All-member event blog

Nature as an investible asset class – opportunities and risks

Natural capital is rapidly emerging as a vital asset class, offering long-term value while enhancing environmental resilience.

At our recent Pensions for Purpose event, experts from *Nature Broking, Rebalance Earth* and *West Yorkshire Pension Fund* explored the investment case for nature, covering risk, opportunity and innovation

By Constance Johnson

As the financial sector evolves, natural capital is emerging as a central asset class, offering long-term value and sustainability benefits. Institutional investors, including pension schemes, are increasingly exploring opportunities such as forestry, regenerative agriculture, biodiversity credits and nature-based infrastructure to align financial returns with environmental resilience. At this recent all-member event, the discussion highlighted natural capital's growing importance for sustainable growth and climate resilience. Speakers explored the opportunities and barriers to investing in nature, emphasising the need for innovative financial models and supportive frameworks to unlock capital flows into this vital and undervalued area of the global economy.

Richard Giles, Senior Director & Community Lead *Pensions for Purpose*, invited **David Brown**, Senior Director & Training Lead, *Pensions for Purpose, Nature Broking, Rebalance Earth and West Yorkshire Pension Fund* to discuss the investment case for nature, addressing critical themes such as natural capital as a financial asset, biodiversity and climate resilience, and innovations in nature-based finance.

Risk and return assessment of natural capital investments

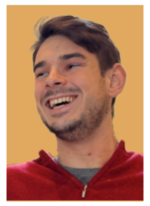
Darran Ward, Head of Alternatives, *West Yorkshire Pension Fund*, discussed the complexities of assessing risk and return in natural capital investments compared to traditional assets. He noted that while conventional assets have established cash flows and models, investing in natural capital comes with higher uncertainty. However, this uncertainty can be an opportunity for higher returns, particularly as natural capital is undervalued and offers resilience against systemic risks such as climate change.

Investing in nature – misconceptions

Eoin Murray, Chief Investment Officer, *Rebalance Earth*, highlighted several misunderstandings about natural capital investments, including that they are high-risk with low returns, and lack scalability. He emphasised the importance of developing a robust framework for measuring and monetising nature, which would help address this fallacy and enhance investor confidence. He pointed out initiatives like the *Taskforce on Nature-related Financial Disclosures (TNFD)* are crucial for setting standards and creating transparency in this emerging asset class.

Future-proofing carbon goals

With global net-zero goals requiring six billion tonnes of carbon removal annually by 2050, demand far outstrips supply, up to tenfold. This mismatch is driving forward-looking firms to secure future carbon credits now, diversifying across project types and geographies to reduce risk. While insurance for non-delivery remains costly, diversification also helps lower that burden. The growing demand presents a clear investment opportunity, particularly in funding high-integrity carbon removal projects.



Luke Baldwin, Co-founder & CEO, *Nature Broking*, explained how businesses are increasingly focused on the demand side of the carbon credit market, driven by three important motivations: corporate climate commitments, net-zero targets and price-risk mitigation.

The *TNFD*

David Brown, Senior Director & Training Lead, *Pensions for Purpose* explained how despite its structural similarities to the widely adopted *Task Force on Climate-related Financial Disclosures (TCFD)*, uptake of the *TNFD* framework among pension schemes remains limited. However, momentum is building, with over 500 organisations committing to *TNFD*-aligned reporting. For pension funds, a phased approach is encouraged, focusing on high-risk sectors like agriculture and construction. Positively, many asset owners are developing joint climate and nature policies, recognising biodiversity's vital role in achieving net zero. Tools like LEAP and ENCORE are supporting sectoral analysis, while the *TNFD*'s emphasis on double materiality offers a deeper understanding of nature-related risks and dependencies.

David highlighted the growing recognition of the importance of biodiversity and nature in fulfilling fiduciary duties for pension scheme trustees. There is a shift towards integrating nature-related objectives into investment strategies, but a knowledge gap remains among trustees regarding the complexities of natural capital. The conversation highlighted the need for education and training to help trustees understand nature as a financial risk and investment opportunity.

FURTHER READING

For deeper insight, refer to: **Institute and Faculty of Actuaries, 2025,** *Planetary Solvency – finding our balance with nature*, viewed 1 May 2025, <https://actuaries.org.uk/planetary-solvency>.

Best read alongside: **Institute and Faculty of Actuaries, 2024,** *Climate Scorpion – the sting is in the tail*, viewed 1 May 2025, <https://ow.ly/zVtp50VLb7u>.

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Questions and answers

Q&A How is flood alleviation translated into a financial return, what is the money used for and where does the return come from?

An example was shared from the Marsh Mills, Plymouth, the project involves implementing nature-based interventions, such as rewetting Dartmoor peat bogs, restoring wetlands and adopting regenerative farming; aiming to slow water flow and reduce flood risk downstream. The financial return comes from firms with valuable assets at risk of flooding, who would benefit from reduced flood impacts.

