WildSight

What Does Investing in Nature Actually Mean?

1. Investing in nature doesn't have to be confusing.

Investing in nature can sound abstract. Is nature an asset class? Should my company be buying and protecting a forest? How do carbon and biodiversity credits fit in all this?

But it doesn't have to be confusing. There are a set of tangible investment vehicles that fall under two categories: direct, and indirect investments.

Direct investments invest directly in natural capital. They are typically project-based and include things like financing nature restoration projects, investing in green infrastructure, or corporate supply chain initiatives like moving to 'zero deforestation' supply chains.

Indirect investments involve using financial instruments to influence broader systems and markets. This spans from purchasing nature-based carbon credits, investing in green bonds, or channelling investment into businesses that support nature-positive outcomes.

You can think of **direct investments like insetting**, focused within a company's value chain, while **indirect investments resemble offsetting**, addressing impacts outside your value chain. Both are critical, often working together to amplify results.

2. At its core, investing in nature is about integrating the value of nature to investment decisions.

Traditional investments often treat nature as an externality. This means that the costs of damaging or depleting natural resources - like deforestation, water pollution, or biodiversity loss - are not factored into financial models.

Investing in nature flips this way of thinking by acknowledging that our economy depends on the proper functioning of healthy ecosystems, and aligning investment strategies accordingly.

It starts with recognising opportunities. The growing demand for nature-positive products, for example, isn't just about doing the right thing—it's a smart way to secure long-term financial returns. Natural capital investments, like those in agriculture, provide tangible assets such as land and commodities that act as resilient stores of value. These assets offer steady income streams, such as low-risk leases or higher-reward commodity production, while also serving as portfolio diversifiers that hedge against market volatility and economic uncertainty.

But investing in nature goes beyond opportunities—it's about putting nature "on the balance sheet." Businesses rely on natural systems for resources like water, raw materials, and stable ecosystems. Without investment in protecting and restoring nature, these systems degrade, leading to supply chain disruptions, increased costs, and regulatory risks—all of which erode financial returns. For instance, unsustainable farming practices can lead to costly water filtration systems to address pesticide contamination—costs that could be avoided through regenerative agriculture investments.

Tools and frameworks like ENCORE, CSRD, and TNFD are designed to help businesses and investors quantify nature's value—its risks and opportunities—and integrate it into their decision-making. Ultimately, investing in nature isn't separate from financial goals; it's about securing sustainable, long-term returns while safeguarding the critical ecosystems that underpin our global economy.

3. The private sector is uniquely positioned to invest, but lags public finance.

The private sector is uniquely positioned to drive investment into nature. Why? Financial power, innovation capacity, and market responsiveness.

With **over $10 trillion** in private markets, it holds immense potential to scale investments in nature, far surpassing public and philanthropic contributions. Businesses can develop and deploy innovative technologies, create market-driven solutions to meet the growing demand for sustainable products, and mitigate nature-related risks that threaten operations and supply chains.

But, private investment in nature lags public finance today, which contributes $165 billion annually to safeguard the planet, according to 2023 UN Environment Program data. That figure represents over 80% of global investment in nature!

The largest share of this, $75.9 billion, is going towards protecting biodiversity and landscapes. Think about governments funding biodiversity projects within their borders, like the post-Covid-19 "Build Back Better" initiative that targeted conservation spending by the US Department of Agriculture, or the EU Biodiversity Strategy.

4. Institutional Investors are increasingly getting involved.

The good news is that private markets are increasingly exploring investments in nature.

Let's look at institutional investors as an example - a group that includes impact investors, private equity funds, banks, and insurers. While diverse, these organisations share core objectives: to grow their clients' assets while effectively managing risks to those investments.

It's no surprise, then, that institutional investors are starting to seriously consider nature. These organisations understand that nature's health and resilience form the foundation of the global economic system within which they exist. Up to 54% of institutional portfolios rely directly on nature's ecosystem services. Recognising this, two-thirds of global institutional investors are now planning to increase their investments in nature.

