

**Climate Capital** **ESG investing**

## How much is a tree worth? Investors seek to build a market for nature

Researchers are working to value the natural world to fuel new green investment initiatives



The protection or restoration of rainforests could bring in new revenue streams under proposals for creating assets linked to nature  
© FT montage; Charlie Bibby

**Camilla Hodgson** in London and **Billy Nauman** in New York YESTERDAY

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Wall Street is built on trading in stocks and bonds. Now it is turning its attention to the financial value of the natural world and how to fit that value into investment strategies. This has left academics puzzling over weighty questions, such as “what is a bee worth?”

Earlier this year, the Natural Capital Investment Alliance was founded by Lombard Odier, Mirova and a joint venture between HSBC and environmental investing firm Pollination. It aims to raise \$10bn by 2022 and to latch on to new revenue streams from natural habitats, such as forests, oceans and coral reefs, as part of projects designed to protect or restore these environments.

These natural capital initiatives have ranged from simple solutions, like investments in companies preventing plastic pollution, to more esoteric ones such as purchasing and improving undesirable land.

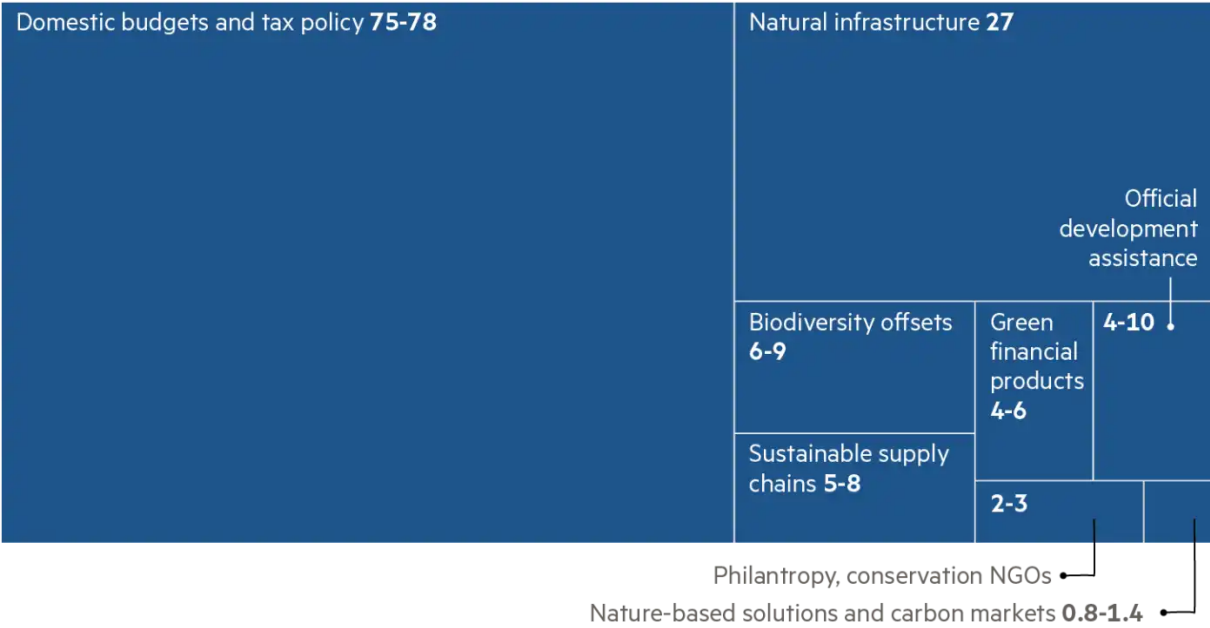
In the longer run, advocates hope to create a diverse array of assets linked to nature. Banks are also starting to include nature-based goals in sustainability-linked loans. Last year, in a loan it arranged for Mexican cement company Cemex, BNP Paribas agreed to provide a financial incentive for the company to preserve biodiversity at its quarry sites and improve its water usage in arid regions.

