



A Positive Force for Nature

Reflecting on industry developments

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"The fact is that no species has ever had such wholesale control over everything on earth, living or dead, as we now have. That lays upon us, whether we like it or not, an awesome responsibility. In our hands now lies not only our own future, but that of all other living creatures with whom we share the earth" - David Attenborough

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The nature crisis is accelerating.

Nature

includes both living (e.g. animals and plants) and non-living organisms (e.g. water, soils and rocks)

Biodiversity

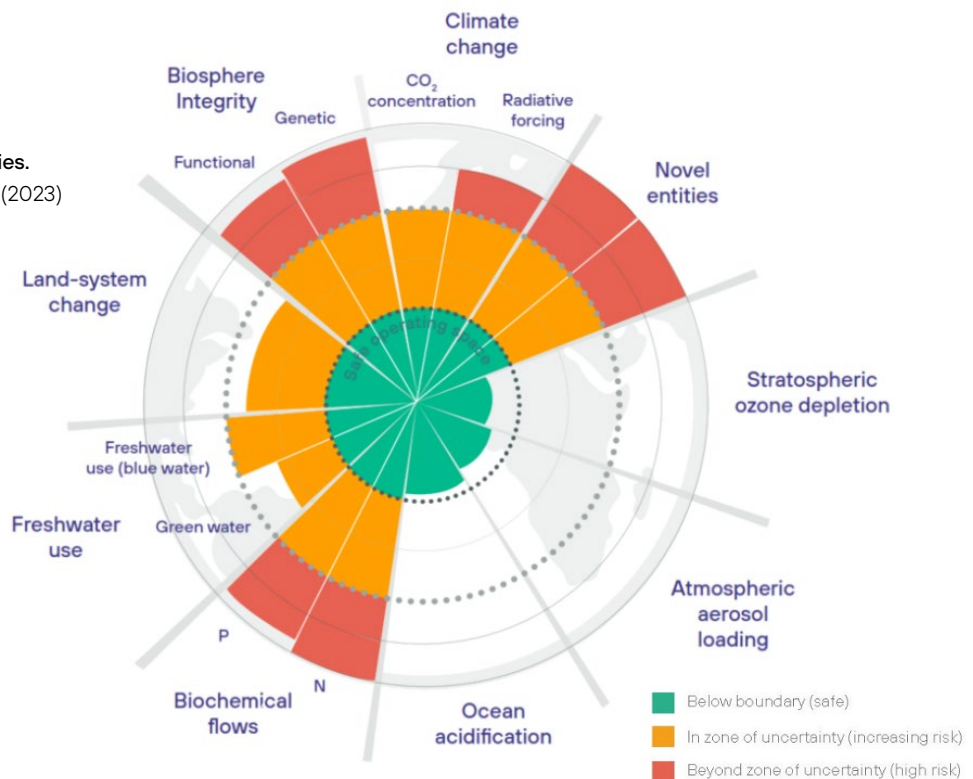
represents all living organisms on our planet (e.g. trees, insects, fish and mammals)

In this paper, we focus on the latest nature-related industry developments, to draw out next steps for investors as they continue their journeys to integrate nature-related risks and opportunities in the portfolio.

Until recently, the climate crisis has dominated the investor agenda, with this tunnel vision awarding little focus to other concerns, including nature and biodiversity degradation and rising social unrest. When we look at the scientific research on the state of our planet, we know we are **exceeding the planet's boundaries in a number of nature-related areas.**ⁱ The current rate of nature and biodiversity loss would further undermine eighty percent of the Sustainable Development Goals ('SDGs'),ⁱⁱ for which we are already extremely off track.ⁱⁱⁱ

Beyond the risks, the **nature-based opportunity is there,** and we highlight some of the key areas of industry momentum, from the exponential growth in nature-related funds, to the recent introduction of the disclosure recommendations of the **Taskforce on Nature-related Financial Disclosures ('TNFD')**, and beyond.

