

Eric Cooperstrom

Episode 185: Unlocking Forest Carbon Opportunities with Eric Cooperstrom



GUEST Q & A

Stewart: Welcome to another edition of the InsuranceAUM.com podcast. My name's Stewart Foley. I'll be your host. Today's topic is timberland and impact investing. We're joined today by Eric Cooperstrom, Managing Director of Impact Investing in Natural Climate Solutions at Manulife Investment Management. Eric, thanks for joining us. Thanks for taking the time.

Eric: Hi, Stewart. Thanks so much for having me. Pleasure to be here.

Stewart: You are in charge of timberland and ag solutions, there. I want to get neck-deep into all of that because you've got a lot of education to do. I don't know anything about... Well, I'm from Missouri. I know a little bit about agriculture, but only enough to be dangerous. So, I'm looking forward to learning a lot today. But before we get going too far, can you tell us where you grew up, your hometown? Can you tell us your first job, not the fancy one, and what makes Insurance Asset Management so cool?

Eric: So, yeah. Eric Cooperstrom. I lead Impact Investing and Natural Climate Solutions, Manulife Investment Management, in our timber and ag business. I grew up outside of Philadelphia in a town called Mount Laurel, New Jersey. So, I'm a South Jersey native, big Philly sports fan. I had some bumpiness over the last couple of weeks, but I won't digress too much. My first job was, I'm trying to remember accurately, either a paperboy for about a day. The early wake-up didn't suit me so much, even though my kids have solved that for me and guarantee early wake up these days. Or, the other one was working in the periodical room of my local library-

Stewart: Oh, wow.

Eric: ... mostly doing my homework, but passing out periodicals when they were requested, back when people did that, which maybe shows my age. Then back to your third question, "What's so exciting about plugging into the broader insurance asset management industry?" I think one is just the opportunity to deploy capital in unique and innovative ways, especially in very well-established asset classes like timber and agriculture, which I think actually makes Manulife unique in having that in-house timber and ag business. That and the overall risk-return mindset. Obviously risk return's core to managing insurance assets and client coverage. That kind of bubbles down throughout the organization. It helps better inform the decisions that we make.

Stewart: That's terrific. I love the topic, and I'm really looking forward to learning from you. So, you have led the development of Manulife's forest climate strategy. Can you tell me about your background and the strategy?

Eric: Yeah. Absolutely. So, from my humble beginnings in South Jersey, went into investment banking, and then private equity in a traditional finance sense in New York and then London. Decided to go back, get a graduate degree in international development and emerging markets, and really tried to pivot my career toward impact investing and a global purview. Started that off in the impact investing space in an advisory context in London. Then, moved back with my family to San Francisco, where I'm currently based, about 10 years ago and held a number of roles in the foundation space. Most recently, before joining Manulife, with the Nature Conservancy, large conservation NGO and their impact

investing our nature best, and had a through line of timber and ag amongst other impact sectors. So, two and a half years ago, when the opportunity came up to join the largest timber investment manager in the world, second-largest farmland investment manager in the world¹, really jumped at the opportunity to join Manulife Investment Management, and have been leading their natural climate solutions and impact investing work ever since.

Stewart: Sounds like your educational strategy paid off brilliantly. Well done.

Eric: Yeah. I'd like to think it was very premeditated, but I don't know how coherent it was the whole time.

Stewart: I hear people all the time go, "I had no idea I'd ever be managing insurance money." Right? You're like, "I intentionally pivoted toward impact investing," and here you are. That's a great story.

Stewart: Carbon markets have received a lot of attention lately. Can you talk a little bit about the growth path of carbon markets and forest carbon in particular?

Eric: So, carbon markets have been around for several decades. I think they're really coming into the limelight over the past few years. When we talk about carbon markets, it's a little different than other more commoditized markets. There isn't a single carbon market out there. There are actually two major types of carbon markets. One is a compliance, or a regulated carbon market, and the other is a voluntary carbon market.

When it comes to compliance, "Are those regulated markets?" These are most often cap and trade systems that you may have heard about at the state, regional, or multinational level. You have government regulators that establish the rules of the game. Typically, they put a cap on emissions for certain sectors, typically, the most heavily emitting sectors like oil and gas and energy. Then, they decrease that cap over time, and they issue allowances, or permits, that allow those regulated companies to emit one ton of carbon dioxide, or the equivalent.

They usually have to purchase those permits, or those allowances. In certain compliance markets, those companies can also purchase carbon offsets, permits that are generated from a third-party project. That's through an approved methodology. So, these compliance markets are the regulated markets. They make up the vast majority of carbon markets globally. The most recent estimate that I've seen is that they're approximately \$800 billion in aggregate across various jurisdictions. That's as of 2023.

