



## Market Musings 05/26

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# Pricing nature: carbon and biodiversity credits explained

Carbon and biodiversity credits are often discussed together as tools for pricing nature. This can give the impression that they perform a similar role in investment strategies. In practice, they price fundamentally different things, behave differently in markets and should be treated accordingly by investors.

For investment committees, the relevant question is not whether credits have merit in principle. It is where they sit in a credible natural capital return story today. Credits may become more meaningful as markets mature, but they are best treated as adjacent revenue rather than a dependable return engine. That distinction matters because it shapes governance, diligence and what can be underwritten with confidence.

### Why this matters now

Natural capital investing has moved beyond intent led narratives towards evidence that supports decision making during ownership and, where relevant, at exit. As scrutiny has increased, credits have become a focal point. They can increase interest, but they can also raise concerns when they appear to be doing too much work in the return case.

**Clear differentiation between carbon and biodiversity credits allows investors to take a more disciplined view of risk and return, particularly in land based strategies where stewardship and operational decisions remain central.**

### What a carbon credit is really buying

Carbon credits have a structural advantage. Carbon is measured in tonnes of CO<sub>2</sub> equivalent, and the climate impact of a tonne avoided or removed is broadly comparable wherever it occurs. This does not mean all carbon credits are equal or that measurement is straightforward. It does mean the unit itself lends carbon a level of standardisation that other forms of natural capital do not share.

In land based strategies, carbon credits are typically generated through changes in land management, restoration or sequestration. In practice, this revenue is rarely the core investment proposition. Returns continue to be driven by operational performance and how land value evolves over time. Carbon credits sit alongside these fundamentals rather than replacing them.

The risk is not that carbon markets exist. It is that credit revenue is treated as a substitute for stewardship, operational discipline and long term ownership. Where that happens, the investment case becomes more fragile.

## Biodiversity credits: complexity by design

Biodiversity is inherently place specific. Improving habitat quality or ecosystem function in one location does not translate neatly into improvements elsewhere, and outcomes are rarely comparable across geographies, habitats or species. This difference is structural, not incidental, and it shapes how biodiversity credits can function.

Establishing robust baselines, verifying outcomes consistently over time and building sufficient market depth to support confidence are central challenges. There is also a tension beneath efforts to standardise biodiversity. Simplification may support market development, but it risks stripping out the ecological complexity that gives biodiversity its value.

Investors do not need perfect answers today. They do need clarity on where confidence is high, where it remains uncertain and what that means for underwriting returns.

## How investors should think about nature credits

Nature credits translate environmental outcomes into a form that can be recognised economically. In carbon, this centres on a globally comparable unit of emissions avoided or removed. In biodiversity, credits reflect improvements in ecosystems that are inherently local, such as habitat condition, species abundance or ecological function.

Some credit markets benefit from more established methodologies and broader participation, supporting confidence when projects are well designed. Others remain earlier stage, with standards, baselines and demand still evolving. Where outcomes are multidimensional and location specific, confidence builds more slowly.

In land based strategies, credits are treated as incremental revenue alongside the core economics of the asset. They can enhance returns at the margin, but they are not relied upon as the primary return driver. Where uplift from credits becomes critical to meeting a return target, scrutiny tends to increase rather than diminish.

Credits are therefore best understood as a complement to ownership, operation and stewardship. The core return continues to come from how land is owned, managed and stewarded over time.

## Where biodiversity delivers value today

Much of the economic value created through improved biodiversity is not monetised directly through credits in the near term. Practices such as restoring habitats, improving soil biology and supporting pollinators can strengthen long term land quality and resilience.

The financial impact often appears indirectly through more stable yields, lower input costs over time and improved asset durability.

**For many institutional investors, this link between biodiversity and asset quality is currently more investable than reliance on an emerging credit market.**

## Where credits sit in portfolio construction

In institutional portfolios, this return stream is treated conservatively. Credits are rarely underwritten as core cashflows in the same way as rent, contracted income or operating margins. They tend to be treated as upside, assessed through scenario ranges rather than point forecasts.

Where a strategy relies on credits to meet its return target, committees typically seek clarity on the durability of the underlying land economics without credits, the integrity and auditability of the methodology and the governance controls in place as outcomes evolve over time.

This is why stewardship matters as much as measurement. The earlier the market and the longer the time horizon, the wider the confidence range should be. This reflects prudent underwriting.

## A more credible way to think about pricing nature

Carbon and biodiversity credits are not competing instruments. They address different challenges and operate at different stages of maturity. A credible natural capital strategy reflects these differences rather than forcing equivalence.

Carbon credits can be treated as the more established source of adjacent revenue. Biodiversity credits remain earlier stage mechanisms whose role should become clearer as standards, confidence and demand develop. In the meantime, many of the most investable biodiversity outcomes continue to come from stewardship and land management rather than tradable instruments.

Keeping expectations grounded allows credits to support measurable improvement without distorting the investment case. Overpromising risks undermining confidence in the broader effort to price nature responsibly.

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