



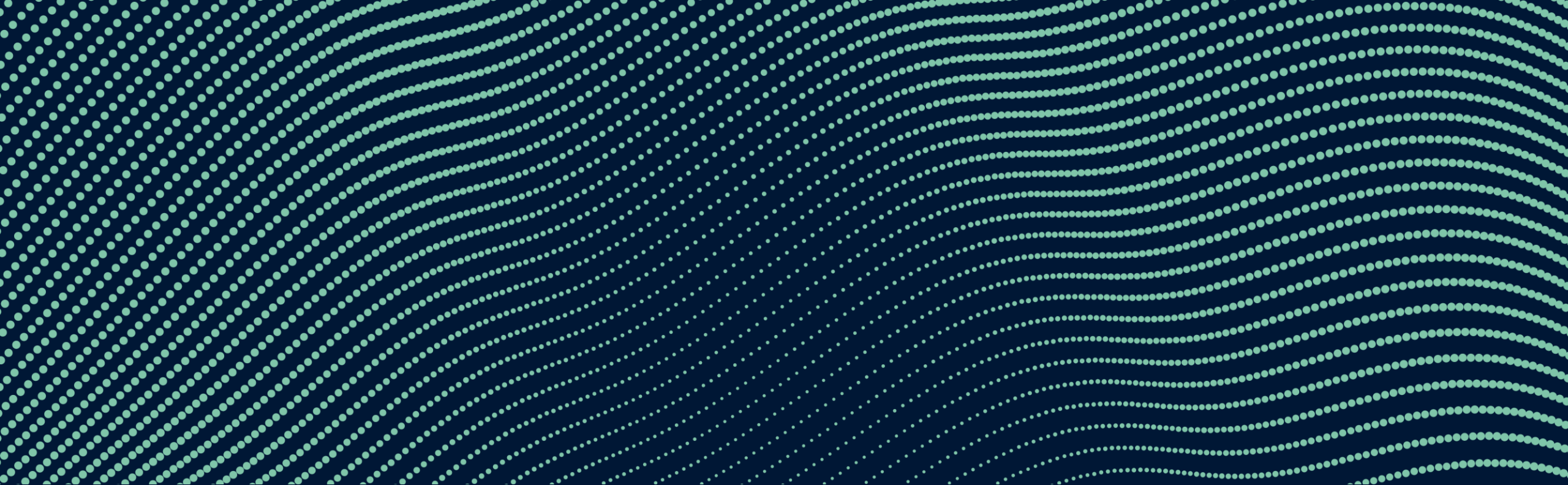
# Investors Can Assess Nature Now

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Responsible Investment Specialist

