

OPPORTUNITIES IN SUSTAINABILITY THE VOICE OF GLOBAL INVESTORS

Patricia Torres 01:09

So hello everybody. Good afternoon. We have been told that all of us here today, we're going to have a dinner side conversation, and so as you know, I'm the Head of Products for Bloomberg for Sustainable Finance Solutions. And the topic of our dinner conversation is going to be about how to turn solutions into bankable, scalable investments in Brazil. So according to Bloomberg, New Energy Finance, Brazil needs to cut their greenhouse gas emissions between 59 to 67 percent below 2005 levels by 2035 and the biggest emission reductions will come from agriculture, land use and forests. So with me, I have four amazing guests, and I'd like to introduce you themselves. So Clara Barby from Just Climate, brings the climate led investors playbook, running funds across from industrial and natural climate solutions. Her newest strategies focus on the land transition, anchored by the California State Teachers Retirement System and Microsoft's Climate Innovation Fund, and made its first investments in bio pesticides, agriculture services and biodiversity monitoring. As head of the climate arm of generation investment management across disciplinary teams, spans across London, Sao Paulo and San Francisco, then I'm going to Tony. So Tony Lent is a Co-Founder of Capital for Climate. He helps turn national pledges into purchased orders. Brazil's National Determined Contribution plan says that Brazil will restore 12 million hectares by 2030 and Tony's ecosystem aims to deliver the first 5 million with real vehicles, long term contracts and practical risk tools. His platform curates more than \$29 billion of viable nature projects globally. Of those, 1/3 is in Brazil. Jens Nielsen, from World Climate Foundation, is the Alliance architect of our dinner table. So through the World Climate Foundation, he helps convert commitments into allocation. So think about \$130 billion of Nordic and UK pension commitments, and is convening a global investor hub at the 2025 United Nations Climate Conference in Belém. And last but not the least, Wolfgang from GIC leads on the ground investing for Singapore sovereign wealth funds in Brazil and across Latin America. And Co-leads the Sustainability Solutions Group, a global team investing in early stage energy transition opportunities, as well as companies that need capital to scale up proven technologies. Okay, so as you can see, have four amazing guests, and we have a lovely dinner ahead of us. So in the next 30 minutes, we will move from the thesis with Clara to what to buy with Tony, to the instruments and alliances that will reduce the risk with Jens, and finally, to what clears an investment community committee to get a yes with Wolfgang. So you should leave today with knowing what to buy, how to derisk it, and why it will meet your returns threshold in Brazil if we all come together. So Clara, let me start with you. So as we heard so, 50 percent of the emissions are not actually in the energy transition in Brazil. They're actually on the land transition. So I'm curious to hear from you on that land, that side from agriculture, water and sanitation, waste or restoration. Which one do you think offers the best risk adjusted returns?

Clara Barby 04:48

Okay, so we've been on a real journey here, and it's interesting because when you say land transition, you typically think real assets. You think forestry and agricultural holdings. We're a 31 billion AUM manager across public markets and private markets, so we have the full range of instruments. And we looked at the land transition, and our observation was, yes, we need capital to continue to flow to real assets, but actually the real, the really promising risk adjusted return opportunity today that's differentiated, is actually growth capital, and it's growth capital into what we think of as the picks and shovels that landowners and farmers need in order to transition their land. So think bio inputs like bio pesticides and bio fertilizers, precision agriculture, farmer advisory services, all the way through to some of the more novel products, like biodiversity monitoring services. This area, if done right, because the scale of the land transition has an enormous opportunity ahead of it. So just a couple of examples to make this real, we've invested in an alternative to chemical pesticides, which is a no brainer for a farmer. It's a drop in solution, and it's got no residue, and it's targeted. It's RNA based, so it doesn't require the farmer to pay more, and it's more effective. It increases yield, and critically, it improves biodiversity outcomes. We're looking for those kinds of solutions. We're not looking for the equivalent of a green premium in nature. We're looking for the ones that are a no brainer for the farmer.

