



STATE OF NATURE- RELATED DISCLOSURES

Assessing TNFD alignment
of nature-related disclosures
by firms in high-risk sectors

July 2024

First Sentier MUFG
Sustainable Investment Institute

About the Institute

The First Sentier MUFG Sustainable Investment Institute (the Institute) provides research on topics that can advance sustainable investing. As investors, both First Sentier Investors and MUFG recognise our collective responsibility to society and that investment decisions should be made with consideration to our communities both now and in the future.

The Institute commissions research on Environmental, Societal and Governance issues, looking in detail at a specific topic from different viewpoints. The Institute recognises that investors are now looking in far greater depth, and with far greater focus, at issues relating to sustainability and sustainable investing. These issues are often complex and require deep analysis to break down the contributing factors. If as investors we can better understand these factors, we will be better placed to consider our investment decisions and use our influence to drive positive change for the benefit of the environment and society.

The Institute is jointly supported by First Sentier Investors (FSI) and Mitsubishi UFJ Trust and Banking Corporation, a consolidated subsidiary of MUFG. Representatives of both organisations will provide input to the activities of the Institute.

An Academic Advisory Board advises the Institute on sustainability and sustainable investment research initiatives. The Academic Advisory Board comprises prominent leaders from academia, industry and nongovernmental organisations in the fields of Responsible Investment, climate science and related ESG endeavours. The Board provides independent oversight to ensure that research output meets the highest standards of academic rigour.

Contact

Institute@firstsentier.com

www.firstsentier-mufg-sustainability.com

www.mufg-firstsentier-sustainability.jp

The Institute's sponsors

About First Sentier Investors

First Sentier Investors (formerly First State Investments) is a global asset management group focused on providing high quality, long-term investment capabilities to clients. We bring together independent teams of active, specialist investors who share a common commitment to responsible investment and stewardship principles. These principles are integral to our overall business management and the culture of the firm.

All our investment teams – whether in-house or individually branded – operate with discrete investment autonomy, according to their investment philosophies.

<https://www.firstsentierinvestors.com>¹

About MUFG

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with approximately 2,000 locations in more than 40 countries. The Group has about 120,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to “be the world's most trusted financial group” through close collaboration among our operating companies and flexibly respond to all of the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges.

<https://www.mufg.jp/english>

About the Trust Bank

Mitsubishi UFJ Trust and Banking Corporation, as a core member of MUFG, provides its customers with a wide range of comprehensive financial solutions leveraging unique and highly professional functions as a leading trust bank. Such financial solutions include real estate, stock transfer agency, asset management and investor services, and inheritance related services, in addition to banking operations. We aim to realize our vision to be the trust bank that creates “a safe and affluent society” and “a bright future with our customers together” by always supporting our customers' and society's challenges based on Trust, and thus created a new key concept: “Trust Drives Our Future”.

<https://www.tr.mufg.jp/english>

1. The SFC has not reviewed the contents of this website.

Executive Summary

The science is irrefutable; nature is being degraded at rates unparalleled in human history. With forecasted effects to the global economy estimated to be in the US\$ trillions per year, the impetus to realign global financial flows with a nature-positive world has never been greater.

In response to growing investor demand for the tools and data necessary to support this transformation, the industry-led Taskforce for Nature-related Financial Disclosures (TNFD) has launched a voluntary nature reporting framework for corporates and financial institutions (TNFD, 2023). By providing a framework for organisations to report on material impacts and dependencies arising from nature-loss, the TNFD aims to provide financial institutions (and corporates) with the information necessary to integrate nature-related issues into decision making.

In this report, we assess the current state of nature-related reporting against the TNFD's 14 Core Disclosure Recommendations according to a sample of 16 companies, two from each of the TNFD's eight priority sectors.² The companies assessed were further selected based on:

- Their high environmental performance and/or ratings according to existing benchmarks or providers.³
- Geographic location by head office (we aimed for a globally distributed sample from both developed and developing economies).

By balancing attributes such as environmental performance, geographic spread, and economic maturity we further aim to create a nature disclosure benchmark that is both representative and sits at the upper boundaries of current practice for each sector, thus enabling investors to set high, but realistic expectations for investees on nature. To further support investors in their stewardship work and investment decision making, we also provide a separate Appendix, presented as an excel databook, which contains de-identified disclosure exemplars for each firm assessed across each TNFD disclosure recommendation, and, where relevant, Nature-loss driver (available upon request).⁴ These exemplars provide tangible evidence of how firms are reporting on their nature-related impacts and dependencies today.

