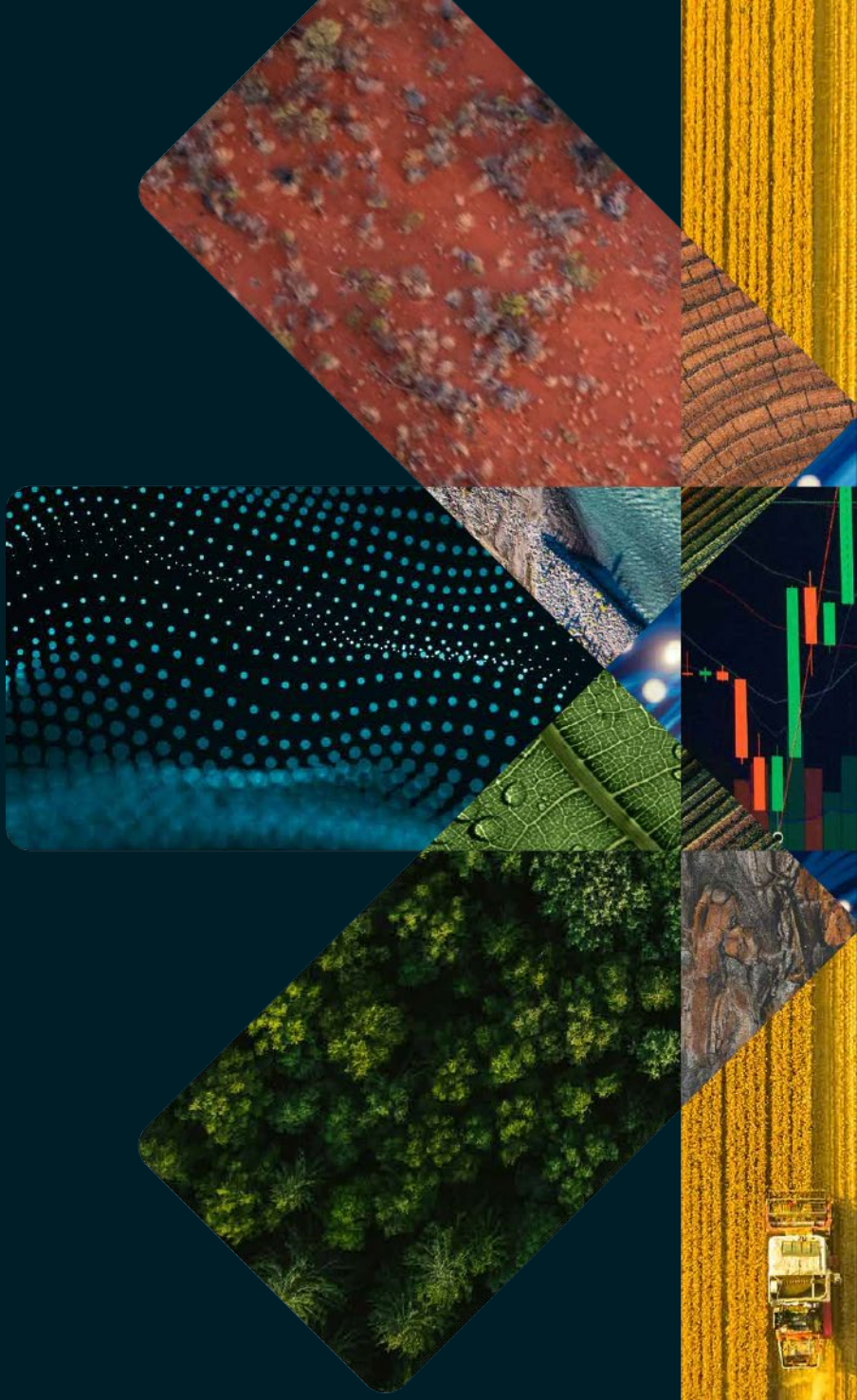
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What is Natural Capital?

Return Drivers, Opportunities and Risks

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Overview
Natural Capital includes productive forests and farmland, the income and growth they generate, and the environmental services associated with managing land over the long term. This summary covers the main return drivers, opportunities, risks and implementation considerations.

