



Nature-positive Investment in the APAC Region

Roundtable - Singapore
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ESG INVESTOR

Executive Summary

In a wide-ranging conversation, sustainable investment experts examined the challenges faced by asset owners and managers across the Asia-Pacific region in identifying and managing the nature-related risks and impacts contained in their portfolios. Recognising that investors are in the early stages of a complex but critical enterprise that will evolve over years, they agreed – more or less – on the following ‘headline’ takeaways:

- Few, if any, supply chains are without reliance on ecosystem services, but corporates so far are slow to disclose their risks and impacts.
- Lenders and investors are increasingly engaging with firms on nature, with those having the largest nature footprints being the most likely to respond.
- Key areas such as water and deforestation reflect the nuances and complexities of understanding nature risks and impacts, as well as the sparsity of reliable and consistent data.
- The Global Biodiversity Framework will drive policy change, with the increase in protected areas expected to raise the risk of stranded assets.
- Complexities are expected to lead investors to favour an engagement and stewardship-led approach to addressing nature risks, over divestment.
- A new vocabulary is needed to provide clarity to end-investors on nature-related risks and to avoid greenwashing.
- APAC’s regulators will play a key role in driving change, as well greater availability of tools and data, but board-level commitment is essential to effective action.

Participants

- Chris Hall, Co-founder & Editorial Director, ESG Investor
- Lauren Smart, Chief Commercial Officer, S&P Global Sustainable1
- Michael Salvatico, Head of Asia Pacific, Middle East & Africa, ESG Solutions, S&P Global Sustainable1
- Esther An, Chief Sustainability Officer, City Developments Limited (CDL)
- Stephen Beng, Head, ESG Strategy, Phillip Capital Management
- Mara Chiorean, Director, Sustainable Finance, ANZ
- Leong Li Sun, Head of Environmental, Social and Governance, AIA Singapore
- Deborah Loke, ESG Analyst, Nikko Asset Management
- Bradley Maclean, Co-founder & Head of Research, Regulation Asia & ESG Investor
- Eric Nietsch, CFA, Head of Sustainable Investing, Asia, Manulife
- Matthias Ong, Head, Corporate Engagement (SEA & Oceania), CDP
- Abantika Sahu, Senior Business Analyst, ESG, Eastspring Investments
- Lilian Wang, Trustee & Research Director, Arisaig Partners
- Franziska Zimmermann, Director for Sustainability & Climate Change, Strategy, Temasek

Investors Search for Answers

Steep but rapid post-GBF learning curve on nature risks predicted at recent roundtable held by S&P Global Sustainable1 and ESG Investor.

The complex challenge of understanding nature risks in portfolios is in its early stages across Asia Pacific (APAC). Following the recent landmark deal at COP15, regulation will increasingly support investors' efforts in the region, driving disclosure, policies and action aimed at greater protection and restoration.

And while there are instructive parallels with the catalytic impact of the Paris Agreement on identifying and mitigating climate risks by the private sector, there are also important differences.

Critically, assessing nature risks is undoubtedly a more multi-faceted process than counting greenhouse gas (GHG) emissions. But the scale of nature crises is such that we cannot delay action. Many believe the goals and targets of the Global Biodiversity Framework (GBF), agreed by governments in Canada in December, will put the world on a faster track to better stewardship of the ecosystem services on which we all rely.



"Nature is at the base of every supply chain. Ecosystem services are absolutely critical to the creation of GDP. The challenge for investors is how to turn nature information, such as species abundance, into something that can be quantified and integrated into investment practices," said Lauren Smart, Chief Commercial Officer, S&P Global Sustainable1, setting the scene for a roundtable on nature-related risks in APAC, co-hosted by ESG Investor last month.

"Holding back progress"

Released days before asset managers, owners and other sustainable finance experts met at Singapore's Fullerton Bay Hotel, the Intergovernmental Panel on Climate Change's Synthesis Report for its sixth assessment cycle noted: "Climate,



“Disclosure is a journey.”

