MIPC

1st Round Proposal

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Mandate Reframing

Finland's forests, which cover over 75% of the country's land area, have long served as both an ecological foundation and an economic engine. However, in 2021 these forests shifted from being a net carbon sink to a net carbon source, driven by intensive harvesting and peatland degradation. This reversal jeopardizes Finland's legally binding 2035 net-zero emissions target and threatens the economic stability of a sector responsible for nearly 4% of national GDP and 18% of exports.

The Borealis Wealth Fund (BWF), with €10 billion in assets under management and a recurring inflow of approximately €1 billion per year from forestry-linked tax revenues, has been tasked with realigning the country's natural capital strategy. Initially launched as a broad green investment vehicle, BWF must now address a dual mandate: to generate long-term, risk-adjusted returns while restoring the ecological resilience that underpins Finland's bioeconomy. This represents not merely a portfolio adjustment, but a systemic reframing of how national wealth and nature interact.

We propose repositioning BWF as Finland's **Natural Capital Sovereign Fund**—a platform that treats biodiversity as a core economic asset. Under this model, BWF channels forestry-derived revenues into investments that enhance ecosystem health, stabilize carbon sinks, and de-risk Finland's export base from future EU biodiversity and land-use regulations. The Fund's objective is to deliver sustainable financial returns (targeting 5–6% per annum) while achieving measurable biodiversity outcomes, including the restoration of over 200,000 hectares of degraded forest and peatland by 2035.

This reframing rests on a clear investment philosophy:

> *Biodiversity enhances asset durability and long-term value creation by improving ecosystem productivity, regulatory resilience, and social license to operate. Protecting nature is not a constraint on returns—it is a catalyst for enduring value.*

BWF's redefined investment approach will be guided by three principles:

1. **Integration:** Embed biodiversity risk and opportunity into every investment decision using frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) and the EU Biodiversity Strategy for 2030.

2. **Additionality:** Allocate at least 30% of annual new capital inflows to projects that deliver measurable ecological benefits—such as habitat restoration, peatland recovery, and native species protection—that exceed baseline market activity.

3. **Resilience:** Diversify across asset classes and geographies to reduce overexposure to Finland's forestry cycle, ensuring long-term capital preservation and compliance with evolving EU nature restoration laws.

Through this mandate, BWF evolves from a conventional green finance fund into a global model for biodiversity-aligned sovereign investment. By quantifying and monetizing the value of natural capital, BWF will enable Finland to transform ecological preservation into a sustainable source of fiscal strength and international leadership.

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 (Context)

- **2035 net-zero pathway:** Finland's forests flipped from a carbon sink to a source (2021), compressing the national carbon budget and elevating land-use scrutiny.
- **EU nature regulation:** The EU Biodiversity Strategy & Nature Restoration Law increase the risk of stranded or down-classified forestry assets without measurable biodiversity outcomes.
- **Trade & competitiveness:** Export partners increasingly demand traceable, biodiversity-positive supply chains; volume-only growth is fragile.

Identified Gaps

1. **ESG ≠ Biodiversity:** Current ESG screens do not capture habitat integrity, species abundance, deadwood density, or landscape connectivity. Result: *impact dilution.*
2. **Unpriced Nature Risk:** Valuation models omit biodiversity loss channels (soil health, pest risk, water regulation) and *regulatory repricing.* Result: *beta drag & stranded-asset risk.*
3. **Concentration Risk (Domestic Forestry):** Large home bias to Finland's forestry cycle without explicit biodiversity management. Result: *correlated downside under policy or ecological shocks.*
4. **Impact Additionality & Traceability:** The portfolio lacks auditable, decision-useful nature KPIs (e.g., hectares restored, species richness, peatland water-table recovery). Result: *weak accountability.*

5. **Liquidity Mismatch:** Real-asset sleeves (forestry, infrastructure) are illiquid relative to mandate agility; no dedicated *impact working capital* to fund restoration ramps. Result: *slow pivot*.

6. **Revenue–Nature Feedback Loop Missing:** Forestry-linked inflows are not programmatically recycled into biodiversity restoration at scale. Result: *mission drift*.

Risk Map (Now)

Risk	**Mechanism**	**Current Exposure**
Regulatory / Policy	Tightening EU nature rules; taxonomy eligibility; disclosure mandates	High (forestry, land)
Physical / Ecological	Carbon sink reversal; species decline; soil/water degradation	Medium–High (domestic)
Market / Reputation	Buyer standards for biodiversity; risk of greenwashing claims	Medium (public equities, bonds)
Liquidity / Funding	Illiquid real assets vs. need for rapid reallocation to restoration	Medium
Concentration / Home Bias	Finland forestry cycle, export cyclicality	High

Table 2: Principal risk channels and qualitative exposure assessment.

Root Cause Synthesis

- Portfolio construction optimized for *climate mitigation labels*, not *biodiversity outcomes*.
- Absence of a **biodiversity-adjusted return** lens limits capital rotation toward nature-positive assets.
- Governance and data pipelines do not yet support *TNFD-aligned* measurement or auditability.

Strategic Need (So What)

Shift from green finance to natural capital finance. Embed biodiversity as a priced risk factor and investable outcome, rebalancing toward assets with measurable ecological restoration while preserving the Fund's long-run 5–6% return target.

Implications for Strategy (Bridge to Next Section)

- Establish a *Biodiversity Investment Loop* (Screen → Select → Transform → Report) with TNFD-aligned KPIs.
- Introduce a **Biodiversity-Adjusted Return (BAR)** framework to evaluate all assets.
- Carve out liquid *transition capital* to accelerate peatland/old-growth restoration and biodiversity-linked instruments.
- Reduce home-bias risk via diversified natural capital allocations (geography, instruments), maintaining mission-critical domestic programs.