

# NOW Podcast

SEASON 3 | EPISODE 1 TRANSCRIPT

## Investing in Nature-Based Climate Solutions: A Climate Week Conversation with M. Sanjayan, CEO of Conservation International

**Guest:** M. Sanjayan, Ph.D., *Conservation International*

**Host:** Karina Funk, CFA, *Portfolio Manager; Chair of Sustainable Investing, Brown Advisory*

**Investment Commentator:**

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### **Ken Stuzin (00:04):**

Hello, this is Ken Stuzin. I'm a partner at Brown Advisory. Welcome to season three of the NOW podcast. NOW stands for Navigating Our World. Through these discussions, we try to understand the world better, to navigate some of the most pressing questions that are shaping our lives, our culture, and our investment challenges. As we look to the future, whether we agree or disagree with each other, the one thing that we know for sure is that none of us can figure this out on our own. At Brown Advisory, we are focused on raising the future, and we hope these NOW conversations will help us do just that.

### **Karina Funk (00:55):**

The last time I actually saw you in real life, about 11 years ago.

### **M. Sanjayan (00:59):**

We were escaping in a volcano.

### **Karina Funk (01:00):**

Yes.

### **M. Sanjayan (01:00):**

I mean, all our phones started going off, and then we look outside and it got really dark.

### **Karina Funk (01:05):**

Yeah.

### **M. Sanjayan (01:05):**

And then got really gray. And then, the news hit that this volcano had just blown up. When you reached out to me and you're like, "We met. We were fleeing a volcano," I mean, it's a very short list of people.

### **Karina Funk (01:20):**

In the past decade, conservation as an industry seems to have bloomed and sustainable investing, which is my world, has certainly caught on. There remain very different approaches to both, with varying degrees of impact and investment return, and all of that may mean nothing if we are still headed for runaway global warming. In investing, there's a lot of momentum behind incorporating environmental, social, and governance information into security analysis. We've tried to frame it as best we could in terms of risks and opportunities, created acronyms like ESG, examine how these issues might flow through business models and financial statements, and how they influence how we talk about the consumer sector, or oil and gas, or tech companies, or green bonds. But as investors, we

don't talk about conservation or nature, tropical and old growth forests, biodiversity, mangroves, peatlands, freshwater ecosystems. And yet, all of this is related to what we observe as consumers and as investors, things like commodity price volatility, supply chain shortages, weather disasters, or racial reckoning, a pandemic.

**Karina Funk (02:36):**

My name is Karina Funk. I'm the chair of sustainable investing at Brown Advisory and co-portfolio manager of our Large-Cap Sustainable Growth strategy. For this Climate Week episode of Navigating Our World, I am thrilled to welcome Dr. M. Sanjayan, CEO of Conservation International, and to see if we can bridge this gap between investors in conservation. In addition to leading one of the largest global conservation organizations, Sanjayan believes in bringing his message about climate action to as wide an audience as possible, hosting numerous documentaries for PBS, BBC, National Geographic, Discovery, and Showtime, in addition to his many appearances on major news outlets.

**Karina Funk (03:19):**

And I've rattled these off not just as accomplishment but in the hopes that some of our listeners might seek these out on major streaming platforms. The Years of Living Dangerously documentary series, for example, opens with Harrison Ford in a fighter jet or Sanjayan's recent Climate Lab series in partnership with Vox and the University of California. These shows are eyeopening and riveting. Sanjayan was raised in Southeast Asia and West Africa, which, as you'll hear, informs his worldview and his passion for nature-based climate solutions and the people whose future livelihoods depend on them.

**Karina Funk (03:56):**

Stay tuned after my conversation with Sanjayan. I'm going to speak with Mike Hankin, Brown Advisory CEO, to get his thoughts as a business leader on climate change and how companies can move the needle toward effective, long-term solutions.

**Karina Funk (04:12):**

Sanjayan, I am thrilled to speak with you and also to say, it's wonderful of you to join us again. You were a fantastic keynote speaker at our in-person, when we used to do that, Navigating Our World conference, and that was back in 2010.

**M. Sanjayan (04:25):**

Great to be here. Nice to see you, Karina. And gosh, a lot has changed since that time.

**Karina Funk (04:30):**

So, let's start. In my world of investing, many of us know that incorporating the realities of climate science into investment considerations is part of our fiduciary responsibility. Yet, as investors, we try to get our heads around pressing issues, such as raw material sourcing, storm disruptions, business continuity, commodity price spikes. And we don't often connect the dots as to how this is all related. And I can't imagine, in the conservation world, you'd get very far on any of these topics without refocusing on climate change. Isn't that what all this volatility is about?

**M. Sanjayan (05:06):**

Yeah, I think both short-term volatility and certainly, long-term uncertainty. It takes very little hiccup from nature to send humanity into a quick spiral. I think markets are finally waking up to both short-term and long-term challenges that come with not understanding managing and preparing for the risks induced by climate change and other natural factors or other nature-based factors. Climate change is not natural and that it's human-caused. The climate change we're seeing right now is completely human-caused. But nevertheless, the impact is via nature.

