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INVESTMENT MANAGEMENT

Natural Capital investor views

Summary findings of a qualitative study
into attitudes and behaviours of global fund
selectors in respect of Natural Capital.

For Professional Investors only
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Introduction

As the global investment landscape evolves, institutional investors are increasingly turning their attention to the natural world, driven by both strategic opportunity and sustainability requirements. Natural capital, encompassing the earth's stock of renewable and non-renewable resources such as soil, water, air, and biodiversity, is no longer viewed as a peripheral concern. It is becoming central to how long-term value is defined, measured, and delivered.

In this report we share the summary findings of our in-depth study with global fund selectors conducted in H1 2025. The format consisted of structured interviews with 11 global institutional investors ranging from pension fund decision-makers, investment consultants, family office fund selectors, and investors within sovereign institutions. We wanted to explore how natural capital is being framed within portfolios, the role of farmland as a tangible entry point, expectations around return and impact, and the barriers and enablers shaping this emerging asset class.

Understanding investor archetypes

To make sense of the diverse approaches to natural capital, we grouped investors into four archetypes. These categories reflect differences in investment philosophy, ESG integration, and structural preferences.

1. Return-driven stewards

These investors prioritise stable, risk-adjusted returns and typically classify natural capital within their real assets or infrastructure allocations.

- Return expectations: 5–10% net on an absolute basis
- ESG stance: ESG is acknowledged but not central
- Structure: Long-term hold strategies or closed ended were targeting higher returns
- Geography: Developed markets (e.g., US, Canada, Australia, Europe)

One investor with over 15 years of farmland experience has paused new investments due to market volatility, while another integrates natural capital into infrastructure, focusing on land ownership and income generation.

2. Impact-disciplined Investors

These investors seek to balance financial discipline with ESG and biodiversity goals.

- Return expectations: 4–8% for core strategies
- ESG stance: Central to investment thesis; Sustainable Development Goals (SDG) alignment and biodiversity are key
- Structure: Preference for open-ended funds
- Geography: Global, with thematic interests (e.g., regenerative agriculture, carbon credits)

Examples include consultants building modular mandates and pension funds applying a three-factor model (return, risk, sustainability) across all investments.

3. Cautious explorers

These investors are interested in natural capital but remain hesitant due to concerns around structure, geography, or ESG credibility.

- Return expectations: Moderate (4–6%)
- ESG stance: Strong emphasis on biodiversity and local relevance
- Structure: Flexible; open to both fund types depending on project specifics
- Geography: Europe-focused, especially France and the UK

One investor avoids forestry and carbon credits, focusing instead on biodiversity KPIs, while another is influenced by Taskforce on Nature-related Financial Disclosures (TNFD) and local mandates.

4. Practitioners

These investors have hands-on experience in farmland and forestry and focus on operational excellence and long-term value creation.

- Return expectations: 8–12% for real assets; 10–20% for integrated or PE-style strategies
- ESG stance: Important but secondary to returns and strategic learning
- Structure: Co-investments and vertical integration favoured
- Geography: Global, with interest in exporting learnings to home markets

Examples include government-backed investors using farmland to build domestic expertise and impact investors focused on regenerative practices.

Key themes shaping investment decisions

Across these archetypes, several consistent themes emerged. These reflect how investors are navigating the complexities of natural capital while aligning with their broader mandates.

1. Return Expectations and Risk Awareness

While most investors target between 6% and 10% net IRR, there is caution around strategies that promise higher returns without clear justification. Practitioners that recognise that farmland may not always be stable and that this is a long term investment—commodity exposure, weather volatility, and operational complexity all affect performance.

“It’s not as stable as people think, but we’ve learned how to manage it.” – Practitioner, Nordic pension fund

2. Farmland as a tangible entry point

Farmland and forestry are often the first step into natural capital due to their physicality and relatability. Boards and beneficiaries find them easier to understand. However, experienced investors warn that natural capital investing requires active management and a long-term view.

In France, forestry has been ruled out by some due to low domestic returns and ESG concerns, while farmland remains under consideration if it meets strict biodiversity thresholds.

3. ESG: From compliance to conviction

Investors are increasingly focused on soil health, biodiversity, and social equity. There is growing frustration with inconsistent ESG metrics and a desire for more meaningful, outcome-based measurement.

“If someone is making over 20%, someone else is probably suffering. We want fair returns and lasting outcomes.” – Practitioner, European impact investor

Public sector allocators are under pressure to demonstrate alignment with SDGs, net zero goals, and biodiversity frameworks like TNFD.

