Meg (00:58): Insurers face increasing regulatory and public pressure to manage climate-related risks through both their underwriting and their asset management side. Climate change risk goes hand-in-hand with a less discussed crisis, the dramatic loss of nature in our lifetimes, including the worldwide reduction in wetlands, forests and the biodiversity of plants, insects and animals. The World Economic Forum found that $44 trillion of economic value generation, which is over half of the world's total GDP, is moderately or highly dependent on nature. Insurers invest trillions of dollars annually and are seeking to allocate their invested assets in ways that can support sustainability, the energy transition, and even nature itself through natural capital. I'm Meg Green with Insurance Insider, and thank you for joining our webinar How Insurers Are Creatively Investing in a Growing Asset Class: Natural Capital, offered in partnership with Manulife. I'll introduce our panel in a moment. I'd like to thank our audience for joining us today and I'll invite you to share your questions and comments. We'll also have a poll for you and we, we would appreciate your participation in that. We're very curious to get your thoughts and we'd like to make our next hour together as interactive as possible. So now to introduce our panel. And as you come online, I'll invite you to say a few words about yourself. First up, we have Brian Kernohan. He is Chief Sustainability Officer with Manulife Investment Management. Hi Brian. Oh, Brian, you're on mute. There we go.

Brian (02:40): Thanks, Meg. Sorry about that. I'm thrilled to be here for this important conversation and we're also thrilled to help sponsor it. As you said, I'm the Chief Sustainability Officer at Manulife's Investment Management business or Manulife Investment Management, managing approximately 600 billion USD of public and private markets assets on behalf of our current company as well as third-party clients. I'm a wildlife biologist by training, and I've spent most of my career in natural capital assets of timberland and agriculture, of which Manulife is a very large investor in, on behalf of our clients. Thanks for having me.

Meg (03:20): Yeah, my pleasure. Thanks for coming by, Brian. And up next, we have Jasper Renk. He's Senior Investment Manager of Illiquid Assets Natural Capital for MEAG. Hi Jasper.

Jasper (03:33): Hi, hello from Munich. It's a pleasure to be here. Thanks for having me, Meg, and hi to the other panellists. My name is Jasper. I work with MEAG, that's Munich Re company and we are the asset manager of Munich Re and we also offer investment solutions for third-party clients outside of the group. And we've been invested in natural capital for 15 years now. And in total, the company manages 340-something billion euros in public and private markets, both liquid and illiquid assets and approximately 3 billion of that is natural capital, so approximately 1%, which is a considerable amount for an institutional investor percentage-wise.

Meg (04:16): Thank you, Jasper. And finally, we have Bob Hartwig. He's the Clinical Associate Professor of Finance and Insurance with the Darla Moore School of Business at the University of South Carolina. Hi Bob.

Bob (04:28): Hello, Meg, and thank you for having me here on this webinar today. And it's an extraordinary time to be having this discussion, just 48 hours after the inauguration of a new president here in the United States, who, I think, as we all know, has views on environmental issues that are very, very different from the administration that just departed. And so, I think that's going to be part of our discussion here today. So, it's a good time to be discussing how, for instance, investments in natural capital as well as insurers' investments in general that involve environmental-related risks, how those will be perceived by the new administration and by regulators, and how insurers will proceed in a new regulatory environment.

Meg (05:17): Thanks, Bob, and welcome to the panel. Before we kick off the discussion, I would like to poll the audience, with our poll question, which is: over the next five years, the insurance industry's investments in natural capital will—and please vote— will rise, fall, remain the same or I don't know. Again, so over the next five years, the insurance industry's investments in natural capital will rise, fall, remain the same, or I don't know, and we'll share those results in a few minutes. Brian, would you kick us off and, maybe we could get into, kind of a scene setter. What is natural capital and what is driving the investments in it?

