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How real assets provide real solutions: investing sustainably for a better world

Investments in real assets are valued for providing diversification benefits, inflation protection, and stable yield—they also have the potential to be part of the solution to some of our most urgent global challenges.



“Our world is facing three pressing global challenges: the climate emergency, the loss of nature and growing inequality. Each of them, on its own, can endanger the safe

operating space for humanity and the planet, as well as the license to operate for business.”

“[Time to transform](#),” World Business Council for Sustainable Development, March 25, 2021.

Real assets have long been recognized for their investment merits. More recently, we’ve seen accelerated interest in them for another reason altogether: to address global environmental, social, and governance (ESG) challenges. A rare silver lining to emerge from the grueling COVID-19 pandemic may be a heightened awareness of the interconnectedness of these challenges.

We’ve long believed that real assets represent part of the solution to these issues, and our experience of both investing in and operating real assets has allowed us unique insights into understanding material ESG considerations over extended time horizons. Real assets such as agriculture, timberland, and real estate innately contribute to meeting basic human needs for food, materials, and shelter, while infrastructure contributes to essential water, energy, and transport services. We believe these asset classes can play a critical role in addressing these important issues—climate change, nature loss, and rising inequality.

Real assets and climate change

Climate-related risks are a systemic threat to societal, environmental, and financial stability, and investors focused on sustainability are leading global efforts to define new paths for shared action. We, at Manulife Investment Management, therefore assess the material transition risk, physical risk, and opportunities posed by climate change where we invest, dependent on the exposure level of each sector, industry, and geography. Our own climate goals include reducing the emissions footprint of operations, where we’ve [already achieved net zero](#) due to the carbon removals from our substantial owned and operated forests and farmland.

Investment in sustainable timberland and agriculture can provide low-cost, natural climate solutions that may also act as a first line of defense for protecting and enhancing biodiversity, and these solutions represent [37% of the opportunity](#) to deliver

the emissions reductions needed to limit global warming to 2°C or below—and they're available now. As carbon measurement practices continue to evolve and more investors and companies begin to explicitly value carbon sequestration and other ecosystem services, we believe that carbon sequestration will become a more valuable attribute of both timberland and agriculture, and we're further developing our timberland platform to include strategies that prioritize carbon sequestration over timber production.

Climate change



Timberland

Forests are a top natural climate solution, acting as a significant carbon sink



Agriculture

Farmland can act as a significant carbon sink—sound management enables carbon sequestration



Real estate

Building construction and efficiency improvements, fuel switching, and renewable technology can support carbon reduction goals



Infrastructure

Renewable energy is at the forefront of society's transition to cleaner energy

Renewable energy, a critical means for our global society's transition to cleaner energy, is a key feature of infrastructure assets' opportunity to reduce the effects of climate change. And technological advances, such as in precision agriculture that achieve greater efficiency in the use of scarce inputs, reduce emissions, and minimize waste, are essential to achieving a reduction in the farming sector's carbon footprint. Meanwhile, real estate assets are vital to reducing the built environment's carbon footprint, and we believe investors will increasingly demand building efficiency improvements, fuel switching, and renewable technology that support carbon reduction goals. For landlords, the benefits of having healthy buildings include attracting quality tenants is a benefit, but a strong benefit in our mind is the ability to

attract tenants who are demanding sustainable space and may be willing to pay higher rents for such space.

We offer a range of sustainable investing options to clients, and our vast natural resource holdings leave us uniquely positioned in our sector to accelerate the use of nature-based solutions in the fight against climate change.

Real assets and nature loss

Protecting healthy ecosystems provides immense value to the vitality of communities and economies, with nature loss consistently identified by business leaders as one of the top risks to the global economy. There's increasing recognition of the dual crisis of nature loss and climate change, and we expect that policy will increasingly tackle the problems of these two issues simultaneously. Sustainable agricultural and timberland investing is once again at the forefront for providing solutions: Managing timber plantations to produce wood products lessens the need to harvest more sensitive forests. Sustainable farming can restore nutrient deficiencies, reduce pest and disease vulnerability, and increase soil's water holding capacity.

Nature loss



Timberland

Managing timber plantations intensively to produce wood products lessens the need to harvest more sensitive forests



Agriculture

Sustainable farming can restore nutrient deficiencies, reduce pest and disease vulnerability, and increase soil's water holding capacity



Real estate

We work to reduce water consumption, limit chemical pest controls, and operate green rooftop environments, urban gardens, and beehives



Infrastructure

We can assess nature-related factors such as water and biodiversity where material for the industry

The investment community understands the scale of the problem of nature loss, yet a knowledge gap still exists about *how* to manage the risks and opportunities associated with biodiversity. Investors need to understand nature-related dependencies, risks, and impacts and for this, they need robust, reliable information and measurements that are standardized and comparable. The University of Cambridge's Institute for Sustainability Leadership has built a framework for identifying nature-related financial risks that classifies the type of risk (physical, transitional, or liability), what causes the risk, its impact on companies, and the resultant financial risks. The great value of these frameworks is that they can connect the natural and financial worlds from a risk perspective and provide a basis for establishing financial risk exposures.

Real assets and rising inequality

The pandemic has highlighted, and sometimes exacerbated, preexisting challenges such as income inequality and discrimination, and we believe that alleviating socioeconomic inequality now represents the next frontier for ESG-focused investors. Social inequality represents a systemic risk to societies and economies as a whole, and the Task Force on Inequality-related Financial Disclosures is now developing an explicit systemic risk management framework to reduce inequality created by the private sector by providing metrics for companies and investors to measure and manage their effect on inequality.

