ACCA, FFI and KPMG work together to raise awareness, and improve the understanding, of the accountancy profession's role in accounting for natural capital.

Business and investors: providers and users of natural capital disclosure

The objectives of this paper are to:

- **Demonstrate the advantages of reporting on natural capital impacts and dependencies.**
- **Pull together a series of examples of current practice in reporting by companies.**
- **Demonstrate of how companies can better meet investor needs.**

Key points:

- **Whilst corporate reporting on natural capital is emerging, a few companies are leading the way.**
- **Companies are reporting on natural capital due to an increasing understanding of its direct links to business profitability and the value it can add to investment decisions.**
- **How companies report on natural capital is far from standardised, a matter that looks set to change in the future. This will help investors factor natural capital into their investment decisions.**

The challenge

As the issues of resource scarcity become more apparent, businesses and investors are increasingly recognising the need to better manage natural capital. Sustainability reporting can provide investors with an insight into the stewardship of natural resources, and which companies are most transparent about performance. For companies, improved stewardship can increase efficiency and operational performance, and mitigate risks that might have material financial impacts on their business.[i]

Natural capital is 'the stock of natural ecosystems that yields a flow of valuable ecosystem goods and services'[ii](see Glossary for full definition of these terms). It provides the ecosystem goods and services that underpin much of our economy as inputs or indirect benefits to business. If we draw down too much on stocks of natural capital nature may be unable to replenish them. Poor and unsustainable management of natural capital creates a risk that local, national and global ecosystems will be degraded or even collapse, with the consequence that economies and businesses dependent on their products face increased costs or the inability to function.

Businesses, through their organisational sustainability strategies and reporting, indicate how they manage their impacts and dependencies on society and the environment. An organisation's strategy for managing its use of natural capital determines the level and extent to which it impacts on the availability of natural resources. This can create or exacerbate corporate risks, which influence investor decision making, and this in turn can influence corporate strategy and performance. This cycle is highlighted in Figure 1. Figure 2 indicates how better management of natural capital, one

Figure 1: The cycle of natural capital, resources and business

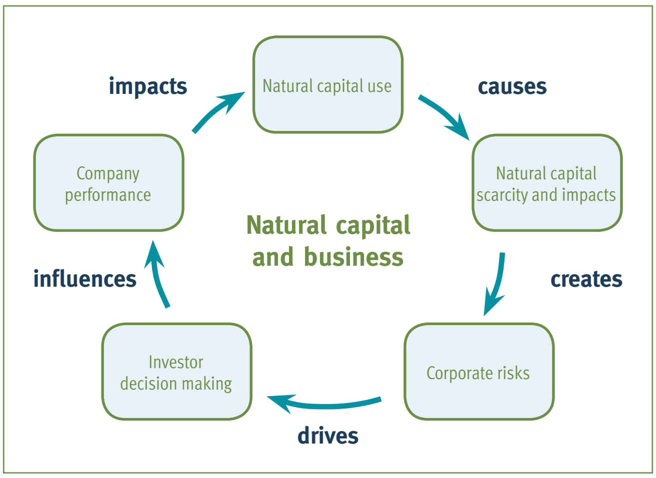
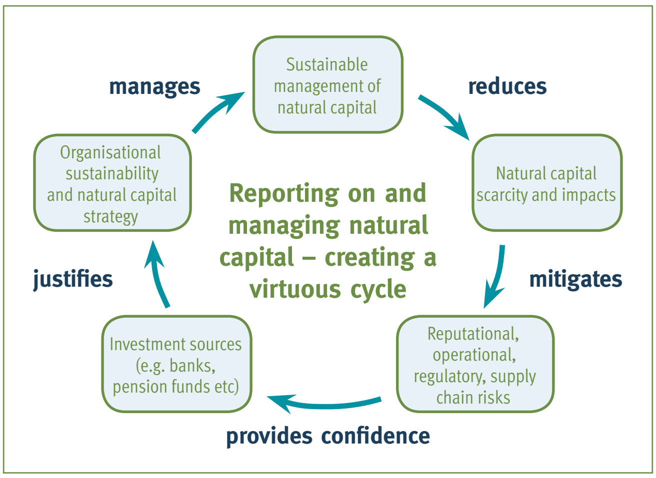


Figure 2: Creating a virtuous cycle of natural capital management through sustainability reporting



part of which is reporting, can help develop a virtuous cycle wherein sustainable management of resources can reduce scarcity, mitigate risks, attract investors, and justify positive natural capital strategies.