*Mattias Ong
CDP*

ecosystems and society are interconnected. Effective and equitable conservation of approximately 30-50% of the Earth’s land, freshwater and ocean will help ensure a healthy planet. The solution lies in climate resilient development.”

As Christopher Trisos, one of the report’s authors, noted: “Insufficient and mis-aligned finance is holding back progress.”

A Temasek/WEF report has found that 63% of APAC’s GDP is at risk from nature loss due to its dependencies, warning also that 42% of all species in Southeast Asia could be lost under ‘business as usual’ conditions. Conversely, nature-positive business opportunities could add 232 million jobs and generate US\$4.3 trillion across the region by 2030.

For now, business understanding and disclosure of nature risk – both from investee firms’ direct operations and along their supply chains – is patchy at best, with firms in the APAC region lagging global peers.

According to an analysis released in December, less than 30% of the largest firms in the S&P Europe 350 index have set biodiversity targets, while less than 13% of large APAC companies have done the same.

There are signs of change, however. In its recent report on environmental disclosures by firms in Southeast Asia, covering climate, water and deforestation, disclosure platform CDP found a 25% increase in forest-related disclosures, with growth rates in the region outstripping global trends.

Four in five firms have forest-related policies, CDP found, but far fewer have a comprehensive strategy, covering governance, policies and targets across supply chains. “The quantity and quality of actions on forests among Southeast Asian companies are still far from sufficient”, said the report.

“Companies across the region tell us that they are not ready for comprehensive disclosure on nature. We try to persuade them that disclosure is a journey,” Mattias Ong, CDP’s Head of Corporate Engagement, Southeast Asia and Oceania, told fellow roundtable participants.

Hard to ignore

Demand for more information is coming from many stakeholders and is getting harder to ignore.

According to Mara Chiorean, Director, Sustainable Finance, International, ANZ, the bank’s own investors have been seeking more information around nature risks over last two years or so, as have the investors for which it facilitates capital mar-



kets transactions. “We are asking the questions, but we’re not necessarily getting the answers yet,” said Chiorean.

“That was also the case with climate, but we know from experience that critical mass from lenders and investors encourages firms to put the machinery in place to respond. They realise they need to make that information available as without it we won’t be able to make investment or lending decisions.”

As with climate, it is the global players with the biggest exposures that are responding fastest.

**“More diverse
and innovative
sources of
funding are
needed.”**

**Li Sun Leong
AIA**

“Large firms are already looking at risks of biodiversity loss, especially those with the largest reliance on nature. Firms in all sectors also need to consider their exposure, and their influence over nature’s ability to continue providing economic benefits,” said Stephen Beng, Head of ESG Strategy, Phillip Capital Management.

A key lesson already learned by investors from their experiences of managing climate risks has been the power of collective collaboration to increase disclosures. The investor-led Climate Action 100+ initiative has been successful in driving reporting and target-setting on GHG emissions among carbon-intensive focus companies, and its example is now being followed by Nature Action 100, which was ‘soft-launched’ at COP15.

Such developments are welcome, but their limitations should be recognised, roundtable participants noted. “If companies are not in the top-tier of attention, there are fewer opportunities to leverage industry initiatives. For many of the firms in our portfolios, we might be the only ones engaging on these themes

“Nature is at the base of every supply chain.”

*Lauren Smart
S&P Global Sustainable1*

and doing the analysis required, ie getting site-specific information,” said Lillian Wang, Research Director, Arisaig Partners, an investor in emerging markets listed equities.

“We’re investing in the firms that are typically downstream from those with direct impacts. We can engage on well-researched commodities like palm oil, but it becomes quite complicated when you broaden out to the cost implications of the risks and impacts around every single raw material.”

Layers of complexity

Investors’ need for detailed information from investee firms reflects the nuanced approach required to understand nature risks, impacts and dependencies. As suggested by Wang, accurate assessment of every raw material input is some way off, but even better established areas such as deforestation and water risks are far from straightforward.

“With water risk, for example, you need to consider consumption metrics in the context of available supply and these become location specific. With nature more broadly, there are further layers of complexity,” said Eric Nietsch, Head of Sustainable Investing, Asia, Manulife Investment Management.