Brian (06:01): Sure, really important to start with a level set. I'll actually start by defining nature. And I think everyone has a view of nature, but I think it's important to understand, really, the breadth of it for this discussion. So, nature is really quite simply the natural world around us. That's probably not new to anyone, but what is encompassing in that is all of the living realms, if you will—biodiversity, ecosystem, species, genetics, as well as the non-living—land, soil, water and air. And if you think about that complexity, it is what makes up the world and we are a part of it. So, moving into natural capital, natural capital really can be thought of as the earth's balance sheet, if you want to put it into economic terms, which we like to do. It comprises the planet’s stocks of naturally occurring assets that I just described, the stocks of soil, the stocks of air, if you will, water in all living things and it includes the services that those assets provide. And so, if you think about the balance sheet and you think about assets, it is very much akin to that in the natural setting. This is a technical definition of natural capital that really encompasses everything nature provides us as I just described, including renewable and non-renewable resources and services. Admittedly, most of the talk about investing in natural capital of late is focused on investing in the renewable assets, renewable energy, timberland, and agriculture, which is fair and, and really, that is what is coming to the forefront. Why is the second part of the question. Why are we seeing more discussion around investing in natural capital? As Meg said, loss of nature is an existential threat, similar on the magnitude to climate change and related. People, societies, businesses all depend on nature for raw materials, life-supporting and regulating services, as well as cultural services. It's this reality, one that arguably we may have forgotten over time, that is driving investments in natural capital, our dependency as humans, as a planet, on nature. So, if you think about increased investments in mitigating climate change over the past decade, there's a corollary here. So, in climate change, the global volume of climate-oriented equity transactions, a segment of investments, increased over 2.5X between 2019 and 2022, representing an average annual growth of about 40%, fairly steep curve. Climate-related private market investments far outpaced the broader market in 2022, as measured by deal activity and amount of capital deployed and other metrics. Ironically, part of that investment was in natural capital as natural climate solutions. So, lastly, and to wrap up this intro, while we expect these climate-related investments to continue, this other global sustainability crisis that has emerged, the loss of nature, now recognized as closely linked with climate change, is really bringing about what we believe is the ability to tackle these twin crises, as some call it, will lead to an increase in investment activity in natural capital similar to that which we have seen in addressing climate change mitigation as it became apparent of the crisis that it was. So I'll stop there. Hopefully, that's a good little set and we can take the conversation further.

Bob (09:55): You know, yeah, Meg, if I could jump in here, and thank you for that, Brian. You know, I think this is an excellent segueway into one of these events that's going on around the world right now, which we look forward to every year. And, you know, the World Economic Forum's going on in Davos right now. And they spend a great deal of time worrying and, hopefully, devising some solutions associated what they perceive to be the world's greatest risks. I mean, that's a weighty task when you think about it, but they do produce a global risk report every year. And if we could bring up the graphic that we have here, yes, thank you. And so, if you take a look at this in the report, what you'll see here is an assessment of global risks ranked by severity over both the short term, which they define as the next 2 years, and over the long term, which they defined as over the next 10 years. And it's very interesting to see, not surprisingly, that you know when we look at the 2-year time horizon, societal and geopolitical risks really dominate anything you see here: societal polarization, inequality, migration issues, erosion of human rights. Not surprisingly, given what we see and hear in the news around the world these days, it's not surprising to see these occupy the majority of the top spots. Now, if we move over to the longer run, this is what dovetails with our conversation here with respect to natural capital, you could see the view is weather-related. Environmental-related risks dominate more so than anything else. They are 5 of the top 10: extreme weather risks, biodiversity loss, we've already discussed that a little bit, change to Earth's systems, natural resource shortages and then pollution. And then that's followed by technological risks. So, I think it's clear that in Davos, they are thinking about some of the same things that we are here to talk about today. And I think that it's a huge challenge for public policymakers, individuals who are in elected democracies or in autocracies around the world to come to grips with the pressing needs of their populations that we kind of see reflected in the short-term time horizon and to somehow reconcile that with what are clearly risks to planet Earth of the highest order over the longer term. And so I think that, you know, our discussion of natural capital is very timely in the sense that I think it does allow us to address some of these longer-term risks. I'm sure we'll hear and, and Brian and others can chime in, you know, what's the typical duration of one of these investments, or instance? Are these investments that are intended for short-term gain or are they for longer-term gain? I think that's an important point, and I hope we'll discuss that in a little bit.

Meg (12:55): Thanks, Bob. I think we'll tap into Jasper for that in just a moment. But first, I want to share our poll results. So, thanks to the audience for participating. The question again: over the next five years, the insurance industry's investments and natural capital will… And the results: 63% think it will rise, 6% thinks it will fall, 8% thinks it will remain about the same, and I don't know, 21%. So, we're going to ask you that again towards the end of our hour together and see if those results change any more. But Jasper, I'd like to get you in the conversation to maybe share some examples of investing in natural capital, what that looks like.