Trends in the inclusion of natural capital in reporting

Natural capital, and how it relates to organisational strategy, performance and value creation, is included as part of a number of recognised reporting frameworks for example:

- The IIRC's (International Integrated Reporting Council) Framework identifies natural capital as one of six stocks of capital (in addition to financial, manufactured, intellectual, human, and social and relationship) that organisations depend on to create value.
- The GRI's (Global Reporting Initiative) sustainability reporting guidelines require that organisations report on material natural capital issues through indicators that consider materials used, water, biodiversity and waste.

Interest in natural capital is also demonstrated by an increase in the number of initiatives intended to address the reporting of natural capital factors. This work is in both the NGO and public sectors, for example:

- Wealth Accounting and the Valuation of Ecosystem Services (WAVES), a global coalition of organisations and institutes supporting the implementation of natural capital accounting in national economic accounts.[iii]
- The Natural Capital Coalition, a global platform working on an ongoing project to design a natural capital accounting protocol.[iv]
- Globe International, an organisation working on the development of a communiqué calling on governments to incorporate the value of natural capital into national accounting frameworks.[v]
- The European Environment Agency, developing a framework for ecosystem capital accounting.[vi]
- The United Kingdom's Natural Capital Committee that is developing methods to account for natural capital.[vii]

KPMG has noticed an increase in enquiries relating to the risks and opportunities associated with natural capital reporting across different industry sectors. In fact most of the big 4 have started to engage with the topic through collaboration with initiatives, or specific thought leadership and client-based research. This increase in engagement responds to changing client needs as identified in the findings of KPMG International's 2013 corporate reporting survey in which material resource scarcity and water scarcity are identified by companies as part of a wider set of sustainability mega-trends that will affect business in the near future.[viii]

Current corporate reporting examples

Natural capital to ecosystem goods (goods in economy)

In addition to minerals, plants, and animals that exist in nature (e.g. diamonds, forestry, fish, oil, etc.), there are stocks of natural capital from which secondary products are derived (technically known as ecosystem goods/services) that are then used as core resources in goods and services produced, or in the supply chains, of a range of industries and businesses. Soft commodities, goods that are grown through agriculture, are prime examples of these ecosystem goods. Some of these are more obvious, such as coffee and rice, but others are less apparent and visible, e.g. palm oil and soya beans.