**Karina Funk (05:43):**

In terms of a pandemic, I mean, in the past year, what have we learned about just how connected all of these risks are?

**M. Sanjayan (05:51):**

Yeah. So, I'll give you a couple of things that have been truly surprising for me. The first is how much we all appreciate nature. In the height of the lockdown, if you recall, and you looked out of your window or you walked into your park, people really flocked to nature. Every national park right now is oversubscribed. There are lines of people waiting to get into campgrounds. I live on the edge of Washington, DC. The bike trails are so full that when I commute to work, I use the roads because there's just too many people on the actual bike trails. So, I think we have all woken up to the importance of nature in our lives, in our surroundings. I don't think that's going to go away. I think that's a good thing that's going to live with us for a little longer.

**M. Sanjayan (06:36):**

A couple of other things that happened as well, think about the speed with which we were able to develop a vaccine. But then, think about the lack of global cooperation that was needed in order to actually get those shots in arms around the world. It's really the duality of humanity. It's the thing that makes you just feel so great about humans, but also it makes you weep. That's the exact same thing we're dealing with climate change. The science behind climate change has been known for decades. The precision has become incredible. We have solutions right now, ready to go, that can actually meet the challenges at hand, but global cooperation to deal with it in a timely manner is always something that we strive for and have not managed to achieve. So, I see climate change and the COVID pandemic very analogous. It requires individual action, but it also requires government action. So, there's lots of parallels on that.

**M. Sanjayan (07:36):**

The last thing I'll say that what I've realized about during this pandemic is that, virtually every business that we are talking to has stayed the course when it comes to sustainability, the environment conservation, et cetera. That surprised me. So, in the first two months of lockdown, people did go a little radio silent. And I could understand that, but then it's come roaring back. In fact, every company we're working with, except I would say the airline industry, which is in a different level of crisis, they triple down on their commitment.

**Karina Funk (08:11):**

Right.

**M. Sanjayan (08:11):**

It's extraordinary. P&G, Unilever, Starbucks, Apple, MasterCard. In some cases, 10X.

**Karina Funk (08:20):**

Right.

**M. Sanjayan (08:20):**

And that surprised me. I think there's a couple of reasons for that. First is, I think they all understand long-term value and the importance of that long-term value being locked in with the state of the planet. But I also think that the other part about it, is that great CEOs and great boards know that you can only overtake on the uphill. If you cycle, you know this, right? You can always never pass someone on the flats on the downhill. And so, when there is a bit of a headwind, that's when great companies can differentiate themselves.

**Karina Funk (08:51):**

We've definitely noticed the same thing. This has been a time when leadership has been challenged, and there are some companies that have laid the foundation previously but maintain that intentionality to be stronger on the other side of this. I'd love to get to some of those company examples. But first, I'd like to connect the dots more with conservation.

**Speaker 1 (09:14):**

Extreme conditions leading to extreme concern. Scientists say, climate change shows no signs of slowing its deadly rampage.

**Karina Funk (09:22):**

So, in other words, climate-

**Speaker 2 (09:23):**

The subway system in New York City rendered unusable. Hundreds of thousands still without power in Louisiana in the heat of the summer.

**Speaker 3 (09:32):**

All-out West historic heat, with region's largest fires still only 0% contained.

**Karina Funk (09:37):**

... or the pandemic made a lot of us appreciate nature all the more, and that's not going away like you said.

**Speaker 4 (09:45):**

Huge supply chain shortages and issues are starting to affect everything from the Starbucks and even lumber.

**Karina Funk (09:52):**

To the extent that all that can affect businesses, populations and consumers seemingly on a day-to-day basis, does conservation have an impact on our daily lives as well?

**M. Sanjayan (10:04):**

I think, for the longest time, we were under the impression that once we dealt with basic needs, jobs, education, food, water, health, then we could start looking at the nice-to-haves. And conservation, the protection of nature, protection of wildlife, restoration of forest was seen as something that was important but was nice to do after you dealt with other things first. I think that has completely changed. I think today, and increasingly so, we have absolutely no illusions that our way of life, our health, our jobs, our wellbeing, risks for the future, the state of our children are intimately related to the state of the planet.

**M. Sanjayan (10:50):**

And the distance between the two, humans and the natural world, has now shrunk almost to the point that I would say, indigenous societies had enjoyed over the course of thousands of years. I think we forgot that covenant. We went our separate ways, and we're being forced back together in some times uncomfortable ways. But I think that link is now really present, and I don't see that as a fad or a trend. I think it is absolutely here to stay. Open up virtually any newspaper, whether you're reading The Standard in Kenya, or the Financial Times, or The New York Times here, or Washington Post, open up any paper and really the front page, almost on a daily basis, has something to do with nature, climate change, the environment, et cetera.

**Karina Funk (11:36):**

Sure. Conservation isn't really part of our daily language though. What is conservation? What are the misconceptions?

