Nature Target Setting Framework

for Asset Managers and Asset Owners





Executive Summary Second Edition, July 2024

Executive summary

Biodiversity loss presents a material systemic financial risk. The interactions between asset managers and asset owners with nature are born primarily through their asset allocation and investment decisions. As such, investors have a crucial role in redirecting financial flows away from nature-negative impacts towards positive outcomes for nature.

This is the second version of the guidance document of the Nature Target Setting Framework for Asset Managers and Asset Owners, developed with the members of the Finance for Biodiversity (FfB) Foundation.

This latest version builds on the first beta version of the framework published in November 2023, which marked a new milestone in the FfB Foundation's efforts to help and support financial institutions to share knowledge and collaborate to halting and reversing biodiversity loss by 2030. The focus of the beta version was to provide investors with an overview of the framework's structure and guide investors on getting started by setting initiation targets.

The framework provides guidance for Finance for Biodiversity Pledge signatories and the broader investor community to set targets on nature. Setting targets is one of the five commitments under the FfB Pledge. This is not a prescriptive methodology that investors must fully adhere to. The final scope and structure of targets are left to the discretion of each investor.

This document seeks to create a shared understanding and common language for investors, which will evolve in scope and depth over time. The scope of the beta and the second version is limited to the **asset categories listed equity and corporate bonds**. Additional asset classes, including sovereign debt, will be integrated into the guidance in future iterations.

This guidance proposes three types of nature targets for asset managers and asset owners.

Initiation targets enable investors to analyse their exposure to nature-related impacts, dependencies, risks, and opportunities and how these relate to their fiduciary duty, as they incorporate the results in the governance, strategy, and activities of the organisation.

Monitoring and Portfolio targets are structured such that investors establish sector-relevant KPIs and stewardship actions to address the potential key impact drivers of their portfolio on nature. Initially focusing on ten priority sectors, but in total 20 key sectors are identified.

We are inviting all asset owners and asset managers, including those who are not signatories to the FfB Pledge, to use this guidance document and contribute to its future development, to set, disclose and report progress on targets for nature as soon as feasible for their organisations.

This guidance document responds directly to Targets 14 and 15 of the Global Biodiversity Framework, the expectation that financial institutions align financial flows with the goals of the Kunming-Montreal Agreement and has been developed in alignment with key initiatives on nature and climate change, including the TNFD, SBTN, UNEP FI, UNEP PRI, NZIF, NZAOA, GFANZ, amongst others.

In developing this guide, we have collaborated closely with SBTN as a crucial partner and with UNEP FI, which has crafted analogous guidance for signatories of the Principles for Responsible Banking.

As we focus on asset managers and asset owners, this framework is not applicable to banks. We encourage all banks to look at the <u>PRB Target Setting Guidance of the</u> <u>United Nations Environmental Programme Finance Initiative</u> (UNEP FI) for assistance in establishing nature targets.

Target Setting

This framework guides investors in setting targets to address key impact drivers of nature change across their portfolios through an iterative approach. We adapted the key targets from the beta version of the guidance, transitioning from initiation, sector and engagement targets to a step-by-step approach that includes Initiation targets, and Monitoring targets as an option before defining Portfolio targets.

The three types of targets to progress toward the implementation of Portfolio targets are described in the following three steps:

Step 1: Initiation targets

These targets can be developed to understand the importance of and analyse exposure to, nature-related impacts, dependencies, risks, and opportunities. In turn, this understanding can be embedded in the governance, strategy, and activities of the organisation, in line with the asset manager's or asset owners' fiduciary duty.

Step 2 (optional): Monitoring targets

These targets can be developed to deploy the required resources to be able to monitor sector-relevant KPIs across priority sectors, complemented by stewardship actions to address key impact drivers. This is an optional step of targets before delving into portfolio targets.

