nuveen
NATURAL CAPITAL

Investing in *nature-based solutions*

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A growing opportunity for natural capital investors

For several decades natural capital as an asset class has become an increasingly important part of institutional portfolios. Investors in the asset class, notably in timberland and farmland, have come to appreciate and value the wide range of potential benefits that natural capital can bring to an investment portfolio. This includes traditional investment benefits, such as diversification, inflation hedging, and attractive potential returns with stable cash yields[1] — as well as sustainability benefits.

Over the last few years the asset class has evolved, driven by the convergence of critical global trends. Natural capital is increasingly recognized for its ability to provide solutions to address today's environmental and societal challenges — climate change, biodiversity loss, pollution, food security and land degradation. At the same time there has also been increasing levels of government action, growth in environmental markets, and growing maturity of assets and business models which aim to tackle these challenges. These trends and the evolution of the asset class are providing opportunities for investors to benefit from diversified investment strategies and exposure to maturing environmental markets, while contributing to improvements in biodiversity, climate, and sustainable production of food, fiber and timber.

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What are nature-based solutions?

Put simply, we define nature-based solutions, or NBS, as using natural capital to solve key environmental and societal challenges while seeking to generate positive financial returns for investors.

Natural capital can be thought of as a stock of environmental assets — the earth's air, land and water and all their biodiversity — that yield a flow of benefits or ecosystem services over time, whether it is raw materials, water, flood protection, biodiversity or pollination services.

Critically, nature provides the fundamental inputs that whole economies need for the production of goods and services. However, the earth's stock of natural capital and the benefits they provide are declining.

Globally we have seen a loss of species, habitats and ecosystems, with a commensurate decline of ecosystem services, such as the ability to maintain, absorb and regulate carbon in the atmosphere. At the same time, the global population is growing, leading to increased demand for food, fibre and timber. Because the supply of productive timberland and farmland production is limited, feeding and housing a growing population will require increased productivity, utilising productive land effectively, efficiently and sustainably. Investing in the sustainable management, protection and restoration of natural capital is critical.

Nature-based solutions are often defined as a set of actions that restore, manage and protect natural and modified ecosystems.[2] For natural capital investments, such as farmland and timberland, an NBS approach allows for value recognition beyond timber and crops, and includes the production of quantifiable ecosystem services — for example, carbon sequestration, soil health and water quality.

Increasingly, there are options to realize returns from these more holistic approaches to timberland and farmland investments. One example of this is through environmental markets such as the carbon markets, offering strong production fundamentals.

Figure 1. Defining characteristics of nature-based solutions investments

UTILIZE NATURAL CAPITAL ASSETS...

...to contribute to solutions for environmental and societal challenges

AND GENERATE FINANCIAL RETURNS...

...from sustainable production and monetization of ecosystem services

Why NBS now?

Investment in assets that protect and restore nature, while providing sustainable food, fibre and timber, will be critical for combating climate change, biodiversity loss and feeding a growing population.

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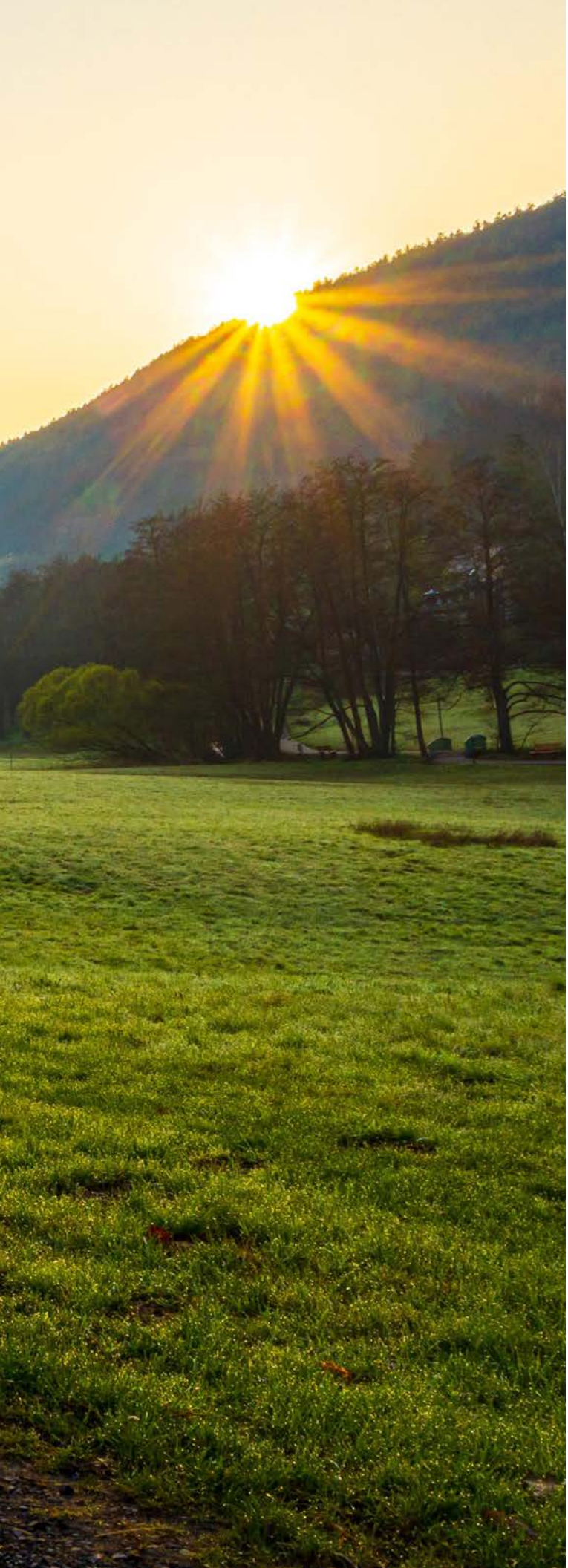

