

December 16, 2022

Nature as an Asset: The Coming Wave of “Natural Capital” and Biodiversity  
Shareholder Activism and Stewardship Pressure on Boards of Directors

As anticipated in our [February 2021 memo](#), the terms “natural capital,” “biodiversity,” “nature loss,” “ecosystem restoration” and the like have increasingly entered the investor and corporate lexicon. This has accelerated since the publication of [The Economics of Biodiversity: The Dasgupta Review](#), the groundbreaking independent study commissioned by the U.K. Treasury which presented “Nature as an Asset” and was produced by Professor Sir Partha Dasgupta, Frank Ramsey Professor Emeritus of Economics at the University of Cambridge.

With natural capital depletion and biodiversity loss estimated to result in a [decline](#) in global GDP of \$2.7 trillion annually by 2030, institutional investors are increasingly defining and grappling with these issues, forming organized coalitions, and deciding to press public companies for action, enhanced board oversight and new disclosures. These efforts have accelerated in recent weeks in the lead up to the COP15 summit and will be amplified by related reporting frameworks being finalized by the Global Reporting Initiative, the Taskforce on Nature-related Financial Disclosures, the International Sustainability Standards Board, and the Science Based Targets Network. How and whether to be “nature-positive” is also being explored by major corporations, investors and influential stakeholder groups.

For example, earlier this week, a coalition of institutional investors launched [Nature Action 100](#), led by AXA Investment Managers, Columbia Threadneedle Investments, BNP Paribas Asset Management, Domini Impact Investments, Federated Hermes, and Christian Brothers Investment Services, among others, partnering with Ceres, the Institutional Investors Group on Climate Change and Finance for Biodiversity. This initiative will develop a target list of 100 focus companies, engage board members and executives at companies in sectors deemed important to reversing nature loss, and identify corporate actions to protect and restore nature. It parallels Climate Action 100+, an existing investor-led initiative that has driven significant investor engagement, activism and monitoring of corporate greenhouse gas emissions.

Nature Action 100’s launch follows last week’s [Governance and Stewardship of Biodiversity Responsibilities Statement](#) issued by the International Corporate Governance Network (ICGN), an investor-led corporate governance and stewardship coalition linked to \$70 trillion in assets under management. The ICGN statement calls on investors and companies to:

- publicly commit to adopting science-based business targets (including credible interim targets) that contribute to stabilizing biodiversity loss by 2030 and to restoring ecosystems by 2050;

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- give “prime consideration” to ensuring that boards of directors have access to requisite expertise and are “held to account” for progress and impacts;
- begin the process of understanding biodiversity and natural capital dependencies and impacts, using the tools deployed by leading companies;
- ensure “robust” governance procedures and board competence for overseeing how management identifies, monitors, measures and manages biodiversity dependencies, impacts, risks and the opportunities that are aligned with a company’s purpose and long-term strategy; and
- align CEO and senior executive pay and incentives with a company’s purpose, strategy and workforce, while respecting global best practices.

### *An Accelerating Investor and Stakeholder Priority*

The above initiatives come at the end of a year that saw the largest institutional investors express fresh concerns about natural capital stewardship and establish material nature-related risks and opportunities as a stewardship and engagement priority. In March, State Street Global Advisors (SSgA) [identified](#) land use, biodiversity, natural resources and the circular economy as focus areas and committed to providing portfolio companies guidance on these topics and conducting targeted engagements. Then in July, SSgA issued a [letter](#) to boards noting that “global deforestation—namely its direct linkage to biodiversity loss and climate change—presents financial risk to our portfolio companies” and called on boards and management to assess deforestation and land degradation risk in their value chains and loan portfolios and to enhance public disclosures. Similarly, BlackRock in [February](#) and [April](#) discussed how its role as a fiduciary to clients has sharpened its focus on natural capital as a stewardship priority and an investment theme. Where material issues are present, BlackRock will engage with portfolio companies on nature-related topics to understand board and management roles and monitor how business models, disclosures and practices are consistent with the sustainable use and management of natural resources such as air, water, land, minerals and forests, intersect with the broader health and wealth of the world’s nature-related resources and habitats, implicate biodiversity volume and variety across animal, plant and microorganism species and affect ecosystem health. T. Rowe Price also [incorporates](#) material biodiversity and nature issues in its holistic investment assessments.

Reflecting the growing awareness and pressure on these issues, shareholders brought the highest number of Rule 14a-8 shareholder proposals relating to deforestation, recycling, pesticide use and pollution in recent years, with proposals relating to sustainable packaging and eliminating deforestation and primary forest degradation in consumer goods supply chains receiving record and even majority shareholder support in several instances. Companies that defeated such proposals did so on the basis of their strong practices and disclosures. In addition, some companies have begun engaging in

structured negotiations with proponents on these issues, and other companies have embraced commitments to the long-term health of the natural ecosystems that are essential to people, biodiversity and their businesses.

