

By Peter Harrison, Group CEO of Schroders

AS THE DUST SETTLES ON THE NEW GLOBAL Biodiversity Framework, there are inevitable and important questions about whether the agreement has gone far enough in parts. But for policymakers at COP15 in Montreal, for investors in business centers around the globe and for the wider community of NGOs, companies, indigenous leaders and youth voices, one thing is clear: Change is here.

There are several implications for the financial community. First, finance has a critical role to play in directing capital away from activities that destroy nature and toward sustainable production and nature-positive supply chains. Second, we are way off meeting the funding needed to safeguard the natural world that underpins our economy and society.

Current estimates point to an annual ~\$700 billion funding gap between what we spend to protect nature every year and what we need to be spending. The direction of travel is undeniable—more public and private finance must be mobilized, in a way that's fair and effective, in order to close the finance gap.

The role of ASSET MANAGEMENT

For asset managers, this is squarely a question of fiduciary duty. Investing in nature can yield both returns and impact—and failing to take account of nature risk is a financial risk for companies and their investors. Alongside direct risks and impacts, preserving and restoring nature can also make a powerful contribution to efforts to mitigate climate change. There is a social dimension, too: Unless efforts to protect nature create positive social

Natural CAPITAL

impacts for local citizens and indigenous communities, they won't be sustainable.

As a leading active investment manager, Schroders has an important role to play. We make careful and deliberate decisions every day on behalf of savers and investors around the world, because these decisions may affect the financial future of our clients and impact the wider world. We also know the appetite from investors is already there. Schroders' Global Investor Survey released in November 2022 saw that

Revaluing nature can create both positive environmental impact and financial returns, writes Schroders CEO PETER HARRISON.

63% of investors want fund managers to focus on natural capital and biodiversity engagement with companies—higher even than climate at 59%.

That's why we have set out our ambition on nature. We want to harness the power of investment to accelerate a nature-positive future, because we believe it has the potential to drive better investment returns for our clients over time.

This requires a united approach right across our business, just as we do with our science-based targets





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on climate. That includes embedding our approach through the investment insights we develop, the influence we can have on companies and offering innovative financial solutions to our clients. We published our first Plan for Nature last year to demonstrate this ambition, making clear our approach, our progress to date and our future priorities.

Across each of these areas, as well as through our corporate and operational commitments, we believe we can make a powerful contribution to collective

efforts to protect and restore nature, mitigate climate change and deliver positive social outcomes for local communities.

INSIGHTS: developing our understanding and analysis of nature-related risks and impacts

Investors, regulators and NGOs are all pointing to the same issue: we don't currently have sufficiently robust or comprehensive data and tools to measure our impact on nature as precisely as we would like. In 2021, we invested in NatCap Research, partnering with them to better measure, report on and improve the natural capital impacts of our investments. NatCap Research has developed a global natural capital mapping tool, NatCap Map, that measures the current value based on its benefits, shows how to enhance natural capital to maximize value and provides reporting to track progress. We're now looking to work with them on a new platform to measure, report and improve natural capital impacts of our investments in forestry, agriculture and real estate.

Investments like these help us develop the tools and models that provide our investors with insights into chosen metrics around nature risk, alongside more established ESG markers, like carbon and social indicators. For example, proprietary tools like our deforestation scorecard measure companies' forest-related risk exposure and management. The aim is a greater understanding of how company action can be improved, and then working alongside management teams via our active engagement strategy.

The challenge today is scaling this work to deliver a material impact across our portfolios. We are committed to sharing our learnings through client education and external stakeholder and policy engagement, to build collective expertise on natural capital as an asset class and put what we learn into practice.

ENGAGING AND INFLUENCING: reducing exposure to nature risk

As an active asset manager, these insights play directly into how we influence the many companies whose operations and value chains impact, or are dependent on, nature. With hundreds of experienced and insightful analysts and fund managers around the world, we have a distinct opportunity to engage constructively with management teams and support them to transform their business models to a more sustainable footing.