Overall, our assessment of the state of nature-related disclosures reveals that firms assessed from most sectors are well on the way to aligning their disclosure with the TNFD framework, with 56% of the 16 firms in our sample disclosing information relevant to all 14 Core Recommendations, and 100% of firms having set relevant⁵ nature-related targets.

In the following pages we present key findings from the report at the sector and TNFD pillar level⁶, followed by recommendations for all sectors on how nature-related disclosures can be strengthened in the future.

Methodology – Disclosure analysis

Multi-tiered approach to disclosure analysis

1. Is the information being disclosed aligned with the recommendations of the TNFD?

Top-down analysis of disclosures according to the TNFD Core Recommendations

2. Is the information being disclosed aligned with the most material drivers of nature-loss for the sector?

Conduct Sector Materiality Screen by drawing on data from ENCORE & the SASB to develop a materiality profile for each sector. Disclosures are then assessed for alignment with material issues identified.

3. Is the information being disclosed of sufficient quality according to existing disclosure principles?

Conduct 'Disclosure Quality Check' by adapting the principles of effective disclosures: Relevance, Understandability & Clarity, Specificity & Completeness, Verifiability & Reliability.

Determine state of nature-related disclosure for the sector.

2. Extractives & Processing, Consumer Goods, Food & Beverage, Health Care, Resource Transformation, Infrastructure, Transportation (Marine), and Renewable Resources & Alternative Energy (SASB Sustainable Industry Classification System)

3. Providers/rankings included the Sustainability Policy Transparency Toolkit (SPOTT) rankings of commodity producers and traders across palm oil, timber and pulp, and natural rubber, the Global Benchmarking Alliance's Nature Benchmark, and London Stock Exchange Group's (formerly Refinitiv) ESG data.

4. One of five direct nature-loss drivers identified by the Intergovernmental Policy Science Platform for Biodiversity and Ecosystem Services (IPBES).

5. Here 'relevant' means aligned to the material nature-related impacts and dependencies identified for the sector.

6. 'Pillar' refers to each of the four TNFD pillars, namely Governance, Risk Management, Strategy, and Metrics & Target Setting.

State of Disclosures: Sector Insights

In the disclosure snapshots below we offer readers preliminary insight into the current state of nature-related disclosures at the sector level, which are explored in progressively more depth throughout this report. These snapshots highlight how firms from the sectors assessed, namely Extractives & Minerals Processing, Resource Transformation, Consumer Goods, Transportation, Food & Beverage, Infrastructure, Health Care, and Renewable Resources & Alternative Energy are navigating and responding to the unique set of challenges, pressures, and threats to business resilience that are arising from nature loss.

Extractives & Minerals Processing



Regulatory constraints and ongoing resource conflicts with local communities is driving progress on nature-related reporting by firms in this sector, whilst also presenting a source of significant financial risk. Firms are conducting ongoing assessments of nature-related risk through a double materiality lens to better understand these risks, and are already setting Global Biodiversity Framework (GBF) aligned targets to achieve a net positive gain in biodiversity over the lifecycle of mining operations.

Resource Transformation



Resource Transformation companies are already developing nature-positive strategies and have conducted location specific nature risk assessments, which have clearly impacted business practices. However, disclosure coverage is weak for most material issues except climate change. Furthermore, targets to reduce nature-related impacts seem incompatible with targets to expand nature-related business opportunities.

Consumer Goods



Disclosures indicate that Land Use Change and Resource Exploitation are key threats to supply chain stability for firms in this sector. For example, trade volatility and commodity supply issues are forecasted to cost one firm US\$970 million per year by 2030 for soy alone. In response, firms are investing heavily in raw material tracing, and deforestation tracking through DNA technology, remote sensing, and GPS.

Transportation



Transportation sector disclosures are clear and explicitly discuss all five key drivers of nature loss. Of the issues identified and assessed, ship recycling represents a key risk and opportunity for firms in this sector. The need to reduce end-of-life impacts on nature is already affecting firms' strategies, R&D, and sourcing practices, e.g., through investing in recycling infrastructure, and developing 'green fleets.'

Food & Beverage



Food & beverage disclosures demonstrate a well-developed understanding of the lifecycle impacts and dependencies of packaged food and beverages on nature. Disclosures by one firm showed a clear and systematic approach to managing risks arising from dairy production. Both firms are adjusting their business strategies to enhance circularity and reduce both resource intensity and plastic waste.

Infrastructure



Infrastructure disclosures indicate that firms have already conducted natural capital risk assessments and are reporting on the severity and likelihood of material impacts, dependencies, and opportunities, which include issues like mandatory nature-related disclosures and biodiversity loss. Efforts to mitigate nature-related risks are focused on enhancing the operational resource efficiency of buildings, but neglect upstream risks associated with the exploitation of resources.

