



2018 IMPACT REPORT



**INVESTING IN
SUSTAINABLE GROWTH**

Message from the Partners

When we founded Arborview over ten years ago, we were driven by a belief that the transition of the global economy toward cleaner and more sustainable alternatives would create enormous value over the foreseeable future. This opportunity was attractive to us because we believed these trends could deliver compelling returns for both thoughtful investors and our planet. In the intervening years, these trends have only become more pronounced and the need for sustainability more urgent.

While solving the environmental crisis will require broad and sustained efforts by businesses, governments and citizens, we are proud of the contribution our companies have made. We have invested in best-of-breed entrepreneurs and management teams and then worked closely with them to scale their businesses in our core areas of focus: energy efficiency, resource efficiency and sustainability. As they grow and drive change in their respective markets, these companies are helping to build the foundation of a sustainable economy.

In last year's Impact Report, we discussed how two of our portfolio companies, Envocore and Shenandoah Growers, made an impact in energy efficiency, water efficiency and sustainable food production. Both companies in the past year grew revenues to over \$100 million. This year's Impact Report highlights our portfolio companies Drexel Metals and Vital Farms. Drexel Metals is a leader in sustainable building materials. Vital Farms is a leader in sustainable food production and ethical treatment of animals. Vital Farms is also a Benefit Corporation. In each case, our companies have grown dramatically during our ownership, driving environmental impact, social impact and shareholder value creation.

Several years ago, we recognized the importance of measuring and evaluating the environmental and social impact of our companies. We use both internal metrics relevant to each business as well as broadly accepted external measurement systems. Our Funds and their portfolio companies are rated by GIIRS, one of the most broadly accepted impact rating systems, which provides us and our companies the ability to prioritize impact as a strategic initiative for continuous improvement. We also continually evaluate and incorporate other impact measurement approaches, such as the UN Sustainable Development Goals and iPAR.

In addition, we continue to try to be a leader in the development of the broader impact community as a founding member of Impact Capital Managers (impactcapitalmanagers.com) and as an active participant in the Wharton Social Impact Initiative. For the second year in a row we were recognized as a Best For the World Fund by B Lab and also an IA50 Fund by ImpactAssets.

As always, we are committed to investing in sustainable growth and we thank you for your support.

Karl Khoury
Co-Founder and Partner

Joe Lipscomb
Co-Founder and Partner

Brian Lee
Partner



Arborview's Key Impact Themes

ENERGY EFFICIENCY

We believe there continues to be significant demand for energy efficiency driven by the ability to utilize best-in-class technologies to reduce energy consumption, reduce costs and make a positive impact on the environment. Energy resiliency and security have become a critical priority and drive energy efficiency improvements. The lack of consistent investment in aging infrastructure also is a key driver of energy efficiency spending. We continue to believe that companies (both product and services) in the energy efficiency space represent attractive investment opportunities.

As an example, there are currently hundreds of thousands of U.S. Federal, State and Local government buildings in need of energy efficiency improvements leading to a large market opportunity estimated to be in excess of \$100 billion. To date, less than 25% of buildings have implemented energy efficiency projects, indicating that substantial remaining investment potential continues to exist. Also, continued technological improvements are generating recurring energy efficiency opportunities which creates significant upside to today's \$100 billion+ estimate. To illustrate this further, it was in 1995 that the U.S. Capitol underwent its first major energy efficiency project which reduced energy usage by over 50% and then in 2009 (14 years later), it underwent a second significant energy efficiency project which further reduced energy usage by another approximately 35%.

We believe the secular trends supporting energy efficiency and the recurring nature of energy efficiency projects will continue to create attractive growth equity investment opportunities.

RESOURCE EFFICIENCY

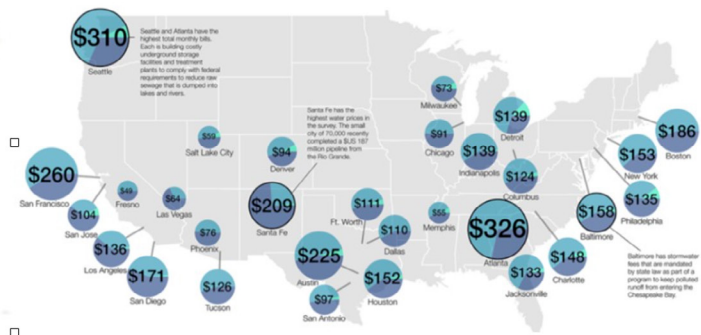
Water is one example of a critical resource that requires efficiency improvements to address its sustainability. In the U.S., approximately half of the country is suffering from moderate to extreme drought (as indicated by yellow and red in the picture below) and the demand for water continues to grow.