For investment professionals only



May 2024

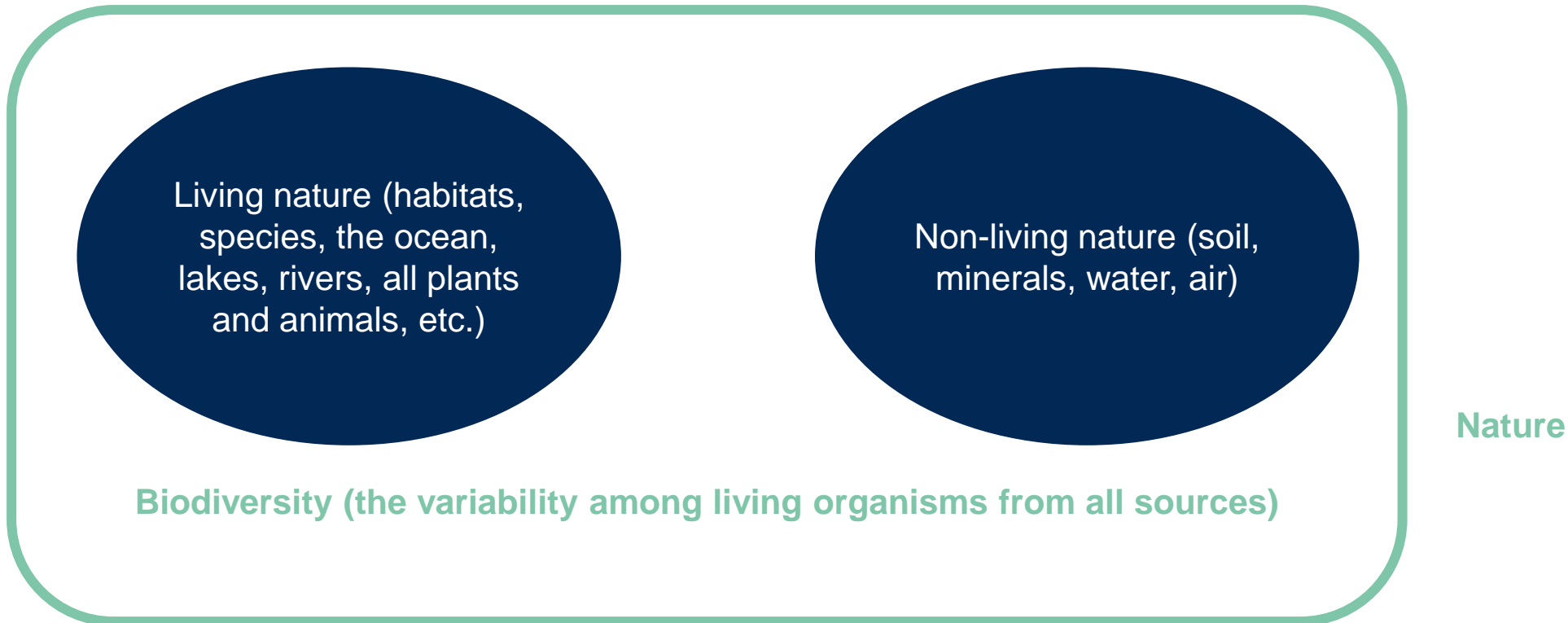


# Background and rationale

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01

# What is biodiversity and how is it different from nature?



*Biodiversity enables Nature to be productive, resilient and adaptable.*



Climate and nature nexus



Economy depends on nature

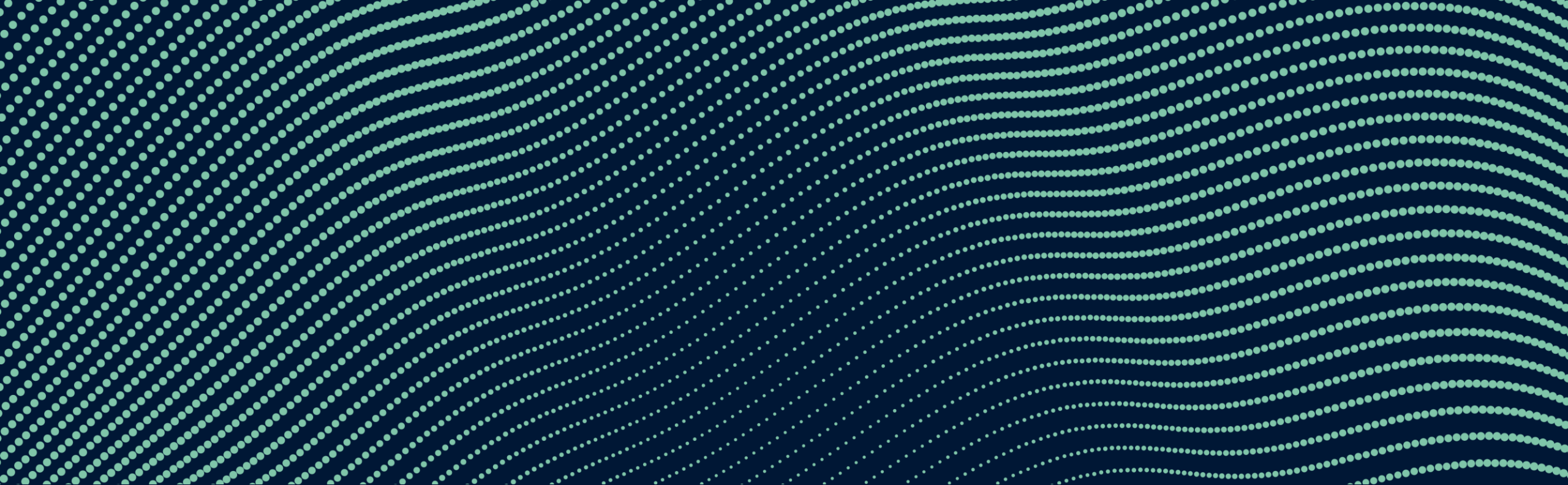


Ecosystems degradation



Policy developments





## The ICANN guide overview

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02



- Focuses on freshwater and agriculture-driven deforestation issues
- Targets listed equities and corporate bond issuers

## Scope

- Not covering all nature-related topics
- Does not target asset classes like cash, sovereign bonds, private equity, etc.



