



Climate Asset[®]
Management

A partnership of



Is Natural Capital the New Infrastructure?

Some thoughts on Portfolio Allocation

AN UPDATED PERSPECTIVE FROM CLIMATE ASSET MANAGEMENT – JULY 2026

Climate Asset Management was established in 2020 as a joint venture between HSBC Global Asset Management and Pollination founded with the ambition to become one of the world's leading Natural Capital asset managers. Its mission is to develop investment solutions that support the transition to a more nature-positive, and climate-resilient future, generating financial returns while delivering measurable benefits for nature, people, and the planet.

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Introduction

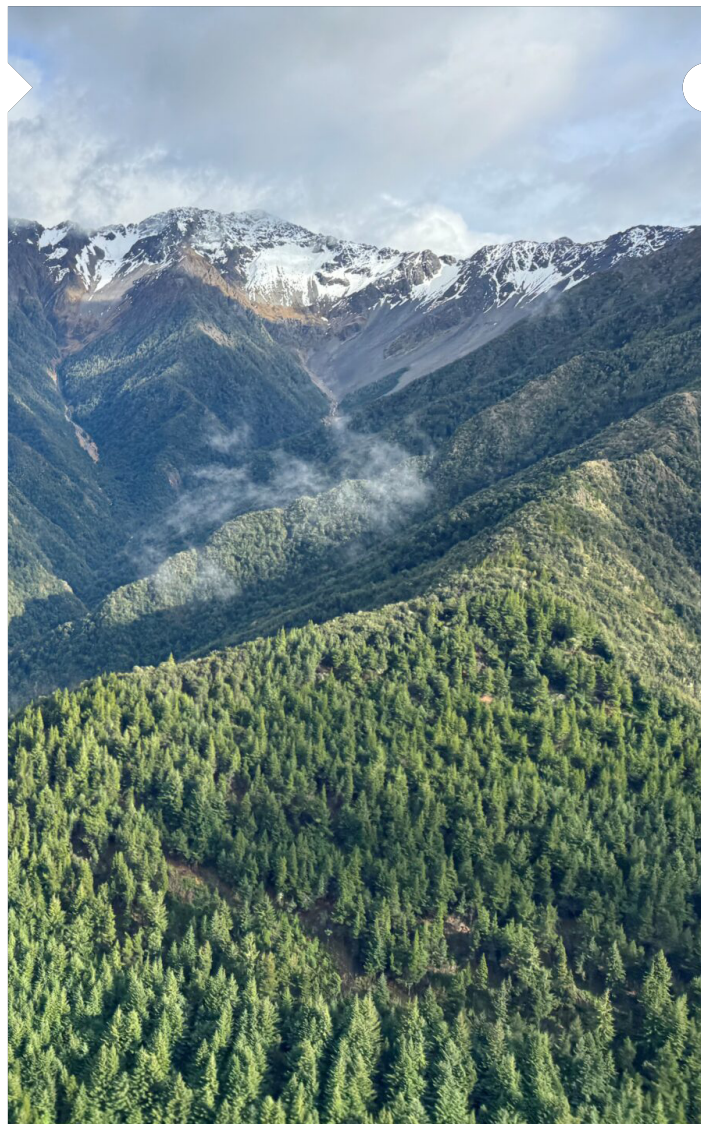
There is an increasing recognition that Natural Capital – exposure to regenerative agriculture, sustainable forestry and ecosystem services – is beneficial to investment portfolios for many reasons.

Whether Natural Capital should sit within its own allocation or as a sleeve of a larger allocation into infrastructure or real estate, remains a nuanced question that touches on the overall architecture of institutional investment platforms. At its core, Natural Capital is finite real estate that plays a critical, infrastructure-like role in delivering essential services and commodities to support healthy communities, economic prosperity and planetary wellbeing. On this basis, Natural Capital could well fit into a sleeve of a diversified allocation into infrastructure or real estate or alternatively stand alone as its own separate allocation within a well-diversified institutional investment portfolio.

What is clear is that Natural Capital remains significantly underinvested across institutional portfolios. There is a material mismatch between its contribution to global GDP – estimated at 4 to 5 per cent (World Bank, 2026¹) – and its share of institutional capital allocations, which sits at less than 0.2 per cent (Preqin, 2025²)(State Street, 2026³). Even more striking is the fact that more than half of global GDP is estimated to be moderately or highly dependent on nature and the ecosystem services it provides (WEF, 2020⁴). The sector offers distinctive characteristics which are capable of contributing to institutional investors objectives including diversification and environmental outcomes.

