Climate Asset Management

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Seizing the nature investment opportunity

Climate Asset Management has just raised $650 million for its two natural capital investment strategies. Martin Berg, the chief investment officer of its Nature Based Carbon Strategy, explains its approach

***Environmental Finance:* How have the COP15 biodiversity summit and the preceding climate talks changed the context for investing to protect biodiversity?**
Martin Berg: COP15 has helped elevate nature to a mainstream investment theme. I've never seen so much coverage of biodiversity loss and why it's an important issue for investment. It has certainly changed the narrative.

Over the last two years, we've seen much more attention given to nature, preceding the two recent summits. At COP26 in Glasgow, for example, the nexus between climate and nature started to become clear for many investors.

They view the issue from two directions. Some see nature as an upcoming investment theme, like climate. Others look at the issue from the disclosure side. For example, French investors face disclosure requirements under Article 29 of France's Energy Transition Law, while others are assessing how the Taskforce on Nature-related Financial Disclosures (TNFD) might affect them.

EF: Are there any specific elements of the Global Biodiversity Framework (GBF) agreed at COP15 that are particularly significant?
MB: The most important outcomes for us are Targets 14, 15 and 19. These require the scaling up and alignment of private and public financial flows with the goals and targets of the GBF, as well as ensuring disclosure of private sector impacts and dependencies on nature. Not only do we see potential for governments to stimulate financial flows towards nature conservation, but it could incentivise the private sector to take action. In some respects, it's analogous to the Paris Agreement's Article 2.1c: many observers saw that as a trigger for increasing activity from public and private stakeholders.

EF: What is the approach you are taking at Climate Asset Management at integrating biodiversity into your investments?
MB: Climate Asset Management is exclusively dedicated to nature. At the end of last year, we raised $650 million in initial commitments for our two real asset strategies, which target distinct groups of investors.

Our Natural Capital Strategy offers institutional investors real asset investments in nature-related projects that aim to deliver financial returns alongside positive impacts. The strategy is built around acquiring agricultural and forest-related land in developed markets and improving its sustainability. We aim to achieve returns through sustainable yields, increased land value and, where possible, additional revenue streams from natural capital, whether carbon credits or emerging biodiversity-related credits or incentive schemes.

Our Nature Based Carbon Strategy targets landscape restoration projects in developing economies to deliver biodiversity improvements at scale for climate resilience, community benefits, and high-quality carbon credits with a view to enabling global corporations to achieve their decarbonisation targets.

The first strategy is entirely investment-led, combining returns with impact, while the second is impact-focused, aiming to deliver high-quality carbon credits to its mainly corporate investors.

EF: What sort of biodiversity outcomes are your investors looking for?
MB: Generally speaking, investors are looking for measurable outcomes. Measurable, additional long-term impact is a fundamental component of our investment strategy. Our impact framework measures a variety of impacts, including improvements in biodiversity. First, we assess the situation on the ground to quantify the biodiversity 'status quo'. We then design strategies that, among other things, lead to improvements in nature. We can do this because, as a real-asset strategy, we control the underlying projects.

EF: Which metrics do you look at specifically?
MB: For biodiversity, we focus on measuring ecosystems in terms of their extent and condition. Specific metrics will vary depending on what's appropriate for each landscape. In one landscape, our activities might improve invertebrate populations by reducing chemical inputs so we will measure that. In another, it might improve habitat connectivity across a forest. Grouping these metrics under extent and condition allows us to report consistently across the portfolio.

Martin Berg, CIO Nature Based Carbon Strategy

"I've never seen so much coverage of biodiversity loss and why it's an important issue for investment"

EF: How does your approach to investment dovetail with the work of the TNFD?

MB: We're actively involved with the TNFD discussions: HSBC is a member of the Taskforce and, through our shareholder HSBC Asset Management, we are participating in several working groups, particularly around targets and metrics.

We look at the TNFD through two lenses. The first concerns the ability to communicate nature-related investment opportunities to the market. As a dedicated nature-focused asset manager, we are supportive of the TNFD's ambition to communicate these opportunities clearly and responsibly. As we've seen with climate-related disclosures in the past, investors initially focus on the risks, but then quickly consider the opportunities involved.

The second concerns supporting the development of standardised disclosure frameworks. We have partnered with Phoenix, the UK's largest long-term savings and retirement business, to pilot disclosure against the TNFD framework. We intend to apply the 'LEAP' approach, which stands for Locate, Evaluate, Assess and Prepare, to several potential natural capital investments across multiple geographies to understand the approach, including data requirements, prioritisation, target setting and disclosure, and to contribute that learning to inform the market.

EF: There's considerable civil society concern about biodiversity offsetting. How do you respond to those concerns?

MB: We understand the concerns. In many cases, because biodiversity is priceless, putting a price on it just doesn't feel right. It also raises many moral concerns, as we have seen not least with the discussion on carbon.

But on the flip side, the economic benefits that biodiversity provides are rarely priced in, and that causes a lot of issues. If the true value of biodiversity were clearer, investors and corporates would treat biodiversity very differently. It's a dilemma that needs to be overcome for progress to be made.

In our view, there's a middle way, where smart regulation incentivises the preservation of biodiversity rather than its destruction. Policy makers should consider both the economic value and the moral aspects of nature preservation. At COP15, we saw serious conversations about the development of a voluntary credit market, not to offset impacts, but to deliver additional positive outcomes for nature. It's a tricky balance to strike but, if biodiversity offsetting can be implemented in the right way, it has the potential to catalyse investment in biodiversity.

EF: We need to mobilise hundreds of billions of dollars annually to close the biodiversity funding gap. What are the key barriers we need to overcome to do so?

MB: Metrics and regulation, which are interlinked. Regulation would be much easier if we had clear biodiversity metrics; unlike carbon, there is no single metric for biodiversity to focus on, since the value of biodiversity very much depends on the local context. It's therefore a challenge to settle on a single indicator for regulation.

On the positive side, a lot of work is being done as part of assessment frameworks. How to improve these was a major topic of conversation at COP15 and more focus on this aspect is needed to make progress.

EF: What about deal flow – are there enough projects for nature-orientated investors to direct capital into?

MB: For sure, but it depends on the approach. Opportunities that are clearly linked to existing economic activity are easier and tend to have more pipeline. Our Natural Capital Strategy adopts this approach and links improvements in biodiversity to sustainable agriculture and forestry investments. Alongside potential payments for biodiversity, there should also be more traditional revenue streams from the underlying yield and land value appreciation.

Where the reliance is exclusively on revenue streams from biodiversity or natural capital, there's a whole basket of other opportunities but these are more challenging. It comes back to regulation or voluntary action: if there were a clear evaluation of the benefits of biodiversity preservation, then the financing would be less of a challenge, and ultimately the pipeline would grow exponentially. ■

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