Private investment to address the global challenges of nature loss and climate change, in both developed and emerging market countries is critical. The U.N. Environment Programme estimates that meeting international climate and biodiversity targets will require financial flows to triple between 2022 and 2030, from $200 billion per year to $542 billion. Private capital currently represents only about 18% of total investment in NBS, this financing gap presents a great opportunity for private investors.[3]

There has been growing investor interest in natural capital more broadly. The sector's attractiveness has been driven by certain fundamental macroeconomic trends, such as the growing demand for food, fiber and timber alongside a shrinking supply of productive land. Beyond the focus on sustainable production, powerful tailwinds are building and improving the risk-return profile of investments in nature-based solutions and, in turn, their ability to deliver greater environmental benefits alongside financial performance. These tailwinds include growing environmental markets, rising demand for more environmentally friendly agricultural crops and wood products, innovative financing mechanisms, and enabling public and private policies. In many cases, these tailwinds complement and enhance traditional sources of return from agricultural crop and timber sales.

GROWING ENVIRONMENTAL MARKETS

Environmental markets put a value on quantifiable ecosystem service benefits, such as carbon credits from sequestration and storage, and can be a way to incentivize changes in land management that generate these benefits. For example, changes in land management practices to improve carbon sequestration and storage and generate marketable credits may include cover cropping, changes in tilling practices, and reduced fertilizer use. In addition to a positive impact

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at the asset-level, across a large landscape, these changes can create more resilient production systems and improve food security. These markets create a potential source of return for investors and enable on-the-ground management changes that would not occur otherwise. Currently, the largest environmental markets are for carbon credits, and conservation and restoration markets.

Carbon markets

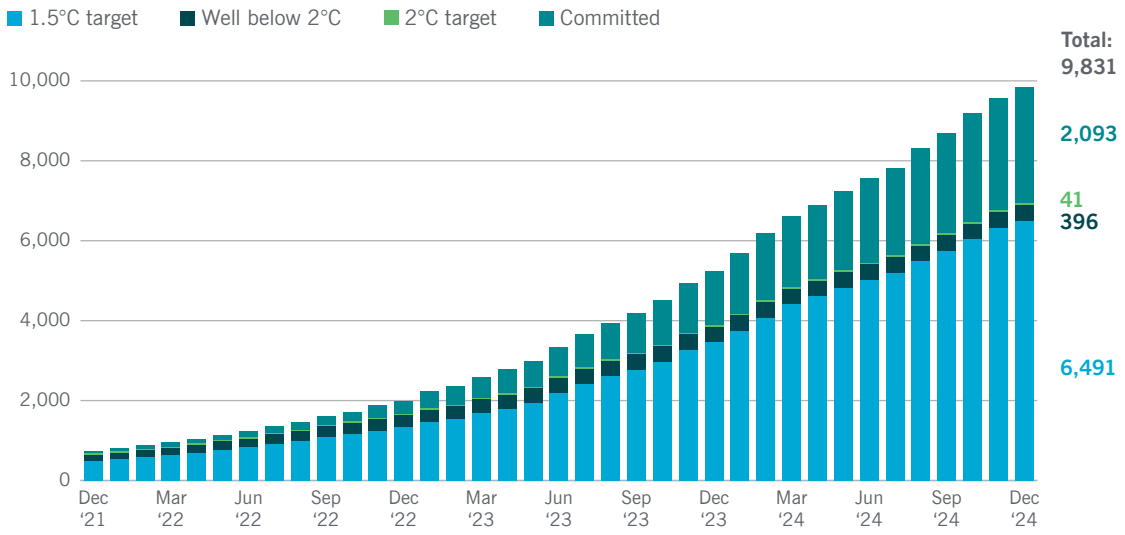
Demand for carbon credits is expanding as corporates and financial institutions commit to decarbonization targets. In the short term, carbon credits can be used to complement emission reductions, by offsetting hard-to-abate emissions. And in the long-term, as production systems and supply chains decarbonize, carbon credits can be used to balance residual emissions to ultimately achieve net zero targets. Since 2021, the number of companies with a Science Based Targets Initiative (SBTi) emission reduction target or Paris Agreement-aligned commitment has increased exponentially (Figure 2).

Driven by this demand and compounded by increasing acceptance of voluntary market credits in compliance market systems, the size of the voluntary market is expanding. In 2024, the market totaled about $1.4 billion and by 2030, could reach up to $35 billion (representing 2+ billion credits) as corporates move closer to their voluntary climate target dates. And by 2050, the market could grow up to $250 billion (8+ billion credits).[4] We expect the majority of credit volumes to come from the NBS sector and for the recent trend of premium pricing for high-quality NBS credits with certified biodiversity to persist.