Jasper (13:41): Yeah, gladly. So, let me take you maybe through the history of how MEAG and Munich Re came to this asset class and how, over the last 15 years, our approach may have changed. And the reasons behind an ever-increasing allotment of capital into natural capital has maybe in 2025 a bit different context than it had in 2010. And certainly, the scope of what we consider natural capital has changed, as Brian alluded to in the beginning. So, 15 years ago, we were first approached by our parent company, the Munich Re insurance company, for its largest reinsurer, who's still our main capital provider, to build up a natural capital portfolio, which at the time was essentially forestry and agriculture, in order for diversification purposes in the alternative asset classes, as well as what then were theoretical and unproven benefits of natural capital, such as inflation protection and general low correlation to other asset classes. We started and this is maybe the first example of a natural capital investment with minority participation in third-party funds or in natural capital forestry funds. Let's stick with forestry because I'm a forester, forestry funds. So, your typical global mandate, US$200-million or US$300-million forestry fund, we bought minority participations into that, due to consolidation reasons, could not have control. So, more but smaller tickets out of our control, essentially. And these funds typically had a global mandate, so they had part of their portfolio allocated in the developed world, such as the US, Canada, Europe, Australia, New Zealand, etc. But also, more often than not, had a more or less substantial allotment of portfolios or assets in other countries, such as countries in South America, sometimes in Africa, Southeast Asia, etc. And while these types of geographies have their place, for our client, for our parent company and their risk-return expectations, we found that the developed world was at that point in time— and this has persisted until now— what was preferable, and that coincided with an increase of capital to be provided for investing in natural capital. So, what I'm saying is, we rather quickly went from minority fund participations in small ticket sizes to larger-scale direct acquisitions of forest and agricultural holdings in developed countries. So, second example of how to invest in natural capital, you build up in-house expertise or you have really, really good partners in the local country that you trust and that have a proper track record. And then you set up the whole structure and you directly onto your balance sheet acquire forest for agricultural land. You obviously then have to have a manager etc., but these direct investments are, I would say, very much also common in the field or in the market. And this is also, up until now, what is the vast majority of our committed capital or invested capital direct investments in own structures where we act as asset manager and collaborate with or co-work with local property, forestry and ag managers. So, for the longest time, we have been invested in forestry and agriculture and, as Brian and Bob also said earlier, for the longest time, those have been the main asset classes or what comes to mind when you talk on natural capital, forests and land or agriculture. And this is what I said earlier. Our view onto the field, onto the market has changed, but also the scope of what is considered natural capital has changed. And for us, it still remains forestry and agriculture, as the primary production of wood or food or other agricultural products. But it's also more than that. For example, a prominent example of secondary biosystem or ecosystem functions that can be financially recognized would obviously be carbon credits. I would say that's a proper standalone market, even within afforestation projects. And afforestation projects in a voluntary carbon market has almost nothing to do with productive forestry. It's kind of the same tree species, but the whole silvicultural regime is completely different. That is one special market. And then, you are beginning to see more and more things like biodiversity "credits." It's more of a contractual obligation between two private parties almost always, but, still, it's a financial recognition of an increase in biodiversity. And then, you have other functions, such as the ability of soil with forest on it to retain groundwater. And you have other types of products that you can extract from the ground other than agricultural and forestry-related products. You have critical minerals who can be important for ongoing electrification away from fossil fuels towards, for example, battery and electric motors in general. So, essentially, in the last 15 years, what we now call “natural capital” and what we understand when we say “natural capital” has evolved rapidly and massively, I would say. And the reason for investing has also involved, I said in the beginning, inflation hedge and decorrelation or lower correlation to other asset classes. It’s still true, and we've seen that over the last four years very evidently. Forestry and agriculture did exactly what they claimed for 25 years they would do. They did exactly that. But the dimension of the securing of resources, I would say, is now also very much a thing. That's a new dimension that's been added to the minds of larger institutions and investors, just due to the fact that there's an ever-growing population on Earth. Political tensions do not exactly reduce, at the moment, especially. And land is… Mark Twain said, “Buy land, they don't make it anymore.” But in all seriousness, land is a finite good. That is due to urbanization and things like protective areas. The availability of land will shrink in the future, whereas the population will grow, and demand for pulp and paper and diapers and Amazon boxes will increase in the future. So, there's an inherent conflict between… who can provide these resources.

Brian (21:40): Meg, if I may tag on to Jasper. Fully agree with Jasper’s discussion about how we’re seeing expanded interest in what is and can be invested in natural capital. Key to that, though, and this is, I think, an important discussion for the institutional investor and insurance companies as they think about investing, is subscribing value to the non-traditional forms, the non-timber, non-ag, like we’ve been investing in for over 40 years, finding value in the rest of nature so that it can become investable. If we can't subscribe a value to it, well, then you can't generate the return on the backside of that and therefore attract the capital to invest in it. Because this isn’t a philanthropic venture, right? And so, the best example of that and a signal of what we need to do more ties back to Bob's chart, right? If all of that proves to be true in 10 years, then it's imperative that we centre around understanding the value of nature in responding to those risks that were posed in Davos and the wetlands, as identified. The example, most recently, is forestry investments, as we've said, have been around for a very long time for the financial benefits they provide that Jasper described. It was only recently, with the climate mitigation agenda, that you saw the value of carbon, the price of carbon increase enough that allowed us, in the past few years, to look at a forest with optionality for the investor. We could continue to manage the forest for the products that society needs from it, wood, paper, etc. Or, depending on the economics, we could look at it through the lens of a carbon price to decide is that forest more than [inaudible] for the investor through the carbon it can produce, something Jasper also alluded to. That optionality is only possible because we quantified carbon, we subscribed a value to carbon, and therefore, it can be underwritten in and of itself. Biodiversity is much more complex, and a lot of these other aspects of natural capital stocks. We need that basic research and information so that we can, in fact, price it into the investments that we know, philosophically or academically, are possible. But this notion of value is really important. We’re on the cusp of making a lot more investments, but we have to get the value.