The importance of water-related risks was underlined last month with the commitments to a more ambitious Water Action Agenda signed last month at the

UN’s first dedicated water summit in 50 years, part of a focus throughout 2023 on getting the UN Sustainable Development Goals back on track.

“Water is critical because it is the bloodstream of our ecosphere,” said CDP’s Ong. “We’re focused on improving disclosures there, but also on forest risks, where we see supply chain traceability improving, but it’s not where it needs to be at the moment. We need investors to help us push for improved disclosure because data drives action.”

The investment industry is still “in the early days” with regards to approaching biodiversity in a consistent manner, acknowledged



“A lack of data should not delay the action.”

Eric Nietsch
Manulife Investment
Management

Deborah Loke, ESG Analyst, Nikko Asset Management. “Robust, meaningful, and consistent data is still sparse, which adds to the challenges. However, with growing focus on this important topic we expect more progress towards improved disclosures and data,” she said.

“We are looking at high-risk sectors such as agriculture. Companies we engage with in Asia ex-Japan often have policies in place, but this is sometimes just a starting point. We expect improvements of these policies especially with regulatory support.”

Policy and regulatory changes are likely to crystallise these risks and dependencies, further accelerating the need for information exchange between businesses and their stakeholders. The headline targets and goals enshrined in the new GBF include protection for 30% of the Earth’s surface by 2030, which may have implications for both existing and planned sites and facilities.



“Post-COP15, governments may consider expanding existing protected areas, starting with key biodiversity areas not already protected,” said S&P Global Sustainable1’s Smart.

“For investors and companies with assets within those key biodiversity areas, this raises the issue of stranded assets. Mining firms, for example, might face increased costs and risks in operationalising mines in these locations.”

S&P Global Sustainable1's Nature & Biodiversity Risk Dataset

S&P Global Sustainable1 now offers Nature & Biodiversity Risk, a new dataset assessing nature-related impacts and dependencies across a company's direct operations that can be applied at the asset, company and portfolio level. This new dataset will support companies, investors and entities as they seek to understand, manage and mitigate exposure of corporates and portfolios to nature related risks and impacts.

Nature & Biodiversity Risk covers over 17,000 companies and over 1.6 million assets and provides a number of new nature-related risk metrics including a dependency score and ecosystem footprint measure enabling greater understanding of a company or asset's dependency and impact on nature. The dataset applies the Nature Risk Profile, a new methodology for analyzing companies' impacts and dependencies on nature, launched by S&P Global and the UN Environment Programme (UNEP) in January.

The dependency score considers the level of reliance that a business' direct operations have on 21 different ecosystem services, as well as the expected resilience risk of the ecosystem providing these services, where these businesses are operating around the world. The dependency score is on a scale from 0 to 1.0 (where 0 represents no dependency risk and 1.0 represents very high dependency risk).

The Ecosystem Footprint measures a business' direct operational impact on nature and biodiversity. This metric combines three key areas of analysis: the areas of land impacted by the company (land area), the degree to which the location-specific ecosystem integrity is reduced (ecosystem degradation) and the significance of the location-specific ecosystem impacted (ecosystem significance).

Applying this new dataset to the S&P Global 1200, the world's largest public companies, our analysis shows that:

- 85% of the world's largest companies have a significant dependency on nature across their direct operations.
- 46% of the world's largest companies have at least one asset located in a Key Biodiversity Area (KBA) that could be exposed to future reputational and regulatory risks.
- S&P Global 1200 companies used an estimated 22 million hectares of land for their direct operations in 2021 to generate USD 28.9 trillion revenue.
- Expressed as an ecosystem footprint, this is equivalent to fully degrading 2.2 million hectares of the most pristine and significant ecosystems globally, such as the most intact and biodiverse parts of the Amazon or Sumatran rainforests.

The dataset can be leveraged by market participants to understand their nature-related risks and more transparent alignment with Taskforce on Nature-related Financial Disclosures (TNFD) recommendations. The dataset is aligned with the LEAP risk and opportunity assessment approach, as recommended by the TNFD.

