

Where nature meets necessity

Six demand engines behind the natural capital opportunity

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Natural capital is often framed as a narrow sustainability theme. A more useful way to think about it is that the biodiversity it supports and the ecosystem services that flow from it are part of the operating backbone of the real economy: the water, waste and environmental systems that allow cities to function, industries to expand and societies to remain productive under tightening resource and regulatory constraints. That is why the investable universe for natural capital solutions is broader, and more economically relevant, than it is often given credit for.

This matters because much of the demand in natural capital is not primarily sentiment driven. It is anchored instead in hard constraints: ageing infrastructure, water scarcity, contamination, landfill limits, tightening environmental regulation, supply-chain fragility and rising physical climate risk. In water alone, the scale of the challenge is already substantial. Global systems are simultaneously confronting scarcity, ageing assets and worsening quality concerns, with the market for solutions estimated to exceed \$500 billion and growing at a mid to high single-digit rate.¹

For investors, the key point is that these pressures increasingly translate into non-discretionary spending. Companies and public authorities may be able to defer other forms of investment, but they cannot indefinitely avoid replacing leaking pipes, treating contaminated water, securing permits, complying with discharge limits, managing waste safely or protecting critical assets against physical disruption. In many cases, the cost of inaction is simply too high: operational downtime, regulatory penalties, lost permits, public-health failures, higher insurance costs or impaired asset values.

That gives natural capital solutions a distinctive form of resilience. Rather than depending on a single subsidy regime or a narrow environmental narrative, many of these businesses are exposed to several structural growth drivers at once. They sit where environmental constraint meets economic necessity, providing the technologies, infrastructure and specialist services that allow other parts of the economy to operate, grow and adapt.

Below, we show why natural capital should be understood both as an important sustainability allocation and as a diversified framework for accessing durable demand across six key growth engines: infrastructure renewal, urbanisation, industrial build-out, circularity, regulatory compliance and physical resilience.

1. Infrastructure renewal

The first and perhaps clearest demand engine is infrastructure renewal. In developed markets, decades of underinvestment in water, wastewater and related environmental systems are now colliding with stricter quality standards, climate volatility and the physical reality of assets reaching the end of their useful lives. Much of this infrastructure was designed for a different century. In the United States alone, there are roughly 240,000 water-main breaks every year², whilst across North America, around one in five mains is already past its useful life and replacement needs are estimated at approximately \$452 billion³.

Infrastructure renewal is a long-duration exposure to unavoidable reinvestment in essential systems.

This is not only a maintenance problem; it is a reinvestment cycle. A selected group of major public US water utilities spent around \$21 billion on capital expenditure between 2020 and 2024 and now expect to spend roughly \$31 billion between

¹ [William Blair, 'Tapping into the World of Water', August 2025](#)

² [Infrastructure Report Card, 2017](#)

³ [ASCE, April 2024](#)

2025 and 2029¹, implying an increase of around 50%. Near-term plans also point to acceleration, with infrastructure spending among those utilities rising from about \$5.3 billion in 2024 to roughly \$6 billion in 2025¹. Much of this capital is going not just into replacing old pipes and plants, but into improving resilience, reducing leakage, modernising treatment processes and addressing contaminants such as PFAS that older systems were not designed to handle.

This is where natural capital solutions become highly investable. The beneficiaries are not only regulated water utilities, but also the engineering, environmental and technology providers that help asset owners design, permit, finance and operate more resilient systems. These businesses often sit behind the scenes, but their role is increasingly mission-critical: helping governments and utilities reconcile reliability, water quality, flood management, ecological protection and public-health standards within a single infrastructure programme.

The investment attraction is straightforward. Infrastructure renewal is supported by necessity, long asset lives and, in many cases, regulated or quasi-regulated frameworks that improve visibility on spend and returns. The longer renewal is deferred, the more expensive and disruptive it becomes, which creates a powerful bias toward action. For investors, we argue that, given these pressures, this part of the natural capital universe is less a cyclical trade and more a long-duration exposure to unavoidable reinvestment in the systems that underpin economic activity.

In practice, that translates into long-term contracts to modernise treatment plants, deploy reuse solutions and upgrade networks in cities around the world, often backed by regulated or concessionary frameworks that align capital returns with better water quality, reliability and environmental performance.

2. Urbanisation and emerging market build-out

If mature economies face a renewal problem, many emerging economies and fast-growing cities face a build-out problem: how to extend reliable water, sewage and wastewater treatment networks to rapidly growing urban populations that have historically lacked adequate coverage. That makes natural capital solutions central not only to environmental outcomes, but to basic economic development, public health and social stability. In these markets, demand is driven by demographic pressure and rising service expectations as much as by regulation, creating long-dated investment programmes around essential infrastructure.

