

# LGIM's nature framework



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As a global investor, Legal & General Investment Management (LGIM) is committed to addressing the issue of nature change and biodiversity loss.

## Summary

Nature is fundamental to the long-term health of our social, economic, and financial system. It encompasses vital aspects of all our lives, from the food we eat to the air we breathe. It is estimated that just over half of global gross domestic product (GDP) is highly or moderately dependent on nature and its services.<sup>1</sup> Our natural world is, however, in crisis. Ecosystems are being degraded at a faster rate than ever before, with the loss of vital ecosystem services<sup>2</sup> (on which society and our economies depend) estimated to reduce global GDP by \$2.7 trillion per year by 2030.<sup>3</sup> The negative trends ultimately undermine progress made on many of the UN Sustainable Development Goals.<sup>4</sup>

Nature-related risks could have significant macroeconomic implications and be a source of risk to financial institutions and financial stability. Therefore, LGIM has prioritised nature as one of its strategic themes. LGIM is supportive of the Kunming-Montreal Global Biodiversity Agreement's mission of taking urgent action to halt and reverse nature loss by 2030, and the vision of living in harmony with nature by 2050. Protecting and restoring nature across markets will be hugely complex, requiring both public and private sector commitment, collaboration and urgent action. In this LGIM's Nature Framework, we outline why nature is systemic risk and how we are approaching this complex issue.

Alongside this Nature Framework, LGIM has produced policy documents for deforestation, circular economy, natural capital management and water. These include more detail on our specific approach, including our minimum expectations for companies.

### **The Global Agreement – The Kunming-Montreal Global Biodiversity Framework**

In 2022, the international community, including 188 governments, gathered in Montreal at the Conference of the Parties to the Convention of Biodiversity (COP15) to agree to the Kunming-Montreal Global Biodiversity Framework (GBF). The GBF is the key international agreement that governs, guides, and sets the policy mandate for all stakeholders – including financial services and regulators - across the economy to protect and restore nature, and tackle nature loss.

In our view, the GBF is as crucial for nature as the Paris Agreement has been for climate change. The vision of the GBF is a world living in harmony with nature, where “by 2050, biodiversity is valued, conserved, restored, and wisely used, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people”. It includes four long-term goals for the 2050 vision, which are: 1. Restoring and maintaining natural ecosystems; 2. Sustainable use of, and valuing, nature; 3. Collaboration with local communities and indigenous peoples; 4. Adequate resources – including aligning financial flows – to implement the GBF; and 23 action-orientated targets for achievement by 2030 that will enable achievement of the four long-term goals. LGIM is working to support the GBF's vision of living in harmony with nature by 2050.

<sup>1</sup> <https://www.pwc.com/gx/en/issues/esg/nature-and-biodiversity/managing-nature-risks-from-understanding-to-action.html>

<sup>2</sup> Ecosystems produce flows of benefits to people and the economy, known as ecosystem services. For example, the pollination of crops, or the provision of freshwater from a river. They are the contributions of ecosystems to the benefits that are used in economic and other human activity.

<sup>3</sup> <https://www.worldbank.org/en/news/press-release/2021/07/01/protecting-nature-could-avert-global-economic-losses-of-usd2-7-trillion-per-year>

<sup>4</sup> <https://www.ipbes.net/global-assessment>

# Nature and why it matters to investors

Nature – the natural world itself – is the foundation of our social, economic and financial system. Nature refers to both the living and non-living aspects of the natural world. The non-living aspects can be categorised into four distinct, but interlinked, realms: land, ocean, freshwater and atmosphere. Sitting underneath these high-level realms are specific ecosystems that are organised into global level zones called ‘biomes’, for example coral reefs or savannas.

Societies and organisations across the world depend on the value that they receive from nature. This is often referred to as the Earth’s ‘natural capital’ – the products, services and wealth that nature provides. As highlighted, more than half of the world’s gross domestic product (GDP) – equivalent to an estimated US\$58 trillion – is moderately or highly dependent on nature.<sup>5</sup> Nevertheless, ecosystem services (e.g. pollination of crops, and provision of fresh water from a river on which societies, businesses and the economy depend) remain grossly underappreciated, unaccounted for, and in decline. They insufficiently reflected in market prices (partly because they are open to all and often at no monetary charge).<sup>6</sup>

Healthy ecosystems and biodiversity – the variability among living organisms – underpin functioning natural systems and are critical to ensuring that the provision of nature’s services and assets remains sustainable. Nature - and therefore the value it provides - are deteriorating, worldwide. According to the WWF’s Living Planet Report 2022, wildlife populations have declined by 69%<sup>7</sup> since 1970 and 40% of the world’s plants are now threatened with extinction.<sup>8</sup> More animal and plant species are threatened with extinction than ever before,<sup>9</sup> plastic pollution in our oceans could triple by 2040,<sup>10</sup> deforestation continues to rise rapidly<sup>11</sup> and by 2025, two-thirds of the world’s population may face water shortages.<sup>12</sup>

