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PART IV – CLIMATE AND BIODIVERSITY

# Point of No Returns 2023

Part IV: Climate and Biodiversity

ShareAction»

# About ShareAction

ShareAction is an NGO working globally to define the highest standards for responsible investment and drive change until these standards are adopted worldwide. We mobilise investors to take action to improve labour standards, tackle climate change and address pressing global health issues. Over 16 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. Our vision is a world where the financial system serves our planet and its people.

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# Contact

[research.secretariat@shareaction.org](mailto:research.secretariat@shareaction.org)

# Authors

Abhijay Sood, Dr Claudia Gray, Eve Gleeson, Izzy Monnickendam and Dr Jonathan Middleton

## CONTRIBUTING AUTHORS

Danielle Vrubleviskis, Felix Nagrawala, Katie Stewart and Marina Zorila

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# Executive summary



# Executive summary

**Our environment is being radically altered by human activity, and we are rapidly running out of time to secure a sustainable and liveable future for people and planet<sup>1</sup>.** Climate change has already widely impacted both people and nature and will only accelerate if action is not taken now<sup>2</sup>. Biodiversity, and its systems that help sustain human life, are rapidly deteriorating worldwide<sup>3</sup>. Species loss is so great that the sixth mass extinction event in Earth's history is under way<sup>4</sup>.



**“Choices and actions implemented in this decade will have impacts now and for thousands of years.” – IPCC, 2023**

The climate and biodiversity crises are intimately linked. Land and ocean habitats are essential for absorbing carbon<sup>5</sup>: we cannot tackle climate change without halting habitat loss. Removing carbon from the atmosphere, including through natural solutions, is now essential to limit global temperature rises to 1.5C<sup>6</sup>. In a vicious feedback loop, climate change is also one of the five major drivers behind the decline in nature. The others are land-use change (such as deforestation), direct exploitation (such as hunting or fishing), invasive species, and pollution. All five drivers have accelerated considerably over the past 50 years<sup>7</sup>.

If these problems are interconnected, so are the solutions. The Intergovernmental Panel on Climate Change (IPCC) recognises this in its joint report with the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)<sup>8</sup>. However, business and finance have not yet acknowledged that biodiversity loss is as important as climate change. The Kunming-Montreal Global Biodiversity Framework (GBF), adopted in late 2022<sup>9</sup>, was a critical step forward for action on biodiversity loss - comparable in importance to the Paris Agreement of 2015 for climate.

**We cannot secure thriving natural ecosystems without a net zero economy, and this requires the finance sector to play an active role.** As stewards of vast amounts of global wealth, asset managers must respond to growing environmental challenges and new regulations that come in their wake. They must comprehensively assess and disclose both the environmental risks to their investments, and the impacts of those investments on our world today and in the future. They must take robust steps to prevent biodiversity loss and reduce carbon emissions, in an interconnected way. By doing this, they can meet the expectations of the majority of consumers looking for businesses and financial services to demonstrate wider responsibility than simply maximising profit.

**This report looks at the climate and biodiversity policies and practices of 77 of the world's largest asset managers,** who collectively hold over \$77 trillion in assets under management.

We examine their strategies, their assessment of risks and opportunities, and the extent to which they are adequately disclosing this information. We also explore the major gaps and barriers to action on the urgent environmental challenges we face.

Our assessment is based on comprehensive data collected from the asset managers between July and November 2022.

**We found that asset managers need stronger and more comprehensive interim net-zero targets, consistent with limiting temperature rise to 1.5C. These must go hand in hand with asset managers directing capital towards the climate transition. Asset managers' recognition of the importance of biodiversity has grown since our 2020 survey, but their responses to the biodiversity crisis remain considerably weaker than their responses to climate change. There are few commitments on biodiversity, and risk assessments remain inadequate. In many cases, firms have not yet understood the links between these issues.**

All asset managers can take powerful action on environmental issues. This is true regardless of what types of assets they hold, or whether they take an active or passive approach to investing. For example, PGIM Fixed Income received the fifth highest score on biodiversity<sup>10</sup>. Some asset managers with a predominantly passive approach also performed well in our ranking: Legal & General Investment Management, for instance, was one of the top 10 performers on both climate and biodiversity.

We see some clear steps forward in responsible investment practices on climate and biodiversity, but we also see further steps that asset managers need to take. These include developing detailed transition plans and comprehensive assessments of how investments impact on nature, and how those investments depend on nature. Climate and biodiversity concerns must be adequately integrated and coordinated to effectively address the interconnected global environmental challenges we must overcome to protect our home.

**ShareAction is calling on all asset managers to urgently address climate change and biodiversity loss through how they allocate capital and engagement with the companies they invest in. Specifically, we want the sector to make clear commitments to reduce biodiversity loss and set emissions targets aligned with pathways to limit warming to 1.5C.**

## How to use this report

This report offers detailed insights into how 77 of the largest asset managers in the world are managing risks and opportunities related to climate change and biodiversity loss. This is the final report in the Point of No Returns 2023 series and follows the parts published between February and May:

- ▶ [Part I – Ranking and General Findings](#)
- ▶ [Part II – Stewardship and Governance](#)
- ▶ [Part III – Social](#)

All the reports in the series include examples of leading practice on various responsible investment issues. These give specific, practical insights into how asset managers can implement, and have already implemented, robust responsible investment practices.

This report, and its recommendations, are designed to be useful to key stakeholders in the financial community:

- Asset managers are encouraged to use this report, and its recommendations, to benchmark their own performance and inform areas for improvement.
- Asset owners and investment consultants can use the information to challenge asset managers, inform the selection of managers, and as a reference for positive trends set by leading players.
- Policy makers can use the report to identify areas of sector-wide strength and weakness and to determine appropriate policy action to protect investors and the wider public interest.

# Summary findings





# Summary findings

## Chapter 1: Strategy and targets

**Finding 1:** Almost all asset managers now have a long-term net-zero target.

**Finding 2:** Incomplete coverage of assets and scope 3 emissions mean that asset managers' interim targets are insufficient to fulfil their long-term commitments.

**Finding 3:** Almost three-quarters of asset managers had no commitments to protect natural ecosystems from deforestation and none had commitments on other types of natural habitat conversion.

## Chapter 2: Investment policies

**Finding 4:** Only 10 asset managers – all of which are European – have committed to restrict investment in the most harmful fossil fuels across all funds.

**Finding 5:** Asset managers continue to invest in oil & gas expansion.

**Finding 6:** Threshold-based restrictions are not always credible.

**Finding 7:** Nearly half of asset managers had no sector policies for biodiversity, and those that did primarily focus on agriculture and forestry.

**Finding 8:** Only two-fifths of asset managers monitored whether investee companies operate in areas of biodiversity importance.

**Finding 9:** Almost three-quarters of asset managers imposed no restrictions on company operations in important areas for biodiversity.

**Finding 10:** Asset managers were only considering climate opportunities in a limited way and few had set investment targets.

**Finding 11:** Just 27 asset managers reported that they measure the positive impacts of their investment activities on the climate.

## Chapter 3: Risk analysis, management, and mitigation

**Finding 12:** The majority of asset managers carried out some assessment of biodiversity risk, but few use this information to inform policies and targets.

**Finding 13:** Just 8% of asset managers said they measure and set targets using portfolio scope 3 carbon emissions.

**Finding 14:** The majority of asset managers assess company performance on biodiversity, but many do not use readily available biodiversity data and metrics.

**Finding 15:** A third of asset managers did not perform climate scenario analysis.

**Finding 16:** Most asset managers that perform scenario analysis did not use it to inform their approach to climate change within their investment activities.

**Finding 17:** Asset managers perceived that data gaps are stopping them from addressing climate change and biodiversity loss.

## Chapter 4: Corporate engagement

**Finding 18:** Asset managers reported increasing engagement with companies about their decarbonisation strategies, while the biggest focus for biodiversity was disclosure.

**Finding 19:** Biodiversity is rapidly increasing as a priority for engagement.

**Finding 20:** Almost three-quarters of asset managers reported being members of at least one biodiversity-related collaborative initiative.

## Chapter 5: Disclosure

**Finding 21:** The majority of managers have started to implement the TCFD recommendations, but very few reported piloting the TNFD framework.

# Methodology



# Methodology

- Asset managers were selected based on the size of their assets under management (AUM) with adjustment for regional coverage (39 managers were from Europe, 25 from the Americas, and 13 from the Asia Pacific region).
- A partially pre-filled questionnaire was sent to 77 asset managers, of which 83% decided to participate by verifying and augmenting the data.
- Asset managers that declined or did not respond (17%) had their response populated based on publicly available information and were subsequently provided with the opportunity to review their response.
- The analysis in this report series is based on answers to survey questions and commentary provided in survey responses. The questionnaire can be found in the Appendix to Part 1 of the series.
- Information was collected between July and November 2022.

The full methodology and scoring information can be viewed [here](#).

# Strategy and targets



# Chapter 1: Strategy and targets

In this chapter, we take a detailed look at asset managers' net-zero targets and commitments on biodiversity.

## **Finding 1: Almost all asset managers now have a long-term net-zero target.**

Of the 77 asset managers surveyed, 63 (82%) have pledged to achieve net-zero carbon emissions from their investments by 2050 or sooner (Figure 1). For five (6%) of these, this target depends on a target set by their parent company. An additional four (5%) plan to set a 2050 target.

While this reflects a consensus around the reality of climate change and the need for financial institutions to act<sup>i</sup>, areas of inconsistency and weakness remain. Some of the targets feature wording which falls short of making a clear commitment<sup>ii</sup>, lack credible accompanying plans for how the targets will be achieved, or otherwise preclude the possibility of increasing their commitment to cover 100% of their AUM over time.

Vanguard, for instance, is the second largest asset manager globally, yet its 2050 net-zero target only applies to 17% of its AUM. Vanguard justified its limited scope by its predominantly passive model, yet other predominantly passive asset managers (such as Sumitomo Mitsui Trust Asset Management and Legal & General Investment Management) have set strong targets.

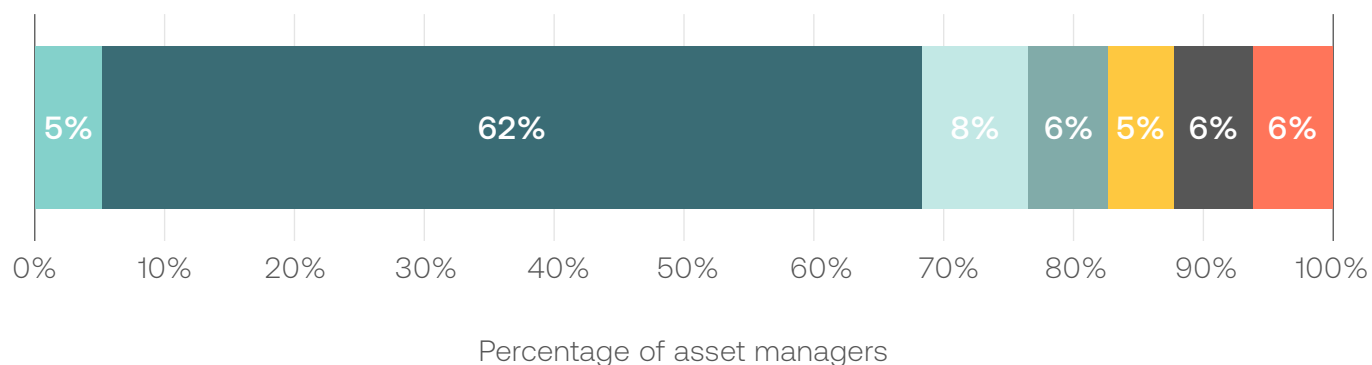
Four of the 63 asset managers have set net-zero targets for 2040 (Aviva Investors, Macquarie Asset Management, SEB Investment Management and Swedbank Robur), demonstrating market leadership. Setting net-zero targets for earlier than 2050 reflects that achieving net-zero globally by 2050 demands greater ambition from companies and investors in developed countries, who have benefitted historically from the carbon-based economy.

The five Chinese asset managers in our survey have set 'peak carbon by 2030' and 'carbon neutrality before 2060' targets, in line with Chinese government policy<sup>12</sup>. Despite China being a signatory to the Paris Agreement, this trajectory implies around 3C of warming<sup>13</sup>.

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i We recognise the role of groups such as the Glasgow Financial Alliance for Net Zero and the Net Zero Asset Managers initiative in creating consensus around the need for asset managers to commit to aligning their strategies to 1.5C pathways.

Figure 1: Most asset managers now have a long-term net-zero target



- Set target for NZ by 2040
- Set target for NZ by 2050
- Set target for NZ by 2050 – but with limited scope
- Set target for NZ by 2050 – but dependent on parent company/group
- Planning to set target for NZ by 2050
- Set target for ‘carbon neutrality’ by 2050
- No NZ target set or planned

## Finding 2: Incomplete coverage of assets and scope 3 emissions mean that asset managers’ interim targets are insufficient to fulfil their long-term commitments.

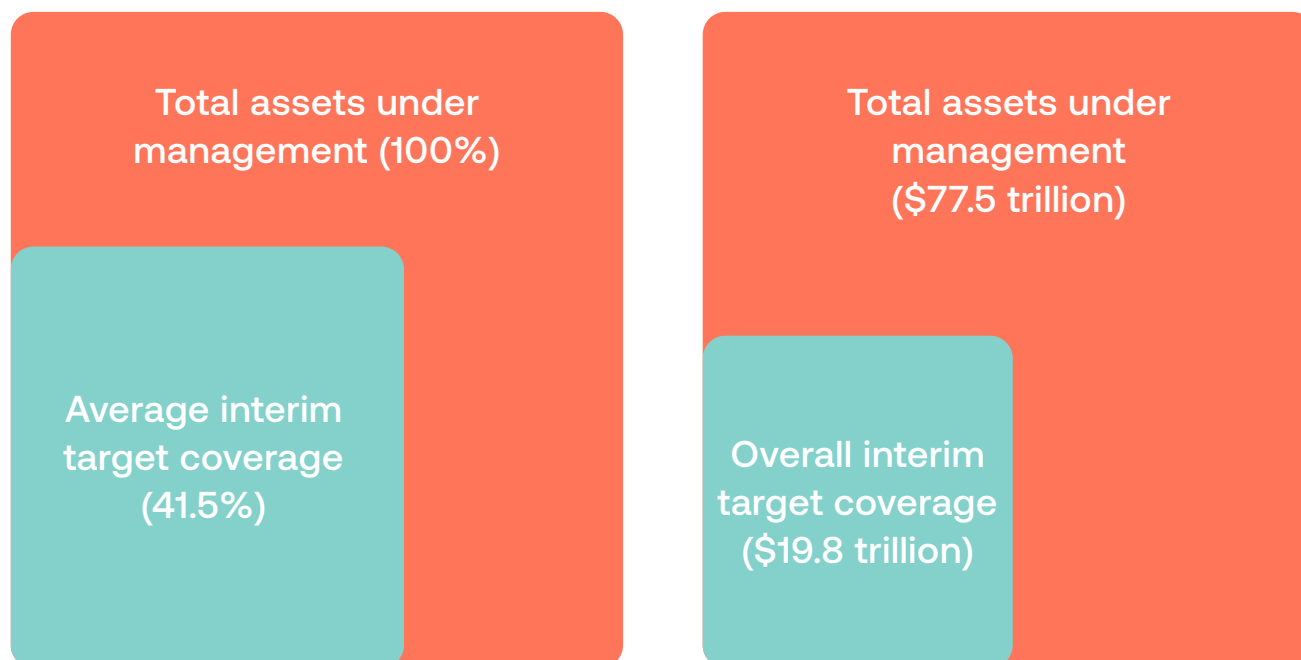
Limiting global warming to 1.5C requires immediate and deep emissions reductions as well as long-term net-zero targets<sup>14,15</sup>. Asset managers must therefore also set robust interim targets for 2030.