EXTREME DROUGHT IN THE US



THE PRICE OF WATER: 2015

Combined water, sewer and stormwater prices for households in 30 major U.S. cities.

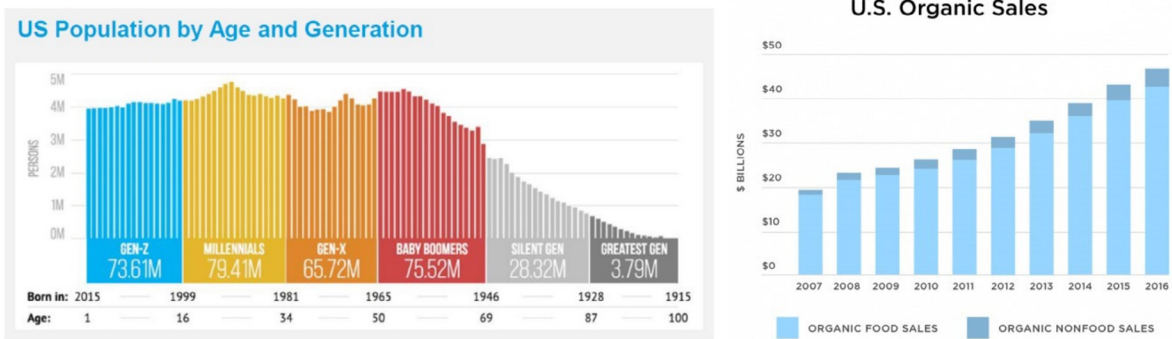


The cost of water also continues to rise at unsustainable rates having increased approximately 20% since 2010, faster than any other utility service. Water waste in turn causes a continuous expensive cycle of treating, cleaning and redelivering water. Water quality, safety and security have become critical priorities creating

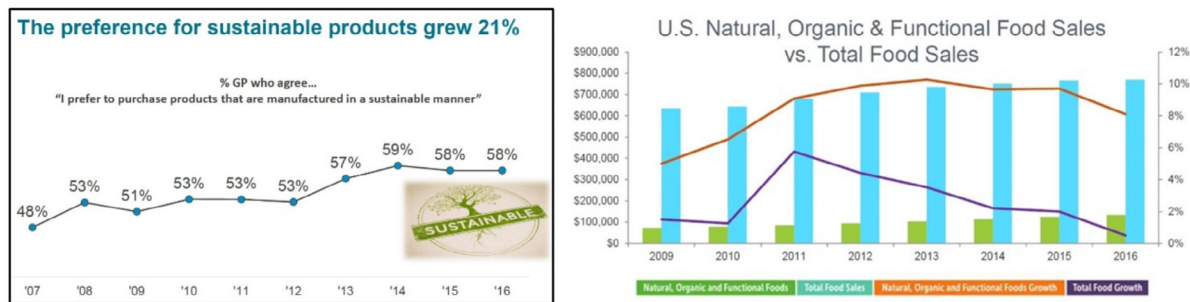
growth opportunities in the water efficiency market. The lack of consistent investment in aging infrastructure also is a key driver of water efficiency spending. We believe these themes create strong secular trends supporting water efficiency spending and will continue to pursue opportunities in this space.

SUSTAINABILITY

Consumers continue to become more aware and more educated and, as a result, are driving increased demand for products that are sustainably produced. The United Nations, in its Sustainable Development Goals, identified the improvement of food nutrition and the promotion of sustainable production as key priorities. The demographics of consumers continues to shift to younger generations that are more focused on sustainability and Millennials now represent the largest segment of the population at 25%.





Consumers now more than ever are willing to pay more for food and beverage products that are healthier, of better quality or are produced in a more sustainable manner. U.S. organic sales have grown to over \$40 billion, more than doubling in a 10-year period. 53% of consumers state that the exclusion of undesirable ingredients is more important to them than the inclusion of beneficial ingredients. They want healthier options, a better understanding of what they are eating, and 58% say they want products that are more sustainable.