**M. Sanjayan (11:46):**

The reason why I think conservation doesn't tend to end up in the newspapers, in our daily news cycle as much, is because, without a doubt, the news media tends to focus on what's bad. What people are still doing is putting up things out there that shock you in order for you to read it. Conservation is the active part of it, that's the part where you're actually doing something about it. Now, there's a lot of ways to deal with climate change, a lot of it has to do with renewables. A lot of it has to do with transition, energy, batteries, new types of grids, efficiency, et cetera,

bringing the financial world with the energy world. The piece we work on, Conservation International works on and other sort of conservation groups works on, is the role that nature plays in driving that equation.

**M. Sanjayan (12:31):**

So, you probably heard that recently, there was this IPCC report, that's the big report that's done every few years by quite literally hundreds of scientists that give you the state of where we are in terms of the science regarding climate change. The most recent one that came out made the link between human activities and temperature rise. And really said, climate change is not far in the distant future, it's right here right now. It's impacting us as we are talking and standing right here, events that are like hurricanes and droughts and floods and things like that. The one piece that was missing in that report or didn't really come out in the report but it's true is that, in order for us to inhabit a kind of livable planet, so something where the temperature rises around 1.5 to two degrees Celsius, in order for us to do that, everything else must remain the same.

**Karina Funk (13:21):**

Yeah.

**M. Sanjayan (13:21):**

This is a basic assumption that's being made that forests will remain forests, oceans will remain oceans, grasslands will remain grasslands. That's baked in to the models that we are using to predict our future. And the truth of the matter is, the only way that's going to happen is if there's a massive investment in conservation.

**Karina Funk (13:42):**

So those models are optimistic.

**M. Sanjayan (13:45):**

Incredibly optimistic, because we know that forests aren't just standing. They are burning. They are being destroyed. They're being cut down. Grasslands are being converted. Oceans are being polluted. So, we know that we are still continuing to wreak havoc on nature, yet it is the bedrock upon which the rest of the IPCC report is based. Rock upon which the rest of the IPCC report is based.

**Karina Funk (14:04):**

So we're not going to achieve our climate goals. And let's be clear, the goals of a livable planet for humans without protecting nature.

**M. Sanjayan (14:14):**

Yeah. That's well-put.

**Karina Funk (14:15):**

Conservation.

**M. Sanjayan (14:16):**

So if we don't basically stop the destruction of carbon rich ecosystems, these areas that we call irreplaceable or recoverable carbon reserves. Places on the planet that are so rich in carbon, so rich in trees or carbon the soil, or mangroves, some grasslands, peatland forest. If we lose those, the math doesn't work. We just won't be able to meet that climate future that we have basically set as a target for ourselves.

**Karina Funk (14:43):**

What are the misconceptions around conservation? I've heard you talk about the weak and warrior. This is, you were saying it's a nice to have. But I wonder if the concept of natural capital can help us bridge that gap.

**M. Sanjayan (14:57):**

Yeah. I think the concept of natural capital, which is value of nature to humans and the quantification of that and the inclusion of that into accounting systems, into balance sheets, that certainly is a huge step towards that. I think there's a balance between love and value. And as much as I hate to say it, love alone is not enough. You also need to value it in order to actually invest in it for the long term. If you love something, you'll just protect it. If you value something, you also invest in it. I think that gap is changing to be honest. I mean, right now in the world I inhabit, it's not the big barrier is no longer capital, philanthropic or otherwise. Don't get me wrong, I absolutely need philanthropic capital. I need people to give us money in order to do the work, but there is a lot of capital flowing in. The real challenge is supply. The real challenge is talent. The real challenge is actually using that funding in a way that can scale and doing it fast enough.

**Karina Funk (15:57):**

So tell me more about how you've seen businesses take action with this notion of natural capital. And there's a big difference between businesses having the stated objective to restore biodiversity or protect the oceans versus I want to de-risk our supply chain from volatility.

**M. Sanjayan (16:17):**

So many companies don't actually know... While they have a good handle on their supply chain for efficiency purposes. They often don't know where the stuff in that chain is actually coming from, nor do they have a good understanding of the impact that's having on land. So we just did a landmark study with Walmart. Now, if there's a company that really gets supply chains and used efficiency in supply chains and getting it right is Walmart's thing. They have fantastic datasets. But when you look at the top 13 commodities that go into things that you can find at Walmart, things like palm oil and cotton and rice and things like that. When you look at it and try to trace it back to places on the planet, it becomes much, much harder. The data isn't just collected that way. So we did this big study with Walmart, where we looked at these 13 commodities from tuna to coffee, to palm oil, to cotton.

**M. Sanjayan (17:14):**

We tracked it back to places on the planet, something like 25 places on the planet and actually put a acreage around it. And basically said, this is the impact you're having on land in these landscapes around the world. Now, Walmart is using that to then say, okay, we're going to take out the top three or the top five of these as a first step and we're going to invest in them. In order to ensure that our supply chain is obviously protected, but we are not destroying those places or contributing to the destruction of places actually, the exact opposite. We want to contribute to the restoration of those places while pursuing our supply chain. So it allows them to target investment in some ways into communities and landscapes, where they're getting their basic commodities from. But we're keeping those places vibrant and by diverse, it's in everyone's best interest.