Step 3: Portfolio targets

These targets are the final step in reducing the potential negative impact of the portfolio. They involve setting targets on the previously monitored KPIs and defining a clear action plan to achieve these through stewardship sub-targets.

The overall process of setting targets according to the step-by-step approach of this second version of the framework is described in detail in the figure below.

Investors are encouraged to implement and achieve their initiation targets imminently, as these constitute the base assessment required to set Monitoring and Portfolio targets.

We revised the initial concept of offering beginner and advanced tracks with concrete years for setting targets, as outlined in the previous beta version of the framework. Instead, we now advocate for a unified approach to applying these targets over time. This adjustment ensures that all targets are set to be achieved by 2030, in alignment with the Global Biodiversity Framework's mission to halt and reverse biodiversity loss. However, investors retain the flexibility to target shorter timeframes according to their specific goals.



Table 1: The overall process of setting targets according to the step-by-step approach of this framework

Ambition

Step 1 : Initiation targets

Foundational steps to understand the importance of, and analyse exposure to nature-related impacts, dependencies, risks, and opportunities, in turn embedding this in the governance, strategy and activities of the organisation.

Examples

By 202X, board and/or executive level **oversight** of the management of nature-related dependencies, impacts, risks, and opportunities will

By 202X, a **dependencies**, **impacts**, **risks and opportunities assessment** will be conducted and **publicly**

By 202X, all relevant **employees** will have followed a compulsory **training** on the relation between nature loss

To be set within **6 months** To be achieved within **12 months** after setting the target

Governance

be implemented.

Assessment

disclosed.

Training

and investment.

OPTIONAL) Step 2: Monitoring target

Based on their impact assessment, investors commit to deploy the necessary resources to monitor sector-relevant KPIs across priority sectors and set stewardship actions to act on them within 12 months.

	KPIs	Stewardship actions	
Impact drivers	Examples	Examples	
Areas of land use	Management KPI: % of the companies with a Deforestation and Conversion Free Policy	 Determine the engagement universe of companies to address each pressure on nature. Disclose a clear set of investor expectations to address each pressure on nature, referencing 	
Areas of freshwater use	Management KPI: % of the companies from relevant sectors with a Science Based Target for Freshwater	 the sector-relevant KPIs. Implement engagement tracking and progress monitoring, reporting on the outcomes of engagements in annual disclosures. 	
Emissions of toxic pollutants to water and soil	Disclosure KPI: % of companies in the Chemicals sector that disclose both the share of revenue and production volume of products that are, or contain, highy hazardous chemicals.	 Establish a clear escalation pathway where companies fail to meet investor expectations. Develop thematic voting policies as a means of escalation where companies fail to meet investor expectations. 	
Generation and release of solid waste	Management KPI: % of the companies in relevant sectors with a virgin plastic reduction target.	 Participate in collaborative engagements initiatives on nature. 	
	To be set within 18 months To be achieved within 12 months after setting the target		

Step 3: Portfolio targets

Setting targets on the evolution of KPIs towards determined thresholds (portfolio targets) and a set of supportive stewardship sub-targets that define the actions undertaken to achieve the portfolio targets.

ExamplesBy 2030, x% of companiesin relevant sectors willhave publicly discloseda Deforestation andConversion Free Policystarting from y%.By 2030 x% of fromrelevant sectors will havecommitted to implement	 Examples Commit to engage with #X companies per year on each of the relevant pressures on nature. Publicly disclose investor expectations to address each pressure on nature, referencing the sector-relevant KPIs.
in relevant sectors will have publicly disclosed a Deforestation and Conversion Free Policy starting from y%. By 2030 x% of from relevant sectors will have committed to implement	 companies per year on each of the relevant pressures on nature. Publicly disclose investor expectations to address each pressure on nature, referencing the sector-relevant KPIs.
starting from y%. By 2030 x% of from relevant sectors will have committed to implement	expectations to address each pressure on nature, referencing the sector-relevant KPIs.
relevant sectors will have committed to implement	Dublicly report on the outcomes of
a SBTN validated Target on Freshwater starting from y%.	 Publicly report on the outcomes of engagements in public disclosures. Publicly report on escalation
By 2030 x% of companies in the Chemicals sector will have a commitment to phase out from the production and use of persistent chemicals starting from y%.	 Actions. Publicly disclose a voting policy for nature-related resolutions with guidelines for proxy voting
By 2030 x% of companies in relevant sectors will implement policies to reduce their virgin plastic use starting from y%.	
	in the Chemicals sector will have a commitment to phase out from the production and use of persistent chemicals starting from y%. By 2030 x% of companies in relevant sectors will implement policies to reduce their virgin plastic