Health Care



Health Care firms have adapted their internal processes to align with the Convention on Biological Diversity, specifically, the Nagoya Protocol on access to genetic resources and equitable sharing of benefits arising from their utilisation. The high direct dependency of firms on biodiversity for drug discovery has also prompted firms to conduct assessments of sensitive areas that exceed expectations set by the TNFD. However, disclosures generally lack depth and firms provide little insight into the methods and processes informing decision making.

Renewable Resources & Alternative Energy



Renewable Resources & Alternative Energy disclosures demonstrate leading practice on both the integration of Indigenous Peoples perspectives into the assessment and management of nature-related issues. One firm has established a dedicated stakeholder engagement team comprising members of Indigenous Communities who work with traditional knowledge holders to develop sustainable harvesting strategies and manage nature-related risks.

State of Disclosures: Cross-Sector Insights

No organisation from the sectors assessed excelled in their reporting on nature-related issues across all areas. Within each TNFD pillar, namely Governance, Strategy, Risk Management, and Target Setting, we identified disclosures by firms in each sector that were leading and lagging, as well as areas where disclosures by all firms in all sectors were mature⁷ or required improvement. Below we compare and contrast the key disclosure strengths and gaps identified between sectors.

Governance



- The Board has ultimate responsibility for nature for firms in all eight sectors assessed.
- Executive remuneration has been linked to nature-related metrics for five out of eight sectors.
- The Board has clear oversight in reviewing and guiding the nature strategy for firms in seven out of eight sectors.
- Firms from Renewable Resources & Alternative Energy were the only companies assessed to have fully integrated engagement with Indigenous Peoples and local communities into the assessment and management of nature-related issues.

Strategy



- The effects of nature-loss are already materialising for firms in sectors like Extractives & Minerals processing, Health Care and Consumer Goods.
- 60% of firms are already disclosing current and anticipated financial effects of nature-related issues. One company reports that supply issues (resource scarcity) and environmental regulations are anticipated to result in increased expenditures of ~ US\$970 million/yr for Soy alone by 2030, while another reports that US\$14.8 billion in production value (equal to 36% of total revenue) is at risk from water scarcity.
- The effects of nature-related issues on the business are most pronounced for firms assessed from Extractives & Minerals Processing, Resource Transformation, and Consumer Goods.
- At the nature-loss driver level, land use change, exploitation of raw materials, and water scarcity are the most pressing nature-related issues faced by the firms assessed.
- No company has assessed the resilience of its business to nature-loss.
- Firms from five out of eight sectors assessed are integrating the mitigation hierarchy into their management of nature-related issues.
- Firms from all sectors except transportation are conducting spatially explicit assessments of nature-related impacts and/or dependencies that at least consider areas of importance to biodiversity.
- Material issues like Invasive Species, Air Pollution and Soil Pollution are acknowledged, but otherwise underreported across the board — especially by mining companies.

Risk Management



- Firms from the Renewable Resources and Transportation sectors are the only firms to acknowledge all five of the IPBES direct drivers of nature-loss in their disclosures.
- A total of 10 firms from six sectors apply a double materiality lens. Only firms from Resource Transformation, and Food & Beverage did not state that they applied a double materiality lens.
- Firms in six out of eight sectors are disclosing the phases in the risk management cycle for at least one nature-related issue. Risk management processes are most clearly articulated for firms in Resource Transformation, Food & Beverage, and Health Care.
- Disclosures on monitoring mechanisms are weak for most sectors and issues assessed, revealing a lack of accountability for nature-related Key Performance Indicators (KPIs).
- Disclosures on the methods and processes in place to identify and assess nature-related issues lack transparency in sectors like Health Care, Transportation, and Food & Beverage. In contrast, firms assessed from Renewable Resources and Consumer Goods disclose detailed methodology documents to enhance transparency and credibility.