At the heart of this role is the Schrodgers Engagement Blueprint, which places biodiversity and natural capital as one of six priority engagement themes

in our approach to active ownership. Since 2018, we have engaged more than 200 companies on the topic, helping them understand nature-related risks and opportunities, and the need to take action.

Take deforestation, for example. As a signatory of the Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation, we joined world leaders and leading financial institutions at COP26 in committing to eliminate agricultural commodity-driven deforestation by 2025. We have since implemented our internal deforestation scorecard to engage 20 priority companies and we are rolling out a targeted engagement program for a wider set of companies. As a result of our actions, Schroders topped the list of financial institutions in this year's Global Canopy Forest 500 report, which ranks the performance of the companies and financial institutions with the greatest exposure to deforestation risk. We will continue to develop our understanding and evolve our approach to engagement to ensure we are pushing for change in the right areas.

INVESTMENT SOLUTIONS: protecting and restoring nature, delivering long-term returns

To meet demand for investment solutions that will reduce negative impacts on our natural ecosystems, we also need new investment vehicles that directly fund companies or projects with the potential to positively protect and restore nature.

New nature-based investment products should help support a consistent pipeline of good quality, credible projects for investment and the partnerships needed to source and deliver them. This is an opportunity on a mammoth scale—current estimates suggest nature could account for more than 30% of the action needed to avoid the worst effects of climate change, yet natural climate solutions currently receive less than 3% of all global climate finance, according to Conservation International.

Last year, we launched Akaria Natural Capital, in partnership with Conservation International, as one of the first dedicated natural capital impact investment managers in Singapore. Akaria Natural Capital will initially deploy capital toward 15 to 20 high-quality natural climate solutions projects across Southeast Asia over five years.

To scale new investment solutions like these, we must work alongside industry peers via initiatives such as the Natural Capital Investment Alliance (NCIA) to help build the infrastructure that will enable the mobilization of billions more dollars of capital into the places that need it most.

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PETER HARRISON is Group CEO of Schroders, where he started his career in 1988. He also worked for JP Morgan and other financial firms before returning to Schroders in 2013. He became CEO in 2016.

New investment products like nature-based solutions must also deliver positive social outcomes for local people and communities to be seen as attractive, sustainable investment opportunities. We've become a founding member of the Just Transition Finance Challenge to rally more public and private capital into investments that support a just transition to net zero. And we have developed an internal toolkit, being used by investment managers, that focuses on how to engage with companies that operate in high-risk or conflict-affected areas, to assess their approach to human rights.

A FUTURE AGENDA for the asset management industry

Across each of the areas outlined above, there are at least three major shifts that need to take place if we are to make a meaningful difference to the funding gap that currently exists to halt and reverse nature loss.

First, as we have seen via efforts to tackle climate change, the nature transition will require the entirety of a business to pivot to address the full suite of ways in which nature affects its risks and impacts. Coalitions like the Taskforce on Nature-related Financial Disclosures and the Science Based Targets Network will accelerate this process, as will the adoption of mandatory nature-related disclosure by 2030, as agreed at COP15.

Second, taking no-regrets action today, and sharing what we learn. At COP15, the message was clear: There is no need to wait for the complete picture to start responding to nature risks and opportunities. The tools are in-hand to get started, so we can start to make progress where we can, enabling us to consult in a more informed capacity on new frameworks for disclosure as they're developed.

Third, aligning on policy. We need rapid and deep alignment on policy and on incentives (and disincentives), as we're increasingly seeing on climate change. Policy alignment is important because it ensures that countries that are home to our planet's biodiversity resources are able to monetize their value efficiently, and in turn preserve them. This is especially true in the context of deforestation, where incentive structures must enable the right compensation to shift away from highly profitable industries that harm the planet's ecosystems.

By making these shifts, we can help accelerate the development of a financial infrastructure able to scale the role of asset managers, and contribute to a world on course for a nature-positive future. ♦