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KEYNOTE INTERVIEW

Natural capital's next frontier





Regenerative agriculture needs to now be considered as a core component of any natural capital strategy, say Regenerate Asset Management's Ben Stafford, Ryan Cameron and Nicholas Burlington

The natural capital space remains dominated by investments in forestry. Yet while they are positive about the role of sustainable forestry, Ben Stafford, chief executive officer of Regenerate Asset Management, the firm's chief investment officer Ryan Cameron, and managing director of investor relations Nicholas Burlington believe regenerative agriculture has not received the prominence it deserves.

Allocations to regenerative agriculture strategies are now beginning to increase, they say, as LPs begin to understand and appreciate the enormous ecological and financial benefits.

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Q How would you describe the current state of the natural capital market?

Ben Stafford: The market is evolving in a positive direction. Some funds are popping up with serious plans to improve nature, and others are trialing certain investment techniques to enhance nature. There's a proven group and an emerging group of managers within the asset class.

There's currently a huge boom in timberland funds closing in the multi-billion-dollar range, but we're still seeing a deficit in nature-friendly investing in agriculture.

Nicholas Burlington: Timberland has been by far the largest strategy for investors in natural capital to date, with LPs recognizing that forestry can deliver both carbon sequestration and improvements to biodiversity. Not all timberland funds are necessarily innovating within natural capital, and investors are now looking to build multi-strategy natural capital portfolios, rather than single-strategy allocations. A lot of positive work is now being

done by investors to design portfolios bigger than just forestry, to account for balanced risk, return and impact across the liquidity spectrum within which regenerative agriculture is a core component.

Q Why is forestry seen as more of a natural entry point for institutional capital than agriculture?

BS: Forestry is seen as a simple way to benefit nature and climate, and many people assume that any kind of forestry will offer a sustainability improvement. Strategies in the forestry space also benefit from track record.

Although there's a lot of innovation around regenerative agriculture and it is very nature-friendly, the simple fact is that more strategies have been demonstrated and evidenced in forestry.

If investors want genuine exposure to natural capital, they cannot stop at forestry alone. Agriculture sits at the heart of soil health, biodiversity, water systems, climate resilience and food production, so it is a critical part of how natural capital is restored and sustained over time.

Q What does increased awareness of regenerative agriculture mean in terms of portfolio composition?

Ryan Cameron: It's not changing as quickly as we would like, but the mist is definitely rising. As the evidence base grows, investors are increasingly recognizing that if they want to deploy into natural capital at scale, they have to consider regenerative agriculture.

Forestry can't be the only pathway for natural capital investment to grow – and actually, the scale of opportunities in the regenerative agriculture space can outstrip those around forestry.

Regenerative agriculture adds real diversification because the returns come from a broader set of drivers. Rather than relying mainly on land value and long-term timber pricing, you also have operational uplift, stronger yield resilience, lower input costs and potential upside from ecosystem services.

The last time farming was truly regenerative, it was done with little or no technology. Only now are we finding out the huge benefits behind regenerative agriculture, as we quantify and analyze the data that the pioneers of regenerative farming have collected. We're now seeing that the right crop types, the right practices, the right farmers and the right systems, and protocols are delivering better returns at a lower cost.



Q How does regenerative agriculture benefit ecosystems?

BS: One of the dangers with monocultures is that pests and disease tend to spread much more easily. In a regenerative system, when you've got a diversity of species, pests don't impact crops in the same way. Of course, you can never remove pests altogether – and that's actually a good thing, because the pests are a food source for predators, which in turn keep the pest population under control.

In a monoculture, the only real option for pest control is to use chemical pesticides. That's now being restricted in Europe as well, and as we see right now with the Middle East crisis, the supply and pricing are entirely exposed to global geopolitical shocks. This is no longer a resilient system; it is a system under real strain.

The soil in a diversified, regenerative system is not as compacted, which means it can store water for longer, but can also get rid of surface water very quickly because of the structure of regenerative soils. Crops are then more resilient because they have access to water. It also means lower dependence on commodity fertilizers, reducing exposure to price spikes, supply disruption and geopolitical shocks.

RC: Healthy soils are like a sponge. In brittle climates, you want to absorb water, or where flooding is an issue, you want to be able to mitigate against that. The value of that to the farm is huge. It helps reduce the risks from seasonal fluctuations that affect annual crops. Farming in a way that maintains healthy soils is both de-risking and adding value.

Q How can managers like Regenerate close the information gap?

RC: There is a big opportunity to educate investors on how the models now available are different to those that were available historically.

We realized when we started developing the model six or seven years ago

that capital was accessing agriculture in a passive sale and leaseback model. There was a prevailing wisdom that institutional capital didn't like farm operations, partly because of the commodity risk.

We had seen headwinds with the alternative owner-operator model because the institutional community is less used to it. But that's the opportunity. You need to have an active role in transitioning assets, controlling the impact and generating data on regenerative agriculture.

