

TRANSCRIPT

PENSIONS FOR PURPOSE

SYSTEMIC STEWARDSHIP: WHY ASSET OWNERS SHOULD DO MORE TO INFLUENCE CLIMATE – VIDEO

Bruna Bauer

Hello everyone, I'm Bruna Bauer, I'm the Research Manager here at Pensions for Purpose, and here with me today is Sudeep Hazra, who is the director of the First Sentier MUFU Sustainable Investment Institute. COP16 - the conference of parties on biological diversity, also known as the Biodiversity cop, just happened in Cali, Colombia. Actually as we record this conversation, it's the very last day of COP and it was the first biodiversity COP since the adoption of the global biodiversity framework which was a historical agreement to stop the destruction of ecosystems.

This framework represents to the biodiversity COP what the Paris agreement represents to the Climate Cop. It lists 23 targets and four goals to preserve nature until 2030. Governments from around 300 countries will discuss progress towards these targets and they are also expected to present national strategies on how they plan to meet them. There is no need to say that finance plays a key role in these discussions. Financial institutions should take a special look at target 15 of the framework which pushes businesses and financial institutions, especially the large and international ones, to assess and disclose the biodiversity-related risks and impact at Pensions for Purpose. We are now just finalising a research commissioned by the First Sentier MUFU Sustainable Investment Institute on how asset owners from all over the world are progressing when it comes to integrating nature and biodiversity in today's strategies and reporting. So we thought this would be a great opportunity for us to spark more this discussion and also to bring some new insights into this conversation. So first of all I'd like to thank you Sudeep, for joining this important conversation.

I would like to ask you to introduce yourself and also to address the very first question which is - why is it essential to address climate and nature as interconnected rather than treating them as separate issues?

Sudip Hazra

Thanks Bruna. Yes. So I'm Sudip Hazra, Director of the First Sentier MUFU Sustainable Investment Institute and it's great to be talking to you today on the last day of COP16 on this very important topic. So I mean in terms of why it's essential to address climate and nature as being interconnected challenges and opportunities, I think often we see too much that they are actually treated as separate issues when in fact, you know, quite simply they're not. So some of the reasons for that would be that our economy depends on natural resources and on ecosystem services, and it's nature that's providing these

examples would be the provision of water and of course pollination. So we need biodiversity which is in essence the variability among living organisms and it's what enables nature to be productive, resilient and adaptable. So an increase in biodiversity is actually what's providing us with a buffer against climate impacts and also against resilience to shocks as well.

So it's nature that's providing us with, for example, effective carbon sinks, trees, mangroves, but also ocean and soil. So it plays a really central role in the ecosystem cycle. And as a result, it's really central for climate mitigation. So in a nutshell, while climate change and nature are still too often viewed as two separate issues, climate is part of nature, so they're pretty much inseparable. In terms of the drivers of nature loss, obviously climate change is one of the drivers and it's also inextricably linked in cause and effect to the other drivers as well. Some examples would be an increase in extreme stormwater events resulting in coastal erosion. But then I mentioned already pollination. So we've got the decrease in the bee population, which is partially driven by rapid climate change, and that's hampering the pollination of crops as well.

So those are just two examples of how climate change can exacerbate nature loss. In terms of kind of our audience today, obviously any declines in nature result in increases to risks for businesses and investors. And as a result, that also limits our ability to mitigate and adapt to climate change.

Bruna Bauer

What do you see as the main challenges preventing us from integrating climate and nature solutions more effectively?

Sudip Hazra

I think, I mean, two areas would be around scale and the replicability of solutions, but then of course, when you look at climate and nature and we want to put them in a productive bucket together, part of the issue is also separate and different metrics, reference points, and of course, data. Although there's a lot in common, for example location data, there's still a lot that we need to work on in order to understand the synergies. Also I think culturally we have some legacy issues because in general people are more familiar, comfortable with climate work, which sometimes has taken up the majority of space, particularly for investors around sustainability.

But increasingly, I think investors and also corporates do look at how climate should not be taken in isolation. And they're also trying to understand better some of the potential trade-offs as well as the linkages. So one of the reasons for which I think we're likely to see an acceleration in investors and corporates looking at climate change and nature together is because often when we're looking at climate objectives, if nature isn't taken into account and isn't integrated properly, we are beginning to see examples of climate

projects which do actually cause harm to nature, because nature impacts haven't been taken into account. So I think that's an important part of the changing agenda around climate, as well.

Bruna Bauer

We started discussing the economic dimension of nature and biodiversity. I have brought some numbers on it: ecosystem loss could reduce the global GDP by up to 42.7 tn annually by 2030, and we still have an over \$100bn annual funding gap when it comes to nature.

During COP15 countries, which included the UK, adopted the global biodiversity framework, committing to tackle biodiversity laws, but we are still, we're far from hitting those targets. So my question here for you is what were the challenges when it comes to mobilising finance for nature?

Sudip Hazra

So that's a big question: I think everybody is trying to find solutions in terms of their own stakeholder interests, but broadly, I think some of the work that's come out, and I think there's been more and more research on this outlining some of the key areas. So from the UNEP paper, some of the areas they've highlighted are: **greening finance** – in practice that means reducing finance to nature: negative finance flows. At the moment, that is the majority of financing that's going on, it's critical to reduce the financing with negative impact. Then you've also got the **positive impact** side: **nature-based solutions** – financing and scaling funding for investment into those areas as well. As you said, there needs to be quite an incremental increase in terms of the positive impact funding as well, but for all of that to work, it's quite similar to the narrative around climate financing, in that we do need a **just transition for nature** as well. So that means in practice a **green and inclusive financial system** which takes into account the needs of the stakeholders and really answers the question in an equitable way as to how any changes will be paid for, and in particular, how the affected and impacted areas of society can participate in that change, including diverse populations and indigenous people as well.

