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How investors and corporates are approaching natural capital

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As the sustainability agenda evolves, corporates and investors alike are grappling with the complexity of valuing natural capital. The transition from the Taskforce on Climate-related Financial Disclosures (TCFD) to the Taskforce on Nature-related Financial Disclosures (TNFD) is a paradigm shift that warrants particular attention.

Natural capital refers to the world's stocks of natural assets, from forests and soil to air, water and the essential resources crucial to human survival and economic activity. Under the newly created TNFD recommendations, organizations are beginning to quantify, disclose and take action to reduce their impact on the planet's natural capital.

As organizations begin to consider what TNFD may mean for their portfolios and operations, we are seeing increasing interest in approaches to investing in nature for positive impact. TNFD is a complex beast, however, and both investors and corporates are seeking support in getting up to speed with what's possible.

Stepping up from TCFD

TNFD is a natural – no pun intended – progression from the TCFD, which laid the groundwork for helping companies to understand and quantify their environmental impacts through assessing, disclosing and then working to mitigate their climate-related risks, primarily related to carbon emissions. TCFD was foundational to organizations' approach to climate risk management, but TNFD goes a step further.

TNFD emerged from the Global Biodiversity Framework agreed at COP15, and builds on TCFD to create a broader, more holistic accounting of nature-related risks – encompassing biodiversity, natural resources and the health of ecosystems. Such approaches incorporate the broader

environmental context that must be considered as part of efforts to tackle climate risk.

Given that TNFD represents a more integrated and holistic approach to sustainability, it requires companies to undertake a far more comprehensive evaluation of their environmental impact.

For now no country has made TNFD mandatory, but many including the EU and the UK are closely monitoring the emergence of such frameworks. Many global companies have committed to including TNFD reporting over the coming years. The direction of travel is clear - this is something that organizations need to get to grips with.

Making the leap

For those seeking to incorporate nature in their investment strategies, forestry seems to be a natural first step. Investing in the planted tree is a tangible and familiar strategy to reach carbon neutrality, and therefore many organizations already have a level of familiarity with it as an asset class.

That said, we are also seeing increasing demand for natural capital investments related to farmland and water. Building and managing a well-diversified portfolio of natural capital assets requires a considerable level of insight and data on the wider impact of portfolios and its reliance on nature. Over time, it's plausible that AI will be used to support organizations undertake this broader impact assessment, but for now the process requires access to expert guidance.

The first step towards TNFD alignment is measurement. Investors and corporates can undertake an initial health check of their portfolio and/or operations to understand areas in which their investments and/or operations are negatively impacting natural capital resources. Tools like Mercer's [Responsible Investment Total Evaluation](#) can help organizations gain a better understanding of their current positioning, exposures and net impacts of operational activity, enabling them to chart a clear path forward.

Despite rising levels of interest, investors and corporates may not have access to the insights and data required to incorporate nature as part of a well-diversified portfolio or operational roadmap, let alone consider the knock-on impacts on nature and/or reliance on nature. Data challenges endure, and it will take the collective efforts of investors, corporates and advisors (and potentially AI) to overcome these.

We believe that interest in natural capital investment and alignment will only increase as organizations leading the charge on integration report best practice and outcomes. In order to mitigate the erosion of the world's resources in meaningful ways, organizations will need to find the necessary support.

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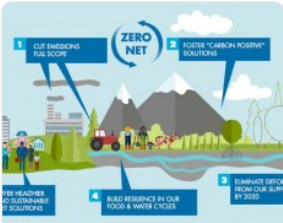


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