Eight of the 63 asset managers with 2040 or 2050 targets didn’t disclose interim targets. Of the asset managers that have interim targets, these cover just 41.5% of AUM on average (Figure 2). Including all 77 asset managers, interim targets have only been set for a quarter of their combined AUM. To demonstrate the credibility of targets, we encourage asset managers to:

- provide a granular breakdown of uncommitted assets;
- outline the process for increasing the committed portion of assets; and
- disclose progress made against their plan.

We will publish deeper guidance and standards on this topic shortly.

Figure 2: The average interim target covers less than half available assets under management



Many interim targets exclude scope 3 emissions<sup>16</sup> – an important gap. Measuring and reducing scope 3 emissions is needed to tie emissions targets to the real economy – especially for companies and sectors where they dwarf scope 1 and 2 emissions – so we encourage managers to commit to including scope 3 emissions in their targets on a consensus-based approach, such as by following the Net Zero Investment Framework guidelines<sup>17</sup>.

Only 13 asset managers (17%) had interim targets that include scope 3 emissions to some extent. Another 35 (45%) said they intend to incorporate scope 3 emissions over time.

Asset managers have set three kinds of targets for their portfolios (Box 1). Twenty-two (29%) have set portfolio coverage interim targets, 30 (39%) have set intensity-based interim targets, and 8 (10%) have set absolute reduction targets. This includes 13 asset managers who have set two targets of different types.

Given the pitfalls of using portfolio coverage and intensity-based targets, we recommend asset managers set absolute targets to ensure the real-world emissions reductions necessary for a 1.5C pathway.

Some asset managers have set relatively strong interim targets (see leading practice example below); 18 (23%) have interim targets covering 50% or more of AUM.





## Box 1: Net-zero Targets fall into three main categories

### Portfolio coverage targets

Instead of focusing on the overall emissions of their portfolio, asset managers assess whether the individual companies underlying the portfolio are aligned to a credible pathway towards net-zero<sup>18</sup>.

#### Possible pitfalls:

- The link to emissions is indirect.
- It can lead to a disproportionate focus on engagement and underplay the role of capital allocation.
- Some targets only identify companies that already plan to be aligned, rather than actively seeking to encourage change.
- There is no disclosure of progress (or regression) by unaligned companies.
- No targets are ambitious enough in their coverage. Even if most issuers are included in a target, the most polluting companies may not be covered.

### Intensity-based targets

These targets aim to reduce emissions relative to value, either of company revenues or the value of the security held. For example, targeting a 50% reduction in CO<sub>2</sub> equivalent (CO<sub>2</sub>e) emissions per dollar of revenue by 2030, relative to 2019.

#### Possible pitfalls:

- Changes in revenues or share price can distort the amount of progress made, as emissions intensity will not necessarily track absolute emissions.
- Over time, values are likely to trend upwards, so intensity targets could be met with smaller real emissions reductions than would be needed for seemingly comparable absolute targets.

### Absolute targets

These targets aim to reduce the overall emissions of a portfolio by a given date.

**Possible pitfalls** that apply to absolute targets apply to all three types of targets:

- Offsets may be used by the asset manager at portfolio level instead of prioritising direct emissions reductions by individual companies.
- Divesting from high carbon assets and investing in low carbon ones instead doesn't necessarily achieve direct real-world emissions reductions.



## Leading practice: Interim targets from Allianz Global Investors, Amundi Asset Management, and SEB Investment Management

While no current commitments clear the bar for best practice, some are more ambitious than others.

### Absolute and Intensity-based targets from Allianz Global Investors and Amundi Asset Management

AllianzGI and Amundi AM have set both intensity-based and absolute targets. AllianzGI set intensity-based targets for in target scope listed equity and corporate bonds. It uses absolute emission targets for direct infrastructure equity. AllianzGI's and Amundi AM's targets currently only apply to 12% and 18% of their assets under management respectively. Both asset managers have expressed a willingness to extend this portion over the coming years, including through engagement with their clients.

Amundi AM includes upstream (tier 1) scope 3 emissions, while AllianzGI's target is limited to scopes 1 and 2, though they "intend to include Scope 3 progressively over time"<sup>19</sup>.

### SEB Investment Management's absolute reduction target

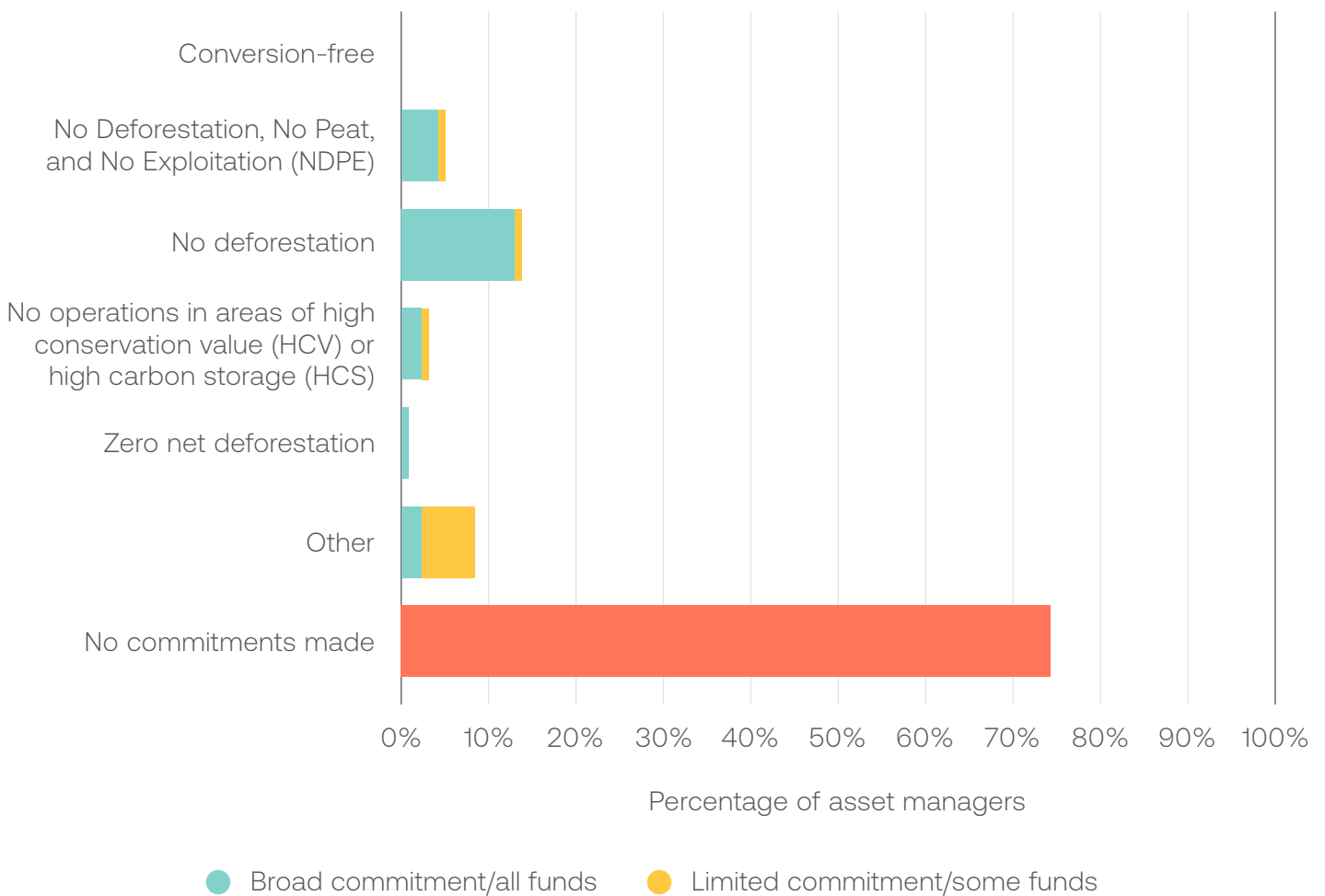
SEB IM has set a strong absolute reduction target, pledging to reduce its CO<sub>2</sub>e emissions by 50% by 2025, 75% by 2030, and 100% by 2040, relative to 2019. This target applies to all internal funds (which comprise 73% of SEB IM's AUM), and covers listed equities, corporate bonds, and real estate. It excludes third-party mandates (27% of AUM). This means SEB IM has initially committed 50% of its total AUM to be managed in line with net zero<sup>20</sup>.

This target covers scope 1, 2 and relevant scope 3 emissions, though details have not been made public with regards to scope 3.

### Finding 3: Almost three-quarters of asset managers had no commitments to protect natural ecosystems from deforestation and none had commitments on other types of natural habitat conversion.

Forests are critical for preserving biodiversity as they host some of the richest concentrations of biodiversity in the world<sup>21</sup>. They are also crucial for the climate: a net-zero future cannot be achieved without ending deforestation by 2030<sup>22</sup>. Yet only 21 asset managers (27%) had made any commitments on this (Figure 3).

Figure 3: Most asset managers have made no commitments on deforestation and land conversion<sup>ii</sup>



ii Conversion-free refers to commodity production, sourcing, or financial investments that do not cause or contribute to the conversion of natural ecosystems, such as deforestation to turn forests into agricultural land. Conversion can have a big impact on related ecosystems and is a direct driver of biodiversity loss.

‘Soft commodities’ such as palm oil, soy, paper, timber, and beef are some of the most critical drivers of deforestation, together responsible for 60% of tropical deforestation<sup>23</sup>. Aviva PLC, AXA Group, Fidelity International, Legal & General IM, NN IP, Robeco, Schrodgers, and Sumitomo Mitsui Trust AM all signed the Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation<sup>24</sup>, which includes a commitment “to use best efforts to eliminate forest-risk agricultural commodity-driven deforestation activities at the companies in our investment portfolios and in our financing activities by 2025” and “to create organisational plans, milestones and incentives to fulfil the proposed timeline for [these] commitments”.

Just four asset managers – BNP Paribas AM, Robeco, Sumitomo Mitsui Trust AM, and UBS AM – have committed to No Deforestation, No Peat, No Exploitation (NDPE)<sup>25</sup> for soft commodities. However, some of these commitments were weaker than others, for example by being limited to palm oil, or only for tropical rainforests. BNP Paribas AM has also set targets for companies in some non-agricultural sectors (mining, metals, and infrastructure) to make NDPE commitments by 2030.

Not one asset manager had made any commitments about the conversion of natural ecosystems or set any specific targets to manage investment risks to biodiversity that went beyond their deforestation commitments. Global Canopy’s roadmap to deforestation-free finance is the current gold standard for such commitments<sup>26</sup>. Some have announced an intention to set more targets, including several who are signatories of the Finance for Biodiversity Pledge<sup>27,28</sup> launched in 2020. Pledge signatories “commit to protecting and restoring biodiversity through their finance activities and investments by [...] assessing impact, setting targets, [and] reporting publicly on the above [...] by 2024 at the latest”.

To achieve the necessary impact, it is important that asset managers make commitments with comprehensive targets for preserving biodiversity across the globe – not just for individual commodities or vulnerable areas – and apply these across all their funds. Furthermore, it is important to recognise biodiversity as important for a wide range of ecosystem services, such as providing clean water, filtering air, supporting resilient food networks, and providing cultural value. A robust biodiversity policy goes far beyond just considering deforestation in terms of its contribution to carbon emissions.

# Investment policies

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## Chapter 2: Investment policies

This chapter analyses asset managers' investment policies<sup>iii</sup> concerning climate and biodiversity.

Investment restrictions – in conjunction with a strong engagement and escalation strategy, as discussed in Part II of this report series<sup>29</sup> – can be an important lever for real world impact and an effective tool when engagement does not lead to desired change. For firms who don't respond well to such engagement, investment restrictions can result in: raising their cost of capital or making it harder to access; directly affecting stock-related incentives for managers; and making their most harmful activities less socially acceptable. And the opposite can apply to firms who do respond as desired.

We also examine asset managers' approaches to investing in the climate transition. Asset managers can play an important role in providing the substantial capital required to create clean energy capacity and transfer existing skills, infrastructure, and production.

### **Finding 4: Only 10 asset managers – all of which are European – have committed to restrict investment in the most harmful fossil fuels across all funds.**

Coal and unconventional oil & gas are the most harmful types of fossil fuel. Coal is the most emissions-intensive source of energy and damaging to people's health as well as the climate<sup>30</sup>. Unconventional oil & gas extraction methods – such as from fracking or from the Arctic – have more severe effects on the health of nearby communities<sup>31</sup> and the local environment<sup>32</sup> than conventional extraction. Moreover, unconventional fuels can be more energy-intensive to extract<sup>33,34</sup>. Yet firms continue to invest in these fuels, despite the lower long-term costs of renewable energy<sup>35,36</sup>.

Of the 77 asset managers in our sample, 18 (23%) have committed to restrict investment in thermal coal (used for coal power) across all funds, up from 16% in our 2020 survey. Only five extend this restriction to metallurgical coal (used in the production of steel) (Figure 4). Ten of these asset managers also have at least one restriction on unconventional oil & gas investment – for example Arctic oil, tar sands oil, or fracking – which applies to all funds. All ten are European firms.