In 2023, the Stockholm Resilience Centre confirmed that we have for the first time breached six of the nine planetary boundaries<sup>13</sup>. If we continue down this path, we risk pushing ecosystems beyond ecological thresholds, to tipping points where changes may be long lasting, hard to reverse, or even irreversible.<sup>14</sup> In some cases, we could witness their complete collapse. The World Bank has estimated that the loss of select ecosystem services provided by nature, such as wild pollination, provision of food from marine fisheries, and timber from native forests, could result in a decline in annual global GDP of \$2.7 trillion by 2030, with emerging markets worst affected.<sup>15</sup> The Network for Greening the Financial System (‘NGFS’ – an international group of central banks and supervisors) recognises that nature-related risks could have significant macroeconomic implications and may become a source of financial instability.<sup>16</sup> Without doubt, this presents us with systemic market risk; for universal owners and long-term investors,

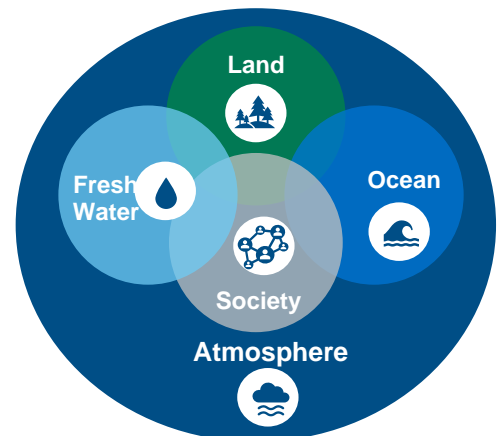


Fig 1. Nature is defined by four realms – Land, Ocean, Freshwater, and Atmosphere

<sup>5</sup> <https://www.pwc.com/gx/en/issues/esg/nature-and-biodiversity/managing-nature-risks-from-understanding-to-action.html>

<sup>6</sup> <https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review>

<sup>7</sup> <https://zenodo.org/records/3553579>

<sup>8</sup> <https://www.nhm.ac.uk/discover/news/2020/september/two-in-five-plants-are-threatened-with-extinction.html>

<sup>9</sup> <https://www.un.org/sustainabledevelopment/blog/2019/05/nature-decline-unprecedented-report/>

<sup>10</sup> <https://www.imperial.ac.uk/news/200553/ocean-plastic-triple-2040-immediate-action/>

<sup>11</sup> [https://research.wri.org/gfr/latest-analysis-deforestation-trends?utm\\_campaign=trecrecoverloss2022&utm\\_medium=bitly&utm\\_source=PressKit](https://research.wri.org/gfr/latest-analysis-deforestation-trends?utm_campaign=trecrecoverloss2022&utm_medium=bitly&utm_source=PressKit)

<sup>12</sup> <https://press.un.org/en/2016/sqsm17610.doc.htm#:~:text=By%202025%2C%20nearly%201.8%20billion,carbon%20capture%20and%20storage%20systems.>

<sup>13</sup> <https://www.stockholmresilience.org/research/research-news/2023-09-13-all-planetary-boundaries-mapped-out-for-the-first-time-six-of-nine-crossed.html>

<sup>14</sup> <https://valuing-nature.net/sites/default/files/documents/demystifying/VNP26-DemystifyingTippingPoints-A4-20pp-200dpi.pdf>

<sup>15</sup> <https://openknowledge.worldbank.org/server/api/core/bitstreams/9f0d9a3a-83ca-5c96-bd59-9b16f4e936d8/content>

<sup>16</sup> [https://www.ngfs.net/sites/default/files/medias/documents/statement\\_on\\_nature\\_related\\_financial\\_risks\\_-\\_final.pdf](https://www.ngfs.net/sites/default/files/medias/documents/statement_on_nature_related_financial_risks_-_final.pdf)

such as LGIM, engagement with investee companies and broader stakeholders is crucial in order to drive the changes necessary to mitigating this risk.