Recommended timeline

Note for FfB Pledge signatories

FfB Pledge signatories promised to set and disclose targets as part of their commitment and therefore need to do the following:

Target Types and Scope

The framework provides guidance but allows flexibility. FfB Pledge signatories can choose the scope (such as which proportion of their portfolio will be covered) and the type of target (whether it's an initiation target, monitoring target, or portfolio target). This flexibility recognises that different investors may have varying strategies, speeds and capabilities.

Disclosure Timeline

- Financial institutions that signed the FfB Pledge before 2024 are required to set one or more types of targets before December 31, 2024. These targets can be reported in their 2025 disclosures, which will include data from 2024.
- Financial institutions that have signed the FfB Pledge in or after 2024 are required to set one or more types of targets within a two-year timeframe. Specifically:
 - Signatories who joined **in 2024** are encouraged to set their targets before December 31, 2026. They will report their progress in 2027, reflecting data from 2026.
 - Signatories who joined in 2025 are encouraged to set their targets before December 31, 2027. They will report their progress in 2028, reflecting data from 2027.
 - This pattern continues for subsequent signatories.

We encourage signatory financial institutions that signed in or after 2024 to not only establish initiation targets but also promptly consider monitoring and portfolio targets. We recommend following the timeline below, to ensure that targets are ambitious and align with the mission of the Global Biodiversity Framework to halting and reversing biodiversity loss by 2030

Within 6 months	Within 18 months	Within 30 to 36 months	
Set initiation targets; report against these the following year; aim to achieve them within 18 months .	Set a monitoring target; aim to achieve it within 12 months , and report publicly against it the following year.	Set portfolio targets with the subsequent stewardship sub-targets. Aim to achieve these by 2030 and report publicly against these annually.	

Table 2. Recommended timeline for setting targets according to the FfB guidance on Target Setting on Nature as of the signature of the Pledge for the institutions having joined after the 01/01/2024



Acknowledgements

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Authors

The authors of this second edition of the framework are:

- Charlotte Apps (Fidelity International)
- Jeanne Fernandez (Pictet AM)
- Diane Roissard (FfB Foundation)
- Francisco Botero (FfB Foundation)
- Anita de Horde (FfB Foundation)

Coordination and contributions

This second edition framework is coordinated by:

- The FfB Foundation Secretariat:
 - Diane Roissard (Head of Engagement and Data) and
 - Francisco Botero (Associate Technical and Data)
- The co-chairs of the FfB Target Setting working group:
 - Charlotte Apps (Fidelity International)
 - Lucian Peppelenbos (Robeco)

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- Chris Hart (Phoenix Group)
- Clinton Adas (HSBC GAM)
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- Jeanne Fernandez (Pictet AM)

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Reviewers

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Invitation to join

This executive summary provides a sneak peek into the second edition of the Nature Target Setting Framework for Asset Managers and Asset Owners. You can download the full version of this framework on our website. We encourage all asset owners and asset managers worldwide, regardless of whether you are a Finance for Biodiversity Pledge signatory, to start setting and disclosing targets concerning nature.

Get in touch

Responses and ideas? Please reach out to Finance for Biodiversity Foundation via info@financeforbiodiversity.org

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