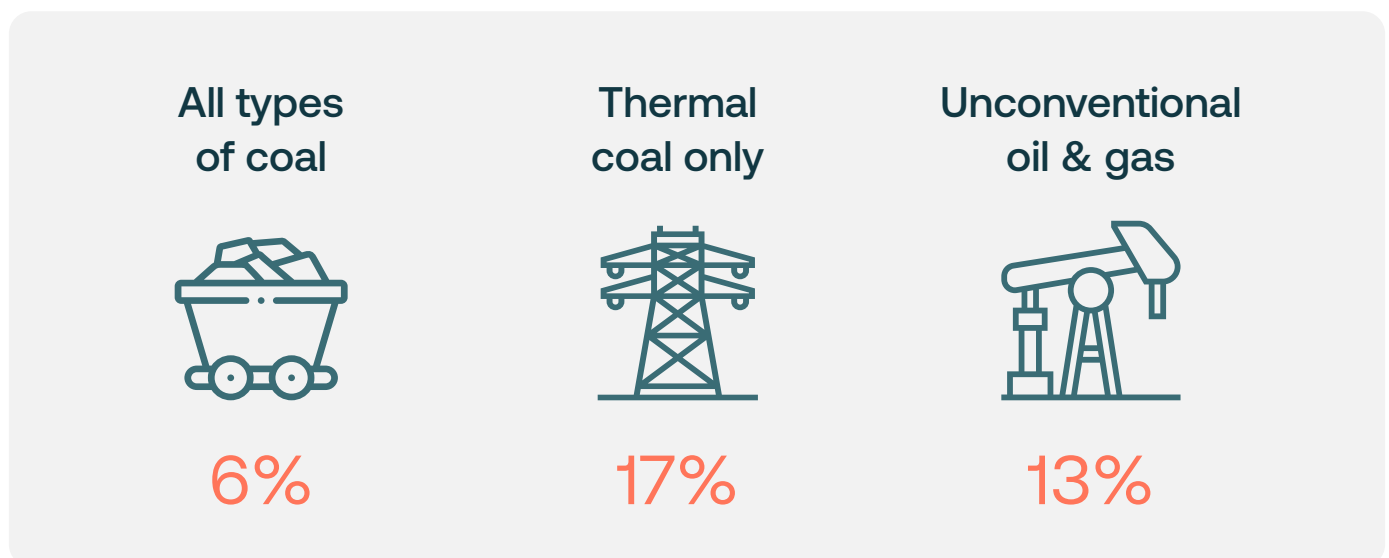
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iii We define a climate or biodiversity investment policy as a statement that sets out the firm's approach to integrating climate and biodiversity concerns in their investment decisions (for example, through screening or positive tilts). This is distinct from policies that set out how asset managers vote and engage on environmental issues. These policies can be standalone or integrated as part of a wider responsible investment policy.

The restrictions range from strong absolute restrictions to weak threshold-based restrictions, such as 30% of total revenue (see Finding 6). There are also exceptions to these restrictions on the basis of geography (e.g. permitting thermal coal investment in Germany for a limited amount of time) or on a firm-by-firm basis (through an exceptions process and/or committee).

Many more firms have restrictions for either coal (77%) or unconventional oil & gas (62%) that only apply to a small fraction of funds. This fraction can vary from a single digit number of funds to a majority of overall AUM. The strong consensus on the harm these fuels cause, and the fact most asset managers in our sample have implemented at least some restrictions, suggests there is potential to strengthen existing restrictions, and to impose them across a wider range of funds or launch new funds incorporating strong restrictions.

Figure 4: Very few asset managers have restrictions on coal and unconventional oil & gas across all funds



### Finding 5: Asset managers continue to invest in oil & gas expansion.

Investment in new conventional oil & gas is incompatible with 1.5C pathways, according to the International Energy Agency<sup>37,38</sup>. Yet despite widespread pledges to align with these pathways, very few asset managers are restricting investments in companies seeking to develop new oil & gas projects.

Ten (13%) of the asset managers explicitly identified some kind of restriction on fossil fuel expansion, but almost all only apply to ESG-labelled funds, and thus have limited impact. The strongest restrictions come from SEB Investment Management and MN. SEB Investment Management's almost blanket fossil fuel exclusion policy implicitly restricts funding fossil fuel expansion in most cases and across all funds, though it does potentially allow exceptions. MN excludes companies involved in fossil fuel production from all investments on behalf of one of its two major clients (Dutch pension fund PME).

New oil & gas exploration leads to future fossil fuel capacity. A further 10 asset managers have set restrictions relating to exploration. However, most of these restrictions cover only a small proportion of AUM.

## Finding 6: Threshold-based restrictions are not always credible.

Fifty-five asset managers (71%) have at least one threshold-based restriction on coal, oil, or gas, making this the most common form of climate-related investment restriction. Our survey covered threshold-based restrictions where investments are excluded if a company derives more than a certain percentage of revenue, extraction volume, or energy generation volume from a given activity.

Lower threshold restrictions are more restrictive. For instance, DWS Group's 'basic exclusion filter' covers companies deriving more than 15% of revenues from coal extraction, coal mining or coal-based power generation; compared with 10% for their 'ESG standard filter'.

We appreciate that there is a role for engagement to bring the conventional oil & gas sector into greater alignment with a 1.5C pathway. However, higher thresholds enable asset managers to present themselves as green while continuing to invest in companies with high carbon footprints, which risks misleading consumers. For example, of the 52 asset managers with a revenue-based coal restriction, only 21 of these were 10% or below.

Figure 5: Most asset managers have at least one threshold-based restriction





## **Finding 7: Nearly half of asset managers had no sector policies for biodiversity, and those that did primarily focus on agriculture and forestry.**

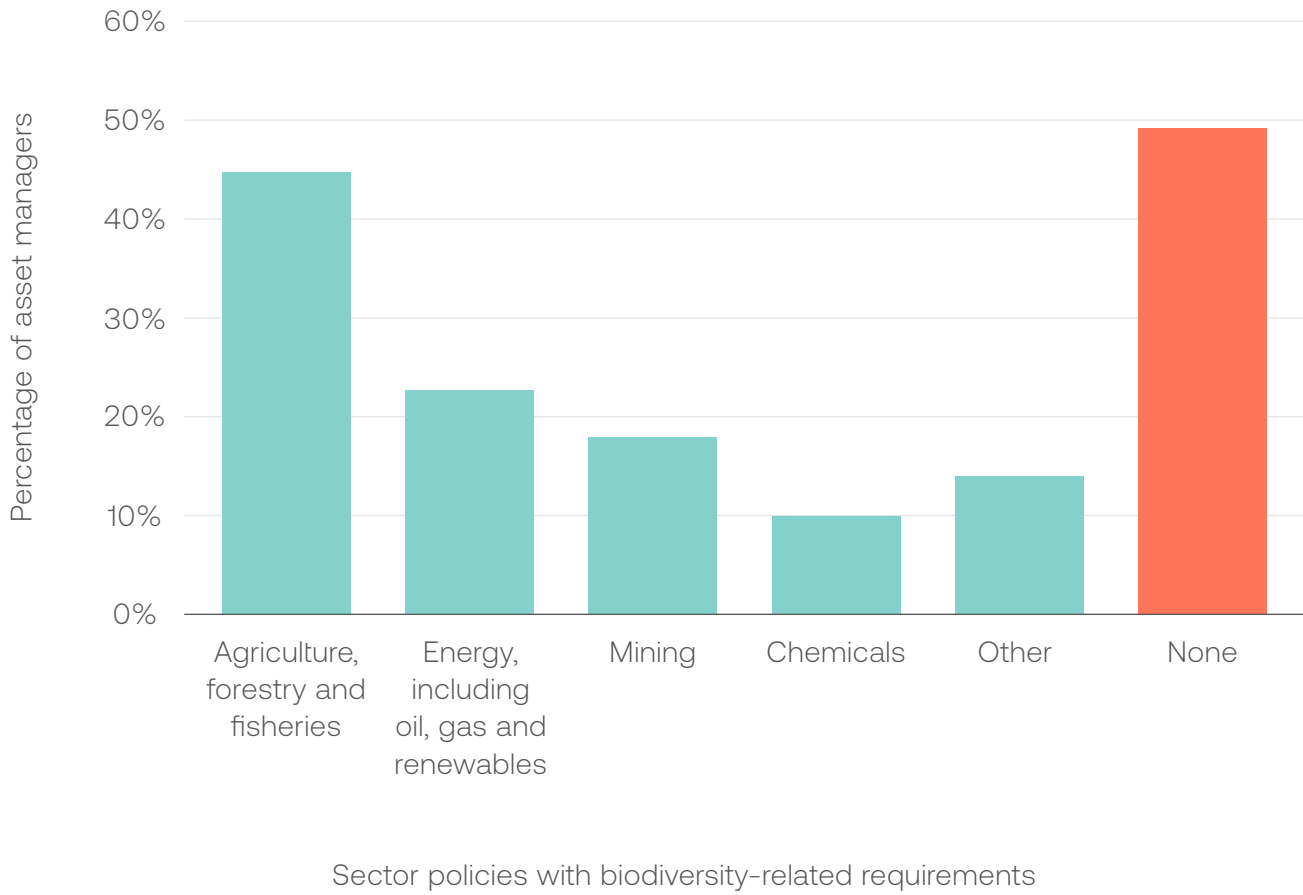
Effective responsible investment policies will vary between sectors, given the variation in biodiversity impacts and dependencies across different industries. However, we found that 38 asset managers (49%) had no biodiversity-related sector policies at all. This contrasts with their approach to the climate, as 64 asset managers (83%) have some kind of restriction on the coal and oil & gas sectors.

Where asset managers did have a biodiversity-related sector policy, most covered agriculture (including soft commodities), forestry and fisheries (Figure 6). Several asset managers reported investment criteria, expectations or engagement priorities relating to deforestation driven by palm oil, cattle, soy, sugar, timber, or other forms of agriculture. In some cases, these had a specific focus on tropical forests or the Amazon, reflecting the global significance of these habitats for biodiversity and climate<sup>39</sup>.

Very few policies explicitly mentioned fisheries. Only eight asset managers had specific exclusions, requirements or engagement priorities relating to companies in the fisheries sector. This suggests that sustainable management of marine and freshwater ecosystems is seriously overlooked, despite their importance as a critical source of protein for 3.3 billion people, their contribution to 600 million livelihoods and an international trade in aquatic food products that generated over US\$150 billion in 2020<sup>40</sup>.

Overall, there was considerable variation among the sector policies in terms of the level of detail given, the sectors covered and whether policies related only to ESG-labelled funds. Some asset managers highlighted the biodiversity benefits of existing restrictions (e.g. on fossil fuels or tobacco) but did not appear to have developed additional investment criteria in response to an assessment of biodiversity-related risks (see Finding 12). In contrast, some had detailed sector policies including clear expectations of and restrictions on companies specifically relating to overexploitation, threatened species and environmentally sensitive ecosystems (see leading practice box below). Others stated that biodiversity impacts are primarily a topic for engagement only, indicating that they are not using capital allocation as effectively as possible within their stewardship approach.

Figure 6: Where asset managers do have sector policies that apply to biodiversity, these most frequently cover agriculture and forestry





## Leading practice: SEB Group has publicly available sector policies that explicitly highlight biodiversity

SEB Group has clear sector policies for each of the following sectors<sup>41</sup>.

- Mining and Metals
- Fossil Fuels
- Agriculture, Fishing, Aquaculture and Animal Welfare
- Forestry, Pulp & Paper and Timber
- Renewable Energy Generation and Electricity Transmission & Distribution
- Shipping
- Transportation

They specify key risks for each sector and the revenue thresholds for which each policy applies to a company, and they distinguish clearly between the application of restrictions versus expectations.

Restrictions include avoiding investments in companies or projects with a material negative impact (such as land conversion or operations in marine no-take zones) on national parks, nature reserves and threatened species<sup>iv</sup>. They also specify sector-appropriate expectations such as the development of a biodiversity baseline and targets by 2025, limiting the use of agrochemicals and effective management of water use and waste<sup>42,43</sup>.

These policies are implemented through the sustainability policy of SEB Investment Management. While the sustainability policy of SEB IM<sup>44</sup> does not yet provide the same level of detail for biodiversity concerns across specific sectors, the framework of the SEB Group policies provides a strong foundation for the development of a robust biodiversity approach.

## Finding 8: Only two-fifths of asset managers monitored whether investee companies operate in areas of biodiversity importance.

Only 31 managers monitored whether the companies in which they invest have operations in areas of global importance for biodiversity. These areas have been identified as especially biodiversity-rich or sensitive, so are where conservation efforts have the greatest impact.

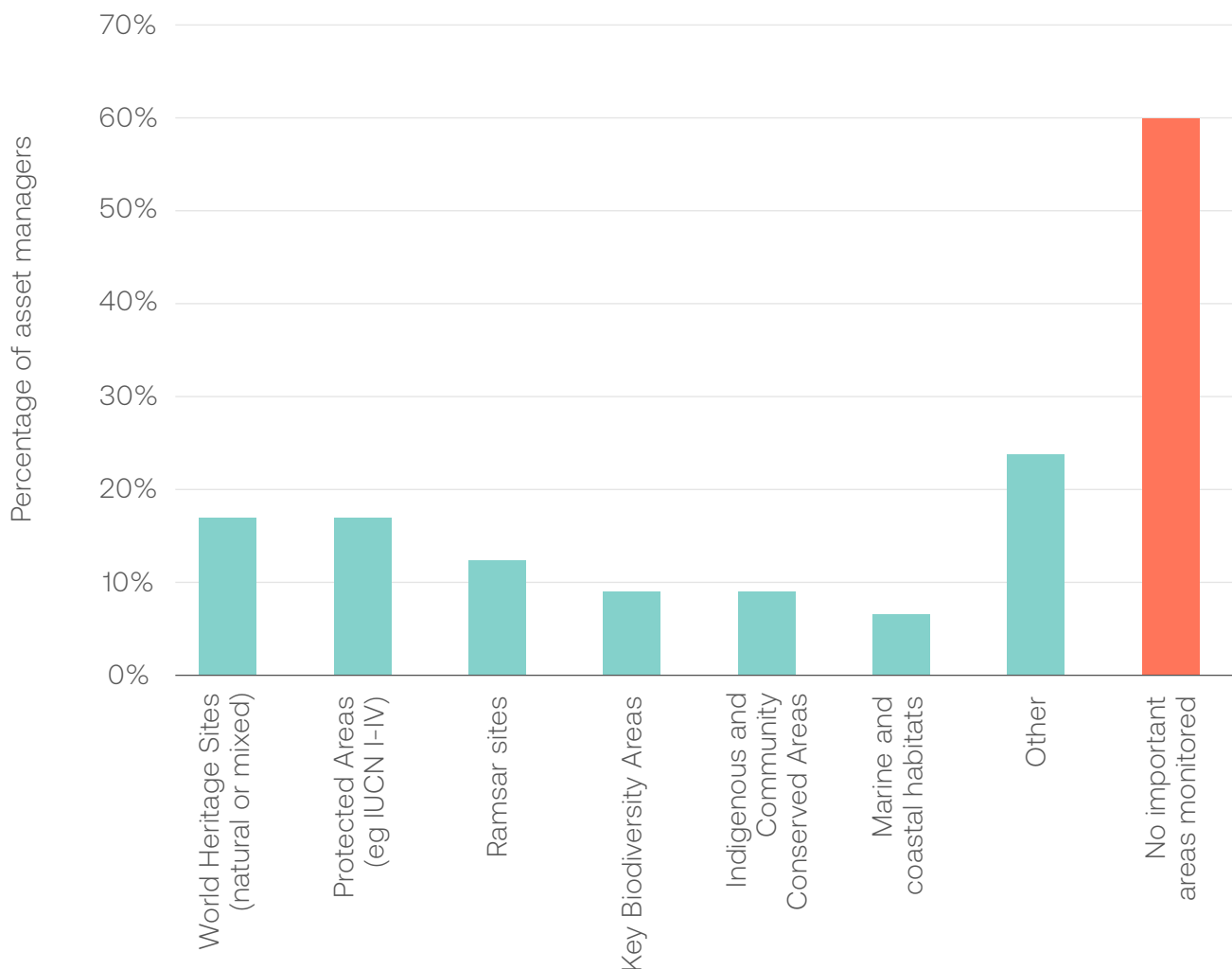
iv Threatened species are those listed as Vulnerable, Endangered or Critically Endangered by the International Union for the Conservation of Nature (IUCN) Red List.