**M. Sanjayan (18:08):**

And there's also some level of collective action. So there's some really interesting initiatives out there right now. There's a sustainable coffee challenge, which is pretty competitive. Really, Starbucks was one of the leaders in that. But now, many other coffee companies, basically about 40% of the coffee sector has joined in thinking about sustainable coffee across landscapes as a pre competitive step. Because the interesting thing is when the forest in Indonesia burned and covers Singapore with smoke, people in Singapore aren't going, oh, it's not really Starbucks, it's not really Unilever because they're doing it right. No one's making those distinctions. They're just saying we don't want the forest in Indonesia to burn.

**M. Sanjayan (18:50):**

So you have to act almost collectively in order to actually bring the changes on those landscapes at the scale to deal with the consumer demand and to be sort of a good citizen. And that's new, right? So that's a bit new. So 10 years ago, when you and I first spoke, there were individual companies that were shining stars. And they used the fact that they were different and green as real credentials to license to operate at a high level. Today, you still do have those

stars, but for the most part, most companies want others to join in and there's much more sense of collective action because everyone knows they're in it together.

**Karina Funk (19:30):**

So natural capital is something that investors do take into account. They just don't call it that. And it's mispriced right now, isn't it?

**M. Sanjayan (19:40):**

Yeah, it's greatly mispriced, but I think that's changing as well. Look, I think that when it came to materials, I think companies thought, where can I get the largest amount, the cheapest? And that's what drove everything. And they really underestimated the risks. And I think that risk has really snuck up on us. And I think now you're finding some companies who have always tried to do the right thing in a position where they're realizing their raw materials, where they're coming from or how they're coming to the market is fundamentally flawed and create really untenable risk for their operations.

**Karina Funk (20:19):**

Let's get to capital flows. Over 10 years ago when you first spoke to this audience, you were chief scientist at The Nature Conservancy. And correct me if I'm wrong, but conservation was quite heavily dependent on philanthropy. You've mentioned that a lot has changed in the past decade. Why don't you tell us about it? The good news and the bad news when it comes to capital flows towards conservation.

**M. Sanjayan (20:42):**

I think today, certainly for conservation international, private philanthropy is incredibly important because it's flexible and it's what sort of makes everything else work. But the leverage between private and public or institutional funding or corporate funding is like five to one. For every dollar we raised privately, we could probably get \$4 in some other way towards the problem. And that's kind of the good news. The good news is there is a lot of funding that is heading towards conservation problems, reforestation, protecting oceans, fisheries, forest management, carbon offsets, et cetera. The not so good news is that it's not getting necessarily the people who need it the most. So there are winners and losers.

**M. Sanjayan (21:26):**

The winners tend to be established companies in the developed world, whereas where the carbon is, where the biodiversity is, where the need is tends to be in Liberia or in Suriname or in the coast of Columbia or in Peru or in West Papua. And whether that funding is going to get that into the hands of indigenous communities, local people who's on the front lines of conservation is still, I have no confidence that that's going to happen unless we really push for it. And the second thing is the idea of supply. We need bigger and better ideas for actually doing some of these projects at scale. I think there is funding that is looking to help support it, we just need those projects to be developed and ready to go.

**Karina Funk (22:11):**

Tell me more about the kinds of solutions and investment opportunities. First, the ones that are oversubscribed and then let's get to the ones that maybe have too high perceived risk?

**M. Sanjayan (22:23):**

So I wouldn't say necessarily oversubscribed, I'd say subscribed. And these would be projects that really focus on carbon and carbon offsets. That part of the work definitely has a lot of funding flowing in it. However, it comes with some real risks. And the risks are number one, the projects that you do really better be really good projects. They actually better protect the carbon and restore that carbon at scale. And there's still a lot of variance in that. Two, you better be able to monitor it over long periods of time. Three, it should ideally go to places that really matter the most. It should go to those places which are carbon dense and have lots of biodiversity where people need that kind

of funding. And four, and perhaps most importantly, it should never be a pass for polluting. It should only be available to companies who have done everything they can to reduce their carbon load through renewables, through efficiency, through shifting their design.

**M. Sanjayan (23:19):**

And it's used as ice cream on top. It's used for that last push. So if you can meet those criteria, I think the carbon markets are red hot, but the rules are really weak and we need to strengthen those rules, make sure they're good players in it and it's actually doing its job, which is protecting or restoring nature at scale for the carbon benefits. The part that is probably most undersubscribed is biodiversity, this biological diversity of life. Which everyone agrees is valuable. It's difficult to put a number on it or find a way to quantify it and thus find a way to pay for it. So that one, I think, desperately needs more funding. And then everything else is somewhere in between, freshwater, healthy oceans, clean beaches, those sorts of things.

**Karina Funk (24:11):**

In terms of the newer riskier projects, it's tough to not ask for high levels of risk management when you're investing in say Papua New Guinea versus New York, right? And you know, the one emotional tendency of investors is well known that you tend to take more risks in areas of the market where one is most comfortable. I know we've discussed some of your head scratching at some of the big risks that investors are willing to take. Go ahead and mention some of those head scratchers.