Introduction

This summary provides a short introduction to natural capital as an investment sector, with a focus on forestry and farmland. It outlines how these assets generate returns, the structural factors supporting demand, and the role that active management plays in maintaining and improving asset value. It also covers diversification across forestry and agriculture, carbon and ecosystem services, and the key risks and considerations associated with investing in natural capital.

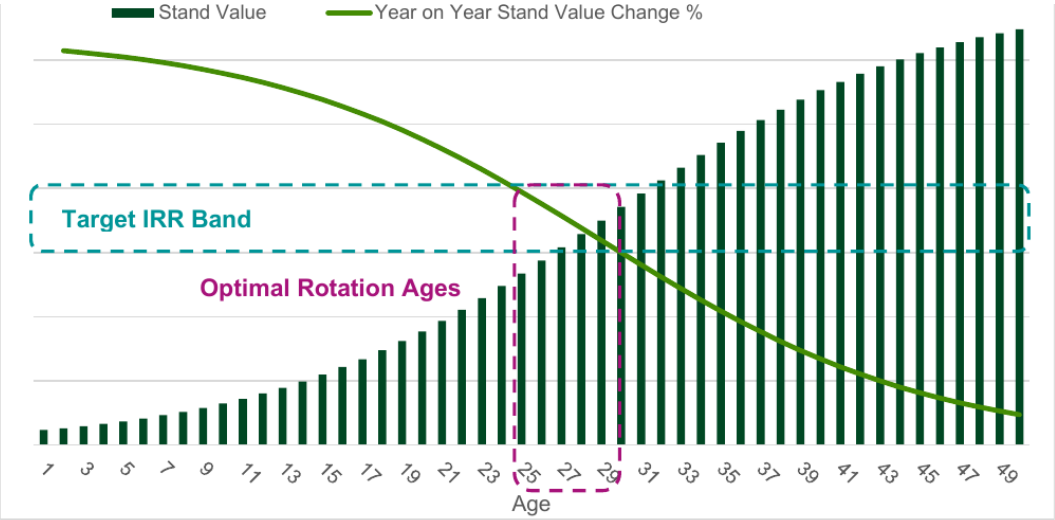
1. What Natural Capital includes

Natural Capital covers productive land and the biological assets it supports, mainly forests and farmland. Value comes from biological growth, land productivity and the sale of timber, food, fibre and renewable materials. An investment may include outright land ownership, leasehold or other land-use rights, together with the crops or forests growing on that land. Carbon credits, biodiversity payments and other ecosystem-service revenues can add value, but generally sit alongside the core timber or agricultural business rather than replacing it.

Over time, careful management can improve productivity, create more options for how the land is used and increase asset value. In forestry, this may involve species selection, thinning and harvest timing. In agriculture, it may involve improving soil fertility, water efficiency and resilience. Productive land is also limited by urbanisation, environmental protection, water constraints and competition from other uses.

2. Return drivers and cash flows

Forestry returns come from biological growth, active forest management, timber prices, changes in land value and, in some cases, ecosystem services. As trees mature, they add volume and may move into higher-value log categories. Management can include planting, thinning, pruning, fertilisation, weed control, pest and disease management, and measures to reduce fire risk. Cash is realised when timber is harvested. Harvest can sometimes be delayed when prices are weak, allowing the trees to remain standing and continue growing, although timber-price risk remains.



After harvest, the cycle restarts with replanting, and the asset continues into subsequent rotations. Rotation lengths vary materially by species and geography, from approximately 7 to 15 years for fast-growing broadleaf species (hardwoods) such as eucalyptus to 30, 60, or more years for temperate conifer species (softwoods) such as pine and spruce and managed natural forests. These long horizons underpin the suitability of forestry for investors with long-dated liabilities and explain why holding periods of 10 to 20 years are typical among pension funds, sovereign wealth funds, endowments, and insurers.

Figure 1. Indicative volume and grade-mix progression for a softwood stand. Source: Fundamentals of Natural Capital, Figure 2.

Farmland combines productive real estate with crop or livestock production. Annual crops generate seasonal income and can be changed from one planting cycle to the next. Permanent crops require more capital upfront and may take several years to reach full production, but mature orchards or vineyards can generate higher revenue per hectare. Leasing provides fixed rent and more predictable cash flow. Direct operation gives the owner full exposure to farm profits, production outcomes and commodity prices. Hybrid arrangements combine base rent with a share of production or revenue.