Methodology

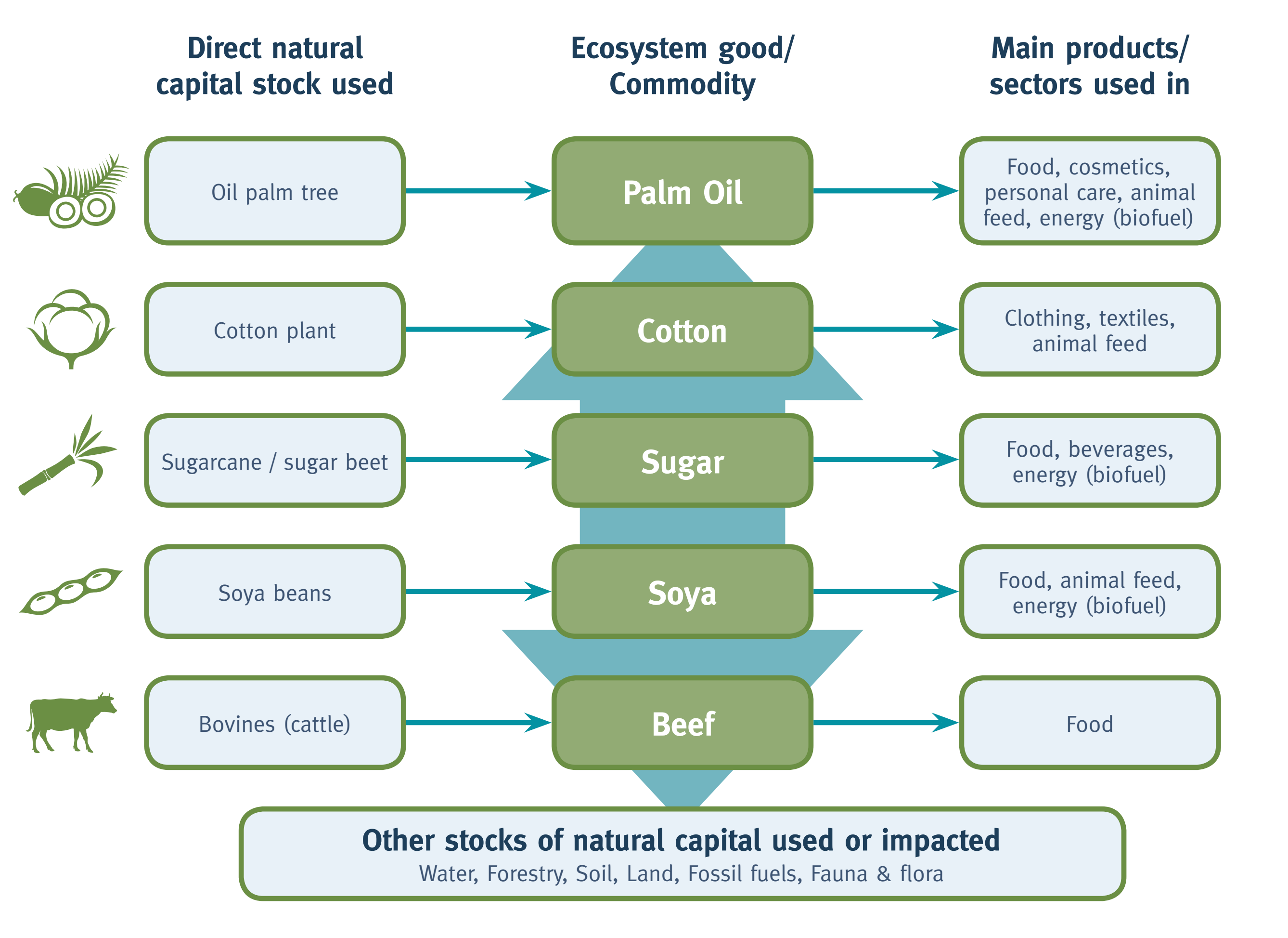
For this report we reviewed companies with high use of five key commodities (palm oil, soya, beef, cotton and sugar) sourced from natural capital and all identified as a priority by WWF.[ix] To establish good practice we identified international initiatives with the aim of promoting the sustainability of each commodity and reviewed their membership for possible candidates.[1] We then selected three companies at various stages of the value chain that reported on, to a significant extent, their association with one of these key commodities. Focusing predominately on the sustainability reports of companies, we identified evidence of policies, sourcing commitments, membership of initiatives, governance, targets and performance indicators related to improving the sustainability of the organisation's consumption, and use, of the relevant commodity.

Perspective from other stakeholders

A number of stakeholder groups have raised awareness of the issues associated with these (and other) commodities that are derived from, and impact, natural capital. Palm oil, in particular, has been the focus of significant campaigns to highlight the issues and impacts of production. Other commodities, including cotton, sugar, soya and beef have also been focused on by external groups, including NGOs. Such perspectives and attention, in which companies are being specifically identified and targeted for their performance and impacts, raises significant risks, in particular reputational, for organisations that are involved in the sourcing of these commodities.

1 Specific initiatives we focused on: Palm oil- Roundtable on Sustainable Palm Oil (RSPO), Cotton- Better Cotton Initiative (BCI), Sugar- Bonsucro (previously the Better Sugarcane Initiative), Soya-Roundtable on Responsible Soy (RTRS), Beef- Global Roundtable for Sustainable Beef (GRSB). We do not intend to endorse these initiatives, or assume that membership of one implies that an organisation necessarily carries out better practice in reporting compared to non-members. Their memberships were reviewed as starting point to identify companies involved in each commodity and potentially indicative of organisations involved in steps to improve the sustainability of their sourcing.

