



Natural Capital Stewardship at Northern Trust Asset Management

Our approach

Our Global Stewardship Team is sharpening its focus on natural capital management by increasing company engagements to protect long-term shareholder value

Why it matters

The degradation of biodiversity, forests and water resources can significantly impact portfolio companies and shareholder value

What we've done

Established guidance for companies on natural capital risk management covering governance, strategy, assessment and disclosure

Why is Natural Capital Management a Material Issue for Investors?

Natural capital is generally defined as the world's stocks of natural assets — soil, air, water, grasslands, forests, wetlands, rocks and minerals — and all of its living things, from mammals and fish to plants and microbes. The depletion of natural capital due to pollution, climate change, extraction of resources, and the loss of biodiversity can cause significant disruption to business activities. This loss exposes companies to a host of operational, regulatory, litigation and reputational risks that can ultimately impact asset value. Therefore, we recommend investors expand their focus beyond decarbonization to include mitigating environmental risks associated with natural capital management in three critical areas: biodiversity, water management and deforestation.

What is NTAM's Philosophy Behind Nature-Based Risks and Opportunities?

NTAM employs a two-pronged approach when addressing climate change and nature-related risks and opportunities in our clients' portfolios. We combine bottom-up, data driven assessments identifying company-specific risk exposures with a targeted stewardship strategy. Our engagements focus on themes that have the potential to disrupt businesses, industries and value chains.

Issues associated with nature are inherently complex, specific, and local. To address challenges associated with data such as comparability, quality and availability and to ensure effective outcomes, we adopt a sector-specific stewardship approach taking into account the unique environmental and economic contexts of each industry.

Drawing on our experience as a large global investor we have developed guidance for companies on natural capital risk management (Appendix 1) consisting of recommendations for board oversight, executive compensation, disclosure, materiality assessments, and supply chain management. The guidance serves as a foundational framework and a set of expectations for portfolio companies. During engagement, key performance indicators (KPIs) are tailored on a case-by-case basis by the stewardship team, depending on the company's stage in developing natural capital risk management and controls.

We focus on seven key sectors/industries for natural capital engagement due to their outsized impact on nature as well as elevated dependency on natural resources for essential operations (Exhibit 1).

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▲ *Reflecting on the importance of natural capital risks and opportunities, in 2025 we expanded our stewardship team by adding a specialist with extensive experience in biodiversity and natural capital.*

EXHIBIT 1:

What are our Key Themes for Engagement?

*Non-exhaustive list, other sectors will be engaged on nature where relevant

**Illustrative purposes only, KPIs are company specific

Thematic Priority	High Impact Areas*	Engagement KPI**
Biodiversity	<ul style="list-style-type: none"> • Chemicals • Consumer Goods • Mining 	<ul style="list-style-type: none"> • TNFD aligned disclosure • Waste and pollution reduction initiatives • Comprehensive life-cycle assessment
Water Management	<ul style="list-style-type: none"> • Consumer Goods • Information Technology • Pharmaceuticals 	<ul style="list-style-type: none"> • TNFD aligned disclosure • Strong water management strategy
Deforestation	<ul style="list-style-type: none"> • Agriculture • Consumer Goods • Materials 	<ul style="list-style-type: none"> • TNFD aligned disclosure • Commitment to No Deforestation • Percentage of suppliers covered by traceability systems

How does NTAM Proactively Manage Nature Related Risks?

TNFD Alignment

Through engagement we promote greater alignment with the Taskforce on Nature-Related Financial Disclosures (TNFD), fostering enhanced transparency, accountability, and a proactive approach to managing biodiversity related risks. Although we are seeing an increase in TNFD commitments by portfolio companies, there are still challenges faced when committing to TNFD-aligned reporting. These include issues with data quality and availability, alongside balancing other reporting requirements. We will continue to engage with companies and seek to understand how they navigate these challenges.

Biodiversity Management

Impacts from waste and pollution are a key focus for NTAM. Plastics, persistent chemicals and other industrial pollutants significantly impact nature and human health — posing considerable stranded asset risks for companies as public awareness and regulation ramps up. Therefore, we encourage companies not only to analyze their exposure to pollution hazards but also to proactively innovate towards mitigation and phase-out to avoid litigation, and regulatory risks.

Since 2018, we have been members of Farm Animal Investment Risk and Return (FAIRR), an investor network aimed at limiting biodiversity risk and impacts of intensive livestock production by encouraging the protein supply chain to capitalize on the opportunities of diversification and sustainable agriculture. In 2024, we participated in two collaborative engagement themes: Sustainable Aquaculture and Waste and Pollution.

