



LGIM's natural capital management policy



Table of contents

Summary	3
Natural capital management and why it matters to investors	3
LGIM's approach	4
Developing our capacity	4
Working with stakeholders	5
Taking action at companies in which we invest	6
Our expectations of investee companies	6
LGIM voting	7
Reporting to clients	8
Important information	8

As a global investor, Legal & General Investment Management (LGIM) is committed to assessing how companies are evaluating their impacts and dependencies on nature and the risk exposure and opportunities this presents.

Summary

Nature is the foundation of our economic and social system. LGIM supports the vision of the Kunming-Montreal Global Biodiversity Framework of halting and reversing nature loss by 2030 and living in harmony with nature by 2050. Transitioning to protect and restore nature across markets will be hugely complex, requiring both public and private sector commitment and collaboration.

LGIM's [nature framework](#) outlines how we structure our work on nature across the full breadth of our stewardship activity. Within it, we position the topic of 'natural capital management' (NCM) – our efforts to globally strengthen how companies integrate their interactions with nature and improve high quality, consistent and comparable data across the market. This document builds on the framework's introduction and provides more granular detail on LGIM's approach and expectations concerning NCM.

While some company impacts and dependencies on nature are well understood and measured, and are being addressed, the breadth, consistency, comparability and accuracy of assessments is a long way from maturity. If investors are to leverage insights that can be used to make decisions at scale, various challenges relating to assessments, data and standardised reporting need addressing. It is therefore appropriate that LGIM focuses its efforts on improving corporate integration and assessments of nature-related impacts, dependencies, risks, opportunities, disclosure and the availability of data. We view this work as integral across our nature sub-themes and in addressing all drivers of nature change and biodiversity loss. NCM therefore acts as a cross-cutting element of our nature framework.

Natural capital management and why it matters to investors

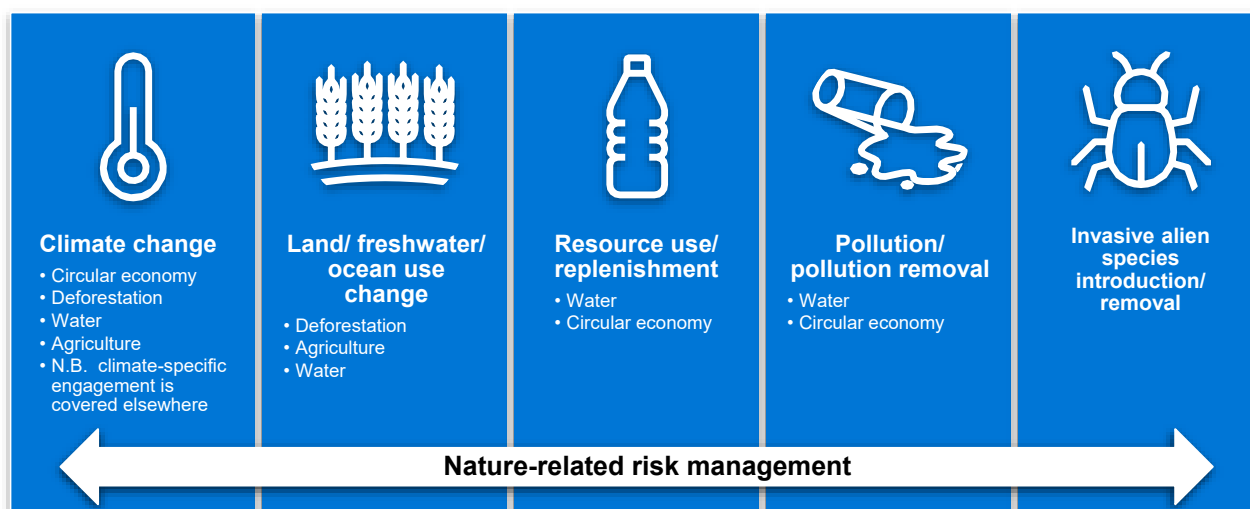
Societies and organisations across the globe depend on the value provided by nature and its capital. Due to the pressures exerted on nature and fragile ecosystems, they are degrading rapidly, putting at risk the provision of services and products on which we and our economies depend. This poses a systemic market risk that has the potential to cause sudden disruption to societies, economies and functioning financial markets. Universal owners and long-term investors, such as LGIM, have a limited ability to diversify their portfolios away from the impacts of such issues completely. It is therefore important that we engage with our investee companies and broader stakeholders to drive the necessary change.