- Proposes a due diligence framework for investors
- Shares a way to qualitatively assess company exposure and responses
- Provides an outline of the available resources for assessments
- Discusses challenges and opportunities and a way forward

## Purpose

- Does not report on:
  - FSI's nature target
  - FSI's policies or commitments on nature
  - FSI's quantitative risk assessment results or approach
  - Biodiversity footprinting results of FSI's investment portfolios
- Does not propose a target setting methodology
- Does not provide investment advice on nature-related companies



- Suggests a way to use the guide to apply the TNFD\*'s LEAP\* framework

## TNFD

- Not to showcase FSI's disclosure in line with the TNFD recommendations

\*TNFD (Taskforce on Nature-related Financial Disclosure); LEAP (Locate, Evaluate, Assess and Prepare)

# Process for Assessment and Engagement

**Sector-level  
assessment of  
exposure, dependency  
and impacts**



Sector Materiality Tool  
Heatmap exercise  
suggested in the TNFD  
recommendation

**Company  
prioritisation and  
assessments**



Based on available  
data mapping  
Assessment guidance  
and principles  
Company examples

**Company  
engagement on  
material issues**



Engagement  
objectives  
Engagement  
framework  
Sample questions to  
choose from

**Record-keeping and  
reporting**



Guidance on  
engagement reporting  
outcomes

**Progress monitoring  
and escalation**



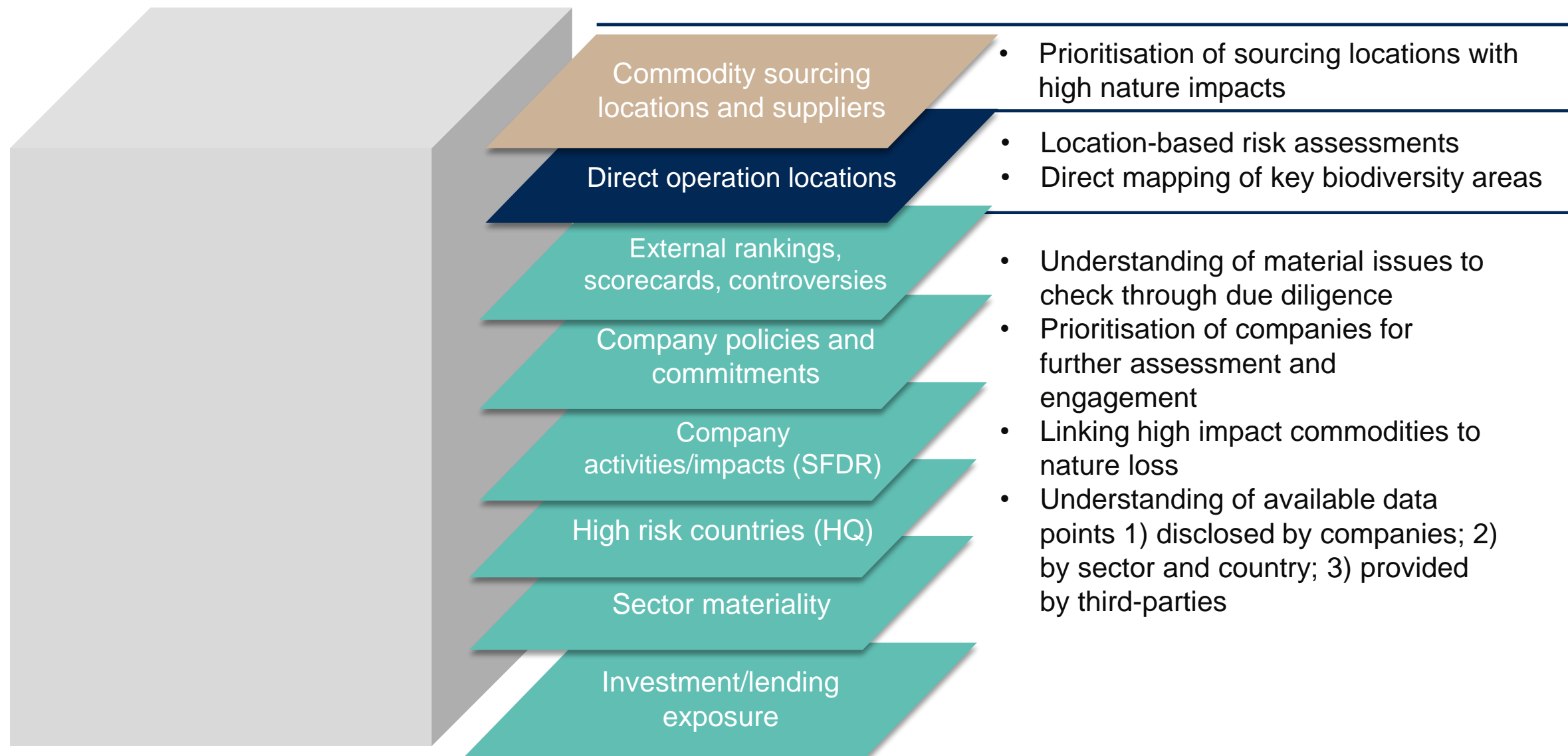
Escalation process  
(following standard  
procedures)  
Other resources as  
reference