Conservation and restoration markets

Beyond carbon, there are many existing and developing market-based pathways for land-based investment to generate quantifiable, positive impacts on biodiversity. These include both voluntary and compliance market frameworks, spanning a range of geographies.[5] These markets typically offer investors and developers compensation or other financial incentives for ecological restoration and protection.

Figure 2: Number of companies with SBTi emission reduction target or commitment (Dec 2021 - Dec 2024)



Source: MSCI Carbon.

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Market-based incentive structures include payments for land rights, incentive payments for environmentally friendly management practices, and tradable certificates for ecological restoration. In some cases, these programs target specific ecosystem types like wetlands or peatlands. Incentive structures may also target improvements in specific ecosystem functions like water filtration or flood control.

Sizeable and mature examples of functioning markets are already operational, creating opportunities for NBS investors. Over the past two decades markets for stream and wetland restoration credit markets have grown at an estimated annualized rate of +13% CAGR between 2000 and 2023.[6]

Other large-scale conservation markets include U.S. conservation land sales and easement sales. Public funding alone for conservation totaled $46 billion between 1998 and 2017, or over $2 billion p.a. on average.[7] Several examples of regional and emerging land-based conservation markets exist outside the U.S. and echo characteristics of restoration markets in the U.S. For example, the UK's Biodiversity Net Gain compliance market, which came into effect in early 2024. By one estimate, the U.K. market may be valued as much as $350 million annually to landowners.[8]

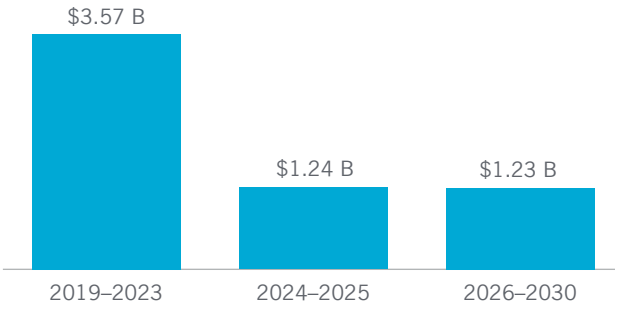
RISING DEMAND FOR MORE ENVIRONMENTALLY FRIENDLY FOOD AND FIBER

Demand from consumer packaged goods companies and consumers for more environmentally friendly — e.g., regenerative or low carbon — food and fiber is increasing. Companies are working with their supply chains to tailor programs that incentivize changes in land management practices.[9] For example, some companies are engaging directly with farmers and farmland owners to support the broad adoption of practices aimed at improving biodiversity, soil health, climate and water quality outcomes.

Companies with specific carbon neutrality or emissions reduction targets, may focus on incentives to reduce scope 3 emissions within their supply chains. This often means collaborating with farmers in their value chain to support the implementation of practices specifically designed to reduce emissions or sequester and store additional carbon. These outcomes may be achieved by switching to less carbon intensive inputs to production, cover cropping, and reduced and tilling practices.

There are a range of financial incentive programs to encourage changes in practices required to generate quantifiable climate, biodiversity, soil health and/or water quality benefits. Financial incentives may include, for example, per acre payments, long-term offtake agreements, methods for monetizing carbon value, and price premiums. And to pay for these programs, companies are making meaningful financial commitments. The World Business Council for Sustainable Development (WBCSD) reports that financing for regenerative agriculture by 19 of the largest value chain actors totaled $3.6 billion since 2019 with $2.4 billion planned investment between 2024 and 2030.

Figure 3. Investment financing for regenerative agriculture since 2019 (USD)



Source: WBCSD, OP2B Five-Year Report, September 2024

INNOVATIVE FINANCING MECHANISMS DESIGNED TO CROWD-IN PRIVATE CAPITAL ARE EMERGING

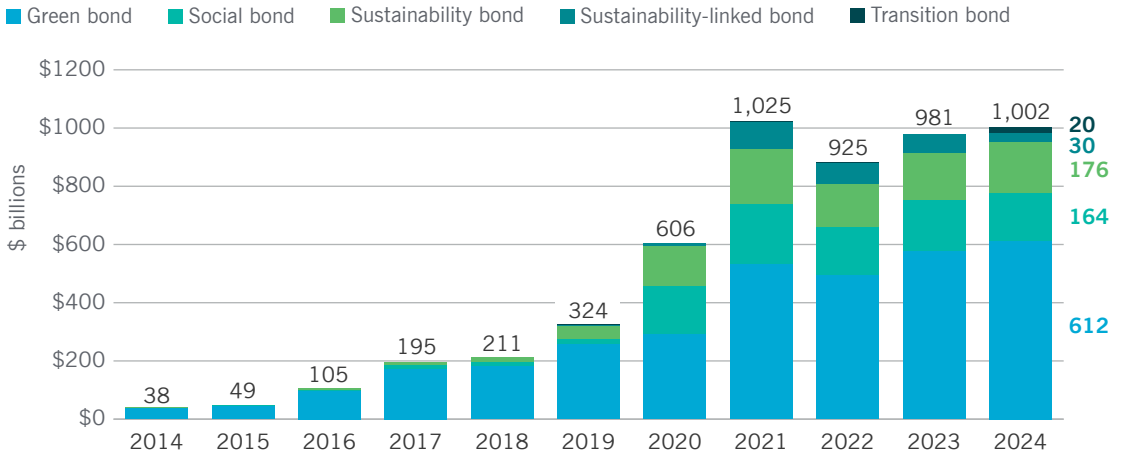
As a result of the urgent need to address environmental and societal challenges, the growing maturity in business models and the increasing availability of private capital targeted at scaling solutions, a range of financing institutions are expanding the ways they support NBS investments. This includes a range of concessional funds, fixed income, private debt and private equity funds.