Bob (24:21): If I could jump in there as well. Again, going back to the chart, I don't know if they could put the chart back up, but the, you know, top 4 risks over the next 10 years, extreme weather events. Well, that is the DNA of insurance companies already and reinsurance companies. We are already providing solutions that mitigate against these risks and allow property owners around the world to transfer these risks to insurers and then to reinsurance markets and to the capital markets as a whole. We're already playing there. We are providing solutions, And, by insurers, you know, presenting a risk-appropriate premium in the marketplace, they are hopefully creating incentives for people and businesses to make intelligent solutions that will be consistent with, you know, stewardship of the environment in the future. But #4 on the list is natural resource shortages. And I've long thought about this, as to me this is saying, one of the most valuable investments you can have over the long run is investment in natural resources. So, and we've heard sometimes this from a geopolitical point of view, that in the future, wars will be fought and mass migrations will occur as a result of natural resource shortages. Well, on the flip side of that, is there a way for the industry to actively participate in these solutions, investments that will help avert these wars and help avert these mass migrations? And, so, by investments in natural capital, clearly, this is part of the solution. There's no question. And I think, you know, we can discuss, for instance, direct investments in forests and agricultures and so forth, or, potentially, you know, extractive resources. We can think about lithium mines and such that help with kind of a transition away from carbon. I think that for many insurers and, again, when we think about the United States, when we think about the typical size of an insurer, they don't necessarily, I think, focus their long-term investment strategy this way. And I think that over the past few years, we've heard a lot about ESG-related investing and ESG-related funds. There may be a difference of opinion on the panel, but I think… I sit here in a finance department at a large university, and I think the view, at least in the academic literature, is these probably have not provided the sort of returns that had been hoped for, let's say, over the longer run. And, you know, so, when you're an investor, and you're just a click away in terms of another investment, are you going to forego a certain amount of yield? Now for insurers, again, as part of their strategy and as part of almost a natural hedge against the other risks that they are exposed to, the insurance side of the balance sheet, I think it makes a lot of sense. And that's both for direct investments, again, and forests and land, maybe lithium mines, all of these sorts of things. But for the vast majority of insurers, it's going to be investments where these risks are effectively securitized in some kind of a way, through bonds, through stocks. And here in the US, insurers have a very, very long tradition of being the largest or among the largest investors in municipal bonds. They are issued by local governments and state governments, and they often back water projects and sewer projects, and these sorts of things that are consistent, I think, with investments in natural capital.

Meg (28:28): Bob, thanks. Thanks for that. I was going to get to you to ask about the difference between indirect and direct investments. I think you did a nice job covering that. Can I circle back to Jasper and Brian? How long are these investments held, typically?

Jasper (28:46): Yeah, I think it depends on the mandate, but, generally, I would say longer term. So, for example, our group investor, Munich Re, or the related direct insurances, they are very much a buy and hold investor. Yes, we do model an exit, but no, we will not sell under normal circumstances. For other mandates with external parties, like family offices, forestry funds or separate managed accounts, there may be other investor preferences, but very rarely shorter than 10 years, 15 years plus. And that makes sense, in my opinion, just because… You need kind of a long breath to really have the desired effect in your portfolio. There's no flipping land quickly, not anymore, at least. I don’t know. Brian, how is that at Manulife? I think it should be similar. Right?

Brian (29:45): Yeah, it's very similar. Depending on the mandate, right? There's some open-ended products out there that the investments actually stay and investors can come in and go, that I think are an attractive option for the asset, right, but giving clients opportunities. I'll also say this, though. It's also important to not only talk about the investment in the asset, but the management of it. Because, you know, we who have been doing this for a very long time are integrated such that we value the management of the asset for the long term, regardless of the length of the actual investment vehicle it sits within. So, you know, the value of these lands is in their ability to continue to be renewable and provide those services into the future, regardless of who owns them. So, even if investors come and go, we manage for 50–100 here, in terms of the management approach, so that at the exit, the value is still there for the next investor typically to come in and pick those assets up.