In emerging cities, natural capital solutions are central to basic economic development.

Sabesp⁴ is a strong illustration of this dynamic. It is the largest sanitation company in Brazil and one of the largest in the world, serving 30.3 million people with clean water and 27.4 million with sewage services across 376 municipalities in São Paulo state.⁵ The investment case is not simply one of utility expansion; it is one of universalisation. IDB Invest states that Sabesp's current programme is

intended to expand sewage collection and treatment coverage from 85% to 99% of the population in São Paulo by 2029, supported by a \$200 million blue-labelled loan tied to sustainable wastewater management and pollution prevention.⁶

Sabesp's sustainability and financing framework underlines why this belongs in a natural capital investment universe. The company's sustainable finance framework directs proceeds toward water-related investments such as expanding access to safe drinking water and sanitation, reducing water losses, improving infrastructure resilience and cutting wastewater discharges. That means capital deployment is directly linked to both service expansion and the protection of rivers, catchments and downstream ecosystems in one of the world's largest urban regions.

The Tietê programme provides the most tangible case study. IDB Invest describes the Tietê River Depollution Project as a programme to restore water quality in the São Paulo metropolitan region through the expansion of sewage coverage and wastewater treatment capacity. Arcadis, one of the technical partners involved, describes the wider Tietê project as focused on protecting citizens from the effects of polluted water by expanding sewer networks, interceptors and treatment systems across Greater São Paulo. More recent public information points to further major investment in depollution, wastewater treatment and water-quality monitoring under the expanded Tietê clean-up effort.

⁴ Portfolio holdings are subject to change at any time without notice. This information should not be construed as a recommendation to purchase or sell any security.

⁵ [Sabesp company website](#)

⁶ [IDB Invest](#)

For investors, the attraction is clear. This is not discretionary environmental spending; it is regulated, policy-backed, socially essential infrastructure tied to urban growth and public-health outcomes. It also shows why natural capital should not be viewed narrowly as a “developed market clean-up” theme. In emerging cities, natural capital solutions are often the basic networks that allow urbanisation and rising incomes to proceed without locking in deeper pollution, water insecurity and social costs.

3. Industrial build-out

Industrial expansion across the world, prompted by innovation, development and the desire for economic sovereignty, is creating a different form of pressure: the need to support resource-intensive growth sectors in places where water, land and environmental capacity are already constrained. This is particularly true of semiconductors, data centres and other advanced manufacturing activities, which are often discussed through the lenses of AI, digitalisation and industrial policy but depend just as much on reliable access to ultrapure water, wastewater treatment, land suitability and environmental permits.

That constraint is increasingly visible in water-stressed regions. In Arizona, for example, local authorities have introduced specific rules governing data-centre development, while cities such as Chandler have tightened zoning, notification and operating requirements and broader public scrutiny of water use has intensified. Reporting on the Phoenix area also points to formal limits on water use for data centres in some jurisdictions and to growing concern that rapid expansion could strain already limited regional water budgets.⁷ In practice, that means capacity growth increasingly depends on credible plans to minimise freshwater intake, recycle process water and operate within tighter local environmental constraints.

Here, natural capital solution providers are mission critical. In semiconductor manufacturing, ultrapure water is an essential input, with production requiring water that is purified to extremely high standards in order to protect yield and performance. Companies such as Organo and Mega Union⁴ sit at the centre of that requirement. Organo provides integrated water management for semiconductor fabrication plants (fabs), spanning ultrapure water and process-water production, while Mega Union specialises in the design and engineering of ultrapure water and wastewater recovery systems for high-tech industries. Internal sustainability analysis reinforces that positioning, concluding that around 96% of Organo’s revenue and effectively all of Mega Union’s revenue are tied to sustainable water-system management aligned with SDG 6⁸.

For investors, this creates a compelling way to access the AI build-out.

The investment implication is important. For customers, these systems are not optional efficiency upgrades; they are enabling infrastructure that allows advanced industrial facilities to be permitted, operated and expanded in regions where water stress and pollution limits are becoming binding constraints. Water treatment, recovery and reuse therefore become part of the licence to operate. The more semiconductors, data centres and advanced manufacturing scale into constrained basins, the more demand accrues to the companies that can close local water loops, raise recovery rates and keep discharges within ever tighter regulatory thresholds.

For investors, this creates a compelling way to access the AI build-out through a less crowded but highly necessary layer of the value chain. Much of the public market focus remains on chip designers, equipment makers and digital infrastructure owners. Yet without the water treatment and recycling capabilities provided by businesses such as Organo and Mega Union, many of these high-growth assets would struggle to scale economically or politically in the places where they are being built.