Understanding how companies interact with nature is complex. Organisations have dependencies (environmental assets and ecosystem services that an organisation relies on to function) and impacts (a change in the state of nature) that give rise to nature-related risks and opportunities. These interfaces are varied, location specific, and often spread throughout complex value chains. At the company level, they can be financially material, and it is therefore of critical importance that companies evaluate and address them.

While some companies are very familiar with measuring their material interfaces with nature, such as water use in the beverage sector, for example, the breadth and consistency of assessments is a long way from maturity. At COP15, international negotiators were unable to agree on a transformative aspect, Target 15, which would have mandated parties to implement regulations requiring the disclosure of corporate impacts and dependencies on nature, and the associated risks and opportunities.

As such, it is appropriate that at this stage, LGIM focuses efforts on strengthening globally, companies' assessment and disclosure of their interactions with nature, and on improving access to high-quality, consistent and comparable data across geographies and throughout the real economy. This will support investors in holding companies to account over their relationships with nature and, in making more informed decisions on how to allocate capital.

Figure 1. The IPBES identified five drivers of nature change¹ – aligned with TNFD - mapped against relevance of LGIM's Investment Stewardship team's prioritised nature sub-themes²



LGIM's approach

We use our influence to seek to raise standards across capital markets on all our thematic priorities – first through demanding corporate transparency and disclosure, and then through informed and targeted action to improve practices. LGIM's investment stewardship approach to nature-related risk management is multifaceted and is summarised below.

Developing our capacity

To better assess nature risks and opportunities and help us make more informed decisions on how we allocate capital at scale, we require consistent, comparable and reliable data and more standardised forms of reporting.

Using data and engaging data providers

The availability of accurate, comparable and decision-useful nature-related data is an essential pre-requisite to addressing the global challenge of accelerating nature loss, helping organisations become more resilient in the face of nature-related risks, and facilitating informed investor decision-making that will drive the flow of capital to nature-positive outcomes. Despite the significant recent advancements in nature-related assessment frameworks, reporting and data availability, a significant gap remains in globally consistent

¹ As identified by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Service (IPBES) and aligned with the framework of the Taskforce for Nature-related Financial Disclosures (TNFD).

² There are strong interconnections with LGIM Investment Stewardship's six strategic themes.

methodologies and metrics for assessing the state of nature and companies' impacts and dependencies on it. Tracking nature-related impacts and dependencies requires the collection of location-specific data across a large number of variables, such as soil health, water scarcity and biodiversity.

To support the development of available data, LGIM engages extensively with data providers and, where it is appropriate to do so, leverages what is currently available in our analysis and decision-making. LGIM has developed its own scoring methodology by which we assess companies on their environmental, social and governance (ESG) strengths, leveraging suitable data points. We use the [LGIM ESG score](#) to promote greater transparency, but also as a valuable tool in our investment appraisal and decision-making.

We currently integrate nature-related programme assessment metrics within the score, and are working to move beyond these metrics and leverage at scale geospatial data that relates company operations to specific impacts on nature. Therefore, supporting the development of this area is an important component of our Investment Stewardship approach to natural capital management and in building our capacity to better assess risks and opportunities.

Supporting the development and adoption of standardised reporting frameworks

As well as improving the granularity and specificity of available data, to further develop our ability to assess risks and opportunities across our investment universe, we require standardised reporting that presents material information consistently while not oversimplifying it. We have therefore been strong proponents of the TNFD through its development as a 'forum member' and in its launch. The TNFD presents a standardised approach and framework that supports companies in assessing their risk and opportunity exposures. It builds on the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations in detailing four pillars - governance, strategy, risk and impact management, and metrics and targets - and 14 recommended disclosures. Further to this, the TNFD provides core global metrics, supported by a range of additional ones, that are relevant across sectors, cover the main drivers of nature change, and are decision-useful data points.

Aware of the inherent challenges, the TNFD has also introduced an integrated due diligence assessment process referred to as LEAP (Locate, Evaluate, Assess and Prepare) that helps structure the assessment and management of nature-related issues. The approach integrates and builds on existing, nature-related frameworks, including the Natural Capital Protocol and the Science Based Targets Network (SBTN) methods, and tools, data sources and other guidance developed by a range of leading organisations that are aligned with the TNFD's principles.

Through our engagement with investee companies, we promote the reporting of the TNFD's core global indicators that are of relevance to a company's business model, sector(s), biome(s) and priority locations, as well as their adoption of the LEAP assessment processes. In doing so, we intend to improve the standardisation of information available to us that we can use to make more informed decisions on risk and opportunity exposures.

