

How investing in nature can benefit portfolios

Natural capital assets, including farmland and timberland, can offer investors significant portfolio benefits, while also addressing global challenges of biodiversity loss and climate change.

By Nicholas Moss



In recent years, natural capital has undergone a significant evolution, driven by the convergence of critical trends. These provide opportunities for investors to contribute to positive impacts on nature while benefitting from diversified investment strategies and maturing environmental markets.

A bottom-up challenge

Natural capital assets provide critical ecosystem services which drive the global economy, providing the fundamental capital base that businesses and whole economies need to produce goods and services. PwC estimates \$ 58 trillion of global GDP is moderately or highly dependent on nature.

However, the earth's stock of natural capital and the benefits they provide are declining. Globally, we have seen a loss of species, habitats and ecosystems, with a commensurate decline of ecosystem services, such as the ability to maintain, absorb and regulate carbon in the atmosphere.

The magnitude of this challenge means investing in the improvement, protection and restoration of natural capital is crucial. Doing so, can provide a strong foundation that supports our environmental, social and economic needs – as well as provide opportunities for investors.

Nature loss is increasingly seen as a critical issue. In our latest EQuilibrium survey of 800 institutional investors globally, 45% of respondents agreed the risk of nature loss will become a leading economic risk within the next 10 years. In the Benelux region, this number was even higher at 65% of respondents.

Despite this growing recognition, only 30% of respondents globally said they intend to focus on nature-related risks in their portfolios. This difference suggests that many investors are still understanding the investible solutions and how nature-related investments can deliver financial and sustainability goals.

Investor interest turns to nature

Natural capital is increasingly of interest to investors and their portfolios. This has traditionally included investments in timberland and farmland. Investors have come to appreciate and value the range of benefits natural capital can bring to portfolios. This includes traditional financial portfolio-level benefits – diversification, attractive returns with a stable cash yield, and a hedge against inflation, as well as the sustainability benefits.

Natural capital is also increasingly recognised for its importance in being able to provide solutions to address climate change and biodiversity loss. These challenges can be addressed through the restoration, conservation and improved management of natural capital assets.

These sets of investment activities are often referred to as Nature-based Solutions (NbS). Investing in these

solutions can allow for value recognition beyond just timber and crops, providing the potential to produce quantifiable ecosystem services – for example, carbon sequestration, soil health, ecosystem restoration, and water quality.

This combination of attributes is leading to growing investor interest in the asset class. This interest has also been driven by a number of other key trends.

Long-term trends driving investment in nature and natural capital

These financial and environmental benefits have been supported by growing global recognition of the importance of nature. The 2022 Global Biodiversity Framework established a global target for nature restoration and funding. This has been complemented by increasing levels of government action via a range of policies, subsidies and financial incentives.

Environmental markets have also grown in prominence, particularly as a tool to mobilise investment into addressing climate change and biodiversity loss. For example, carbon credits can be generated through changes in land management, reducing greenhouse gas emissions or sequester CO₂ from the atmosphere. To quantify these benefits, there are established markets, standards and mechanisms for monitoring, reporting and independent verification.

In 2024, market size totalled about \$ 1.4 billion. By 2030, it could reach up to \$ 35 billion as corporates move closer to their voluntary climate targets. And by 2050, the market could grow to \$ 250 billion. In addition, a range of other national and local environmental markets exist. Beyond carbon markets, there has also been the growth and maturity of other environmental markets for ecosystem services, including the mitigation bank credit market in the US and the more recent biodiversity net gain market in the UK.

As economies and supply chains aim to decarbonise, there is increasing demand from companies and consumers for more environmentally friendly fibre and timber products. Companies are working with supply chains to tailor programs that incentivise changes in land management practices. Across geographies, growing markets and policy frameworks support pricing for these products, incentivising emissions reductions from land management practices and

throughout supply chains.

Benefits of investing in nature

Along with the core portfolio-level benefits, we believe investments in natural capital and NbS approaches can offer a range of other potential benefits for investors.

These assets can offer positive contributions to nature and climate, opportunities for additive and diversified sources of uncorrelated returns through exposure to environmental markets, and asset-level diversification opportunities through investments in new projects or operational strategies. In addition to the financial benefits outlined, there is the potential to contribute to realising net-zero and nature-positive portfolios.

Other potential benefits which can be realised at asset level could include access to new markets, payments for practices through price premiums or subsidies, reduced operating costs from improved efficiency, or more jobs and sustainable employment opportunities.

Delivering these benefits

We believe the future is bright for investments in nature capital and NbS. We have seen growing investor interest driven by increasing government and corporate action, maturing markets and scalable investment opportunities.

However, while there is growing interest from investors in these strategies, they do come with complexities and risks.

It is important to focus on

strategies that aim to balance returns from production, including crops, timber and land, while providing opportunities for exposure to revenue streams from existing and emerging environmental markets, and delivering nature and climate benefits.

Targeting mature and relatively stable markets remains crucial, both for production and for mature environmental markets. For example, the US has a large and mature farmland and timberland, complemented by local and regional environmental markets including for restoration and carbon.

Other key factors to consider include ensuring portfolio diversification, flexible operating strategies, strong monitoring, and evaluation frameworks.

To approach these investments with confidence, and deliver the required impacts, investors may find it beneficial to partner with an asset manager with a proven track record in natural capital investments, and the capabilities to help investors navigate these markets on a global scale. This should also be supported by having in-depth local market knowledge and teams on the ground to be able to manage and oversee assets. ■

Responsible investing incorporates Environmental Social Governance (ESG) factors that may affect exposure to issuers, sectors, industries, limiting the type and number of investment opportunities available, which could result in excluding investments that perform well. Investing involves risk, including the loss of principal and there is no assurance that an investment will provide positive performance over any period of time. Past performance does not guarantee future results. Nuveen, LLC provides investment solutions through its investment specialists. 4371711



Nicholas Moss

Head of Nature Based Solutions,
Nuveen

SUMMARY

Natural capital assets such as farmland and timberland offer portfolio diversification, inflation hedging, and stable returns.

They can address major challenges like biodiversity loss and climate change through nature-based solutions.

Environmental markets can provide new revenue streams.

Long-term trends, such as rising demand for sustainable goods and supportive policies, drive growth.

Strategic investments can yield both financial and ecological benefits.