Development finance institutions (DFIs) and philanthropic foundations are increasingly looking to place concessional capital to accelerate the scaling of investment in NBS. Financing instruments that are concessional — i.e., deviate from conventional market terms — can improve the risk-return profile of NBS investments thereby catalyzing additional capital investment and greater impact.

Fixed income instruments are increasingly being used to support NBS investments. These include use of proceeds bonds — for example green bonds from corporate and sovereign issuers — and sustainability-linked bonds (SLBs) with adjustable terms tied to climate and/or biodiversity key performance indicators (KPIs). Since 2006, green and other labeled debt reached a combined volume of $5.4 trillion as of the end of 3Q 2024. The largest non-sovereign issuers in 3Q 2024 were DFIs and included the European Investment Bank, The World Bank, and the Interamerican Development Bank. While green-themed bonds dominate the market, SLBs are a rapidly growing share of the total volume, with Europe the leading source.

Beyond fixed income, an increasing number of financial institutions offer operating loans and refinancing to support implementation of regenerative agriculture practices. Financing terms may include longer tenors of up to ten years, repayment grace periods, discounted fees and, in some cases, lower rates. Loans may align financial terms with farm-level adoption of regenerative practices and/or outcomes-based environmental metrics that are tied to climate, biodiversity, soil health or water quality.

Figure 4: Green, social, sustainability and sustainability-linked debt



Source: Environmental Finance as of year-end of each year; 2022 and 2023 data sourced from 2024 report which may include restated data. https://www.environmental-finance.com/content/downloads/sustainable-bonds-insight-2024.html

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PUBLIC AND PRIVATE POLICY INITIATIVES ARE BOOSTING INTEREST IN NBS INVESTING

Worldwide, there is a proliferation of international and national policies designed to mobilize finance to support the protection, restoration and enhancement of nature and ecosystem services across a diverse set of landscapes.

With respect to biodiversity and policy to combat nature loss, the watershed moment came in 2022, when the Global Biodiversity Framework (GBF) was agreed upon by governments globally, establishing a global target for nature restoration and funding. The GBF is the world's biggest deal for nature, a commitment to halt and reverse biodiversity loss by 2030, that emerged from the U.N. Convention on Biological Diversity (CBD) in 2022 (or COP 15). The centerpiece of the GBF is the 30x30 commitment to protect 30% of the earth's land and waters and restore 30% of degraded ecosystems all by 2030. Each of the 196 CBD member countries are required to develop action plans (National Biodiversity Strategy and Action Plans or NBSAPs), detailing national and regional targets aligned with GBF targets.

Work toward international commitments has been complemented by increasing levels of national government action via a range of policies, subsides and financial incentives. A few examples of these policies and programs are:

- In the U.S., various public programs and funds exist to incentivize conservation and restoration of ecosystems and ecosystem services, including the Land and Water Conservation Fund and the Conservation Reserve Programme.
- The EU biodiversity strategy targets placing at least 10% of agricultural land under "high diversity landscape features". This is supported by the Common Agricultural Policy, which provides payments for undertaking certain conservation activities.
- In Australia, in 2024 the Nature Repair bill was passed which aims to incentivize private investment into biodiversity conservation and restoration.

Public policy initiatives are complemented by corporates and financial institutions ramping up efforts to identify and mitigate impacts on climate and nature within their supply chains and portfolios. These initiatives are driven by both voluntary and regulated measures. For example, the Taskforce on Nature-related Financial Disclosures (TNFD) is a voluntary reporting framework aligned to GBF targets. The Taskforce provides guidance for investors and financial institutions on how to identify, monitor, and report on nature and biodiversity related dependencies, impacts, and risks. As of 2024, over 500 companies and financial institutions had committed to TNFD aligned reporting.[10] This general trend in disclosure and regulation is likely to continue, with increasing transparency and reporting likely to lead to pressure to seek quantifiable improvements in nature metrics and KPIs in investment portfolios.

Investing in nature-based solutions

NBS investments span a diverse set of markets, impact areas, timber species and crop types.

Nuveen Natural Capital's approach focuses on strategies which aim to generate returns from natural capital, including from crops, timber and land, while providing opportunities for revenue streams from existing and emerging environmental markets and delivering benefits for nature, climate and people.

We have identified three NBS investment strategies that together have potential to achieve these objectives and offer an attractive risk-return profile: carbon forestry, regenerative agriculture, and ecological restoration.

