Climate Asset® Management

A partnership of HSBC | POLLINATION

association française des investisseurs institutionnels

Natural Capital: A Strategic Opportunity for French Institutional Investors

Introduction

Institutional investors in France face a dual challenge: delivering resilient returns while meeting increasingly stringent sustainability requirements. In France, regulations such as Article 173, SFDR, and AMF guidelines are reshaping allocation policies, making nature-based solutions a practical route to compliance. Against this backdrop, Natural Capital—the stock of renewable and non-renewable resources such as forests, soils, water, and biodiversity—has emerged as a compelling investment theme. This article explores why real-asset-based natural capital strategies offer a unique combination of risk-adjusted returns, measurable impact, and regulatory alignment, making them highly relevant for French institutional investors today.

What is Natural Capital?

Natural Capital refers to ecosystems and resources that underpin economic activity and societal well-being. Investing in natural capital means financing projects that restore, conserve, or sustainably manage these resources—such as regenerative agriculture, sustainable forestry, and biodiversity restoration. These strategies not only generate financial returns but also deliver ecosystem services, carbon sequestration, and climate resilience.

Why Natural Capital now?

It is estimated that agriculture, forestry and other land use changes (AFOLU) are responsible for up to 21% of global GHG emissions[1]. Agriculture, in particular, is a significant contributor to anthropogenic global warming and reducing agricultural emissions will a play significant role in climate change mitigation.

Investing in natural capital solutions and AFOLU measures remains key to retaining the potential for alignment with the target of limiting warming to 1.5°C above pre-industrial levels. Additionally, nature-based

[1] Chapter 7: Agriculture, Forestry, and Other Land Uses (AFOLU)

solutions are uniquely positioned to deliver climate change mitigation as well as cobenefits which can help overcome wider challenges, such as biodiversity loss.

Natural capital is fundamental to global economic output and directly represents approximately 4.5% of global GDP, yet the sector remains severely underinvested with allocations to natural capital strategies estimated to account for just 0.3% of total AUM globally[2].

As policy-makers worldwide implement stricter environmental regulations to address issues such as climate change and biodiversity loss, we see a growing number of investment opportunities in the space. Accelerating commitments toward net zero emissions from governments and organisations represent structural tailwinds which are increasingly driving investment into nature-based solutions, particularly in compliance markets.

Similarly, the emergence of new markets and payments for ecosystems service (PES), such as biodiversity and peatland restoration, is providing additional revenue streams for investors.

Natural capital offers investors the opportunity not only to generate long-term value from the finite and essential resources that support life on our planet, but also to manage them in a way that ensures the prosperity of those assets for future generations.

Why Investing in Natural Capital?

Investor's demand for natural capital solutions is being driven by solid market fundamentals and climate impact potential. A recent report published by financial consultancy bfinance in 2024[3] on natural capital investing, noted a shift in investor appetite for real assets, whereby natural capital manager searches on behalf of bfinance clients surpassed real estate manager searches for the first time. In France, insurers and pension funds are actively reallocating towards real assets with strong ESG credentials, supported by Af2i surveys indicating rising interest in biodiversity-linked strategies.

While natural capital can be accessed indirectly through listed equities, thematic funds or private equity investments, real-asset-based strategies—such as direct investments in forestry and regenerative agriculture—offer distinct advantages. It has evolved from the more typical investments, which historically focus on income and capital appreciation, to a more balanced approach to achieving positive economic and environmental outcomes, also including more nascent opportunities such as additional income derived from the provision of carbon credits, biodiversity credits, conservation easements and other ecosystem services.

Investors that are new to natural capital investing, without a dedicated natural capital allocation, often cite the similarities of natural capital strategies to those of infrastructure and real estate. As well as

[2] IPE-Natural-Capital-Report-2025.pdf

[3] Natural Capital Investing | bfinance

sharing the attributes of a real asset, natural capital assets are characterised by long duration, stable and predictable cashflows while delivering potentially attractive risk-adjusted returns that are uncorrelated with the broader economic cycle[4].

From a portfolio perspective, natural capital strategies also demonstrate inflation hedging capabilities while delivering superior environmental upside when compared to more conventional real asset strategies. From a reporting perspective, especially natural capital real-asset-based strategies, deliver measurable and tangible impact by directly contributing to biodiversity, soil health, carbon sequestration and social value creation, supported by robust monitoring frameworks. For French institutional investors, robust impact reporting is not optional: TNFD-aligned disclosures and biodiversity metrics are increasingly required to satisfy AMF and SFDR obligations.

Conclusion

Natural capital is no longer a niche ESG play—it is a strategic allocation that combines financial performance with measurable environmental impact. For French institutional investors navigating regulatory pressures and market uncertainty, real-asset-based natural capital strategies offer a compelling solution: competitive returns, portfolio diversification, and alignment with France's sustainability agenda. This alignment is critical for meeting Article 173 and SFDR requirements, positioning natural capital strategies as a compliance-friendly solution with strong return potential. As regulatory and market dynamics converge, now is the time for French long-term asset owners to integrate natural capital into their private market mainstream allocations, positioning portfolios for resilience, compliance, and long-term value creation.

Disclaimer

[4] Climate Asset Management