

The Future of Land

Biodiversification, sustainability, and tech will shape excellent prospects in land-based natural resources strategies

How would you describe the economic prospects for the natural resources industry?

In short, incredibly good. By 2050, we have to increase calorie production by 56% to feed a growing global population, and timber production needs to increase by up to 200%. And those figures are based on the assumption that we reduce food waste, eat less meat, and so on – so we have a massive task ahead of us.

Although the prospects for land-based investment and agricultural timberland activity are very positive, the agricultural sector needs to reduce its carbon footprint from 12 GT to 4 GT by 2030. To facilitate that change, there's a huge requirement for external capital to flow into the sector. On top of that, the UN Food and Agriculture Organization (FAO) estimates that there are 700 million people globally who are malnourished.

Why should investors allocate to natural resources?

Historically, investors have been attracted by the traditional investment characteristics of farmland and timberland, such as not being correlated with the economic cycle, being a good inflation hedge, and offering good returns. Those benefits still hold true. Throughout the pandemic, we didn't see a drop-off in the returns for agriculture, because people still have to eat.

Now there's a realization that farmland and timberland are less carbon-intensive than other assets; and timberland and crops grown on farmland have the ability to take carbon dioxide out of the atmosphere. That's why investors should allocate to the sector and why there's a much greater interest in land-based investment today than there has been in the past 15 years.

How can a financial investor or GP add value in natural resources?

If the way in which they invest is aligned with



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sustainability goals, then that's an obvious way to add value. Investor perception does vary by region, of course. In Europe there's a huge focus now on aligning with the EU taxonomy and making sure that investments in the sector are actually making a difference. Of the 3.3 billion global workforce, a third work in land-based activities, so delivering social equity in the sector is very good from a value-adding perspective.

How are natural resources managers responding to the calls for greater sustainability in forestry and farmland?

Our focus needs to be geared toward improving transparency and validating what we're doing through certification. Many European investors are looking at Sustainable Finance Disclosure Regulation Article 8 and 9 funds. Historically, we've reported on financial metrics, but working toward integrating reporting on sustainability metrics such as water quality, biodiversity, and the carbon content of soil is necessary to be able to inform investors of aspects beyond financial returns.

What effect will the COP26 deforestation pledge have on your investments?

There was a commitment given in New York previously to reduce deforestation by 50% by 2020, and that hasn't really worked out as we hoped. However, this latest pledge, designed to halt and

reverse forest loss and land degradation by 2030, is a pretty significant step, bringing together more than 100 world leaders and countries including Brazil and Indonesia. The pledge is certainly going to bring capital to the sector, and is likely to be the genesis of reforestation projects.

We can't dramatically change the world's calorie production requirement, but where more land is required we can convert degenerated pasture into cropland. A lot of organizations, such as The Nature Conservancy and World Resources Institute, believe that's a very good way to achieve the goal of increasing calorie production while avoiding deforestation.

In forestry, how is the balance shifting between an asset's ability to improve carbon sequestration and biodiversity?

If we consider the traditional return characteristics of timberland investment, we've seen a compression in capitalization rates; as a result of that, there has been more focus on the other benefits of investing in the asset class. The voluntary carbon markets – which allow investors, governments, and other actors to offset their carbon emissions voluntarily through a number of initiatives, including the capture of carbon through forests – have come forward significantly. The biodiversity element hasn't been considered quite so much, but if you have more diverse tree species across your investments, by default that brings much greater biodiversity and a greater resilience in the performance of the asset, both from a financial and a carbon sequestration perspective.

There's a realization that these things are interlinked, and that you can't just concentrate on the carbon only – you have to look at the whole suite of nature-based activities.

How do your timberland and farmland strategies differ across regions?

There's significant variation, which fundamentally comes back to the fact that we're looking to put together portfolios that are diversified in terms of geographic location, crop type or tree species, water source, and the way we operate the asset. Typically, we would operate timberland assets, but we lease out some farmland assets. We operate farmland assets where we think we can add value, such as higher-value crops including wine grapes, citrus fruits, or avocados, whereas row crops like corn, cotton, and soybeans are leased out to local farmers.

That diversification is fundamental when investing in a primary production, which forms the first link in the supply chain and produces raw food, fiber, and timber materials. It gives the investment an acceptable risk profile, it affords you access to different market segments, and it offers alignment with consumer trends. We would never advocate investing in just one type of tree species or forest.

How is technology shaping farmland and timberland's future?

It's having a huge impact in both sectors, but probably more so in the agricultural sector. We consider ourselves to be in a data revolution in the sector. Technologies such as robotics, artificial intelligence, virtual and augmented reality, remote sensors mounted on drones, and 3D printing, together with the Internet of Things, have a massive impact in a sector where primary production is dependent on multiple variables that influence the production cycle. Through gathering data and analyzing it, to informing the decision-making process, technology is a huge game-changer.

Martin is the Head of Nuveen Natural Capital. His 29 years in the agriculture industry has included posts in corporate agriculture, consultancy, and investment. He has made and managed commodity-diverse agricultural investments in the US, New Zealand, Australia, Romania, Poland, Brazil, and Chile.

Nuveen Natural Capital is a land-focused investment manager with \$9.4 billion of assets under management. Managing assets across diverse geographies, crop and tree species and operating strategies, we provide investors access to global farmland and timberland opportunities. With over 30 years of investment experience and more than 230 employees located across 10 countries globally, the platform offers unparalleled geographic reach married with deep sector expertise.