- **Carbon forestry –** An approach to forestry that focuses on restoration, protection and/or improved management of forest areas to increase carbon sequestration and storage. Management for forest carbon may be complemented by sustainable timber harvesting.
- **Regenerative agriculture –** Sustainable agricultural crop production with a focus on improvements in soil health, biodiversity, water quality, climate, and other ecosystem functions on farmland and farm-adjacent areas. These positive impacts are achieved through the implementation of farming practices and projects tailored to local conditions and crop types.
- **Ecological restoration –** restoration and conservation of natural areas that have been degraded or destroyed with a focus on improving ecological function and reducing water pollution. Restoration activities target natural areas including wetlands, peatlands, streams, and endangered species habitat with high conservation value.

NBS aims to integrate and invest in projects which conserve, restore and improve land management while generating climate, biodiversity, water or other ecosystem service benefits.

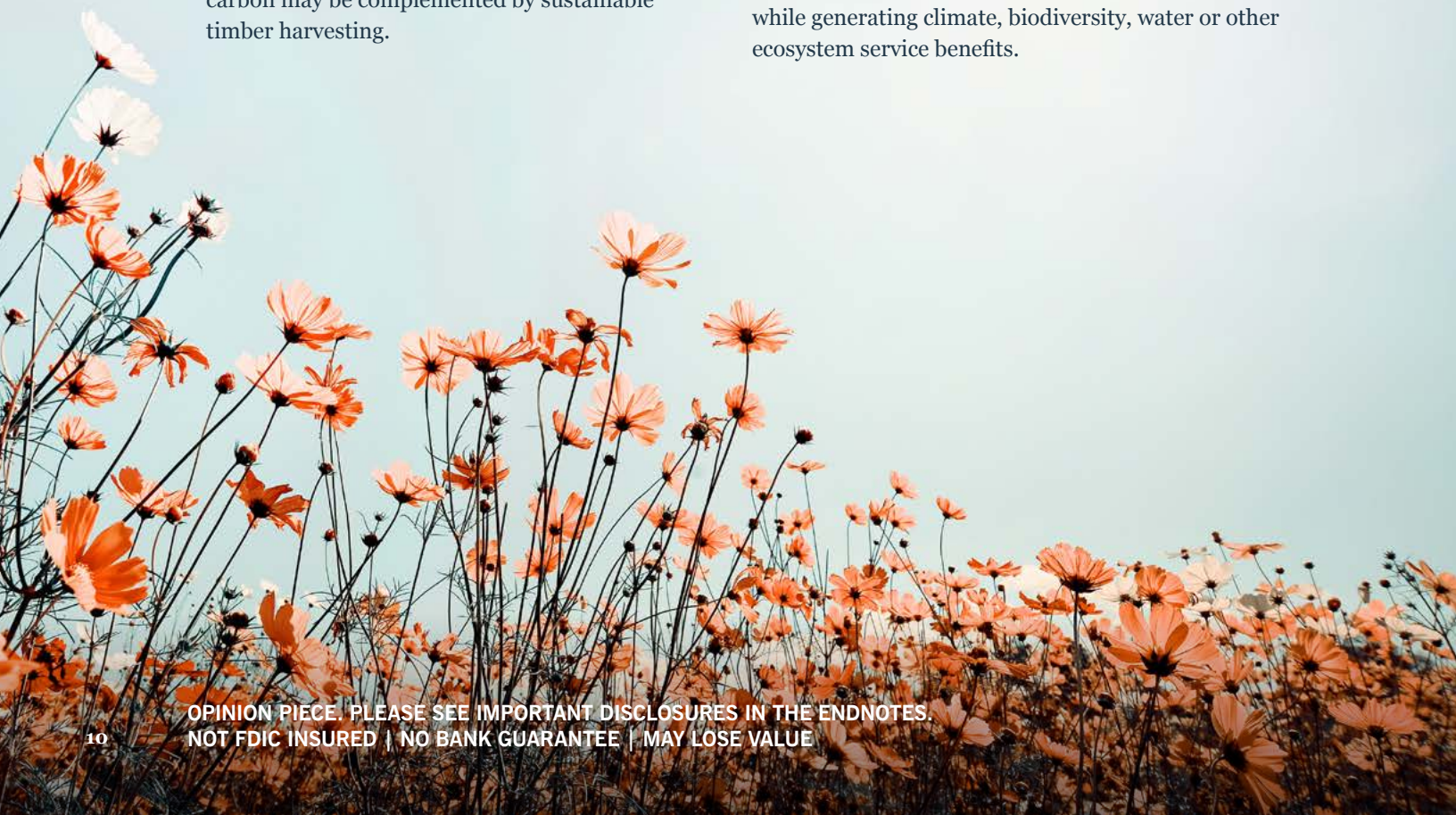

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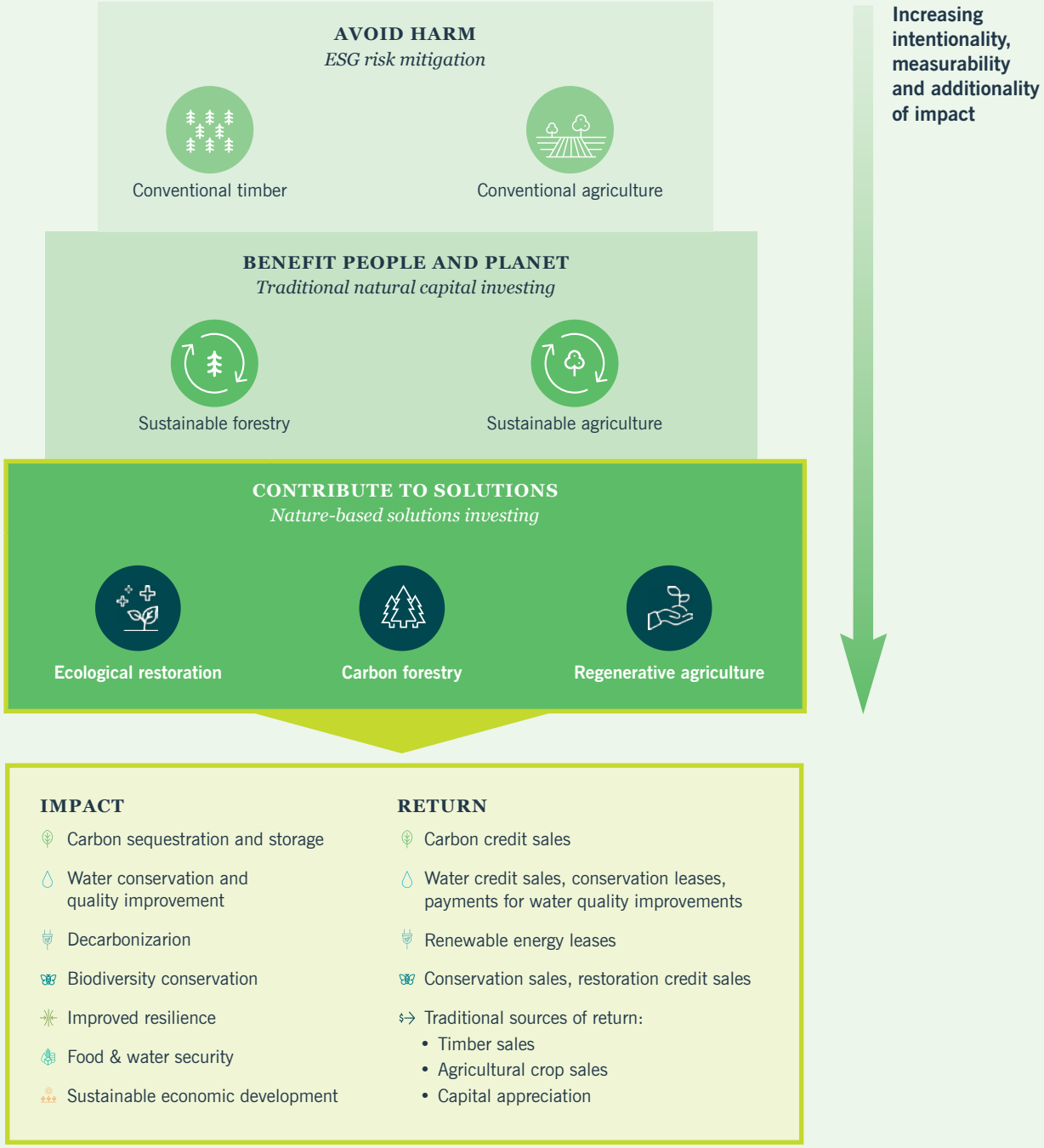
Figure 5 illustrates the spectrum of natural capital investments ordered by magnitude of impact and investment approach. It highlights the sources of impact and return across the three NBS strategies mentioned above.

Figure 5: Example NBS investment strategies with potential sources of impact and return



Potential benefits to investors

Capital allocation across asset classes is competitive and, like all alternative asset classes, natural capital, must earn its position in a portfolio. Within natural capital, assets which incorporate NBS could offer a number of unique portfolio-level and impact benefits for investors:

- **POSITIVE IMPACT:** Positive contributions addressing environmental and societal challenges through changes in land management lead to improvements in soil health, biodiversity, water quality and climate
- **ATTRACTIVE RISK-RETURN PROFILE:** Income and returns from ecosystem services, timber and agricultural crop production, and capital appreciation. Exposure to environmental markets in addition to timber and agricultural crop markets creates the potential to be additive to returns
- **DIVERSIFICATION:** Uncorrelated portfolio-level returns from exposure to diverse sources of revenue; asset-level diversification through investments in new projects or operational strategies
- **PORTFOLIO DECARBONIZATION:** Allocation to NBS has the potential to reduce the carbon intensity (GHG emissions per million USD) of a natural capital portfolio and/or a traditional stock-bond portfolio
- **NATURE POSITIVE:** Allocation to NBS has the potential to improve the nature positive share of a natural capital portfolio and/or a traditional stock-bond portfolio

Beyond the portfolio-level and impact benefits, NBS strategies have the potential to enhance land asset values through:

