

Natural Capital Investment Trends: **Is there a (paying) market for nature?**

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Natural capital. Nature-based solutions. Biodiversity. The number of research inquiries I've had on these topics has skyrocketed, though in reality, ecosystem marketplaces have been in existence for quite some time. What's changed over the last couple of years, however, is the repositioning of fundraising channels and there's no question that nature is now at an all-time high on institutional investors' radar. I saw clear evidence of this at last April's [Global Ag Investing](#) (GAI) conference in New York, an event known for convening heavyweights in traditional agriculture to discuss commodity crops, fertilizer costs, labor, trade, etc. Amongst these issues, the 2024 agenda showcased regenerative farming, biodiversity and nature, carbon opportunities, and the inclusion of timber and ag in natural capital portfolios.

NATURE-BASED SOLUTIONS The next frontier of land-based investing

While it may seem obvious that nature is essential for human survival, it's less clear how clean oceans, fresh air, fertile soil, crop pollination, and climate regulation should be priced. How do we derive and distribute economic value from the benefits that the world's stock of natural capital provides, not only to society and the environment, but to the global

economy? The degradation of natural resources poses significant risks to financial returns and the long-term value of investment portfolios across virtually all sectors. Nature-related risks are also inextricably linked to climate-related ones although the latter tend to dominate headlines. According to the [Forest Investor Club](#), scaled, nature-based solutions (NBS) have the potential to address 37 percent of climate mitigation goals if annual investment were to double by 2025 to \$384 billion.¹ That's a big 'if'.

Can investment in the preservation and enhancement of ecosystems pay off?

Existing ecosystem marketplaces for wetland and stream conservation, carbon sequestration, imperiled species/habitats conservation, and watershed services exist in the US at national, regional, and state levels, and can be compliance-driven or voluntary. In recent years, investment has benefited from global momentum in impact investing and the evaluation of companies on criteria such as environmental impact and resource management. At the same time, natural capital accounting is evolving to incorporate quantifiable value into national accounts and corporate balance sheets.

¹ World Business Council for Sustainable Development, Forest Investor Club, and The Nature Conservancy

bfinance reported searches for natural capital managers outnumbered even those for real estate managers in 2023; the organization counted 50+ institutional quality managers with “natural capital” offerings in agriculture, forestry, and other environmental assets such as peatland, mangroves, and renewable energy.² The appeal of NBS is based on diversification, stable yields, inflation hedges, and co-benefits, as well as potentially attractive valuation tailwinds. The voluntary carbon market (VCM) is the most recognized – if currently beleaguered - means of channeling capital to nature. Emerging biodiversity markets aim to leverage similar credit structures, but the world needs other means of funding NBS.

VOLUNTARY CARBON MARKET (VCM)	BIODIVERSITY CREDITS
<ul style="list-style-type: none"> • Carbon offset trading remains key to the financial success of NBS; however, the VCM has a long way to go to achieve the scale and standardization expected of mature, institutionally investable markets. • The dramatic 2023 decrease in speculative purchases indicates a lack of faith in the upside of the current version of the VCM, in part due to highly publicized negative critiques and project certification issues. • Optimists believe lower volumes are the result of a positive flight to quality, one that’s needed to transition a fledgling VCM to a more robust iteration. • What is worrisome, however, is the shift from avoidance to removal; questions around additionality and permanence have tilted the playing field to pure carbon removal vs. projects with social and environmental co-benefits. I’m not against the former, but this tends to support technology from developed nations over conservation and benefit-sharing with local communities, most often in emerging markets, and risks devaluing their stock of natural capital. I’d like to see the day when the natural capital of a country affords it the economic riches of an oil- or tech-rich one. 	<ul style="list-style-type: none"> • Biodiversity credits aim to monetize nature in the same way as carbon (without the controversy!) • These markets are even harder to create, though. Nature is less fungible and quantifiable, and equivalency is a big challenge, i.e., the need for a localized, like-for-like approach. After all, the flora and fauna in the Amazon isn’t exactly interchangeable with that in Canada or Kenya. • Biodiversity market frameworks are much less developed. Australia aims to launch the world’s first government-run voluntary biodiversity market, the Nature Repair Market (NRM) in 2025. Emerging compliance markets in France and the UK have faced issues with transparency and accountability mechanisms and, as a result, an (over)supply and demand imbalance. • In the UK, property developers must now compensate for any harm to the natural environment; all major building projects must demonstrate delivery of a ten percent biodiversity net gain (BNG). You can imagine the measurement headache, but this does open up investment opportunities for ventures like the Gresham House €380M habitat bank fund, which aims to generate BNGs that can be sold to developers. Such a fund could be viewed as government-regulated infrastructure, offering predictable cash flows and returns in high single to mid-double digits.³

Generally speaking, both the VCM and biodiversity credit markets lack standardized, regulated, transparent frameworks, making it difficult for them to gain full acceptance as economic assets. Institutional investors need to see a clear path to ROI and impacts that meet additionality and permanence targets. Corporate demand for in-setting is proving to be a more viable source of funding, due to clear, direct links between nature, stable supply chains, and competitive advantages. Proponents have theorized the food sector alone could be willing to pay in the

² Natural Capital Investing: An introduction to forestry, agriculture, and carbon credits”, bfinance

³ “Gresham House launches \$380m biodiversity fund”, AgrilInvestor

triple digit billions to shrink its carbon emissions.⁴ Outside of a handful of companies like Nestle and PepsiCo, however, most big companies remain focused on carbon offsets.