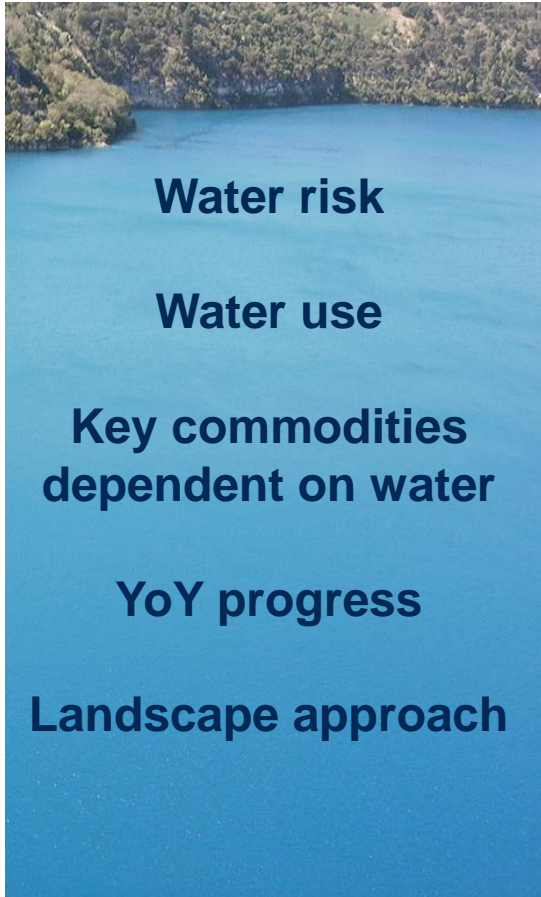
# Sector Materiality Mapping –TNFD Heatmap

|  |                           |                          |                      |           |               |                        |                  |                 |             |              | <div>Score</div> <div>&gt;= 3.5</div> <div>&gt;= 2.5</div> <div>&lt; 2.5</div> | <div>Rating</div> <div>High</div> <div>Moderate</div> <div>Low</div> |  |
|--|---------------------------|--------------------------|----------------------|-----------|---------------|------------------------|------------------|-----------------|-------------|--------------|--|--|--|
| GICS Subindustry                             | Terrestrial ecosystem use | Freshwater ecosystem use | Marine ecosystem use | Water use | GHG emissions | Non-GHG air pollutants | Water pollutants | Soil pollutants | Solid waste | Disturbances | AUM (% of FSI total)   |  |  |
| 1 Diversified Metals & Mining                | High                      | High                     | Moderate             | High      | High          | Moderate               | Moderate         | Moderate        | Moderate    | Moderate     | 2.3%   |  |  |
| 2 Packaged Foods & Meats                     | High                      | Moderate                 | Moderate             | High      | High          | Moderate               | Moderate         | Moderate        | High        | Low          | 2.1%   |  |  |
| 3 Biotechnology                              | Moderate                  | Moderate                 | Moderate             | High      | High          | Moderate               | High             | High            | Moderate    | Moderate     | 2.1%   |  |  |
| 4 Industrial Machinery                       | Moderate                  | Moderate                 | Moderate             | High      | High          | Moderate               | High             | High            | High        | Moderate     | 1.4%   |  |  |
| 5 Semiconductors                             | Low                       | Low                      | Low                  | Moderate  | High          | Moderate               | High             | High            | Moderate    | Moderate     | 1.4%   |  |  |
| 6 Personal Products                          | High                      | Moderate                 | Moderate             | High      | High          | Moderate               | Moderate         | Moderate        | High        | Low          | 1.3%   |  |  |
| 7 Household Appliances                       | Moderate                  | Moderate                 | Moderate             | High      | High          | Moderate               | High             | High            | High        | Moderate     | 1.0%   |  |  |
| 8 Automobile Manufacturers                   | Moderate                  | Moderate                 | Moderate             | High      | High          | Moderate               | High             | High            | High        | Moderate     | 1.0%   |  |  |
| 9 Highways & Railtracks                      | High                      | High                     | Moderate             | High      | High          | High                   | Moderate         | Moderate        | High        | High         | 1.0%   |  |  |
| 10 Technology Hardware Storage & Peripherals | Low                       | Low                      | Low                  | Moderate  | High          | Moderate               | High             | High            | Moderate    | Moderate     | 1.0%   |  |  |
| 11 Food Retail                               | High                      | Moderate                 | Moderate             | High      | High          | Moderate               | High             | Moderate        | Moderate    | Low          | 0.9%   |  |  |
| 12 Oil & Gas Exploration & Production        | High                      | High                     | Moderate             | High      | High          | High                   | High             | High            | Moderate    | High         | 0.7%   |  |  |
| 13 Airport Services                          | Moderate                  | Moderate                 | Moderate             | Moderate  | High          | High                   | High             | High            | High        | High         | 0.6%   |  |  |
| 14 Apparel Accessories & Luxury Goods        | High                      | Moderate                 | Moderate             | High      | High          | High                   | Moderate         | Moderate        | Moderate    | Moderate     | 0.6%   |  |  |
| 15 Auto Parts & Equipment                    | Moderate                  | Moderate                 | Moderate             | High      | High          | Moderate               | High             | High            | High        | Moderate     | 0.5%   |  |  |
| 17.7%  |                           |                          |                      |           |               |                        |                  |                 |             |              |  |  |  |