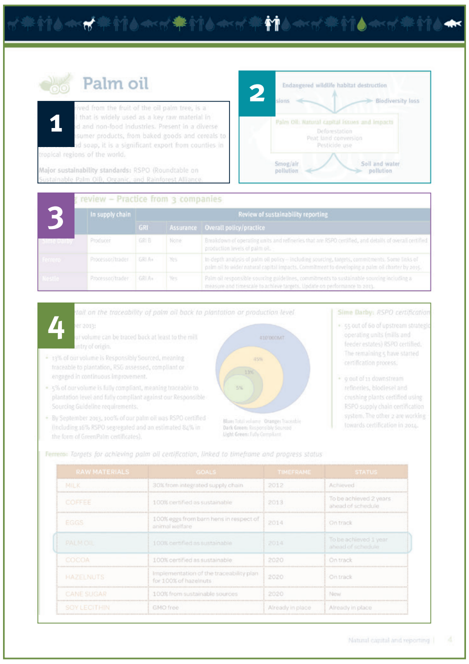
Figure 3: Five commodities of interest from their natural capital origins, through to the products / sectors in which they are used



Current reporting examples

The following pages set out for each commodity:

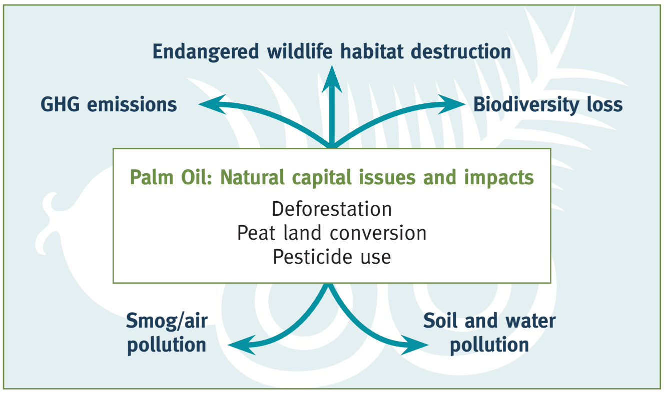
1. **An introduction** to the commodity, its wider use, and a range of sustainability standards associated with it.
2. **A diagram** indicating some of the major natural capital issues and impacts associated with its production.
3. **A table** detailing the three companies identified for each commodity, their position in the supply chain and relevant details about their sustainability reporting.
4. **A specific aspect of reporting from each selected company** highlighting a good practice such as certification schemes, acting on and working with clear targets, traceability, or innovative measures to manage natural capital dependencies and impacts.



Palm oil

Palm oil, derived from the fruit of the oil palm tree, is a vegetable oil that is widely used as a key raw material in both the food and non-food industries. Present in a diverse range of consumer products, from baked goods and cereals to cosmetics and soap, it is a significant export from counties in tropical regions of the world.

Major sustainability standards: RSPO (Roundtable on Sustainable Palm Oil), Organic and Rainforest Alliance.



Reporting review – Practice from 3 companies

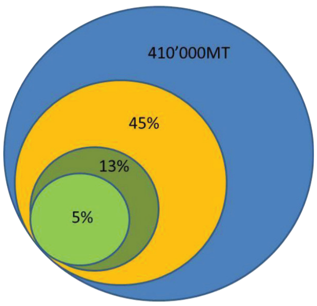
Company	In supply chain	Review of sustainability reporting		
		Use of reporting standard	Assurance	Overall policy/practice
Sime Darby	Producer	Yes – GRI	No	Breakdown of operating units and refineries that are RSPO certified, and details of overall certified production levels of palm oil.
Ferrero	Processor/ trader	Yes – GRI	Yes	In-depth analysis of palm oil policy – including sourcing, targets, commitments. Some links of palm oil to wider natural capital impacts. Commitment to developing a palm oil charter by 2015.
Nestlé	Processor/ trader	Yes – GRI	Yes	Palm oil responsible sourcing guidelines, commitments to sustainable sourcing including a measure and timescale to achieve targets. Update on performance to 2013.

Nestlé: *Detail on the traceability of palm oil back to plantation or production level*

Nestlé have a number of progress statements in relation to the traceability of palm oil, including:

- The volume that can be traced back to the mill in the country of origin (currently 51%).
- The volume that is responsibly sourced[1] (currently 13%).
- The volume that is fully compliant with their Responsible Sourcing Guideline requirements (currently 5%).

In addition, Nestlé reported that they had met their target to source 100% RSPO palm oil[2] in September 2013. Further targets are in place for 2015 and relate to traceability and responsible sourcing.



Blue: Total volume **Orange:** Traceable
Dark Green: Responsibly Sourced
Light Green: Fully Compliant

Sime Darby: *Status of RSPO certification*

Sime Darby have reported their progress in relation to RSPO certification in their 2013 sustainability report.