Chart: Planetary boundaries.
Stockholm Resilience Centre (2023)



Understanding nature-related developments

There is a **growing focus on nature positivity in the regulatory landscape.** In December 2022, governments agreed the **Global Biodiversity Framework ('GBF')**, to improve the state of nature, including the **30 x 30 target** (to protect 30% of the world's land, oceans and freshwater systems by 2030).^{iv}

Nature positive

follows the concept of living harmoniously with nature, in a way that enriches biodiversity whilst alleviating global risks, e.g. climate change

TNFD Framework

Overview of the pillars

- 1. Governance**
Disclose the organisation's governance of nature-related dependencies, impacts, risks and opportunities.
- 2. Strategy**
Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organisation's business model, strategy and financial planning where such information is material.
- 3. Risk & impact management**
Describe the processes used by the organisation to identify, assess, prioritise and monitor nature-related dependencies, impacts, risks and opportunities.
- 4. Metrics & targets**
Disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities.

Mean species abundance

is a biodiversity indicator expressing the average relative abundance of native species in an ecosystem compared to their abundance in undisturbed ecosystems

Nature-related regulation for investors remains slow, including in the UK. France is the exception, where there are already requirements for investors to disclose biodiversity-related risks and opportunities.^v The UK Government has however noted it will explore how the TNFD framework could be integrated within the UK regulatory landscape.^{vi} The TNFD framework can help companies and investors respond to GBF's Target 15, to monitor, assess and transparently disclose their biodiversity risks, impacts and dependencies.

For now, the **TNFD remains voluntary**, and is a welcome industry development, in providing a disclosure framework for nature, similar to the climate disclosure recommendations of the Taskforce on Climate-related Financial Disclosures ('TCFD'). We provide a summary of the TNFD framework.

We also address some of the challenges. For one, there are complexities due to the focus on nature dependencies and impacts (beyond risks and opportunities), as well as location-specificity in reporting. The TNFD framework is also viewed by many stakeholders as being primarily corporate friendly – but one might expect this necessarily arises out of the fact that investor action relies on understanding the positioning of portfolio investee companies, engaging with laggards as needed. Investors can also refer to the additional [TNFD guidance for financial institutions](#) for more investor-specific guidance.^{vii}

Responding to the TNFD framework

1. Gap analysis

The TNFD framework provides a basis to conduct a gap analysis of missing elements in the investor approach to nature integration. It can be used to understand the next steps, for example, ensuring the oversight of nature-related risks and opportunities is reflected in governance and risk management processes.

2. Assessing materiality

Data gaps continue to confound a willingness to act on nature degradation, with available data also potentially not in the correct format for financial decision-making.^{viii} We expect this area to improve over time and argue it should not be the case for inaction. There are evolving norms in metrics data and scenario analysis that can be used to identify material risks for the portfolio.

Metrics. The complexity of the nature degradation challenge is reflected not only in the TNFD framework, but in the volume of metrics considered, with the TNFD settling on a core few (some core indicators focused on drivers of nature-related change, as well as some additional metrics targeted at investors, which are *abbreviated* below). These metrics could help to **identify leading companies, delivering nature-based solutions, as well as laggards**, and companies in between these extremes undergoing transition. Whilst we would expect data coverage to ramp up, over time, this will certainly lag climate-related data availability by comparison, in the near-term.

Mean species abundance: Ahead of finalising the TNFD framework, the international scientific body responsible for understanding the state of nature (the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)) awarded a focus on mean species abundance (per unit area), as a way of **capturing all drivers of biodiversity loss**^{ix} – in much the same way climate can be boiled down to emissions. (Albeit such simplification always ignores some of the nuance, such as in future low carbon aims, or social justice angles.) This metric did not explicitly make it into the recommendations but may become a de-facto approach to measuring physical risks.^x

Table: Core TNFD Metrics for Financial Institutions TNFD (2023)

