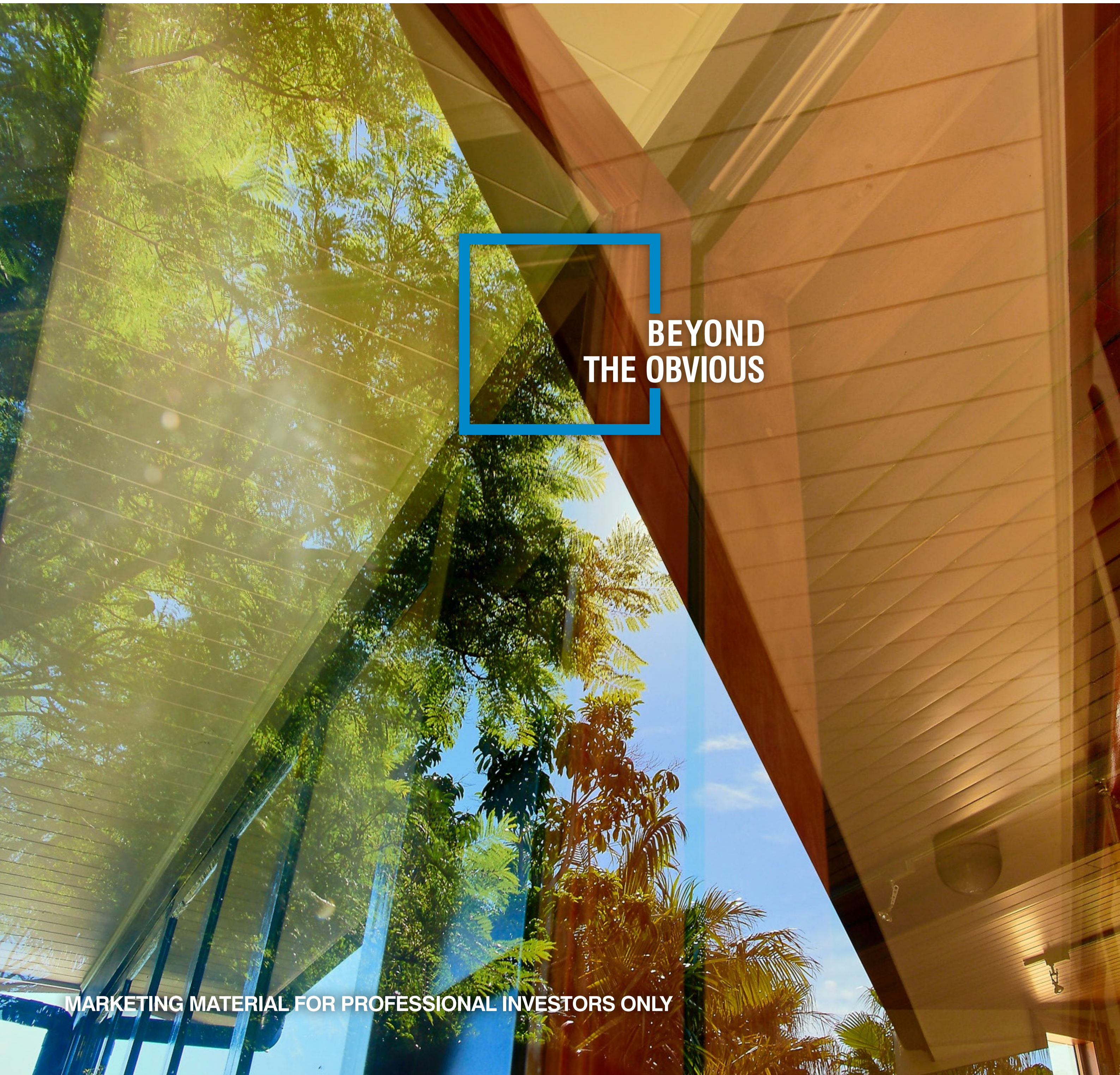
GAM EXPLAINS:
TNFD



MARKETING MATERIAL FOR PROFESSIONAL INVESTORS ONLY

TNFD

What is it?
Why it matters to investors
Three top takeaways
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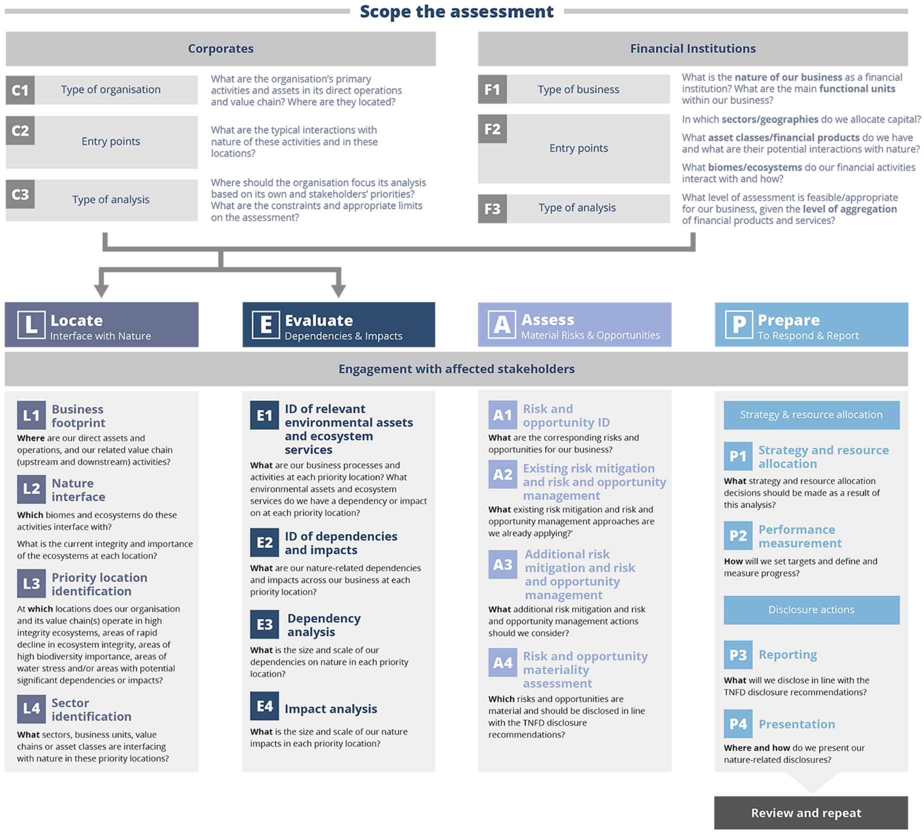
WHAT IS IT?

The Taskforce for Nature-related Financial Disclosures (TNFD) is an emerging reporting framework for businesses and investors to analyse and disclose their nature-related risks and opportunities. The LEAP approach sets our four core phases:

- **Locate** your interface with nature;
- **Evaluate** your dependencies and impacts;
- **Assess** your risks and opportunities; and
- **Prepare** to respond to nature-related risks and opportunities and report.

TNFD is a response to calls from the public and private sectors for greater transparency to help fight the destruction of the natural world. Since 1970, wildlife populations have declined by 69% on average, driven by direct effects like deforestation as well as indirectly through climate change.

Figure 1: The TNFD's revised risk and opportunity assessment approach (LEAP) in v0.4 of the beta framework



Source: LEAP – the risk and opportunity assessment approach, TNFD, 2023.

WHY IT MATTERS TO INVESTORS

The TNFD considers five main drivers of nature change: climate change; resource exploitation; land and sea use change; pollution; and invasive alien species. Almost every business depends on nature in some way – whether that be the regulation of clean air, fertile soil or fresh water. And by one estimation, approximately half of the world's GDP, **USD 44 trillion**, is either moderately or highly dependent on the proper functioning of nature and its complex web of ecosystems.

For investors, therefore, it is increasingly critical to understand the extent to which the companies they invest in are managing the risks posed by the degradation of nature (including biodiversity loss) – and what companies are doing to conserve the ecosystems they depend on.

It is important to policymakers too. In 2022 at COP15 (biodiversity) in Montreal, global governments established the **'30x30' goal** – agreeing to permanently conserve 30% of the planet's surface for nature by 2030. Similar agreements have been made to **protect international waters**. In France, **'Article 29'** of the Energy and Climate Act requires French financial institutions to disclose their biodiversity-related risks and strategies, or a plan for how they will address them.

The final version of TNFD is due to be published in September 2023. It is also a framework that aims to be **more ambitious over time**, giving investors and companies time to become compliant while also achieving necessary results.

What's the difference between TNFD and TCFD?