Areas of biodiversity importance come in a range of categories, covering different types of natural environment. The most commonly monitored by asset managers in our sample were natural and mixed World Heritage Sites<sup>45</sup>, and Protected Areas (e.g. those under the International Union for the Conservation of Nature (IUCN) management categories I to IV)<sup>46</sup>, each used by 13 managers (Figure 7). Policies varied in scope. Some policies were more comprehensive, such as DWS Group's, which "has criteria for clients/investees to commit to no activities in IUCN protected areas categories I – IV. Where biodiversity is a material ESG issue, we monitor and address a given company's impact on biodiversity with respect to protected areas, key biodiversity areas (e.g. areas of high/very high biodiversity defined by IUCN) and endangered species (e.g. IUCN Red List). [...] Where disclosure [...] is missing, we may initiate [engagement and] request companies to define relevant metrics, targets, and strategies to address and remediate the impact on biodiversity."

Some policies were more narrowly focused on companies developing new palm oil plantations or farming projects, while others engage with investee companies about potential impacts in sensitive areas but showed no clear consequences of engagement, or restrictions.

Concerningly, only 17 use more than one type of framework, despite their importance for different reasons, and their coverage of different types of habitats. Asset managers should be engaging with investee companies to understand where they operate in relation to these areas and pushing them to avoid activities in the most critical areas (such as Protected Areas under IUCN management categories Ia and Ib) and to reduce impacts as much as possible elsewhere.

Figure 7: Asset managers monitored whether investee companies operate in a range of different categories of areas of global biodiversity importance

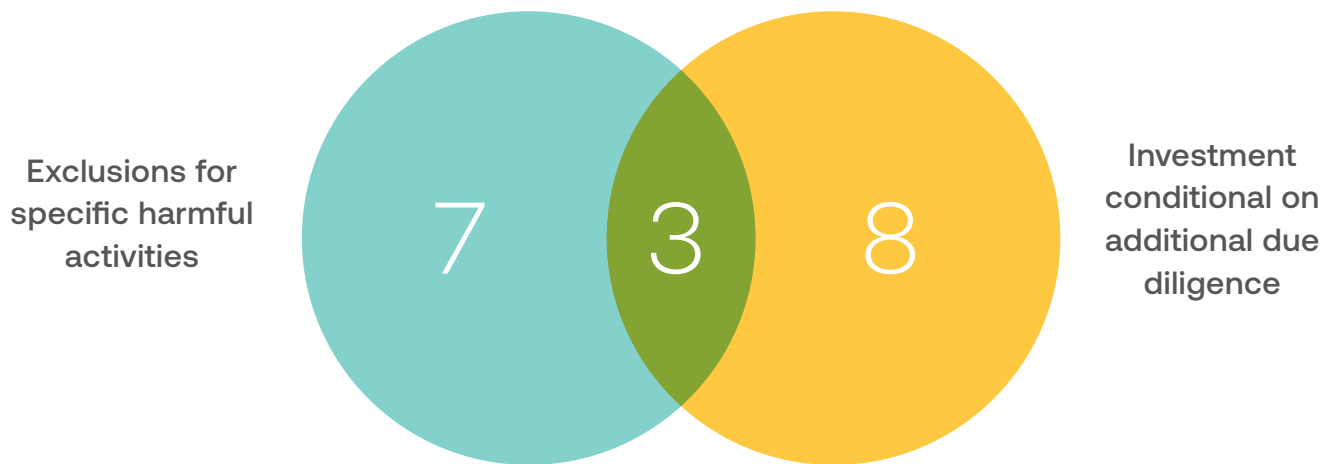


### Finding 9: Almost three-quarters of asset managers imposed no restrictions on company operations in important areas for biodiversity.

Only 20 managers had policies that impose any restrictions on company operations in areas that have been identified as important for biodiversity. Of these, 18 either exclude investments for some specific harmful activities and/or make investment conditional on additional due diligence to ensure no harm is caused (Figure 8). Examples include: requiring companies in specific sectors to have comprehensive deforestation or regenerative agriculture policies; excluding investment in violators of biodiversity-related international agreements; excluding investment in mining, energy, manufacturing, major infrastructure projects or agricultural companies developing new sites in Ramsar wetlands, World Heritage Sites, Protected Areas

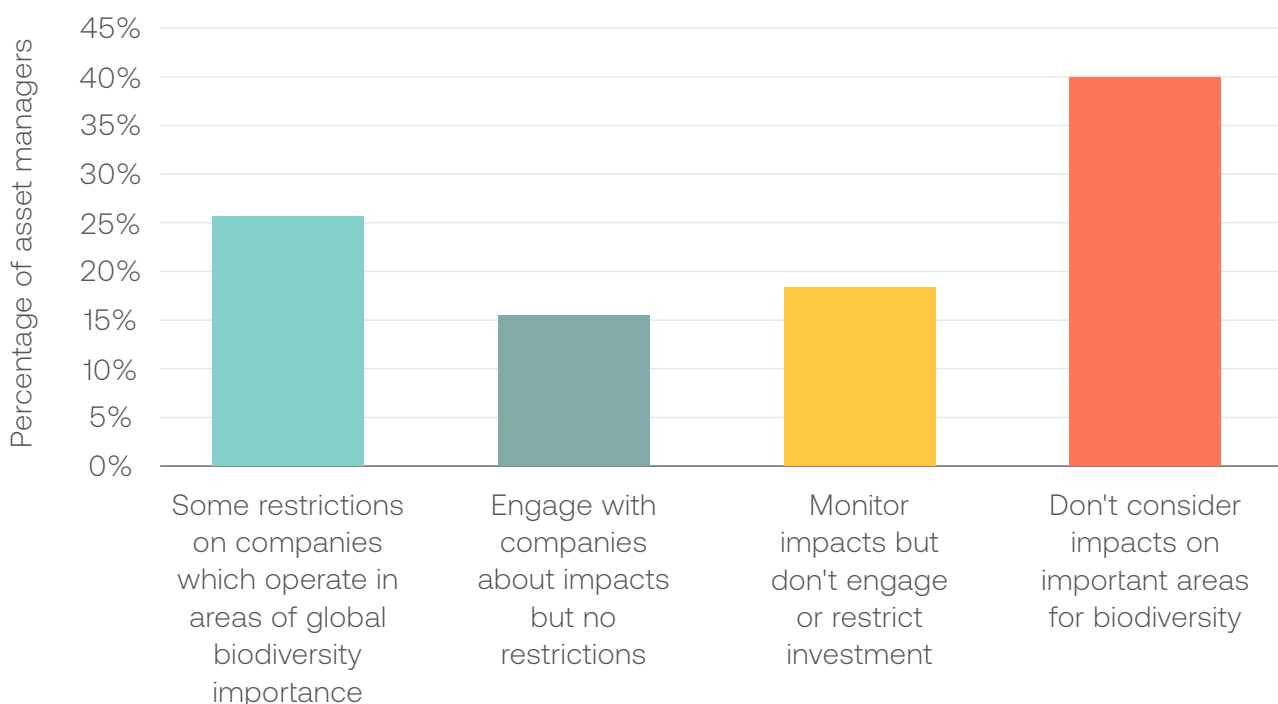
(especially IUCN categories I-IV) or Alliance for Zero Extinction sites. The other two managers impose more general restrictions for some of their portfolios.

Figure 8: Only 18 asset managers restrict investment due to company operations affecting biodiversity



A further 12 asset managers said they engage with companies about how their operations might affect biodiversity, but don't impose any restrictions. And 14 more monitor potential impacts on biodiversity but neither engage nor have policies that restrict investments as a result. Concerningly, 31 managers – over two-fifths of our survey – do not engage, monitor, or restrict investments because of the potential impact on biodiversity of a company's operations (Figure 9).

Figure 9: Fewer than half of asset managers restrict investments or engage with investee companies on impacts to areas important for biodiversity



## **Finding 10: Asset managers were only considering climate opportunities in a limited way and few had set investment targets.**

Whilst most managers (84%) could point to at least one fund that explicitly invests in the climate transition, only two-thirds of these gave evidence of multiple strategies across different asset classes or a structured framework to identify suitable investments. Just eight managers gave any evidence of going beyond ESG-labelled funds and incorporating these investments into mainstream funds. Just 15 asset managers gave firmwide targets for investment opportunities in the climate transition, and seven of these lacked details.

Asset managers took very different approaches to reporting their investments in climate opportunities, with references to: the AUM of specific funds or ranges; investment types such as green or sustainability-linked bonds; renewable energy exposure; or all of their assets included in their net-zero commitment. Some managers said that the lack of a consistent methodology or taxonomy at company level made it difficult to assess their portfolios. Even specific frameworks such as green bonds have variable impacts, and there is a risk that a company may raise other unrestricted capital to allow it to carry on with the rest of its business as usual.

As a result, and since managers frequently use their own definitions to identify climate opportunities, it is hard to verify how much is being directly invested in the climate transition, or to assess the resultant real-world impact. Asset managers should consider their investments in the transition in light of their broader emissions exposure and must go beyond a tiny proportion of ESG-labelled funds to achieve the scale required.



## Leading practice: Nordea Asset Management on investment in climate opportunities

Nordea Asset Management was one of the few managers in our survey to demonstrate a broader approach to responsible investment, with responsible investment strategies now representing over 66% of their total AUM. These include some specific funds aiming to invest in climate opportunities. Nordea AM said: “[The] ESG STARS range has grown to include 19 strategies [all of which] are subject to the Paris Aligned Fossil Fuel Policy. In 2008, we launched the Nordea 1 – Global Climate and Environment Fund. The fund takes a bottom-up approach to identify companies with innovative climate solutions within the clusters of innovation, optimisation, and adaptation. During 2020, in collaboration with Trill Impact, we co-launched a private equity impact strategy with strict climate-related criteria and objectives, securing €900 million in initial commitments. Finally, in 2022, we launched the Global Climate Engagement fund. The fund [...] targets companies in the earlier stages of transitioning towards sustainable business models. By pushing these companies to catch up to climate leaders, this approach unlocks under-appreciated value and contributes to the reduction of real-world emissions”<sup>47</sup>.

### **Finding 11: Just 27 asset managers reported that they measure the positive impacts of their investment activities on the climate.**

Investing in the climate transition is an opportunity for asset managers – and a necessity for the transition to be realised. Doing so effectively requires measuring the positive as well as negative impacts of investment activities on the climate, and making investment decisions accordingly. In some cases, this could mean trading off some risk-adjusted return in favour of positive environmental impact, especially where this protects the longer-term value of portfolios overall and contributes to meeting stated climate goals.

However, just 27 asset managers (35%) reported that they measure the positive impacts of their investment activities on the climate. Eight of these say they consider trading off financial return against positive impact in some of their fund strategies. A further eight say they weigh positive impacts against negative ones. Detail was often lacking as to how any trade-offs were made and whether these approaches went beyond a few ESG-labelled or impact funds. Eleven managers reported that they target positive impact only where all other financial and negative impact considerations are equal.



# Risk analysis, management, and mitigation

3



## Chapter 3: Risk analysis, management, and mitigation

In this chapter, we look at how asset managers are assessing climate and biodiversity risks and using this information to inform policies and targets.

We also investigate the barriers that asset managers claim are stopping them from responding to climate change and biodiversity loss.

### **Finding 12: The majority of asset managers carried out some assessment of biodiversity risk, but few use this information to inform policies and targets.**

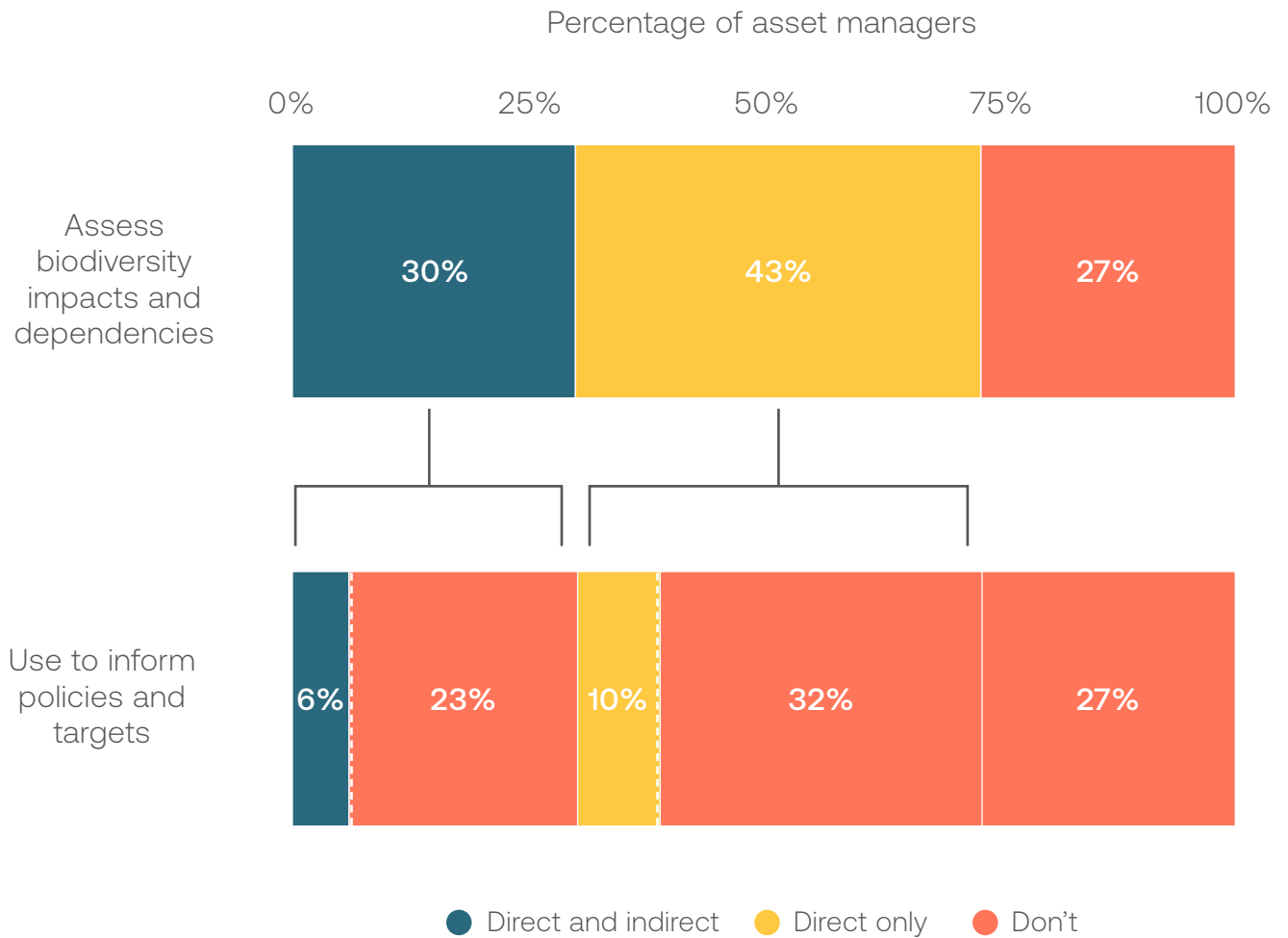
The majority of asset managers (73%) reported that they carry out some assessment of direct impacts and dependencies<sup>v</sup> on biodiversity. This is a considerable step forward from our 2020 survey, in which only a third of respondents assessed any positive or negative impacts of their investments on biodiversity<sup>48</sup>. It corresponds directly to Target 15 of the Kunming-Montreal Global Biodiversity Framework<sup>49</sup> (Box 2). However, this leaves 21 asset managers (27%) who did not report assessing biodiversity-related risks at all.

