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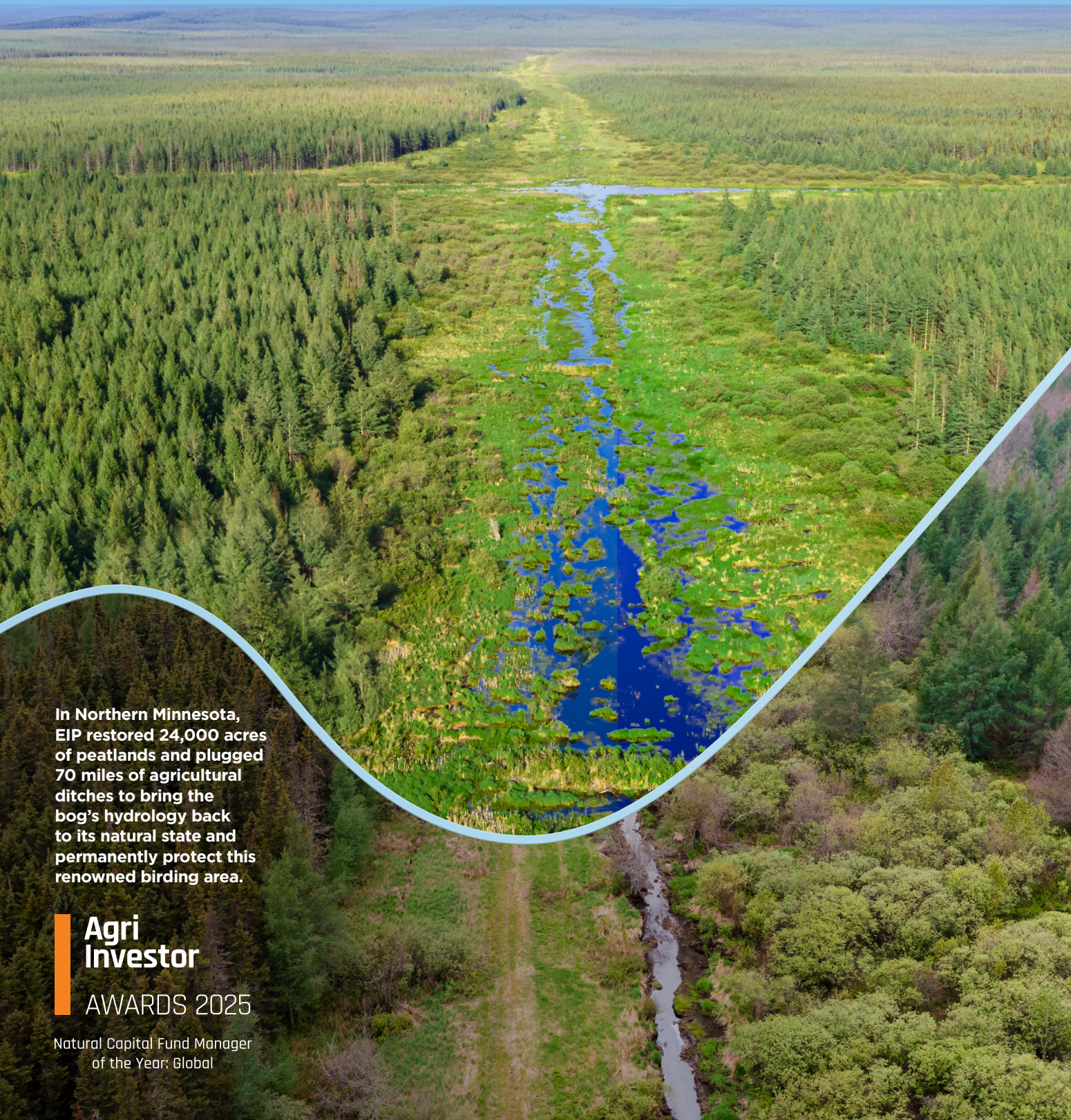
Delivering the Value of Nature Restored.