Results for 2013:

- 55 out of 60 upstream mills and feeder estates are RSPO certified. The rest having started the process.
- 9 out of 11 downstream refineries, biodiesel and crushing plants are also reported as RSPO supply chain certified. The remaining 2 are working towards the certification during 2014.

Ferrero: *Targets for achieving palm oil certification, linked to time frame and progress status*

RAW MATERIALS	GOALS	TIMEFRAME	STATUS
MILK	30% from integrated supply chain	2012	Achieved
COFFEE	100% certified as sustainable	2013	To be achieved 2 years ahead of schedule
EGGS	100% eggs from barn hens in respect of animal welfare	2014	On track
PALM OIL	100% certified as sustainable	2014	To be achieved 1 year ahead of schedule
COCOA	100% certified as sustainable	2020	On track
HAZELNUTS	Implementation of the traceability plan for 100% of hazelnuts	2020	On track
CANE SUGAR	100% from sustainable sources	2020	New
SOY LECITHIN	GMO free	Already in place	Already in place

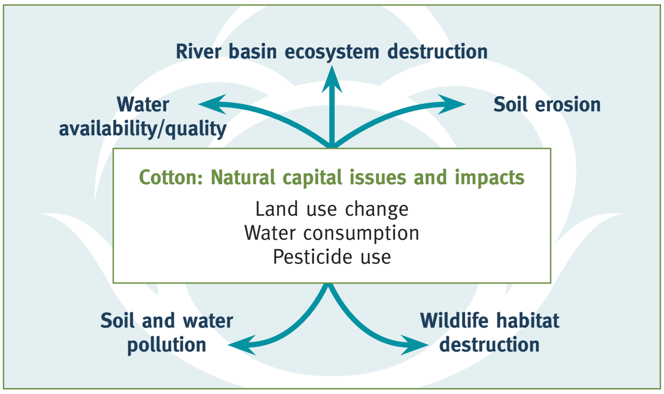
[1] Traceable to plantation, RSG assessed, compliant or taking part in continuous improvement; [2] 16% RSPO and 84% Green Palm certification.

Examples are from the following company reports – Sime Darby: *Sime Darby Sustainability Report 2013: A Deep Dive into Plantation*; Ferrero: *Sharing Values to Create Value: Corporate Social Responsibility Report 2012*; Nestlé: [Report reviewed] *Rural Development and Responsible Sourcing*, [Example] *Progress Report Palm Oil, Autumn 2013*

Cotton

Cotton is a naturally derived fibre from the cotton plant (Gossypium), and is a key primary product for the textiles industry. It is the most widely used natural fibre in clothing worldwide, and is also used in the production of paper, livestock feed and various other goods.

Major sustainability standards: Better Cotton Initiative, CmiA (Cotton made in Africa), Fairtrade and Organic.



Reporting review – Practice from 3 companies

Company	In supply chain	Review of sustainability reporting		
		Use of reporting standard	Assurance	Overall policy/practice
Louis Dreyfus	Producer	Yes – company criteria	No	Commitment to more sustainable cotton, but without any time frame to achieve this.
Tchibo	Retailer	Yes – GRI	Yes	Sustainable cotton listed as a main area of focus in sustainability strategy, and performance data on sourcing from sustainable sources.
H&M	Retailer	Yes – GRI	Yes	Sustainable cotton is a significant issue, with details provided on impacts through supply chain, performance data, stakeholder perspectives etc. Clear commitment to sustainable sourcing, with progress and time frame included.

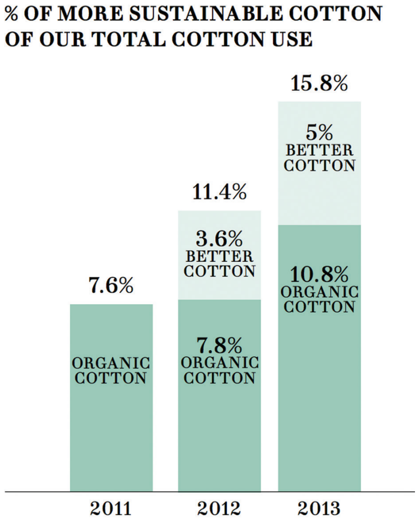
Tchibo: *Recognition of cotton's links to, impacts and dependencies on other ecosystem services*

Tchibo have commitments relating to the growth of cotton. These include references to water quality, soil fertility and biodiversity. They also recognise the importance of biodiversity in the production of other products including coffee and wood in addition to cotton.

