



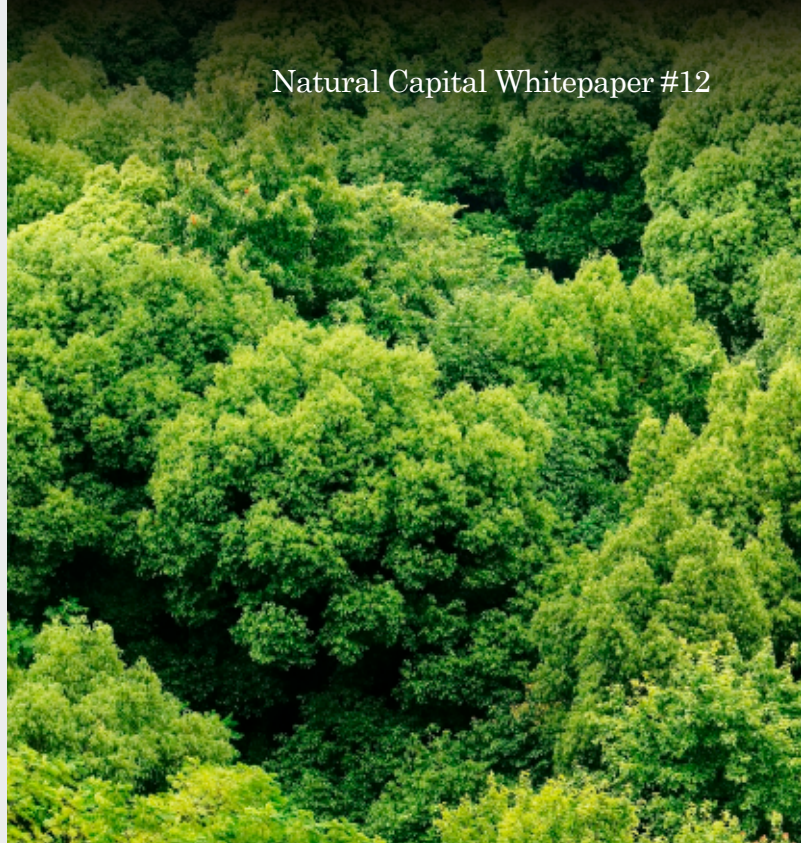
cio investment club

Whitepaper #12

February 2025

Natural Capital Whitepaper: Identifying nature-related risks and opportunities





cio investment club

Contents

03	Introduction
04	What gets measured gets managed
05	Take the LEAP
06	Incentivising investment
07	Accounting for change
08	Relaxing the red tape
09	Participants

✉ sean.thompson@cioinvestmentclub.com

🌐 www.cioinvestmentclub.com

in [cio-investment-club](https://www.linkedin.com/company/cio-investment-club)



Introduction

The term ‘natural capital’ describes the world's stock of resources, such as soil, air, water and all living things, that in turn sustain the ecosystem services human life is dependent on, chiefly food and fuel.



These natural resources are being used faster than they can be replenished. The World Bank has estimated the global economy could lose \$2.7trn by 2030 (compared to business as usual) if ecosystem services such as pollination, carbon sequestration, fisheries and timber provision, collapse.

While asset owners understand the effects of climate change and are widely working to support transition

plans and invest in sustainable projects, natural capital is it's slightly more abstract cousin and its magnitude can be overlooked.

However, organisations are increasingly grasping the importance of natural capital, reflected in the record attendance of corporates at COP16 last October.



What gets measured gets managed

At a cio investment club roundtable, the participants shared their experiences of how firms are approaching natural capital, both as a risk to their business and as an investment opportunity.

Luke Baldwin, CEO at Nature Broking, said from a safeguarding perspective firms need to assess the nature-related risks to all their assets and take a measured approach to addressing them.

“Identify where the biggest risk to your portfolio is and deliver a programme to counter it,” he advised. “If you try to do everything at once it will be terrifying because there is the potential for so many different downstream risks in the supply chain.”

Citing the familiar problem of bees becoming endangered through the use of pesticides, Luke pointed out that as well as being a regretful situation and a threat to biodiversity, it can pose a problem to investors, too.