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**“Only if you
remain invested
can you engage
as a shareholder.”**

***Franziska Zimmermann
Temasek***

A limited toolbox

A further lesson from investors’ experience of understanding and addressing climate risk has been to not let perfect being the enemy of good, from the perspective of information quality.

“A lack of data should not delay the action that we can take today. In many cases, we do have enough information to think through these issues and have conversations with companies,” observed Manulife’s Nietsch.

As a global investor with around US\$300 billion AuM, Singapore government-owned Temasek is already engaging actively with asset managers and portfolio companies on nature. The responsibilities of universal owners such as Temasek are clear to Franziska Zimmermann, Director for Sustainability & Climate Change Strategy and ESG Investment Management.

“As an equity investor, our view is that when you own a stake in a company, the risks and the opportunities of that company also relate to you in the eyes of your stakeholders. You have to bear that in mind when considering your investment decisions,” she said.

Large institutional investors have taken divergent approaches to managing the climate risks in their portfolios, with some pension funds divesting fossil fuel holdings. Meanwhile, many have opted to retain their stakes and influence in other carbon-intensive firms as their net zero transition plans evolve. This latter approach is expected to prevail as firms reorientate towards more nature-positive business models.

“The investor toolbox is somewhat limited – the level of engagement is defined partly by the nature of your stake in the company, in terms of conversations with the company itself and ability to collaborate with other investors. You can buy or sell your stakes in the company, but only if you remain invested can you then engage the company as a shareholder,” said Zimmermann.

Nietsch agreed: “Nature issues tend to be so complex and systemic that divestment may have less of an effect than it might for climate. This means it is especially important to think about impacts and dependencies from a stewardship perspective, individually and collectively.”

Institutional investors must also engage clearly with end-beneficiaries on nature risks, roundtable participants remarked, notably retail customers. Several pointed to a rising and broad-based awareness of nature crises in the APAC region, as well as an imprecise but increasingly evident wish to align investments with values.



Abantika Sahu, Senior Business Analyst, ESG, Eastspring Investments, noted the responsibilities of service providers to deliver clear and accurate information about the problems and the potential solutions that investment vehicles can offer.

“We need to go beyond providing definitions and explain how these concepts translate into practical outcomes for investors,” she said. “Investors expect us to provide clear and concise insights into complex issues, helping them to make informed decisions and understand the implications of their investment decisions.”

Regulators in APAC and beyond increasingly are alert to the risks of greenwashing, imposing new requirements to ensure that the contents of sustainable funds justify their labels and marketing claims. This means asset managers and owners need both accurate inputs and outputs to play their part in aligning private finance flows with the goals of the GBF.

“In this conversation, we are creating a new vocabulary, and there has been a co-mingling between nature and biodiversity which needs clarifying, said Zimmerman. “We also need to build clarity on what we’re trying to assess and how we make data and analysis decision-useful for investors. Investment decisions are multi-faceted, not binary. Multi-stakeholder processes can help to provide guidance, but we need to be pragmatic enough to be able to move.”

Aligning business with nature

As APAC investors increase their engagement efforts with the aim of improving the imperfect information currently available on nature risks in their portfolios, help is rapidly emerging from policymakers and service providers.

A primary source of help is the GBF, which not only sets in train the policies needed to protect and restore nature and biodiversity, but also ensures private sector support for – and alignment with – such reforms. The agreement signed

“At listed companies, we need leadership from directors and management.”

*Esther An
City Developments
Limited*

in Montreal last December signals an end to detrimental government subsidies, mandates the increased mobilisation of private finance, and encourages new disclosure frameworks for large corporates and institutions, among other measures.

The GBF does not explicitly refer to a specific disclosure system, but it is widely considered as supportive of the work of the Taskforce on Nature-related Financial Disclosures (TNFD), which recently published the fourth iteration of its draft framework, designed to ensure the flow of consistent and comparable information on firms' nature risks to investors.

Michael Salvatico, Head of APAC, Middle East & Africa ESG Solutions, S&P Global Sustainable¹, saw parallels and differences with the climate playbook.

