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PRIVATE MARKETS | FUND IN BRIEF

# Carbon Removal Fund

Q3 2024



It takes Aviva Investors



## Strategy

The Aviva Investors Carbon Removal Fund (CRF) aims to enable a tangible, measurable path to net zero for clients and deliver an overall GBP return of 8% per annum over a 25-year period\*. The Fund will invest directly in both nature-based and engineered removal solutions, balancing solution, technology and geographic risks through a blended portfolio.

## Overview

Structured as a Lux-RAIF, the CRF launched in September 2024. This Article 9 fund intends to grow to £1bn over the next 10 years, enabled by its dual scope across both nature-based and engineered solutions. Approximately half of the target return will be attributable to growth in carbon value and the other half through timber and other revenue streams.

The Fund will invest patient capital directly in assets that generate carbon removal credits and provide alternative green and low-carbon investments beyond renewables with measurable co-benefits such as biodiversity enhancement, species protection and reintroduction, improved waterway quality, employment and public access.

		
<b>Sustainable returns</b>	<b>Targeted impact</b>	<b>High integrity carbon credits</b>
Aiming to deliver 8%* capital return with a majority of this sensitive to carbon price movements	Direct investment in nature creating measured project-specific biodiversity and social impact**	Portfolio construction based on identifying relative value across nature-based and engineered removal solutions

\* Over 25-year rolling periods. Note: Returns targets are dependent on the portfolio mix of commercial / developed market / emerging market investments and each projects' respective IRR and carbon yield. Therefore, the returns targets should be considered indicative only. Return target is net of fees. If investors choose to retire credits they will forgo the carbon contribution to the IRR.

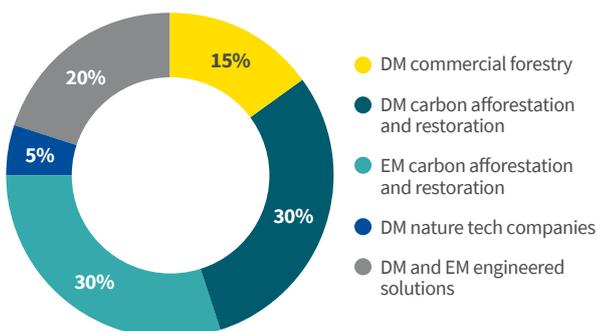
\*\*The sustainable investment as well as the financial objective of the fund is not guaranteed and may not be achieved. Targets may not be realised.

## Target portfolio allocation

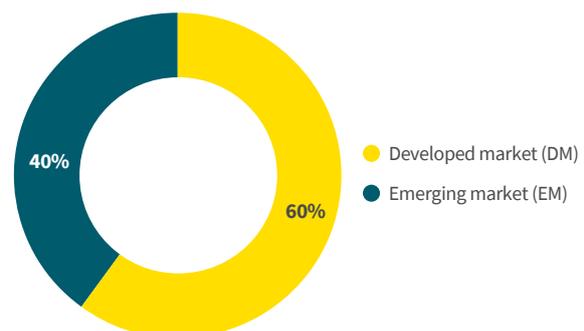
The Fund seeks to invest across developed and emerging markets. Within developed markets (DM), the Fund will target commercial forestry, carbon afforestation and commercially viable restoration activities. Additionally, it will invest in nature technology companies that support the operations of the wider portfolio and expansion of the asset class. Balancing the lower-risk, slow growing species of temperate climates, the CRF will also allocate to carbon forestry and restoration projects in select tropical emerging markets (EM).

Investments will include both terrestrial and blue carbon projects and leverage blended finance where appropriate. The faster, higher carbon yields of tropical markets will support early net zero commitments. Lastly the Fund retains the potential to invest in engineered carbon removals across both developed and emerging markets and we see this as a growth area as the technologies develop, are de-risked and are proven at commercial scale.

### Long term asset allocation (2034)



### Long term geographic allocation (2034)



Note: Portfolio allocation is dependent on how carbon markets develop and the speed at which technology and engineered removals are proven at scale.

## Investment strategy

The investment strategy targets three key challenges associated with carbon solution funds: scalability, climate risk and longevity.

### SCALABILITY



#### Challenging to achieve scale of credits required whilst managing development risk

- Core developed markets provide low-risk, slow carbon credits but also cashflows from timber harvests.
- Target emerging markets (select countries in Latam, Asia and Africa, where established and reputable carbon regimes exist) provide fast-growing, high carbon yielding projects.

