

The HUB

NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS

Natural capital: the next frontier

How to invest in private assets to positively impact land, oceans, climate and biodiversity

Making a sustainable impact is a goal for many investors.

Investing in natural capital projects via private assets makes the process more tangible. Through direct investment in natural capital, at scale, investors can see with their own eyes the difference they make to the environment. At the same time, underlying assets have the potential to deliver attractive financial returns for private investors. In addition, de-risking mechanisms can also be put in place where needed, especially for investment in developing countries (through public or philanthropic money acting as guarantor or first loss taker).

Natural capital's impact on daily life

The condition of land, oceans and climate intersects with our daily lives – what we eat, how we build, how clean and attractive our environment is. Most people share concerns about these issues.

The deterioration of natural capital is having a severe impact on food security, livelihoods, climate change and biodiversity. Nevertheless, natural capital is a severely underinvested area. A couple of facts illustrate well this conundrum:

- More than half of the global GDP depends on natural resources¹. Our economies are embedded within nature, not external to it, and the sustainability of economic development is fully dependent on protecting natural ecosystems.

- Whilst being highly dependent on nature, we have severely damaged this natural capital, with more than 70% of the Earth's land area having been transformed from its natural state, and between 20 to 40% of land area being degraded land².

- Ultimately, nature benefits only from 3% of climate finance investments, while it represents 30% of the solution.

"We can only assume underinvestment is due to a perceived lack of opportunity, rather than a lack of interest on the part of investors," says Anne-Laurence Roucher, deputy chief executive and head of private equity and natural capital at Mirova.

"There are not many pureplay opportunities to invest in natural capital. Mirova's natural capital platform is unique in offering investment opportunities across the natural capital spectrum using a wide variety of financial instruments to suit each project."

A single, full-spectrum platform for natural capital

Mirova, an affiliate of Natixis Investment Managers, offers three distinct natural capital themes for investment, as well as many sub-themes. The three themes are: sustainable land, sustainable oceans, and natural climate solutions.

Sustainable management of land is necessary amid land degradation caused by activities such as overgrazing, monoculture farming, deforestation and industrialisation.



Anne-Laurence Roucher
Deputy CEO
Head of Private Equity and
Natural Capital
Mirova

Key takeaways:

- Deterioration of natural capital is having a severe impact on food security, livelihoods, climate change and biodiversity. Yet natural capital is a severely underinvested area.
- Mirova has created a natural capital platform offering three distinct themes for investment: sustainable land, sustainable oceans, and environmental solutions such as natural climate solutions.
- Platforms combining specialist research and asset sourcing in frontier markets, combined with sophisticated financial capabilities, can spur rapid growth in natural capital investment.

¹ Source : WEF, Nature Risk Rising : why the crisis engulfing nature matters for business and the economy

² Source : UNCCD Global Land Outlook second edition, April 2022

Government funding is insufficient to achieve “Land Degradation Neutrality”, one of the United Nations Sustainable Development Goals. More private capital, ideas and expertise are needed.

Mirova invests in agroforestry and agroecology projects across the world, combining sustainable production of raw materials (such as certified food and fibres) and nature conservation, as well as inclusive projects for local communities.

Meanwhile, sustainable ocean management seeks to stem or reverse deterioration in oceans, which cover around three-quarters of our planet and are critical to millions of livelihoods. Investment opportunities exist in the sustainable seafood and circular economy sectors as well as marine conservation. Mirova aims to improve biodiversity and resilience in coastal communities, creating business opportunities through sustainable fisheries and aquaculture, circular economy, eco-tourism, payments for ecosystem services and Blue-Economy Technologies.

Last, according to the World Economic Forum, natural climate solutions can provide one-third of the climate mitigation needed to reach the 2030 objectives, approximately 7 Gt of CO₂ with an average price significantly lower than other CO₂ removal solutions (such as technology-based removals)³.

The voluntary carbon market is a strategic response to climate change which by its very nature is a long-term issue. Carbon credits, especially generated by natural climate solutions, is a maturing market, with a projected size of \$50 billion by 2030⁴ driven by increasing corporate net-zero commitments.