TCFD (Taskforce on Climate-related Financial Disclosure) focuses on climate while TNFD focuses on wider risks related to nature and biodiversity loss.

Just as the **TCFD framework** has become a standardised way in which companies report on climate risk, it is hoped that TNFD will become a way for markets to easily compare and benchmark different companies on their management of 'nature risk'.

The current version of the TNFD framework is closely aligned with TCFD format. It will ask companies to use the same four broad pillars ('governance', 'strategy', 'risk management' and 'targets & metrics') as the TCFD approach and the final draft incorporates all 11 TCFD recommended disclosures. However, nature is different from climate in a number of respects – including the importance of the location of activities and the additional 'impact' dimension alongside risks and opportunities.

TNFD will align not only with TCFD but also with other global reporting frameworks such as the International Sustainability Standards Board (**ISSB**) and the Global Reporting Initiative (**GRI**) (both knowledge partners to the TNFD). The UK Transition Plan Taskforce also highlights the importance of recognising interdependencies, such as nature.

What is GAM doing?

At GAM, we recognise that the expansion of commodity crops like palm oil, soy, beef and pulp and paper is responsible for the majority of deforestation, a key driver of biodiversity loss. That is why we have signed up to the **Deforestation Pledge** which commits us and other financial institutions, together managing over USD 8 trillion in assets, to using best efforts to eliminate deforestation among the biggest commodity culprits from our investment portfolios by 2025.

We also joined more than 150 investors supporting calls for an ambitious Global Biodiversity Framework at COP15 in Montreal, Canada, and signed investor letters supporting three pieces of legislation introduced in the US at the federal and state levels that would work together to reduce deforestation and human rights abuses in US supply chains.

You can read more here

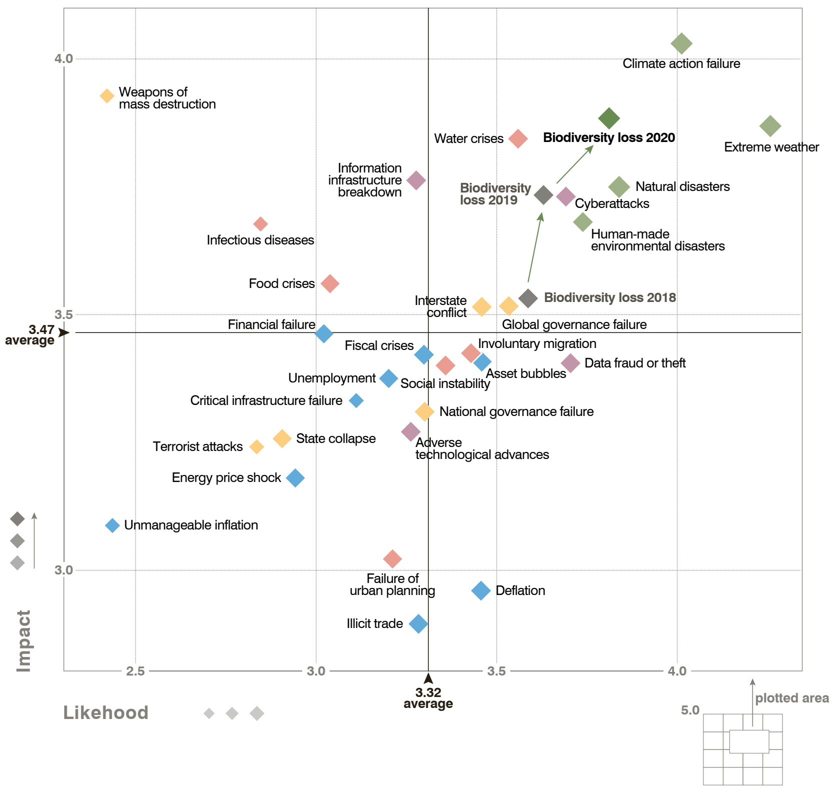
THREE TOP TAKEAWAYS

1- Nature is rising on the agenda

Nature and biodiversity are quickly rising up ESG investors' priority lists. Initiatives like Nature Action 100, due to launch in summer 2023, are mobilising investor action to focus on companies with the greatest impacts, and in the UK for example, the Financial Conduct Authority (FCA) is extending its ESG strategy to cover biodiversity and encouraging financial institutions to incorporate nature-related considerations into their business strategies, governance and disclosures.

According to the World Economic Forum, biodiversity loss ranks as one of the top risks in the next decade.