Meg (30:52): Thanks, Brian. Can we circle back to Bob? What is the time length for the indirect versus direct investments in natural capital? Bob, did you freeze?

Bob (31:08): Oh, I'm sorry. I didn't know who that was directed to. I'm sorry. Yeah. So, when I think about indirect investment, so, insurers, again, getting back to my comment about investments in municipal bonds, which there's a very long history of in the insurance industry here in the United States. Those particular investments, again, which are often in water resources, sewer resources, oftentimes have some kind of environmental connection, sometimes setting aside land for recreational purposes. These are typically offered in maturities of 10, 20 or 30 years. That would be the norm in the muni bond market here in the United States. When we think about investments in other resources, for instance, you can easily purchase on the market investments in firms that are investing heavily in alternative energy or extractive resources like lithium mines, as I mentioned. You can easily invest there kind of in perpetuity in the form of an equity or, again, for a period of decades in the bond market. So, I think there are a number of ways to play this. I think that investing in the actual physical forests and agricultural land and so forth might be a bit beyond what a lot of asset managers, that's kind of small and mid-sized companies, even large companies, are willing to deal with. And, I would say, and perhaps Jasper or Brian could answer this question a bit, how do you overcome the liquidity concerns of investors who… as you mentioned, your buy and hold-type investors, whereas in the investment world, there's a lot of short-termism. So, how do you overcome that issue of liquidity?

Jasper (33:22): I would say we have to differentiate between liquidity in the sense of annual distributions and liquidity in the sense of PE funds cannot reinvest because they cannot perform their exits due to a proper liquidity shortage. I think natural capital will always be mixed in with other alternative assets, and alternative assets will always stand next to, in all likelihood, a much larger liquid portfolio of fixed-income investments and bonds and other liquid investments, so it's always just “a mix- in.” But at the same time, you or investors benefit from a certain scale because it evens out the inherent volatility, for example, of wood prices. Yes, wood prices go down. And, yes, they go up again. If I put all my eggs into one basket and expose myself to one wood market, that can be an issue, especially for insurers who typically want very stable, and even more importantly, predictable liquidity, or distribution profiles in the future. This is tackled, at least in our company, and I would imagine at others as well, just via diversification and via diversification of asset type. So, value growth afforestation projects next to functioning all-aged or even-aged productive forestry assets mixed in with agricultural assets, you have a much more stable cash distribution or cash flow profile, and then also geographical, ideally global diversification so that you can, should push come to shove, store on the stump for one or two years where the prices are bad and therefore increase harvesting in your other part of your portfolio, in Oceania, just for example. So, that's the task of a prudent portfolio manager, to perform, to invest and to manage the portfolio in a way that it can function as a portfolio building block. Natural capital needs to function the same way as the real estate portfolio does or the infrastructure portfolio does. The best kept forest in the world is of no use to an institutional investor such as a Assura or a reinsurer if it does not perform as an institutional asset. And this is where diversification etc., all the things that are just managed, come in. And then you can tackle these types of, for example, liquidity concerns that are completely justified but manageable in the end.

Meg ([36:24]): Thank you, Jasper. I want to thank our audience for sending in some really great questions. I'd like to bring one into the discussion now, which is, you know, the discussion around investing in forest and agriculture is a good long-term investment, especially with increasing resource scarcity. But does this miss the effect of climate change, which will affect the returns available in the particular parcel of land, especially over a 10- to 30-year holding period? Jasper, would you want to take that?

Jasper ([36:54]): Yeah, let me briefly get onto that. Sorry. Did I understand correctly, the effect of climate change and especially the longer-term duration of these assets? Ok, sorry, I just had a small…in my headphones there. Ok, so… This is a broad and complicated topic. But let me break it down maybe as good as I can. And luckily, we have people in this webinar who are, in principle, acquainted with the risk management of natural risks. So, the first step in risk management against natural risks that stem from climate change must or should always be the geographical selection of where it will even be possible in 30, 50 or 100 years to grow loblolly pine or radiata pine or eucalyptus or any given main tree species. So, if Munich Re, for example, or at MEAG, and we rely on Munich Re's climate experts, we are lucky enough to have a huge data pool of 140 years of weather and climate data. We have a dedicated team of people who do nothing else but project into the future what may happen in scenario ABC. So, there's a lot of knowledge in-house at Munich Re, and we can rely on that expertise. So, to pre-emptively assess where we may end up in 10, 30 or 50 years would be the first step. And should neither of these scenarios be applicable or should extraordinary circumstances accelerate climate change even more, as we have actually seen in the past, then you come into what we call adaptation, which is, for example, reflected in the EU taxonomy as an environmental goal to adapt to climate change. And this would mean then changing the silvicultural regime, decreasing rotation times, increasing thinning measures just to give a bit more crown. And, therefore, give a bit more roots or even mix in or even change completely the tree species that are potentially more resilient or more resistant against the new, then-existing or likely-to-exist climate. And what are we talking about here? We're talking, in almost all circumstances, drier and warmer. Or, the other way around—warmer and therefore drier. So, the plants don't have too much water or not enough water, and the root system cannot provide the organs of the tree, the needles or the leaves with enough water, enough nutrients. And, therefore, you need to silviculturally adapt your ecosystem towards a changing climate. If this is not at all possible, and if you've done the first step correctly to identify where will climate change be not as impactful as it is maybe in other parts of the world, then it's, at least in our view, perfectly possible to keep fulfilling this role of providing natural resources to the world.