Patricia Torres 06:20

And do you think we still need catalytic capital going into this space?

Clara Barby 06:27

So from what we're seeing, there's always a role for catalytic capital to have certain types of impact. And we accept that. We're a manager on behalf of primarily, pension funds are our clients. We also have sovereigns and endowments and family offices, they expect us to pursue attractive risk adjusted financial returns as fiduciaries. So what that means is that there is there is stuff we say no to. But if the question is, is the opportunity set big enough for the fiduciary investor, our answer is yes, with one caveat, which is that I think it is really important when you're targeting newer investment areas to skill up for it, to do it as a generalist. I think is hard. What we've done is combine the growth equity skills you'd expect, but with agronomy, biology and carbon accounting within an investment team. So that we spend a lot of our time thinking about what farmers want and need, rather than pursuing a multi thematic strategy, which I think would make it harder to really find the risk return opportunity that you're looking for.

Patricia Torres 07:29

So what I'm hearing you saying is that you actually are looking for this deep expertise. When you actually deploying capital. Is there anything you will change in a contract that will make their deal or opportunity bankable from day one.

Clara Barby 07:43

So interestingly, I would ask that question of our industrial strategy. We have an industrial decarbonization strategy, and I definitely have a long answer there. But when it comes to the land transition, again, the growth equity opportunity is actually not at project level. So if you think of some of the newer areas for the land transition, restoration, for example, I do think we will end up with a restoration industry that looks a lot like the renewable industry looked in its early stage. A lot of the financing tools we can use are actually going to be the same, and that will unleash a whole load of projects where that question would be the right one. But today the opportunity is in the developer itself, which is a top co-investment into a company. And so actually, you don't need the bankable off take, yes, is at the project level, but you're looking at whether

the developer itself can scale to deliver on the scale of the renewable opportunity, akin to what we saw in the development of renewables.

Patricia Torres 08:29

Okay, so what I'm hearing you saying is that we actually, when you are investing, or not just looking at investing in a particular project, we're actually looking to say, if can this project scale and go, go much bigger. Okay, so talking about projects, we go into Tony. So Tony, you are in the natural business, nature based solutions, and you have \$29 billion of opportunities out there. We had 1/3 of those are sitting in Brazil. Could you give us an example of what a large investor could invest today in Brazil?

Tony Lent 09:08

Sure, but let me start by just giving you a sense of the scale of growth in this market over the last couple of years. So we've been working in Brazil since the fall of 2021 we've organized an investor collaborative. We've also organized a coalition of the leading development platforms in the country that probably represents around 80 percent of the absorptive capacity within the developer community. And we've organized together with converge capital three annual summits on nature based solutions in Brazil. In the first year, 2023, the average deal size was about five to 10 million at the developer level. In the second year, the average deal size was like 15. In the third year that we did it, last June, average deal size was 30. And we had a number of funds that we presented that we're looking for 250 to \$350 million that's all in the course of 36 months. So you've seen very significant rapid maturation of the sector. And I would say, I would leave you with no. Other key concept for today, I would say that Brazil is going to play a similar role in nature based solutions as China has played in renewable energy scale up. In terms of product, there's product in multiple asset classes. You can find product in real assets, in venture, in private equity, and infrastructure as restoration. So I agree with Clara on that. And just to be super specific, at the intermediary fund level, you've got players like Patria, Fama, RRG, Regia and others all in the market right now with funds that range between \$200 million and \$400 million and they all play in different parts of this business, whether it's degraded pasture restoration, which is certainly the largest single opportunity in the real asset space right now in Brazil, or whether it's specialists that are going after pure restoration, where the primary driver is carbon. Then at the developer level, the developers are out looking for pretty significant capital. So just to give you a sense of some of the leading development platforms. So re.green just won the Earthshot Prize a couple of days ago. Re.green is in market. Courageous Land is in market. Mombak is in market. Biomass is in market. All very professionally managed platforms that are looking for, in some cases, parent equity, so topco equity, and in many cases, they are starting to pioneer the beginnings of a project finance market for their SPVs at the project level. So and they all, they're also, in addition to that, specialist FinTech companies that are doing different parts of the market, like Trêve, which is raising a specialized fund for bio inputs into region ag. So I would say honestly, we worldwide, there is no market that is developing faster than this market for nature based solutions, and no market that is more sophisticated in terms of different types of options to put capital to work and the quality and speed with which the entrepreneurial community is developing here.