Water Management

Water management is another critical focus area in our stewardship program. Limited access to high quality water represents a potentially significant impediment to many industries, either directly or through the supply chain. We actively engage with portfolio companies to encourage the adoption of effective water management practices that address issues such as scarcity, quality and competition for access. As members of the Ceres Valuing Water Finance Initiative since 2023, we participate in collaborative engagements encouraging companies to better steward and protect freshwater resources within their business operations and global supply chains where material.

Deforestation

Deforestation presents financially material risks to portfolio companies, which can arise through reputational harm, shifting consumer preferences, and the imposition of fines by governments and regulators. When these risks are financially material, we encourage our portfolio companies to consider sourcing or producing forest-risk commodities responsibly and committing to deforestation-free production and sourcing practices.

[Our 2025 Sustainable Investing Trends](#) articulated our perspectives on five key sustainable investing themes we believe will shape 2025: Navigating the Energy Transition; Innovations in Computing Technologies; Changing Dynamics in Emerging Markets; Regulatory Tensions; and the interrelated risks between climate change and nature loss — known as the “Twin Crises”.

How can Natural Capital Aims be Integrated into Climate Risk Adjusted Portfolios?

In late 2022, NTAM launched a World Paris-Aligned Benchmark (PAB) Plus Equity Index strategy, which combined the requirements under the EU's PAB regulation with NTAM's proprietary baseline screens and a supplementary set of natural capital criteria. By implementing a defined decarbonization pathway alongside both climate and biodiversity-related considerations we sought to acknowledge the synergies of these 'twin crises' and provide a unique passive investment solution that efficiently integrates both. The strategy is applied to a range of EMEA funds that track custom indices, and the natural capital considerations within the index construction can be found in the index methodology. The objectives of our PAB fund ranges are supported through our engagement activities with companies. Contact us to learn more about how we integrate biodiversity into investment solutions such as our PAB Natural Capital strategy.

Appendix 1: NTAM's Guidance for Companies on Natural Capital Management

Governance

- We encourage companies to establish a strong governance framework with board-level accountability to oversee the integration of material nature-related risks and opportunities into company strategy, risk management, and reporting frameworks.
- Companies are encouraged to align direct and indirect lobbying activities with the goals of the Kunming-Montreal Global Biodiversity Framework.¹
- We also encourage the inclusion of material, measurable and transparent sustainability related performance metrics, beyond just carbon reduction, in executive remuneration.

Strategy

- Where the company presents a nature-related strategy, qualitative and quantitative targets should be developed in alignment with company strategy and existing climate-related targets. Companies should approach target setting holistically considering all nine planetary boundaries where applicable.²
- Companies are encouraged to display proactivity and readiness to respond to natural capital related risks and opportunities by carrying out regular materiality assessments and horizon scanning for regulation or litigation which may result in lost revenue or disruption to operations.

Assessment

- Companies are encouraged to have robust traceability of their supply chain. Where commodities are at particular risk for exploitation, shortages, and scarcity, companies are expected to have or be working towards traceability to their tier 3 suppliers. Where tier 3 suppliers are inaccessible, such companies are expected to be actively working with tier 1 and 2 suppliers to improve visibility and communicate strict supplier codes of conduct with regards to the rights of local and indigenous communities ensuring adequate standards of labor, sustainable sourcing of raw materials and strong business ethics.

Disclosure

- Where appropriate, companies should align corporate disclosure with the TNFD reporting framework. Companies should identify the size, scale and materiality of dependency and impact on natural capital for each business unit including an analysis of the company's supply chain. Companies are also encouraged to produce side-by-side TCFD and TNFD reporting to ensure cohesion across business activities and ambitions.
- Companies are encouraged to be transparent with their customers on the nature-footprint of their products and/or services making comparative life-cycle assessments available to enable informed decision making.

¹ [The Kunming-Montreal Global Biodiversity Framework](#) was adopted during the fifteenth meeting of the Conference of the Parties (COP 15). The Framework, which supports the achievement of the Sustainable Development Goals and builds on the Convention's previous Strategic Plans, sets out an ambitious pathway to reach the global vision of a world living in harmony with nature by 2050.

² [The nine planetary boundaries](#): climate change, novel entities, stratospheric ozone depletion, atmospheric aerosol loading, ocean acidification, modification of biogeochemical flows, freshwater change, land system change, biosphere integrity.

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