Recent institutional research suggests that the asset class is moving closer to the mainstream: Mallowstreet's 2026 survey of 68 UK institutional asset owners representing over £3 trillion found that two in five non-investors expect to make their first Natural Capital allocation within five years, while many existing investors expect to scale allocations further (Mallowstreet, 2026⁵). Yet dedicated allocations remain early-stage and uneven, reinforcing the need for clearer evidence of risk-adjusted returns, investable scale and measurable outcomes.

Climate Asset Management provides investors with access to Natural Capital through its Natural Capital Strategy, which invests in a diversified portfolio of Natural Capital assets and seeks to deliver measurable environmental and social outcomes alongside financial objectives.



¹ World Bank (2026) Agriculture, Forestry and Fishing Value Add. Available at <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS>

² Preqin (2025) - Alternative Assets Data and Intelligence - Databases, Publications and Research. Available at <https://pro.preqin.com/analysis/dryPowderAUM>

³ State Street (2026) Global Market Portfolio. Available at <https://www.ssga.com/us/en/institutional/insights/global-market-portfolio>

⁴ World Economic Forum (2020) Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy. Available at https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

⁵ Mallowstreet (2026) Natural Capital Report 2026. Available at <https://mallowstreet.com/Research/Report/NaturalCapitalReport2026>

What is Natural Capital?

Natural Capital is the stock of natural assets—air, land, water, soils, biodiversity, and ecosystem functions—that underpin economic activity and human well-being. Like traditional infrastructure, Natural Capital provides critical services that societies and economies depend upon, including climate regulation, water management, soil

fertility, biodiversity support, and carbon storage. As the world's foundational infrastructure, these natural systems generate long-term environmental, social, and economic value while enhancing resilience to climate and nature-related risks.

The investable universe can be grouped into **four broad pillars**:

Regenerative Agriculture



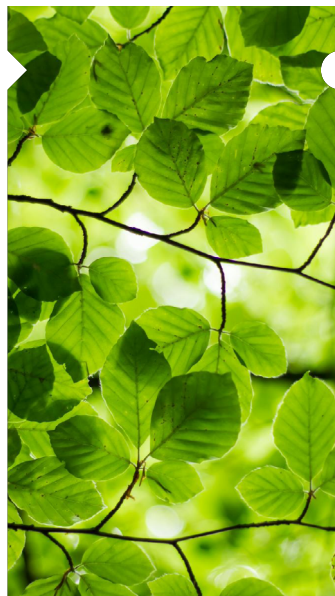
Regeneratively managed farmland for crop and livestock production, incorporating ecosystem services into food production.

Sustainable Forestry



Sustainable, climate-smart timberland, including the repositioning of traditionally managed forests and the development of new forests for commercial timber, carbon and other ecosystem services.

Environmental Assets



Other environmental assets (land- and water-based), including their associated products and ecosystem services. This includes landscapes for restoration, rewilding, or development for carbon sequestration, biodiversity enhancement, and improvements in water quantity and quality (e.g. peatlands and wetlands).

Oceans and Aquaculture



Oceans and aquaculture, including the legal rights, biological stocks, equipment and infrastructure required for harvesting or cultivating aquatic species, alongside the ecosystem services they provide.

Climate Asset Management considers pillars (1) and (2) to form the most suitable foundation for institutional portfolios from a risk-return perspective.

Why Natural Capital Now?

Agriculture, forestry and other land use changes (AFOLU) are estimated to be responsible for around 21 per cent of global greenhouse gas emissions (IPCC, 2022⁶). Agriculture in particular is a significant contributor to anthropogenic global warming, and reducing agricultural emissions will play a meaningful 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. Nature-based solutions are uniquely positioned to deliver climate change mitigation alongside co-benefits which help to address wider challenges such as biodiversity loss, soil degradation and water scarcity.

Despite contributing significantly to global GDP, Natural Capital remains severely under-invested. The structural drivers behind closing that gap are now well established. As policy-makers worldwide implement stricter environmental regulations, accelerating commitments toward net-zero emissions from governments and corporations are increasingly driving investment into nature-based solutions – particularly through compliance markets. The emergence of new markets and payments for ecosystem services (PES), including biodiversity credits and peatland restoration, is providing additional revenue streams for investors.

