

Real assets–Real solutions

Christoph Schumacher reveals how investments in real assets can be a key part of sustainable and responsible investing

The world is rapidly waking up to the dangers and risks posed by climate change, and sustainable and responsible investing is fast becoming one of the most important investment criteria globally. We believe investments in real assets can be a key part of the solution to help mitigate some of the most critical challenges we face: climate change, biodiversity loss, and socioeconomic inequality.

Investing in nature to address climate change

Natural climate solutions (NCS) are land management decisions that increase carbon storage or prevent greenhouse gas emissions across global forests, wetlands, grasslands, and agricultural terrain.

Trees and soils have tremendous potential to sequester carbon, since research indicates that NCS “can provide over one-third of the cost-effective climate mitigation needed between now and 2030 to stabilize warming to below 2°C”¹. By acting as ‘natural sinks,’

which naturally capture carbon from the atmosphere, timber and agriculture also occupy the low end of the carbon sequestration cost curve².

In forestry, various improved forest management practices can help maximise opportunities for carbon sequestration. In agriculture, regenerative practices such as cover cropping, reduced tillage, orchard recycling, compost deployment, integration of livestock and pollinators, sustainable water management, and integrated pest management are used.

Close alignment with the UN Sustainable Development Goals

In addition to their carbon sequestration benefits, we believe that investments in timberland and farmland can contribute to meeting other non-financial

environmental, social and governance (ESG) objectives, with sustainably managed properties aligning closely with many of the United Nation (UN)’s sustainable development goals (SDGs). Institutional investors’ access to capital can also help accelerate the deployment of new science, technology and management regimes that will allow for higher yields alongside more efficient use of resources, potentially helping to deliver competitive financial returns while simultaneously improving environmental and social conditions.

Real assets with complementary investment attributes

Alongside their sustainability benefits, timberland and agriculture offer portfolio diversification, attractive risk/return characteristics and a natural inflation hedge. They also represent a way to benefit from increasing global consumption trends that are favourable for demand, and from growing interest from investors intent on “decarbonising” their portfolios.

Over the past 40 years, timberland returns have been positively correlated with inflation, and our assessment of the timber market in the first half of 2021 suggests that the current rebound in inflationary pressures seen in developed economies could translate into improvements in return performance for U.S. timberland assets. And the outlook for the U.S. farm sector has improved significantly on recovering global demand combined with falling inventories³.

UN sustainable development goals	Detailed actions
 <p>2 ZERO HUNGER</p>	<p>Scale allows us to achieve food security in countries where we operate and beyond</p> <p>Deploy and promote sustainable agriculture practices</p> <p>Maintain and enhance agricultural productivity</p>
 <p>6 CLEAN WATER AND SANITATION</p>	<p>Use water efficiently to grow healthy crops</p> <p>Seek out new practices to reduce water usage throughout our operations</p> <p>Use ground storage to capture rain and flood waters</p>
 <p>8 DECENT WORK AND ECONOMIC GROWTH</p>	<p>Natural resource investments provide social benefits both locally and globally</p> <p>Create jobs in rural communities</p> <p>Promote safe and healthy working and living environments</p>
 <p>13 CLIMATE ACTION</p>	<p>Create carbon sequestration opportunities</p> <p>Invest in renewables and energy efficiency</p> <p>Support scientific studies and policy analysis on global change</p>
 <p>15 LIFE ON LAND</p>	<p>Protect sensitive lands and biodiversity</p> <p>Third-party certification of our timberlands</p> <p>Conservation easements</p>

Source: United Nations



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1 “Natural climate solutions”, Natural Academy of Sciences of the United States of America, October 31, 2017. 2 “Carbonomics: the green engine of economic recovery”, Goldman Sachs Equity Research, June 16, 2020. 3 “Surging food prices fuel surprise farm recovery”, The Wall Street Journal, January 22, 2021. In the UK: Issued and approved by Manulife Investment Management (Europe) Limited. Registered in England No.02831891. Registered Office: One London Wall, London EC2Y 5EA. Authorised and regulated by the Financial Conduct Authority. In the EEA: Issued and approved by Manulife Investment Management (Ireland) Limited. Registered office located Second Floor, 5 Earlsfort Terrace, Dublin 2, D02 CK83, Ireland.