**Nature and biodiversity terminology**

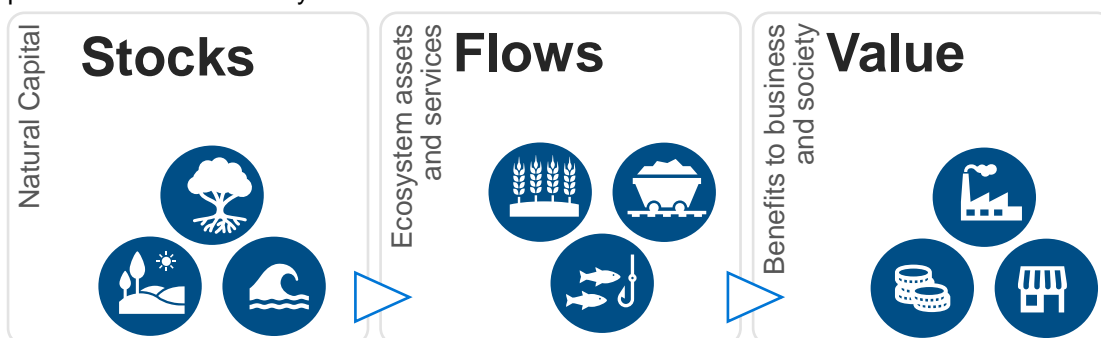
Our societies and economies depend on the health and resilience of nature and its biodiversity. There are subtleties in the terminology used. Nature and biodiversity, while often used interchangeably, are distinct concepts. Nature covers the entirety of the natural world. It refers to the combination of the non-living (such as the weather, sea, and mountains) and living aspects (organisms, such as animals, plants, fungi etc.) of the natural world. It encompasses the variability of living organisms. LGIM uses the term 'nature' to clarify that we are engaging on the scientifically agreed (IPBES) direct drivers of nature change. Biodiversity refers to the variability of living organisms across nature's four realms (land, ocean, freshwater and atmosphere). It is a characteristic of nature that enables ecosystems to be productive, resilient, and able to adapt. In our view, biodiversity can be seen as a representation of the health of ecosystems.

**The value of nature**

'Natural capital'<sup>17</sup> is another term for the stock of the Earth's natural resources (e.g., plants, animals, air, water, soils and minerals) which, in combination with other forms of capital, such as human capital, yield a flow of benefits or 'services'. These flows can be ecosystem services, providing value to business and to society (see Figure 2), on which businesses and financial institutions depend to generate cashflows and returns.<sup>18</sup> However, as highlighted in 'The Economics of Biodiversity: The Dasgupta Review',<sup>19</sup> natural capital is undervalued and unaccounted for in today's economic system: this needs to change. The report reminds us of the need to acknowledge that our economies are embedded within nature, not external to it. Indeed, the transition to a more resilient and circular global economy that works for businesses, the environment and people, where growth is decoupled from the linear consumption of finite resources, is key. Doing so, while halting and reversing nature's degradation and biodiversity loss, will require significant investment and a long-term commitment.

To value nature, we need to understand what it means at a company level. For example, along value chains, organisations will have dependencies and impacts on nature which give rise to nature-related risks and opportunities. Physical risks (from acute events such as spills, forest fires, or invasive species, for example) and transition risks (such as changes in policy or market dynamics, reputational damage, or liabilities from legal claims), can combine and compound to become systemic risks (ecosystem stability risk and financial stability risk).

Nature-related risks are already present in cashflows and balance sheets, but often are not visible. Understanding the scale of nature risks is challenging and still at a nascent stage across markets. Frameworks, such as the Taskforce on Nature-related Financial Disclosures ('TNFD'), are being established to help users understand not only nature-related risks, but also how mitigation and management of these can be integrated. Through this process of understanding and unpicking our interactions with nature, we will start to better appreciate the value that nature provides our economic system.



**Fig 2.** Natural capital is another term for the stock of natural resources that combine to yield a flow of benefits and services. Flows can be ecosystem services or assets, which provide value to businesses and to society.

<sup>17</sup> [https://naturalcapitalcoalition.org/wp-content/uploads/2018/05/NCC\\_Protocol\\_WEB\\_2016-07-12-1.pdf](https://naturalcapitalcoalition.org/wp-content/uploads/2018/05/NCC_Protocol_WEB_2016-07-12-1.pdf)

<sup>18</sup> [https://tnfd.global/wp-content/uploads/2023/08/Recommendations\\_of\\_the\\_Taskforce\\_on\\_Nature-related\\_Financial\\_Disclosures\\_September\\_2023.pdf?v=1695118661](https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf?v=1695118661)