**M. Sanjayan (24:43):**

No, it's a very funny thing because people will throw a lot of money towards a company like Theranos, which is currently in an interesting trial in California. Enormous amounts of funding went after WeWorks. It is really puzzling to me how willing humans seem to be to take risks in certain sectors but when it comes to nature, when it comes to locking up forests or carbon or biodiversity, they seem both risk averse. But also expect standards that are almost impossible to meet where they're investing in. So if I told you there's a gold mine in some country that you've barely heard of or a diamond mine, and we're going to go do this, you'll get investors throwing in money in. But if I said the same thing with that same country, but we're going to go protect this forest. You're going to say, oh my God, protecting the forest but that sounds awfully risky and it's dangerous country to operate in.

**M. Sanjayan (25:38):**

And it's a puzzle to me because the one thing that I bet you would agree with, and I bet every listener here would agree with is that nature has some value. Whether it's biodiversity or clean oceans or rivers or carbon. And I think everyone agrees that value is not getting less in the future. The one thing I can guarantee for you, guarantee... Like imagine knowing that and imagine actually knowing that for any commodity out there, like I can guarantee you that in the long run, nature is going to be more valuable tomorrow. Carbon is going to be more valuable tomorrow. Forests are going to be more valuable tomorrow than they are today, guaranteed. And yet trying to crowd capital into that market often runs up against this notion of risk, which is, I don't think the right way of thinking about it.

**Karina Funk (26:32):**

You're saying a lot of things that investors love, an asymmetric positive payoff. You're not mentioning the fact that these are real assets. Some of these investments can be annuities, they're uncorrelated to the relatively high valuations we're seeing in the equity markets. There's so many reasons why nature should be a very interesting investment.

**M. Sanjayan (26:54):**

And even if you strike out, even if, as an investment it fails, you still done an awful lot of good. You've done probably some good for your brand and you've done an awful lot of good for the planet.

**Karina Funk (27:07):**



You're skewing in the analogy that I often use that when emotions get the better of investors, they can easily, we've seen it, we see it all the time, they'd buy a very expensive lottery ticket. And all of a sudden those Western standards of accounting go out the window, even though that is what is expected with some of these same biodiversity projects. But you're saying it's not a lottery ticket.

**M. Sanjayan (27:29):**

It's definitely not. The chance of you actually winning something is much, much higher. It's more like the postcode lotteries that you see in Europe where you play the lottery as a way of funding some kind of social program and you do have a chance to win. Is it a little bit analogous to that but the chance of winning is much, much higher than anything you would do with lottery, much higher.

**Karina Funk (27:50):**

You might agree that the debacles of WeWork are fair on us. It happened because enough people were willing to trust the people or the person-trust the people or the person behind each investment. So my question is, can conservationists do more to build trust and build relationships even ahead of the capacity building that would be needed for that auditing and the KPIs and the monitoring and reporting that makes projects look better on paper? They need to look better on paper, yes. But tell me more about trust.

**M. Sanjayan (28:25):**

So that's a great point. One of the big challenges of conservation, especially right now, is that it has been seen to some extent as a Western construct, colonial construct, as very much been driven by a particular kind of society or segment of society. And the places that we need to actually conserve, they tend to be in the hands of people who don't look like either most major investors you and I know of nor do they look like most conservationists you tend to see on TV. So there is a gulf, a big gulf. Conservation is by no means a meritocracy.

**Karina Funk (29:05):**

Hmm.

**M. Sanjayan (29:05):**

And I think that it's probably the least [inaudible 00:29:08] field, just look at who's in the leadership positions in conservation organizations, just turn on the TV and watch who is seen as a representative conservation. And it tends to skew very heavily towards Western male of a certain age or potentially a certain class. And it has to be way more diverse than that-

**Karina Funk (29:30):**

Wow, yeah.

**M. Sanjayan (29:31):**

... because the places we're trying to save are in the hands of often indigenous communities, indigenous peoples, or local communities. And there is a huge gulf in trust that needs to be built.

**Karina Funk (29:41):**

Can you tell me more the role of philanthropy in conservation? My mind went to that next because this trust building is an investment that may not be considered by the investor that's expecting that low, mid single digits annuity from a forestry project, but yet it's so important. So can philanthropy be catalytic? And just tell me more about how the role of philanthropy has changed vis-a-vis the opportunity to invest in conservation.

**M. Sanjayan (30:13):**

Yeah. So I'd make three quick points on that. First of course, is philanthropy is incredibly important to conservation because it gives us the flexible funding we need to innovate, to try new things, to seed things, et cetera. When you go to governments and ask them to allocate capital for certain projects, or even companies for that matter, if you're

going with some money in hand, something CI does often where we show up not completely empty handed. I just got back from France, we had a meeting with president Macron and his team. France has been very good at committing funding for the greater Amazon basin under a project called Amazonia Verde. But the commitment that they have made, we have also managed to match with private philanthropy. Not dollar for dollar, but we've also put some of our own funding into it, and that really makes good partnerships.