4. Local relevance as strategic imperative

In the UK, local government pension schemes are being encouraged to demonstrate regional impact. This has led to a preference for place-based storytelling and co-investment structures.

“Politics are pushing us local. You need a story to tell in your region.” – Cautious explorer, UK public pension

However, this local focus must be balanced with the need for global diversification, especially for larger institutions seeking scale and risk-adjusted returns.

5. Structure and flexibility

Open-ended structures are gaining interest, particularly among investors who want to build exposure gradually or avoid the binary nature of closed-end fund exits. However, governance and redemption logic must be clear to avoid liquidity mismatches.

“We like open-ended, but it needs to be disciplined. Lock-ups are fine, but we need to know how we get out.” – Impact-disciplined investor, UK-based investment consultant

Hybrid structures and semi-liquid vehicles are being explored to offer flexibility with discipline.

6. Integration into existing frameworks

Rather than creating new asset classes, many investors prefer integrating natural capital into familiar categories such as infrastructure or real estate. This pragmatic approach helps ensure internal alignment and portfolio coherence.

*“Don’t introduce a new box.
Find out where it fits.”*

UK pension scheme

Barriers and enablers for scale

As natural capital investing matures, investors are encountering both challenges and catalysts. Understanding these is essential for designing scalable, credible, and impactful strategies.

Barriers:

- Greenwashing concerns and lack of credible ESG claims
- Absence of standardised impact metrics and KPIs
- Operational complexity in farmland and forestry
- Unclear exit strategies and long-term stewardship risks

Enablers:

- Adoption of frameworks like TNFD and SDG alignment
- Modular fund structures allowing tailored exposure
- ESG-linked fee models aligning incentives with outcomes
- Co-investment models and local partnerships

Design principles for future strategies

As investors navigate the tensions between ambition and measurability, local relevance and global diversification, simplicity and integration, a new set of design principles is emerging.

1. Modular exposure with strategic intent

Investors increasingly want the ability to tailor exposure across farmland, forestry, carbon markets, and emerging areas like marine biodiversity. This modularity allows alignment with internal mandates and evolving sustainability goals.

"We're not looking for a one-size-fits-all fund. We want to build a portfolio that reflects our values and our geography."
– Impact-disciplined investor, UK-based investment consultant

2. Evolving ESG and impact frameworks

There is growing dissatisfaction with ESG metrics that feel like box-ticking. Investors want frameworks that are transparent, independently verified, and aligned with real-world outcomes

"We've moved beyond compliance. We want to know what's actually changing on the ground." – Impact-disciplined investor, European pension investor

3. Responsible exits

Investors are increasingly asking what happens if they exit. There is a growing expectation that sustainability gains should be preserved post-investment.

"We don't want to build something good only to see it unravel at exit." – Practitioner, European family office adviser

This is prompting interest in embed stewardship, such as long-term leases, local partnerships, or buyer screening criteria.

4. Transparency and storytelling

Investors need a compelling narrative that explains the problem being addressed and the role of capital in the solution. This is especially true for local government pension schemes and foundations.

"You need a story to tell in your region, which benefits returns, risk and the local economy. That's what gets people on board." – Cautious explorer

Conclusion: from pilot to portfolio

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Natural capital investing is entering a new phase, defined by integration rather than experimentation. The next decade will likely see a convergence of innovation, regulation, and institutional commitment that transforms natural capital from a thematic allocation into a core portfolio component.

Several forces are already shaping this future:

- **Measurement breakthroughs:** Advances in biodiversity metrics, soil carbon tracking, and satellite monitoring will make impact more measurable, comparable, and investable.
- **Policy tailwinds:** Frameworks like TNFD and emerging biodiversity-linked regulations are pushing natural capital into the mainstream.
- **Product innovation:** Expect to see more multi-asset natural capital funds, blended finance vehicles, and ESG-linked fee structures.
- **Local-global integration:** Investors will seek solutions that deliver tangible local impact while maintaining global diversification and scale.
- **Institutionalisation:** What began as pilot projects or impact-driven side allocations is evolving into a strategic imperative.

The message from leading investors is clear: natural capital is about resilience, value creation, and long-term stewardship. Those who act decisively will shape their portfolios and play a pivotal role in defining the standards, structures, and success metrics of this emerging investment frontier. As environmental risks become more systemic, natural capital is gaining recognition as a long-term investment theme.

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