<sup>19</sup> <https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review>

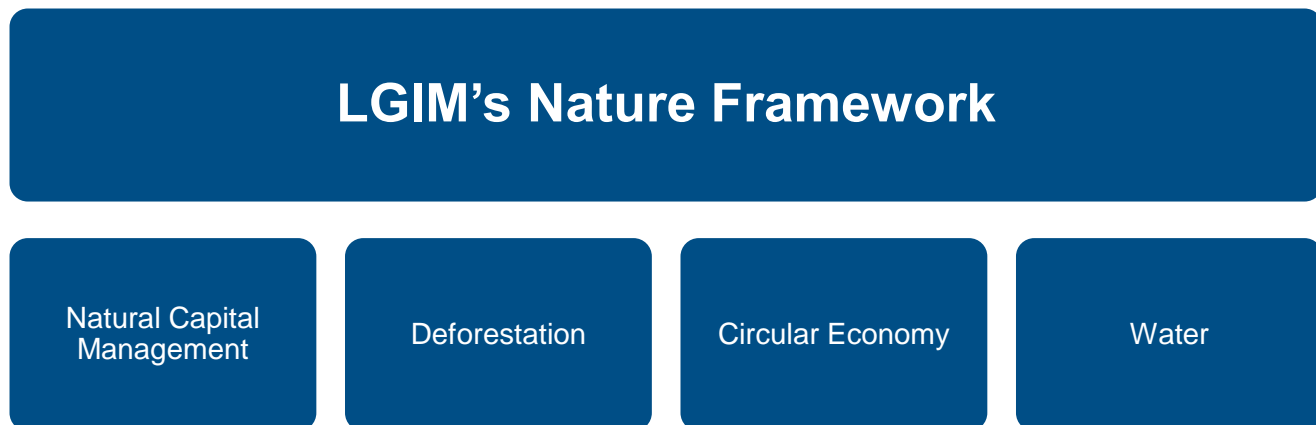
# LGIM's investment stewardship approach

LGIM uses its influence through investment stewardship to raise standards across six strategic themes: People, Governance, Health, Digitisation, Climate and Nature – first through demanding corporate transparency, disclosure and governance, and then through informed and targeted action to improve practices.

LGIM has structured its Investment Stewardship Nature Framework across four key sub-themes of engagement, as shown in Figure 3. These sub-themes are: Circular Economy; Deforestation; Water, and Natural Capital Management. These sub-themes target the five direct drivers<sup>20</sup> of nature change that have the largest global impact, as identified by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Service (IPBES – equivalent to the IPCC for climate change).<sup>21</sup> We provide a short summary of our sub-themes in this Framework; for more detail, including our expectations of companies, please refer to the relevant policy document(s) on the [LGIM Investment Stewardship webpage](#).

Progress against systemic market risks, including the drivers of nature change, cannot be achieved in isolation; a system-wide view is necessary. There are strong connections between our six strategic themes, resulting in close alignment and integration of our work on nature with our other five themes.<sup>22</sup>

**Fig 3. Overview of LGIM's Investment Stewardship's Nature Framework and our sub-themes**

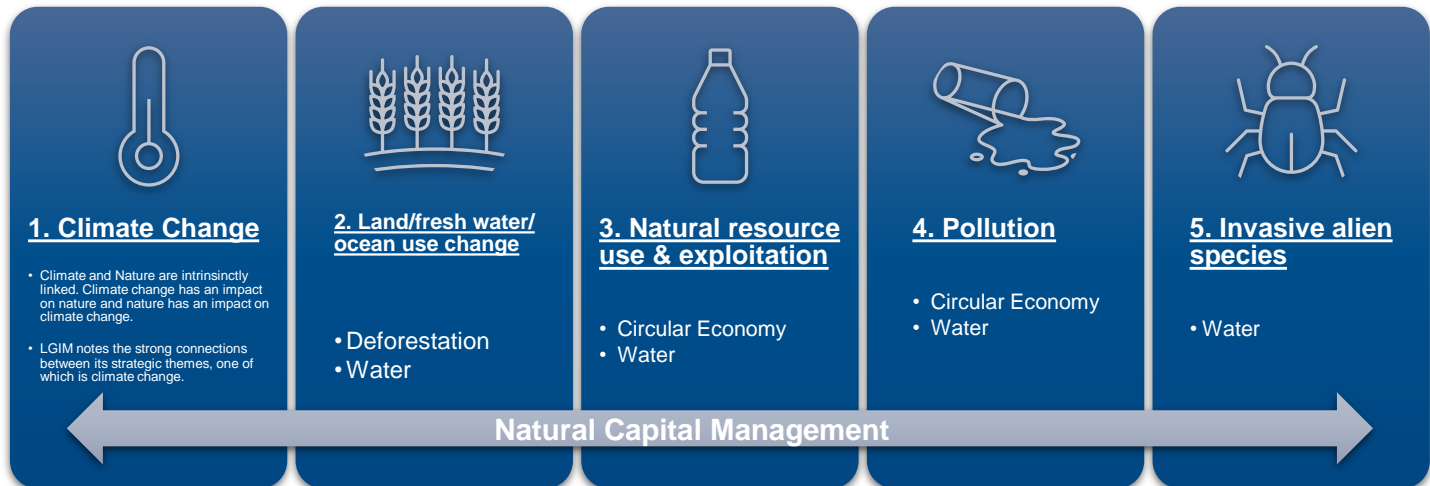


<sup>20</sup> Climate Change; Land / Freshwater/ Ocean use change; Natural resource use; Pollution; and Invasive Alien Species

