



# Investments that root for nature

**As awareness of climate and nature-related risks grows, natural capital investments are on the rise. Niamh Smith explores how to invest in this theme to benefit both members and the planet**

Looking to the future is an intrinsic aspect of pensions. From the moment someone starts contributing to their pension pot, they naturally start to envision what retirement might look like.

However, increasing numbers of members are expanding their forward-looking focus beyond personal financial outcomes and are now considering how their investments of today will have an impact on the planet of tomorrow.

As a result, environmental, social and governance (ESG) investments have boomed over the past few years, with biodiversity gaining attention even more recently. Now, however, a new consideration is coming into play: Natural capital.

This shift has also been spurred on by the Taskforce on Nature-related Financial Disclosures. These guidelines encourage businesses to assess, report and act on their nature-related dependencies, impacts, risks and opportunities, effectively bringing the topic of natural capital into the spotlight.

So far, Local Government Pension Schemes (LGPS) are leading efforts to invest in the protection and restoration of the natural landscape, with several funds

allocating to tailored strategies in recent months.

### What are natural capital investments?

Nature-based investments aim to protect, sustainably manage, or restore natural ecosystems – whether that be land-based or water-based – and address challenges related to climate change, human well-being, and biodiversity, according to Redington vice president of manager research, Celine Grace Legaspi.

Gresham House CEO, Tony Dalwood, adds that current natural capital investment strategies include forestry and carbon credits, sustainable agriculture, ecosystem services and voluntary and mandatory biodiversity net gain investment.

He highlights the importance of investing to protect natural capital because it encompasses all the world's natural assets, which, combined, provide a flow of benefits to people.

“From clean air and water to fertile soil and pollination, every component of nature sustains life. These benefits have tangible economic and societal value that is not accurately reflected in existing and traditional financial markets,” he says.

The additional benefits of investing in

### Summary

- While biodiversity investments aim to protect and restore ecological diversity, natural capital investments focus on ecosystems, both on land and in water.
- The emerging nature of the investment theme poses certain barriers to investment, however innovation is helping to overcome them.
- Investing in projects to protect natural capital benefits members, by generating financial returns, and the planet by preserving natural landscapes and mitigating climate change.

natural capital include the regeneration of ecosystems, such as forests and rivers, which provides essential services like flood mitigation, water purification and carbon sequestration, adds Rebalance Earth CEO, Robert Gardner.

“Natural capital becomes an investable asset class by recognising nature’s capacity to deliver measurable economic value. This approach addresses both climate adaptation and mitigation while supporting nature restoration,” he says.

Gardner notes that natural capital differs from purely biodiversity-focused investment strategies, which are typically narrower in scope, focusing on protecting and restoring specific species and habitats to maintain ecological diversity.

“While biodiversity is a crucial element of natural capital, natural capital investments take a more holistic view, encompassing the full range of ecosystem services that directly benefit businesses, cities, and communities,” he says.

In addition, the term ‘natural capital’ is typically used when referencing real asset investments, such as forestry farmland, carbon projects and blue economy, adds Legaspi.

### Practicalities

As with many emerging investment

themes, natural capital investment faces barriers due to its nascent stage, namely the lack of maturity that means there are gaps in knowledge and uncoordinated approaches to data collection, measurement and monitoring.

However, Legaspi notes that this shouldn't deter investors from considering it as an option, instead highlighting how it is important to look beyond track records.

Gardener agrees that investors need to adapt their thinking when approaching these strategies, noting that a longer-term investment perspective is particularly helpful.

"Investors must also adopt a patient capital mindset, as returns from natural capital investments may take longer to materialise but deliver significant long-term benefits in terms of climate resilience, risk reduction, and ecosystem restoration," he says.

### Getting it done, despite the challenges

Even though practicalities exist, asset managers are actively investing in natural capital, demonstrating that these barriers can be overcome.

In addition to maintaining a long-term vision, asset managers are utilising innovative financial instruments, adapting their offerings and developing new solutions to meet the demand for these investments.

Gresham House, which is the ninth largest natural capital manager globally by value, facilitates investments by providing clients with a platform of return-generating natural capital assets.

"Each asset has different risk and return profiles and outcomes for nature. We work with our clients to provide access to these options to create their natural capital portfolios, which promote the transition towards a more sustainable economy," Dalwood says.

### Benefitting members and the planet

Investing in natural capital offers dual benefits: It has the potential to deliver

financial returns for members, while actively contributing to the preservation and enhancement of the environment.

Financially, investing in projects to restore natural capital generate returns through carbon credits, biodiversity net gain units and payments for ecosystems, Gardner says.

Legaspi adds that nature-related sectors are also backed by strong market fundamentals, such as population growth and decarbonisation, have low correlation to traditional asset classes, and may act as an inflation hedge, in the case of forestry and agriculture.

Dalwood agrees that the targeted sectors typically provide opportunities for investors.

"With growing demand, constrained land resources and agriculture's historically stable returns could provide a unique investment opportunity that has the ability to preserve investor capital through economic cycles relative to other sectors," he says.

Gardner adds that, from an environmental perspective, these investments help mitigate climate-change risks, such as flooding, droughts and biodiversity loss, while enhancing ecosystems.

"For instance, investing in natural flood defences allows cities and companies to protect valuable assets while reducing reliance on costly grey infrastructure," he says.

Gardner notes these projects often have broader social benefits, such as creating green jobs, improving public health, and restoring ecosystems that provide cleaner air and water for communities.

However, Dalwood cautioned that measuring the impact on nature can present difficulties.

"Putting a value on nature is complicated, but market participants can be incentivised to avoid causing further damage, to reduce unavoidable impacts and take action to restore and regenerate nature, whilst at the same

time demonstrating good stewardship of clients' assets," he says.

Investing in natural capital goes beyond generating returns for members and protecting the natural landscape; it's also about tapping into a rapidly growing trend that shows no sign of slowing down.

Legaspi says population growth, the growth of the middle class, the shift to a low-carbon economy and rising land prices are among the primary factors driving the growth in value of natural capital investments.

The growing need for climate adaptation and resilience, combined with ambitious net-zero and nature conservation targets are also accelerating demand for nature-based solutions, adds Gardner.

"As climate and nature-related risks gain wider recognition, asset owners, such as the LGPS, defined contribution schemes and wealth managers, increasingly seek to build resilience into their portfolios," he says.

Gardner notes that pension funds are well-positioned to lead this movement by allocating capital toward nature-based solutions that align with their long-term investment horizons and sustainability mandates.

Dalwood agrees that asset managers are at the forefront of this initiative, noting that Gresham House's research, in collaboration with Mallowstreet, revealed that 50 per cent of asset managers are either already investing in natural capital or will do so within the next 18 months.

"The expected allocation would be between 3-5 per cent of the total investment portfolio and we expect this to grow meaningfully over time given the nascent nature of this market," he says.

Written by Niamh Smith, a freelance journalist

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