With investors expressing concern that natural capital depletion and biodiversity loss have accelerated due to coinciding factors, such as land and sea use change, climate change, overuse of natural resources, and pollution, other initiatives have been launched. In August, Ceres, in partnership with a coalition of 64 investors with \$9.8 trillion under management, launched the [Valuing Water Finance Initiative](#), which seeks to engage companies with large water footprints to value and act on water as a financial risk and take action to protect water systems. Specifically, Ceres released six water protection expectations for investors to use with portfolio companies, initially requesting that large companies commit that they will, by 2030: not negatively impact water availability in water-scarce areas or water quality; not contribute to the degradation of natural ecosystems critical to freshwater supplies; actively work to restore degraded habitats; contribute to achieving universal and equitable access to water, sanitation and hygiene (WASH) across their value chain; deploy their boards and senior management to oversee water management; and ensure that all of their public policy engagement and lobbying align with sustainable water resource management outcomes.

#### *New Focal Points for Governance, Disclosure and Reporting*

New biodiversity disclosure frameworks will launch next year and, if followed, will increase public scrutiny on how companies identify and manage biodiversity risks and their impact on value chains. These frameworks all reach how the board of directors provides oversight, including through committees, and engages with management on nature-related risks and opportunities where material to the company, as well as the role of management in assessing and addressing such risks.

For example, earlier this month, the Global Reporting Initiative (GRI), the most commonly used sustainability reporting framework globally, released its [exposure draft](#) on new biodiversity standards. The GRI draft seeks new or increased disclosures on supply chain and location-specific impacts on biodiversity, management responses, the direct drivers of biodiversity loss and the impact of company operations and supply chains on ecosystems and local communities.

Just last month, the Taskforce on Nature-related Financial Disclosures (TNFD), an initiative led by senior executives, financial institutions, corporates and market service providers, including AXA, BlackRock, Bank of America, BNP Paribas and Norges Bank, representing over \$20 trillion in assets under management, released an updated draft of the [TNFD reporting framework](#), which is to be finalized in 2023. The TNFD framework will likely recommend that companies disclose their governance (across management structures and board oversight), strategy and nature-related dependencies, impacts, risks, and opportunities, including by having—and disclosing—metrics and targets. While the

TNFD draft draws upon and adapts several of the recommendations of the Task Force on Climate-related Disclosures, it also includes additional disclosures for alignment between nature and climate policies and targets, and evidence of stakeholder engagement. TNFD's first pilot program reaches 23 publicly traded member companies representing \$1.3 trillion in market value and covers three systems: energy, land use (including food, agriculture and forestry) and the built environment, which are the value chains said to account for about 90% of the pressure on biodiversity. And just this week, the International Sustainability Standards Board (ISSB) announced it will incorporate natural ecosystems into its formal definition of sustainability and address their relationship to financial value creation. With biodiversity being viewed as intertwined with climate change imperatives, ISSB also announced it would consider the TNFD's work on the intersection of climate and biodiversity disclosures in scoping ISSB's own research on complementing climate-related disclosure with nature-related disclosures.

In addition, the Science Based Targets Network (SBTN), an initiative whose partners include Ceres, the World Economic Forum and CDP, is finalizing nature-related corporate guidance and targets for an early 2023 release. SBTN will provide companies with guidance on assessing, identifying, measuring, disclosing and setting targets covering nature and biodiversity impacts material to their business. SBTN seeks to mirror the Science Based Targets initiative (SBTi), but for nature and ecosystem risks.

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Biodiversity loss and adverse impacts to nature are being viewed by investors as having wide-reaching impacts on the economy and the environment, directly and indirectly touching companies across sectors, with impacts most acutely felt by enterprises with significant reliance on nature-based resources in their primary businesses or with high dependence on natural capital in their operations and supply chains. In particular, companies with global supply chains, whose [weaknesses](#) were exposed during the Covid-19 pandemic and which are being rebuilt to adapt to the evolving geopolitical landscape, may come under further pressure to reduce ecological footprints and prepare for the potential loss of, or disruption to, traditional supply sources.

Looking ahead to 2023 and beyond, companies are well-advised to understand, assess, disclose, and actively manage their material nature-related risks and opportunities and decide on the appropriate role of the board of directors. Doing so will also help companies keep up with peers, engage more effectively with investors and stakeholders on relevant nature-related business topics and respond to evolving investor pressure and expectations, even as the legal, regulatory and public policy environment evolves.

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