It's not all about the credits

The majority of credit-generating funds base target returns on more conventional financial mechanisms, integrating carbon and biodiversity into agriculture and timber funds as a means of diversification. TIMOs, for example, have historically focused on income and capital appreciation from resource management and extraction, but are now emphasizing sustainability and return drivers like carbon credits and conservation easements.

It's this real-asset-with-a-carbon-kicker strategy that was the focus of the GAI NYC crowd, who expect relatively low risk ag and timberland funds to generate returns in the five-to-seven percent range. Of those 50+ natural capital fund managers identified by bfinance, 84 percent look at credits as icing on the cake.⁵ In contrast, NBS strategies looking to credits for the lion's share of returns are being underwritten as higher risk investments, with low-to-no yields, long (10- to 25-year) fund lives, and low-to-mid-teen return forecasts that are mostly based on speculative forward credit pricing. Credit generation targets are often linked to carried interest and investors in these funds need to be comfortable with limited transparency – accurate data is hard to come by and, as we know from recent VCM press, quality and price are not always linked.

The scope of NBS can arguably extend into any sector that aligns with land use and emissions reduction. After all, there's a natural link with all forms of good land management, upon which natural capital and biodiversity depend. Most investors don't have separate natural capital allocations but write checks from real estate, agriculture, infrastructure, and/or impact wallets. In the case of AXA Investment Managers (AXA IM Alts), natural capital can include biodigesters, clean cooking equipment, agroforestry, and tree seedling nurseries. The Alberta Investment Management Corporation (AIMCo) started its natural capital investing in row crops before moving to livestock, permanent crops, controlled environment agriculture (CEA), and water-related projects. Soil carbon is still viewed as somewhat more experimental because the carbon sequestration properties of soil are not as clear-cut as those of trees. An investment in underlying real assets gives investors a direct connection with credit generating projects, providing transparency, wider impact potential, and better risk mitigation.

⁴ "The big opportunity of insetting for biodiversity markets", Carbon Pulse and The Landbanking Group

⁵ "Natural Capital Investing: An introduction to forestry, agriculture, and carbon credits", bfinance

How do we drive more \$\$ to nature?

All those research inquiries aside, natural capital investing remains frustratingly complex and dependent on credit markets that are struggling with scale, integrity, and transparency. Some believe that a global consensus is required for NBS to really work, one with harmonized regulatory regimes and a convergence of measurability and disclosure. It would certainly be ideal if – political opinions aside – every country could take a hard look at the materiality of nature risks like the Green Finance Institute did in its assessment of nature-related financial risks for the UK.⁶ But even if such an exercise scares the powers that be into action, more innovative and equitable tools are needed to execute on well-intentioned plans.

The capitalist in me believes it will be possible to create demand from a financially incentivized private sector (whether compliance, incentive, or voluntary-based). Green bonds provide a potentially parallel success story. That same capitalist also worries about ethics. When the NYSE pulled their plans for Natural Asset Companies (NACs), I was struck by one of the reasons the proposal failed, namely because of “deep skepticism about financial products marketed as solving problems through capitalism and questions about who is entitled to nature’s gifts”.⁷ This is a valid concern and must be addressed.

On the credit front, let’s recognize that a robust market for high quality projects is not a bad thing, even if it’s a transitory one; and keep working towards solutions that meet the ultimate goals of preserving nature and dealing with systemic stable supply issues. Keep innovating on the removal technology front as well, but not at the expense of our existing supply of precious natural capital. NBS will require concessional, creative capital and an appreciation of risks and avoided costs. Traditional private equity needs a better understanding of appropriate risk-return profiles for nature (and agriculture) – it’s not tech! Eventually, these markets will evolve to resemble infrastructure plays in which real asset-backed investments offer stable offtake contracts within an asset class (nature) that is of the utmost importance to supply chains, economic prosperity, planetary health, and food security.

Please direct any comments or questions to:

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This commentary is not intended to serve as a natural capital investment guide, educational resource, or technical review; it’s simply my perspective on what has become one of the hottest topics in the impact space. I’ve had the good fortune to rub shoulders with some of the world’s smartest advocates of nature, folks who have been working hard to demonstrate its value for far longer than it’s been a sustainable finance buzzword. Many thanks to my natural capital crew for your dedication and insights.

⁶ “Assessing the materiality of nature-related financial risks for the UK”, Green Finance Institute

⁷ “Nature has value. Could we literally invest in it?”, The New York Times