



# Informing Business and Financial Investment in Nature Positive Outcomes

*Erin Gianferrara*

# The world faces twin crises

Addressing nature risk and climate risk together will reshape the global economy over the coming decades

## The Climate Crisis

The latest IPCC report shows that emissions of greenhouse gases from human activities are responsible for approximately 1.1°C of warming since 1850-1900.<sup>1</sup> Unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5°C or even 2°C will be beyond reach.<sup>2</sup>

At 1.5°C of global warming, there will be increasing heat waves, longer warm seasons and shorter cold seasons.<sup>3</sup> At 2°C of global warming, heat extremes would more often reach critical tolerance thresholds for agriculture and health.<sup>4</sup>



### CLIMATE AND NATURE-RELATED FINANCIAL RISKS

Climate and nature-related risks are systemic risks to the global financial system, and companies are coming under increased pressure from regulators, financiers and shareholders to disclose on their exposure and management of these risks.



## The Nature Crisis

Nature loss is currently occurring at an unprecedented rate. Humanity has caused the loss of 83% of wild mammals by mass, and 1 million species of plants and animals are at risk of extinction.<sup>5</sup>

At the same time, biodiversity loss and ecosystem collapse has been identified as one of the top 5 global risks to the global economy in 2020 and 2021.<sup>6</sup>

Climate change also significantly intensifies other environmental sustainability challenges related to water, air pollution and biodiversity.

Transitioning the economy to address climate change and nature loss will require transformative change.

1-4. IPCC, 2021, *Climate Change 2021: the Physical Science Basis*

5. Bar-On et al, 2018 *The biomass distribution on Earth*

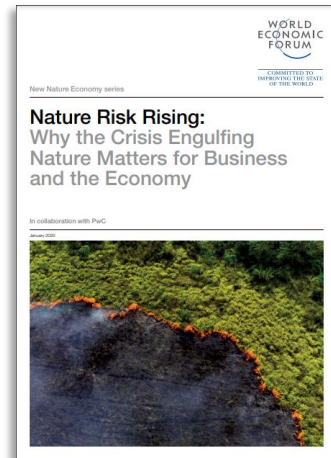
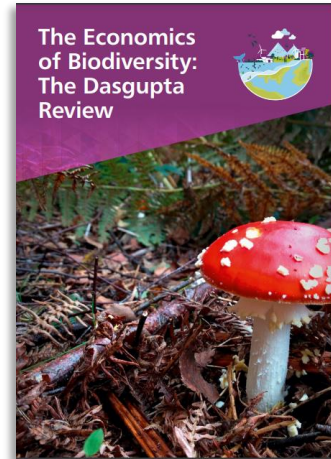
6. *The Global Risks Report 2020, 16<sup>th</sup> Edition: The Global Risks Report 2021, 17<sup>th</sup> Edition*

## There is a new awareness that nature underpins the global economy

The global discussion on nature and biodiversity, and its role in our economies and society is fundamentally changing.

Two recent publications have been pivotal in moving this discussion forward.

As these publications attest, nature underpins value-creation in our economies. Nature loss represents a material and urgent risk to our economies and the economic case for preserving and restoring nature has been made.



The UK's HM Treasury commissioned Professor Sir Partha Dasgupta to investigate the economics of biodiversity. The final report, often referred to as the 'Dasgupta Review', has fundamentally shifted the global conversation on biodiversity since its release in April 2021.

In January 2020 the World Economic Forum published its report, *Nature Risk Rising*. The report identified that \$44 trillion of economic value generation – more than half of the world's total GDP – is moderately or highly dependent on nature and its services and is therefore exposed to nature loss.

Largescale initiatives from the finance sector are signalling increased ambitions to address nature loss

Ratings agencies, banks, and institutional investors have begun to firm-up their position on nature and support for companies with positive impact



84 financial institutions representing over €12.6 trillion in assets have signed on to the Finance for Biodiversity Pledge.

Finance for Biodiversity is calling for the post-2020 Global Biodiversity Framework, to be agreed at COP15 to the UN Convention on Biological Diversity to include an explicit goal for financial institutions and businesses to align financial flows to global biodiversity goals and targets.



Proposals for a 'Nature Action 100' have been put forward by the World Bank and others, and the structure for a targeted investor engagement initiative on biodiversity loss is taking shape.

A World Bank Group paper 'Mobilizing Private Finance for Nature' included five key recommendations, one of which was the establishment of a 'Nature Action 100' to drive strategic engagement and change in the companies whose activities most threaten biodiversity.