Only 23 asset managers also assess indirect impacts and dependencies on biodiversity (Figure 10), showing this remains a clear area for future development. Disclosure of upstream, downstream and financed impacts and dependencies is necessary for a complete understanding of risks and opportunities, as recognised by the most recent version of the Taskforce on Nature-related Financial Disclosures (TNFD) framework<sup>50</sup>. As frameworks and approaches to the assessment of indirect impacts and dependencies on biodiversity are still developing rapidly, we included all forms of indirect or value chain assessment, even where these apply only to specific sectors or funds. This means there remains considerable scope for these 23 managers to improve further.

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<sup>v</sup> Our survey did not separate impacts and dependencies as the asset management sector is yet to distinguish these in a consistent way.

Figure 10: Nearly a third of the asset managers in our survey are yet to assess biodiversity risks



Concerningly, only 13 asset managers (16%) are using the data and insights from risk assessments to inform policies and targets. Current leaders in this area include the firms using biodiversity impact assessments to inform their commitments (e.g. Aviva Investors), develop sector-specific policies (e.g. Union Investment) or to identify engagement priorities (e.g. BNP Paribas Asset Management and T. Rowe Price).



## Box 2: COP15 and the Kunming-Montreal Global Biodiversity Framework

In December 2022, thousands gathered in Montreal for the United Nations Convention on Biological Diversity's COP15 summit. The outcome of the conference, the Kunming-Montreal Global Biodiversity Framework, has set four global goals and 23 targets for Parties to the Convention to adopt to halt and reverse global biodiversity loss by 2030.

The Conference saw record turnout from financial institutions, with around 1,000 institutions in attendance. Throughout the Conference, asset managers, banks and other financial actors voiced their support for making Target 15 mandatory. Target 15 calls for financial institutions and companies to monitor, assess and disclose biodiversity-related impacts, dependencies and risks. Despite clear signals from the financial sector acknowledging its importance for meeting global goals, the target was not made mandatory.

Numerous asset managers have spoken out about the importance of the Global Biodiversity Framework and its implications for their own efforts to address biodiversity loss. For example, AXA Investment Managers noted<sup>51</sup> that the inclusion of the private sector is likely to improve transparency between corporates and governments and jumpstart policy making on biodiversity, which will help guide action within the private sector.

COP15 also saw the launch of several initiatives which aim to spur on financial sector and corporate ambition to tackle biodiversity loss. At the Convention, several asset managers, including AXA Investment Managers, BNP Paribas Asset Management and Robeco, launched NatureAction100, an initiative that will coordinate investor engagement with key companies on nature loss. The International Sustainability Standards Board also announced that nature will be included in new disclosure standards, which will facilitate nature-related reporting from companies and make it easier for their investors to identify biodiversity impacts.

As Parties to the Convention, national governments will begin to build the goals and targets of the Framework into National Biodiversity Strategies and Action Plans and to hold businesses and financial institutions accountable for their impacts on biodiversity in alignment with Target 15. We hope to see national

governments also develop legislation geared to achieve the other targets of the Framework, which should involve financial and corporate regulation to manage the impacts of these sectors on biodiversity.

We expect to see the implementation of the Global Biodiversity Framework improve participation of the financial sector in addressing biodiversity loss. Asset managers should see the Framework as a call for them to act on the physical, transition and reputational risks resulting from their investments, and to contribute meaningfully to a global movement to protect and restore biodiversity and natural capital.



### **Leading practice: BNP Paribas Asset Management, PGIM Fixed Income and Northern Trust on capital allocation informed by environmental risks**

Asset managers showing leading practice on environmental topics are using their risk assessments to inform investment choices. BNP Paribas Asset Management's sector policies on palm oil<sup>52</sup> and wood pulp<sup>53</sup> enforces mandatory requirements on investments associated with deforestation and land clearance across all countries, including Brazil. Through this policy, BNP Paribas AM calls on companies to improve transparency and traceability around commodity production and their value chain.

Some asset managers have also taken steps to exclude companies from dedicated funds. Both PGIM Fixed Income and Northern Trust have excluded a major pharmaceutical and crop sciences company from their ESG funds due to the negative impacts on biodiversity resulting from its pesticide products.

While this is an important exclusion and reflects growing understanding within the finance sector of the role of pesticides in biodiversity loss, asset managers should apply this level of scrutiny to all investee companies in all investment activities, not just dedicated funds.

### Finding 13: Just 8% of asset managers said they measure and set targets using portfolio scope 3 carbon emissions.

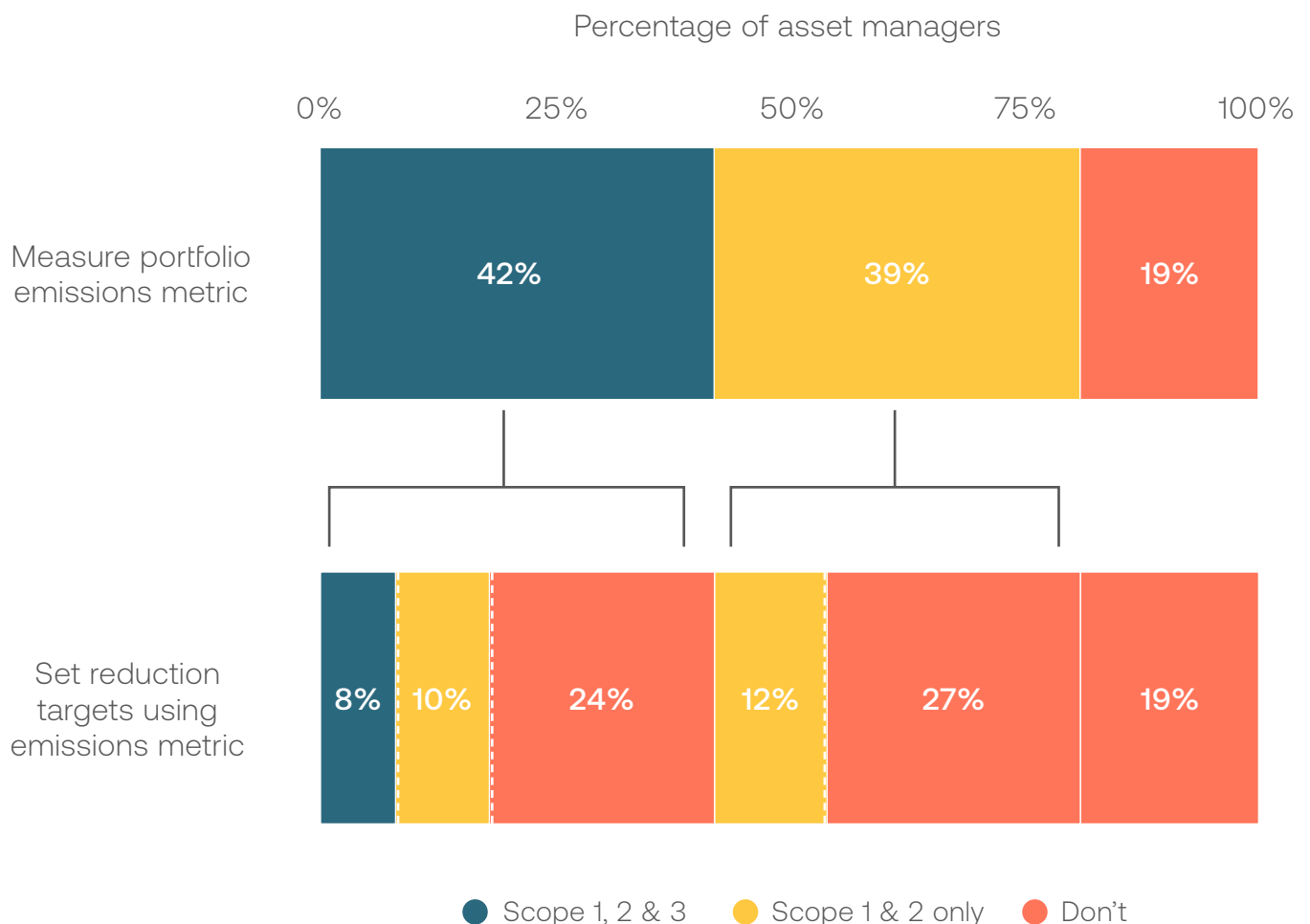
While most asset managers said they are measuring portfolio carbon emissions, few are setting accompanying emissions reduction targets (Figure 11).

Only 42% of asset managers reported measuring portfolio scope 3 carbon emissions and just 8% are measuring and setting targets for portfolio scope 3 carbon emissions. This is despite the importance of reducing scope 3 emissions to have any chance of meeting the 1.5C target.

The most popular climate risk metrics used were portfolio carbon emissions intensity and forward-looking metrics, with 81% and 43% of asset managers using these respectively. Forward-looking metrics included Implied Temperature Rise<sup>54</sup> and climate value-at-risk<sup>55</sup>.

Five asset managers did not report using any climate-related metrics at all to analyse climate risk and set targets.

Figure 11: Most asset managers measure portfolio emissions metrics, but few set targets



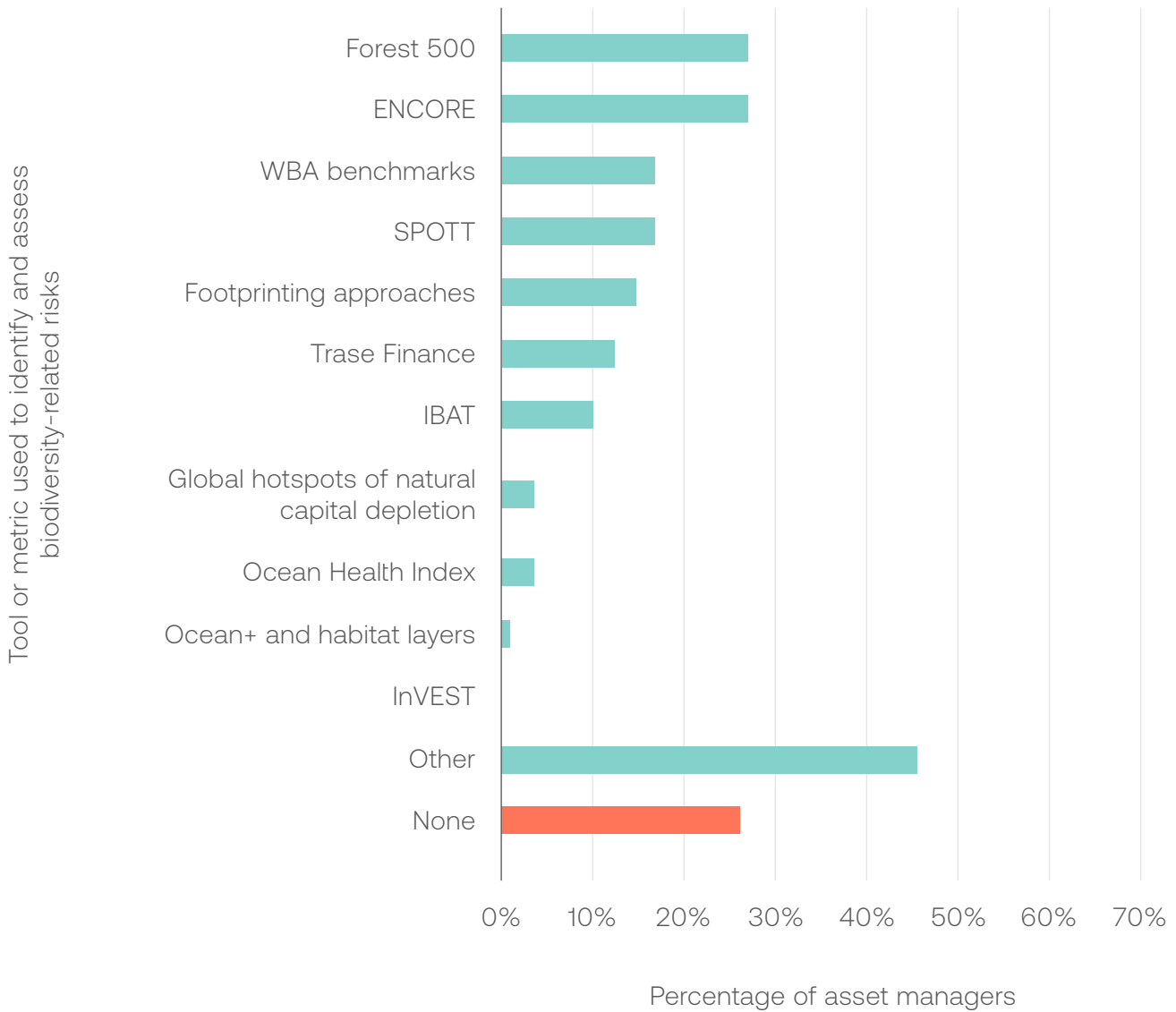
## **Finding 14: The majority of asset managers assess company performance on biodiversity, but many do not use readily available biodiversity data and metrics.**

68 asset managers (88%) reported that they carry out some form of assessment of the performance of investee companies regarding biodiversity. Several reported biodiversity assessments limited to specific funds or sectors, or only where biodiversity is already deemed 'material'. Others reported sophisticated internal platforms that integrate data from a variety of third-party sources, assess company policies and environmental management systems and incorporate performance metrics (see leading practice box below).

Of the 68 asset managers that reported they carry out some form of assessment, 57 also reported using third-party data (either private or from NGOs) with some form of information on ecosystems, species or ecosystem services. The most common tools were ENCORE<sup>56</sup> and Forest 500<sup>57</sup> (Figure 12). It is notable that the use of the Integrated Biodiversity Assessment Tool (IBAT) is particularly low, given the facility this tool offers to enter location data<sup>58</sup> and the emphasis on location data in the TNFD framework<sup>59</sup>. The TNFD highlights that ENCORE provides sector-level, rather than company-level, insights and does not cover upstream or downstream impacts and dependencies<sup>60</sup>.