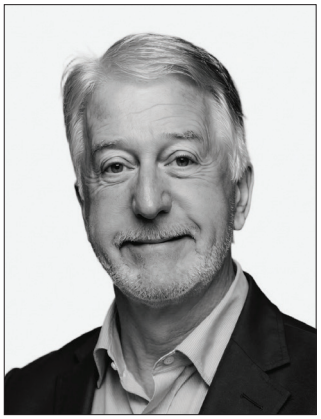
In Northern Minnesota, EIP restored 24,000 acres of peatlands and plugged 70 miles of agricultural ditches to bring the bog's hydrology back to its natural state and permanently protect this renowned birding area.

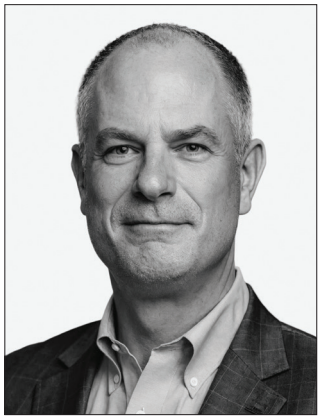
Agri Investor AWARDS 2025

Natural Capital Fund Manager of the Year: Global

KEYNOTE INTERVIEW

Banking on mitigation





Ecosystem Investment Partners' Adam Davis and Nick Dilks discuss the opportunities around environmental mitigation and restoration

By the 1970s, Americans had realized that the immense wealth generated as the country industrialized had come at a huge cost to the environment. A slew of federal regulations took shape, aiming to improve water quality and address other environmental harms. This eventually gave rise to a robust market for ecological restoration services.

Developers of mitigation banks can generate credits from large-scale restoration projects, which are sold to public and private developers to offset unavoidable impacts to habitats. So, we sat down with Adam Davis and Nick Dilks, both managing partners at Ecosystem Investment Partners, to find out more about how investors can benefit from a mitigation banking strategy.

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Q As the definition of natural capital has evolved, what opportunities have opened up for investment managers?

Adam Davis: Since the late 1990s, the focus of natural capital has shifted from what we take from nature to what nature gives us. This includes ecosystem services that provide solutions to problems like biodiversity loss and poor water quality and that build resilience against climate change.

The conventional ways land managers seek to achieve an environmental uplift, whether that's hedgerows for biodiversity or setting aside buffers around streams, come as a cost, not as a profit. Every unit of environmental benefit that you create is a competitive disadvantage.

But because of the unique structure of the mitigation markets in the US, which stem from the Clean Water Act of 1972, every unit of environmental improvement is worth money. Restoring natural habitat features allows managers to generate credits, which can be sold to developers to allow infrastructure projects to be permitted.

This flips the script, so that scientifically verifiable units that provide environmental benefits are worth money. It's not a cost center – it's a profit center that reveals the value of what nature does.

Q Do you expect markets for ecological restoration to scale around the world in the years ahead?

ND: There is a global recognition that we need more actions to restore and conserve biodiversity. We need to restore landscapes and become more resilient to climate change. The concept that the private sector can provide critical tools to help mitigate environmental impacts is of great interest around the world.

In the US, the environmental laws that enable these markets to exist have been around for over 50 years. There's been a lot of trial and error over those 50 years to make them work – to do things like verification, to make sure that there are strict equivalencies between the options available to mitigate. All those things have to be in place to get where we are today.

In places like the EU and the UK, there's a desire to get to the end goal of where the US markets are today through things like Biodiversity Net Gain. But some of the learnings that we've experienced still need to be transferred and we're seeing a lot of interest picking up.

AD: The regulations that we operate under are quite robust, which we believe gives buyers of credits real confidence that they are, in fact, offsetting the impacts of the projects for which they need permits. These offsets do work – they're meaningful, they're durable over time, and they are scientifically verified with legal and financial assurances. Many of the lessons and principles from the compliance-driven markets can be applied anywhere in the world.

Unfortunately, however, our long-tenured experience with environmental offsets here in the US isn't widely known overseas and most are unaware that there are over 2,400 mitigation banks and over 160 species habitat banks that have been established over the last 30 years.

As the track record for mitigation and restoration grows, investors have long recognized that the asset class has unique attributes. We believe it offers an income profile that is often uncorrelated with most capital markets and even other natural capital strategies, meaning it's a place investors can look to for a differentiated and risk-adjusted return stream.

Q What is the current status of the market for ecological restoration in the US?