FitchRatings



MOODY'S

BlackRock



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# Growing appetite for Paris-aligned climate and nature action from the investment community presents opportunity

SEVERAL TRENDS SHOW THAT NATURE IS BECOMING A MAINSTREAM CONSIDERATION:




**INVESTOR TRENDS:**

75% of LPs ranked climate change and sustainability as the market’s most influential mega-trend when deciding where they will invest in the next five years<sup>2</sup>



**EMERGING STANDARDS:**

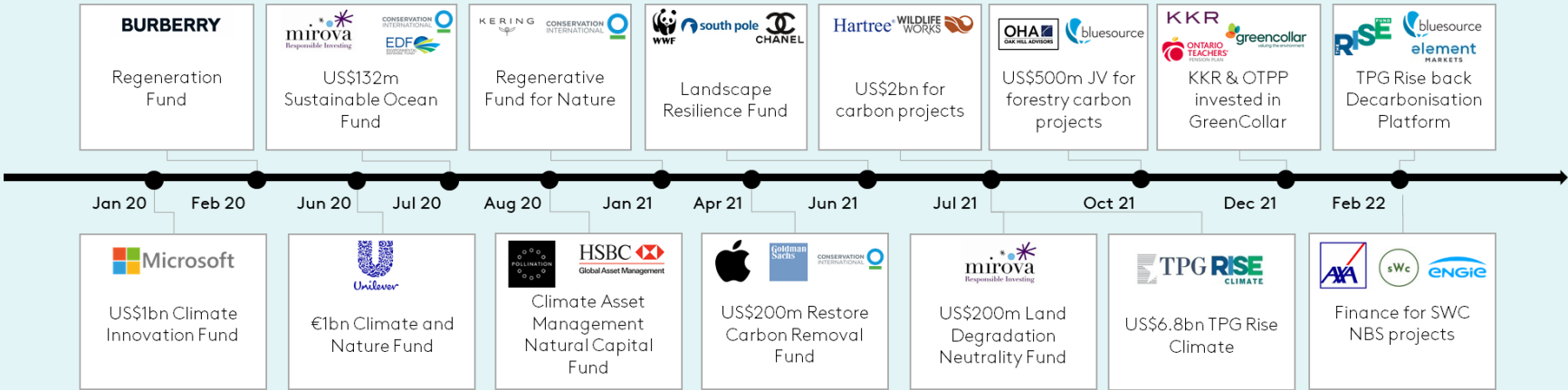
Widespread corporate engagement with Science-based Targets Network (SBTN) and Taskforce for Nature-related Financial Disclosures (TNFD)



**INDUSTRY DIRECTION OF TRAVEL:**

Sustainable supply chains and biodiversity offsets are emerging as the top nature-based solution (NBS) investment category for private sector investors including asset managers<sup>3</sup>

INVESTOR ACTION ON NATURE:



# Use of nature metrics creates an opportunity to reposition and respond to evolving needs of key stakeholders



Investors

- 500+ financial institutions have joined the Glasgow Financial Alliance for Net Zero, and 5,000+ companies are UN Principles for Responsible Investment signatories
- Given this, **investors are increasingly looking for opportunities to invest in companies that meet their ESG requirements**



Consumers

- Global consumers are becoming increasingly aware of sustainability issues
- There is **increasing demand for sustainable products** that provide consumers with the same level of convenience, while being transparent on their ESG credentials



Competitors

- Globally, leading companies, such as Microsoft, have made ambitious nature commitments and actions. This momentum is being seen in numerous sectors, where companies who are engaging with nature seen as leaders
- **To develop a market advantage, corporates can look to position as a leader** with regards to nature



Company

- Nature is declining globally at unprecedented rates<sup>1</sup>, increasing risk to over half of the world's economic output – \$44 trillion – which is moderately or highly dependent on nature<sup>2</sup>, therefore creating dependencies and interdependencies on nature (hotspots)
- Implementing strategic interventions to tackle these nature hotspots can help to **mitigate risks and build resilience in the supply chain**