- Listed equities only (using the AUM as of December 2022)
- Showing the results in the top 15 sectors
- Using the data in the Sector Materiality Tool developed by the Science Based Targets Network (SBTN) and the United Nations Environmental Program (UNEP) World Conservation Monitoring Centre (WCMC)



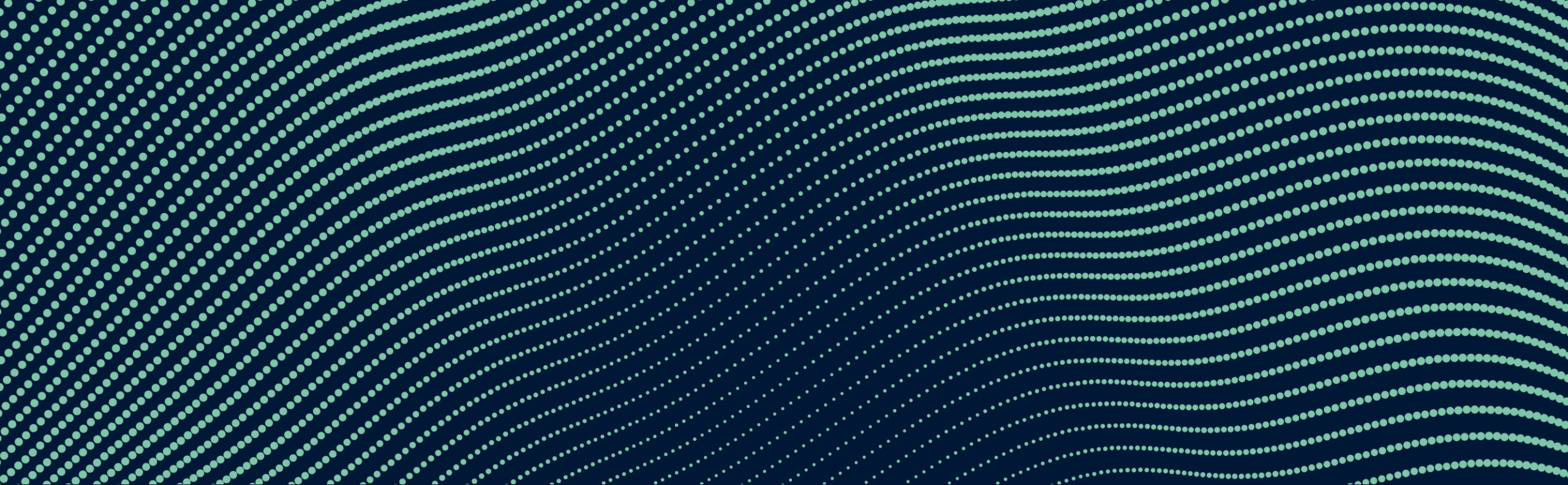




- Examine how a company sources water
- Water use (withdrawal and consumption)
- Water risk management (physical, transition, and reputation).
- Different types of water risk – e.g. scarcity, flooding and pollution.
- Assess water risk on a landscape-level such as a river basin.
- Define the most relevant commodities per company.