**Multi-solution approach** balancing high carbon yielding projects with lower yielding but returns diversified projects

### CLIMATE RISK



#### Physical climate risks are inevitable and hard to mitigate

- Wildfires, droughts and floods are major climate related risks for Nature-based solutions (NbS) projects. The most effective mitigant is geographic diversification.
- Blend lower-risk, temperate climate projects with higher risk, tropical projects in select emerging markets. Due-diligence includes flood, fire and drought risk modelling where applicable.

**Geographically diversified** across fast-growing tropical and low-risk temperate markets

### LONGEVITY



#### Investment window for greenfield nature-based projects is around 5-10 years

- Window of opportunity for greenfield NbS development to close by the early 2030s due to land availability.
- To future-proof the fund strategy, deployment into engineered removals such as Direct Air Capture, CCUS (Carbon Capture, Utilisation and Storage) will begin mid-late 2020s as solutions become commercially investable.

**Nature-based** transitioning to **engineered removals**

## Impact beyond carbon

The Carbon Removal Fund aims to generate high integrity removal carbon credits. We will focus on maximising carbon yields but have biodiversity and social considerations at the heart of the projects\*, with Theory of Changes defined for both impact areas.

### Nature positive: biodiversity restoration

- Habitat creation through both restoration and afforestation activities
- Biodiversity data will be collected across all sites with the intention to take advantage of biodiversity credits once the market is established
- Measurable nature restoration which will in turn support Taskforce on Nature-related Financial Disclosures (TNFD)
- Projects will enhance soil and water quality, as well as potentially reduce flood risks in project areas

### Just transition: social impact

- Significant job creation, both in developed and emerging markets
- Opportunity for economic stimulus in rural areas
- Demonstrable benefits through enhancement of facilities on sites and access for education institutions
- Positive impact on mental health and wellbeing for adjoining communities

\*Social considerations will be variable for investments in Engineered Removals and Technology investments due to the nature of the underlying investments.

## Sustainable Development Goal Alignment

Nature-based projects present a unique opportunity to contribute to a variety of SDGs. Projects will not deliver all the SDGs shown, instead a selection of. Alignment of SDG targets and indicators will be selected on an asset level and specific to the underlying solution, location and project structure.<sup>†</sup>

### Core SDGs

Will directly aim to contribute to the success of the following SDGs:



### Secondary SDGs

May additionally support the following Sustainable Development Goals through project specific co-benefits:



<sup>†</sup> Targeted Sustainable Development Goals (the SDGs) that projects will directly aim to contribute to the success of the following SDGs.

## Management Team

The Carbon Removal Fund will be managed by the Natural Capital team from across Aviva Investors' Private Markets platform with the lead Portfolio Managers Greta Talbot-Jones and Zoe Austin. Supporting them we have social value, biodiversity, research and climate teams to aid investment, reporting and asset management decisions.



### Greta Talbot-Jones

Greta is the Director of Natural Capital within Aviva Investors and has built the natural capital and carbon models for Aviva Investors Private Markets. Prior to Aviva Investors Greta structured debt and equity for renewables projects in emerging markets alongside measuring projects' social and environmental impacts.

Greta holds Natural Resources Engineering and Financial Economics degrees from the University of Canterbury in New Zealand.



### Zoe Austin

Zoe is a Portfolio Manager and joined Aviva in 2002. She is co-Fund Manager of the directly owned, developed market focussed, forestry and nature-based solutions fund. She has worked previously leading social infrastructure origination and asset management teams as well as Business Manager to the Aviva CFO.

Zoe holds a BA and MA in Economics and an MBA from the University of East Anglia.

## Why Aviva Investors Private Markets

**Pioneer** in carbon sequestration programmes

**Firm level** sustainability focus driving innovative products

**Trusted partner** with fiduciary alignment

### Aviva Investors

Aviva Investors is a global asset manager with a broad range of expertise across asset classes. We aim to deliver the specific and meaningful outcomes that matter most to today's investor. We focus on what we do best, and on capabilities and propositions that build on our heritage in managing long-term savings. We manage £235bn\* across Equities, Multi-asset & Macro, Credit and Real Assets.

### Aviva Investors Private Markets

We are a large European manager of private assets with £41.8bn of AUM as at 30 June 2024.

Real Assets are a core part of Aviva investors' strategy and integral to our growth ambition and positioning us to meet a growing client need for solutions in this area. With over 120\* Real Assets investment professionals across four locations, our platform has the scale to access the full depth and breadth of real asset markets. This enables us to deploy capital in an efficient and disciplined manner.

