

Narrator: Green Invest Asia examines the role of finance and strong environmental, social and governance criteria (or ESG) to unlock land use investments that reduce climate impacts of agricultural and forestry commodities that we rely on for everyday life. We bring you the inside story on sustainable land use investments in Southeast Asia—what’s working, what’s not, and the green areas in between. This podcast is born out of a sustainable land use project by the same name funded by the United States Agency for International Development, or USAID, which works with investors to support agricultural and forestry companies in Southeast Asia reduce their carbon emissions through climate-smart operations.

Christy: I'm Christy [Owen], director of USAID Green Invest Asia. And I'm very pleased to be joined today by Jens Petersen, the director of investments for New Forests, a global investment manager of nature-based real assets and natural capital strategies. Jens represents the firm's Asia office in Singapore, which handles its investments in Southeast Asia. New Forests’ portfolio spans sustainable timber plantations, conservation areas, carbon and conservation finance projects, agriculture, timber processing, and related infrastructure. As Green Invest, Asia’s focus has been on agriculture and forestry in Southeast Asia, I've always thought the organizational mandates of New Forests as well as Green Invest Asia had a lot of synergy. So I'm very excited to have Jens as a guest today, just to dig a little bit deeper about New Forests, their model, trends, and where they're headed. So Jens, welcome, great to have you here. For the benefit of our listeners, could you explain a little bit about the origin of New Forests and how you work?

Jens: Absolutely. And thank you so much for having me. As you said, it's been a long time coming. And I'm really pleased that we can have this conversation with respect to New Forests. So the company was set up back in 2005, and was actually initially an asset manager, meaning that we were largely managing estates on behalf of institutional clients. However, just after the financial crisis, we changed our business model such that we became a fund manager. So rather than just managing the operational aspects of the plantations, we also manage the investment decisions. The growth has been quite rapid since then. We now have around 7 billion US dollars in assets under management. And that roughly corresponds to 1.2 million hectares of land that we are managing globally. So initially, we were an Australian based company, our headquarters in Sydney. But we also have offices in New Zealand, United States, Singapore, and Africa. And we are managing investments in all those regions.

We had an episode, late last year focused on how despite the meteoric growth of the carbon market, there's still lingering confusion about, you know, what counts as a carbon offset project, how it’s valued, how this helps prevent the worst fallout from climate change. You know, you've mentioned that carbon is a new area for New Forests, carbon credits as a viable market. Could you talk a little bit about how you are situating and justifying moving into this evolving marketplace, for your shareholders and for your company?

Jens: So New Forests has a long history within the carbon markets. I mean, we were one of the pioneers in the United States, where we started trading into the regulated markets. The voluntary markets, which is often what is in the news, that is something that is a bit more nascent. So you'll see in a lot of countries, the regulation is fairly nascent. The countries are still figuring out how actually to deal [with] this markets and how they have to evolve. So this is really something that is a work in progress. The

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initial approach in Asia was to be focused on industrial tree plantations. That was the focus from our first fund. But we still at that point also had a focus on conserving the natural forests. So for example, all our plantations in Asia [are] FSC certified. And as part of that, we actually do set aside some high conservation value forest areas as part of obtaining that legislation. So some of this conservation work, we have, in principle already done. But what changes is that we can now focus even more on these activities. Given that we now have payment for ecosystem services. You [are] absolutely right.

There's a lot of uncertainty around that. We try to implement our projects according to the highest standards. And so some of the things that we're focusing on is that our carbon offsets have to be real, meaning that we do a lot of scrutiny with respect to whether the offsets represent real emission reductions, avoided emissions, or carbon removals. They have to be additional, meaning that the projects that we are implementing, they really have to be something that deviates from the status quo, or the counterfactual meaning like what would happen if we hadn't implemented those projects. They also have to be independently verified. As a general rule, we go by gold standard, and VCS (Verified Carbon Standard) with CCB (Climate, Community and Biodiversity). But of course, also other standards that are applicable and meet our quality requirements. We also address permanence, we address leakage, and most importantly, we ensure that the projects we implement do not cause harm to the environment or to any of the communities that might be impacted by those projects.