Post-event – *your questions answered*

Q&A *TNFD* versus *TCFD*: should they be treated equally?

While nature investment can support carbon mitigation, the reverse isn't always true. *TNFD* focuses on a company's nature-related risks, opportunities, impacts and dependencies – especially in supply chains – rather than just carbon. Though *TNFD* is not yet required alongside *TCFD*, many believe it should be mandatory for firms with nature exposure, which may be as high as 100% of businesses. Nature investing isn't limited to carbon; it also includes biodiversity net gain (BNG) and other ecosystem services such as flood and wildfire mitigation.

Q Are there any plans for the launch of a unified *TCFD* and *TNFD* reporting framework soon?

A There's growing concern over the reporting burden *TNFD* adds on top of *TCFD*. While no single global framework exists yet, Europe's *Sustainability Reporting Standards (ESRS)* do require disclosure aligned with both. *IFRS* sustainability disclosures may follow suit in future. Hopes for integration across the climate, biodiversity and desertification COPs remain unrealised. However, technology solutions are emerging that promise to streamline and ease the reporting process.

Q&A Why does *TNFD not* recommend specific metrics?

TNFD deliberately avoids endorsing a specific metric, aiming to remain flexible and inclusive. This stems partly from the lack of consensus among ecologists. Efforts like the *Nature Positive Initiative* and *SEED Biocomplexity* are working to develop simpler, more universal measures. While annual updates and data reliability remain hurdles, these innovations are promising steps forward.

Q&A Is the voluntary nature of *TNFD* holding back widespread adoption?

Despite its complexity and voluntary status, *TNFD* is increasingly seen as vital. Firms are beginning to recognise the importance of understanding their nature-related exposures, especially in global supply chains. Technological tools are expected to lower the threshold for widespread adoption.

Q&A What is driving innovation in nature-based finance?

This is a rapidly evolving area, with significant innovation happening globally. Due to its scale and nuance, it's best explored in dedicated discussions. Stakeholders are encouraged to engage in ongoing dialogues and partnerships to keep pace.

Q&A How can companies assess ecosystem risks and dependencies?

Understanding how ecosystem services impact production is critical. Tools like ENCORE and IBAT, along with *TNFD*'s LEAP approach, are increasingly used to map and manage these dependencies. They help corporates and investors navigate the complexity of nature risks and build informed strategies.

Q&A How can investors manage trade-offs in nature-based investments?

Balancing financial returns with nature protection is a central challenge, although early evidence from pension funds demonstrates this can be overcome. One effective approach is the '4 returns framework' – assessing environmental, social, financial and inspirational returns. On exit, conservation covenants and long-term maintenance funds can help ensure lasting positive impact.

Audience feedback

Group 1: *integrating natural assets into diversified, risk-adjusted portfolios through strategy, governance and allocation.*

moderated by Toby Rockingham, Director, UK Institutional, *Aberdeen Investments*

- Scalability and systemic barriers were discussed, including the need for accounting standard reforms so natural capital can be recognised as an asset and commitments treated as obligations, improving confidence in markets like carbon.
- Initial investments are often in commercial forestry, but the ambition is to broaden exposure to other nature-based assets like peatland restoration and afforestation for greater local ecosystem benefits.

Group 2: *engaging with biodiversity markets, understanding measurement tools & aligning investments with ecological outcomes?*

moderated by Anna Roberts, Director – Consultant Relations, *Federated Hermes Limited*

- The discussion highlighted a shift from nature-focused investments primarily for marketing now to integrating them into fiduciary duty, with investors exploring the full range of nature-based solutions, including carbon credits.
- Investing in nature isn't an 'either-or' scenario. Both global and UK opportunities are relevant, with diversification being key. The UK's net-zero target adds local strategic importance.
- The group also considered how investment choices depend on desired outcomes, whether the priority is environmental impact or the speed of income generation. Eg, local projects deliver long-term growth and ecosystem benefits while eucalyptus farms abroad may offer faster returns. This highlights the evolving complexity of natural capital.

Group 3: *championing, evaluating and understanding nature investments*

moderated by Harry Gladstone, Client Director, *Stewart Investors*

- The group highlighted barriers to natural capital: gaps in knowledge, perceived risks, limited track record and challenges integrating projects into existing governance, but, the risks were manageable with consideration.
- There was agreement nature investments align with fiduciary duty; financial and nature-based goals don't conflict.
- Training and awareness were flagged as crucial, eg, a Scottish seaweed projects showed how unfamiliar solutions can offer viable investments opportunities, suggesting the need for clearer, more direct engagement between project providers and investors.

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Watch the video of the event

Constance Johnson is an Intern at Pensions for Purpose.