Patricia Torres 11:54

So Tony, may I ask you, would you be able to like for the people in the audience that probably are not in the weeds, into the NBS sector, would you be able to provide some idea of the contract length and also maybe the expected returns of these projects? And how do they compete with the clean energy for example? So if they have two options, why invest in clean energy? Or do I invest in land?

Tony Lent 12:18

Well, I think you can use, there's sort of three models you can talk about when this and the model that's closest to the Renewable Energy Model is probably the Carbon Project model, right? And there investors are really expecting, in order to take that risk, they're expecting returns at 20 percent and above at the at the project level. Right the middle of that spectrum is the agroforestry developers, and I just want to say that the restoration developers in Brazil have attracted probably the lion's share of private capital that came in over the last couple of years, with the agroforestry developers very close behind. And the agroforestry developers are pitching a seven to 15 year model with returns in the mid teens. And then you switch over to the restoration of a degraded pasture. That's a seven year model. But interestingly, it's a seven year model that looks quite profitable compared to typical ag land investing, where we're seeing development platforms talk very seriously about creating 1.5 to 2x MOICs on an asset base in five to seven years. So pretty solid, particularly given that a lot of the commodities that are sold off of those assets are dollar denominated, so it provides a kind of a hedge automatically in the structure.

Patricia Torres 13:28

Okay, great. I may go to you later on Wolfgang on the returns of the two projects. But before then Jens, through the World Climate Foundation and now you are the convening of the Global Investor Hub at COP30 in Belem, you are effectively shaping the next phase of how large asset owners can turn ambition into allocation. So what will be one simple mechanism that will make this pipeline attractive to pension funds.

Jens Nielsen 14:00

I think you need several elements, and it kind of follows sort of the line where you first have to get the interest. And I think the best way to get the interest is to go to an area where they already have experience, and they would be in in the energy space, and the invention of the offset guarantee, the power purchase agreement back in the 90s in California, that have spread to the rest of the world. And basically, the beauty of that model is not so much the model itself, but it fits one of the core asset classes of institutional investors, with a long term low yield, sometimes quite high yield, but, but anyway, that it fits one of the key asset classes that that is making the mix so they can fulfill the fiduciary duty. So, provided that such a model could be used in these cases, which I can hear from the previous speakers here, that it's possible, I think, that there would be. First good case. Then you are, in this case, dealing with some risk. So you need to mitigate that risk. And the experience that we have, for example, is through a project called IMCA, between the Nordic countries, where they supply, until now, \$500 million US dollars in in the public finance to de risk private sector run funds, and that's typically done through technical assistance, and also through first loss guarantees. So I predict there will be some, some need here to look at the first loss guarantees, up to a certain amount, and the third. And the third are certain mechanisms you can use. I just mentioned IMCA, which is sort of the product or the organization coming out of the Nordic countries. There's also a venture called Scaled, which actually is, is more privately sector, owned by CDPQ and Allianz and so, and funded by Canada, Germany, France. And then I hear that in Brazil, you also have something called the Eco Invest Program. So there are different things, and it's very good that we have some, some that we try different ways of moving forward to reduce risk. And then I think, when I, when I speak to some of those institutional investors that have done forward integration energy, and ask them, is Brazil an interesting marketplace? They will say, Latin America is very interesting for wind and solar, but Brazil, they also, they always attach a high currency risk to Brazil, so it probably needs a dash of risk reduction on the currency, because it adds too much on top of the risk that you have here. So it'd be a mix of those three things.

