

EXPERT COMMENTARY

Forest Investment Associates' head of sustainability MaryKate Bullen explains how GPs can build real asset value and grow LP confidence in timberland investing



Natural capital leadership

Rising interest in natural capital, driven by climate concerns, biodiversity loss, corporate sustainability goals and regulatory pressure, is fueling demand for forestry as an investment solution. The asset class's investment appeal is grounded in its financial characteristics, including risk-adjusted return potential, portfolio diversification benefits, inflation hedging attributes and historically demonstrated low volatility.

Delivering 6.8 percent annualized returns over the last two decades, timberland has demonstrated its value as a portfolio diversifier and inflation hedge (the chart indicates US timberland has delivered positive real returns across 10-year holds since 2000). Today, expanding opportunities from carbon markets and natural capital demand are reinforcing timberland's financial and strategic appeal, offering potential for additional upside, optionality and scaled, positive environment impact.

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As nature-based strategies move toward the investment mainstream, expectations for clear, credible and verifiable outcomes are rising. Demonstrating measurable results is no longer a differentiator; it is becoming a necessity. Investors that can substantiate both the financial and environmental value of natural capital assets will be better positioned to capture growing allocations and strengthen long-term portfolio performance.

This article highlights two case studies illustrating how Forest Investment Associates (FIA) seeks to set a high standard for natural capital investing: our work on forest carbon accounting and assurance; and our efforts

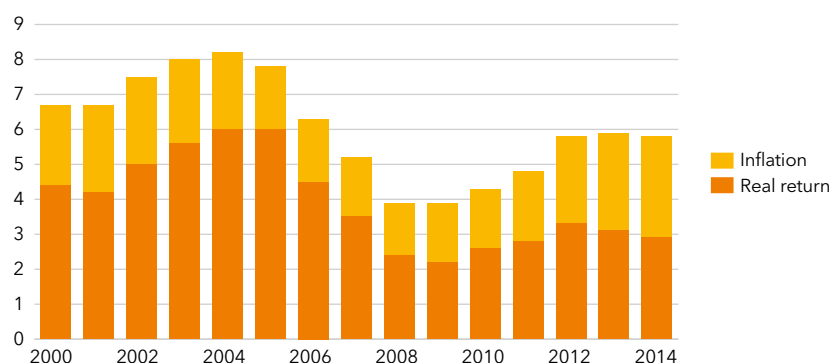
to align forestry investments with the EU Taxonomy.

Forest carbon accounting for climate impact

For investors looking to integrate climate-smart strategies into their portfolios, forestry offers a powerful, natural solution. Timberland investments contribute meaningfully to carbon sequestration through the biological growth of forests, the long-term storage of carbon in harvested wood products and the substitution of wood-based products for more carbon-intensive materials across a broadening range of applications.

Yet without consistent standards for measuring and reporting forest carbon outcomes, benchmarking progress or communicating results remains a challenge. Timberland's role as a nature-based carbon removal asset means it does not fit cleanly into existing net-zero frameworks. Building greater

Annualized returns by vintage for 10-year US timberland holds (%)



Source: FIA analysis of NCREIF Total Timberland Property-Level Index and Federal Reserve Economic Data Consumer Price Index for All Urban Consumers: All Items in US City Average, Seasonally Adjusted.

Case study: Developing forest carbon reporting systems with reliability

Our collaboration with Danish pension provider and FIA client PFA served as a critical pilot in advancing reliable forest carbon reporting. The work was conducted for PFA's climate-smart forest mandate as part of its broader strategy to support net-zero commitments. Through this engagement, FIA implemented a structured, third-party-assured approach to net carbon accounting, combining operational data with audit-grade controls and investor reporting alignment. This model now supports our broader application of carbon data transparency across the timberland investment platform.

Four learnings from FIA's carbon readiness and assurance work

1. Clear, documented procedures make carbon accounting scalable across diverse accounts and regions.
2. Applying financial reporting rigor to ESG data improves reliability and decision-usefulness.
3. Aligning financial and ESG audits creates synergies that strengthen overall credibility.
4. Third-party verification strategically can de-risk ESG claims and enhance investor confidence.

Carbon estimation methodologies

- Integrate carbon estimation into the core data management system.
- Align operational, financial and carbon reporting through a single forest information dataset.

Reporting principles

- Develop carbon reporting principles based on international best practices.
- Engage independent consultants to validate reporting principles against client objectives and global benchmarks.

Readiness assessment

- Engage a Big Four firm to conduct a readiness review as a precursor to limited assurance.
- Assess data collection, internal controls and methodologies to confirm eligibility for limited assurance reporting.

Process enhancements

- Strengthen documentation of internal review and quality assurance processes.
- Align ESG data controls with financial data controls.
- Develop clear, concise 'management's criteria' to guide transparent reporting.

Limited assurance

- Undergo a limited assurance audit to validate net carbon sequestration results and strengthen client confidence.

confidence will require robust, verifiable reporting practices that turn forestry's climate contributions into clear, trusted investment outcomes.