The scale of the financing gap remains significant. The United Nations Environment Programme (UNEP) estimates that in 2023 only US\$220 billion was directed towards nature-based solutions from private and public sources, while US\$7.3 trillion flowed into nature-negative activities; investment in nature-based solutions would need to rise to US\$571 billion per year by 2030 to meet global biodiversity, climate and land restoration targets (UNEP, 2026⁷). This imbalance highlights both the urgency of redirecting capital and the scale of the potential opportunity for institutional investors.

Private investment is beginning to respond. The Nature Conservancy and Forest Trends estimate that more than US \$60 billion was deployed into nature-oriented activities between 2016 and 2025, with annual private investment flows increasing fivefold from US\$2.8 billion in 2016 to more than US\$14 billion in 2025. The same

research identifies more than US\$180 billion of private capital targeted for future nature investment (The Nature Conservancy and Forest Trends, 2026⁸).

Mallowstreet's 2026 research points to a similar direction of travel among UK institutional asset owners: two in five non-investors plan to make their first Natural Capital allocations within five years, while many existing investors are preparing to scale up. The research also indicates that investor expectations are shifting from labels to substance, with 68% of respondents saying well-defined project-level KPIs matter most when assessing Natural Capital strategies.

However, investor confidence is still developing. The Mallowstreet evidence base suggests that experience is an important driver of conviction: investors that have already made allocations are more likely to support the long-term economic case and to consider larger allocations over time (Mallowstreet, 2026⁹). These findings suggest the next phase of market growth will depend on clearer economic narratives, investable scale and stronger evidence of outcomes.

Natural Capital therefore 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 those resources in a way that ensures their prosperity for future generations.



⁶ Intergovernmental Panel on Climate Change (IPCC) (2022) Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. Available at <https://www.ipcc.ch/report/ar6/wg3/chapter/chapter-7/>

⁷ UNEP (2026) State of Finance for Nature 2026: Nature in the Red – Powering the Trillion Dollar Nature Transition Economy. Available at <https://www.unep.org/resources/state-finance-nature-2026>

⁸ The Nature Conservancy and Forest Trends (2026) Gaining Ground: State of Private Investment in Nature, 2026. Available at <https://www.nature.org/en-us/newsroom/gaining-ground-private-investment-nature-2026-report/>

⁹ Mallowstreet (2026) Natural Capital Report 2026. Available at <https://mallowstreet.com/Research/Report/NaturalCapitalReport2026>

Natural Capital as a Standalone Asset Class

Investors tend to group disparate parts of capital markets together, creating an asset class framework typically used for analysis and allocation purposes. Bundling investments with similar attributes leads to a form of assetisation that enables ease of allocation across groups of investable securities.

Further stratification of opportunities has produced the segmented asset classes investors have become used to – private equity, private credit, infrastructure, real estate and hedge funds being familiar examples within the ‘alternatives’ universe.

Figure 1

Natural Capital sits at the intersection of a number of alternatives buckets, often being viewed as ‘alternative real estate’ or ‘green infrastructure’ but with characteristics of other buckets



Natural Capital as a Standalone Asset Class

continued

Natural Capital investing is not a new phenomenon, but it has evolved materially. Where it once focused narrowly on income and capital appreciation from farmland and forestry, often from relatively passive strategies, it usually now seeks a more holistic approach which seeks positive economic and environmental outcomes side-by-side from a more active management strategy. It also incorporates more nascent opportunities such as those that derive income from carbon credits, biodiversity credits, conservation easements and other ecosystem services. Investor enthusiasm and demand are being driven by solid market fundamentals and climate impact potential. Mallowstreet's 2026 research shows that investors are increasingly focused on evidence, transparency and project-level KPIs, rather than regulatory labels alone.

Increasingly, investors are assessing Natural Capital as a standalone asset class, taking its place alongside more conventional alternatives at portfolio level. Investors that are new to the space, and do not yet have a dedicated allocation, often cite the similarities between Natural Capital, infrastructure and real estate. These assets share core real-asset characteristics, including long duration, stable cashflows, inflation linkage and potentially attractive risk-adjusted returns that are less correlated with broader financial-market cycles. Natural Capital can therefore be framed as a form of productive “green infrastructure”, while delivering stronger potential environmental outcomes than many traditional real-asset strategies.