Figure 2: The World Economic Forum's Global Risks Perception Survey



Source: The Global Risks Landscape 2020 and the evolution of the biodiversity loss risk, World Economic Forum, 2019–2020.

Financial markets will be increasingly expected to take their business impacts on biodiversity into account, as well as factor in potential material financial risks from nature loss. When the final framework of TNFD is agreed, encouraging companies to report against it is likely to be an important topic for investor engagement.

2- Still a long way to go to improve data to manage nature risks

Lack of data on biodiversity is a key challenge preventing systemic progress at a market level.

Unlike climate, on which there is consensus on indicators based on carbon emissions and a globally agreed ambition (to keep global warming well below 2°C), there is no market-wide agreement on what appropriate targets and metrics are in relation to nature risk and conservation.

Almost all ecosystems are comprised of a complex, highly interdependent web of organisms, and while some indirect factors may be out of the grasp of measurement, factors such as deforestation, water pollution and direct animal loss are seen as useful indicators, among others.

Even with the introduction of TNFD, the lack of deep and comparable data on biodiversity-related actions and impacts is likely to hinder progress to managing these impacts.

By improving financial disclosure, the TNFD will enable organisations to integrate nature-related risks and opportunities more accurately into decision-making. The TNFD has the potential to be a key actor in the financial sector's effort to protect biodiversity.

3- There are opportunities as well as risks

Tackling nature loss brings opportunities for financial markets, with potential for green and sustainability bonds to allocate capital, as well as opportunities for innovation from alternative ways of growing food to using remote sensing and AI to support restoration and conservation.

Moreover, policymakers are beginning to develop strategies in relation to biodiversity, with the EU already setting biodiversity targets for 2030 which will unlock **EUR 20 billion** per year of private and public funding. The EU taxonomy criteria for economic activities contributing to the environmental objectives of sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems will support the identification of companies contributing to enhanced outcomes for nature.

We can also expect a growing biodiversity market emulating the current carbon credits market, with Australia leading the way and hosting a system where **biodiversity certificates** can be traded in a similar way to carbon credits. Recent research estimated that Australia's biodiversity market could be worth **USD 137 billion** by 2050.

WHAT TO LOOK OUT FOR

Preserving nature will be a key part of protecting the health of the world economy. It has become increasingly clear that a 'business-as-usual' approach to biodiversity is a risk to businesses and investors that we expect to jeopardise returns across the global value chain.

Initiatives like the TNFD and regulation resulting from COP15 should be seen as a rallying call to investors to act soon, engaging with portfolio companies to make them meaningfully compliant with current and upcoming standards. Investors who act quickly to understand the interdependent risks and opportunities linked to nature will be at a key market advantage as regulation and consumer preferences shift on this complex topic.

Looking forward, investors should keenly monitor the progress of the finalised public release of the TNFD framework, particularly in highly nature-dependent industries such as agriculture, construction and tourism.

And the TNFD is not the only framework we can expect to see incorporating biodiversity in the coming months. Setting science-based targets for nature, as many already have for climate, with the Science Based Targets Network (SBTN) will be an important next step for many companies. Moreover, the International Sustainability Standards Board (ISSB) is opening its doors this June for investors to share feedback to ensure a potential biodiversity disclosure framework is globally applicable, ahead of the release of new standards in January next year.

The corporate journey to tackle the mammoth task of biodiversity loss has only just begun.

For more insights from GAM, please visit 'Our Thinking' page here.

GAM's purpose is to protect and enhance our clients' financial future. By attracting and empowering the brightest minds to think beyond the obvious, we strive to provide investment leadership, innovation and a positive impact on society and the environment.

STEPHANIE MAIER

Global Head of Sustainable and Impact Investment

Stephanie Maier is Global Head of Sustainable and Impact Investment, responsible for leading GAM's sustainable and ESG (environmental, social and governance) strategy.

Stephanie joined GAM Investments in January 2021 from HSBC Global Asset Management, where she was Director for Responsible Investment. Prior to that, she spent seven years at Aviva Investors, latterly as Head of Responsible Investment Strategy and Research, and was formerly Head of Research for EIRIS, an ESG research and consultancy firm.

Stephanie holds an MSc in Environmental Technology from Imperial College London, a BA in Biological Sciences from Oxford University and the Investment Management Certificate (IMC). She is based in London.

For more information, please visit GAM.com

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