses a wide range of resources to improve the environmental and economic health of rural communities and is directly in alignment with our Mission and Program objectives. If successful, this type of approach could be scaled to empower more rural communities in the US.</p>		
<p>Question 7: Are there any elements of this investment which are contrary to any value(s) of the Foundation? a. If so, how is this being addressed?</p>	Evaluate potential tradeoffs.	0
<p>Response 7: Nothing to report at this time. However, the potential for Mission drift will need to be monitored. a. Although there are no apparent elements of this investment which are contrary to any values of the Foundation, it will be important to watch this investment and gauge its impact on rural communities. An important value of the KL Felicitas Foundation is ensuring a balanced approach to conservation that considers the rural community impacted by this land use transition.</p>		
Relationship & Reputation		
<p>Question 8: How well does the Foundation know the investment and/or strategy? a. What is the nature and duration of this relationship? b. Have members of the Foundation made site visit(s)?</p>	Document personal and direct understanding of the investment strategy by the Foundation.	+1
<p>Response 8: Directors have a high level of understanding of Beartooth's investment strategy as they have explored similar development strategies and placed two conservation easements on their own rural ranch property. a. Foundation Directors met with both principals on two separate occasions and both directors participated in multiple phone calls and email exchanges with one or more of the principals. b. No site visits were conducted, however our Investment Advisors met with the principals and their partners 5 times including a site visit to Sun Valley, Idaho.</p>		
<p>Question 9: Have other foundations or investors recognized this as an MRI or Social</p>	Capture any peer or trusted partner knowledge on the investment.	+1

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<p>Investment?</p> <p>a. Do other respected partners of the Foundation have a relationship with or experience with this investment?</p>		
<p>Response 9: One investor, the Rudolf Steiner Foundation, did a comprehensive analysis of their investment and determined it met both their Mission (conservation) and Financial criteria. Per Carl Palmer, there are no other foundation investors at this time who view this as an MRI, although a number of other individual investors undertook less formal mission-related due diligence and are following Beartooth’s financial and mission performance.</p> <p>a. Aquillian Investments has a relationship with Beartooth.</p>		
Mission Impact Monitoring & Reporting		
<p>Question 10: How integral to the success of the investment is the Mission Impact?</p> <p>a. How much personal financial capital have the investment principals and/or founders committed to the investment?</p>	<p>Identify alignment of interest by investment principals and/or founders.</p>	+1
<p>Response 10: According to Carl Palmer, “We can’t do one without the other – both Mission and Financial returns are integral to our business model. We depend on the good will and material assistance of our nonprofit partners to find deals, sell conservation easements and fund restoration work – providing us with critical competitive advantages in the marketplace. They help us because they know that our work enables them to meet their conservation goals. Thus our conservation mission is critical to our financial success. Similarly, our conservation partners understand that we need to hit our financial return targets in order to satisfy investors and raise the capital needed to do more work with them in the future. Thus the conservation and financial sides are both central to our success - fulfilling our conservation mission is critical to generating financial returns, because without the financial returns there would be no way to fulfill the mission.”</p> <p>a. Principals, Advisory Member and their families have made aggregate commitments to the Fund of more than \$4 million of Limited Partner interests to date. For the Principals, this equates to the overwhelming majority if not all of their personal investment assets.</p>		
<p>Question 11: What approach will be used to evaluate the Mission Impact of the investment?</p> <p>a. What is the proposed nature and scale of the Mission Impact, e.g. in 1 year, 3 years, long-term?</p>	<p>Pre-established metrics and evaluation intervals for Social or Mission Impact should be requested or developed.</p>	+1
<p>Response 11: Beartooth will be reporting on Mission Impact quarterly and annually. Per Carl, most likely there will be more Mission related items to report initially, e.g., conservation easements completed, habitat restoration projects, etc. KL Felicitas will be looking for information on the rural communities</p>		

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<p>impacted by these land acquisitions and transitions. If this is not included in the report, the Directors will contact the Principals and request the desired information.</p> <p>a. Beartooth is targeting 8 to 15 land deals between 500 to 5000 acres. This could potentially impact 25,000 to 75,000 acres and 10 to 15 communities. The fund's first four transactions encompass more than 10,000 acres in four communities in Idaho and Montana, and the majority of that acreage will be permanently protected under easement and across which significant ecological restoration work will be completed. As of the end of 2007, the fund anticipates having approximately 5,000 acres under conservation easement.</p>		
<p>Question 12: Will the Investment Manager provide Mission related reporting?</p>	<p>Once Mission criteria are established it is important to communicate with the Investment Manager and determine if the criteria can be met.</p>	+1
<p>Response 12: The Fund will provide investment thesis and strategy document for each particular property as part of their annual report. These write-ups provide information that will enable Foundation evaluation of the Mission Impact.</p>		
<p>Question 13: Does the investment scale, accelerate, support or re-enforce other SMSIs in the investment or grant portfolios?</p>	<p>Identify those that will be impacted and evaluate excess or leveraged Mission Impact.</p>	+1
<p>Response 13: Sustainable rural community development is a theme which is also supported by our MRI investment in Water Health International, and our grants to Social-Impact, Aspira, Instituto Terra, and Barefoot College. There is no additional scale, acceleration, or re-enforcement of other SMSIs in the investment or grant activities.</p>		
<p>Additional Comments or Observations</p>		