<sup>21</sup> The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) is an independent intergovernmental body established by states to strengthen the science-policy interface for biodiversity and ecosystem services for the conservation and sustainable use of biodiversity, long-term human well-being and sustainable development. It was established in Panama City, on 21 April 2012 by 94 governments. It is not a United Nations body. However, at the request of the IPBES Plenary and with the authorisation of the UNEP Governing Council in 2013, the United Nations Environment Programme (UNEP) provides secretariat services to IPBES.

<sup>22</sup> LGIM Investment Stewardship's other strategic themes – Climate, Governance, Health, People and Digitisation.

**Figure 4. The five drivers of nature change, as identified by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES),<sup>23</sup> – mapped against LGIM's nature sub-themes<sup>24</sup>**



## Commitments

### Finance for Biodiversity Foundation Pledge

In 2021, LGIM signed the Finance for Biodiversity Foundation Pledge. By the end of 2024, we commit to: i. Collaborating and knowledge sharing; ii. Engaging with companies; iii. Assessing impact; iv. Setting targets; and v. Reporting publicly.

### LGIM's deforestation commitment

LGIM is a signatory to the COP26 Commitment on Eliminating Agricultural Commodity-Driven Deforestation from Investment Portfolios. We fully support the call for financial institutions to take ambitious measures to eliminate commodity-driven deforestation within their investments.<sup>25</sup> This commitment encourages a focus on active ownership and ongoing stewardship, to collectively work towards portfolios that are free from forest-risk agricultural commodity-driven deforestation activities.

As a signatory, we commit to using our best efforts to tackle commodity-driven deforestation impacts in investment portfolios by 2025, and to working towards several milestones. This commitment is company-wide and applies to new and existing LGIM corporate holdings. The commodities covered include: palm oil, soy, cattle products (beef and leather), and timber products (forestry, pulp and paper). We focus on 'deforestation-critical' sectors and 'high-risk' countries.<sup>26</sup> More information can be found in our [deforestation policy](#).

### LGIM's net-zero commitment

LGIM has made a commitment to reach net-zero greenhouse gas emissions across all assets under management by 2050 or earlier.<sup>27</sup>

<sup>23</sup> 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).

<sup>24</sup> There are strong connections with LGIM Investment Stewardship's other strategic themes – Climate, Governance, Health, People, and Digitisation.

<sup>25</sup> <https://racetozero.unfccc.int/wp-content/uploads/2021/11/DFE-Commitment-Letter-.pdf>

<sup>26</sup> 'High-risk' countries defined using the Deforestation Free Finance guidance.

<sup>27</sup> For more details on our net-zero commitments, please see: <https://www.netzeroassetmanagers.org>.

# Key considerations

It is important to recognise that when identifying, assessing and managing nature-related issues there are sector-specific considerations. Geographical location (direct operations and their value chain(s)) is important, and the role of indigenous peoples and local communities should not be overlooked. We illustrate our approach in summary below; more detail can be found in [LGIM's policy documents](#).

## Value chains and locations

Dependencies and impacts on nature occur in specific locations and ecosystems. Understanding the geographic location of where an organisation interacts with nature (direct operations as well as upstream and downstream value chains) is therefore an important aspect of assessing nature-related issues. Locations can be categorised<sup>28</sup> into:

- **Sensitive locations** – where an organisation's assets and/or activities in its direct operations – and, where possible, upstream and downstream value chain(s) – interface with nature in: i) areas important for biodiversity, ii) areas of high ecosystem integrity, iii) areas of rapid decline in ecosystem integrity, iv) areas of high physical water risks, and v) areas of importance for ecosystem service provision, including benefits to indigenous peoples, local communities and stakeholders. Indeed, 17 of the most biodiversity-rich countries cover only 10% of the Earth's surface but are home to 70% of species diversity.<sup>29</sup>
- **Material locations** – where an organisation has identified material nature-related dependencies, impacts, risks and opportunities in direct operations and the upstream and downstream value chain(s).

