MIPC

1st Round Proposal

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The BWF Asset Management Strategy was designed to deliver long-term returns while supporting Finland's carbon-neutral ambitions. However, the nation's timber industry—central to its economy—often conflicts with these goals, and ongoing deforestation has accelerated biodiversity loss. Addressing these challenges requires a balanced approach that integrates environmental restoration with economic sustainability.

The revised strategy seeks to achieve carbon neutrality through biodiversity, not despite it. BWF will invest in native forest restoration and reforestation projects that enhance long-term carbon capture and ecosystem health, generating returns through land value appreciation and future sustainable timber revenues.

To balance environmental and economic priorities, the fund will back companies and innovations that raise the value per unit of wood, enabling reduced harvest volumes without sacrificing profitability. While increasing domestic exposure to Finland's forests, BWF will maintain diversification through international equities and green infrastructure to manage risk.

The fund will also scale biodiversity-focused projects with lower immediate returns, offsetting them through strong performance in ESG-aligned equities, and will promote sustainable trade partnerships, advocating EU preferences for conservation-certified Finnish timber.

The $10 billion portfolio allocates 50% to global ESG equities, 20% to forestry and land holdings, 15% to green infrastructure, 10% to green bonds, and 5% to cash. This balanced strategy positions BWF as a global model for nature-positive finance, demonstrating that economic prosperity, carbon neutrality, and biodiversity enhancement can reinforce—rather than compete with—one another.

Diagnostic: Legacy Portfolio & Gaps

Where We Are

Borealis Wealth Fund (BWF) manages **€10B** and has delivered an average **6.5%** annual return since launch. The legacy portfolio is diversified across public markets, fixed income, and real assets, but ESG screening has not explicitly targeted biodiversity outcomes.

Asset Class	Share of AUM (%)	Role Today	Biodiversity Link
Public Equities (ESG-screened)	~40	Growth & liquidity	Indirect / weak
Green Bonds & Thematic Credit	~15	Income & duration	Mixed / label-driven
Green Infrastructure (wind/solar/transit)	~20	Inflation hedge, stable cash	Indirect (climate-first)
Forestry & Land Holdings	~15	Real-asset beta	Direct, but unmanaged
Cash & Liquidity	~10	Dry powder	None

Table 1: Legacy portfolio overview by strategic sleeve (percent shares inferred from case totals).

Geography: ~55% Finland, 30% EU ex-Finland, 10% North America, 5% EM.

What Works

- **Solid core beta:** Low-cost public equity exposure and green infrastructure provide diversified return drivers and partial inflation protection.
- **Policy alignment (climate):** Green infrastructure and thematic credit align with climate transition risks and EU taxonomy to a degree.
- **Liquidity balance:** A meaningful liquid sleeve (equities, credit, cash) supports rebalancing and new program launches.

Binding Constraints

- **2035 Net-Zero Pathway:** Finland's forests shifted from a carbon sink to a carbon source in 2021, compressing the national carbon budget and intensifying scrutiny on land-use and forestry practices.
- **EU Nature Regulation:** The EU Biodiversity Strategy and Nature Restoration Law increase compliance pressure, making traditional high-yield forestry less viable without demonstrable ecological outcomes.
- **Trade and Competitiveness:** International buyers, especially within the EU, increasingly demand traceable, biodiversity-positive supply chains. Failure to meet these standards risks market access and export competitiveness.

Identified Gaps

1. **ESG $\neq$ Biodiversity:** Current ESG screens do not capture habitat integrity, species abundance, deadwood density, or landscape connectivity.
2. **Logging Yields vs. Future EU Regulations:** EU biodiversity laws and restoration targets will likely constrain harvest volumes. The Fund's return model must anticipate this by investing in higher-value wood products and wood-based innovation, enabling profitability even with lower yields.
3. **Liquidity vs. Long-term Natural Assets:** Real assets such as forestland and green infrastructure generate durable impact but remain illiquid. Without sufficient liquidity, the Fund risks being unable to pivot or scale new biodiversity projects. A structured

cash and green bond allocation can serve as *impact working capital* to fund near-term transitions.

4. **Domestic Exposure vs. Global Trade Partners:** While increasing Finland's forestry investment supports domestic biodiversity goals, overconcentration exposes the Fund to local regulatory, ecological, and market shocks. International ESG equities and green infrastructure holdings mitigate this by sustaining diversified trade and financial linkages.

Risk Map (Now)

Risk	Mechanism	Current Exposure
Regulatory / Policy	Tightening EU nature and restoration mandates impacting harvest volumes	High (forestry, land)
Physical / Ecological	Carbon sink reversal; biodiversity loss; soil and water stress	Medium–High (domestic forests)
Market / Reputation	Global buyers' biodiversity standards; reputational risk from greenwashing	Medium (equities, bonds)
Liquidity / Funding	High share of illiquid real assets vs. short-term capital needs	Medium
Concentration / Home Bias	Exposure to Finland's forestry and export cycles	High

Table 2: Principal risk channels and qualitative exposure assessment.