- Take **Private Equity Funds**. These funds back cutting-edge solutions at growth stage, like regenerative agriculture and nature tech startups. Think Tikehau Capital's Regenerative Agriculture Strategy, investing in private companies that enhance biodiversity, carbon, and water management. It's high-risk, high-reward—but that's how you scale transformative ideas.
- Then there's **Impact Investing**—where purpose meets profit. Funds like Federated Hermes Biodiversity Equity Strategy target publicly listed companies that don't just talk biodiversity, but take action to combat its loss and drive restoration. Investments are laser-focused on six critical themes: tackling land and marine pollution, addressing deforestation, promoting sustainable farming, mitigating climate change, and combating unsustainable living. Some **Venture Capital** funds are starting to incorporate impact, moving away from the sector's traditional approach that prioritises financial returns and growth to scale early-stage start-ups. But there's room for improvement - in 2023 less than 5% of impact investment was channelled via venture capital to early-stage companies.
- **Pension funds** and **insurers** are tapping into thematic investments, focusing on biodiversity and climate trends in their portfolios to support the growth of healthful environments. Insurers are cutting their exposure to nature-negative risks by rewarding companies that take action. How? By offering reduced premiums to businesses that adopt nature-based measures to tackle environmental challenges. So watch out — if your company is causing harm to the environment it might have insurance cover declined. SwissRe, a global reinsurance company, does exactly that - its internal processes identify and avoid doing business with entities that have negative environmental impacts.
- **Banks and lenders** are stepping up with innovative mechanisms. Take **biodiversity bonds**—a powerful tool in the institutional investor's arsenal. These bonds raise capital specifically for projects that protect and restore nature. The funds are earmarked for initiatives like reforestation, wetland restoration, or conserving critical habitats. By aligning capital with measurable biodiversity goals, these bonds ensure transparency and accountability while driving real-world impact. Institutions are also providing innovative sustainability-linked loans (SLL) that tie financial terms to the borrower's performance on sustainability targets. For example, BNP Paribas has provided a €750 million, five-year SLL to UPM, a Finnish pulp and paper company. Interest rate reductions on the loan are linked to UPM achieving a net-positive impact on their forests' biodiversity and a 65% reduction in CO_2 emissions from fuels and electricity by 2030. Banks can manage lending risk by reducing exposure to companies with unsustainable practices — because in the end, these could become stranded assets as regulations tighten and market preferences shift.

5. Corporate investment in action.

Today, the primary focus of corporate investment in nature is within businesses' supply chains. Company's that integrate the value of nature to decision-making are ensuring their competitive advantage by managing risks posed by ecosystem instability.

- Companies like **Unilever** are investing in sustainable agriculture in its **supply chain** to reduce risks and enhance resilience. Through its Sustainable Agriculture Code, Unilever works directly with farmers to adopt biodiversity-friendly practices, ensuring its supply of raw materials remains stable while minimising environmental impact.
- And then there's **green infrastructure**. In the US, **Dow Chemical** collaborated with The Nature Conservancy to build a constructed wetland for wastewater treatment at one of its facilities. The project not only saves millions in operational costs but also improves water quality and restores habitat for local wildlife.
- Whilst the majority of corporate investment is happening in supply chain improvements, let's not forget about **corporate innovation** - it's growing and is another game-changer. **Microsoft**, for instance, has launched a billion-dollar Climate Innovation Fund to invest in solutions like carbon removal technologies and biodiversity credits. Their focus? Supporting projects that restore ecosystems and tackle climate change while creating scalable, profitable solutions.

Investing in nature is a strategic advantage, whether directly or indirectly. By integrating natural capital into decision-making, businesses and investors can drive sustainable growth, build resilience, and secure long-term value. The question is, how quickly we can align our financial systems with the ecosystems that sustain us all?