Food and beverage producers in turn have responded to consumer demand with companies ranging from startups to established incumbents each transforming product offerings to capture the changes now demanded by the consumer. While there has been progress to date, there still remain significant opportunities for improvement and in the U.S., natural/organic/functional food still only comprises 10% of total food sales. We believe this trend has and will continue to create significant compelling investment opportunities.

Arborview's GIIRS Ratings

	YEAR	SCORE	OPERATIONS	IBM	ENVIRONMENT
Arborview Capital Partners LP	2016		Rated	BRONZE	PLATINUM
	2017		★★★	BRONZE	PLATINUM
	2018		★★★★	SILVER	PLATINUM
Drexel Metals	2015	46	Rated	SILVER	GOLD
	2016	62	Rated	BRONZE	SILVER
	2017	100	★★★	GOLD	PLATINUM
Rachio <small>Certified</small>  <small>Corporation</small>	2017	91	★★★	BRONZE	GOLD
	2018	94	★★★	SILVER	PLATINUM
Shenandoah Growers	2017	68	Rated	BRONZE	SILVER
	2018	80	★★★	BRONZE	SILVER
Vital Farms <small>Certified</small>  <small>Corporation</small>	2015	82	Rated	GOLD	PLATINUM
	2016	72	Rated	BRONZE	GOLD
	2017	81	★★★	BRONZE	GOLD
	2018	109	★★★	PLATINUM	GOLD



The GIIRS Rating is powered by the B Impact Assessment (BIA). The BIA measures the overall impact of a business on all of its stakeholders. Each company receives an overall B Impact score and two ratings.

IBM RATINGS

The IBM Rating reflects the company's impact business model performance through medal designations, segmented by quartile performance on a relative scale. This rating recognizes business models designed to solve social or environmental problems.

Examples include:

- Socially or environmentally focused products & services
- Underserved beneficiaries such as customers, employees, or suppliers
- Innovative ownership & operation models

OPERATIONS RATINGS

The Operations Rating reflects the company's performance on the operations section of the assessment, reflected on a 1-5 star scale based on quintiles of relative performance. Measures impactful practices, policies and achievements related to companies' governance structure, workers, community engagement, and environmental footprint.

CASE STUDY: Drexel Metals



Drexel Metals provides an example of how our impact and sustainability focus has added real, tangible value (environmental, social and financial) to our ultimate investment outcome. Our initial investment decision regarding Drexel Metals was highly influenced by the company's superior metal roofing products and its positive environmental and sustainability impact. We believed these factors positioned the company well in a market that was poised to experience strong secular growth. Metal roofs are an environmentally friendly roofing solution due to superior energy-saving features, unmatched longevity, durability in storm-prone areas and high recyclability. A metal roof can save homeowners up to 40 percent in overall energy expenditures. As a result, the metal roofing industry has grown at a significantly faster rate than the overall roofing market.



In preparation for this growth, we opened a new, more centralized distribution center in Louisville, KY. We believed having a more centralized distribution center would not only expand the company's geographic reach, but also reduce the business' carbon footprint through transportation and logistics efficiencies.

In the six years we owned Drexel Metals, the company also restructured its sourcing relationships and transitioned from a concentrated set of large, centralized vendors to a more local, distributed model where material was sourced closer to our company owned facilities. In addition, the company also created an Association of Regional Manufacturers (ARM) which allowed fabrication and installation to be done locally.

The company also introduced several changes meant to create positive impact for employees. We implemented company-wide bonus plans tied to the overall performance of the company. We issued stock options to employees that would value that type of long-term incentive over cash compensation and thereby created significant alignment with shareholders.

CASE STUDY: Drexel Metals CONTINUED



Even though we were the majority shareholder with 80% ownership and had the right to fill the board with Arborview directors, we sought to fill open board seats with independent, value-added, proven industry executives who provided valuable strategic guidance. We recruited two new outside board members, one was a senior executive of the largest commercial roofing contractor in the U.S. and the second was a senior executive at the largest commercial/industrial roofing business in the U.S.