Each tool was used by only a minority of asset managers (21 or fewer), and only 10 asset managers used four or more of the tools named in our survey (Figure 12). We found a lot of variation in the combination of tools used. As a result, the biodiversity assessments taking place are far from consistent across the sector, and many asset managers are not making best use of data that is already available<sup>61</sup>. This is despite a lack of data being the most common challenge reported by these asset managers (Finding 17).

Figure 12: The most commonly used sources of data are ENCORE and Forest 500, but even these are used by fewer than 30% of asset managers.







### **Leading practice: BNP Paribas Asset Management's use of available biodiversity data tools including those linked to biodiversity models**

BNP Paribas Asset Management reported that it has used seven of the biodiversity tools listed in our survey. It screens project related investments using maps of global hotspots of natural capital depletion and the Integrated Biodiversity Assessment Tool (IBAT). It has also used Forest 500 and the ZSL SPOTT tool to assess investee companies' forestry policies. It has used the ENCORE tool to estimate the nature dependencies of their aggregate assets under management in listed corporates and bonds. It is testing TRASE tools to look at supply chain impacts.

BNP Paribas AM has used the Corporate Biodiversity Footprint of Iceberg Data Lab<sup>62</sup> and iCare & Consult to estimate the impact of their holdings on natural ecosystems<sup>63</sup>. Footprinting approaches combine a financial institution's financial and operational data, such as the amount an investor has invested in a company, with biodiversity data from public databases to calculate potential impacts. The Corporate Biodiversity Footprint uses biodiversity models<sup>64</sup> to estimate the impacts of land use change, pollution and climate change on Mean Species Abundance. This measure is one way to capture how much has been lost relative to the most 'pristine' natural state.

In the same way that climate scenarios are critical for quantifying the impact of different pathways on carbon emissions, biodiversity models and scenarios will be a key tool in combatting the global decline in nature.

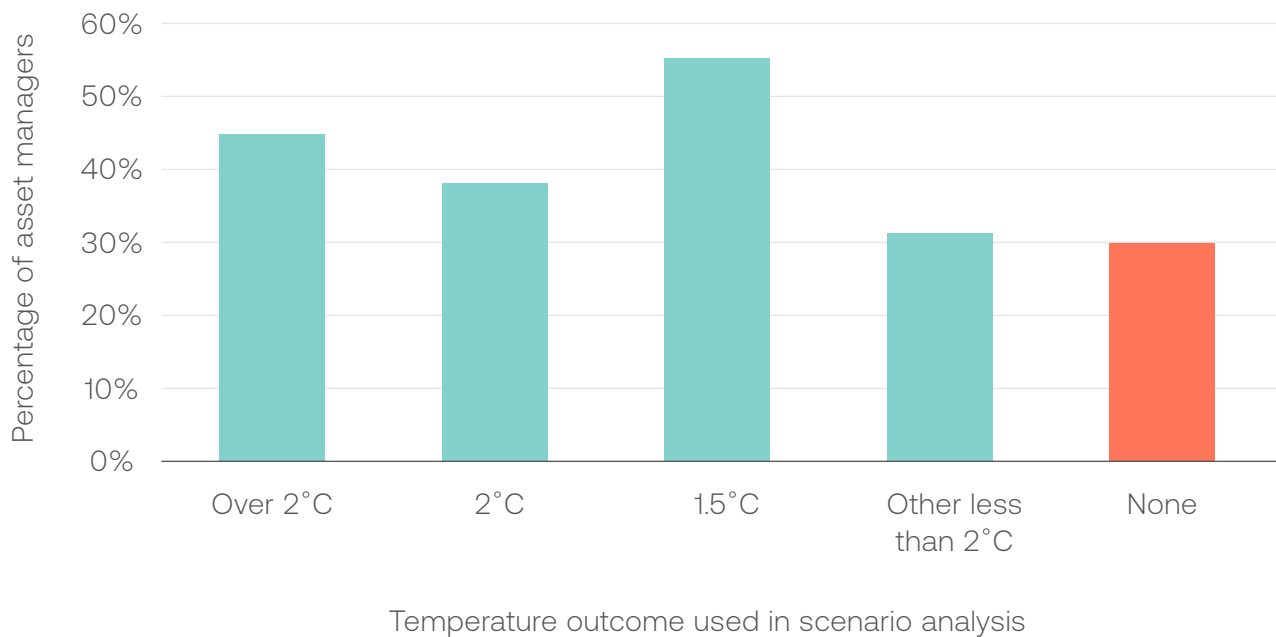
## **Finding 15: A third of asset managers did not perform climate scenario analysis.**

Asset managers use climate scenario analysis to assess the impact of climate-related risks on the value of securities. It is a key part of the TCFD recommendations, which have been in place since 2017<sup>65</sup>, and we were therefore disappointed to find that 30% of asset managers do not carry out any scenario analysis (Figure 13). This is, though, an improvement from 2020, when only 51% did so.

The use of a broad range of scenarios is imperative to properly assess climate risks, given that future responses to and impacts of climate change are uncertain<sup>66</sup>. We asked asset managers

about the temperature outcomes they used: over 2C, 2C, 1.5 degrees and other scenarios below 2 degrees. It is good to see that 52% of asset managers are using multiple temperature outcomes, but 18% only use one.

Figure 13: A third of asset managers do not perform climate scenario analysis



### **Finding 16: Most asset managers that perform scenario analysis did not use it to inform their approach to climate change within their investment activities.**

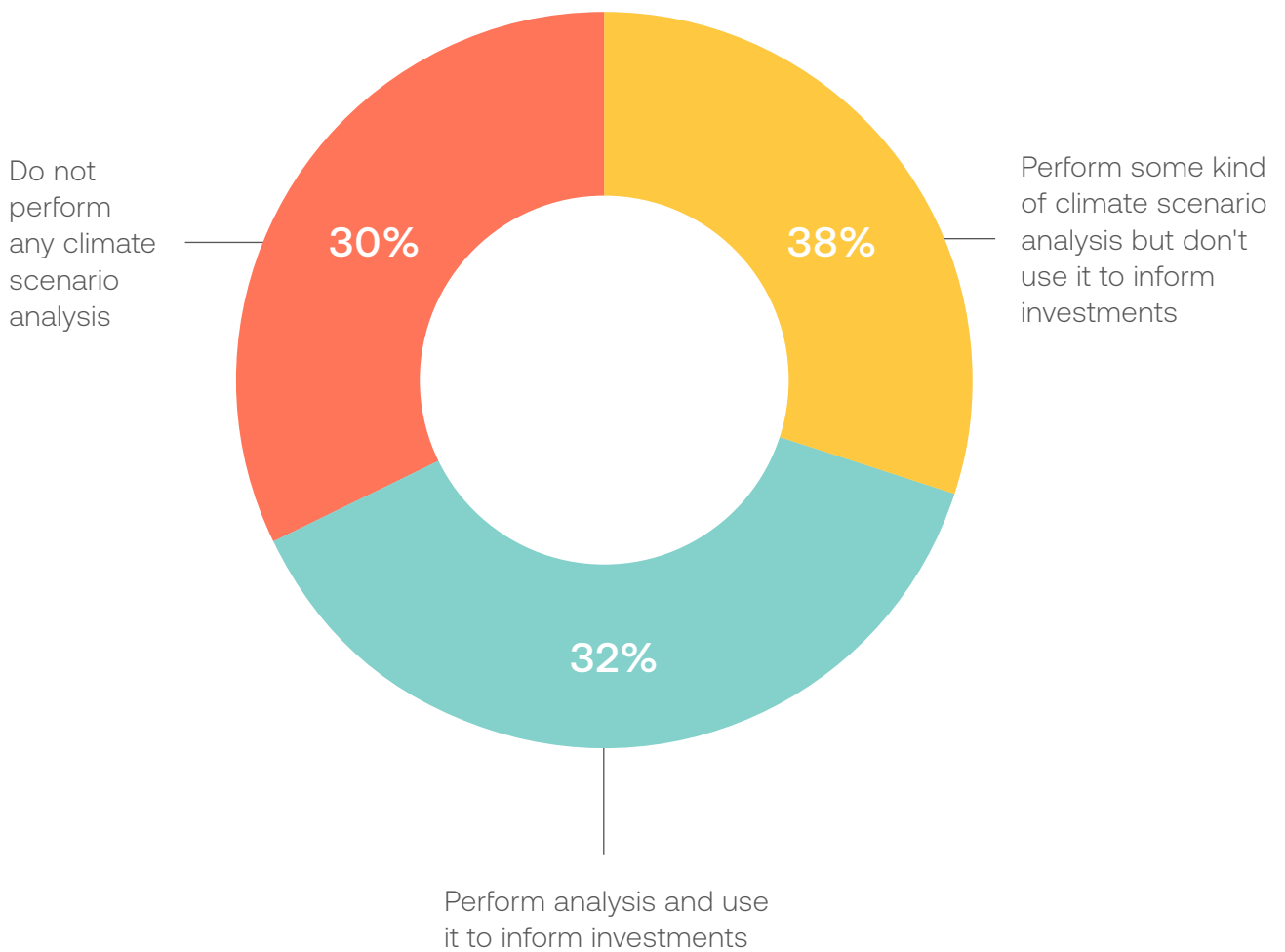
Despite most asset managers performing climate scenario analysis, only 32% have used the results to inform their approach to investment (Figure 14). This calls into question whether asset managers are sufficiently considering financially material risks and, by doing so, fulfilling their fiduciary duty.

It is surprising that 38% of asset managers put resources into conducting scenario analysis but did not use it to inform investment decisions. They may be using it in other ways: one asset manager mentioned they use scenario analysis to inform their engagements with companies. We appreciate that climate scenario analysis methodologies are evolving and require further refinements, and this could be one reason that asset managers may be reluctant to base investment decisions on them.

However, the asset managers that do use scenario analysis to inform investment decisions demonstrate that it can be used in this way despite its limitations. For instance, Robeco uses

scenario analysis to flag its worst performing portfolios on climate, so that portfolio managers can re-evaluate their climate risk. Meanwhile, BNP Paribas Asset Management uses scenario analysis to inform the development of environmental investment strategies.

Figure 14: 68% of asset managers do not use climate scenario analysis to inform their investment decisions





### **Leading practice: APG Asset Management's climate scenario analysis and integration in investment decision making**

APG AM has been performing and integrating climate scenario analysis at a portfolio level for several years<sup>67</sup>. The analysis has considered three scenarios: IEA Stated Policies Scenario (3C temperature rise), IEA Sustainable Development Scenario (1.65C), and IEA Net Zero Emissions Scenario (1.5C).

The results of the climate scenario analysis have been captured in the Climate Portfolio Screen, which creates insights into the most prominent climate-related transition risks and opportunities in 2025, 2030 and 2040. For each of the economic sectors, in each of the time horizons, the traffic light model depicts the assessed transition risk and opportunity as 'high', 'moderate' or 'low'.

Portfolio managers use the Climate Portfolio Screen to monitor their portfolios in response to climate risks and opportunities. Investments in areas with 'high' transition risk within the investment horizon, as indicated by the Climate Portfolio Screen, require further investigation into the nature of the risk/opportunity and the potential financial impacts by the investment teams.

## **Finding 17: Asset managers perceived that data gaps are stopping them from addressing climate change and biodiversity loss.**

We asked asset managers what they saw as the biggest gap in their response to climate change and biodiversity loss. Responses overwhelmingly identified limitations regarding data (Table 1). This is similar to our findings on asset managers' responses to social issues, reported in Part III of this series. Our Biodiversity Scoping Report provides further analysis of the conceptual and technical barriers to action on biodiversity<sup>68</sup>.

Table 1: Asset managers say they face gaps in data they need to respond to climate change and biodiversity loss

Topic	Summary of asset managers' responses	Percentage of asset managers (of those that responded)	ShareAction's response
Biodiversity data and metrics	<p>There is a gap in available data from companies, especially at the location level.</p> <p>Standardised metrics for measuring biodiversity are also lacking, which inhibits comparability across companies. Data that does exist is complex, difficult to assess or unreliable.</p>	70%	<p>Numerous datasets, tools and measurement approaches are available for financial institutions to use today to address biodiversity loss<sup>69</sup>. While imperfect, these tools – such as ENCORE, IBAT, or footprinting tools like the Global Biodiversity Score – can support initial biodiversity impact and risk assessments (see Finding 14).</p> <p>While biodiversity datasets and metrics are still developing, financial institutions should ask companies to publish location-level data whenever possible so that it is available systematically. Additionally, guidance on biodiversity metrics and processes for collecting and reporting biodiversity data continues to improve through initiatives such as the Science-based Targets Network and Taskforce for Nature-related Financial Disclosures, both of which are developing sector-specific guidance for company disclosures.</p>
Scope 3 emissions data	<p>Companies do not always disclose their scope 3 emissions data, especially smaller and/or privately owned companies. Asset managers need such data to develop robust net-zero plans. The lack of scope 3 data means asset managers are instead forced to rely on third-party sources which may be less accurate.</p> <p>Asset managers stated that they support the inclusion of scope 3 emissions into issuers' TCFD disclosures.</p>	46%	<p>Obtaining reliable scope 3 emissions data is a legitimate challenge. Asset managers can and should engage with companies to encourage them to publicly disclose their scope 3 emissions data in line with TCFD recommendations.</p> <p>We welcome the proposed new standard from the International Financial Reporting Standards' International Sustainability Standards Board that asks financial entities to disclose their scope 3 emissions<sup>70</sup>.</p>
Climate scenario analysis	<p>Climate scenario analysis requires using climate models. Climate models make use of many assumptions which are unlikely to all be true. Models also fail to appreciate the interconnectedness of climate impacts with, for example, biodiversity loss. These problems with climate models hinder asset managers' abilities to properly assess climate risks and opportunities.</p> <p>Specifically, several asset managers responded that they did not have enough information from issuers to properly assess physical risks of climate change. This also weakens the climate scenario analysis that asset managers do.</p>	39%	<p>Considering different scenarios based on different assumptions is an integral part of climate scenario analysis. It allows the risks and opportunities associated with different outcomes to be assessed in the face of uncertainty.</p> <p>The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) shows how scenarios and models can be used to assess biodiversity-related risks and design policy. Over time, we expect these methodologies to evolve and increasingly capture the interconnectedness of climate and biodiversity.</p> <p>If issuers do not provide sufficient information on physical risks, asset managers can ask issuers to publish this information and to disclose in line with the TCFD recommendations.</p>