“Around 70% of the world's crops are pollinated by nature. If bee pollination is lost as a resource firms could be sat with stranded assets. Businesses can

“

Around 70% of the world's crops are pollinated by nature. If bee pollination is lost as a resource firms could be sat with stranded assets.

”

access bee surveys to identify whether they have assets in those areas that would be directly challenged by nature loss, for example. But it's difficult to quantify because it's one small portion of a wide and complex ecosystem. The question is how can biodiversity issues be measured in a way that exposes risks to the profit associated with their capital.”





Take the LEAP

The Taskforce on Nature-related Financial Disclosures (TNFD) has been on the case since 2021. The market-led initiative has issued a set of disclosure recommendations to enable businesses to assess their nature-related risks and opportunities. To help firms conduct their due diligence, the TNFD has published a guide called the LEAP approach, which stands for Locate, Evaluate, Assess and Prepare.



“Every business should start thinking about TNFD recommendations”, Luke recommended. “There may be a world where directors start getting sued if they don’t include these material risks in their accounts.”

TNFD’s voluntary disclosure framework is widely considered to be integral to firms playing their part in protecting natural resources as well as recognising the investment case for allocating to natural capital. However, while over 500 companies and financial institutions have committed to nature-related corporate reporting based on the TNFD recommendations, a survey by the Pensions and Lifetime Savings Association (PLSA) published in December 2024 found only 17% of organisations fully understand the TNFD recommendations, with data access (83%) cited as the top challenge in their implementation.

“TNFD is still at an embryonic stage in regard to wider recognition; the vast majority of people have yet to fully engage on the matter” said Peter Martin, investment officer at the Medical Defence Union.

“When it does become compulsory to report on the TNFD disclosures, that’s when there will be naturally a much greater focus among asset owners and their fund managers to not only measure and manage their nature-related risks, but also to fix them.”

He continued: “I’m currently asking fund managers generally how they are underwriting nature risks in what they invest regarding the sell, buy, and hold discipline. We should ideally seek a mindset in our fund managers that at least consider these issues more effectively and more explicitly in investment decision making and in taking account the wider holistic risks. This looks like good governance and good risk control.”

From an investor’s standpoint, Peter emphasised the importance of understanding how returns from natural capital investment are generated.

“If my investment facilitates a positive nature-related impact, that’s great, but it’s got to give me in the first instance a sensible risk-adjusted positive financial return as well and importantly we need to understand the expected contributors to returns.”

“

TNFD is still at an embryonic stage in regard to wider recognition; the vast majority of people have yet to fully engage on the matter

”



Incentivising investment

Luke outlined two of the familiar channels for investing in natural capital: the carbon removal market and the biodiversity net gain scheme.

Voluntary Carbon Markets (VCMs) serve companies that have exhausted their ability to reduce their emissions throughout their supply chain as well as companies looking to mitigate emissions beyond their value chain while they decarbonise by selling them carbon credits to counteract any remaining emissions. These carbon credits are created through programmes such as reforestation projects and renewable energy farms removing or reducing carbon dioxide emissions through their activities and issuing the equivalent volume via carbon credits, which are then sold on.

“Most businesses globally will be required to buy some form of carbon removal credits before 2050 to achieve net zero,” Luke explained. “Currently in the UK, natural capital investment is based on the carbon market because it’s the only area where there is strong demand; other areas of natural capital such as Nature as Infrastructure and biodiversity credits are more nascent and hence more risky.”

Last year the UK government conducted a consultation on integrating greenhouse gas removals (GGRs) into its statutory UK Emissions Trading Scheme (ETS) to incentivise investment in carbon credit schemes, which for Luke could be a gamechanger.

“The government is running a consultation on merging the compliance carbon market, with the voluntary carbon market in the UK. If the two merge together, we will have a government-backed, fully regulated emissions trading scheme that allows the use of voluntary carbon money. That is the moment when we’ll have a fully functioning system, which is what we’re really excited about.”

“

Most businesses globally will be required to buy some form of carbon removal credits before 2050 to achieve net zero

”



Meanwhile the biodiversity net gain (BNG) scheme was rolled out by the UK government in February 2024 to ensure developers maintain and improve the wildlife habitats in the areas they are building on. Developers must deliver at least 10% BNG by creating biodiversity on or offsite, or – as a last resort – by purchasing statutory biodiversity credits from the government.