These and other impact and sustainability initiatives were reflected in the company’s GIIRS ratings. In its first rating in 2015, Drexel Metals received a score of 46. By 2017, that score had improved to 100 and the company was in a position to become a Certified B Corporation.

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Drexel Metals	2015	46	Rated	SILVER	GOLD
	2016	62	Rated	BRONZE	SILVER
	2017	100	★★★	GOLD	PLATINUM

We sold Drexel Metals in 2017 and the company delivered significant shareholder value under our ownership. After multiple years of strong revenue, profit and impact performance growth, the new buyers (Carlisle Companies, NYSE: CSL) made the future growth of Drexel Metals a strategic priority. Carlisle, one of the largest producers of commercial roofing products, was attracted to Drexel Metals in part because of the company’s recognized profile in the industry as a sustainability and environmental leader. We believe that this core competency led to a premium valuation for the business in the sale. Following the acquisition, the company has continued on a strong growth trajectory as part of Carlisle and we know that this has continued to have a positive impact on all stakeholders including employees, vendors, shareholders, the environment and many others.

CASE STUDY: Vital Farms



Vital Farms is the largest national supplier of pasture-raised eggs and grass-fed butter. Its core mission is to bring ethically and sustainably produced food to the table. It currently works with over 130 family farms that are committed to organic agricultural practices and humane treatment of farm animals. Pasture-raised eggs are laid by hens that spend their days outside on pastures eating a natural forage diet, unlike the 98% of laying hens in the U.S. who spend their lives in small cages or in large industrial barns. Vital's eggs taste better, look better, and are better for you. The hens that lay them live happy, healthy lives as close to natural as is possible for domesticated animals. On Vital's farms the hens have 108 sq ft of pasture for each hen.

CONVENTIONAL EGGS		FREE RANGE	VITAL FARMS PASTURE-RAISED
CAGED	CAGE-FREE		
			
<ul style="list-style-type: none"> ▪ ~70 SQ. IN. PER HEN RESTRICTS NATURAL MOVEMENT. ▪ HIGHLY CONTROLLED ENVIRONMENT INCREASES STRESS. ▪ FORCED MOLTING (STARVATION) TO RE-INDUCE EGG-LAYING. 	<ul style="list-style-type: none"> ▪ NO-CAGE, BUT CRAMPED CONDITIONS (~1 SQ. FT. PER HEN) REMAIN. ▪ NO OUTDOORS ACCESS. ▪ IN-HUMANE PRACTICES SUCH AS DEBEAKING. 	<ul style="list-style-type: none"> ▪ DEPENDENT ON FARM, COULD HAVE 5-20 SQ. FT. PER HEN. ▪ FREE RANGE SIMPLY MEANS ACCESS TO THE OUTDOORS. ▪ A CONCRETE PATCH OR SQUARE OF DIRT FOR FIVE MINUTES A DAY CERTIFIES FREE-RANGE.¹ 	<ul style="list-style-type: none"> ▪ DAILY, YEAR-ROUND ACCESS TO OUTDOORS WITH SPACE TO ROAM. ▪ STRESS-FREE ENVIRONMENT. ▪ MANAGEABLE FLOCK SIZES WITH DEVOTED CARE AND ATTENTION. ▪ MEANINGFUL INVESTMENTS IN FOOD SAFETY AND QUALITY ASSURANCE.

In October 2017, Vital Farms celebrated the opening of its new greenfield Springfield, Missouri processing facility. Vital Farms' new facility, named "Egg Central Station," processes one million eggs a day. It has created more than 50 new jobs with a starting wage of \$13 an hour.

Springfield Mayor Ken McClure said the egg processing facility is a "big addition" to Springfield's west-side industrial park. "It's a new way of looking at agricultural interests, looking at environmental stewardship and a focus on how the eggs are raised," McClure said.

Vital Farms processes eggs produced by chickens that are raised on small, independent farms, most of which are in the Missouri and northwest Arkansas area. That's one of the reasons the company decided to open Egg Central Station in Springfield.

CASE STUDY: Vital Farms CONTINUED



Egg Central Station occupies an 86,400 square foot building on 11 acres and approximately \$17 million has been invested into the new facility.