# Corporate engagement

4



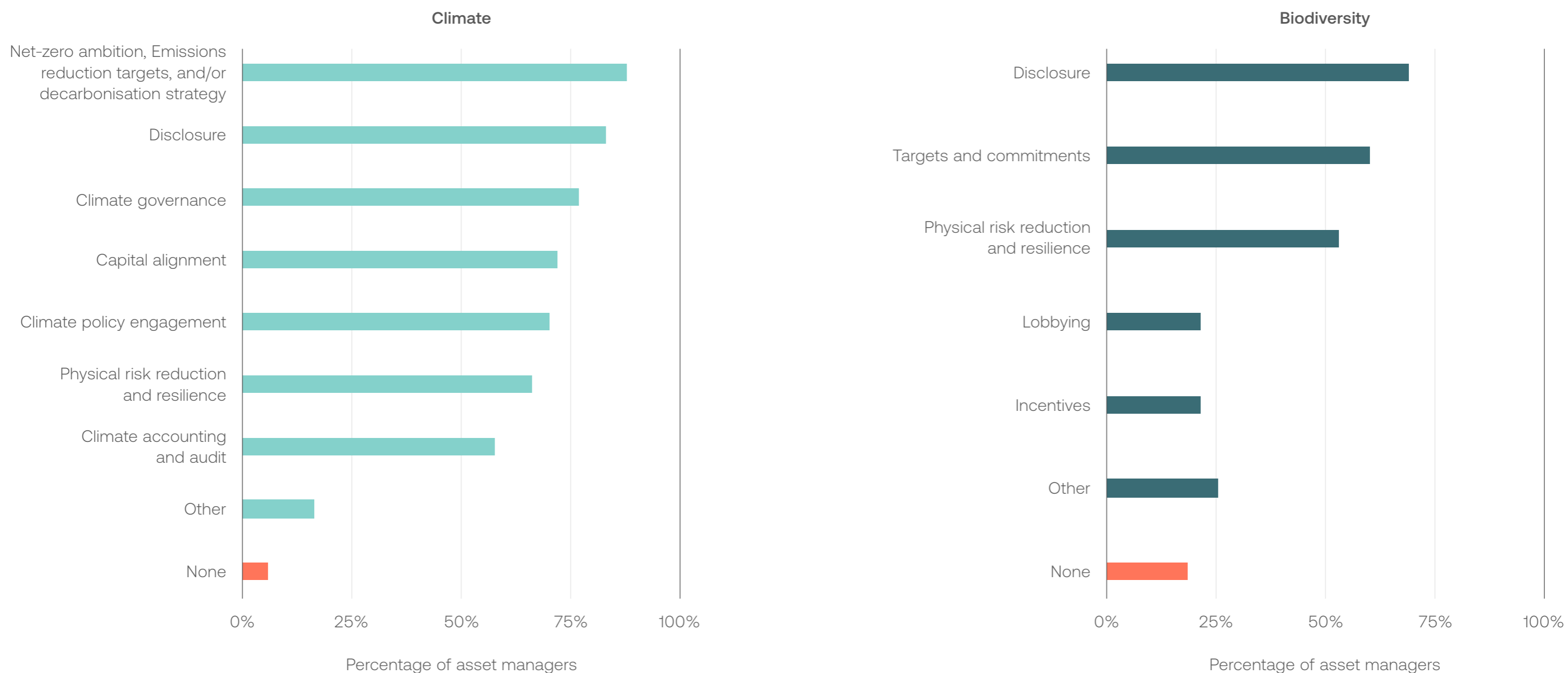
## Chapter 4: Corporate engagement

In this chapter, we analyse recent trends in engagement on climate and biodiversity and the breadth of topics covered. We also look at the biodiversity-related collaborative initiatives that asset managers are part of.

### Finding 18: Asset managers reported increasing engagement with companies about their decarbonisation strategies, while the biggest focus for biodiversity was disclosure.

Almost all asset managers reported that they had engaged with investee companies on multiple climate-related topics since 2020, but biodiversity saw a more selective approach (Figure 15). Almost half (46%) reported engaging on two or fewer biodiversity topics, compared with just 16% who did so for climate. These included fifteen asset managers who gave no examples of engaging on biodiversity, three times as many as for climate. With biodiversity being a broader and more complex subject than climate, a more selective initial approach may be understandable. However, since managers cite data gaps as a barrier to progress (Finding 17), it is important that they engage with investee companies to encourage better data provision.

Figure 15: Asset managers have engaged on a broader range of climate than biodiversity issues since 2020



The most common subject for climate engagement, conducted by 87% of managers, was investee companies' decarbonisation strategies, including emissions reduction targets and net-zero ambition. This shows a shift since 2020: disclosure, the top climate-related engagement priority according to our 2020 survey<sup>71</sup>, is now second, followed by governance. Other engagement topics included the Just Transition (Robeco, Royal London Asset Management) and emerging climate solutions providers (J.P. Morgan Asset Management).

The most popular biodiversity-related engagement topic was disclosure. Just 60% reported engaging on biodiversity targets, the second most common biodiversity topic, compared with 87% who engaged on climate targets and strategy. This perhaps reflects asset managers' own comparative lack of biodiversity-related targets, and a general lack of guidance on target-setting for biodiversity.





## Leading practice: AXA Investment Managers' 'three strikes and you're out' climate engagement policy

AXA IM shows how engagement policies and escalation strategies (discussed in Part II of this report series) can be applied to climate issues.

Given the pressing urgency to decarbonise, AXA IM has stepped up its engagement policy with a 'three strikes and you're out' approach. In place since 2022, this approach gives climate laggards three years to substantially improve. If adequate action is not taken, AXA IM will divest.

AXA IM defines climate laggards as "companies without a clear and credible decarbonisation strategy"<sup>72</sup>. The list of climate laggards includes high impact companies from a range of sectors and regions. It will be revised and added to annually.

To ensure that each 'strike' is followed by concrete, forceful action, AXA IM will define specific objectives at the start of the engagement. For instance, an example objective at an oil and gas company is to "Fully integrate Scope 3 in the climate policy, and set intermediate and long-term reduction targets while also disclosing related capital expenditure"<sup>73</sup>.

AXA IM's new approach strengthens its existing strong escalation strategy. For instance, at Chevron's AGM in 2022, AXA IM voted against seven directors on the grounds of insufficient climate action and supported three climate-related shareholder proposals.

AXA IM also conducts 'Engagement with objectives' with a selection of issuers, including, amongst others, a collaborative engagement with Renault and Ecopetrol as Lead Investor on behalf of Climate Action 100+, and the launch of an individual engagement programme on deforestation in 2021.

## Finding 19: Biodiversity is rapidly increasing as a priority for engagement.

We asked asset managers how their engagement strategy and priorities had changed over the past 12 months, or how they were expected to change in the near future. While engagement on biodiversity is still less common than on climate (Finding 18), most respondents reported an increase in engagement on biodiversity and the protection of

nature (Table 2), with several having specifically expanded the coverage of this theme in their voting policy. Columbia Threadneedle Investments said they had carried out more than 300 engagements on biodiversity in the 12 months preceding our survey. Amundi Asset Management highlighted that they have engaged with 67 companies specifically on biodiversity. In several cases, asset managers mentioned that they were looking at the connections between engagement on biodiversity and climate or social issues.

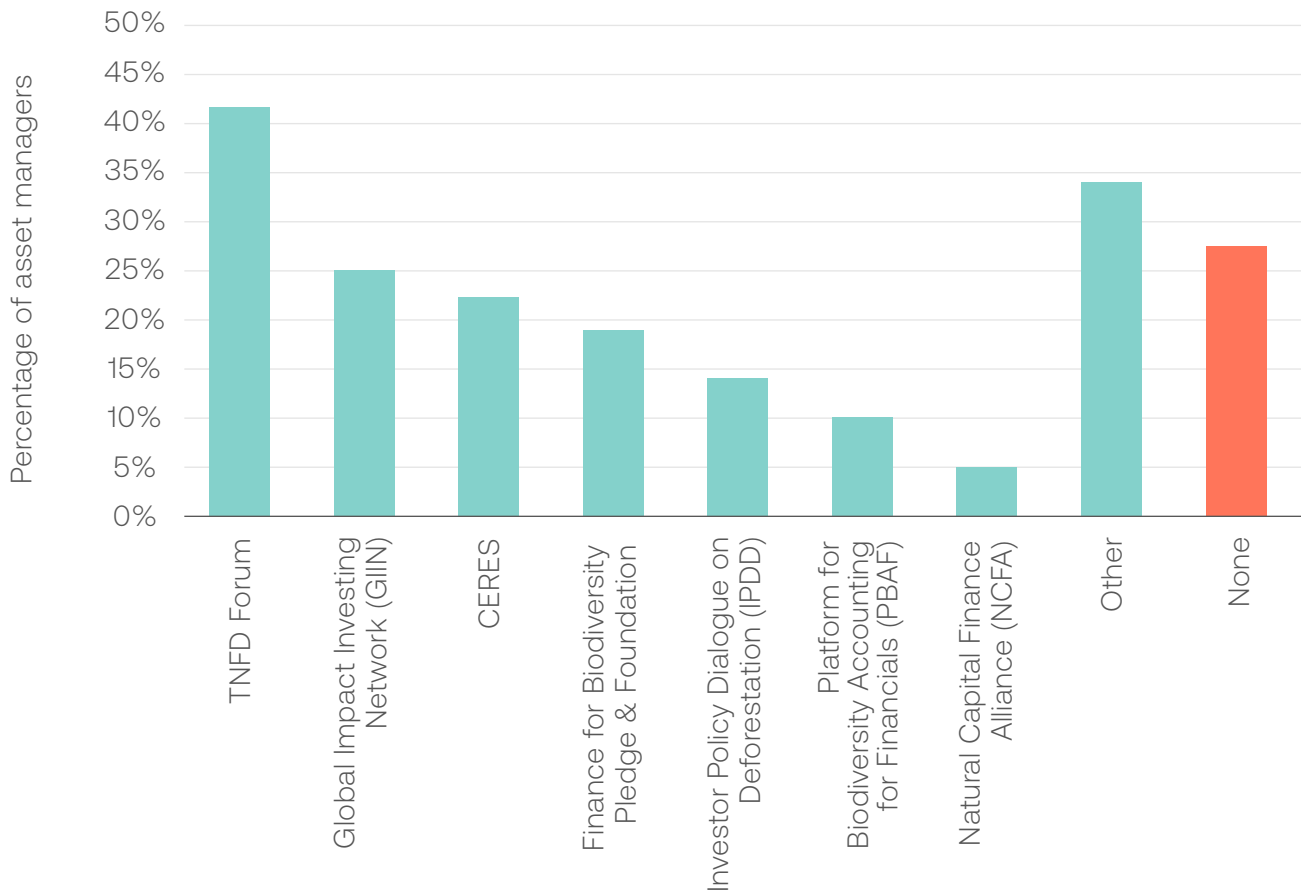
Table 2: Asset managers reported that they are increasingly including biodiversity in engagement strategies and conversations, but less than half are actively increasing their use of research and external data to inform engagement

Change reported by asset manager	Summary of responses	Percentage of asset managers (of 42 responded)
Biodiversity has been actively included in more engagement conversations	<p>Many asset managers noted that the frequency with which they included biodiversity in their engagements has increased over the last year, and that they expect the importance of this issue to continue to increase.</p> <p>Of these asset managers, 12 (29% of those that responded to this question) have explicitly updated their engagement strategy regarding biodiversity. They have extended engagement beyond deforestation to other drivers of biodiversity loss, used impact assessments to include new sectors, and increased the number of companies engaged with. More asset managers are now defining specific KPIs and targets related to biodiversity. One respondent noted they have: <b>“Introduced a new biodiversity engagement plan [and now] address biodiversity with all companies we engage with [...] In 2023 we will expand our biodiversity ambitions to include more companies for engagement”.</b></p>	67%
Increase in active research and use of data to inform engagement	<p>Several asset managers reported they were actively carrying out research and accessing new data sources to improve their knowledge of biodiversity impacts and dependencies, to inform their investments and engagements. The engagement process itself was improving investors’ understanding of these issues. One respondent noted: <b>“We also look to improve the quality and prioritisation of our engagements by using additional proprietary biodiversity data and tools.”</b></p> <p>Notably, the number of asset managers looking to use new data tools is less than half of those that are increasing the biodiversity focus of their engagements. This is consistent with our finding that asset managers are not making best use of the tools already available (Finding 14).</p>	26%
Biodiversity loss addressed through voting	<p>Three respondents have introduced biodiversity into their voting policy and are looking to enhance this as their engagement on biodiversity continues to develop. One respondent noted that it <b>“oppose(s) financial statements/director and auditor reports (and, in some geographies, the discharge of directors or board elections) at general meetings of companies that do not align with our biodiversity expectations”.</b></p> <p>A fourth asset manager specified that it is actively using its vote in favour of biodiversity-related resolutions and disclosed these votes on its website.</p>	10%

### Finding 20: Almost three-quarters of asset managers reported being members of at least one biodiversity-related collaborative initiative.

Fifty-six asset managers (73%) reported being part of at least one collaborative initiative regarding biodiversity. These were spread over a range of initiatives, with the most popular being the TNFD Forum (42%) and no others exceeding 25% membership (Figure 16). Twenty asset managers reported being members of just one. In contrast, 14 were members of four or more of these initiatives.

Figure 16: Asset managers have joined a wide range of biodiversity-related collaborative initiatives



Collectively, members of each of these initiatives performed better on biodiversity in our survey than non-members. The Finance for Biodiversity Pledge makes firm requirements of its signatories<sup>74</sup> and saw one of the biggest differences in scoring on the biodiversity section of our survey, with the 15 pledge signatories scoring over 60% more than non-signatories on average. Some of the other initiatives have more limited membership criteria and are less useful indicators of asset managers' approaches to biodiversity.

There was also a strong positive correlation between the number of initiatives an asset manager was a member of and their performance on biodiversity in our survey. We have previously found that membership of climate initiatives doesn't necessarily correspond to effective climate action<sup>75</sup>. However, with most asset managers' approaches to biodiversity lagging behind those to climate, membership of these initiatives appears likely to at least indicate an institution's intention to take the issue of biodiversity seriously. Membership also provides opportunities to benefit from peer-to-peer learning and collaboration.

Investors can play their part in driving forward the development of ambitious biodiversity-related financial policy by modelling this within collaborative investor initiatives. We hope that these intentions will quickly turn into more robust policies and practices, and asset managers will address their biodiversity blind spots.