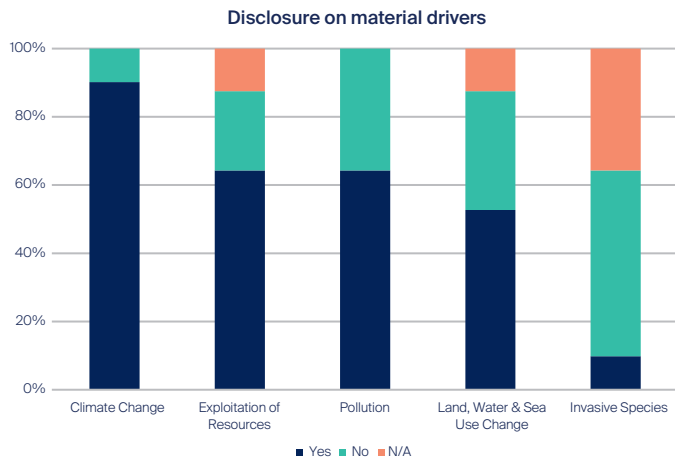
Target Setting



- Firms assessed from Consumer Goods and Food & Beverage are partially to fully reporting on at least 80% of the TNFD Recommended Core Global Metrics, compared to 60-70% by firms from Extractives & Minerals Processing, Infrastructure, Renewable Resources, and Resource Transformation. Firms assessed from Health Care & Transportation are collectively reporting on less than 50%.
- For firms assessed in sectors such as Extractives & Minerals Processing, and Consumer Goods some nature targets require the development of capabilities that do not yet exist (e.g., cultural change, new technologies...).
- All 16 firms assessed have set relevant nature-related targets.
- 25%, or firms assessed from two out of eight sectors, namely Consumer Goods, and Extractives & Minerals Processing, have set 'no net loss' and 'net positive gain' in biodiversity and/or nature targets aligned with the GBF.
- Firms in 50% of sectors, namely, Consumer Goods, Renewable Resources & Alternative Energy, Food & Beverage, and Infrastructure have set 'No Deforestation' and/or 'No Land Clearing' targets for upstream activities, such as raw material sourcing.

7. Meaning all the TNFD core recommendations were satisfied.

Gaps between material drivers of nature loss and indicators disclosed

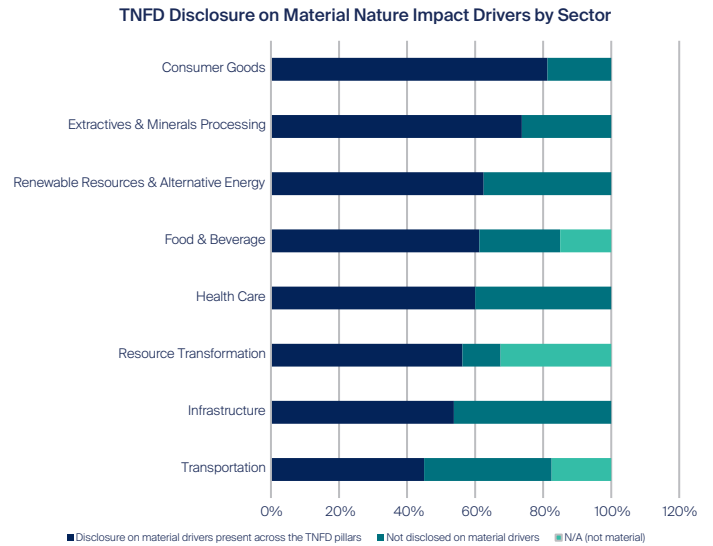


Source: Data adapted from SII, Altireem, State of Nature-Related Disclosures: Assessing TNFD alignment of nature-related disclosures by firms in high-risk sectors, June 2024

At the nature-loss driver level, land use change, exploitation of raw materials, and water scarcity are the most pressing nature-related issues faced by the firms assessed

Climate change was the best covered driver across the TNFD disclosure indicators; followed by exploitation of resources, pollution, and Land, Water, & Sea Use Change

Sector differences in nature-related reporting



Source: Data adapted from SII, Altireem, State of Nature-Related Disclosures: Assessing TNFD alignment of nature-related disclosures by firms in high-risk sectors, June 2024

Assessed firms from Extractive & Minerals Processing and Food & Beverage sectors are not reporting on 24-26% of the TNFD indicators on material nature impact drivers

Assessed firms from Renewable Resources and Transportation do not disclose on 38% of TNFD indicators on material drivers

Assessed firms from Health Care & Infrastructure are collectively underreporting on over 40% of the TNFD metrics on material drivers

Recommendations for all sectors

To strengthen nature-related disclosures, we recommend that firms across all sectors:

- Ensure that disclosures describe not just the actions the organisation is taking in response to nature, but the processes informing these actions.
- Deepen their understanding of how nature-loss is likely to impact business strategy resilience.
- Report transparently on how engagement with affected stakeholders is integrated into the assessment and management of nature-related issues.
- Ensure all nature-related targets align with Specific, Measurable, Achievable, Relevant, and Timebound (SMART) criteria, with a focus on improving the specificity, and ambition of targets, as well as ensuring they are outcomes focused. Furthermore, targets on nature-related opportunities should be assessed for compatibility with targets on impact reduction.
- Strengthen and clarify the language used in policy documents and codes of conduct so that it is clear what nature-related expectations are being imposed on the firm and its suppliers, as well as the consequences for non-compliance.

