

KEYNOTE INTERVIEW

Growing credible impact



*Investing in sustainable forestry combines positive climate impact with resilient returns, says Manulife IM's **Eric Cooperström***

With a natural capital platform comprised of timberland and agriculture investments totaling over \$16 billion and a 40-year track record, Manulife Investment Management is one of the largest and most experienced natural capital managers globally. Stewarding forests that cover 5.6 million acres in North and South America, Australia and New Zealand representing \$12 billion of AUM, the firm stands out as the largest timberland investment management organization in the world.

With those credentials in mind, we sat down with Eric Cooperström, Manulife IM's managing director, impact investing and natural climate solutions, for an update on how the firm invests in sustainable timberland, where the asset class is headed and where he sees the most opportunity for impact.

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Q Manulife IM has a substantial portfolio of timberland assets. What does it look like?

We are active in six countries currently: the US, Canada, Brazil, Chile, Australia and New Zealand. These geographies represent the bulk of what we consider to be the institutionally investable universe of sustainable timberland assets. We are not currently invested in emerging markets like sub-Saharan Africa or East Asia. We have looked at some of those markets in the past, but ultimately, we are interested in regions that offer the opportunity for scale and the efficient

deployment of capital while aligning risk/return profiles with our client investment strategies.

Cumulatively, our acquisitions and dispositions team have decades of experience and deep network connections in the timberland and land markets. We look for larger transactions, and we're often invited to participate in competitive sales processes via intermediaries or individual landowners. Our team has also been successful identifying off-market transactions. Those have made up a significant portion of our pipeline over the years.

Q What's your approach to investing in sustainable timberland?

We view it as a spectrum of value creation opportunities. These range from our core sustainable timberland

strategy at one end, where we manage a property only or primarily for its sustainable timber value, including the potential layering multiple revenue generating streams, including recreation leases, mitigation banking opportunities, and selling solar or wind options to developers.

At the other end of the spectrum, we are investing in carbon-focused forestry. In 2021, we developed our forest climate strategy with carbon value as its main driver. The Manulife Forest Climate Fund launched in 2022 and closed on \$480 million at the end of 2024. The fund prioritizes carbon sequestration and gives investors exposure to climate mitigation and returns generated through the sale of carbon credits with additional value drivers from limited timber harvest, conservation easement sales and other non-timber activities.

The unique aspect of timberland is you can move the slider along that spectrum and choose a mix of sustainable timber value and carbon value and climate benefits for a portfolio that matches the specific needs and interests of a particular client.

Q For carbon-focused forestry specifically, where are the opportunities?

In the US, we estimate that the investable timberland market from a core sustainable timberland perspective is worth about \$240 billion. Of that, almost half has the potential for carbon-focused forestry. That includes existing timberland investments as well as opening up new properties.

In 2010, we made our first foray into the carbon markets. Since then, we have generated and sold almost seven million carbon credits in the compliance and voluntary carbon markets globally. To date, we manage 11 different properties that include either active carbon projects or projects in development. And we're looking to expand the forest climate strategy further in the years to come.

Q What types of organizations are investing in your natural capital platform?

With our core sustainable timberland investment strategy, historically we have worked with large institutional investors. As we've rolled out our forest climate strategy, there's been overlap with many of those investors leading the way. And for the first time we've seen corporations entering this space as investors. Not corporate pension funds but operating companies wanting to secure a durable stream of high-quality, high-integrity carbon credits. We're seeing new types of investors emerge attracted by the potential for climate impact.



“We’re seeing new revenue generating opportunities emerge from sustainably managed forests”

Q How will you do that?

Historically, we were very opportunistic with our carbon-focused investing, selecting specific projects for certain clients with broader sustainable timberland-focused portfolios. Now we invest our forest climate strategy through the fund and select client mandates that include a carbon component, and we are guided by our carbon principles. These align with The Integrity

Council for the Voluntary Carbon Market core principles.

Until now, we have participated, particularly in North America where the majority of our carbon portfolio is located, in improved forest management projects. This involves acquiring existing working forests historically managed for institutional timber value and shifting management practices to intentionally sequester more carbon. That might include reducing harvest intensity, extending harvest timelines or conducting pre-commercial thinning, for example.