- **ACCESS TO NEW MARKETS AND PREMIUM PRICING:** Access to new markets and premium pricing (e.g., for sustainably certified produce) may increase income return
- **COST SAVINGS:** Changes in management practices that reduce inputs to production (e.g., inorganic fertilisers) can reduce costs while maintaining or increasing yields
- **EFFICIENCY GAINS THROUGH INNOVATION:** Innovation and implementation of new technologies can drive efficiency gains and potentially improve long-term productivity (e.g. regenerative farming techniques that improve soil carbon and organic content leading to higher yields)
- **IMPROVED FINANCIAL RESILIENCE:** Improvements in land management and crop/species diversification can improve resilience to climate and growth and yield risk (e.g., drought, flooding, or pest/insect/disease outbreaks)
- **SUSTAINABLE ECONOMIC DEVELOPMENT:** Job creation or diversification of jobs to develop and implement new production techniques or specific projects

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Nuveen's approach

We believe the case for NBS is compelling and has the potential to offer attractive returns for society as a whole and for those who invest in these activities. At the same time, new and innovative approaches to capture growing environmental market opportunities and adjusting traditional forest and farmland management to incorporate nature-positive practices, comes with a new set of risks. These can include market, policy, development and operational risks.

To deliver NBS benefits and manage risks, our approach to building a portfolio of NBS investments focuses on several **key principles:**

1 **PORTFOLIO DIVERSIFICATION:** As in the case for all natural capital strategies, we believe that diversification by market, geography, crops/species and development phase improves risk-adjusted returns. Further diversification will also come from targeting geographies with robust environmental markets and supportive policy. The U.S. for example has strong agricultural crop and timber markets as well as existing markets for carbon credits, ecological restoration, water conservation, and renewable energy.

2 **UNDERWRITING:** New and evolving NBS asset types require a sound understanding of natural capital and environmental markets. This includes how best to integrate value-add projects into assets and operational strategies and how to value future returns.

3 **INTEGRITY OF CLIMATE AND NATURE BENEFITS:** Critical for NBS assets is ensuring the delivery of nature and climate benefits over the long term. This involves the in-depth assessment of the potential opportunities, prior to acquisition, and the establishment of monitoring and reporting systems that provide the data and information to be able to understand impacts and adapt where needed. Nuveen Natural Capital (NNC) has an existing Nature, Climate, People framework to assess, monitor and report on all practices and impacts.

4 **OPERATIONAL STRATEGIES:** A mixed NBS asset base, with multiple activities and returns opportunities, will require flexibility in operational strategies and often requires working with a range of stakeholders. Aligning incentives, operations and management with all stakeholders to ensure successful delivery. NNC has deep and diverse teams on the ground with experience in a broad range of operational strategies in different contexts and geographies, often working with government and civil society to deliver.

5 **GLOBAL PLATFORM WITH LOCAL ASSET MANAGEMENT:** NBS investment strategies involve an additional level of execution and operational risks — often aiming to design and integrate new and novel projects. Successful delivery relies on having local teams, with relevant technical skills and a close understanding of the asset, markets and environment. In certain cases these will need to be complemented by additional advisers, specialists and partners (e.g. carbon project developers, ecologist, water specialists).

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Example NBS investments

AUSTRALIA REGENERATIVE AGRICULTURE

A mixed farming operation, applying regenerative practices and restoration of native vegetation. The conversion to regenerative practices aims to reduce costs in the long term and improve soil health, while the restoration activities will generate carbon credits for the national compliance market. Long-term sustainable practices will drive land value appreciation alongside optimization of land-use to add resilience to farm income.

U.S. SOUTH CARBON FORESTRY

Timberland investment with management of commercial timber alongside nature and climate benefits. Sustainable timber harvesting provides steady income and is enhanced by exposure to uncorrelated environmental markets. The conversion to forest management for carbon enables longer rotations, expanded conservation areas and protection against land use change. Stream restoration delivers biodiversity and water quality benefits.

U.S. ECOLOGICAL RESTORATION

A portfolio of wetland and stream mitigation banks in the South and Midwest generating credits to compensate for unavoidable impacts related to transportation, mining, development and energy sector development.