**M. Sanjayan (31:01):**

Governments are interested when you show up, not with a completely empty hat, or skin in the game, what you can put on the table. So private philanthropy is what we need in order to be flexible, try new things, innovate, and leverage. The second thing I'll say is that I don't think that wealth growth has kept up with the amount of money then going into conservation or philanthropy from the private sector. A big gift 10 years ago, and the number I would throw for a very large gift, is about the same as it is today.

**Karina Funk (31:32):**

Huh.

**M. Sanjayan (31:33):**

In reality, actual wealth has grown much, much faster than that. And then the third thing I would say is that private philanthropy does not however want to keep putting money into the same problem year in and year out. And that's something we take very seriously. So when we go after private philanthropy, we are typically making a proposition that says, in the long run, this project, wherever it is in the world, needs to be essentially self sufficient. Maybe not perfectly, but essentially.

**Karina Funk (32:03):**

So philanthropy needs an exit strategy?

**M. Sanjayan (32:05):**

Philanthropy needs an exit strategy.

**Karina Funk (32:07):**

Well, financial innovation I would bet is going to continue to create some of these instruments. And isn't that the gap?

**M. Sanjayan (32:15):**

Yes.

**Karina Funk (32:15):**

Take your average wealthy entrepreneur, hard know where to allocate capital. Whether it's that wealthy entrepreneur's philanthropic dollars or even investment dollars.

**M. Sanjayan (32:28):**

Yeah. For example, we have a project called Conservation Ventures with our plan to grow to about 30 million. And it gives midsize loans, 250 to \$500,000, roughly. So it's not seed capital and it's not for established companies, it's for that sort of valley of death. How do you get a company that's established but trying to scale that is nature based, right? And it's proved to be a tremendous instrument for CI. First and foremost, every single one of these loans we've made thus far has actually proven to be worthwhile making. And two, they've done a-

**Karina Funk (33:02):**

Congratulations.

**M. Sanjayan (33:03):**

So the track record on it is pretty good, but you're not going to always have a brilliant track record. However, it's done an awful lot of good while at the same time preserving capital. So we took philanthropic dollars in that case, philanthropic dollars so that there's no expectation that money is going to be returned to the people who gave us the money.

**M. Sanjayan (33:19):**

And so just spending it one time, we decided to keep rolling it over. The most recent thing we did with it, probably know this, one of the greatest places to visit, most people put it on their bucket list, is the Serengeti Masai Mara ecosystem of east Africa. A million wildebeest migrating across the Savannas of Africa. It's very iconic. But during COVID, many of the largest, which are community owned, they're on community land, land that is essentially seeded to conservation. And where the communities get a payment from those lodges came to zero. And so we stepped in with a bridge loan to basically tide them over until there is an economic recovery and people go back to the Mara. We get our money back, we also get some influence in how that landscape is managed because we get to now exert some influence on the board that manages the whole landscape. And we keep these communities alive. And that was just a really great way in which, instead of going pure philanthropy, we used philanthropic dollars to actually make a loan.

**Karina Funk (34:21):**

Not reducing, but recycling and reusing philanthropic dollars is...

**M. Sanjayan (34:26):**

Yes. The investment. Investments in its best sense of the world. There's only so much money you need, but in the best sense of the world, the money is there. Investments are a way of recycling money. It's a way of making money work harder.

**Karina Funk (34:41):**

All right, I'm going to give you a challenge here in acknowledging that human history demonstrates that investing is motivated by fear and greed. But I would like you to connect these basic human emotions to sustainability and conservation.

**M. Sanjayan (34:59):**

Without a doubt, fear and greed play a lined share of what motivates investors. But I also think buried within that is their own lives and the lives of their children. And I think this next generation has a different outlook. That, to some extent, they're willing to voice to their parents and their impatience for change is trickling back into our generation, into my generation. And so I'm feeling better, a little bit better about the world, partly because there's this really interesting intergenerational dynamics going on where our children are demanding more of us. Alan Jope, the CEO of Unilever, often talks about how he took his son. I think shortly after becoming the CEO and Paul Pullman stepped down, he's walking down the beach with his son and his son is running ahead of him going, "Dad, you made that. Dad, you made that. Dad, you made that." Pointing out to things on the beach that ultimately I would imagine plastic products. And he said, "I don't want to be known as the CEO of branded litter. That's never my mission."

**Karina Funk (36:02):**

Alan Jope I'll quickly mention was on season two of this now podcast. And he certainly talked about the next generations and how important it is to lead a purpose driven business.

**M. Sanjayan (36:11):**

And you talk to these leaders, these companies, you talk to Doug McMillan at Walmart or Alan or you just go down the list and he talks to them, Kevin Johnson, Starbucks. They often talk about it in deeply personal terms, often terms that have something to do with their children. And I think that's a really interesting signal for me.

**Karina Funk (36:33):**

You've made it plain that there is a lot more that us investors can and should learn and do about conservation. So count me, count us at Brown Advisory committed to learning and doing, and I thank you for helping me and our listeners on this journey.