Christy: Common opinion is that carbon markets and the financial incentive created by carbon credits is a tool in the arsenal for climate change solutions. And, you know, one of the best ways to avoid climate change is to avoid deforestation. And, and on that point, you know, New Forests is in this kind of what I consider a relatively small sub sector of funds, which has a very clear mandate from the early days to reduce deforestation and degradation in Southeast Asia, among other things, through the Tropical Asia Forest Fund, or TAFF. And I know that TAFF1 is [done], you're now on TAFF2. So where is the fund and its capital raise?

Jens: So the fund had its first close about a year ago. So it was March 2022. And that was the first close 120 million US dollars that we are currently deploying. The fund is targeted to get its final close in 2023. And that is targeted at \$300 million. And we are well underway to reach that target.

Christy: Great. You've moved from TAFF1 to TAFF2, and I'm curious a little bit about the lessons that you are taking into this second capital raise based with on what you learned from the first raise under TAFF1. How and why has the mandate evolved from a focus on plantation management to include things like infrastructure and nature-based solutions? Do you see it expanding further towards more holistic sustainable landscape management that would also then include agriculture and other asset classes potentially? Or are there other lessons as well, that you're considering here?

Jens: Yeah, I think you're touching upon the most important thing is really to try to maximize the impact that you're having with your investments on these landscapes. So what we learned is that Asia has very heterogeneous landscapes. So the concession areas that we are acquiring or we're managing, it's not just a production forest. Very often you also have natural ecosystems, there endangered species. There are a lot of communities living in and around the concession areas. And by only focusing on one piece, meaning the production areas, that actually means that we are missing out on a large part of what we

actually could do. And that's both in terms of like a positive environmental and social impact, but also a potential return for our investors.

So we take an example, in our first fund, you have a very large concession in Indonesia, approximately 100,000 hectares, but only around 30 to 40,000 hectares of that, so 30 to 40%, is actually suitable for production forest. The remaining areas are largely degraded landscape. It's some high conservation value forests. And there are also areas that are being utilized by the roughly 2000 communities living in and around the concession areas. Now the difference, if we were to look at this from the perspective of the second fund is that we will, of course, still looking at the production areas trying to develop those. We would still do our community outreach. We still do our high conservation value of forest conservation commitments, but we would go even further and then potentially trying to implement carbon projects, trying to do some restoration projects with respect to regenerating the degraded landscapes. We could also be doing even more with the communities. So that could be energy projects, such as cooking stoves, also outgrower programs and the like, because in addition to having the expanded mandates, meaning that in addition to timber plantations, we can also invest into the infrastructure, as well as the carbon energy-based solution aspects of a project.

We also have a pool set aside, to invest into so-called impact projects. And what that means is to have essentially a blended finance fund, where we can do more than just your just commercial investments. So for impact projects, they just need to fall within one out of three buckets. That's livelihoods, biodiversity, or climate. And so that means that we can implement projects that are not necessarily commercial in nature. There's no commercial hurdle rate to implement those projects. But they will definitely have a positive impact on the landscape. And very often, they are also very synergetic with the primary investments that we're making. So for example, if we're looking to implement a conservation or restoration project, very often you can implement biodiversity projects as well. And that can also be reflected in the perceived quality of the credit. So that means that from the perspective of who takes on those credits, they will be more valuable in that sense. So I think that's sort of like what we are developing towards trying to integrate these different kinds of asset classes, when we are managing one landscape. And I think it will go even further than this. So you mentioned agriculture, and agriculture is obviously a huge part of landscape management here in Asia. And that will be a natural direction in which the mandate would develop. We will be focusing on managing a holistic landscape management approach. And whatever we can do it within that, that's where our mandate will expand towards.

Christy: That makes a lot of sense, you know, this move away from thinking around silos and into more integrated, holistic systems, landscape types of programs that allow that flexibility to ensure sustainability in the long term. Building on that last response for listeners who might be interested in financing from New Forests, can you describe what would make for an ideal nature-based or plantation based investment in Southeast Asia for you? What would get your attention?