## Indigenous peoples and local communities

We are cognisant of the importance of indigenous peoples and local communities to the protection of ecosystems; awareness of their essential role in protecting ecosystems must form an integral component of nature-related strategies. Indeed, at least a quarter of the world's land area is owned, managed, used or occupied by indigenous peoples, and while they make up less than 5% of the world's population, indigenous peoples protect 80% of the Earth's biodiversity in the forests, deserts, grasslands and marine environments.<sup>30</sup>

## Key sectors

All companies rely on ecosystem services. Indeed, some companies will already be familiar with identifying and measuring their interactions with nature. LGIM is prioritising its engagement in the sectors that have the greatest impact and dependency on nature, and those where we believe we can have the most significant influence through our exposure. Illustrative examples of sectors that are priority for nature change and therefore engagement: 1. Consumer Staples; 2. Consumer Discretionary; 3. Energy; 4. Materials; 5. Transport; 6. Utilities; 7. Financials; 8. Health Care; 9. Information Technology; and 10. Industrials.

## Highlight on agriculture

The agricultural system (including aquaculture and fisheries) is highly relevant and dependent on nature, cutting across all the key drivers of nature loss. Indeed, its importance as an issue is highlighted in that several of the Global Biodiversity Framework targets focus on ensuring agriculture is managed sustainably (e.g., Targets 2, 10, 7 and 16). It is a topic that is also closely linked with our Investment Stewardship team's other five strategic themes.

Nature can positively and negatively impact the agricultural system. For example, the collapse of ecosystem services such as wild pollinators could reduce the productivity of agricultural productivity. Agricultural practices can also contribute negatively to the degradation of nature, for example through pesticide, fertiliser and chemical use and pollution; habitat loss and degradation; degradation of soil health; and extraction of freshwater. Agriculture alone is identified as the threat to 24,000 of the 28,000 (86%) species at risk of extinction, and land degradation has been estimated to cost between \$6.3 trillion and \$10.6 trillion annually. Indeed, land use by agriculture is

<sup>28</sup> TNFD 'priority location' categorisation.

<sup>29</sup> <https://www.dcceew.gov.au/environment/land/nrs/about-nrs/protecting-biodiversity>

<sup>30</sup> <https://www.worldwildlife.org/stories/recognizing-indigenous-peoples-land-interests-is-critical-for-people-and-nature>



significant, covering 38% of the global land surface, within which one-third is crops and two-thirds is grazing livestock. If managed well, agriculture can also have a positive impact on nature, for instance protecting ecosystems, mitigating flood risks, filtering water and sequestering carbon. We have highlighted this sector, given its impact on and relevance to nature and progressing with the GBF targets, and that it is one aspect of our engagement.

## **LGIM's nature sub-themes**

### **Natural capital management**

The complexity of natural systems across different locations and measuring corporate impacts and dependencies are often cited as barriers to progress on addressing nature-related issues. If investors are to leverage actionable insights at scale, various challenges need to be addressed relating to measurement, data and standardisation.

While some companies are familiar with identifying and measuring some elements of their interfaces with nature, for example water use in the beverage sector, the breadth and consistency of these assessments are a long way from maturity. Access to high-quality, consistent, and comparable nature-related data across geographies has been poor. The GBF has been instrumental in setting the international policy environment to improve this.

Specifically, Target 15 of the GBF, while voluntary, requires businesses and financial institutions to regularly monitor, assess, and transparently disclose their risks, dependencies and impacts on nature. Currently, this is at an early stage. Therefore, and building on Target 15, focusing on strengthening companies' integration and disclosure of their interactions with nature, and improving the accessibility of high-quality, comparable data throughout the real economy, is integral to our work: our sub-theme – natural capital management – encompasses this area. The aim is to support investors in holding companies to account on their relationships with nature and allow them to make more informed decisions on how to allocate capital.

We appreciate that there are significant complexities to doing this in practice. The interactions between businesses and nature are location-specific and unique to different situations and regions. Best practice frameworks that support companies in taking necessary steps are critically important to making progress. The TNFD, a globally standardised framework that aims to incorporate nature into financial and business decision-making, is one leading example.

The TNFD builds on the TCFD recommendations in detailing four disclosure pillars - governance, strategy, risk and impact management, and metrics and targets - and 14 recommended disclosures. In recognition 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 leverages the existing methods, tools and guidance from the Natural Capital Protocol and the Science Based Targets Network (SBTN).

**More detail will be set out in our forthcoming natural capital management policy which, when published, will be available on our [website](#).**

### **Deforestation**

Deforestation is a key factor affecting land-use change, one of the direct drivers of biodiversity loss on land. Halting deforestation is a crucial part of protecting and restoring nature and combating climate change, two systemic risks for the global economy, with significant implications for our clients' assets if left unaddressed. As a global investor, LGIM is committed to assessing and addressing the risks of deforestation, which we believe to be firmly part of our fiduciary duty in managing our clients' assets.