4. Circularity and waste

In a world of finite resources, industrial activity must use them efficiently – not only in its inputs, but also in how it reduces, diverts and recaptures material flows once they become waste. This opportunity has two distinct but complementary layers. The first is waste management as essential civic and industrial infrastructure. The second is circularity: the recovery of useful materials from waste streams that would otherwise be landfilled, lost or treated purely as a cost.

⁷ [Lexology, March 2026](#)

⁸ Redwheel analysis

The infrastructure layer is easy to overlook because it sits so close to daily operations. Yet efficient waste collection, transfer, treatment and disposal are basic conditions for sanitation, air quality and urban resilience. These services are environmentally material not only because they enable recycling, but because failures in collection and safe disposal lead directly to pollution, clogged drains, flooding and public-health risks. In that framework, collection and transfer are not low-value logistics attached to a greener activity elsewhere; they are the operating backbone of a functioning waste system.

That matters because it reinforces the resilience of demand. Waste volumes do not disappear in downturns, and municipalities, businesses and households still require compliant collection and disposal services regardless of the cycle. Globally, the municipal waste system generated c. 2.56bn tonnes of solid waste in 2022. Only 15% was recycled and 6% composted or treated through anaerobic digestion, while 30% was either dumped or not collected at all, highlighting the scale of the opportunity for waste collection, recycling and circular economy infrastructure.⁹ Many large-scale operators have invested in advanced sorting, organics and circularity infrastructure. For instance, Republic Services⁴ has invested in innovative solutions such as its advanced polymer centres which produce food-grade recycled substitutes for virgin plastics.

At the same time, tighter regulation and community resistance make new landfill capacity increasingly difficult to permit. That gives existing networks and disposal assets scarcity value and encourages operators to maximise diversion and extend asset life.

As environmental standards tighten and virgin raw materials become more expensive or strategically sensitive, recovering useful inputs from industrial residues becomes more valuable. This is where Befesa⁴ provides a strong illustration. Befesa positions itself as a crucial part of the circular economy, providing regulated recycling services for hazardous residues generated by the steel and aluminium industries and reintroducing recovered materials into production processes. Its role is not simply to dispose of difficult waste safely, but to turn steel dust, aluminium salt slags and related residues into secondary raw materials such as zinc, aluminium concentrates and alloys.

Circular waste infrastructure turns non-discretionary public spending into resilient revenues and structural growth.

Befesa is a global leader in regulated critical environmental recycling services for steel and aluminium producers across key markets in Europe, Asia and North America, with plants located near major customers. The processes it undertakes are technically complex, creating a high barrier for new entrants. The company says its activities prevent around 1.8 million tonnes of residue from reaching

landfill each year, while recovering valuable materials that reduce reliance on primary production. In other words, this is circularity not as a consumer-facing aspiration, but as heavy industrial infrastructure embedded in the production of metals essential to autos, construction, grid equipment and broader industrial supply chains.

For investors, the significance is broader than the waste theme alone. These businesses benefit both from the non-discretionary need to manage waste safely and from the rising economic value of extracting more utility from every ton of material handled. That combination can support resilient revenues, pricing power in scarce permitted infrastructure, and structural growth in secondary-material recovery as economies move from linear disposal toward more circular resource systems.

5. Monitoring, compliance and permitting

As more of the economy operates under tighter environmental constraints, another layer of demand becomes increasingly important: the need not only to manage resources and waste better, but also to measure, verify and certify that this is being done to the required standard. For companies and asset owners, this is no longer just a matter of voluntary reporting. It affects their ability to secure permits, access markets, meet disclosure requirements, maintain customer trust and, in some cases, obtain financing or insurance on acceptable terms.

This is the terrain of the testing, inspection and certification (TIC) sector. Historically, leading TIC companies grew ahead of global GDP on the back of globalisation, regulation and outsourcing, with organic growth in the low double digits pre-GFC,

⁹ [World Bank Group, 'What a Waste 3.0: A global Snapshot of Solid Waste Management towards Circularity until 2050', March, 2026](#)

and more recently mid-single-digit growth, 15–25% margins and solid returns on capital.¹⁰ As those original tailwinds have slowed, sustainability-related services are emerging as the next major growth engine. These services span responsible resource use, environmental footprint measurement, product and food safety, circular-economy solutions. They also cover green buildings, supply-chain audits and social practices, making TIC firms increasingly relevant to natural capital themes.

Bureau Veritas⁴ is a good example of how this intersects with natural capital. Its sustainability-related activities now account for around 55% of revenue.¹¹ These activities include certifying environmental and energy-management systems, assessing building and infrastructure performance against green standards, verifying the sustainability of supply chains, and providing testing and inspection services that ensure products and industrial processes meet environmental and safety regulations. In construction and infrastructure, Bureau Veritas has built a strong position in both new-build and maintenance inspection, particularly in France, the United States and China, helping asset owners comply with evolving codes related to safety, energy efficiency, natural capital and resilience, thus facilitating development whilst protecting ecosystems.