**M. Sanjayan (36:50):**

Thank you for having me on the NOW Podcast, [Karina 00:36:53]. Great to see you and just know that the sector you are in is colliding with the sector I'm in in mostly a very positive way. And that's a good thing. \.

**Karina Funk (37:02):**

I look forward to working on that. I'll be back in a minute with our CEO, Mike Hankin, to talk about what we can learn as investors from this conversation with Sanjayan.

**Karina Funk (37:18):**

Hello, Mike, thank you so much for doing this.

**Mike Hankin (37:20):**

Thank you. I'm looking forward to our conversation.

**Karina Funk (37:24):**

We just heard from the CEO on this podcast of a large worldwide conservation organization. So to kick off our investment discussion, let's hear from you as CEO of an investment management and advisory firm, what were your key takeaways?

**Mike Hankin (37:40):**

I found Sanjayan's comments, his insights on links as very impactful for my own thinking. So he mentioned that the IPCC report makes clear the link between human activities and temperature rise. He talked about the link between climate change and conservation. In fact, I thought he articulated that the best I've ever heard from anybody. That in order for us to live in a habitable planet, everything else must remain the same, and the only way to make that happen is by conservation. And the reason why I focus on the word links is because I think about the challenges that exist to bring the issues related to climate change, to conservation, to ESG even more broadly, to the forefront of businesses around the world so that we can understand better businesses' roles in conservation and in dealing with climate change. And I think that's a huge challenge.

**Mike Hankin (38:43):**

I can relate to what we do as a business at Brown Advisory, our own focus on investing in a way that identifies the advantages that a business can effect through. Focusing on sustainability as a business ourselves, we're very focused on sustainability both as a business citizen, but also on growing our investment assets in this space because we understand the impact that that brings through, hey, if we track more capital to this space, we know that will make a difference. But for so many businesses, for so many shareholders, so many employees around the world, not just in the US, it's really hard to make that link. Why does it matter to a business? Why should it matter to a business?

**Karina Funk (39:32):**

As you and I I know have discussed that it's easier to see in some business models direct links to the physical effects of climate change, effects on employees, supply chains, et cetera. But it is a systemic problem. And there's a lot to unpack here. So you mentioned what Brown Advisory's doing, how we think about sustainability, but why do you think it's important for investors to learn from what a leading conservationist has to say?

**Mike Hankin (40:02):**

I think that the more thoughtful conservationists, and clearly Sanjayan is at the top of the community of conservationists. I think one of the responsibilities that they have is not just to speak to people who understand the challenges of climate change, but to speak to people who are not yet there. That conservationists need to think

about all those different people and say, "How can I bring them along so that they understand the role that they have to play?" And look, one of the roles is clearly as investors.

**Karina Funk (40:37):**

You're bringing up a fairly well known problem that there's a gap between our language and our understanding. Perhaps it's a translation problem between conservationists and investors. As we discussed with Sanjayan, investors, we have the language of supply chain issues, raw materials, et cetera, but we don't have the language of conservation and vice versa. So to close that gap, I mean, the fact that climate change is increasingly a crisis, it's not apparently what puts it on board agendas. Why is it so hard, Mike? Why is it so hard to put this on the board agenda?

**Mike Hankin (41:20):**

That's a really good question. I think about our own board, we meet four times a year. When we're sitting down and thinking about the agenda for the next board meeting, we're thinking about approving a budget for the year, reviewing the audit, reviewing the leadership of the firm. Are we hiring good people? Are we keeping good people? There's a whole long list of issues. Our relationships with our shareholders, strategic investment that we might make, launch a new strategy like global fixed income or sustainable core. That's a lot to put on the agenda for only four meetings a year. So on the agenda for only four meetings a year. So, the things that get there that are not part of business planning or review, are things that frankly, for many businesses tend to be crises. And I think about cyber, for example, cyber security issues. Every business is facing that as a crisis. That's on most business agendas, every single quarter. So the question is, how do we get climate change there? How do we get ESG there? It doesn't have to be a crisis, but it does have to be articulated in a way where the amount of time that you might dedicate to it at a board meeting, precious time, it's logical that it gets there. And I think, the examples that were talked about, that you and Sanjayan talked about, for example, Walmart and Starbucks, I think those are clear. Walmart, the need to invest to ensure supply chain continuity, which includes the need to think about the restoration of those environments.

**Mike Hankin (43:13):**

For coffee, we're past the point of where any one coffee producer or one coffee seller or retailer can manage the issue of sustainability on their own. Everybody needs to do it. I think he described it as a pre-competitive step. So that's clearly on the board agenda for companies in those businesses. We have to make sure that every business thinks somewhere in their supply chain, in their customer demands, in the way they price things, somewhere there is already a link to climate change and to sustainability. You and I believe there is, I mean, this is why we put it on the agenda for every single board meeting at Brown Advisory. We want to discuss how we're doing as a business in this space. And we know that we have a role to play given the increasing size of our business.