Started off, really, in 2005 with the launch of the European Unions Emissions Trading Scheme. So before that, basically zero in compliance markets. We've seen pretty steady growth year-on-year, 5% growth last year to that \$800 billion mark.²

I mentioned that not all compliance markets allow for offsets and not all of them allow for forest carbon offsets to be used. So for instance, the European Union, which I just mentioned, the largest and the oldest compliance market in the world, they do not currently allow for forest carbon offsets to be used.

So other compliance markets like the California Resource Board, the Australia and New Zealand Emissions Trading Schemes - those do allow for forest carbon offsets. Forest carbon has made up over \$2 billion of compliance activity in the 2017 to 2019 range, which is where the most recent value from a group called Ecosystem Marketplace is available.³ In California, for instance, carbon offsets from forestry projects actually make up over 70% of the volume since that market started issuing offsets, or receiving offsets, in 2013.⁴

Stewart: What about voluntary carbon markets? What can you tell me about those?

The voluntary markets, which, just as the name implies, are voluntary arrangements between suppliers of carbon offsets and purchasers of carbon offsets. It's very much an over the counter market, and it's not commoditized. Overall, it's driven primarily by four major voluntary carbon market registries. Those are all non-profit organizations based in the US or Switzerland. Those registries, just as in the regulated or compliance markets, the government agency sets the rules of the game. So, they have specific methodologies and underlying equations and approaches that they mandate be used to register and issue credits into those markets.

Voluntary markets really came up after the 1997 Kyoto Protocol, and that registry system evolved over time. Volumes started off very low in that timeframe, really, over the last couple of decades. It's really in the last few years that interest and demand and activity in the voluntary market has increased significantly. So again, quoting Ecosystem Marketplace, "The market reached about \$2 billion on the voluntary side in 2021." That represented a little over four times expansion from 2020 levels.⁵ We continue to see this rapid evolution and expansion in the voluntary space, especially driven by the increase in net-zero commitments in the private sector.

Then, last thing I'll say is from a forest carbon perspective in the voluntary markets, the historical credit issuance and volume really has been driven first by renewable energy projects, but secondly, from forest carbon projects, especially tropical forest protection, which is known as REDD+. There's also a number of other methodologies that are gaining in importance like improved forest management and a forestation reforestation. I can go into more detail on all of those, as well.

Stewart: Thanks so much, Eric. That's really helpful. Can you talk a little bit about how carbon factors into timber management strategies, I guess, from two perspectives? What are the different opportunities to invest in forest carbon, and what are the risk-return profiles associated with each one?

Eric: So, we look at carbon and timber value really as a spectrum of optionality. Starting on the timber side, timberland investment's already a study in optionality. So together with our clients' needs and strategies and market conditions, we as timber managers decide when and how much we should harvest in any given year. You can expand that, then, to the carbon side, starting with the fact that all forests naturally sequester carbon through photosynthesis, natural process. Every tree is pulling carbon dioxide out of the air, combining it with sunlight and minerals and nutrients from the soil, and emitting oxygen. It's a natural process.

We can decide, based on harvest quantities and planting, how much we want to focus on carbon goals and carbon value, as opposed to timber goals and timber value. So for instance, we can target carbon neutrality where we're harvesting imbalance with the amount of sequestration that happens in any given year, or we can focus more on the far end of the spectrum for carbon value, where we're sequestering more carbon, we're increasing carbon stocks, and we have the potential to access the voluntary, or the compliance carbon markets, and actually monetize some of that carbon value in lieu of timber value, in most cases.

Then your second question, "What do risk return profiles look like?" There's a great deal of overlap, certainly with traditional sustainable timber investment. A lot of that is rooted in the fact that these are natural assets. Right? They face unique risks when it comes to comparing them with other asset classes, things like wind events, storm events, fire, pest, disease. We have well established methodologies for addressing those risks through portfolio diversification, strong due diligence, and then active management on the ground. Certainly on the timber side, there's commodity risk, market risk, harvest risk. On the carbon side, you have unique risks relating to carbon markets, price volatility, volumes, and the evolving regulations and standards, there.

Just from a Manulife Investment Management point of view, we have integrated teams, we have dedicated economic research folks, legal teams, etc. We're following all of the necessary market legal and natural capital risks, and we have well-established processes to help mitigate those.

Stewart: So, how is the Manulife team positioned to pursue forest carbon projects through its timberland investment program?