Louis Dreyfus: *Membership of the Better Cotton Initiative*

Louis Dreyfus recognise, as a major merchandiser of raw cotton, that they have a responsibility for sustainable cotton production. The company has a target of promoting knowledge and use of the Better Cotton Initiative through its supply chain, and a current commitment towards Better Cotton certification for all cotton merchandised by the company.

H&M: *Progress and performance in sourcing of sustainable cotton*

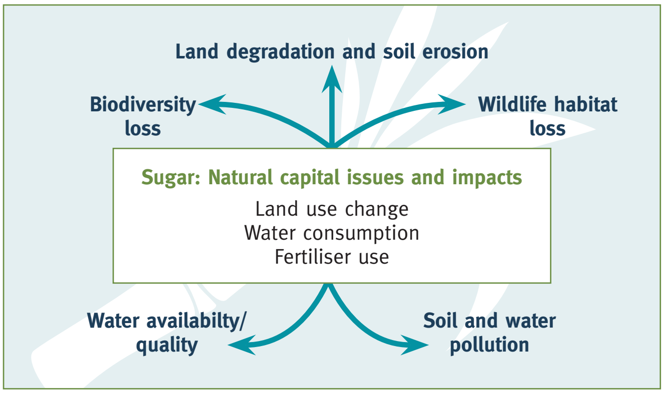


Examples are from the following company reports – Louis Dreyfus: *Sustainability Report 2012*; Tchibo: *Sustainability Report 2012*; H & M: *Conscious Actions: Sustainability Report 2013*

Sugar

Sugar is extracted from sugarcane (a grass grown in tropical climates) and sugar beet (a root crop grown in cooler climates) and is used in a variety of food and drinks products including baked goods, confectionary, beverages and as a preservative. Sugarcane accounts for about 80% of sugar produced. It is also used to produce ethanol and consequently its use as a biofuel is increasing.

Major sustainability standards: Bonsucro, Fairtrade, Rainforest Alliance and Organic.



Reporting review – Practice from 3 companies

Company	In supply chain	Review of sustainability reporting		
		Use of reporting standard	Assurance	Overall policy/practice
Bunge (Brazil)	Producer	Yes – GRI	Yes	Policy for sugar and biomass, including commitments to assess socio-enviromental impacts, promote traceability, sustainable management practices. Bunge also provides performance figures indicating levels of certified products.
Bacardi	Processor	Yes – GRI	No	Sugarcane sourcing identified as a key focus area in sustainability strategy, and a raw material of high risk. Clear commitments and interim targets for sustainable sourcing of sugar.
Coca-Cola	Processor	Yes – GRI	Yes	Sugar included within sustainable agriculture and sourcing aims, as part of organisation's sustainability commitments to 2020.

Coca-Cola: *Membership of the Bonsucro Standard*

Coca-Cola state that one of their first major steps in moving towards sustainable sourcing was through their work with the Bonsucro initiative to implement a standard for sustainable sugarcane production. This has involved evaluation against sustainability criteria related to sugarcane production based on criteria, including active management of biodiversity and ecosystem services.

Bunge (Brazil): *Innovation around natural capital issues related to sugarcane processing*

Bunge have undertaken some innovative projects on farmland at one of their processing plants. This includes studying issues such as fertiliser dosage, water use, species variety and harvesting seasons. The long-term project aims to inform sustainable practices in sugarcane plantations in the future.

Bacardi: *Commitments to sustainable sugar sourcing and internal targets*

Bacardi has committed to sourcing 100% of its sugarcane-derived products from certified sources by 2022.

TARGETS FOR FISCAL 2013	PROGRESS IN FISCAL 2013	STATUS	TARGETS FOR FISCAL 2014
In fiscal 2013 we will develop a sourcing plan to achieve our interim target to source 50% of our sugarcane-derived products from sustainably certified sources by 2017.	We reviewed growth progress of Bonsucro and our supplier engagement plan and decided we need to update our target. Our new target is to source 40% of our cane-derived product from sustainable sources by 2017 and we are on course for that.	◐	We will ensure at least one of our key sugarcane product suppliers is covered by either an EU- or U.S.-recognized sustainability certification chain of custody.