## Leveraging data helps to

### DRIVE VALUE CREATION

CREATING  
MARKET  
ADVANTAGE &  
GROWTH

LEADERSHIP &  
ADVOCACY

GREATER &  
CHEAPER  
ACCESS TO  
CAPITAL

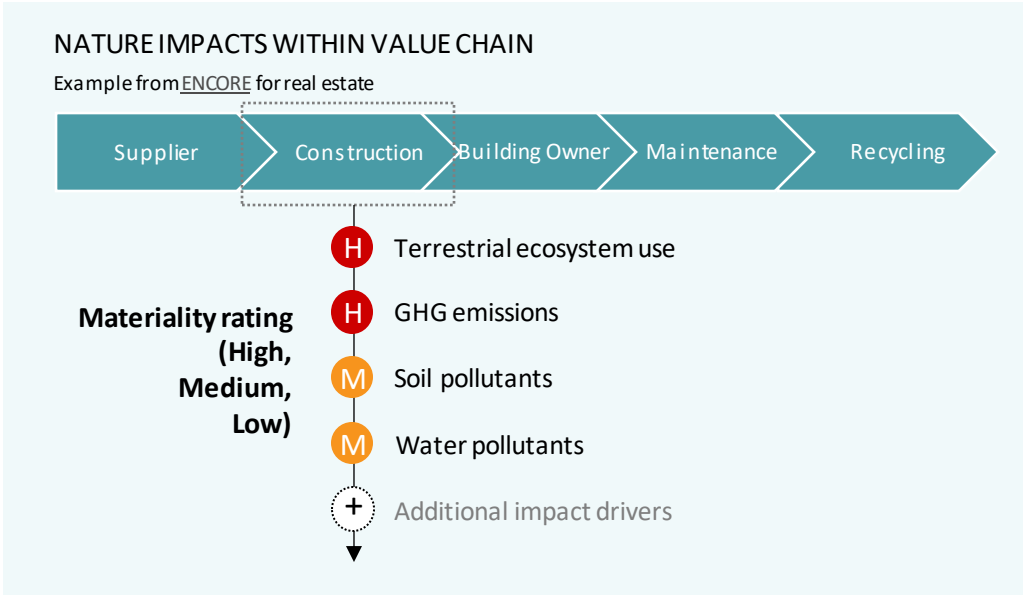
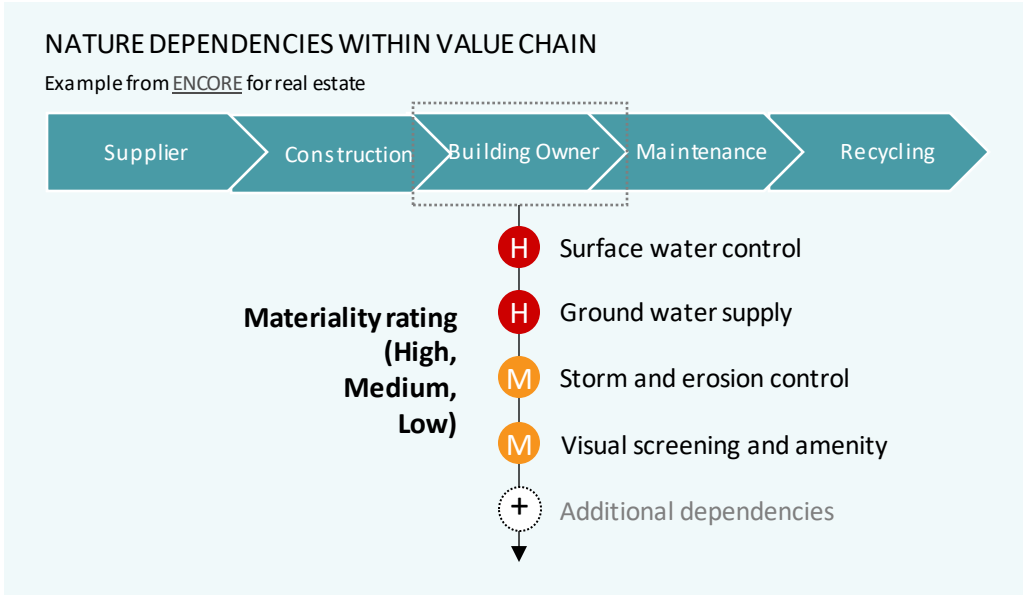
OPERATIONAL  
EFFICIENCY &  
RESILIENT SUPPLY

### MANAGE DOWNSIDE RISK

ADDRESSING  
REGULATORY RISK

RESILIENCE TO  
MARKET SHOCKS

A nature risk lens can support understanding of how investments depend and impact on nature, and how these potential dependencies and impacts might represent a business risk



NATURE-RELATED OPPORTUNITIES



PHYSICAL OPPORTUNITIES

- Engage sector on opportunities to mitigate physical risk and take adaptive action
- Ecosystem services opportunity
- Green infrastructure
- Distressed asset opportunities
- Increase resilience and influence risk mitigation adjacent sectors