Nick Dilks: There are four main markets. The most established is the wetland mitigation market, which goes back to the Clean Water Act of 1972. Mitigation banking cut its teeth on that experience. The second market, which is related to wetland mitigation and is enabled by the federal Clean Water Act, is stream mitigation. Since the wetland and stream mitigation markets are the most established, we've taken a lot of learnings from those markets and applied them to other markets.

Then there's the Endangered Species Act of 1973, which is almost as old as the Clean Water Act. Compensatory mitigation rules under the federal ESA have not progressed quite as far as wetland mitigation, but states like California have followed many of the same principles of wetland and stream mitigation. They've created quite robust markets for offsetting unavoidable, permanent impacts to endangered species.

We believe the fourth could become the largest market over time. It also stems from the Clean Water Act but revolves around water quality. Water quality relates to the discharge of things like nitrogen, phosphorus, sediment and other pollutants that typically come from non-point sources into water bodies that create impairment.

There's now a widespread recognition that doing things like restoring wetlands and streams can improve water quality and mitigate these impacts.

Q Why do you expect the water quality market to grow?

ND: Around $6 billion is spent every year in the US addressing non-point source pollution, including runoff from impervious surfaces like highways and parking lots or legacy agricultural practices. The US mitigation markets for wetlands and streams is estimated to be about $3.5 billion-$4 billion. So, the money we spend to address the water quality issue is larger than the traditional mitigation markets.

What has not happened at scale yet is the notion of private businesses addressing those water quality issues through land restoration. It's still mostly focused on things like water treatment plant upgrades. But there's been a lot of emphasis in states like Florida, Maryland and around the Gulf Coast to allow private sector investors to address these water quality issues through restoration.

For example, Florida suffers from algae blooms around its coasts. These are caused by an overabundance of phosphorus from legacy fertilizer runoff. One of the best ways to get phosphorus out of the water is to run phosphorus-laden water through restored wetlands. That can reduce phosphorus in the water by 40-60 percent. We have a project on the shores of Lake Okeechobee to restore wetlands, which aims to divert phosphorus-laden water, clean the water, then release it back into the lake with the critical goal of improving Florida's water quality.

Q How do compliance-driven markets for ecological restoration, like those in the US, compare with carbon markets?

AD: The fundamental principles around having scientifically verifiable results, along with legal and financial assurances for durability, could apply to any environmental offset. You need scientific monitoring, you need some kind of real estate control, and you need some kind of financial assurance for durability, like an endowment, for monitoring and maintenance.

But one of the fundamental challenges in the carbon markets has been that most transactions are dictated by voluntary standards. These voluntary standards are mostly set by non-profits or scientific agencies of some sort, but, with a few exceptions, they're not government regulations and they change over time. Their use is for essentially internal goals that a company might have rather than something that's compliance-driven.

Demand varies over time based on corporate appetite for the purchase of offsets, which hampers the ability to invest in those markets.

Q To what extent are institutional investors showing appetite for including natural capital strategies in their portfolios?

ND: Historically many institutional investors have had allocations to real assets and appear to be increasingly focused on natural capital. Today, global pension funds make up over 80 percent of our EIP investor base. These investors understand and appreciate how natural capital strategies can serve as an inflation hedge with the potential for added downside protection and diversification across their portfolios.

It is our belief that pension funds can make the purely fiduciary decision to invest in our EIP strategy based on credits and offsets from mitigation banking because of the focus on demand rather than just supply. Much of the conversation around sustainable investing or ESG is aspirational – it's about the ecological values that come from a piece of land. Lots of people would like to create more biodiversity or improve water quality. But for a fiduciary to invest, there needs to be a demonstrated track record of demand for the offsets and the potential to deliver returns.

> *"Natural capital strategies can serve as an inflation hedge with the potential for added downside protection and diversification across their portfolios"*
>
> **NICK DILKS**

That's where the structure of the market in the US provides the opportunity to make development more responsible and to provide a meaningful incentive for people to generate scientifically verifiable uplift on land.

A natural capital strategy based on generating mitigation credits creates value because credits can be scarce and are hard to generate. Developing mitigation banks and projects requires a unique combination of skills.

There are many very qualified and skilled fund managers in the natural capital space, and there are many companies that do mitigation banking outside of a fund format.

What's rare is EIP's ability to offer the combination of an institutional fund platform with a 20-year track record, while also being one of the largest owner-operators of large-scale restoration and conservation projects in the country. ■