Bruna Bauer

Probably an even more important question is what are the risks of inaction, particularly regarding the financial gap for nature to the broader climate agenda?

Sudip Hazra

I think negative impact, can be quite an important area to consider and a catalyst for action. I think, the Das Gupta review, elaborated on how large-scale and widespread investment into nature-based solutions would help us to address biodiversity loss, but also significantly contribute to climate change mitigation and adaptation, not to

mention the wider benefits economically, including creating jobs. Some of the drawbacks of not having action included poorer economy, missing out on valuable long-term job creation, as well. We've seen some examples in the US, where we've had the Inflation Reduction act (IRA) with quite specific allocations to fund conservation, restoration, resilience, national park services and that has worked in allowing new funding for important areas for nature development, and also job creation.

So overall, I think there are examples of how that's working. But similarly, I think the more that we wait and we don't reduce some of the negative impact of funding and some of the environmentally harmful subsidies, the less quickly change will come about, and the more visible damage will be as well. For that to work, we probably need more understanding from all stakeholders as to how nature solutions, and nature-based solutions, can work. Also how to ensure of their integrity, that they are trustworthy solutions and make sure the reporting investors need gets to them. Also that there's a holistic approach to the impacts of some of that reporting, as I mentioned, so that we look not just at the environmental issues and consequences, but also some of the social issues and impact around nature financing in general.

Bruna Bauer

Now let's talk about the Impact Lens research we are conducting. For this research we were in discussion with asset owners and managers from all over the world. We spoke to asset owners and managers from over 10 countries to discuss their nature and biodiversity plans, especially following the launch of the Task Force on Nature-related Financial Disclosure (TNFD) last year, in 2023. So, my question is what was the main motivation for you behind this study?

Sudip Hazra

We're excited about the study and think it will be an important piece of work because it's a key point in time, particularly for the investment industry, because a lot of investors at the early stages of their biodiversity and nature journeys. To add some context, both first year investors and MUFG, there's been a lot of focus biodiversity. My colleague here in the Responsible Investment team at First Sentier, Joanne Lee, who previously worked with the World Wildlife Fund (WWF), developed what we call the ICANN guide. Quite rightly that acronym sounds very optimistic and positive, but it stands for 'Investors can assess nature now'. It was designed deliberately to allow institutional investors to identify and assess materiality, but also potential responses to some of the nature and biodiversity risks in portfolio companies. The two tangible areas which she focused on were freshwater and forests, where typically there is more data available. Here at the Sustainable Investment Institute, earlier this year we published some research on the state of nature-related disclosures by companies, where we looked at eight priority TNFD sectors and highlighted good practice as well as some of the trends and gaps in

disclosure. So all that being said, we thought it would be a good fit to have a survey orientated around asset owners and Pensions for Purpose have designed a research project therein with quite carefully made questions around an asset owner's approach to biodiversity, nature and also their focus on the TNFD.

Typically, we think investors are looking at frameworks and understanding on how they work, they want to know some of the key concepts, but also in general, how the market is approaching this area. So we think it will be useful, and hopefully it will help asset owners to influence their own organisations as stakeholders and create newer systems for action on biodiversity in nature. Hopefully, it will have some practical outcomes in allowing the readers of this study to be able to have insight into the state of asset owner approaches and also potentially to be able to prioritise particular areas and maybe get some ideas about some of the approaches that are out there already.

Bruna Bauer

And now a very, very important question, which is based on the early findings of our research, we see it's a challenge for asset owners from all over the world: what are the first steps that banks and pension funds can take to include nature and biodiversity into their broader ESG considerations?

Sudip Hazra

Again, it's a big question and it will depend a lot, on the type of asset owner and the beneficiary base. Typically, there are three main areas asset owners we've seen are working on. First of all, it's the investment process, so that would include biodiversity policy and strategy, as well as the incorporation generally into investment methodology and outlook.

Then there's the stewardship angle, so portfolios and assessing companies as well as looking at encouraging collaborative engagement, this can also include policy-level engagement globally and at a national level.

Finally there's the disclosure angle, aligning with framework recommendations and implementing best practice. But really, as a first step, perhaps just understanding the value of initiating this process for an asset owner and also the relevance to their own stakeholders and beneficiaries, I think having that as a first step can facilitate a lot of the other areas that I've just spoken about. So that's probably one of the areas to consider as well.

Bruna Bauer

So thank you very much. As I mentioned, the TNFD has just been recently launched, so we've now spoken to over 20 asset owners and asset managers and we do see that everyone is at early stages of thinking about nature and biodiversity, and especially reporting on those topics. In this Impact Lens report, we're really going to highlight some

best practice because we really want the industry to learn how to move forward and to learn from best practices. We've been speaking to asset owners from all over and really think this report is an opportunity for us to learn from each other and exchange knowledge, which is so important since we're at early stages of these considerations.

The report is going to be published at the end of January 2025 and we invite you all to read and to exchange views with us as well. Thank you very much, Sudip, for your time and see you on February when you're going to have the online roundtable to discuss and debate the findings of this research. Thank you.