Gresham House launched its GHBC strategy to coincide with the implantation of BNG, which invests in ‘habitat banks’ created by the Environment Bank; areas of non-arable farmland that are revived as woodlands, wetlands, and grasslands in accordance with the BNG metrics. BNG units are then generated from these habitat banks and sold to developers seeking planning permission.

However, Luke was slightly less sanguine on the BNG in its current state, predicting it will expand but supply may outweigh demand: “You can take a bet on what may evolve into a biodiversity credit market through the BNG scheme – which could be a powerful market – but it will depend on the uptake. Supply is currently outweighing demand. It’s an embryonic market with several issues. Namely, the councils aren’t equipped to deal with the legal side of it.”



Accounting for change

The conversation took a more technical turn, as Luke raised the idea of normative accounting as a way of managing net zero costs; incorporating the potential risks and liabilities associated with climate change and nature loss in company accounts.

“If a company has made a net zero claim in the past, that is probably going to lead to an outlay of capital in the future, so the company can put that as a contingent liability on the balance sheet under International Accounting Standard 37 (IAS37), which requires companies to disclose their contingent liabilities and contingent assets.

“Therefore, anything achieved above it is seen as an asset. Currently, any form of investment in climate change is seen as an externality – it comes off the income statement, because it's just a cost. But if you can capitalise it against the liability, it becomes far more profitable. It gets taken out of your income statement and the profitability goes up because it can be capitalised under the intangibles, the contingent liability.”

Richard Giles, senior director at Pensions for Purpose, agreed that incentivising climate transition commitments by modifying accounting practices is “a technical but important lever”, and cited the work of Rethinking Capital, a think tank that promotes applying normative accounting for intangibles to sustainability efforts.

“Rethinking Capital is lobbying to change accounting standards,” he said. “They took a proposal to the IFRS that reinterprets accounting standards to recognise contingent liabilities. But they’re a small organisation and they’re facing resistance because not everyone likes change. They’re trying to build a coalition of supporters to get behind it, and Pensions for Purpose is one of those supporters.”

Richard also touched upon online tool ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure), which was created by environmental NGOs to help organisations assess their exposure to nature-related risk, while the biodiversity module has been developed to help financial institutions align their activities in the agriculture and mining sectors with nature preservation goals.

“DC master trust Nest used ENCORE to screen their equity and bonds portfolios last year and reported that 31% of their assets were materially dependent on nature. I’d suggest ENCORE is worth looking at.”

Oliver Thorpe, senior investment consultant at Aon, said he is encouraged by the rise of analytical tools and felt that widespread adoption of reporting

frameworks like TNFD would improve their efficacy. However, he emphasised the importance of an action-focused roll-out.

“Analytical tools are going to become more widespread, particularly if reporting on nature-related risks becomes mandatory in the future. How this is implemented needs to be carefully considered to ensure that reporting on nature-related risks is focused on actions. Similarly to how TCFD has been very successful in drawing attention to climate-related risks and opportunities, the spirit of this regulation is action focused.

“For example, what are pension schemes going to do to reduce their carbon footprint or to improve their climate risk profile? I would hope that TNFD, should it become mandatory, is able to be implemented in a way that is action focused. Often these analysis tools are great at raising awareness of the risks, but actions to create real-world change are lacking.”

He continued: “Considering the best interests of the beneficiaries of the scheme is paramount, including the incorporation of relevant time horizons and consideration of the investments they’re able to hold. Many defined benefit pension schemes are a few years away from wind-up and the appetite for action is limited within the time horizons of those schemes. Making a tangible difference to nature-related risks more widely may not be possible while keeping with trustees’ fiduciary duty to scheme members.”





Relaxing the red tape

Peter countered that the buck doesn't stop with pension schemes.

“Asset owners such as trustees and consultants should ensure that the future custodians of these pension monies are considering the effects of nature loss,” he said. “The money from pensions schemes doesn't disappear, it just changes hands with a consolidator or insurance company. They need to be encouraged to do the right thing. A financial ecosystem should be provided to encourage good behaviour in this regard.”

Given insurance companies' willingness to reduce premiums for businesses greening buildings and for houses increasing their heat efficiency, the insurance market will be up to speed on natural-related risks, surmised Stephan Breban, head of research at Renewity.