Patricia Torres 16:50

Fantastic. Thank you so much, and we'll actually touch the elephant in the room like in a second verse. So Wolfgang, thank you so much for being here. So GIC is the world is one of the world's largest sovereign wealth funds, managing, I believe, around \$900 billion in assets globally, and it's been one of the most active international investors Latin America, particularly in Brazil's infrastructure, renewables and logistics sectors. So now, if you had to choose between energy transition or land transition or others, which is the sector that excites you the most?

Wolfgang Schwerdtle 17:25

So first of all, thank you Milken Institute. Great to be here. Congratulations on this inaugural event here in Sao Paulo. I'm sure there'll be many more to come. Thank you all for sticking around. But this is a really difficult question, because I mean, land transition is certainly a focus of ours, and Clara already talked a lot about why this is a very interesting and attractive area to invest. And we actually have invested in, for example, biological inputs in Brazil already with good success. But I would put the energy transition, in particular the build out of the power grid, which for us is a mega theme within our Sustainability Solutions Group at the moment, globally, right? And actually not just the infrastructure assets which we own, many of around the world, but also the all the equipment, the services in the software that go into this build out software in particular to make the grid smarter and more flexible, which is very important as more renewable power generation is coming online in terms of services. We actually just announced an investment in a company that provides stringing services, stringing of the power lines for transmission networks, very important for the build out going forward. And this company uses drones. So a new drone technology to do this much faster and in a much safer way than what has been done previously, sometimes using helicopters.

Patricia Torres 19:13

Okay, fantastic. Okay, this is, this is good, because we need drones to actually make sure that the nature like is still protected. So maybe, so maybe Wolfgang, maybe, like, if, if I continue with you, let's talk about the elephant in the room. And Jens also gave us some indication of those elephants. So I can think about what are the biggest blockers? You are in the ground, you have been here in Brazil, if I'm not mistaken, 11 years. You have seen Brazilian, you know, like Brazilian economy through that time. What is the elephant in the room? So when you are, when you're trying to get those deals done, what's stopping you, like, is it the pipeline, this small? Is it the policy, not the right policy? Is it the currency fluctuation, as Jens mentioned. Is it the fact that we don't have data, and so the measurement, the reporting and the verification data or the returns that GIC headquarters are expecting to see? Or a combination of several!

Wolfgang Schwerdtle 20:09

It's certainly a combination of, well, all of you above, probably, and there's no silver bullet. There's no one thing that we're looking for. I mean, terms of opportunities. We certainly need good partners, because we typically invest on a minority basis, right? So we need somebody who will, day to day, control the investments, look after the investments, good management teams. We need business models that are sustainable. GIC is a long term investor. We have a 20 plus year investment horizon. We don't focus on quick flips opportunities to just make returns in the short term. So these need to be business models that really have legs and will give us the opportunity to generate good risk adjusted returns in the long term. In Brazil in particular, I would say at the moment, the issue is actually more the pipeline, right, the opportunities, especially opportunities at scale. Right as a sovereign wealth fund with a stable, large capital base, we need to find opportunities that have also a certain scale. And whilst the potential here in Brazil is certainly huge across a number of segments within sustainability, the number of scalable opportunities and options that are already at a certain scale that make them investable for us is actually quite small, and I would love to see, and would encourage, especially the corporate sector in Brazil, to be lot more proactive around sustainability, and think of ways to use, to use this huge potential that the country has to come up with more sustainable solutions going forward.

Patricia Torres 21:56

Okay, so I'm going now to Tony, because Wolfgang you talked about scale. Tony is the platform \$29 billion there. We have more than 34 I think, organizations in Brazil committed to NBS, Tony. How can we provide this scale to Wolfgang, to invest and bring these \$900 billion to Brazil?