In a carbon-focused acquisition scenario, we will typically develop a 50-year discounted cashflow model, including all the potential revenue drivers that we are confident that we can underwrite. And we'd compare that to a timber-only scenario to support financial additionality for the carbon project.

Q What are the risks associated with investing in timberland?

As biological assets, forests are at risk of wildfires, pests and disease. In due diligence, we'll assess the overall health of the forest and the current and projected future risks. We also seek to mitigate those risks across the portfolio by diversifying forest locations, types and species. And finally, we ensure the assets are well managed. As a team, we're vertically integrated. Most of my 350-plus colleagues are foresters, area managers and wildlife ecologists living in local communities and directly managing our client assets. Good stewardship is good business, and we seek to implement that principle throughout the investment's lifecycle.

At the commodity market level, the cyclical nature of timber means we take a long-term approach to managing risk. Given the ongoing housing shortage, particularly in the US, the longer-term outlook is increasingly supportive of timberland investment.

Q Carbon markets are still relatively young and evolving. Where are they headed?

Since the Kyoto Protocol in 1997, which kickstarted the development of carbon credits, we've seen a shift from a fragmented carbon market underpinned by individual methodologies and registries with low liquidity and high price volatility, to increasing standardization and mainstreaming. For instance, in addition to ICVCM oversight of carbon credit programs, the Voluntary Carbon Markets Integrity Initiative provides guidance to carbon credit buyers.

Despite the climate rollback in the US, retirements, the main measure of demand in carbon markets, reached a record high in the global voluntary carbon market in the first half of this year. Corporations are increasingly committed to carbon markets and finding

high-quality pathways toward net zero, including sustainable forestry. And governments are supportive, launching initiatives to unify standards and practices across compliance and voluntary markets.

Q What metrics or frameworks do you use to measure impact?

In due diligence and to manage forestry assets, we use Munich Re's Location Risk Intelligence Platform, as well as other geospatial tools, to assess potential climate change impact on our properties. We use IBAT and RESTOR technology and data sets to track biodiversity and identify threatened species. KPIs that track impacts on climate, nature and people include carbon tons sequestered, carbon credits generated, acres protected through measures such as conservation easements or stream management zones.

Through our sensitive lands program, we have protected 500,000 acres. And we conduct dispositions to conservation buyers on a regular basis. All our client timberlands are sustainably certified by the Sustainable Forestry Initiative or the Forest Stewardship Council.

Q How do you ensure the transparency and credibility that drive carbon-focused investing?

Our carbon standards working group operationalizes our principles and sets very specific guidelines, for example we only work with ICVCM CCP-approved carbon registries. At acquisition, we prefer to target unencumbered assets and develop projects from scratch based on our carbon principles. We have assessed opportunities hosting existing carbon projects, but they tend to rely on older methodologies. We've had some reservations around baselines so declined to move forward.

In terms of data and metrics, we are deploying a significant amount of technology to increase the specificity of our measurements and ultimately

the transparency of a carbon project's assumptions and data. This includes AI and satellite-enabled geospatial analysis for certain improved forest management projects to set strong and defensible baselines.

Managing carbon projects, we're employing digital monitoring, reporting and verification through remote sensing, drone technology and satellite data, which is giving us greater confidence in our reporting. In North America, LIDAR technology is helping us map our timberland portfolio, moving from a statistical sampling approach to a census of individual trees. Foresters are using the data on a regular basis, especially in hard to access locations, to adjust our management practices.

Q What's next for sustainable timberland as an asset class?

Core sustainable timberland investments have been a component of institutional portfolios for decades, offering an inflation hedge and benefits like portfolio diversification due to its low correlation with other asset classes. As well as climate mitigation attributes, we're seeing new revenue-generating opportunities emerge from sustainably managed forests such as biochar and bio energy with carbon capture and storage.

In terms of impact, there's no viable pathway to achieving global climate goals without nature, and without carbon markets and investments in sustainable forestry. A natural capital approach also addresses the dual crisis of nature loss and biodiversity loss, for instance by replanting native forest in deforested areas, or helping to reconnect critical pathways and habitat corridors, as well as providing specific support for endangered species and local flora and fauna. This approach also benefits people by providing local communities with jobs and ancillary environmental benefits like clean water and clean air. ■