Many real assets are uniquely positioned to tackle socioenvironmental challenges such as global warming and food security that will have the most impact on those who are least equipped to deal with them. We're developing metrics to monitor and benchmark our progress in addressing these challenges. Infrastructure provides essential services; real estate can provide community engagement and safe, healthy buildings; and farmland and timberland can provide raw materials to meet basic human needs (e.g., shelter, food), as well as rural employment opportunities, recreational open spaces, and clean water resources.

Rising inequality



Timberland and agriculture

Timberland and agriculture are vital to the needs of today's growing population, and can provide rewarding employment in rural communities while maintaining open spaces, recreational opportunities and clean water resources



Real estate

We need housing and healthy, resilient buildings, responsible contractor policies to safeguard workforces, and community engagement with tenants



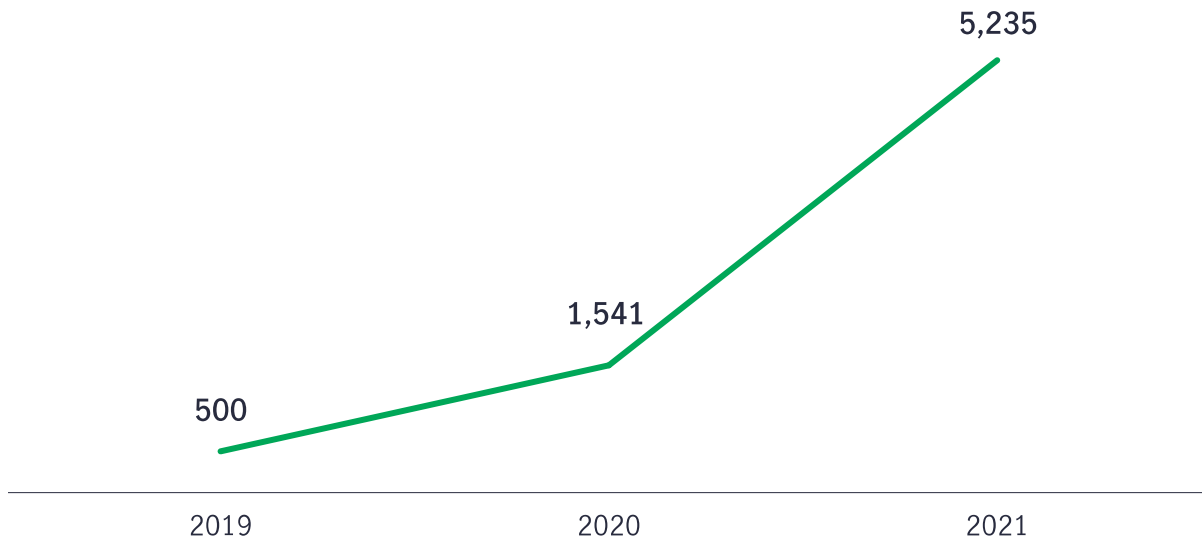
Infrastructure

Infrastructure serves as a foundation for the basic public services necessary to support socioeconomic activity

Accelerating interest in sustainable real assets

Factors spurring interest in real assets include investor demand to meet net zero objectives, greater corporate transparency, and stakeholder accountability. Asset owners and managers now routinely account for the effects of climate change, biodiversity loss, and socioeconomic inequality as fundamental components of effective risk management. And as regulators across the world enforce stricter sustainability directives, real asset investments have come to the fore as a viable route to a net zero, nature-positive, equitable society. Whether investing in healthy buildings, renewable energy, sustainable agriculture, or forests—the lungs of the planet—these assets represent a critical route toward the transition to a low-carbon economy.

Private sector net zero commitments



Source: Race To Zero campaign, UNFCCC, 2022; "Accelerating Net Zero: Exploring Cities, Regions, and Companies' Pledges to Decarbonise," New Climate Institute, July 2022; zerotracker.net, 2022; sciencebasedtargets.org/net-zero, July 2022.

How we manage real assets

Our approach to sustainable investing rests on three pillars: integration, stewardship, and collaboration. Where we invest and operate assets in our timberland and agriculture portfolios, we can work directly to raise the bar of sustainable investing and stewardship in order to enhance the value of our assets and have a positive impact on our stakeholders. In our infrastructure and real estate investments, we focus on building strong relationships with companies, sponsors, and co-investors, which enables a meaningful approach to sustainability and can enhance our influence over key assets and portfolio companies.

Investors ask increasingly detailed questions about our climate mitigation and adaption measures: how we integrate our principles into our on-the-ground operations; how we measure our success, using credible, internationally agreed-on, standards; how we engage with other companies to improve their sustainability practices. To answer these questions, we draw upon our partnerships among scientific and academic communities, along with our investment and operations teams and partners on the ground, at the investment level. These cooperative efforts are essential to implementing, recording and measuring our continued progress. We've worked with

the [Taskforce on Nature-related Financial Disclosures](#) to create a framework for disclosing nature-related risks and opportunities. We also contribute and support a number of climate-focused collaborative initiatives and are signatories to the Principles for Responsible Investment.

Institutional investors have long valued diversified real assets to help build portfolio resilience, and now ever-growing numbers view them as a way to aid their path to net zero, as well as to potentially benefit from putting their capital to work in a way that generates important contributions to our global society. We believe that the potential benefits offered by sustainable real asset investments will only increase in value going forward—not only for investors, but for society at large.

📄 Important Disclosures

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