The table below compares how Natural Capital compares with infrastructure and real estate across the portfolio benefits institutional investors most commonly assess:

Table 1

Comparison of Natural Capital with Infrastructure and Real Estate

Target Portfolio benefit	Natural Capital	Infrastructure	Real Estate
Cash yield	✓	✓	✓
Capital appreciation	✓	✓	✓
Inflation correlation	✓	✓	✓
Low demand elasticity	✓	✓	—
Downside protection	✓	✓	—
Nature & Climate Positive	✓	—	—



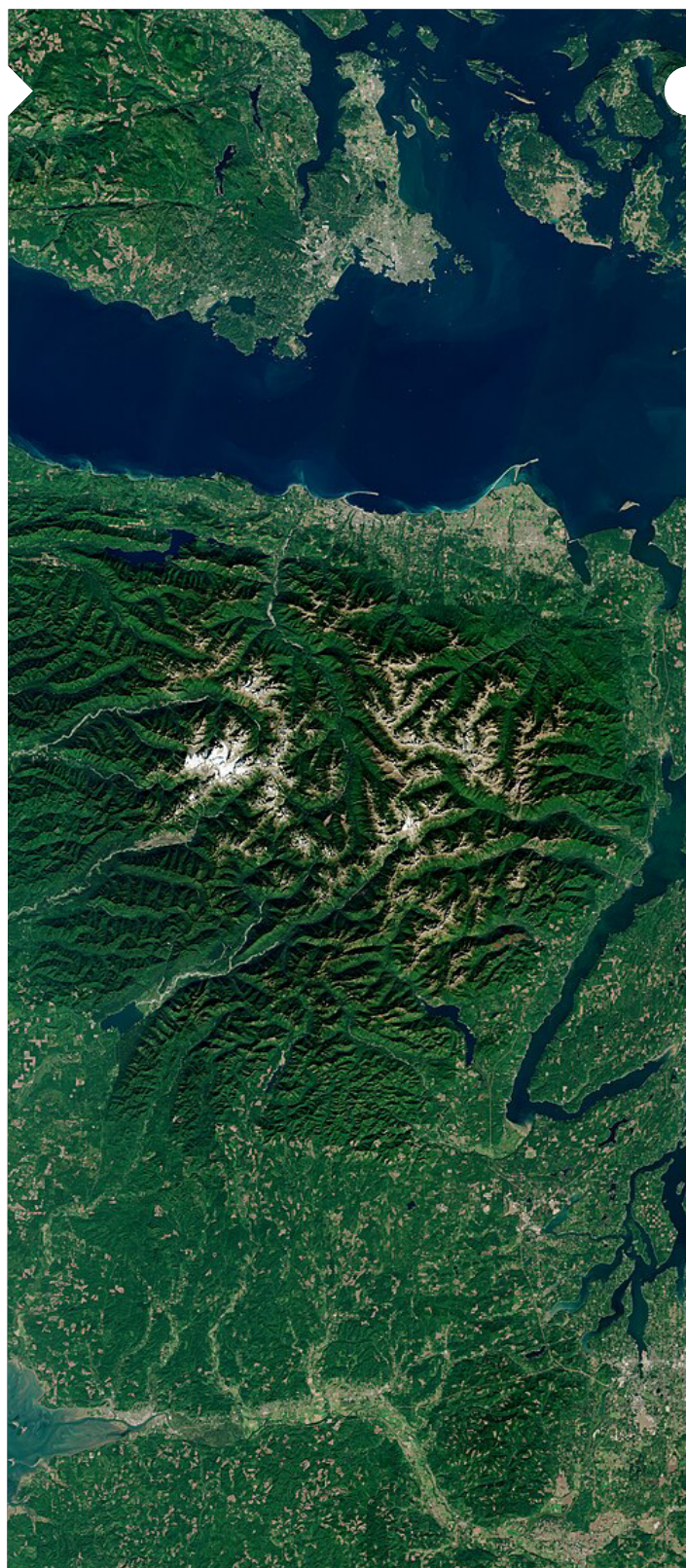
Unsurprisingly, infrastructure strategies seeking investments beyond conventional core and core-plus assets have begun to emerge in this space, as managers identify opportunities in long-term contracted ecosystem service offtakes with fixed price and volume components from corporate buyers seeking to fulfil net-zero commitments. The climate-focused energy transition sector has been the most obvious avenue to date, but Natural Capital is now a clear extension of that thinking. Investors are overcoming the allocation and portfolio-fit hurdle by viewing Natural Capital strategies through an infrastructure and, more broadly, a real assets lens – while also recognising the additional ESG upside and associated reporting benefits.