Jens: That's a very good question. I mean, generally speaking, we are fund managers. So we are looking for larger projects. So we already mentioned that, like, a plantation area, or like a concession of around like 100,000 hectares, where you can implement these different kinds of approaches, that will be ideal. We typically look at sort of like minimum areas for plantations that around 20,000 hectares that can be

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planted. So they are fairly sizable areas. We can also invest into standalone infrastructure. So that's typically wood processing, but it's also any other infrastructure affiliated with plantation forestry, so nursery, logistical infrastructure, and so on. And then, of course, we have conservation and restoration projects, meaning nature-based solutions.

Here, we see those come in numerous shapes and forms. When we are looking at REDD+ projects, we typically target something that is around like 60,000 hectares and plus, but when we're looking at very carbon-intensive carbon-rich projects such as peatland restoration, mangrove restoration and conservation, then the project sizes can be smaller. We take a very pragmatic approach where we are going in working with the owner of the project [to determine whether this is a feasible investment for us.

Christy: So you did talk a little bit about that you're now implementing outgrower programs and these community benefit programs in TAFF2. What are some of these market forces and developments that New Forests is addressing or taking advantage of through TAFF2, in terms of that expansion? Is that a market-driven decision? Or is that a development-driven Decision? What's kind of pushed you in that direction?

Jens: Yeah. One of the things we have experienced that is that working with the local communities is extremely important for the kind of investments that we are making. And so if our investments are benefiting the communities, it's also good for us. So for example, fire prevention is something that is commonly cited as an example. Our concession areas, obviously, fairly large. And so working with the communities to discover and prevent fires early on is absolutely key. But we've also learned that once you start engaging with the communities, they are very acceptable towards new cooperation models, ways of working together. So for example in Laos, we're building up an outgrow program. And that is where we are providing seedlings. We are training the people to grow their tree the trees to the highest standards, and we are also helping the growers with the offtake. So they can get a better price for the goods. But one of the lessons learned was that once you teach the farmers, they are extremely good at taking care of their trees, because that is essentially almost like a savings account, where they can use that and then pay for large expenses and so on. And whereas our plantation does very well, we have survival rates of around 95%, the outgrowers actually do even better. They are around 97% survival rate. So it just means that once you work with them, they can actually really benefit the plantation itself. So it means that, for example, our processing facility can benefit from the work that the outgrowers are growing. And that is particularly important in markets where you have a large number of small holders, Vietnam being the prime example. And so once you can work with the communities - provide them with the high-quality seedlings, provide them with that extra training – they can be a tremendous source of feedstock for your processing facility. And they will blossom together with the business. So it's all sort of like a big ecosystem that is sort of like synergetic, meaning if one part of it flourishes, it typically spills over to another part. And that's how you create a really great sustainable business.

Christy: Yeah, no, I think that's super helpful, because you've been able to provide some actual some very clear examples and practical ways that it can, that as an investor, you can help support the investment benefits into communities, and kind of integrate them into that whole, the success factor. I know that's been sort of a question in a lot of the public space and donor driven models is how to make

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sure that there's equitable benefits and that communities are not left behind as these investments move forward. Communities are, as you know, as you know, very important in Southeast Asia in terms of their relationship with forests. The need to safeguard community rights is one of the reasons that's often given as a high risk for investing in land, just land rights, land tenure, and you know, where, who benefits. And there's no shortage of headlines worldwide with allegations of corporate complicity and deforestation or human rights abuses, community displacement. But I know from just talking with you and your colleagues that, you know, this is, of course, very important to New Forests to mitigate that risk. And so I'm wondering if you can explain how you manage and mitigate those kinds of risks for your shareholders?

Jens: Obviously, a key element is, once you make the investments, that you're then working constructively with the communities to create a win-win situation. And that's very much in form of like getting the communities involved in simple matters such as fire detection, and protection and prevention, and also economically, such that they're benefiting from your investments, as well. But the real work actually starts before we're making the investment. So investigating social matters is a key component of the due diligence. So for example, New Forests will always go in and survey the communities. We always make sure that there's been a free and informed prior consent (FPIC) process before making an investment. And if we can't, if there are conflicts with communities, if we see that this particular concession has come about by forcefully moving communities or settlements, then it's probably an investment that we can't make. And then also, once we have determined that these criteria are met, we will always produce an international standards, environmental and social impact assessments, where we are going in, we are determining the impacts on the environment, but also on the communities that this particular project will have. And that's how we ensure that when we are making an investment, it's also sustainable from a community and social aspect.