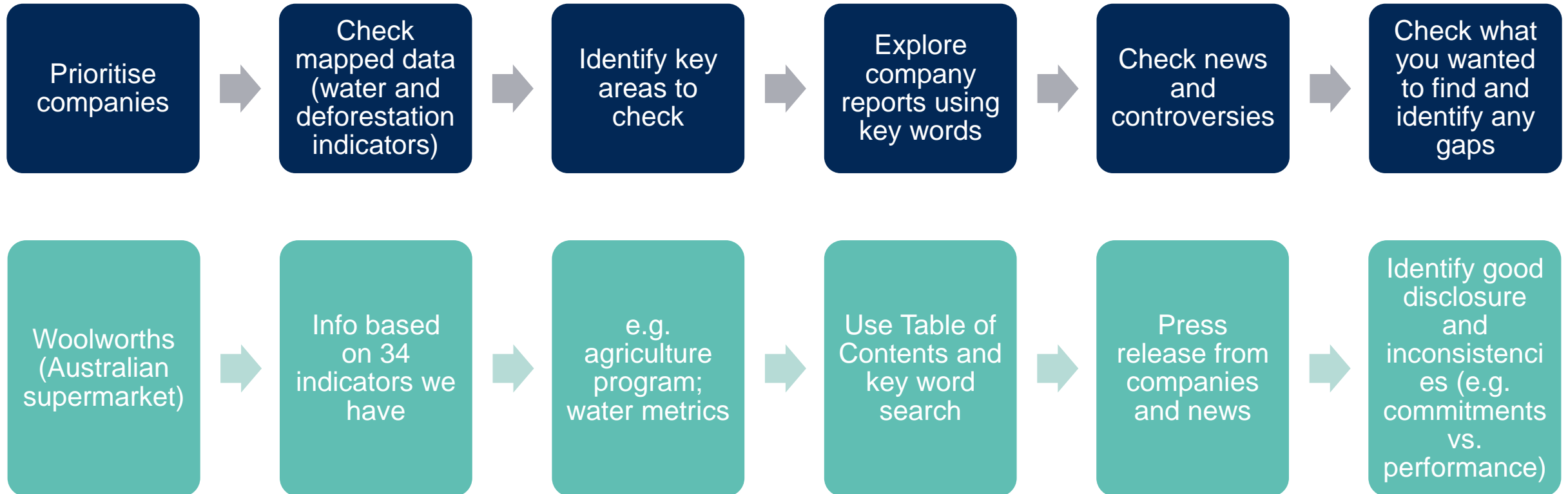
- Focus on agriculture-driven soft commodities (soy, beef, palm oil, timber, leather and pulp and paper)
- Supply chain traceability is key
- Deforestation Engagement Framework: five pillars to check
- Assess related targets, certifications, sourcing policies or locations
- Screen for both legal and illegal deforestation
- Deforestation policies should be comprehensive (no leakage)



## The ICANN guide application

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03





### **Scoping the assessment**

- Nature of business
- Prioritisation of asset classes
- Sector-level and country-level asset allocation
- Type of appropriate and feasible assessments

### **Two core sector disclosure metrics for financial institutions**

1. AUM % or \$ exposure to sectors considered to have material nature-related dependencies and impacts
2. AUM % or \$ exposure to companies with activities in biodiversity sensitive locations

| Locate  | Evaluate  | Assess   | Prepare  |
|---|---|--|--|
| <ul style="list-style-type: none"><li>• Country materiality - start with company HQ location</li><li>• Companies' direct operation data mapped with nature data</li></ul> | <ul style="list-style-type: none"><li>• Sector Materiality Tool</li><li>• Use SFDR PAI indicators</li></ul> | <ul style="list-style-type: none"><li>• Qualitative risk assessment principles</li><li>• Guidance to check on risk and opportunity</li></ul> | <ul style="list-style-type: none"><li>• Priority areas for due diligence and engagement</li><li>• Ideas for target setting</li></ul> |



Data and tools already exist



More location-based data is becoming available



Making the steps clear helps implementation



Let's not make perfect be the enemy of the good



Investors can drive positive change

# Investors Can Assess Nature Now

(ICANN)

A guide to assessing  
water and deforestation  
issues in investment portfolios

 **First Sentier**  
Investors

**Thank you**  
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