Drivers	<ul style="list-style-type: none"> Nine indicators reported on by organisations, on the key drivers of nature change (e.g. extent of land use change, wastewater discharged, or plastic pollution)
Risk	<ul style="list-style-type: none"> Value of investments vulnerable to nature-related transition risks (total and proportion of total) (i.e. transition value-at-risk measure) Value of investments vulnerable to nature-related physical risks (total and proportion of total) (i.e. physical value-at-risk measure) Proportion of investments (investee companies) subject to significant fines/penalties or received/litigation action in the year due to negative nature-related impacts
Opportunity	<ul style="list-style-type: none"> Proportion of investments deployed towards nature-related opportunities, by type Increase in, and proportion of, investments with revenue from products and services with positive nature-related impacts, recognising this by type of impact
Dependencies & impacts (investors only)	<ul style="list-style-type: none"> Proportion of investments (investee companies) within sectors with material nature-related dependencies and impacts^{xii} Proportion of investments (investee companies) with activities in sensitive locations^{xii}

Modelling. The TNFD has developed guidance on **developing nature-related modelling**. The focus has been on understanding the key **impacts of nature-related transition and physical risks on economic outcomes, and in turn, financial outcomes**.^{xiii} TNFD guidance on nature-related scenarios (see left) has intertwined climate-related outcomes.^{xiv} Some scenarios focus on the co-benefits of delivering climate and nature outcomes, collectively, others on the possible trade-offs where climate progress becomes at odds with nature-related gains.

Meanwhile, the IPBES has been looking to the interrelationship between nature and society through its scenarios workstream, and whether our relationship with nature continues to focus on nature as a utility, for human use and profit, or shifts towards a more symbiotic, mutually beneficial, relationship.^{xv} The key emphasis throughout is on developing holistic modelling efforts, beyond just nature.

3. Stewardship and investment as forces for change

In discussion with managers, we know that many have been grappling with nature, and investors should engage with their managers to understand how they are addressing nature within investments. Investors have also launched the **Nature Action 100**, for investors to collectively engage with companies in sectors that will be key to reversing nature and biodiversity loss (e.g. pharmaceuticals, agriculture and mining).^{xvi} This will mirror the Climate Action 100+ (but for nature), which has been a key force in promoting net zero commitments and improving climate disclosure.^{xvii}

From the investment perspective, we are seeing the **expansion of investments in nature-based solutions**, or financing to remove emissions from the atmosphere, such as via reforestation. These opportunities are proliferating but face barriers to scale, with a particular concern around the lack of standardisation and transparency to verify the claims of nature-based projects. (For further information on this topic, see our [Carbon Markets paper](#).) The Paris Agreement carbon market negotiations are hoping to speak to some of these challenges.

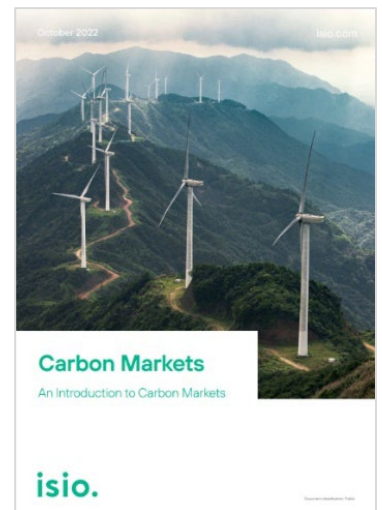
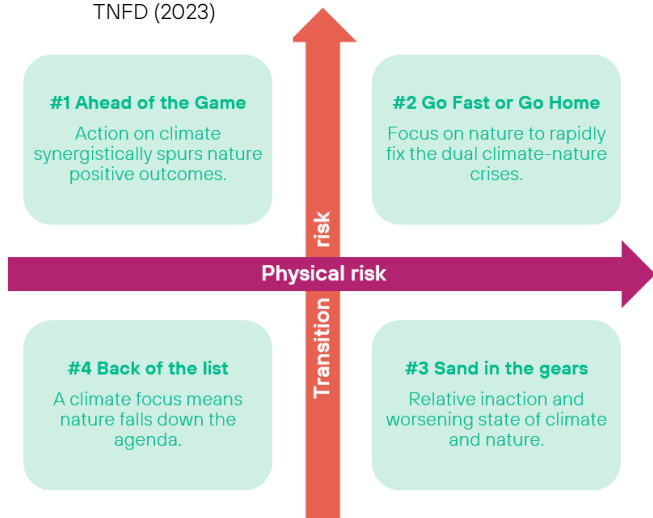