LGIM has a crucial role to play by holding investee companies to account for understanding the deforestation risks, opportunities and impacts to which they are exposed or contribute, and by providing relevant disclosure about these issues. Deforestation and land conversion need to be considered from various perspectives, assessing both the environmental and social aspects, such as the impact on indigenous people and respective labour rights in operations and supply chains.

LGIM has a [deforestation policy](#) in place and a dedicated deforestation engagement campaign with investee companies. We have established minimum expectations for companies in 'deforestation-critical'<sup>31</sup> sectors, with voting implications for laggards. We also have a deforestation risk assessment tool that identifies potential exposure and helps us direct and prioritise our engagement activity. We have held chairs of boards accountable since 2023 on this topic. Our policy will continue to evolve, and minimum expectations may be strengthened in the years to come.

More detail on our approach and expectations can be found in LGIM's [deforestation policy](#).

## Circular economy

A circular economy is a way of using resources that minimises waste, pollution and environmental impacts and aims to decouple economic activity from the consumption of finite resources. Transitioning to a circular economy entails rethinking how products are designed, produced and discarded, with a view to optimising resource loops across the value chain. This is a key area of our work on nature change, particularly on natural resource use and pollution. While circular economy covers a broad range of topics, plastic pollution is a matter of global concern due to the increasing amount of marine plastic waste, which is harming eco-systems.

As a responsible investor, LGIM commits to engage with investee companies to manage their product lifecycles sustainably, to limit the amount of raw material used, as well as waste and the negative impact on pollution and nature. This requires companies to conduct lifecycle analyses of their products and operations to identify where they can close the loop, as shown in Figure 6.

No waste (or prevention of waste) is the ultimate goal and outcome of a circular economy, and this involves limiting the amount of inputs. This may be achieved at a design phase by using more recycled materials, making a product more durable, and extending its lifespan. Additionally, companies should consider other circular business models to reduce the resources needed in the first place.

Once companies identify how to close the loop in their production / operation value chain, we expect them to set targets to track performance and report on progress. For example, companies may set targets to reduce the amount of virgin material<sup>32</sup> used, increase the amount of recycled (or circular) material used, and/or reduce the amount of waste incinerated and sent to landfill.

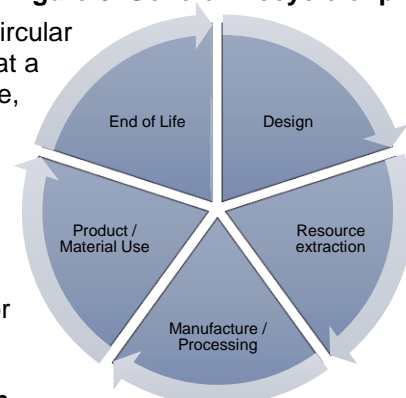
More detail will be set out in our forthcoming circular economy policy which, when published, will be available on our [website](#).

## Water

Water is at the core of resilient, sustainable economic development. Freshwater and oceans are two of the four realms in the natural world that differ fundamentally in their organisation and function, providing a range of ecosystem services. Protecting, managing and restoring the global water system – marine and freshwater ecosystems - is a fundamental part of living in harmony with nature.

Notably, the World Economic Forum has included 'water crisis' seven times in its top five 'global risks by impact' in the last decade. Ecosystems providing fresh water are under increasing pressure both from the demand side (e.g. population growth, industrial, energy and agricultural use), and from the supply side (e.g. land-use change, aging infrastructure, depleted groundwater reserves and climate change). By the end of this decade, demand for fresh water will outstrip supply by 40%. The World Bank has suggested that in some regions, water-related impacts on agriculture, health and incomes could knock as much as 6% off GDP by 2050.<sup>33</sup> Between 1998 and 2017, droughts

Figure 6. General lifecycle of products



<sup>31</sup> 'Deforestation-critical' sectors or 'high-risk' sectors are defined using Ceres' [Investor Guide to Deforestation and Climate Change](#). We also follow [Deforestation Free Finance](#) guidance on which GICS sub-industries to cover.

<sup>32</sup> Virgin material can be defined as unused raw material that has never been subjected to any processing other than for its production.

<sup>33</sup> <https://www.worldbank.org/en/topic/water/publication/high-and-dry-climate-change-water-and-the-economy>

caused global economic losses of \$124 billion.<sup>34</sup>

Water quality is also deteriorating and under increasing pressure from industry and agriculture.<sup>35</sup> Wastewater treatment is insufficient and being neglected, with untreated discharges continuing directly into groundwater and surface water.<sup>36</sup> According to the UN, 44% of household wastewater globally is not treated safely<sup>37</sup>, impacting ecosystems and human health. Human activities have had a significant impact on marine ecosystems, including the exploitation of fish, shellfish and other organisms, land- and sea-based pollution(including from river networks), and land-/sea-use change, including coastal development for infrastructure and aquaculture.<sup>38</sup>

Water can have a diversified impact on a company's operations and along its value chain. It is important for companies to have a greater understanding of these location-specific impacts and dependencies, risks and opportunities, and to transparently disclose them. In 2021, CDP estimated that businesses collectively stand to lose \$301 billion of business value by 2050 if no action is taken to address water risks, while the cost of responding now would amount to \$55 billion.<sup>39</sup>

LGIM is focused on fresh water and oceans, including water quantity and quality, helping to preserve and protect nature and ecosystems.

