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# KEYNOTE INTERVIEW

## Finding diversification with natural capital



*Investing in carbon projects can help investors to diversify revenue streams, at both an asset and portfolio level, says **Heechung Sung**, executive director – natural capital at the CEFC*

Limiting the worst impacts of climate change will depend not only on reducing emissions, but also on sequestering carbon. Current scientific consensus indicates that around 7-9 gigatonnes of carbon must be removed from the atmosphere each year by 2050 – equivalent to just under one-quarter of the world's current emissions.

Heechung Sung is executive director – natural capital at the Clean Energy Finance Corporation, which received three *Agri Investor* awards for the Meldora carbon farming platform. She tells us that land-based carbon projects can help investors diversify

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revenue streams across their portfolios, while also contributing to the financial resilience of assets.

### **Q How should managers consider physical and climate risk?**

The first thing to think about is how to address climate risks facing the underlying assets themselves. Then, think through climate change risk at a portfolio level.

Farmland investment managers and farmland investors have always known that diversification across regions and commodity types is important to address climate risk. But diversification is also needed at a landscape level. The time for single strategy investment on land is over.

What we liked about the Meldora platform was that it diversifies different revenue streams at a farm level. A big proportion of the Meldora platform will be used for environmental plantings to face the carbon markets. And at a portfolio level, we're looking at constructing an aggregation of assets that can deliver both traditional

farming commodities and carbon credits.

The Meldora platform will be deployed across different regions, commodities, carbon and environmental markets. The annual cropping income will be supplemented by a carbon income stream that has a long-term offtake in place.

### **Q What is the role of carbon sequestration in achieving climate goals and providing financial returns?**

The big picture is we're all trying to help reach net-zero by 2050. Why? To prevent global temperatures rising more than 1.5C above pre-industrial levels, so that we can keep the planet habitable for humans.

We need to lean into nature to help unlock its technologies to reduce global temperatures. There will be residual emissions in hard-to-abate sectors, so the land sector must work harder in its role as a critical carbon sink. To limit the temperature rise to 1.5C we'll need to remove almost 170 million tonnes of carbon in Australia annually by 2050, even after emissions reductions have taken place, according to Treasury modeling for Australia's Net Zero Plan. That's a lot of carbon that we need to sequester through land-based activities.

We only need to look to new markets that have been created and evolved in order to meet our climate and environmental objectives, such as carbon markets and nature markets. Carbon markets are a way to fund landscape-resilient activities. Buyers are not just buying some paper. It's the investment in the soils, in the trees, in the water that's going to generate that carbon credit unit. These are nature's technologies and they are ready now for investment.

### **Q How do you convince institutional investors to invest in natural capital and ensure projects are successful?**

It's easy to follow and less easy to lead. So, we're hoping that the role the

*"We need to lean into nature to help unlock its technologies to reduce global temperatures"*

CEFC plays in these projects showcases our conviction in the strategy and our support for these new markets. And it's not just our capital at risk, it's pension capital too, with an investor like La Caisse as our partner in the Meldora platform.

Investors should consider a dedicated allocation to natural capital because the risk-return profile and how it sits within a broader portfolio is not the same as with other traditional assets.

Investing in natural capital assets overall may provide a risk hedge to your other investments. For example, if temperatures rise by more than 2C, what is the impact on the value of those investments? All industries rely on nature in some way. From resources to pharmaceuticals, data centers that use significant amounts of water, insurance companies and even financial institutions are not immune to the impacts of rising temperatures.

It is in all our interests to ensure that we invest not only to manage climate risk at an asset level, but ultimately to think more broadly at a total portfolio level across all asset classes.

A much more strategic way to think about natural capital assets is that if all institutional investors, out of their trillions of dollars of investment in

AUM, made a small allocation to natural capital, then we would have a lot more carbon sinks being created. That, in turn, should reduce the overall risk to all our investments – one might say a natural capital hedge to climate risk.

### **Q Can investors be confident that strategies based on the carbon revenues will be durable?**

There are people who are hesitant to lean into the carbon market because it feels complicated. It's a regulated market in Australia, so there's always some fear around whether regulatory changes might essentially cut off the market. But carbon markets have been around for decades in various forms, and the fact that very large institutional investors are making allocations to carbon projects should demonstrate that enough information is available to help investors get comfortable with managing risks.

We sometimes hear claims that the carbon market is taking away land from farmers, or that food production is being squeezed out by these opportunistic carbon developments. Carbon markets are not an existential threat to farming. The existential threat to farming is climate change. Carbon projects and food production can sit side by side, as evidenced by the Meldora platform. In any case, it would be unlikely to be economical to use prime food-producing land for carbon sequestration projects.

The technical aspects of these markets will evolve over time, that's natural with any market. The markets are coming into focus now because people understand that in the 2030s and 2040s sequestration is going to play a bigger role in our climate ambitions.

If governments and people have a desire to restore nature, then the carbon markets and other nature-based markets will remain. Without them, there won't be investment in restoring landscapes. Without them, there is no pathway to net zero. ■