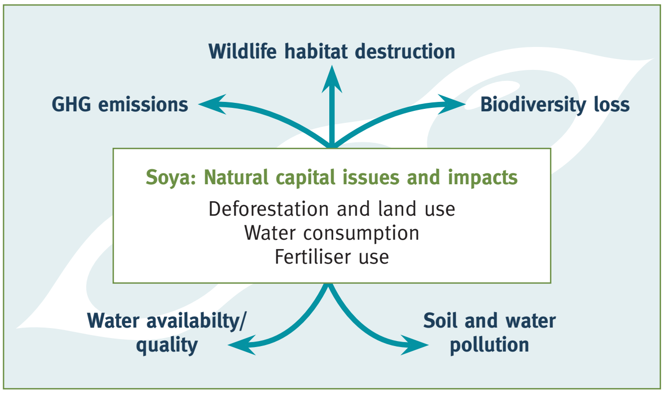
Achieved Partially achieved Not achieved Target ongoing

Examples are from the following company reports – Bunge: *Bunge Sustainability Report: 2013 Brazil Edition*; Coca-Cola: *Coca-Cola 2012/2013 GRI Report*; Bacardi: *Our Spirit is Clear: 2013 Corporate Responsibility Report*

Soya

Soya (or soy) comes from the soybean plant, and is used in food products such as tofu, meat substitutes and as a vegetable oil. It is also widely used as a protein source in animal feed, and is increasingly being used for biodiesel production. Global production has increased significantly in the last 50-60 years, with estimates that soya exports have grown by 100% in the last decade.

Major sustainability standards: RTRS (Roundtable on Responsible Soy), Danube Soya Initiative, Fairtrade, Organic and ProTerra.



Reporting review – Practice from 3 companies

Company	In supply chain	Review of sustainability reporting		
		Use of reporting standard	Assurance	Overall policy/practice
Bunge (Brazil)	Producer	Yes – GRI	Yes	Inclusion of soya in sustainable agriculture policy – though do not provide specific targets or performance data. Part of a Soy moratorium to ban purchasing of soy grown on deforested land in the Amazon.
Unilever	Processor	Yes – GRI	Yes	Commitment to source sustainable soy in set timeframes (part of a wider commitment to source 100% of agricultural products sustainably). Details on current performance. Recognition of the connection and impacts of commodity on other areas of natural capital (such as biodiversity).
Waitrose	Retailer	Yes – GRI	No	Soya as a primary raw material as part of a sustainable sourcing policy, and a commitment to source sustainable soy (in own brand products) in a set timeframe, with identifications of progress made.

Waitrose: *Purchase of RTRS credits*

Waitrose commit to 100% of the soya in their own-brand products coming from certified sustainable sources by the end of 2015/16. With a lack of available certified soya at this time, and while they review certification schemes and analyse their supply chain, they have purchased RTRS soya credits to cover the usage of soya ingredients in their own-brand products.

Unilever: *Efforts to push for sustainable soya in the US market*

Having identified that RTRS-certified soya was not available in the US, Unilever explored the potential for a national interpretation of the RTRS principles for the US soy industry. While unsuccessful at the time, they remain committed to working with the US United Soybean Board towards sustainable soya protocols.

Bunge (Brazil): *Moratorium on the use of soy grown on deforested land in the Amazon*

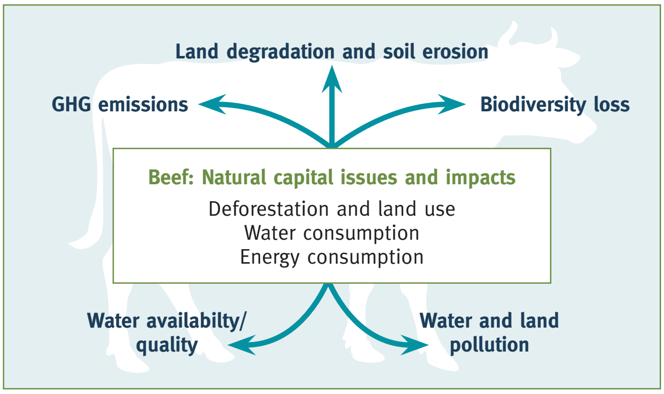
Bunge are part of a moratorium which bans purchases of soybeans grown on deforested soil within the Amazonian biome after July 2006, in an attempt to curb deforestation in the region for the purposes of soya production. Affected regions are monitored through a Soy Working Group that includes other participating companies, environmental NGOs and government entities.