Brian (40:33): I'll add that, and this is back to my comment about the expertise in the management of, frankly, nature, right? There is inherent physical risk that can be, in fact, understood and managed in the way Jasper said. That's the specialty of what it takes to be able to kind of invest well in these assets, because while yes, it's true, there will be impacts, they can be mitigated or adapted in most circumstances. We often get the question when large fires, and the devastation of the LA fires Is different. Typically, we get questions when it’s wildfires in the landscape, not in an urban setting, which is horrendous. But, when the Los Angeles fires happened, the implication, the perception is that an investor’s forests are just going to burn up. The reality of it for us, anyhow, is it’s a very minor percentage, well under 1% of assets that are lost. And there are often recovery mechanisms that you can have because you are operating and managing those assets very locally, being able to kind of salvage material from the forest to create, to capture that value. So, the perception of physical risks really can be managed with appropriate and specialized expertise in these asset classes.

Meg (41:54): Thank you, Brian. I'd like to get into some of the regulatory challenges, especially in light of the change of administration in the US. Bob, maybe you could kick us off there on your insights into possible regulatory challenges with natural capital investments.

Bob (42:11): Right. Well, this is a very news-heavy week here in the United States, to say the least. And we are not quite 48 hours into a new presidential administration, as I mentioned, with very, very different views on environmental issues than the previous administration. So, just within the first 47 hours, I guess, the United States withdrew, for the second time, from the Paris Climate Accord. And again, I don't mean to be political here, but I'm going to talk about some things that influence investment in natural capital, and that commentary, the commentary from new President Trump here on withdrawing from the Climate Accord is he said it was unfair, one-sided and a rip-off. So, those are his terms. Within the same span of time, the United States repealed electric vehicle mandates. It imposed a moratoria on new wind power projects, both on land and at sea. It declared a national energy emergency. And, and that came along with you know, the familiar refrain, drill, baby, drill. So… And then you can, you know, spoon into this some other geopolitical issues, such as talk about, well, the United States would like to acquire Greenland. You know, you could argue that's in part based on resources. It might be part based on geopolitical concerns and security concerns, those sorts of things as well. So, we've got a situation, at least in the United States. And I do think that there is a populist drift in many other countries, including in Europe as well, and it'll be interesting to see whether or not, in Europe, for instance, if the sort of populism and the somewhat rightward drift we've seen here in the United States, which has, I would say, a somewhat less friendly view towards environmental issues, whether that will also be the case in Europe. I'm not as well versed in European politics to be able to opine on that. But it does seem that in the United States, that investments that would be more geared towards natural capital, given the current and emergent regulatory environment, could be more challenging. I'll put it that way. It could be more challenging, at least for the next several years here in the United States. Now, again, I don't think that's uniformly the case. There are, again, many investments, for instance, in needed water and energy infrastructure that could be consistent with the interests of the current administration, the new administration, as well as those of insurers who are interested in natural capital investments. But again, I think the tide is against us right now.

Brian (45:24): Meg, if I may, I think it's important. I mentioned some statistics about the rise of investments in climate change at the beginning, which, Important to this topic, occurred when we were still debating climate change, right? So, I think the rhetoric will continue, and I think, if we're correct, and I think the body of evidence would suggest that we are correct about the crisis that climate change is and the rapidly evolving information to identify this nature loss as a similar magnitude of risk, to me, would suggest that it can transcend, you know, the rhetoric of any one election or a government's position on these things because eventually, the effects will be seen and felt, as I said, across societies, people, economies and businesses. So, you know, I think we have to take a little bit with a grain of salt the words and actions that are happening in a very short amount of time, days and weeks and months, and think about the reality of this is that it will play out over decades.

Meg (46:44): Thanks, Brian. Do you think there might almost be a two system, like the US investments might be different from what we see out of Europe?