Tony Lent 22:16

I think you need to understand what kind of investors are looking at putting capital here. When you get to us effectively as a sovereign, you know the check size is \$250, to a billion per transaction. But when you look at a substantial asset manager that's active in this space, so AXA, or, for instance, Just Climate, they don't need to write \$100 million check. They might be perfectly happy writing a \$30 to 75 million to \$150 million check. And as we look out and we see the development community just project developers, and just a subset of project developers, looking to put \$6 billion to work between now and the end of 2028, those are mostly \$10, 20, 30, 40, 50, \$100 million dollar checks. That the thing that's that you need to you need to think about is what's the intermediary market like in Brazil? And what we've seen is the intermediary market was already very sophisticated. It already had an experience with sustainability, and it's, I would predict, that it doubles in size over the next 48 months, and that a number of asset managers that are here, like Regia are basically extremely well positioned to go into the international market and absorb 200 300 \$500 million checks. So I think any concern about pipeline is really very short term, and it's really from the perspective of the investor, not from the actual underlying opportunity. The opportunity itself is booming.

Patricia Torres 23:41

Okay, Clara, what's your view? You are on the ground. We know what's going on here. We need the sovereign wealth funds to come and invest their trillion dollars. How do you make it happen? So what's the elephant in the room? And then how do we fix it?

Clara Barby 23:57

Yeah. So as you say, we see the opportunity in Latin America as being very significant. We have global funds, but we also have regional and we have a team that's been investing here in Brazil for a long time, and so we, we think it will happen. However, I think there are two things that will help. One is that actually the big capital opportunity will be unlocked. And I'm talking about the industrial side, as well as the land transition, if we can actually really bring the initial phase down the cost curve in terms of getting these developers up and running. And so you do need a mindset of, yes, we're going to go to infrastructure, which is where you really get large volumes of capital moving, but we're also going to go to what I know both Wolfgang and I would call the missing middle, which is this, this area between you've got VC doing the binary risk, then you've got private equity gravitating to asset light, as it often does, and services, then you've got infrastructure. There's this area in between all of it, which. Is infrastructure-like. We tend to call it value building real assets, because actually, on a relative basis to other real assets opportunities, it's the returns are very interesting, but it is atypical, and so you need to have asset owners see that opportunity, that space between asset classes in their strategic asset allocation framework, and if you can move more capital into that initially, that then actually unlocks the more traditional infrastructure, long term, bankable, offtake projects. So for the first time, in our Industrial Global Fund, we're starting actually to play with instruments where we will both go into the top coat and be the project investor simultaneously to get the strategic unlock at the top, and then start to move the capital at volume at the in the projects. So we need more of that.

Patricia Torres 25:47

So I was going to say to you, Wolfgang, would you agree?

Wolfgang Schwerdtle 25:51

Just reacting to what Clara just said, since we're also focused on this missing middle where technologies are proven but the projects are not infrastructure yet, so you need somebody to help bridge that gap. But what goes a very long way in helping us? There are long term off take agreements, and some of the companies that have been on stage here are actually quite proactive in providing those no it goes a long way when we go to investment committee that the company actually can demonstrate we have demand for this, and it's actually contractually secured already for quite a number of years.

Patricia Torres 26:30

Okay, so make sense like so having that security, that returns will come. Okay, so the next part two of this panel is going to be about asset owner alliances, scaling pipeline, solving risk and lifting bottom up innovation. So as you know, the asset owners, they actually own \$55.7 trillion as of 2023 according to the Thinking Ahead Institute's Global Pension Asset study. So what I would love to do is just to make sure that we link this panel with the next one that is coming ahead is, you know, you have the opportunity to mobilize these \$56 trillion of assets. What I would like to ask is, what will be one action that you would like this group of asset owners to commit to do in the next 12 months? Who should lead it, and what is the number that we would like to track to make sure we are on track. So I'm going to start with you, Tony, and then I'm going to Jens, then I'm going to Clara, and then, because you are the asset owner here, you have to ensure that all the other asset owners will agree with you. Okay, so should we start with Tony?