More detail will be set out in our forthcoming water policy which, when published, will be available on our [website](#).

## Working with stakeholders

As a global issue, nature-related risk management requires a market-wide approach. That is why a vital part of our approach is engagement with other stakeholders and market participants, such as academia, investor groups, collaborations, non-governmental organisations, policymakers, regulators and standard setters. Figure 7 summarises key stakeholders LGIM collaborates with:

**Figure 7: Illustrative example of nature stakeholders**

Natural Capital Management	Circular Economy	Deforestation	Water
<ul style="list-style-type: none"> <li>• Nature Action 100</li> <li>• TNFD Forum</li> <li>• Finance for Biodiversity Foundation</li> <li>• Business for Nature</li> </ul>	<ul style="list-style-type: none"> <li>• Ellen MacArthur Foundation</li> <li>• As You Sow</li> <li>• FAIRR</li> </ul>	<ul style="list-style-type: none"> <li>• Investor Policy Dialogue on Deforestation</li> <li>• Finance Sector Deforestation Action (FSDA)</li> </ul>	<ul style="list-style-type: none"> <li>• Ceres</li> <li>• CDP</li> <li>• The Investor Forum</li> <li>• FAIRR</li> </ul>

<sup>34</sup> <https://www.unccd.int/resources/publications/drought-numbers>

<sup>35</sup> <https://www.fao.org/3/i7754e/i7754e.pdf>

<sup>36</sup> <https://www.unwater.org/water-facts/water-quality-and-wastewater>

<sup>37</sup> <https://www.unwater.org/water-facts/water-quality-and-wastewater>

<sup>38</sup> <https://www.ipbes.net/global-assessment>

<sup>39</sup> <https://www.cdp.net/en/articles/media/cost-of-water-risks-to-business-five-times-higher-than-cost-of-taking-action>

## Additional assessments

LGIM has developed a variety of proprietary environmental, social and governance (ESG) tools, used across different asset classes and investment strategies, with the ability to incorporate relevant ESG metrics. Where relevant and available, nature-related metrics are incorporated into tools that are used to support investment analysts and fund managers, develop new investment solutions, assist the investment stewardship team in its engagements with companies and help clients understand more about the ESG profile of portfolios.

### **LGIM's ESG score**

LGIM has developed its own scoring methodology by which we assess companies on their ESG strengths. Through this scoring system – designed to introduce greater transparency – we believe we can help drive positive long-term change in the companies in which we invest, and indeed in the broader investment market. The scores are subject to continuous review and development. Please see further detail on [LGIM's website](#).

### **LGIM's Climate Impact Pledge**

The changing climate threatens natural ecosystems, and nature loss amplifies climate change by reducing the ability of ecosystems to store carbon. LGIM's Climate Impact Pledge (CIP) assessment not only covers climate-related metrics, but also nature-related metrics including circular economy, biodiversity, deforestation and water. We publish our assessment of companies on our dedicated Climate Impact Pledge score [website](#) and more information on the methodology can be found [here](#).

## Reporting

We are committed to communicating our efforts and how we deliver on our commitments to our clients and stakeholders. We report through our [quarterly engagement reports](#), annual [Active Ownership](#), [Climate Impact Pledge](#) and [ESG scores](#) on our website.

We also publish thought leadership pieces and [blog posts](#) on nature to inform investee companies and our clients and to help drive the conversation forward.

This Nature Framework and related policies will be reviewed regularly and updates will be published on our website for transparent access by all stakeholders and interested parties.

### **The European Union's Sustainable Finance Disclosure Regulation (SFDR) - Principal Adverse Indicators**

The European Union has introduced the Sustainable Finance Disclosure Regulation (SFDR) Delegated Act that covers asset managers. Included in the SFDR are 'Regulatory Technical Standards' that require entity reporting against principal adverse indicators (PAI). At time of publication, the nature related PAIs are PAI 7 (Activities negatively affecting biodiversity sensitive areas), PAI 8 (Emissions to water), and PAI 9 (Hazardous waste and radioactive waste ratio). Legal & General Investment Management (Holdings) Limited reports against these PAIs.

# Important information

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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.*

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**LGIM's Nature Framework**

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