Working with stakeholders

Nature's degradation and the associated risks are global issues that require a market-wide approach. Corporate action is critical, but it must be supported by appropriate action from governments and regulators. As a long-term investor, we share a responsibility to ensure that global markets operate efficiently to protect the integrity of markets and address systemic risks, such as those presented by nature's degradation. That is why, in addition to our engagement with data providers and the frameworks detailed above, a vital part of our approach is engaging with broader stakeholders and market participants, such as other investors, policymakers, regulators, non-governmental organisations (NGOs) and academia.

An important aspect of our NCM approach is engaging in global policy dialogue and providing practical advice to policymakers and regulators on nature-related issues. We are keen to see the integration of nature-related frameworks into domestic and international policy and regulation, for example through the TNFD and its interoperability with the IFRS International Sustainability Standards Board (ISSB).

Taking action at companies in which we invest

LGIM seeks to protect its clients' assets by raising market standards and best practices. One of the ways we do this is through the expectations we set of investee companies in public markets. Our engagement with company boards and executive directors is central to advancing on all facets of stewardship themes, and water is no exception.

We believe in collaboration and regularly work with peers and other stakeholders when needed. By joining forces with collaborative organisations, we aim to broaden our reach and strengthen our voice in improving how companies assess and integrate nature. This will not only allow us to further assess the potential nature-related impacts and dependencies, risks and opportunities of companies, but also to push for greater transparency and progress in the market.

Initiative	Description
Foundation for Biodiversity Pledge	LGIM is a signatory to the Finance for Biodiversity Pledge (FfB) through which we collaborate with other investors focused on the nature agenda. The pledge commits us to assessing and engaging with companies, setting targets and reporting publicly.
Nature Action 100	LGIM is a member of this global investor engagement initiative, which is focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. NA100's high expectations align to our own, consisting of setting appropriate ambitions, in-depth assessments, and the development of implementation plans with appropriate governance and engagement with external parties, including actors throughout value chains, trade associations, policy makers and other stakeholders critical to establishing a suitable enabling environment.
Taskforce for Nature-related Financial Disclosures (TNFD)	The TNFD has developed a set of disclosure recommendations and guidance for organisations to report and act on evolving nature-related dependencies, impacts, risks and opportunities.

LGIM has been engaging with investee companies directly and collaboratively on material nature-related topics, such as deforestation risk exposures, for many years³ with the aim of raising market standards and best practices on addressing such issues. In 2022, appreciating the inextricable link between climate and nature, we integrated biodiversity and nature considerations into LGIM's [Climate Impact Pledge](#) – our flagship climate engagement programme – both within our quantitative scoring and qualitatively into our assessments and expectations of companies.

Our expectations of investee companies

We set clear expectations of companies, so that through our engagement with boards and executive directors we can drive the development of how they understand and address their nature-related impacts, dependencies, risks and opportunities. We expect companies to⁴:

- **Assess** – Evaluate location-specific interfaces with nature and priority impacts, dependencies, risks and opportunities across direct operations and value chains

³ Please see our deforestation policy for additional details - [LGIM Deforestation Policy](#)

⁴ We have aligned closely these expectations with those defined by the NA100 initiative

- **Set targets and ambitions** – Based on detailed assessments, set time-bound, context-specific, science-based targets
- **Strategic development** - Develop and implement comprehensive strategies, policies and mitigation actions that address nature-related impacts, dependencies, risks and opportunities. The design and implementation of these strategies should prioritise rights-based approaches and be developed in collaboration with indigenous peoples and local communities when they are affected.
- **Monitor and be accountable** – Establish robust accountability and governance mechanisms, as well as develop internal nature and biodiversity expertise
- **Engage** - Engage with external parties, including actors throughout value chains, trade associations, policymakers and other stakeholders, to create an enabling environment for implementing plans and achieving targets, aligning with the Global Biodiversity Framework and helping to protect, manage and restore nature.
- **Disclose** - Report on progress and regularly evaluate performance, providing at a minimum the core metrics defined by the TNFD

To assist in meeting these, companies should leverage best-practice guidance such as the TNFD and the LEAP process, as well as emerging guidance such as the SBTN for target-setting.

It is important to recognise that due to the complexity and highly locational nature of company impacts, dependencies, risks and opportunities, the specifics will vary within sectors and companies. We encourage companies to engage with relevant sector guidance to ensure focus is directed towards material issues and will continue to develop our sector-specific expectations.