Brian (46:57): Yeah. So, I'll just continue. We already have seen that, regardless of the recent election in the US, right? As we think about our global portfolio, we are always watching actions in different regions of the country, which are different, whether it's being manifested through regulations. Bob rightly said the European Union and Commission have a lot of aspirations that they enact through legislation, and the US is typically much slower. So, that phenomenon is not something new, and I think it will continue that you will have investors from different parts of the globe or with different objectives will drive investments, and the key is to be prepared to meet them where they're at.

Meg (47:44): Thanks, Brian. So, along those lines, could you share what is your outlook for investing in a natural capital going forward?

Brian (47:54): Yeah, it probably is self-evident by my remarks. I think the future is bright. But let me… And the poll really supports that for those that tuned in. And so, let me just explain a little bit more beyond what I've already said. That's not to say we don't have some things to figure out. There's a lot of data challenges. There's a lot of measurement information challenges and that valuation question that we have to figure out. But the other way that I'll just introduce briefly, and it'll be more food for thought since we're running out of time, is we've talked a lot about direct investments in natural capital, in traditional asset classes, timberland, and it's important to, I think, the investment community and insurers to also think about nature as it manifests through recognition of natural capital and services flowing through supply chains and really fuelling all economies. So, not just thinking about should I invest in timberland and ag, but thinking about investments in the circular economy, and really kind of thinking about natural resources being used in a circular way, not a linear way of extraction for waste. And then think about investing in water infrastructure. Water is a natural capital stock, but we need infrastructure to provide water to societies, to businesses, to communities, and as we think about the built environment. So, we think about natural capital as transcending both the natural environment, where you can actually invest in it all the way through to investing in the built environment, with a notion of natural capital being important to it as well.

Meg (49:41): Thank you, Brian. And I'd like to get Jasper and Bob to weigh in on this. But first, let me kick off the poll again. We want to see if there's any change in what our audience thinks. So, I'm going to ask you again. Over the next five years, the insurance industry's investments in natural capital will rise, fall, remain the same, or you don't know? Rise, fall or remain the same or you don't know? And, sorry, then, back to… I'd love to hear the panelists' outlook for the future of investing in natural capital. Bob, want to go first?

Bob (50:15): Yeah, just, you know, I'm going to kind of intersect with a couple of the questions that have just come up on the chat a little bit here, because this is, in part, what I've been thinking for some time and discussed here a little bit today. There is going to be a need in the current political environment to reposition investments in natural capital in a way so that they are viewed as being in a country strategic interest, that they give you an advantage in terms of economic growth opportunities, that they create geopolitical advantages for your country. But one of the problems, I think, is a perception problem. We're going to invest in forests and agricultural lands and so forth because it's a good thing to do. It's a nice thing to do. It's an ESG. It makes you feel good and you get a lot of good press and you can greenwash yourself and all these sorts of things. It's about repositioning this asset in a way, and I think in this current environment, political environment, at least in the United States, that, you know, having alternative energy sources that aren't dependent on carbon is something that strengthens the country from a global standpoint. It doesn't weaken it, and it enhances and increases the diversification, of a nation's energy portfolio, for instance, or its ability to produce food and feed itself, or to produce minerals So, I think it's a repositioning. And I think that insurers can be part of that repositioning and help create that narrative, because in this country at any rate, we're kind of behind the curve on that.

Meg (52:02): Thanks, Bob. And, Jasper, what are your thoughts going forward?

Jasper (52:07): That's a tough one to follow, actually. Brian and Bob have made excellent points. Let me maybe just take the key points of Brian's and Bob's contributions and maybe put them into the European light, if I may. So, I fully agree with Brian's point that the primary production of trees is one part of, for example, forestry as a part of natural capital. That's one part. But there are more parts. There's certainly the carbon dimension, where we have another price curve, a second, different price curve than the wood price curve that we can now opt for, should the investor be so inclined. That's all nice and good. There's also the possibility to go down the value chain, down the chain of custody with processing facilities, to go into the development of renewable energy just because forestry assets or land assets are just, more often than not, vast amounts of hectares or acres. Infrastructure projects, just providing a third party. Your access to your roads, etc., can range from that all the way to providing HBU or highest and best use areas for logistics centres, you name it, just the fact that you have land. That's certainly one dimension that will increase in the future. And this is what we call in the forestry scheme, or the forestry asset class, what we call beyond timber. Timber is the primary product, but renewable energy, potential infrastructure, carbon certificates, biodiversity processing facilities, all things that will become financially recognized or are already financially recognized. And due to the professionalization of asset managers, more and more asset managers will be able to effectively deploy, develop, etc., infrastructure or renewable projects. In agriculture, it's very similar. You have the potential for livestock, which many asset managers now exclude. And you have aquaculture, the potential for LG greenhouses, glass houses, cool storage, all these ag tech ventures that just increase your exposure to pure land. And all these, and now I'll come to my European angle, play into what the EU has determined as a transition into a sustainable economy. And this is also where rare earth minerals for battery production, battery storage, etc., come into play. And this is the definition we most align with, the transitional activities or the transition into a sustainable, ideally fossil fuel-free, economy must encompass everything that is required from the natural capital side, so to say. And, yeah, this is very much in line with the vision that the EU has for these types of investments.