**Mike Hankin (44:06):**

I think our bigger impact on sustainability is what we're doing as investors. We've got almost a quarter of our investment assets, where we have been hired by investors to invest in a way that exploits business advantage in sustainability, that a business was able to do. And that's going to drive change. If you have significant investment assets, dedicated to business strategies that we know will have an impact, I think that's a bigger consequence than just measuring our carbon footprint and we need to do both, but then you and I would argue more importantly, what about their business strategy that is going to make a difference?

**Karina Funk (44:50):**

Sanjayan also brought up just how difficult it is to get the data that would really indicate and require collective action. But it was also good to hear that many of the weeding companies are already doing it, even without perfect data. And so, Walmart tracing their raw materials to their origins in order to conserve them. That's when the language of saving a forest gets into the management lingo that gets into investment conversations. Starbucks and

the sustainable coffee challenge, that is everything from ethical sourcing to the environmental impact of a cup. And then Nike, as part of the fashion pact. Now trust is of course required for collective action and we need to build this, not just among businesses, but among non-profits and the public sector too. So you're a business leader who's also been very involved with nonprofits and as an advisor to the Baltimore City government, all of these stakeholders have their own agendas, but I would also imagine some common goals. What would you say are some real takeaways that can help us achieve progress towards any of those goals that might be aligned with conservation or climate action, if you will?

**Mike Hankin (46:11):**

I think conservation is, or involves the cooperation necessary to do the things we have to do. And that's a tough concept for a lot of people. And I think that the best ways to getting things done is to understand that we all have some responsibility. You and I have responsibility as members of community, our government leaders have responsibility. You and I are leaders of a business and we know that we have a responsibility as business citizens.

**Karina Funk (46:43):**

Let's combine this with some of the good news that Sanjayan mentioned, that there's actually a lot of capital now, flowing to conservation projects. Now it's a problem that it's not necessarily going to the highest ROI, but where can we participate? Mike, you and I have talked about how all capital has an impact. What is the role of financial innovation in bridging this gap of trust of collective action, of making better investments in conservation, for the sake of business continuity, for the sake of competitiveness, for the sake of thriving?

**Mike Hankin (47:20):**

So, when I think about companies in which I like to invest, and I think about nonprofits, especially environmental groups that we as a business back financially, or many of us do individually, I think a lot about those businesses and those groups that are willing to share ideas and to recognize that everything does not have to be created by them. And I think we have to reward that. And I think that's what someone like Sanjayan does. And you and I know lots of businesses that are run by people who are really good listeners who are saying, "Bring us ideas."

**Karina Funk (47:57):**

That is a key criterion that you can't quantify, leading management team that is open to new ideas, but open to innovation. There's a lot to like about investing in nature. We talked about this a little bit with Sanjayan, from uncorrelated risk at a time of near all-time highs in equities and some other asset classes, downside protection and inflation hedge, the ability to reuse and recycle philanthropy, as well. Given that as Sanjayan talked about philanthropy needs an exit strategy. Isn't that where asset owners and the financial community can play a role, demonstrating catalytic returns on capital, an additional impact along this entire spectrum from philanthropy to maximizing investment return.

**Mike Hankin (48:44):**

Well, I think there's a lot of ways to impact sustainability and the continuum at one end, you might have contributions that we make as individual donors to nonprofit organizations. And at the other end, we're investing in companies that we can identify that their business strategies will improve the business as well as drive a favorable impact for the environment. And I think our job as advisors to investors is to help them understand what the choices are. I know, for example, what you and David Powell do in managing large cap, sustainable growth is you're investing in companies that are making very good business decisions, thinking about sustainable issues, both risk and opportunity and driving those businesses to be more successful. I've said to clients before, even if you don't understand climate change, taking these issues into account, you will be a more successful investor. Our responsibility is to help people understand the choices.

**Karina Funk (49:52):**

Going back to my challenge, to Sanjayan about connecting fear and greed, what really has been motivating investors through human history to sustainability. I'd love to hear the same from you.

**Mike Hankin (50:06):**

Well, they are very real words. Fear and greed are about feelings. And I think there are softer versions of them, perhaps anxiety and opportunity. Maybe I can address those versus fear and greed. I think there's a lot of anxiety around the climate, even for people who are not comfortable talking about it, or are in parts of the world where there's not as much commitment to it. But I think at the heart of it is anxiety about what's happening? How quickly is it happening? Is this something that's 30 years, 50 years from now? Or is this something we're going to see even worse next year? Certainly the fires out west in the U.S. this year are frightening a lot of people. An opportunity is what role can business play by operating their businesses more effectively and I think if we can connect the dots for investors, that we can probably provide opportunity to more investors and also address people's anxiety.

**Karina Funk (51:18):**

Mike, thank you for helping us connect the dots between how businesses can operate more effectively on one hand and the value proposition of investing in nature on the other. There's more to do to bridge the gap between the worlds of investing and conservation. But thank you for getting us started. I've won the war.

**Mike Hankin (51:38):**

Thank you for joining us as we continue this effort to seek out insights that help us understand a rapidly evolving world. If you enjoyed listening, we encourage you to subscribe to the podcast. Be sure to tune into our next episode with Dan Schulman, the CEO of PayPal. Until then, be well and stay safe.