The idea of earning or saving money for declining to destroy the natural world is anathema to many climate activists. But proponents say innovations such as paying companies not to rip up forests could become a way for green-minded investors to put their money to work beyond simply buying green bonds or excluding oil producers from their portfolios.

“The economists’ answer is to put a dollar or pound sign in front of as many things as possible. And of course parts of the environmental movement really hate that,” said Diane Coyle, professor of public policy at the University of Cambridge, where she is leading a project designed to assess the value of natural capital.

Global biodiversity conservation financing

2019 (\$bn)



Sources: Paulson Institute; The Nature Conservancy; Cornell Atkinson Center for Sustainability  
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“If you don’t try to add a monetary value, you’re putting zero in. And that is definitely the wrong answer,” she added. “Everything you invest in needs to be seen through this lens.”

The importance of protecting nature and ecosystems has risen up the political agenda this year, with the United Nations warning that combating greenhouse gas emissions must not be the sole focus of green efforts.

A 2020 [report](#) on the [economics of biodiversity](#) from Cambridge professor Partha Dasgupta, which highlighted the financial risks associated with destroying nature, has served as a “call to arms for the asset management industry”, said Michael Ridley, senior responsible investing specialist from HSBC.

But for all the talk of creative thinking, the sources of revenue from natural capital investments are familiar — and are often linked to the sale of carbon offsets. These are units that organisations can buy to compensate for their emissions, and are supposed to be generated by projects that reduce the volume of carbon in the atmosphere. But they vary significantly in quality and legitimacy.

As organisations seek to make good on net zero commitments, interest in offsets has soared.

HSBC Pollination Climate Asset Management, the venture between HSBC and Pollination, said it intended to launch a carbon offsets fund of up to \$2bn, while about a third of the €500m natural capital fund launched by Mirova, an early mover in the space, is linked to carbon offset projects. Mirova said it expected credits linked to other environmental outcomes, such as restoring the biodiversity of a region, to be an area of growth.

Other natural capital investments have tended to take the form of traditional debt or equity deals.

The bulk of Mirova’s fund is split between loans for sustainable commodity production and equity-style investments in companies tackling plastic pollution or supporting sustainable fisheries.

Still, investment managers said more unusual opportunities were emerging. HSBC Pollination said buying and rejuvenating “marginal land” for agricultural use was a key opportunity, though the group could not point to any example deals.

Right now, the market is small. “A big fund is \$150m,” said Sandra Carlisle, senior responsible investment specialist at HSBC Asset Management, adding that she expected it to grow more rapidly in coming years.

Investors across the globe have started [pumping out reports](#) on the importance of natural capital. In January 2021 a host of companies including BlackRock, Fidelity International, Bank of America and Schroders signed up to Prince Charles' [Terra Carta initiative](#) to “put nature, people and planet at the heart of global value creation”.

One barrier to the development of more innovative nature-linked financial products is the difficulty of valuing natural resources accurately. Academics at the Natural Capital Project at Stanford University are bringing together researchers from universities and NGOs around the world to develop models that “map and value the goods and services from nature that sustain and fulfil human life”.

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Its open-source software, known as Integrated Valuation of Ecosystem Services and Trade-offs, offers a range of tools to value the ways that ecosystems contribute to the economy, through processes such as crop pollination and flood mitigation.

But putting a price on nature is not enough to preserve it, said Gretchen Daily, faculty director of the Natural Capital Project. “Saying ‘this is what it’s worth’ will do absolutely nothing in the absence of policy and some mechanism for driving investment into securing natural capital,” she said.

Johan Floren, head of sustainability at AP7, the €80bn Swedish pension fund, said protecting biodiversity and natural capital was a priority, but he was sceptical that it could be an asset class in its own right.

Instead of buying into natural capital-themed investments, he said AP7 preferred pushing portfolio companies to clean up their act.

“It’s not like every UN Sustainable Development Goal is investable,” he said.

*\*This story has been amended to reflect the name of the HSBC-Pollination joint venture, HSBC Pollination Climate Asset Management.*

## Climate Capital



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