



Essex Pension Fund investment steering committee chairman, Councillor Susan Barker



Stafford Capital Partners CEO, Angus Whiteley

Seeds to success

✔ Francesca Fabrizi speaks to Essex Pension Fund investment steering committee chairman, Councillor Susan Barker, and Stafford Capital Partners CEO, Angus Whiteley, about how timberland investment is helping the pension fund see attractive returns while making a positive impact

Please give a short introduction to the Essex Pension Fund, Stafford Capital Partners and the Stafford Carbon Offset Opportunity Fund.

Barker: The £9.6 billion Essex Pension Fund provides pension benefits on behalf of more than 740 employers to its 174,000 members and is one of the 87 funds making up the Local Government Pension Scheme (LGPS) in England and Wales.

Whiteley: Stafford Capital Partners (Stafford) is an independent private markets investment and advisory firm with \$7.5 billion in assets under management and more than 170 institutional clients worldwide. Stafford was founded over 20 years ago and invests in timberland and agriculture, infrastructure, sustainable private equity and private credit.

The Stafford Carbon Offset Opportunity Fund is a new Article

9 impact fund that will develop new commercial timberland plantations and restore natural forests on a global basis. The fund aims to provide access to a diversified portfolio of commercial forestry assets, whilst generating a supply of carbon credits verified by recognised international carbon standards.

The fund has a \$1 billion fundraising target and seeks to invest in approximately 200,000 hectares of sustainably managed timberland globally, including around 150,000 hectares on which new commercially managed plantations will be established and natural forest planted.

It will generate approximately 30 million verified carbon offsets for investors (each equivalent to one tonne of CO₂) and provide a source of sustainable, low-carbon timberland materials; and contribute to a significantly negative carbon intensity metric to Essex Pension Fund's investment portfolio.

The strategy is designed for investors that are looking to allocate capital into solutions that deliver attractive returns and positive impact.

Why did Stafford decide to establish this fund?

Whiteley: The forestry sector has seen a lack of new planting over the past 30 years that is leading to shortages of wood and increased pressure on the world's forest resource.

Commercial forests represent just seven per cent of the world's forested land mass yet provide approximately 50 per cent of the world's wood supply. So they play an outsized role in providing sustainable timberland products and materials, as well as alleviating the pressure on natural forests as demand grows.

The economics of investing in new plantations has changed with the introduction of carbon credits, allowing investors to receive income in the form of these credits while the trees are growing. Historically this would not have been the case, with investors needing to wait until harvest revenues were available, many years after making their investment. Investment in new plantations was simply not happening unless supported by government subsidy. At Stafford,



we felt the time was right for a global strategy with a focus on planting new commercial forests, to help meet future demand for timberland products, but also in recognition of the positive role new plantations play in sequestering carbon at scale.

Tell us about Stafford's track record

Whiteley: In our 20-year history in the timberland sector, we have been able to deliver an 8 per cent IRR to our investors through investments primarily in unlevered, mature, operational timberland plantations globally.

The Essex Pension Fund recently made a £100 million anchor commitment to the Stafford Carbon Offset Opportunity Fund. Please tell us the reasons for this commitment/why you chose this fund.

Barker: The Essex Pension Fund was one of the first LGPS funds to invest in the timberland sector. Over the past few years, we have seen a significant improvement in our funding position which has enabled us to implement our medium-term de-risking programme, resulting in the fund's strategic allocation to timberland increasing from 2 per cent to 4 per cent.

We are committed to being responsible investors and our investment in Stafford's Carbon Offset Fund reemphasises that commitment. We chose Stafford's Carbon Fund because we have a long-standing relationship with Stafford, which has been appointed to manage our timberland allocation over the past 11 years. This has been borne out of a similar investment ethos, whereby we look to invest in funds that will not only meet our risk/return appetite but will provide a tangible environmental and societal difference that may not have otherwise existed.

With this investment, we also recognise the unique role timberland can play in helping provide a sustainable supply of materials and products, while

also sequestering carbon dioxide at scale.

Forestry is expected to deliver almost 20 per cent of the reductions needed to meet global emissions targets, and afforestation strategies, such as the Stafford Carbon Offset Opportunity Fund, can play a part in addressing climate change.

How does it fit with Essex Pension Fund's other fund investments?

Barker: Timberland delivers a valuable long-term return within our portfolio. It is also a very good diversifier as it has very low correlation with equity, debt and traditional asset classes. While on the flip side, it has very high correlation with inflation, so delivers a long-term inflation-linked return.

More broadly, we aim over time to have close to 10 per cent of the Essex Pension Fund invested in impactful investment solutions that deliver positive environmental and social benefits that would not otherwise happen. This aligns not only with our responsible investment (RI) policy and priorities, but our commitment to achieving net zero across our portfolio by 2050.

How easy was the process?

Barker: Stafford is the fund's appointed timberland manager and manages four per cent of the fund strategic allocation. This 'top-up' investment was a result of a periodic review by the investment steering committee in order to maintain our target allocation to this asset class.

Essex Pension Fund and Stafford are long-standing investors in the timberland sector – can you tell us why and how successful this has been to date?

Whiteley: Among UK institutions, Essex Pension Fund has been a leader in the timberland sector. As many UK pension schemes set ambitious decarbonisation pledges across their portfolios, it is unsurprising that Essex is, again, leading the way in establishing and implementing

a net-zero investment strategy across their portfolio.

How else is Essex Pension Fund working towards net zero?

Barker: As a fund, we recognise both our responsibility to be a trusted investor and the range of potential long-term risks associated with climate change that the fund, as a long-term investor, faces.

The fund undertook a robust process in regard to reviewing our investment strategy statement (ISS) which included engaging with our stakeholders. The outcome was the formulation of a new RI policy based on a set of RI investment beliefs and the identification of 10 RI priorities.

The fund's business plan investment areas of activity have been driven by our commitment to demonstrating we are a responsible investor. From developing an investment engagement strategy and holding dedicated RI meetings with all our investment managers, to setting climate risk metrics in line with Task Force on Climate-related Financial Disclosures (TCFD), to reviewing in turn each of our investment manager mandates to ascertain their alignment with the fund's RI policy.

As part of this review, we recently partnered with UBS Asset Management and Hymans Robertson to launch the UBS Life Global Equity Sustainable Transition Fund – a new fund that will invest in companies that are believed to be best placed for the transition to a low-carbon economy, and with better sustainability characteristics than those offered in other indices. This fund not only better aligns to the fund's RI policy, will deliver the fund's priorities but with wider asset growth.

In addition, I am pleased to confirm that the fund was recently successful in gaining Financial Reporting Council 2020 UK Stewardship Code signatory which was a huge achievement for us.

 **Written by Francesca Fabrizi**