New growth for LGPS – the case for forestry beyond the UK

By Charlie Sichel, Managing Partner, FLS ® Forestry Linked Securities

The forest has always occupied a special place in our imaginations, serving as the backdrop for many of our most enduring myths. But today, forests are gaining attention for a different and entirely nonfictional reason: their growing role in serious institutional investment strategies.

One sector in which this interest is ramping up is the UK's pension fund and local government pension scheme (LGPS) sector. With LGPS pools expected to manage £500 billion by 2030, the search is on for scalable, impactful, and resilient investment opportunities. A 2024 survey by Room 151 and Schroders revealed that 20% of LGPS investors are already active in natural capital, with another 45% planning to enter this space.

Forestry – not just domestic, but international – is emerging as a particularly attractive route. It offers not only the potential for strong, long-term financial returns, but also a tangible and verifiable way to address climate change. Leading schemes like the Avon Pension Fund are already moving decisively in this direction, planning allocations of £100 million to £150 million to natural capital projects in 2024/25. Sustainable forestry is cited as a key focus within this strategy.

But not all forestry investments are created equal. If the goal is to marry long-term financial returns with maximal carbon sequestration and impact, investors should focus on four critical factors: the quality of carbon measurement, the type of forestry project, and the geographic location, all underpinned by the right long-term commercial model.

Scientifically valid and verifiable carbon accounting

Trees remain one of the most effective natural tools we have against climate change. High-quality forestry projects can deliver measurable and verifiable carbon removal – a key pillar of net-zero strategies. However, the voluntary carbon markets have faced heavy criticism, with repeated concerns about the validity and credibility of the carbon claims made.

For this reason, LGPS funds and institutional investors more broadly should treat compliance with carbon standards (such as Verra or Gold Standard) not as an end goal, but as a minimum standard. From there, fund managers are advised to go deeper; engage directly with project leadership, scrutinise the project's initial carbon benchmarking, assess the robustness of ongoing measurement practices, and verify the bona fides of scientific staff or technical partners involved in carbon modelling and reporting.

Afforestation vs reforestation vs conservation

Conventional wisdom implies that older (brownfield) established timberlands are safer investments and that these contribute best to conservation and biodiversity. But for investors aiming to maximise carbon sequestration and drive measurable biodiversity gains, afforestation or reforestation on degraded or underutilised land may offer greater upside.

Afforestation projects, particularly those that convert low-value land, such as former pasture or degraded farmland, into thriving forest ecosystems, deliver multiple benefits. Crucially, the additional carbon impact of the project is both maximised and accelerated, as young trees sequester carbon at a faster rate during the growth stage, before slowing significantly at maturity. Mature forests, while essential for preserving existing carbon sinks and biodiversity, offer limited upside for additional carbon removal.

Other environmental benefits also accrue, such as restoring soil health, improving water cycles, and creating new habitats. And crucially for institutional investors, additionality (the degree to which the carbon benefit would not have occurred without the project) is more straightforward to demonstrate in afforestation initiatives.

Global opportunities mean greater impact

The LGPS sector, once a fragmented collection of 86 administering authorities, is consolidating into eight asset pools. The goal is to lower costs, improve governance, and unlock access to larger-scale private market investment opportunities. While the UK government has encouraged domestic investment, the new scale of these pools also opens the door to further global allocations in real assets, including natural capital.

Critically, LGPS investors remain driven by financial performance. In fact, the Schroders and Room 151 study found that just 5% of LGPS investors are willing to accept lower returns for local impact investments, signalling the extent to which financial returns remain a key consideration, which may only be achievable in non-domestic markets.

From a biological and ecological standpoint, tropical forests – primarily in Latin America (LatAm), Africa, and Southeast Asia – vastly outperform their temperate counterparts in terms of carbon sequestration potential. With year-round growing seasons, scalable access to land, richer biodiversity potential, and trees that can grow up to 10 times faster than many OECD countries, regions like Latin America are emerging as the powerhouses of global carbon removal.

That is why Latin American countries are attracting growing interest, as evidenced when pensions giant NEST included Chile and other LatAm countries as among the target regions for its new forestry portfolio. Stable governance, dollarised economies, and efficient transport networks make these regions increasingly investable. For long-term asset owners, the implications are clear: faster-growing trees mean faster carbon absorption and higher timber yields, leading to both greater climate impact and stronger financial returns.

For any investor serious about climate, Latin America is a key geography to consider for its portfolio.

A pragmatic commercial model

For any investor, it's important to understand the extent to which the strategy is reliant on returns from carbon credits versus traditional sources of return via timberland sales and increases in land value. Equally important is understanding any assumptions managers are making about the future price trajectory of carbon credits.

A model that relies solely on credit generation exposes investors to both market and political risk. Instead, managers should favour blended approaches, such as "mosaic forestry" which integrates commercial timber plantation with dedicated conservation areas. In this model, fast-growing species provide a reliable revenue stream, helping to subsidise and sustain the conservation zones. The ecological benefits of biodiversity and soil restoration are preserved, while the project remains financially viable.

While greenfield forestry projects require upfront capital and tend to follow a J-curve cash flow pattern, mosaic projects should offer robust long-term returns, aligning naturally with the investment timelines of pension schemes, while achieving a long-term viable balance between environmental integrity and commercial resilience. When well-designed, these projects can deliver measurable climate impact and strong, risk-adjusted returns.

A new chapter for LGPS and forestry

The pension schemes landscape is evolving fast. As LGPS funds consolidate into larger pools, their ability to allocate capital to illiquid assets like forestry will grow. While UK-based infrastructure and natural capital will remain important, international forestry – especially regions like Latin America – offers a powerful complement. For pensions investors seeking to fulfil both fiduciary duties and sustainability mandates, global forestry may be the most fertile ground of all. There is nothing mythical about the long-term returns or environmental impact they can deliver.