VITAL FARMS' IMPACT:

COMMUNITY AND ENVIRONMENT

Every single Vital Farms egg comes from Certified Humane pasture-raised hens. Because the hens keep the pastures fertilized themselves, and regular rotation keeps the pastures healthy and covered in fresh grass, Vital Farms never needs to use any harmful pesticides, herbicides or chemicals on any of its farms. Conventional farms also need to dispose of mass quantities of waste and often do so in environmentally harmful ways.

VITAL FARMS EGGS ARE SOURCED EXCLUSIVELY FROM THE PASTURE-BELT, ENSURING YEAR-ROUND PASTURE-RAISED HENS.



CUSTOMERS – NUTRITION AND HUMANE TREATMENT OF ANIMALS

Vital Farms' hens have a naturally varied diet that they get to forage all year round and consumers taste the difference in the eggs that they lay. By eating wild grasses and bugs, Vital Farms' hens get more vitamins and minerals than they would on corn-based feed alone. The clear benefits of the hens' outdoor lifestyle – cleaner, less stressful, less competitive, plenty of fresh air and sunlight – results in a higher quality product.

In comparison to a conventional egg, pasture-raised eggs contain:

- 1/3 less cholesterol
- 1/4 less saturated fat
- 2/3 more Vitamin A
- 2 times more omega-3 fatty acids
- 3 times more Vitamin E
- 7 times more beta carotene

CASE STUDY: Vital Farms CONTINUED



SUPPLIERS – FAMILY FARM PARTNERS

Small-scale family farms have the opportunity to increase earning potential while farming fewer chickens, using more sustainable agricultural practices, making a positive contribution to animal welfare and improving their own quality of life in the process. Since 2014, Vital Farms has almost tripled the number of family farms it works with from 50 to now over 130.

CREW

Vital Farms seeks to create a collaborative work environment and aligns the interests of employees through a company wide bonus plan, regular town halls and targeted option grants.

SHAREHOLDERS

Since our initial investment in 2014, Vital Farms has created significant shareholder value. Revenues have grown more than 400% in that time frame and the company's profitability has also improved significantly.



B CORPORATIONS ARE FOR-PROFIT COMPANIES CERTIFIED TO MEET RIGOROUS STANDARDS OF SOCIAL AND ENVIRONMENTAL PERFORMANCE, ACCOUNTABILITY, AND TRANSPARENCY.

After becoming a Certified B Corporation in 2016, Vital Farms became a Benefit Corporation in 2018.

Other Portfolio Companies



SHENANDOAH GROWERS is the largest national organic herb grower in the US supplying fresh cut and living herbs. Its Harrisonburg, VA greenhouse is the first USDA certified organic greenhouse in the US and utilizes a patented and proprietary technology with best-in-class water efficiency, irrigation, fertilization, LED lighting and nutrient systems. SGI also utilizes vertical farming which uses less water and land resources and limits pollution and other negative impacts on the environment. This innovative growing method also uses less energy than conventional farming and does not use pesticides, herbicides, or preservatives in its farming process.

shenandoahgrowers.com



RACHIO'S smart sprinkler controller and wireless flow meter bring the smart home outdoors and allows users to manage their sprinkler system from any smart mobile device. It can save users up to 50 percent off their monthly water bill and has helped save customers more than 31 billion gallons of water to date. According to the EPA, some experts estimate that as much as 50 percent of water used for irrigation is wasted due to evaporation, wind, or runoff caused by inefficient irrigation methods and older legacy systems. Driven by intelligent, cloud-based software, Rachio analyzes recent and upcoming weather, humidity levels, as well as personal soil types and lawn conditions, to adapt to each individual yard.

rachio.com



ENVOCORE is a design/build energy service company that combines more than 60 years of best-in-class service offerings to ESCO partners in the energy industry. In 2017, ENVOCORE combined Retro-Tech Systems (RTS) and LRI Energy Solutions as wholly owned subsidiaries. RTS includes RTS Lighting, RTS Water, RTS Utility Metering and RTS Building Envelope. LRI Energy Solutions includes Lighting Retrofit International, Water Savers, and Enlight Energy Efficient Lighting. ENVOCORE's combined skill sets, strengths, and design/build specialties create an amalgam of services founded on industry-wide best practices and a history of successes—with measurable ROI. From water conservation to lighting efficiency and controls to building envelope optimization, metering and beyond, ENVOCORE delivers unmatched energy-efficient solutions to ESCO customers worldwide.

envocore.com



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