Meg (55:36): Thanks, Jasper. I'm going to share the poll results and then I'm afraid we're reaching the end of our time together. So, I'll ask the panel to share what you would like the audience to take away from today's discussion. And we'll start with Bob, then go to Jasper and then Brian. But first, for the poll results, it's very similar to when we first asked you at the top of the hour, or at the top of our time together. So, over the next five years, the insurance industry's investments in natural capital will… Again, 63% said, "will rise." That's the same as when we asked you at the beginning. The people who think it will fall, it dropped from 6% the first time to 5% just now. "Remain the same," it rose to 10% from 8% and "Don't know" remained about the same at 20%. So, one in five of our audience doesn't know what to expect. But such a great discussion, and I want to thank the audience for those questions. Bob, what would you like the audience to take away from our discussion today?

Bob (56:40): Well, just very quickly again, you know, over the next few years, I do feel that unless insurers and others can help sort of reposition these sorts of investments in a way that they are within the strategic national interest of a country, insurers and others are going to potentially run into additional headwinds with respect to this category of investment. Stepping away from that just for one moment is the fact that we can think about investments in property casualty insurers themselves and a regulatory environment that allows them to price risk in a way that is pure, so that the premium charge equates directly to the risk that's being assumed. In that respect, insurers themselves are, in fact, investments that help protect natural capital. Because by their very nature, insurers are sending a message about risk that would, in fact, encourage less development in vulnerable areas, for instance. And it is too often the case, at least in the United States, where there are deliberate regulatory obstacles put into place on that, and we have terrible outcomes like we just saw in California.

Meg (57:52): Thank you, Bob. And, Jasper, what would you like the audience to know from our discussion today?

Jasper (57:59): Yeah. I think I made the point very clear and we reiterated it time and time again. Natural capital is a very effective portfolio building block for any alternative asset portfolio that almost all insurers are certainly bound to have. And, as Bob correctly pointed out, it's not for the green mission statement that you want to put on your building. It certainly can provide that.

Forestry and agricultural assets are certainly what the EU taxonomy, for example, especially forestry investments, consider sustainable investments in the regulatory sense. But that's not the reason to do it. The reason to do it is to generate a reliable and investment-grade income with low correlation to other asset classes and to protect the remainder of your portfolio against certain fluctuations that come from correlation and inflation. And then from now on, I would say, we can all agree that the securing of resources is something that will increase in import over the next years and decades. So, if you are not already invested in natural capital, I would urge you to find someone who really knows what they're talking about. Or, even better, build up in-house expertise and hire some foresters and get at it, because they indeed do not make any more land anymore.

Meg (59:32): Thank you, Jasper. And, Brian?

Brian (59:36): Yeah, I continue to agree with my colleagues here, but let me just put this piece in front of us. I think, you know, whether it's for insurers, investors or just people, I think recognizing natural capital and our reliance on nature separate from climate change really needs to happen in order to put the right focus on this. I think we started talking about it, many started talking about it because of climate change. We have to separate, and to do so, I think people, businesses, societies need to start really thinking about their dependencies and impacts on nature and what would happen if that changes. To continue to really substantiate, what I described earlier, is that this systemic risk of nature loss will impact economies worldwide, regardless of what happens with nature. And until we kind of realize that, I don't think we'll have really the mechanisms in place to bring private capital to help solve the problem, which is what this is all about, as well as, obviously, meeting the objectives of what that capital is deployed for, whether it be for paying out liabilities from an insurance company or pensioners, etc. So, focusing on this for the magnitude of the crisis that it really is and can become, and understanding that we should probably value nature more than we have today is really, I think, the message I'll be doing.

Meg (01:01:01): Thank you, Brian. And I'd like to thank our panel, Bob, Jasper and Brian, for sharing their insights. And a special thanks to the audience for your great questions. We did have a question about would we share that slide? I will post it on my LinkedIn page. You can look for it there. Please follow me if you haven't already. And I will have a replay available of the whole webinar in just a few minutes. For Insurance Insider, I'm Meg Green.