Eric: So, we first have a core focus on sustainability. We've had that for our nearly 40-year history. We have experience with carbon in particular across a wide range of our teams, and especially with our integrated property management team. It all kind of starts with greenhouse gas emissions accounting. There is an accounting framework out there called the GHG Protocol. We've been following that to report on our GHG emissions and removals for over 10 years. On that basis of really just being able to count carbon tons, we then expand to other work, specifically, in the compliance and the voluntary carbon markets, where we can actually develop fungible credits through these registries and drive incremental value for our clients.

So, we have experience working in the compliance and the voluntary markets. We have a number of projects in improved forest management and a forestation reforestation that we manage on behalf of our clients. Two years ago, we invested on behalf of our general account at Manulife in about 90,000 acres of timberland in the state of Maine. That was really our first carbon-focused investment. We're setting up that carbon project, right now, with the American Carbon Registry, which is one of the big four voluntary market registries, through an improved forest management project. We expect our first issuance of credits next year. So, it's really on this basis of experience in carbon markets that we established the forest climate strategy.

Stewart: That's really helpful. So with regard to the forest climate strategy, can you tell me a little bit more of the details of that strategy?

Eric: Yeah. I mentioned that we have experience in the carbon markets, managing carbon projects for our clients. That's really been on an opportunistic basis, where those projects have been nested within a traditional, sustainable timber strategy. What we're doing now with the forest climate strategy is one, we're looking to provide investors and corporates with a scaled solution that can help support their climate goals, and has a focus on high quality and high integrity carbon credit generation. We're also flipping that concentration on its head. So, we're now leading with carbon value as opposed to traditional timber value. So, the strategy itself has four major components. The main focus again being carbon, where we are looking to deploy capital in a globally diversified portfolio of forest projects, primarily looking at existing working forests where we can apply an improved forest management regime, but also opportunistically at greenfield investments for a forestation reforestation.

We're looking to generate high-quality carbon credits through the established carbon markets, and either the compliance or the voluntary markets. We're also looking to provide investors with the option in terms of how they receive the carbon value, so they can either receive the income credit and then retire that credit against their climate goals, or we can sell and monetize the credit into their relevant carbon markets.

There are three other strategy components, as well. So, we'll be looking at protection through conservation easement sales for high biodiversity in the high conservation value areas. We'll be looking to apply what we call value-added services, so additional activities like mitigation, banking, renewable energy siting, recreation leases, that can drive incremental income opportunities for our clients, as well as additional social or ecological benefits. We'll have a minority component that is focused on traditional sustainable timber management, all with the intention to provide a diversified income stream with that core focus on carbon sequestration and high-quality carbon crediting.

Stewart: It's really interesting to me. I remember, I'm going to date myself in a big way here, but there was a guy named Rick Dahl who was the CIO at MOSERs, the Missouri State Employees Retirement System. He's a friend. He's now retired. It's interesting that when he did timber in the day, carbon wasn't part of that strategy, at all. Right? Talk me through the graph of how carbon has come into the timber strategy. I think that there's a lot of asset classes that we discuss on this podcast that I've got an antiquated view of. I think it would be really helpful just to talk about the carbon side of it. When did that become such a pronounced part of any of these strategies?

Eric: Yes. I mean, timber investment has been an established asset class for many decades. It's been a part of institutional investor's portfolios, and historically, you're right, the focus was 100% on timber value, and occasionally some of those additional value-added strategies that I mentioned. Carbon markets similarly have been around for quite some time. Forest carbon in particular has been around for 25 plus years, but forest carbon and carbon markets have been at a very nascent state for most of that time, low trading, low volumes, low prices, an extended market that no one really paid all that much attention to.

It's really been in the past few years, especially coming on the heels of the Paris Agreement several years ago, that the world really started focusing on climate. They started focusing on, "How do we," in the first instance, "reduce and abate our emissions?" I think, in the second instance, "How do we have this bridge that carbon markets can provide toward achieving those net-zero goals?" So, as we've seen more private companies, including asset managers and operating companies, make these net-zero commitments, seen a lot more interest in nature-based solutions, in particular, that can offer a range of other benefits beyond just carbon sequestration. Carbon project in the timberland space have been around to a lesser extent over many years. I think over the past, say three to four years, they've really come into the vanguard. There's a lot more attention, a lot more action, in that area.

Stewart: That's really helpful, Eric, and thank you. How does Manulife think about carbon credit quality and integrity?

