

KEYNOTE INTERVIEW

Capitalizing on nature



*Natural capital investing boosts the environment and helps drive financial returns, say **Brad Mytton**, **Max Butler** and **Samantha Bayes** from Roc Partners*

Since the late 1700s, Australia has experienced massive land degradation, soil erosion and habitat loss. This environmental decline is placing increasing pressure on the ecosystems that support agriculture, highlighting the urgent need for sustainable land management.

However, while the concept of 'natural capital' is only beginning to gain traction, Australia has established several policies to encourage investment in natural capital, including through mandatory and voluntary environmental markets.

To find out more about the opportunities this creates for agri managers, we spoke with Brad Mytton, managing partner for food and agriculture at Roc Partners, along with Max Butler,

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vice-president in the same team, and Samantha Bayes, vice-president for responsible investing.

Q What are the global megatrends driving the focus on natural capital?

Max Butler: The concept of natural capital for food and agri managers has always existed from our perspective. This is not something new for us. The way that we have thought about natural capital over the past 10 years ago is that it's a key risk and opportunity within our natural assets. As a food and agri manager, we invest

into our assets to ensure they can produce food and fibre into perpetuity. That then drives returns for our investors.

There's been a greater focus globally on the term 'natural capital', given the links between natural capital and climate policy and then environmental service markets. Agriculture, through nature-based solutions, is one of the ways that the world can decarbonise, and those projects or initiatives are linked to the underlying natural capital base of agricultural assets. Similarly, there are now more and more markets that are set up to tokenize natural capital qualities like carbon sequestration or biodiversity improvement, and that is driving a greater focus on natural capital.

“We see that nature-based solutions can improve financial outcomes”

MAX BUTLER

Q How do you succeed with a natural capital strategy?

BM: As an investor, working with the right people on the ground is critical in all this. It starts with backing exceptional management teams and being aligned with those management teams. What we find is the process of discussing natural capital with management teams enables you to tease out whether they are the right managers to partner with.

It's much more effective to start looking at natural capital right at the start of the investment process, during the diligence phase, rather than doing a commercial deal and treating natural capital as something to bolt on at the end. We follow up our due diligence with an ESG and natural capital integration and action plan. That means we're investing in companies with a very clear plan on how to grow and how to improve them.



Q What are some of the key ways that investors can invest in natural capital solutions?

Brad Mytton: Maintaining a consistent and clean supply of water is a key focus in livestock farming. In our Wagyu beef business, we have focused on protecting water sources, so cattle have access to the quantity and quality of water they need. And we do shelter-belt planting – the trees that we plant to generate carbon credits also provide shelter for livestock in periods of extreme heat.

Methane emissions from cattle is another big issue. There are numerous different additives that are available in the market that aim to reduce the methane released by cattle. We've run trials with some products in a feedlot setting, we've done lab-based testing and we stay abreast with what others are doing in the industry.

The way we like to approach new or novel technologies is to be a fast follower, rather than a pioneer – and we are doing that with our methane strategy with our Wagyu beef business.

Samantha Bayes: Another trend is the growing use of technology to optimise natural resource inputs and minimise environmental impacts. In our glasshouse business, for example, we can achieve significantly higher production efficiency. Glasshouse-grown tomatoes may yield 80 kilograms per square meter of land, whereas field-grown tomatoes may only yield around 7 kilograms per square meter.

That business has also had a significant focus on water. It employs state of the art individual dripper systems that deliver directly to each plant, enabling precise, controllable water and nutrient distribution. So excess water, which is approximately 30 percent, is captured

by gutters installed throughout the glasshouses, and then treated using ultraviolet sterilization.

Q How do regulatory trends around natural capital lead affect investors?

SB: At the global level, the Global Biodiversity Framework agreed at Montreal in 2022 with the aim of halting the rampant loss of biodiversity, is a critical platform. This marked the first time that governments came together to set really clear targets and actions, both for 2030 and 2050, to halt biodiversity loss.

Off the back of that, we've seen Australia start to shift towards a nature positive with the proposed laws still to be approved. The Nature Positive Bill of 2024 aims to move beyond avoiding environmental harm to actively improving the state of nature. The two key features of this bill are stronger environmental standards and better

accountability. An independent body, known as Environment Protection Australia, is proposed to enforce laws and decisions.

And probably the most interesting reform is Australia's Nature Repair Market, also known as the biodiversity credits market, because it identified the need to foster private sector participation in the restoration of nature and the potential opportunity to leverage existing markets (including the carbon market) to do so. This is a voluntary national market, which differs from the mandatory carbon market. It enables people to take action to restore and protect their environment through a marketplace where individuals and organizations can undertake nature repair projects and attract investors.

Q How significant can environmental markets potentially be as a revenue stream?

MB: In Australia we have a legislated carbon emission reduction system called the Safeguard Mechanism, which creates a regulated market for carbon credits. In the past couple of years, we've sought to diversify our product offering by monetising natural capital through environmental markets. And so, we've set up a new manager that purchases agricultural land to diversify the income stream and add in revenue from the generation and sale of Australian carbon credit units.

Our strategy is focused on generating income primarily from carbon credits, with agricultural income as a secondary revenue stream. The incremental revenue that the carbon credits bring is driven by how much carbon you can actually sequester. There are areas of Australia that have incredibly high carbon yields. These are the low hanging fruit investment opportunities.

For a typical grazing or broadacre asset, you might be able to generate a 2-4 percent average annual return on the asset running the operations. But

the assets that we've purchased can generate a 10-12 percent return across 25 years. The carbon yield is set by the Australian government. It's a regulated market, where the duration of a carbon project is fixed at 25 years, so that revenue stream is finite, but is far more stable than a lot of traditional agriculture revenue streams.

Q Is natural capital affected by the ESG backlash?

MB: The backlash against ESG is not something that's new and is a politicized issue. We believe ESG integration is about risk mitigation and value creation, and we see natural capital forming part of that thesis. Our approach is based on being pragmatic and commercial – the goal is to identify and support initiatives that will deliver both environmental and commercial outcomes. We've established the Roc Partners natural capital framework, around

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SAMANTHA BAYES

air, water, biodiversity, vegetation and soil. Based on this, we're working with all our agriculture portfolio companies to identify the natural capital risks and opportunities that are most material to their business.

We see that nature-based solutions can improve financial outcomes. For example, our almond business has introduced designated areas planted with specifically selected pollinator mixes across its farms. These were strategically established to provide a rich and diverse habitat for bees during critical pollination periods, which ensured that bees have access to essential nutrition, which boosts their health and productivity, and then increases the efficiency of pollination and ultimately production.

Q So, is there broad agreement among agri investors in Australia that natural capital is important to focus on?

SB: Overall, there is broad agreement that natural capital is important to focus on. However, the way natural capital is defined, prioritized, measured and reported on has not been agreed or generally understood. We have seen examples of investment collaborative initiatives try to lift the bar on this, such as RIAA, ASFI, the TNFD, etc.

We've seen a lot of strong empirical evidence across our portfolio companies around how good land management presents benefits to the company and to nature. But articulating the commercial value of natural capital is still challenging. Without proper measurement and reporting, it's really hard to prove the benefits quantitatively. We don't want to measure natural capital metrics for the fun of it – we want to be strategic and focus on the natural capital indicators that are material to that particular portfolio, to see if spending capex or opex on a certain natural capital initiative is actually resulting in better natural capital outcomes and improved productivity. ■