Chart: TNFD scenarios TNFD (2023)



Education & training

Seek training on nature-related risks and opportunities, including the sectors where nature-related risks may be most material (e.g. agriculture)

Strategy changes & implementation

Consider whether existing managers adequately integrate nature-related risks and opportunities, and seek out investment opportunities in nature-based solutions, where relevant

Chart: Example nature positive client journey

Beliefs, policies & targets

Set out sustainability priorities for the portfolio, and whether nature degradation is a priority concern, and if so, the trade-offs and synergies that may result (vs other sustainability concerns). These priorities should be reflected in beliefs and policies, with quantitative targets where possible

Monitoring & reporting

Monitor the nature-related capabilities of your investment managers, including seeking out improvements in available nature-related financial data. In addition, investors can look to engage with collaborative initiatives, such as the Nature Action 100

Next steps for investors

With the growing nature emergency, alongside governments and companies, investors will need to respond. Despite all the warnings, there will be opportunities for investors, as **we look to treble nature-based solutions to \$484 billion by 2030**.^{xviii}

Integrating the approach to nature-related risks and opportunities within the existing climate approach would be important to ensure an integrated environmental approach, whilst also seeking to address the social trade-offs and synergies that result. Whilst we do not address this in detail in this blog, our research paper being released in early 2024 will provide a waterfall framework for investors to prioritise the sustainability issues most important to them.

Please get in touch if you would be interested in progressing your nature positive journey.

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ⁱ Planetary boundaries - Stockholm Resilience Centre

ⁱⁱ Facts about the nature crisis | UNEP - UN Environment Programme

ⁱⁱⁱ Halfway to 2030, world 'nowhere near' reaching Global Goals, UN warns | UN News

^{iv} RECOMMENDATION ADOPTED BY THE WORKING GROUP ON THE POST-2020 GLOBAL BIODIVERSITY FRAMEWORK (cbd.int)

^v Publication of the implementing decree of Article 29 of the Energy-Climate Law on non-financial reporting by market players |

Direction générale du Trésor (economie.gouv.fr)

^{vi} TNFD recommendations for nature-related risk management and disclosure: what does it mean for pension schemes? (linklaters.com)

^{vii} Guidance for Financial Institutions v1.pdf (tnfd.global)

^{viii} Cautious optimism for TNFD despite challenges - Environmental Finance (environmental-finance.com)

^{ix} mean species abundance (species abundance) | IPBES secretariat

^x Iceberg Datalab meeting, 14 November 2023

^{xi} This includes the following sectors: Oil, gas and consumable fuels; Chemicals; Construction materials; Containers and packaging;

Metals and mining; Paper and forest products; Construction services; Sewerage, waste collection, treatment and disposal; Transport and associated services; Automobiles; Textiles, apparels and luxury goods; Beverages and food products; Personal care products;

Pharmaceuticals; Semiconductors and semiconductor equipment; Utilities. [Guidance for Financial Institutions v1.pdf \(tnfd.global\)](#)

^{xii} Sensitive locations are locations where the assets and/or activities in an organisation's direct operations - and, where possible, upstream and downstream value chain(s) - interface with nature in: Areas important for biodiversity; and/or Areas of high ecosystem integrity; and/or Areas of rapid decline in ecosystem integrity; and/or Areas of high physical water risks; and/or Areas of importance for ecosystem service provision, including benefits to Indigenous Peoples, Local Communities and affected stakeholders.

[Guidance for Financial Institutions v1.pdf \(tnfd.global\)](#)

^{xiii} nrgfs conceptual framework on nature-related risks.pdf

^{xiv} Guidance on scenario analysis V1.pdf (tnfd.global)

^{xv} Scenarios and models | IPBES secretariat

^{xvi} Nature Action 100 - Driving greater corporate ambition and action on tackling nature loss and biodiversity decline

^{xvii} CA-100-Progress-Update-2022-FINAL-2.pdf (climateaction100.org)

^{xviii} State of Finance for Nature 2022 | UNEP - UN Environment Programme

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