Eric: It's a great question, and I'd say one that's very relevant, right now, and really through the development of carbon market, Stewart. So, we look at credit quality and integrity as core to all of our carbon activities. It's not only driven by the fact that over the past few years there's been increased scrutiny of carbon markets, participants, and methodologies really focusing on, "Is the carbon sequestration that is being represented real?" That's got to be the core question. Right? We have to start with conservative assumptions. We have to underpin our decisions and our projects with actual realistic inputs. So, there are a number of third-party groups like the Integrity Council for the Voluntary Carbon Market that are

setting the minimum standards for the various carbon market actors. In March of 2022, we put out our own Manulife investment management carbon principles that are aligned with those ICVCM standards.

We want to get out in front and really put a stake in the ground and define what quality means for us. So, we have a number of guidelines that get to very specific detail, in terms of how we set baselines, how we determine additionality, how we compute leakage, and all of the other core tenants of a well-functioning high integrity carbon project. We bake that into all of our carbon activities. We want to come out with very defensible, very realistic assumptions and projects that are based in fact, and really build on our nearly 40 years of practice and experience managing forests in various regions around the world.

Stewart: That's really helpful. It occurs to me, Eric, that no one has more skin in the game than the insurance industry does with regard to climate change. I mean, climate change usually ends up in the claims office phone ringing. It seems to me that insurance companies can use their assets to directly reduce their liabilities. Right? If not immediately, over time. So in addition to that, if you would hop on that idea and explain a little bit about why insurance companies should be taking a look at forest carbon investment opportunities.

Eric: Forest carbon, in the first instance, shares a lot of the same attributes as sustainable timber investments. So number one, these investments can be portfolio diversifiers. So the asset class timberland, overall, has historically shown moderate volatility and returns compared to other asset classes. It has relatively low correlation with other asset classes. It can be a potential inflation hedge, which certainly in the current market situation is ever more important. Then, forest carbon brings that additional layer, where investors, insurance companies, can focus on natural climate solutions to support the company's climate goals through the generation of high-quality carbon sequestration and credits. There's the potential to have these investments serve as a climate hedge. So, as climate change progresses and as climate change mitigation and adaptation actions and regulation progress, there is potential for some more heavily emitting industries to be negatively affected, to have their valuations pulled down. Quite the opposite is potentially true for forest carbon and other high-quality nature-based solutions. So, you have that portfolio optimization dynamic that these investments can help contribute, too.

Stewart: That's really interesting. I mean, that seems like a pretty pronounced tailwind. Right? It makes sense to me. I really appreciate you being on. I have learned so much about carbon and timber and these various strategies, and I thank you for that. I know our audience does, as well. I've got one fun question, with a little optionality in it, on the way out the door. You can take either one of these questions, or you can take both. Lots of people take both. No pressure. The first one is, "What's the best piece of advice you've gotten, or given?" The second one is, "Who would you most like to have lunch with, alive or dead?"

Eric: Great questions. I'll jump at both.

Stewart: I love that.

Eric: Yeah. I think the best piece of advice I received was actually from my TA in my first class in college. He really pushed me to share my experience, share my humanity, rather than just focus on outcomes and getting the job done. I think that's pretty critical. Right? We all show up to our jobs. We all interact with other people during the day. Bringing yourself, and sharing who you are, makes it interesting. It makes you human. So, I think that was one of the best pieces of advice that I ever received.

Then, who would I most like to have lunch with? There's an endless list. I'll answer the same way. I got my first real job out of college, and say Elvis Presley.

Stewart: Oh, wow.

Eric: The way that he changed American and global music and brought together different genres. I saw the biopic. I'm sure a lot of other people saw the biopic, also. Just an interesting career arc and fascinating roots, from very humble beginnings. So, yeah. I think Elvis.

Stewart: That's so cool. What a great answer. That's a new one for us. That's great. Fantastic. Thanks for being on. We've been joined today by Eric Cooperstrom, Managing Director of Impact Investing in Natural Climate Solutions at Manulife Investment Management. Eric, thanks for taking the time.

Eric: My pleasure, Stewart. Thanks for having me.

Stewart: Thanks for listening. If you like us, please rate us, or review us, on Apple Podcast, Spotify, Google Play, Amazon, wherever you listen to your favorite shows. My name's Stewart Foley, and this is the insuranceAUM.com podcast.

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Sources:

1. IPE research, as of February 5, 2023. Ranking is based on total natural capital assets under management (AUM), which include forestry/timberland and agriculture/farmland AUM. Firms were asked to provide AUM, and the as of dates vary from December 31, 2021, to December 31, 2022.
2. BloombergNEF, October 25, 2023.
3. Forest Trends, June 14, 2021.
4. California Air Resources Board, September, 2023.
5. Climate Trade, August 4, 2022.