\* Source: Aviva Investors, as of 30 June 2024

## Key risks

### Carbon removals risks:

**Investment risk:** Investment values can fluctuate, and past performance is not indicative of future returns. Investors' capital is at risk.

**Policy and regulatory risks:** changes in government policies, regulatory frameworks, and compliance requirements, which can impact project viability, funding, and long-term sustainability.

**Delivery and counterparty risks:** There are risks of delays or failures in delivering promised carbon removal services and the reliability of partners or stakeholders in fulfilling their contractual obligations.

**Climate and physical risks:** impacts of extreme weather events, changing climate conditions, and natural disasters, which can disrupt operations, damage projects and infrastructure, and affect the effectiveness of carbon removal processes.

**Price and value risks:** fluctuations in the market price of carbon credits and the uncertainty of the long-term economic value of the carbon removal project, which can affect project returns. The generation of carbon credits and positive returns from them are not guaranteed.

**Technology and methodology risks:** uncertainties and potential inaccuracies in the measurement, reporting, and verification processes, which can affect the credibility and effectiveness of the carbon removal outcomes.

**Reversal and permanence risks:** potential for sequestered carbon to be released back into the atmosphere due to factors like land-use changes, natural disturbances, or project failures.

**Illiquidity risk:** difficulty of selling an asset quickly if required without significantly impacting its price, which can limit financial flexibility and increase investment risk.

**Emerging Markets Risks:** Investments in emerging markets carry additional political, legal, and corporate governance risks compared to developed markets.

Investments in natural capital, private and venture capital, and other private market assets incur higher costs and expenses compared to public market assets. These costs are borne by the Fund and disclosed in the Private Placement Memorandum.

This summary highlights key risks but is not exhaustive. Investors should read the Private Placement Memorandum for a complete description of risks and conduct appropriate due diligence before making any investment decisions.

## Important information

### THIS IS A MARKETING COMMUNICATION

Except where stated as otherwise, the source of all information is with the alternative investment fund manager, Aviva Investors Global Services Limited, as of the 5th of September 2024. Unless stated otherwise, any views, opinions and expected returns expressed, are those of Aviva Investors and based on Aviva Investors internal forecasts. They should not be viewed as indicating any guarantee of return from an investment managed by Aviva Investors nor as advice of any nature. The value of an investment and any income from it may go down as well as up and the investor may not get back the original amount invested. Past performance is not a guide to future returns.

The information within this document is based on our current understanding of taxation and is not to be construed as investment, legal or tax advice. The basis and rates of tax may change in the future. Some of the information within this document is based upon Aviva Investors estimates at the time of issuance. These should not be relied on by anyone else for the purpose of making investment decisions. Prospects should obtain and rely on their own examination of the Fund, prior to making an investment decision and it is advised that parties engage their own professional advisors. This document should not be taken as a recommendation or offer by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

Where relevant, information on our approach to the European Regulation 2019/2088 of the European Parliament and the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "SFDR Regulation") in Luxembourg on 10 March 2021, including policies and procedures can be found on the following link: <https://www.avivainvestors.com/en-gb/capabilities/sustainable-finance-disclosure-regulation/>

Aviva Investors Sustainable Outcomes SCSp SICAV-RAIF is a Luxembourg special limited partnership under the reserved alternative investment fund (fonds d'investissement alternatif réservé) regime within the meaning of the Luxembourg Law of 23 July 2026 ("RAIF Law"). The Fund itself being an alternative investment vehicle, is not regulated by the Luxembourg CSSF or any foreign regulatory authority, while its AIFM is regulated entity under the Luxembourg CSSF. As a consequence, Investors will not benefit from the same investment protection regime applicable to regulated Luxembourg collective investment schemes. Units are reserved to Institutional Investors and Well-Informed Investors who are aware of the risks attaching to an investment in a fund investing in direct or indirect interests in real estate. The Prospectus or Offering Memorandum (as relevant) of Aviva Investors funds are available together with the Report and Accounts free of charge by contacting us at the address below.

The AVIVA INVESTORS SUSTAINABLE OUTCOMES SCSp SICAV-RAIF consists currently one sub-fund: Aviva Investors Carbon Removals Fund.

Aviva Investors Luxembourg, a Luxembourg public limited liability company (société anonyme) governed by and existing under the laws of the Grand Duchy of Luxembourg, having its registered office at 2, rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg, and registered with the RCS under number B25708, has been appointed as the AIFM of the Fund. The AIFM is authorised and regulated by the CSSF (firm reference number A00000592).

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