Our disclosure expectations above are designed to be aligned with existing global reporting guidance, including the Global Report Initiative, ISSB and the relevant stock exchange ESG reporting guidance. We are sensitive to reporting challenges and seek to support standardisation wherever feasible. Thus, we are not prescriptive in terms of the location, frequency and form of the disclosure and would encourage companies to refer to standard setters that have extensive guidance.

Integration of nature into climate transition plans

Acknowledging the interdependencies between nature and climate change, we also expect companies to address their impacts and dependencies on nature within their climate strategies and we are cognisant of the potentially conflicting ambitions between the two in their approach to net zero. The UK's Transition Plan Taskforce (TPT) – the emerging gold standard on transition plan reporting – has integrated nature into its expectations. Having been heavily involved in the development of the TPT framework and guidance, LGIM expects companies to leverage its outputs in understanding and reporting on the critical interrelationship between transition and nature planning.

LGIM voting

LGIM draws on all the tools we have as stewards of our clients' assets to positively influence this critical issue, providing feedback to companies on their progress. LGIM votes against the re-election of the chair or other directors of any company that is on the UNGC violator list for three consecutive years. In line with our voting policies, we will vote on shareholder resolutions related to nature. To date, such resolutions have typically referred to deforestation, packaging and pollution, water usage and pesticides. As company reporting on nature matures and data becomes more credible and accessible, LGIM will continue to adapt and expand its voting policy.

As well as undertaking our voting activity, we may decide to pre-declare our votes to raise awareness of issues to the market, and as an escalation activity within our engagement work. Additionally, all our voting decisions, including the rationale for any votes against management, are published on our dedicated vote disclosure website 24 hours after the date of the shareholder meeting.

Reporting to clients

We are committed to communicating our efforts to our clients. This includes publishing thought leadership pieces on relevant topics to inform investee companies and our clients and to help to drive issues forward. In line with our commitment, we will continue to publicly report credible progress.

Important information

Legal & General Investment Management
One Coleman Street
London
EC2R 5AA

Authorised and regulated by the Financial Conduct Authority.
Legal & General Investment Management does not provide advice on the suitability of its products or services.
Ultimate holding company - Legal & General Group plc.

Legal & General Investment Management One Coleman Street London EC2R 5AA Authorised and regulated by the Financial Conduct Authority. Legal & General Investment Management does not provide advice on the suitability of its products or services. Ultimate holding company - Legal & General Group plc.

Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

Important information

The views expressed in this document are those of Legal & General Investment Management Limited and/or its affiliates ('Legal & General', 'we' or 'us') as at the date of publication. This document is for information purposes only and we are not soliciting any action based on it. The information above discusses general economic, market or political issues and/or industry or sector trends. It does not constitute research or investment, legal or tax advice. It is not an offer or recommendation or advertisement to buy or sell securities or pursue a particular investment strategy.

No party shall have any right of action against Legal & General in relation to the accuracy or completeness of the information contained in this document. The information is believed to be correct as at the date of publication, but no assurance can be given that this document is complete or accurate in the light of information that may become available after its publication. We are under no obligation to update or amend the information in this document. Where this document contains third party information, the accuracy and completeness of such information cannot be guaranteed and we accept no responsibility or liability in respect of such information.

This document may not be reproduced in whole or in part or distributed to third parties without our prior written permission. Not for distribution to any person resident in any jurisdiction where such distribution would be contrary to local law or regulation.

European Economic Area: LGIM Managers (Europe) Limited, authorised and regulated by the Central Bank of Ireland as a UCITS management company (pursuant to European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 (as amended) and as an alternative investment fund manager (pursuant to the European Union (Alternative Investment Fund Managers) Regulations 2013 (as amended)).

USA: Legal & General Investment Management Ltd. (a U.K. FCA authorized adviser), LGIM International Limited (a U.S. SEC registered investment adviser and U.K. FCA authorized adviser), Legal & General Investment Management America, Inc. (a U.S. SEC registered investment adviser).

Japan: Legal & General Investment Management Japan KK (a Japan FSA registered investment management company).

Hong Kong: issued by Legal & General Investment Management Asia Limited which is licensed by the Securities and Futures Commission.

Singapore: issued by LGIM Singapore Pte. Ltd. (Company Registration No. 202231876W) which is regulated by the Monetary Authority of Singapore.

© 2024 Legal & General Investment Management Limited, authorised and regulated by the Financial Conduct Authority, No. 119272. Registered in England and Wales No. 02091894 with registered office at One Coleman Street, London, EC2R 5AA. D008293