# Disclosure

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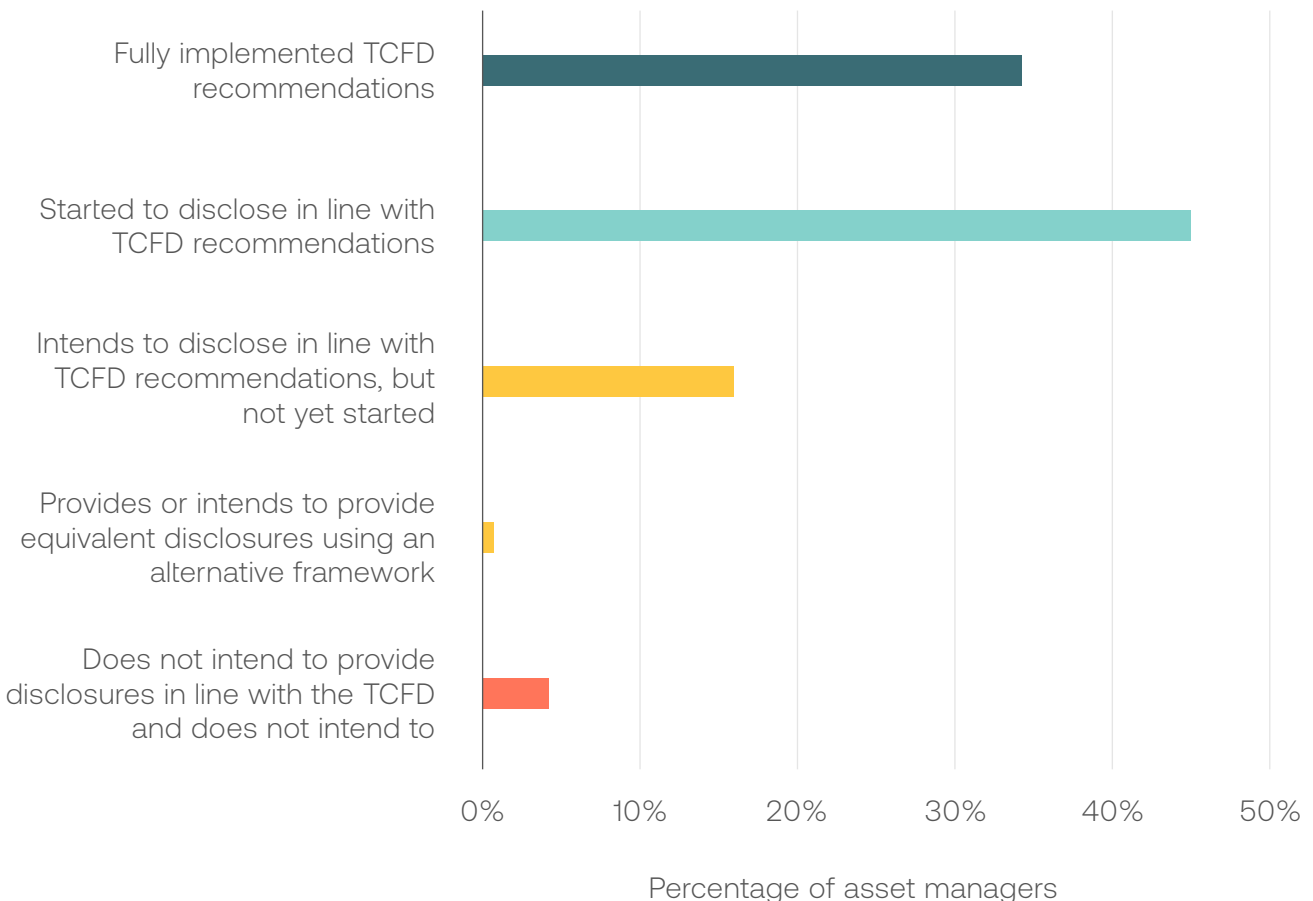
# Chapter 5: Disclosure

This chapter assesses the state of asset managers' disclosure on climate- and nature-related risks and opportunities in response to the Task Force on Climate-related Financial Disclosures (TCFD) and Task Force on Nature-related Financial Disclosures (TNFD) (Box 3).

## Finding 21: The majority of managers have started to implement the TCFD recommendations, but very few reported piloting the TNFD framework.

34% of asset managers have fully implemented the TCFD recommendations for disclosing climate-related risks and opportunities, up from 20% in 2020<sup>76</sup> (Figure 17). A further 45% have started to disclose in line with the TCFD recommendations and an additional 16% reported they intend to begin doing so. Just three asset managers – MEAG, Mellon Investments Corporation, and Samsung Asset Management – showed no intention to begin disclosing in line with the TCFD recommendations.

Figure 17: Most asset managers have started to implement the TCFD recommendations



Whilst most managers have at least started to implement the TCFD, only 15 reported they were planning to contribute to the development of the Taskforce on Nature-related Financial Disclosures (TNFD) framework by piloting it during 2022.



### Box 3: TCFD and TNFD

#### Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD developed recommendations for financial actors on how best to disclose climate-related risks and opportunities. These have been in place since 2017.

The TCFD's recommendations aim to help financial actors in “disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change”<sup>77</sup>. The analysis of multiple climate scenarios (see Finding 15) is an integral part of the TCFD's recommendations, given the uncertainty about what impacts and associated risks climate change will have on the economy. Other recommendations include, for instance, disclosing which metrics the financial actor used to assess climate-related risks and opportunities.

#### The Taskforce on Nature-related Financial Disclosures (TNFD)

TNFD is an evolving risk management and disclosure framework that provides organisations with the ability to assess, disclose and act on nature-related risks, opportunities, impacts and dependencies. The TNFD has released several beta versions, which various stakeholders including financial institutions have provided feedback on. The final version will be launched in September 2023 and will provide disclosure recommendations and assessment approaches that institutions can use to measure and report on their nature-related risks and opportunities. It is intended to complement the Task Force on Climate-related Financial Disclosures.

# Recommendations



# Recommendations

We make the following recommendations based on the findings outlined in this report.

## For asset managers

Our findings confirm that asset managers are not taking sufficient proactive action to ensure that we avert the climate and biodiversity crises facing us today. We provide recommendations on climate and biodiversity separately here due to the differences in detail in asset manager policies on these themes. However, going forward we anticipate that asset managers will need to connect biodiversity and climate policies to comprehensively address environmental risks and opportunities.

### Climate strategy

- Develop and publicly disclose a dedicated climate-related investment policy that covers all portfolios under management. This should set out the asset manager's approach to integrating climate change concerns into its investment decisions.
- Publish a climate transition plan that clearly outlines specific, measurable actions the asset manager will take to pivot its investment and stewardship practices towards alignment with the goal of net-zero emissions on a 1.5C-aligned trajectory, as well as associated timelines.
- Set and publicly disclose a 2050 net-zero target consistent with a 1.5C Paris-aligned trajectory. If not already 100%, commit to growing coverage to 100% of assets under management.
- Set and disclose an interim net-zero emissions target that commits to at least a 45% absolute reduction in portfolio scope 1, 2 and 3 emissions. Provide a granular breakdown of uncommitted assets, outline the process for increasing the committed portion of assets, and disclose progress.
- As far as possible for all active and new passive funds, incorporate and disclose strict restrictions on companies that generate revenues from the most damaging fossil fuels, including those involved in coal mining or power generation and unconventional oil & gas, and seek to phase out exposure as quickly as possible.
- Actively seek to migrate clients to funds that can incorporate climate-related restrictions where it's not possible to add new or extend existing restrictions across all funds.
- Ensure the engagement and escalation framework includes consequences (such as the exclusion of holdings where possible) for companies that generate revenues from the most damaging fossil fuels.
- Set climate-related restrictions that apply across at least listed equity, private equity, and corporate debt.



- Use proactive stewardship to foster positive change by engaging with investee companies and exercising voting rights on environmental issues, such as interim net-zero targets and decarbonisation strategy. Passive managers have a particularly high burden of responsibility for stewardship due to the limited influence they can have via capital allocation.
- For asset managers heavily exposed to fixed income, ensure that company engagement and investment decisions with issuers of corporate debt are aligned with climate and biodiversity investment policies.

## Climate risks

- Use asset-level data to assess the performance of investee companies on climate issues.
- Inform investment decision making using a range of different climate scenarios to assess climate-related risks.
- Publicly disclose the methodology of climate scenarios used – including assumptions made – and results of assessment of climate-related risks.
- Ensure assessments of climate-related risks consider transition risks, physical risks, and adaptation and risk reduction activities.
- Analyse climate-related risks using metrics such as portfolio carbon emissions intensity, climate value-at-risk, and portfolio scope 3 carbon emissions.

## Climate opportunities

- Adopt and publish SMART targets for positive climate-related investment.
- Use clear and robust selection metrics and methodologies to identify suitable investment opportunities in the climate transition. Incorporate these in mainstream funds as well as specialist thematic funds across multiple asset classes and strategies and set targets for increasing the volume of these investments.

## Biodiversity strategy

- Develop and publicly disclose a dedicated biodiversity-related investment policy that covers all portfolios under management. This should set out the asset manager's approach to integrating biodiversity concerns into its investment decisions, in alignment with the targets of the Kunming-Montreal Global Biodiversity Framework.
- For all portfolios and assets under management, develop and disclose policy to regularly monitor whether investee companies operate within or in close proximity to areas of biodiversity importance; considering but not limited to Protected Areas (such as those under IUCN management categories I to IV) and Key Biodiversity Areas (KBAs).
- Include biodiversity-related requirements in sector policies for priority sectors (agriculture, forestry and fisheries; energy; mining; chemicals).

- Commit to prevent the conversion of and support the protection of ecosystems, ideally by committing to conversion-free production and sourcing of commodities in alignment with the targets of the Post 2020 Global Biodiversity Framework. Actively seek to migrate clients to funds that can incorporate such restrictions where it's not possible to add new or extend existing restrictions across all funds.
- Engage with investee companies on their biodiversity-related risks, opportunities, impacts and dependencies and associated targets, disclosure, lobbying and incentives. Measure and disclose outcomes of these engagements.

### Biodiversity risks

- Ensure that both direct and indirect biodiversity-related risks, opportunities, impacts and dependencies are identified, assessed, and managed across all portfolios: firstly at a sector level and then for individual holdings. Develop a framework to do so if not already in place.
- Integrate existing third-party tools, metrics, and datasets on biodiversity into in-house assessments of companies to better understand and assess different types of biodiversity-related risks.
- Use assessments of impacts and dependencies on biodiversity to inform policies and targets.
- Adopt and publish SMART targets for managing biodiversity-related risks and opportunities, in addition to commitments on deforestation and land conversion.

### Disclosure

- Provide disclosures in line with the TCFD recommendations and, from September 2023, the TNFD recommendations. Before then, review the latest version of the TNFD framework<sup>78</sup> and build capacity to fully implement the TNFD recommendations.

### For asset owners

Asset owners are key in raising standards across the asset management industry. As the direct representatives of investors, they have an interest in ensuring that asset managers adequately reflect the growing desire of beneficiaries to have their money managed responsibly<sup>79</sup>. Part 1 in this report series contains recommendations on investment practices<sup>80</sup>. Asset owners should also examine their asset managers' practices on environmental topics and hold managers to account when they fall short.

- Strengthen due diligence of asset manager selection by reviewing performance on climate and biodiversity and the real-world environmental impact of their investment and stewardship activities.

- Firmly embed clear and specific expectations on the integration, reporting and scope of environmental issues into investment management agreements.
- Be aware that asset managers signing up to environment-related collaborative initiatives does not in itself represent a fit-for-purpose responsible investment approach and can be used to mask inactivity. Encourage asset managers to actively participate in collaborative initiatives and to disclose details of their contribution to these initiatives. Participation KPIs should be included in the asset manager–asset owner contract.
- Require asset managers to regularly report on how they are managing climate and biodiversity impacts and dependencies at all stages of the investment process and engagement activities. Request information on case studies, engagement priorities, progress of ongoing engagements and quantitative assessments of stewardship actions and outcomes.
- Use KPIs to measure asset managers’ performance, challenge them, and be prepared to end mandates for those who do not live up to pre-established expectations on climate and biodiversity policies and practices.
- Asset owners who are also shareholders in asset management companies should use their shareholder influence via voting or engagement to address poor performance on environmental issues.

## For investment consultants

Investment consultants must be informed on asset managers’ social policies and practices so they can match clients with the most appropriate firms.

- Regularly meet with recommended asset managers and monitor climate- and biodiversity-related policy commitments and stewardship activity to ensure up-to-date knowledge.
- Engage asset managers directly where climate- and biodiversity-related investment decisions or stewardship activities are not in line with stated policies, or are substandard.
- Do not recommend asset managers to clients where their performance on environmental issues is substandard.
- Encourage asset managers to improve both disclosure and performance on environmental themes.

## For policy makers

Asset managers require greater clarity on the legal requirements that exist for investors and companies on environmental issues. Comprehensive regulation can play an important role in levelling the playing field between asset managers that have implemented international

frameworks such as the OECD Guidelines for Multinational Enterprises<sup>81</sup> or the UN Guiding Principles on Business and Human Rights<sup>82</sup> and those that haven't. Regulation also plays a role in clarifying how investors should balance their fiduciary duty constraints and the need to actively mitigate impacts on people and planet.

- If not already in place, introduce mandatory reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations<sup>83</sup> and work with the asset management and wider investment industry to develop guidance to help with implementation.
- Require all companies (both financial and non-financial) to disclose and implement transition plans which include short-, medium-, and long-term targets for reducing greenhouse gas emissions in line with 1.5C pathways; cover emissions across the entire value chain (scopes 1–3); detail the concrete actions that will be taken to achieve these targets; and link the variable remuneration of directors to the achievement of these targets.
- Following the success of TCFD implementation in regions like the UK and EU, introduce disclosure frameworks aligned with the forthcoming Taskforce on Nature-related Financial Disclosures (TNFD) to enable companies and financial institutions to report and act on nature-related risks and opportunities.
- Ensure that regulation requires granular disclosure and integration of responsible investment risk and impacts beyond climate, including biodiversity and human and labour rights.
- Introduce or strengthen legislation on mandatory human rights and environmental due diligence for financial and non-financial companies – in their own operations and throughout the value chain, covering both direct and indirect impacts and dependencies on biodiversity.
- Move away from legislation which frames responsible investment factors as relevant only as a material financial risk to portfolios towards legislation which addresses the impact investment has on the environment and society. Where already being done, mainstream double materiality across all legislation and provide guidance to financial organisations on how to go about embedding double materiality in investment and stewardship decisions.
- If not already in progress, develop a green taxonomy as part of sustainable finance regulation, to guide investors by classifying which economic activities can be considered 'environmentally sustainable'<sup>84</sup>.
- Where a green taxonomy already exists, such as in the EU, develop transition ('amber') and harmful ('red') categories to extend the taxonomy, to provide investors with a framework to identify areas for urgent action in their portfolios and boost transition finance.
- Provide clarity that market abuse rules and anti-trust rules will not apply to institutional investors when they conduct collaborative engagement activities that aim to advance action on sustainability issues like climate change and biodiversity.

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## About ShareAction

ShareAction is a NGO working globally to define the highest standards for responsible investment and drive change until these standards are adopted worldwide. We mobilise investors to take action to improve labour standards, tackle climate change and address pressing global health issues. Over 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. Our vision is a world where the financial system serves our planet and its people.

Visit [shareaction.org](https://shareaction.org) or follow us [@ShareAction](https://twitter.com/ShareAction) to find out more.

## Authors

Abhijay Sood, Dr Claudia Gray,  
Eve Gleeson, Izzy Monnickendam  
and Dr Jonathan Middleton

## CONTRIBUTING AUTHORS

Danielle Vrubleviskis, Felix Nagrawala,  
Katie Stewart and Marina Zorila

# ShareAction»

[shareaction.org](https://shareaction.org)  
[info@shareaction.org](mailto:info@shareaction.org)  
+44 (0)20 7403 7800

Runway East,  
2 Whitechapel Road,  
London, E1 1EW, UK

Registered Charity  
Number: 1117244

EU Transparency  
Register number:  
75791956264-20