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'Natural capital is at the heart of sustainable development'

Gautier Quéru, investment director and project manager of the Land Degradation Neutrality Fund at Mirova, the sustainable investment subsidiary of France's Natixis Asset Management, talks to Agri Investor about the firm's partnership with the UN and imminent launch of a $300m global fund dedicated to achieving land degradation neutrality, one of the UN's sustainability goals.

Q Mirova's approach, whether it invests in equities, fixed income, renewables or infrastructure, has always centered on responsible investment. How does the Land Degradation Neutrality (LDN) Fund fit into your overall strategy?

GQ: The LDN project started two years ago when the UN launched a tender to select a fund manager for this vehicle. The UN plan has two phases. The first is a feasibility study to identify the needs in the market and the potential positioning for a fund whose aim is to bring capital to the sector in order to reach the UN's sustainable development goal of land degradation neutrality. The second phase is implementation, which is the creation of the legal vehicle and the fundraising. We are almost there and in the coming weeks we are expecting to launch the fund, aiming to raise $300 million.

Q In late June, Mirova said it was in talks to acquire Althelia Ecosphere, a UK-based impact investment firm, which would serve as a European platform focusing on climate change mitigation and the protection of landscapes, biodiversity, soil and marine resources. Is this related to the LDN fund project or are they two distinct initiatives?

GQ: No, they are definitely related. Natural capital deterioration is more than land degradation, it's also about water protection, oceans and other ecosystems. Our strategy for the LDN fund is aligned with the UN's LDN sustainability development goal, but natural capital encompasses other things as well and that's where Althelia comes into the picture. They have a sustainable ocean fund, targeting marine ecosystems as natural capital, so that's another component of it. The idea is to join forces with Althelia in a similar way that the Mirova renewable energy team is managing several funds. The Althelia team will be dedicated to natural capital investing and the LDN fund will be one of the Althelia funds.

Q When is the Althelia transaction expected to close?

GQ: Over the course of the summer.

Q Since you have completed the feasibility study to identify the potential positioning for a fund dedicated to land degradation neutrality, what have you discovered in terms of investor appetite?

GQ: We see very good appetite in the market. Having worked in alternatives and real assets for more than 15 years here at Natixis and Mirova, especially following the financial crisis, we see investors looking for three things: **The first is access to real assets through direct investments; the second is yield, so any activity that can be a bit alternative to fixed income but can generate revenue over time is good. This is why there is a boom in infrastructure, for example. We believe that if there is long-term production of sustainable raw materials, natural capital can also provide these types of yield; the third is impact – it's more and more embedded into the strategy of major institutional investors. And here we have even more impact than in renewable energy or energy efficiency activities because**

we believe that natural capital is at the heart of sustainable development, especially in developing countries.

Q In a post you published last month, you expressed the expectation that natural capital investing will evolve into a mainstream asset class, like infrastructure and renewable energy. Do you think it will happen faster than it did for those two asset classes?

GQ: Well I think the situation today is very different from what it was 15 years ago when the renewable energy sector started. Especially the year 2015, when three major events took place. First, the adoption of the UN's SDGs, which are now creating a global framework for sustainable development. It's not only about development aid, it's about all countries achieving objectives by 2030. An increasing number of investors and market players are integrating this into their systems, so SDGs are serving as a catalyst and accelerator.

Second, there is the Paris agreement, which is also an accelerator for all the climate change-related issues. And the third that is less known, is the Addis Ababa Action Agenda, that was also adopted in 2015. It's related to financing development and the concept of blended finance is really at the heart of this agenda. This means we need to blend public and private money to reach sustainable development goals and the private sector should contribute to accelerating this trend in globalizing resources towards achieving land degradation neutrality. So, I think natural capital investing becoming a mainstream asset class could go faster because the world has changed and private investors realize that they have to play an important role and that they are part of the solution.

Q How much capital is needed to achieve the UN's goal of land degradation neutrality by 2030?

GQ: If we're talking about all of the sustainable development goals the UN set in 2015, then we need between $5 trillion and $7 trillion per year. In terms of LDN specifically, the UN has estimated that $2 billion is needed annually to achieve this goal. Our role, as a UN partner, is to not only bring part of the capital that is needed, but also to play a catalytic role by on-boarding more and more investors – asset managers, fund managers, project developers, and other companies – who will provide the resources that are needed to implement sustainable land management and agricultural practices, that in the end, will make the difference.