NB: Understandably, it takes time to build awareness around the concepts of regenerative agriculture in isolation, but we encourage investors to assess this space with a real asset focus first.

We designed our strategy to generate its primary value through well-known land investment principles like expansion and optimization, with regenerative value then added on top.

When LPs look at that strong downside protection, and then layer on the upside from regenerative practices through lower input costs, better operational performance and clear environmental improvement, the proposition becomes highly compelling.

Q Will forestry remain dominant within natural capital?

BS: There are fairly sizable risks to more deployment in forestry. Commercial forestry is very dependent on monoculture plantations. These monocultures are highly vulnerable to pests, which thrive in single-species environments. That's a systemic risk for forestry, which is often under-evaluated in business models.

Also, scientific understanding of carbon sequestration has improved in the last decade. The received wisdom was that trees are better at storing carbon than soils. But that mentality has changed quite dramatically. Soil carbon and farming business models have gained acceptance as a durable way of storing carbon, whereas we're now seeing wildfires and storms damaging forests incredibly quickly. Historically, that risk hasn't been properly quantified. The balance is shifting towards soil being recognized as the more secure way to store carbon.

> *"The scale of opportunities in the regenerative agriculture space can outstrip those around forestry"*
>
> **RYAN CAMERON**

Forestry, as it should be, is certainly seen as a fantastic investment area. We think both forestry and agriculture should be part of natural capital strategies, and we shouldn't ignore the learnings that we've gained over the past 40 or 50 years in forestry. But it does come with a longer transition risk period than the two- to four-year transition risk that we see in regenerative agriculture.

RC: There's a number of new policy directives being implemented in the EU and the UK, which bring some risk for historic strategies that weren't built from the beginning with these in mind.

In agriculture, we find it's possible to invest in a way that's not mixed up in policy. Of course, there are policies and subsidies that you can use as tailwinds, but you can create models where you're not solely relying on those policies. The best approach is to farm with nature to create a profitable and resilient system. There might be benefits, from biodiversity uplift, for example. But it's best not to rely on those to make the investment viable.

Q What trends do you expect in the natural capital space in the coming years?

BS: If the sector is really to grow, allocations need to move beyond just forestry.

We are now seeing more allocations beginning to move towards regenerative agriculture but they are still emerging. That trend will continue. We're seeing very intelligent and very careful LPs spending the time and effort to commit to this space, and really thinking about how they can add value.

We also see some of the old guard in the space maybe not being so pragmatic about regenerative practices. That will change, but it will take time.

We'll see more focus on defining natural capital as requiring truly additive nature-positive activities, predominantly defined by outcomes, not practices. That will allow things like ecosystem services to become more important.

In the next few years, the key trends will be more allocations to regenerative agriculture and the further development of timberland natural capital models.

NB: If we zoom out, the agriculture industry wants, and frankly needs, to move to a more sustainable model, regardless of this interest in the concept of natural capital investing. Farmers on the ground care deeply about their role as stewards of the land and want to be regenerative. This transition will happen and investment into the space will naturally follow. ■

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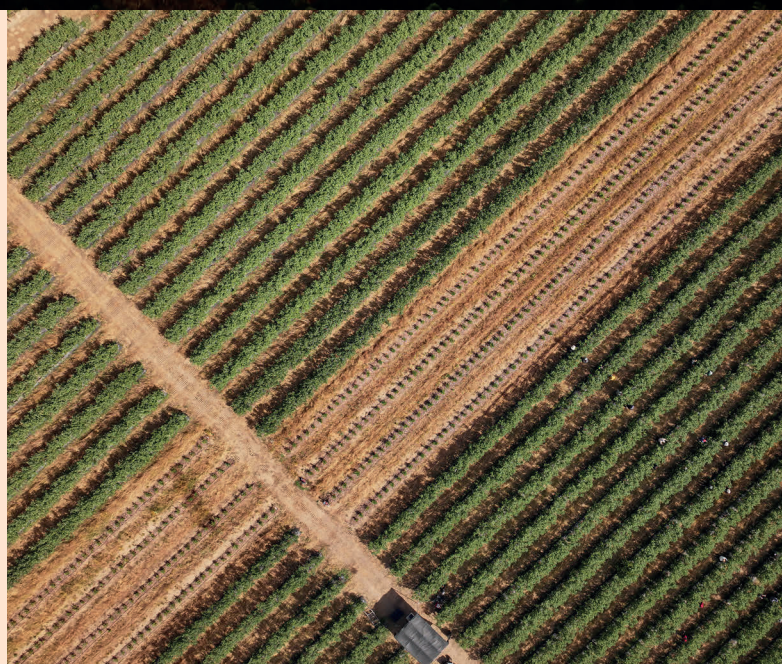
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We provide investors the choice to back regenerative agriculture through a disciplined, evidence-based investment approach

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