Recognizing this, FIA proactively developed a structured approach that aligns internal timberland data management, valuation and reporting practices with forest carbon accounting. By understanding forest carbon stocks and how silvicultural decisions influence net carbon sequestration, investors can embed climate-smart targets directly into portfolio strategy, linking environmental performance to financial management. This integration strengthens not only carbon credentials but also may enhance portfolio resilience against future regulatory tightening and carbon market developments.

Since 2020, FIA has employed carbon estimation methodologies to report on portfolio-wide carbon stock changes, representing the climate impact of forest investments in terms of the net impact on greenhouse gas fluxes. As investor demand for transparent reporting grew, FIA expanded these protocols, embedding principles for carbon data quality and enabling performance-linked climate incentives alongside traditional financial returns.

To ensure credibility, a Big Four auditor was engaged in a two-phase process: first conducting a carbon readiness assessment to strengthen internal systems and then securing limited assurance of reported net carbon sequestration results alongside the financial audit. Independent verification provides additional confidence that reported outcomes are credible, free from material misstatement and aligned with investor expectations.

Ultimately, the result can lead to stronger trust and greater strategic optionality. Investors can now access reliable carbon data supporting the role of timberland not just in delivering measurable climate mitigation but also in enhancing the diversification, inflation protection and sustainable income potential of their broader portfolios.

Reliability in EU Taxonomy alignment claims

While regulatory frameworks like the EU's sustainable finance regulations are designed to build credibility and standardization around sustainable investments, achieving full alignment requires navigating complex, evolving and detailed criteria, especially for natural capital assets. This complexity has created an urgent need for practical leadership; investors must go beyond high-level claims to deliver evidence-based, defensible reporting.

FIA took early, proactive steps to help clients navigate these challenges. Since the introduction of the EU's sustainable finance regulations, we worked closely with investors to map forestry investments against SFDR reporting requirements and Taxonomy alignment pathways. The process is tailored – not one-size-fits-all – recognizing that client needs differ based on the scale and structure of their investments and sustainability strategies.

Initial efforts focused on mapping

existing forest certifications to sustainable investment objectives and completing physical risk assessments. As regulatory expectations matured, FIA expanded its focus toward deeper technical alignment at the investment strategy level, including detailed screening criteria assessments, climate risk adaptation measures and minimum safeguards compliance. To strengthen transparency and credibility, an external benchmarking study of forestry sector Taxonomy reporting practices was commissioned. This research revealed a widespread gap: while many forestry reports suggest general alignment, few provide sufficient evidence to substantiate claims against detailed technical criteria.

Building on these insights, an internal review of investment policies, operating procedures, and reporting frameworks was conducted. Two strategic priorities emerged:

1. Strengthen technical alignment.

Enhance climate risk assessments and link management decisions to

measurable adaptation outcomes to enable alignment under the Climate Change Adaptation objective.

2. Expand minimum safeguards disclosure.

Clarify how responsible business conduct policies meet corporate governance and evolving human rights due diligence expectations embedded in the Taxonomy.

Rather than viewing these demands as regulatory burdens, we see them as an opportunity to lead: to build a stronger, more resilient platform for sustainable forestry investments that can support both financial and climate goals in an increasingly discerning investment environment.

Building momentum for natural capital leadership

FIA's work on forest carbon accounting and EU Taxonomy alignment illustrates how natural capital factors are aligning with evolving institutional priorities and risk management practices. These efforts position forestry at the forefront of a new era in sustainable investing; one where natural capital drives portfolio resilience, sustainable returns and measurable real-world impacts.

Verifiable, data-driven approaches are essential to capture this opportunity. By embedding rigor and transparency into our investment practices, FIA is helping to set a higher standard for what institutional-grade natural capital investing looks like. This approach does more than satisfy compliance requirements. It aims to strengthen financial resilience, support future asset valuations, mitigate reputational and regulatory risks, and position timberland to deliver enduring value as part of diversified, inflation-protected portfolios.

Natural capital investing is entering a phase of acceleration. Investors that lead today, by demanding and delivering measurable, credible outcomes, will not just benefit from current market momentum. They will help define a future where capital flows, climate impact and portfolio performance are increasingly inseparable. ■

Case study: Benchmarking and making credible EU Taxonomy alignment claims

Key risk

Most forestry claims lack substantiation against technical screening criteria and minimum safeguards

Potential action

Clarify assessments at the criterion-by-criterion level, not just against headline objectives

Forest certification standards can support alignment but are not complete proof

Specify how certification ties to Taxonomy criteria, identify gaps, and explain how gaps are addressed

Global criteria often misfit local forest contexts

Justify interpretations where global indicators do not fully address local ecological, policy, or management realities

Minimum safeguards require disclosures beyond forestry-specific issues

Expand Taxonomy-specific disclosures or clearly link to broader responsible business conduct reporting (eg, sustainability reports)

Four learnings from FIA's EU Taxonomy benchmark and alignment roadmap

1. Certification is an important basis for Taxonomy alignment, but sustainable investment objectives require additional measures and reporting.
2. Climate adaptation reporting must link measurable risks and targets to portfolio resilience.
3. Minimum safeguards expectations require broader, transparent human rights and responsible conduct disclosures.
4. Tailored alignment strategies are essential; reporting calls for justification of interpretations to address diverse forest contexts globally.