In this field, Mirova has established a pioneering track record investing in green (forest), soil (agriculture) and blue (mangroves, wetlands and coastal ecosystems) carbon credits projects with strong certifications and ESG standards, assessing also their biodiversity and social positive impacts.

Tapping into a deep pool of green and impact expertise

A platform dedicated solely to impact and real assets can offer investors access to a wide range of natural capital investments. Mirova is a leading pure player in impact and green investments. It can leverage the deep pool of Mirova’s existing expertise in energy transition infrastructure, natural capital, impact private equity and sustainability research.

More than 20 investment professionals underpin the Mirova natural capital platform. All of Mirova’s teams are supported by a 16-strong sustainability research team, with sectoral research expertise including agriculture, buildings and mobility, resources, energy and consumption.

The natural capital platform is further supported by expertise from an energy transition team which manages more than €2.2 billion in investor assets, supported by 22 seasoned investment professionals, and has financed 300-plus projects over the past 20 years.

Mirova’s long-standing ESG ecosystem rapidly qualifies potential investments, produce bespoke research and generate leads. And, in an investment area where regulation is a major catalyst, Mirova is at the cutting edge of regulatory thought. Philippe Zaouati, chief executive of Mirova, has served as a member of the European Commission High Level Expert Group on Sustainable Finance, a group of 20 senior experts established to help to develop an overarching and comprehensive EU roadmap on sustainable finance. He is also the founder and former chair of Finance for Tomorrow, which promotes sustainable finance in France and internationally.

“Regulation is a major driver of ESG evolution,” says Roucher. “And besides advocacy, many of our employees are also members of think tanks and market initiatives (such as TNFD, Natural Capital Investment Alliance, etc) that go beyond the reach and demands of regulators.”

Putting financial structures around natural capital

Financial structuring and dealmaking expertise are critical to investing successfully in natural capital projects. Mirova has a robust operational platform with €3bn of AuM in private investments and a proven track record in private asset investing.

“We have privileged access to dealflow opportunities through Mirova’s deep network of partners,” says Roucher.

“Mirova is a powerful brand in the ESG market and is rightly recognised as a true ESG pioneer,” she adds.

The natural capital platform employs a range of mechanisms and instruments for performance and capital protection. Some financial instruments come with a fixed coupon, that can be coupled with revenue or profit sharing or, where appropriate, equity participation. In addition, de-risking

mechanisms such as public guarantees or first loss investments are implemented to improve the risk return profile for private investors.

Roucher says: “We can blend financial tools to target solid returns from early-stage frontier investments, combining high environmental and social impact with financial performance.”

Opportunities in both developing and developed markets

While many of Mirova’s projects are undertaken in developing markets – particularly South America, Asia and Africa – many natural capital opportunities also arise in developed markets too.

“We are gaining more exposure to developed markets, partly in response to the risk-return expectations of institutional investors, who have larger investments allocation for developed markets” says Roucher. “But also because there are deals.”

Whilst creating sustainable land management in developing markets, Mirova also noticed downstream opportunities in developed markets too. So, while its projects may foster sustainable coffee plants in South America, for instance, in Europe it could focus on the downstream business, where sustainable commodities are transformed and distributed.

An asset class on the fast track

Renewable energy asset classes took more than a decade to get this far. Natural capital is at the very start of its journey, but its connection to everyday life is likely to fast-track its development.

“Natural capital will evolve faster because it is clear to investors that the need to address it is acute, and in many ways coupled with the climate change issue, which is now clearly understood,” says Roucher.

Platforms such as that developed by Mirova, which combines specialist research and asset sourcing in frontier markets, combined with a sophisticated financial capability, will spur growth in natural capital solutions.

“Our platform is for investors who are looking for robust financial returns, but also truly want to be part of securing the future of the natural world,” adds Roucher.

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3. Consultation: Nature and Net Zero | World Economic Forum (weforum.org)

4. “A blueprint for scaling voluntary carbon markets to meet the climate challenge” – McKinsey 2021

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