TRANSITION OPPORTUNITIES

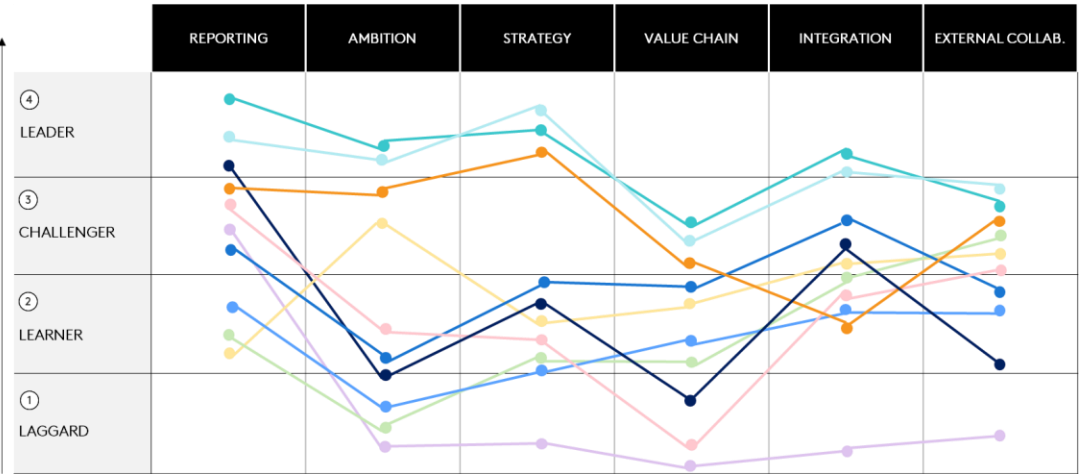
- Engage with regulatory bodies
- Address and front-run policy changes
- Develop mitigation options for destructive activities
- Enhanced reputation through mitigation activities
- Early mover in nascent markets
- Transparency of impact claims

# Investors can use reported nature and biodiversity metrics to understand a company's position relative to peers

Investors are increasingly using nature and biodiversity data and policies to undertake a landscape analysis of how a company is performing against peers.

It can also provide information on the relative exposure to a variety of nature and biodiversity risks, where the opportunities are, and where gaps exist.

Understanding business and its peers



Natural and manufacturing capital	Greenhouse gas (GHG) emissions	●	●*	●	●	●	●	●	●
	TCFD implementation	●	●	●	●	●	●	●	●
	Land use and ecological sensitivity	●	●	●	●	●	●	●	●
	Water consumption and withdrawal in water stressed areas	●	●	●	●	●	●	●	●
	Water pollution	●	●	●	●	●	●	●	●
	Air pollution	●	●	●	●	●	●	●	●
	Single use plastics	●	●	●	●	●	●	●	●
	Packaging waste disposal	●	●	●	●	●	●	●	●
	Solid farm waste (DAF)	●	●	●	●	●	●	●	●
	Resource circularity (recycled content, recycling)	●	●	●	●	●	●	●	●
	Animal welfare	●	●	●	●	●	●	●	●

\* Based on pending announcement of new targets

Assessment of overall ambition based on publicly stated targets: Low ● Medium ● High ● n/a ●



# Approach to Nature Positive Investing

POLLINATION IS HELPING TO DEVELOP NATURE POSITIVE INVESTING STRATEGIES BOTH FOR ADVISORY CLIENTS AND INVESTMENT PARTNERSHIPS

## DEFINING NATURE POSITIVE

- **Spatial and temporal scales are critical:** capturing short, medium, and long-term goals across geographic scales
- **Measurement against a baseline of 2020**
- **Multiple management actions will be required:** Similar to push towards Net Zero, a continuum of actions are needed for Nature+
- **Focus on Nature+ at a company or portfolio level:** Not every single asset may be able to contribute to Nature+, but organisation as a whole should
- **Rigor & credibility are critical:** Need to align with robust frameworks to ensure avoidance and reduction of impact
- **Be explicit about trade-offs:** Trade-offs are not always possible to avoid, but when that is the case, they must be explicitly understood and disclosed

## IMPROVEMENTS LOCALLY VS GLOBALLY

- The decision to focus on local or global nature benefits depends highly on the context baseline, goals, and theory of change of a given company or asset
- Nature positive actions should aim to restore or protect as much ecosystem functionality and species diversity of the location as is feasible, depending on the context and baseline
- If a species of global importance (e.g. threatened, rare and/or endemic) is present in a landscape surrounding an asset this is an issue that should be addressed, measured, and monitored over time

## RELATIVE VS. ABSOLUTE BENCHMARKS

- Track progress against appropriate baselines by modelling what the scenarios for improvement could be over set timeframes
- Work is progressing toward a common suite of common metrics that can be tracked over time and compared across similar organisations
- Incremental improvements are important to track to show progress and enable adaptive management

# Thank you!

## CONTACT

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Delivering *Net Zero*