Tony Lent 27:38

Sure, I think the number one thing I would ask them to do is to appoint one person as the lead on their nature based solutions investment strategy, because it's a vast area. It's fast growing, it's complex, and it takes, it takes some research and time to get their arms around. And then the second thing I would say is, you know, get explore the intermediary market, because it's really large, and I think a lot of asset owners don't have an understanding that it's actually that pipeline already exists.

Patricia Torres 28:08

And how would you know that we were successful?

Tony Lent 28:11

If they were 12 months- I would say, out of your real assets asset class, and out of your infrastructure asset class, and out of your private equity asset class, having 2 percent or 3 percent allocated in that emerging sector.

Patricia Torres 28:29

Okay, we go. My measure, fantastic. Two or 3 percent. Nice. Okay, let's go to Jens. So you actually leads an asset on Allianz. So I'm curious with your answer.

Jens Nielsen 28:38

Well, I would get them to commit a certain amount of money that they would invest in this area. And that has to be ambitious, an ambitious amount of money, because oils is not of their interest, and it has to be significant for them also. And then, because we do need some help to start with, I would ask them to specify what they need in terms of framework conditions for them to fulfill their fiduciary jury or earn the return that that they need. And often those conditions are possible to satisfy from, from the from the public sector and foresee public sector. So, those will be the two, the two elements, and hopefully that will get them to a stage where things will run by itself in the long run, because this is all about scaling.

Patricia Torres 29:29

And who do you think should lead? Should lead this Allianz?

Jens Nielsen 29:34

Yeah, it should be the private sector. Should be the asset owners themselves.

Patricia Torres 29:38

Thank you. Okay, so what about you Clara?

Clara Barby 29:41

I would like asset owners to look at their entire asset base, from real estate holdings to public equities, and ask themselves, how are these assets going to transition? Because incoming regulated disclosure of transition plans is on its way in over 38 jurisdictions when we see that information. What you're going to see is companies are going to get stuck, they're going to electrify, they're going to use passenger EVs, and then they're going to say, I need green cement, I need green steel, I need sustainable aviation fuel, and I need regenerative agricultural supply chains, and therefore I need those products and services to come down the cost curve and be widely available. And I hope that when they think about that hard, they will see the fiduciary imperative to tilt their private markets allocation to invest in those solutions that the rest of their asset base needs to transition. And I hate to close by complimenting Wolfgang, but that is exactly what GIC has done.

Patricia Torres 30:37

Okay, so Wolfgang, well, you have to convince your peers, because you're coming next.

Wolfgang Schwerdtle 30:45

Sustainable investing is a strategic priority of GIC, where a very long term, and it the sustainable sustainability is one of the mega trends long term that will present risks to the portfolio, but also good investment opportunities, what I would say, and this is the case for many other asset owners as well, we're very aligned in that, I would say the focus has to be on decarbonization in the real world, like focusing less on how green does my portfolio look, but really thinking about, How do my investments and my investment activities help accelerate the decarbonization in the real world through investments that we make in green technologies and the way we engage with our portfolio companies on their transition plans. So that's really what I would focus on, rather than throwing out a target. And as was said on the previous panel, it's time to focus on implementation and the how, as opposed to on the why and the what.

Patricia Torres 31:48

Fantastic, awesome. The time is out. I hope you enjoy our dinner side conversation here. Thank you so much everyone. Please welcome joining me applauding for to our beautiful panelists.

Disclaimer: This transcript was generated by AI and has been reviewed by individuals for accuracy. However, it may still contain errors or omissions. Please verify any critical information independently.