Christy: As we come up on the end of our chat here, if you could address a little bit how you've been able to lower risk for your investments by partnering with publicly funded technical assistance facilities like Green Invest Asia, or working in partnerships with other organizations? How do these partnerships enable you to make more investments, better investments, faster investments, and lower risk investments?

Jens: I think this sector in particular needs a blended finance approach, meaning that you have different kinds of funders take different kinds of risks. And so one of the aspects that's very particularly benefit from organizations like [Green Invest] Asia, is really at the initial stages. These particular assets, it's not always clear how you would implement your project. Very often, all you have is sort of like a landscape, you have to determine what kind of project can actually be implemented there. And the way that we are set up is that New Forests can run very large, very complex projects. But we also have to be very selective on the assets that we're looking at. Our portfolio will be ideally around five to six assets. That's what we're looking at. And so that means that we can't spend an intensive amount of time or extensive amount of time looking into one particular asset. Each asset we're looking at, you really have to determine is this something we think where we can actually make an investment, does it fit our mandates, and if it looks like it's too uncertain, it's too risky, we very often have to forego.

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So wherever you, for example, use technical assistance facilities is that when we look at an initial project, we see something is there. But it's something that requires an extensive amount of resources to determine whether it actually fits our mandates, risk with respect to asset classes, returns and so on, and whether we can actually make that investment. And so that's where we can come in via technical assistance facilities [that] fund initial feasibility studies, that will lower some of the uncertainty with respect to that investment. And we can very quickly determine 'Is this something that we can actually invest in?' It really lowers the investment hurdle. And it allows us to spread our resources, investigate many more investments, like what we would usually be done.

Christy: Yeah, that makes a lot of sense. Kind of helps you sift through all the options out there, and, and make sure that the ones that you do pursue and put the real resources behind are actually viable, and investment worthy. So this is my last question for you. And I really appreciate the time, and walking us through the evolution from TAFF1 to TAFF2, and how you're looking at new market trends with nature-based solutions. And, moving into more integrated and holistic thinking around landscapes and how investments made by New Forests can be more impactful. As we wrap things up here, just wondering what your takeaway might be to leave with our listeners today as you think, towards the future.

Jens: I think the takeaway is really that this is a very nascent space, but it's also a very exciting space. So you mentioned carbon markets, payment for ecosystem services, we are really at the beginning of this journey. And so that means that by actively being involved in the sector, by actually actively contributing, you actually building out an entire new industry. I mean, even though CDM (Clean Development Mechanism) and other mechanisms have been around for a while, it's really now, where it's been taken really serious with respect to climate change mitigation. And I have to emphasize that offsetting is not the way out of the climate crisis. We have to abate emission, we have to reduce emissions. And then when we get to the point where we really can't get rid of the emissions, that's when we have to implement offsets And in that respect, nature-based solutions are really an exciting area, because one part is decarbonization. But it's also a matter of like preserving our natural ecosystems. It's exciting that you can make investments into the space, generate a return for the investments, and then really actively contribute to mitigating climate change and preservation of natural habitats. I think we still have a lot of work to be done, I think step-by-step in the right direction. And I'm looking forward to say that we've made a real difference with the money that we are deploying for TAFF2, and change the world for the better.

Christy: Thanks, Jens, I share your optimism and your excitement. I think this is a space that's full of opportunities, and really is benefiting from New Forests. I really appreciate your thorough and very thoughtful inputs into how it can be done, and the model that's being pursued by New Forests. We have been talking to New Forests' director of investments, Jens Petersen, who joined us from New Forests' office in Singapore to talk about the company's investment strategy, its Tropical Asia Forest Fund, and trends for the future for helping us reduce the impacts of climate change and have a healthy planet. So, to our listeners, thank you. We'll continue to bring you more investment voices, insights and updates from Southeast Asia on climate-smart agriculture and forestry in coming episodes. Thank you so much.

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Narrator: This podcast was supported by the United States Agency for International Development, or USAID, which partners with the private sector worldwide to unlock capital and drive inclusive growth in emerging economies. Learn more at [usaid.gov](https://www.usaid.gov) and [greeninvestasia.com](https://www.greeninvestasia.com).