The allocation question itself remains an active debate. Many sovereign wealth funds and other institutional investors still struggle to determine where Natural Capital sits within their allocation pools, which inevitably limits investment capacity. Standalone allocations remain uncommon among investors, and those that do exist are typically bespoke, designed around a single product line rather than applied more broadly. For mature opportunities, investors typically draw on a mix of infrastructure and real estate buckets; for frontier opportunities, an impact allocation is often used. The default to an impact allocation is helpful in opening doors, but it can also act as a ceiling on the capital available for the asset class – which is why we believe a clearly defined Natural Capital allocation will become increasingly common over time.

It is becoming apparent that investors engaged in the space, either through direct conversations with GPs or via other intermediaries, are seeking innovative investment solutions to obtain diversified and scalable exposure to Natural Capital. This can be delivered through co-mingled funds, or for the largest managers through more tailored solutions such as separately managed accounts, which provide more bespoke exposure that delivers specific portfolio diversification. These vehicles tend to be specialised and often employ a regional focus, or have specific sub-asset class investment requirements.

The Role of Natural Capital in an Institutional Portfolio

Based on discussions with investment committees, Natural Capital can be framed across four interlocking roles within an institutional portfolio.



► **Return driver:** Natural Capital functions as a real asset class within alternatives, with returns driven by biological growth in crops and timber, productive land use, and land value appreciation. These drivers can deliver strong, stable returns through the cycle while preserving underlying asset value, a combination particularly relevant for investors with long-dated, pension-style liabilities.

► **Diversifier and risk mitigant:** Natural Capital assets have historically exhibited low correlation with public equities and fixed income, reflecting independent return drivers tied to weather, biology and land markets rather than financial cycles. As a result, these assets can support portfolio diversification, inflation sensitivity and downside resilience, although outcomes depend on the chosen allocation, time period and benchmark mix.

► **Strategic exposure to structural themes:** Natural Capital aims to provide direct exposure to long-term secular drivers: growing global population and protein demand making land, water and soil productivity more valuable; the climate transition, including carbon sequestration in forestry and soils, and bio-based materials replacing fossil-intensive alternatives; and the rapid emergence of environmental markets in carbon, biodiversity and water. Each creates new revenue streams that sit alongside, rather than replace, traditional agricultural and forestry economics.

► **Impact and risk-management tool:** Natural Capital is one of the few asset classes that naturally integrates financial returns with measurable environmental outcomes including climate mitigation through carbon sequestration, biodiversity restoration, soil and water improvement, and rural economic development. This positions Natural Capital well for ESG integration strategies, Article 9-style mandates and net-zero and nature-positive commitments. The asset class also provides a way to hedge nature-related risks within the wider portfolio by enabling direct ownership of the underlying natural assets on which global economic activity depends. As frameworks such as the TNFD continue to mature, the pricing of nature risk - and the cost of failing to price it - will become increasingly visible and material to portfolio construction.

**Past performance is no guarantee of future results*

Conclusion

Overall, Climate Asset Management shares the perspective that nature is now firmly on the agenda. Evolving reporting regulations, the maturation of payment-for-ecosystem-services markets, and the shifting investor awareness of how Natural Capital can benefit institutional portfolio outcomes are all reinforcing the same direction of travel. As economies rebound, regulatory frameworks deepen, and investors acknowledge the need for nature-

based solutions at scale, we continue to anticipate that Natural Capital will become a fundamental component of investors' portfolios.

Increasingly, investors are overcoming the allocation and portfolio-fit hurdle by viewing Natural Capital strategies through an infrastructure lens, but with recognition of the additional ESG upside and associated reporting benefits.



About the Author



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Carl Atkin-House is a Managing Director and Member of the Senior Leadership Team (SLT) at Climate Asset Management. As Strategy Lead for CAM's developed markets, real-assets Natural Capital Strategy, he has overall responsibility for strategy, pipeline, deal management and transaction execution for the Natural Capital Strategy which invests in a diversified portfolio of regenerative agriculture and sustainable forestry (and associated ecosystem services) across North America, Europe, Australia and New Zealand.

Prior to Climate Asset Management, Carl had over twenty years' experience investing in agriculture, agribusinesses, land and natural assets. He has worked globally with investors, operators, managers, technology providers and policy makers on a variety of assignments spanning land-based investment, active asset management and delivery of impact across a wide variety of assets. His experience covers upstream and downstream food and fibre value chains across multiple continents and production systems.

He has a first-class honours degree in agriculture, a postgraduate degree in business administration (MBA) and has attended the Agribusiness Executive Education Course at Harvard Business School. He is also a Chartered Environmentalist (CEnv).

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