For investors, this monitoring and compliance layer offers several attractive characteristics. First, demand is increasingly embedded in regulation and mandatory disclosure, which supports recurring revenue streams that are less sensitive to short-term economic cycles. Second, TIC providers benefit from reputational capital and in-depth operational knowledge of their clients, which creates high switching costs once they are embedded in inspection, certification and reporting processes. Third, the expansion of sustainability-related services means a growing share of their profit pool is directly linked to better management of natural capital risks: from pollution control and resource efficiency to safer, more resilient buildings, infrastructure and supply chains.

Environmental testing and certification are becoming mission-critical enablers of licence to operate.

Even with better infrastructure, circularity and compliance, some environmental risks cannot be engineered away entirely. The final demand engine reflects this reality: the growing need to protect assets, communities and ecosystems from the physical impacts of a changing climate.

6. Physical climate risk and resilience

Physical climate impacts - from more intense rainfall and flooding to drought, heatwaves and wildfires - are already affecting assets, supply chains and communities, and are expected to intensify over coming decades. That is pushing adaptation and resilience spending from a discretionary line item to core infrastructure requirement, especially in exposed sectors such as transport, utilities, real estate and coastal or riverine urban areas.

This demand engine is distinctive because it is primarily about avoiding loss and disruption rather than chasing incremental growth. Public reports and advisory bodies¹² highlight that climate resilience investments need to ensure all new and existing infrastructure can withstand the risks likely to materialise over its lifetime, from flood risk to heat stress and wildfire exposure. In practice, this translates into programmes to strengthen flood defences, upgrade storm-water systems, improve drainage in cities, protect or relocate critical infrastructure, and deploy nature-based solutions that use river systems, wetlands, forests and soils as buffers against physical shocks.

Companies such as Arcadis⁴ provide a clear illustration of how this links back to natural capital. The firm advises, designs and helps permit projects in flood defence, coastal resilience, water management and environmental infrastructure, often integrating grey and green solutions. Recent results have highlighted record backlogs and growing margins in these activities, suggesting that adaptation-related spending is already feeding through to order books and earnings. Other providers sit lower in the stack, supplying the sensors, modelling tools and monitoring services that allow asset owners and authorities to understand their exposure and prioritise interventions.

For investors, the appeal of this engine lies in its combination of necessity, duration and policy support. Physical climate risks are increasingly visible, insurable losses are rising, and regulators, lenders and insurers are all pressing for better

¹⁰ Company reports, Redwheel analysis, June 2026

¹¹ Company financials

¹² OECD Infrastructure for a climate Resilient Future April 2024

management of those risks. Once a major resilience project – such as a flood barrier, coastal defence or drainage upgrade – is approved, it typically involves multi-year capital commitments and long-lived assets, creating visible, often government-backed demand for the specialist capabilities needed to deliver it. In that sense, non-discretionary physical-risk and resilience spending completes the natural capital picture: it is where the consequences of under-managing natural systems show up most tangibly in cash flows, asset values and the cost of capital.

Natural capital as a core route to durable returns

We argue that the evidence across these six demand engines points to a simple conclusion: natural capital is not a peripheral theme, but a core route to durable shareholder returns. The companies in this universe derive their revenues from solving non-discretionary problems by protecting natural capital and harnessing ecosystem services. The result is renewed critical infrastructure, expanded access to basic services, industrial growth enabled within resource constraints, value extracted from waste, compliance and management of physical climate risk. These are activities that clients cannot easily postpone without incurring higher costs, greater risk or political and social backlash.

Natural capital is not a peripheral theme, but a core route to durable shareholder returns.

From a portfolio perspective, natural capital also offers genuine diversification. Exposure spans regulated utilities and concessions, engineering and consulting firms, industrial technology providers, waste and recycling operators, TIC companies and resilience specialists. End markets include water and wastewater, urban and industrial infrastructure,

semiconductors and data centres, metals and materials, buildings, logistics and more. This breadth means that returns are not tied to a single policy regime, sector or geography, but to a set of structural trends that are likely to persist: ageing assets, urbanisation, resource scarcity, regulatory tightening and a changing climate.

Crucially, many of these businesses combine resilient top-line drivers with attractive financial characteristics: recurring or repeat revenues, high barriers to entry, strong competitive positions in specialist niches, and the ability to reinvest into long-duration programmes backed by regulation or policy commitments. Where markets still misprice them as niche sustainability exposures, there is scope for a re-rating as investors increasingly recognise that they offer exposure to durable, diversified growth in the real economy. In short, natural capital solutions can deliver both impact and returns – not by trading one for the other, but by operating at the point where environmental constraints and economic necessity meet.

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