“Regulation around nature risks is following the same steps as climate change, only more rapidly, partly due to the connections between the two. Another factor driving rapid take-up and acknowledgement is the ability to quantify nature risk. Disclosure is an important first step, but it is limited unless you can measure the performance of your impacts and dependencies in a standardised and systematic way,” he told the roundtable.


While policy may be forcing the pace, urgency is evident among investors, added Salvatico. “The interactions between companies' assets and their nature risks are highly complex, making the learning curve is steeper. But because we have the frameworks and the appetite, even though it is more complex, investors will adopt quicker. The discussions being had around nature risk are far and broad across APAC. The level of energy and focus indicates we're ready to understand challenges and make commitments.”

For Beng at Phillip Capital Management, both public and private sector actors have an opportunity and obligation to build on the commitments made in Montreal.

“The GBF is influencing policy through its goals and 2030 targets. Having made their commitments, governments should follow with the policies, regulations and budgets that drive necessary actions,” he said, noting that his firm was already using this understanding to guide its assessments of countries and companies.

“The TNFD then gives companies the framework to identify, assess, manage and disclose nature-related dependencies and risks. It allows us to find impact points and opportunities as well,” he said.

The TNFD recently released a number of case studies to demonstrate how it expects organisations to use both existing data sources and its new guidance to identify and report nature risks, impacts and dependencies.



Jurisdictions in the APAC region are expected to adopt TNFD's disclosure framework into domestic rulebooks to drive action on nature risks. Some roundtable participants pointed to Europe's example in embedding sustainability into investment processes.

"Regulations, including the Sustainable Finance Disclosures Regulation (SFDR), are important partly because they focus our investment teams on consideration of nature risks. But while SFDR is supported by Corporate Sustainability Reporting Directive for European companies, there is no equivalent yet in emerging markets. This makes it more challenging for emerging markets managers like us to get that data to maintain Article 9 status," said Wang at Arisaig Partners.

Time to recalibrate

Roundtable participants recognised the importance of improved disclosure and management of nature risks, impacts and dependencies, but emphasised that these are a means to an end, that is, the direction of finance flows to support the GBF's goals.

"Regulation plays an important role in ESG risk management, both in Singapore and other parts of Asia. Beyond risk and compliance, more diverse and innovative sources of funding are needed in order to channel more capital towards nature-based solutions and close the global biodiversity funding gap," said Li Sun Leong, Head of ESG at insurance group AIA.

Many stakeholders across the APAC region appear to recognise the need to recalibrate our relationship with nature, not only to protect flora, fauna and fungi, but also to preserve the sources of health and wealth on which humanity relies.

We have the rules, tools and will to use them, according to the consensus around the table. But participants know that is not enough to protect the planet or its people.

"Humans never learn. They make the same mistakes. On this topic, we need the critical mass to grow. We can't just preach to the converted around this table," Esther An, Chief Sustainability Officer, City Developments Limited.

"We need to hit every level: including bankers, lawyers, regulators, investors, insurers, stakeholders along our supply chain and consumers. At listed companies, we need leadership from directors and management. There's no point having passionate people on the operational level without the mandate and the resources to engage, build and procure greener," she said.

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About S&P Global Sustainable¹

S&P Global Sustainable¹ matches customers with the sustainability products, insights and solutions from across S&P Global's divisions to help meet their unique needs. Our comprehensive coverage across global markets combined with in-depth sustainability intelligence provides financial institutions, corporations and governments with expansive insight on business risk, opportunity, and impact as we work towards a sustainable future.

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About ESG Investor

Asset owners face a monumental task. Overwhelmingly, they are actively looking to integrate ESG factors into their investment strategies, making difficult choices with limited resources. Each investment institution must take its own path, based on its particular position and priorities, against a backdrop of fast-evolving regulations, standards, investment options and analytics.

At ESG Investor, we aim to be the practical information hub for asset owners looking to invest successfully and sustainably for the long term. As best practice evolves, we will share the news, insights and data to guide asset owners on their individual journey to ESG integration.

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Nick Wakefield
Co-founder
ESG Investor