Implications for Strategy

- Implement a strategy that focuses on net-zero goals while also addressing biodiversity through maintaining forested lands investments and reforesting new land.
- Establish a *Value-over-Volume* logging model, reinvesting profits into R&D and venture capital that increase wood product margins.

- Maintain 15%–20% of the portfolio in liquid green bonds and cash to ensure flexibility in meeting restoration and reforestation funding needs.
- Strengthen cross-border ESG equity exposure to sustain Finland's trade relationships and hedge domestic forestry concentration risk.

1 Portfolio Allocation

1.1 ESG focused equities

We propose allocating 50% of the portfolio to ESG-focused global equities. This represents an increase compared to the legacy allocation and serves to balance lower-yield, sustainability-driven investments in forestry and land. The structure and philosophy of this equity allocation will mirror that of the Norwegian Government Pension Fund Global (GPFG)—commonly known as the Norwegian Oil Fund—due to its strong ESG orientation, diversified exposure, and proven track record of long-term performance.

The GPFG's historical returns provide a benchmark for our expectations. Over the past 15 years, the fund has averaged between 10–13% annual returns, with a recent five-year average of 13.83%, as shown below [1]:

Norwegian Fund Returns table			
	Since 2019	Since 2014	Since 2009
Returns	13.83%	10.31%	12.28%

We therefore estimate an annualized return of approximately 12% for this portion of the portfolio, justified by the fund's global diversification and exposure to ESG sectors poised for structural growth, such as renewable energy, sustainable technology, and low-carbon infrastructure.

1.2 Forestry and Land investments

As stated above, the core mission of this strategy is to achieve carbon neutrality while addressing biodiversity loss that is incurred through deforestation. The solution to this problem is two-fold. First, increase the investment in forested lands and lands that can be reforested to 20%. Second, slow deforestation by shifting focus from quantity to quality (discussed in the next section). Although it is somewhat difficult to measure the returns on this type of land, over the past eight years the value of this land has increased by 54% in Finland (roughly 5.5% year over year) [2]. For this part of the portfolio, we estimate an annual return of 6%. This is based on the expected increase in the value of the land itself and the annual return of forestland. This estimate is somewhat conservative, based on the fact that we do not expect to see the same return as private forest investments (do to our conservation efforts).

1.3 Green Infrastructure and Venture Capitalism

The second part of our solution is to invest in companies that will make the forestry industry more efficient and have climate focused infrastructure. 15% of the portfolio will be invested in green infrastructure and forestry-related venture capital. These investments will target companies and projects that increase the value per unit of wood, improve processing efficiency, focus on reforestation, and expand the use of sustainable materials across industries.

Benchmark data from the Norwegian GPFG's unlisted infrastructure portfolio shows 2.8% annualized returns over 4.5 years [1]. However, given the higher uncertainty and illiquidity associated with venture-stage investments, we adopt a 2% expected return for this category. These investments, though relatively low-yielding in the short term, are critical to achieving long-term sustainability and technological leadership within Finland's forestry sector.

1.4 Green Bonds

10% of the portfolio will be allocated to green bonds, including both sovereign and corporate issues. These instruments provide stable, low-volatility returns while reinforcing the fund's ESG commitments. Historically, global green bond yields have ranged between 2–2.5%, though certain emerging-market and municipal green bonds (e.g., India's 2024 issuance) offer yields of up to 7% [3][4].

Given increasing issuance volume and yield diversification in the green bond market, we estimate a 4% average annual return for this asset class. Beyond return considerations, this allocation enhances liquidity and serves as a stabilizing anchor within the broader portfolio.

1.5 Cash

The remaining 5% of the portfolio will be held in cash and short-term liquidity instruments. This position serves multiple purposes:

- To provide flexibility for opportunistic investments, particularly in forestry and infrastructure;
- To act as a risk buffer in volatile markets; and

- To cover operational and rebalancing needs without forced asset sales.

Given current short-term interest rate levels, we estimate a 2% return on cash holdings.

1.6 Total Portfolio Expected Returns

The overall portfolio is designed to balance long-term growth with sustainability and resilience. Using the weighted average of expected returns from each asset class, the portfolio's total expected annual return is approximately 8.4%. This estimate aligns with the performance range of major sovereign and ESG-focused institutional funds while embedding stronger environmental impact metrics.

Expected Portfolio Performance Summary		
Asset Class	Allocation	Est. Annual Return
ESG Equities	50%	12%
Forestry & Land	20%	6%
Green Infrastructure & VC	15%	2%
Green Bonds	10%	4%
Cash	5%	2%
Weighted Average Return	100%	**8.4%**

This portfolio positions BWF as a leader in nature-positive finance—demonstrating that environmental restoration and economic performance can be mutually reinforcing goals.