“Insurance companies recognised early doors that global warming was going to increase their costs. They were very much driven by financial implications, so I suspect in this instance the financial impact will drive them too.”

In recognition of the need for firms to demonstrate responsible investment practices, the Accounting for Sustainability (A4S) initiative collaborated with the

Church of England Pensions Board and Railpen to launch the Sustainability Principles Charter for the Bulk Annuity Process in June last year to encourage pension funds, insurers, advisers, and regulators to work together.

In the spirit of this, Richard hopes the solvency regulations will be relaxed for insurers in the defined benefit space.

“The solvency regulations are a constraint for insurance firms because they are required to hold long-term debt. But the number of sustainable assets that provide the right yield is small. We either need to lobby for the regulations to be more flexible or increase the pool of assets, or probably both.”

However, the future is brighter for the defined contribution sector, Richard predicted.

“It's a positive story that many of the consolidators – the LGPS pools and the DC masters trusts – are already advanced in thinking about biodiversity. After further consolidation they will have the resources and the expertise to deal with natural capital considerations, whereas at the moment, it's very fragmented.”

“

Insurance companies recognised early doors that global warming was going to increase their costs.

”





Participants



Richard Giles, Senior

Senior Director & Community Lead, Pensions for Purpose

Richard is an experienced pension professional as a trustee and adviser. He has a portfolio of roles at Board and senior executive level reflecting his interests in education and investing for a better planet. His roles in the pensions area include Chair of Investment Committee for the £3.5bn United Utilities Pension Scheme, Vice Chair of the Board for the Scottish Teachers' Pension Scheme and Senior Director for Pensions for Purpose.

In addition, Richard Chairs the Finance Committee for a Multi-Academy Trust of 20 schools in Bradford and is a board member at Bambisanani, a charity using sport to build bridges between students in the UK and South Africa.

His previous roles include as Managing Director of the Teachers' Pension Scheme, Partner at PwC and Scheme Actuary at Mercer.



Luke Baldwin

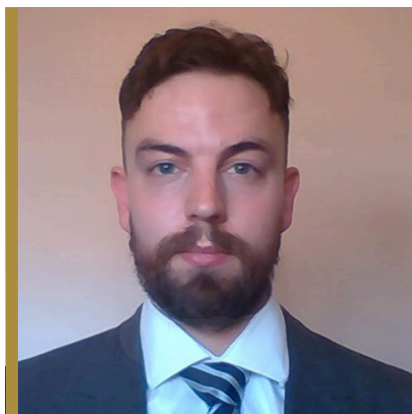
CEO, Nature Broking

Luke is the CEO of Nature Broking, leading Nature Broking's long-term vision and sales. An expert in natural capital, carbon credits and portfolio creation, he has extensive knowledge of the carbon and natural capital markets. Working closely with clients he has a deep understanding of customer requirements from carbon neutral to net zero for carbon credits and is a specialist in carbon credit portfolio creation. Part of his day-to-day role is ensuring that clients comply with standards and cannot be accused of greenwashing.

Prior to founding Nature Broking, he worked in several roles in the insurance industry from leading product development at an innovative technology platform start-up to consulting with large insurance clients.

Luke will be the subject matter expert on carbon markets and nature-based solutions for NECA.

A lover of the Scottish wilderness, Luke enjoys mountaineering and ultra-long-distance running. His passion for nature and climate led him to found Nature Broking, which helps organisations be proud of their impact.



Oliver MacArthur

Senior Investment Consultant, Aon

Oliver is a key member of Aon's Responsible Investment team, bringing deep expertise across a wide variety of areas of sustainability, including natural capital. With a strong track record of working with institutional investors, Oliver has led strategic initiatives that integrate Responsible Investment into decision-making.

Oliver has played a pivotal role in advising clients on sustainable investment strategies, leveraging insights into biodiversity, climate risk, and responsible asset management. His ability to navigate complex financial landscapes while driving innovative solutions has strengthened Aon's position as a leader in responsible investment.

Beyond client work, Oliver actively contributes to thought leadership in responsible investment, engaging in discussions and mentoring emerging professionals. His commitment to advancing sustainable finance ensures that natural capital remains appropriately placed for investors seeking long-term value creation.