3. Opportunities and diversification

Forestry and farmland benefit from structural, long-term tailwinds, including population growth, rising global incomes and the constrained supply of highly productive land. They provide exposure to essential global needs, including wood products for construction, packaging, renewable materials and the broader bioeconomy, as well as food, fuel and fibre for a growing world population. The two asset types also have different income patterns. Forestry income is periodic and usually concentrated around thinning and final harvests, while farmland tends to produce more regular income through seasonal production or lease payments. Holding both can spread exposure across commodities, weather patterns, regions and cash-flow profiles. Diversification can be widened through a mix of geographies, tree species and forest age classes, as well as different water sources, soil types, crops and agricultural operating models.

Characteristic	Forestry	Farmland
Harvest timing	Harvest can be delayed	Harvest typically cannot be delayed
Inventory	Trees continue growing if unharvested	Crops may perish if not harvested
Biological cycle	Years to decades	Months to years
Cash flow pattern	Periodic and concentrated around harvest	More regular, often annual
Market exposure	Wood products, construction and packaging	Agricultural commodities and food systems

Figure 2. Forestry and farmland characteristics. Source: Fundamentals of Natural Capital, Section 5.

4. Carbon and ecosystem services

Forests remove carbon dioxide from the atmosphere as they grow, while well-managed soils can also store more carbon. These outcomes may be recognised through compliance markets, voluntary markets or international transfer mechanisms. Nature-based carbon projects can include afforestation, reforestation and revegetation, improved forest management, and REDD+. The value of a carbon credit depends on project quality, methodology, location, permanence, additionality, environmental and community benefits, regulatory eligibility and market conditions. At McCloud Forest, timber-only and timber-plus-carbon scenarios were assessed separately. Timber remained the basis of the valuation, with carbon treated as an additional potential revenue stream under California's compliance framework.

7.3 Stewardship to drive value creation at Rance Timber (South Africa)

New Forests' 2025 acquisition of Rance Timber in South Africa illustrates how stewardship can drive value creation in natural capital assets. With a history dating back more than 100 years, Rance Timber manages more than 14,000 hectares of plantation forests and employs approximately 1,400 people across forestry and sawmilling operations.

In addition to improving commercial performance, New Forests is seeking to enhance long-term value through sustainable forest management, biodiversity protection, workforce development and operational improvements. Nearly 40% of the estate is maintained as indigenous forest, grasslands and other conservation areas, demonstrating how productive forestry and environmental stewardship can be managed together to support both financial returns and landscape resilience.

7.4 Strategic Partnerships

The sector is also seeing a growth in strategic partnerships among specialist managers, institutional investors, and industrial companies. In 2025, the Japanese forestry and paper products company Oji Holdings announced a strategic partnership with New Forests to accelerate its global forestry and natural capital strategy, an example of how even sophisticated forestry-industry participants may partner with specialist managers for their broader geographic reach, carbon market expertise, and diversified experience across forestry, conservation, and ecosystem services.

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5. Risks, governance and implementation

The main risks include changes in commodity prices, wildfire, storms, drought, pests, disease, water insecurity, labour and input costs, infrastructure constraints, regulatory change, land-use restrictions and limited liquidity. Risk management measures include diversification, insurance, hedging, certification, monitoring technology, climate analysis and active asset management.

Manager capability is especially important because these assets require specialist knowledge of sourcing, underwriting, biological systems, operations and regional markets. Valuations typically draw on discounted cash-flow analysis and comparable transactions, supported by independent appraisals and clear assumptions. Performance is considered through measures such as IRR, MOIC and DPI, together with realised exits, independent valuations and evidence of operating and biological improvement.

Conclusion

Forestry and farmland are long-term, operationally intensive investments. Their value is tied to biological productivity, the quality and scarcity of productive land, demand for essential commodities and the standard of ongoing management. Sustainable land management, carbon and other ecosystem services can contribute to value creation and risk management. Strong underwriting, diversification, governance and long-term oversight remain central to the investment approach.