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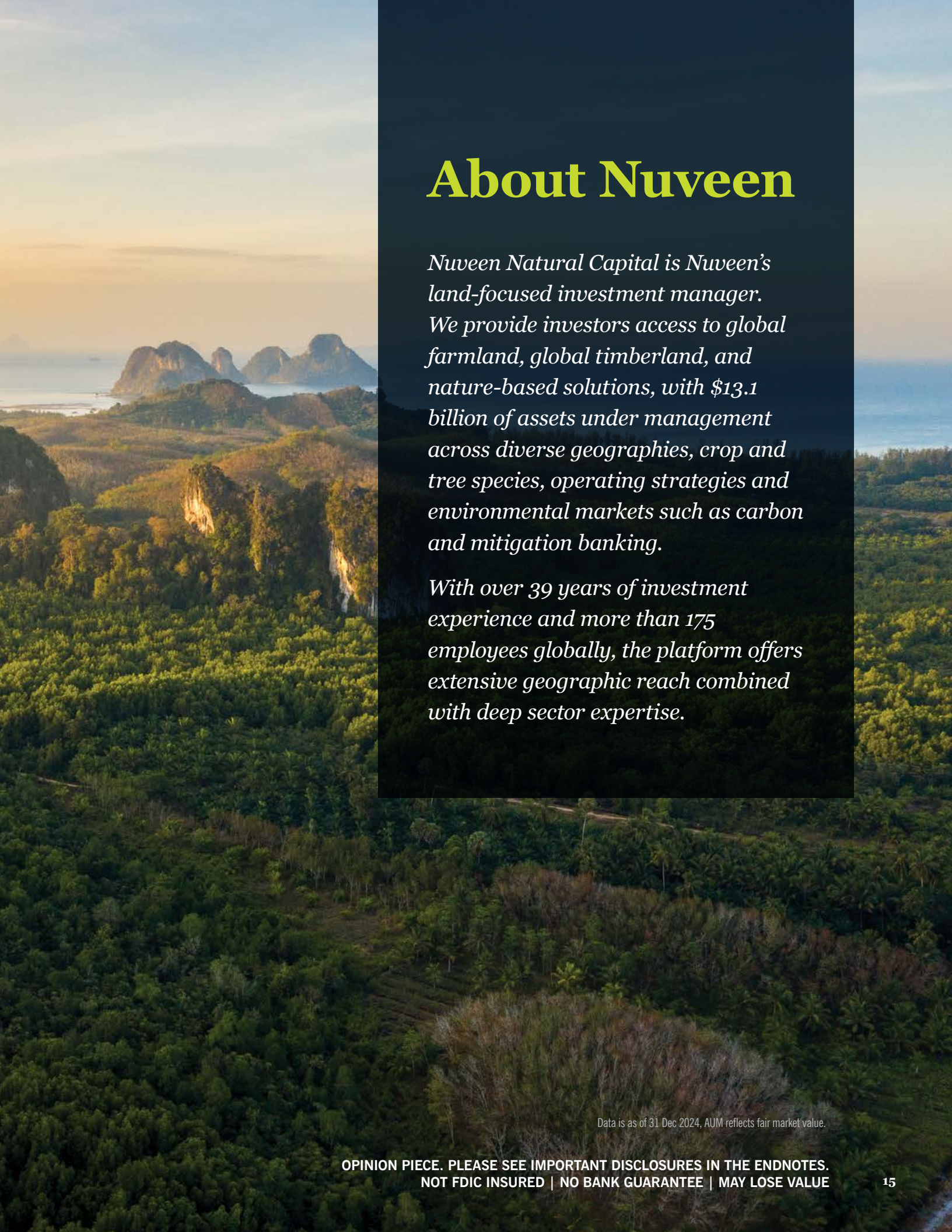

About Nuveen

Nuveen Natural Capital is Nuveen's land-focused investment manager. We provide investors access to global farmland, global timberland, and nature-based solutions, with $13.1 billion of assets under management across diverse geographies, crop and tree species, operating strategies and environmental markets such as carbon and mitigation banking.

With over 39 years of investment experience and more than 175 employees globally, the platform offers extensive geographic reach combined with deep sector expertise.

Data is as of 31 Dec 2024, AUM reflects fair market value.

For more information about investing in natural capital, visit us at nuveen.com/naturalcapital

Endnotes

1 See for example Investing in natural capital and Investing in farmland, Nuveen Natural Capital Research.

2 International Union for Conservation of Nature (IUCN), https://iucn.org/our-work/nature-based-solutions.

3 State of Finance for Nature 2023, UNEP - UN Environment Programme, December 9, 2023.

4 MSCI Carbon Markets, Voluntary Carbon Market – Market size up to 2050 (November 2024).

5 See Investing in Biodiversity, Nuveen Natural Capital Research, Q1 2024.

6 NNC using RIBITS transaction data.

7 Trust for Public Land, Conservation Almanac.

8 What landowners can do now to gear up for the biodiversity net gain market, Natural England, February 22, 2023.

9 See for example Regenerative agriculture, Nestlé Global, https://www.nestle.com/sustainability/nature-environment/regenerative-agriculture or Regenerative/Sustainable Agriculture, Mondelez International, https://www.mondelezinternational.com/snacking-made-right/esg-topics/regenerative-sustainable-agriculture/.

10 Over 500 organisations and $17.7 trillion AUM now committed to TNFD-aligned risk management and corporate reporting, Taskforce on Nature-related Financial Disclosures, October 25, 2024.

Risks and other important considerations

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Investors should be aware that alternative investments are speculative, subject to substantial risks including the risks associated with limited liquidity, the potential use of leverage, potential short sales, currency exchange rates, and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, they may not be required to provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as other types of pooled investment vehicles, and they may be subject to high fees and expenses, which will reduce profits.

As an asset class, agricultural investments are less developed, more illiquid, and less transparent compared to traditional asset classes. Agricultural investments will be subject to risks generally associated with the ownership of real estate–related assets, including changes in economic conditions, environmental risks, the cost of and ability to obtain insurance, and risks related to leasing of properties.

Timberland investments are illiquid and their value is dependent on many conditions beyond the control of portfolio managers. Estimates of timber yields associated with timber properties may be inaccurate, and unique varieties of plant materials are integral to the success of timber operations; such material may not always be available in sufficient quantity or quality. Governmental laws, rules and regulations may impact the ability of the timber investments to develop plantations in a profitable manner. Investments will be subject to risks generally associated with the ownership of real estate–related assets and foreign investing, including changes in economic conditions, currency values, environmental risks, the cost of and ability to obtain insurance and risks related to leasing of properties.

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