AON



Stephan Breban

Head of Research, Renewity

30 years advising pension plans on private equity investment and GP/fund of funds selection.

Stephan started out with Bacon & Woodrow (now Aon) in London in 1988 covering private equity manager research and selection. After working for different larger pension plan consultants Stephan decided to strike out on his own to provide a conflict free service to institutional investors. Throughout his career he has advised pension plans, and other institutional investors, on a range of investment issues but, focused on private markets.

renewity

Rapidly Scaling Renewable Energy Investing



Peter Martin

Investment Officer, The Medical Defence Union

Peter is the Investment Officer for The Medical Defence Union and has been with the MDU since 2016. He has over 30 years' experience as a senior investment professional.

Prior to joining the MDU, Peter was head of manager research at JLT Employee Benefits and before this at Aon Consulting. Peter's investment research specialisms have included bonds, LDI and property.

He is currently a member of the Investor Committee of the Association of Real Estate Funds. Peter was also a member of the Society of Pension Professionals (SPP) Investment Committee for many years and in addition was a member of the Investment Committee to the Pensions Board of the Institute of Actuaries. More recently, Peter was a member of the Management Committee for the Association of Member Nominated Trustees and a Trustee for the MDU Pension & Life Assurance Scheme.

He is a Fellow of the Institute and Faculty of Actuaries and also holds the Investment Management Certificate (IMC).



MDU



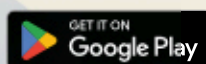
cio investment club

app now available

Gain quicker access to thought-provoking content, and investment events from the funds industry

- Data-driven insights
- Intelligent research
- Roundtables
- Investment Breakfasts/Lunches
- Peer-to-Peer Discussions
- Conferences

download the app today





In attendance



Beth Brearley (Moderator)

Freelance Writer

Beth Brearley is a freelance writer specialising in asset management, institutional investing and private equity.

A former editor of several prominent B2B titles, Beth has spent almost two decades covering the financial services sector.



Sean Thompson

Founder & Director, cio investment club

Sean has nearly 40 years of experience working in London's financial services sector and the insurance market. After 10 years as Managing Director of CAMRADATA, Sean launched the cio investment club on 1st January 2024.

The cio investment club's mission is to become the voice of chief investment officers and investment professionals at institutional firms. To help achieve this the club hosts events throughout the year that educate and inform, whilst providing thought-provoking content to its members.



cio investment club



Important Notice

This document is produced by Instaconnect Limited, trading as cio investment club, a company registered in England & Wales with registration number 15262951.

Instaconnect Limited is neither authorised nor regulated by the Financial Conduct Authority in the United Kingdom nor the Securities and Exchange Commission in the United States of America.

This document is a marketing documentation and is not intended to constitute an invitation or an inducement to engage in any investment activity. It is not intended to constitute investment advice and should not be relied upon as such. It is not intended and none of Instaconnect Limited, its holding companies or any of its or their associates, or any of the participants in the documentation, shall have any liability whatsoever for (a) investment advice; (b) a recommendation to enter into any transaction or strategy; (c) advice that a transaction or strategy is suitable or appropriate; (d) the primary basis for any investment decision; (e) a representation, warranty, guarantee with respect to the legal, accounting, tax or other implications of any transaction or strategy; or (f) to cause Instaconnect Limited to be an advisor or fiduciary of any recipient of this report or other third party.

The content and graphical illustrations contained in this document are provided for information purposes and should not be relied upon to form any investment decisions or to predict future performance. Instaconnect Limited recommends that recipients seek appropriate professional advice before making any investment decision. Although the information expressed is provided in good faith, Instaconnect Limited does not represent, warrant or guarantee that such information is accurate, complete or appropriate for your purposes and none of them shall be responsible for or have any liability to you for losses or damages (whether consequential, incidental or otherwise) arising in any way for errors or omissions in, or the use of or reliance upon the information contained in this document.

To the greatest extent permitted by law, we exclude all conditions and warranties that might otherwise be implied by law with respect to the document, whether by operation of law, statute or otherwise, including as to their accuracy, completeness, or fitness for purpose.

Instaconnect Limited and its logo are proprietary trademarks of Instaconnect Limited and are registered in the United Kingdom. Unauthorised copying of this document is prohibited.

© Copyright Instaconnect Limited 2025