Examples are from the following company reports – Bunge: *Bunge Sustainability Report: 2013 Brazil Edition*; Unilever: [Report Reviewed] *Unilever Sustainable Living Plan 2012*, [Example] *Sustainable Soy and Oils*; Waitrose: *John Lewis Partnership Sustainability Report 2013: Achieving More Through Collaboration*

Beef

Beef is the meat sourced from bovines, most commonly cattle, by a variety of means throughout the world, e.g. farming, livestock production or hunting. Global beef production and consumption have increased in recent years. However, production and demand levels vary around the world, with growth mostly in developing countries, while developed markets have seen some stagnation or decline.

Major sustainability standards: GRSB (Global Roundtable for Sustainable Beef), Brazilian Roundtable on Sustainable Livestock.



Reporting review – Practice from 3 companies

Company	In supply chain	Review of sustainability reporting		
		Use of reporting standard	Assurance	Overall policy/practice
OSI (North America)	Producer	Yes – company criteria	No	Reference to animal welfare and traceability of products (including beef) through the supply chain as part of overall sustainability reporting, but no explicit discussion of sustainable beef as a policy issue.
JBS (Brazil)	Producer	Yes – GRI	No	Sustainable livestock and ethical sourcing of cattle commitments. Member of the Brazilian Roundtable on Sustainable Livestock and the GRSB initiative.
McDonald's	Restaurants	Yes – GRI	No	Sustainable sourcing of beef forms part of long-term sourcing aspirations to 2020. Commitment to develop principles and criteria through the GRSB initiative, and to begin purchase of verified sustainable beef.

OSI (North America): *Traceability standards for internal sources, partners and suppliers*

The food (including beef) processing group, OSI has set key principles related to animal welfare and traceability in their supply chain. These include innovation and ensuring sustainability to protect its business. The principles include animal welfare programs and the establishment of standards of excellence across the supply chain to benefit traceability and transparency.

JBS (Brazil): *Application of a satellite monitoring system to analyse livestock practices of suppliers*

JBS commit to only purchasing cattle from suppliers that adhere to relevant national legislation in Brazil. They have invested in satellite technology that allows them to monitor and verify the livestock practices of suppliers in the Amazon Biome.

McDonald's: *Pushing for a new standard for sustainable beef – The GRSB (Global Roundtable for Sustainable Beef)*

McDonald's have committed to a goal of purchasing verified sustainable beef, and have collaborated with other organisations in the beef industry, and the NGO WWF, to develop the Global Roundtable for Sustainable Beef. They aspire to support development of global principles and criteria during 2014, scale sustainable beef production best practices, enhance transparency and engagement, and to begin purchasing verified sustainable beef in 2016.

Examples are from the following company reports – OSI: *OSI North America Sustainability Report 2013/2014*; McDonald's: *Our Journey Together. For Good. McDonald's Corporate Social Responsibility & Sustainability Report 2012-2013*; JBS: *Sustentabilidade, presente em todas as nossas operações/ Sustainability, Present In All Our Operations*

Investor use of natural capital disclosure

Investors are a key audience of corporate reporting. They also have an enormous indirect impact on natural capital through the natural capital risks and opportunities of the companies they hold. If investors are looking to assess their exposure to natural capital risks and opportunities, corporate disclosure on the topic is an important tool.

This section of the paper explores how investment managers, asset owners and Environmental, Social and Governance (ESG) analysts use corporate disclosures on natural capital and how corporate reporting could be improved to better serve their needs. The information presented below was gathered through a series of interviews with representatives from a range of organisations from the investment community, including asset managers (representing both niche SRI funds and mainstream funds), ESG data providers and investor-focused NGOs (see Acknowledgements at the end of paper for a list of interviewees).

Diverse approaches to natural capital

It is clear that investors are taking diverse approaches to the integration of natural capital into their decisions. Some focus on corporate engagement, calling for greater levels of disclosure on natural capital, whilst others look to provide fund managers with tools and information to incorporate natural capital into investment appraisal. Some focus on specific issues, such as water or climate change, whilst others look at specific high-impact commodities. The fact that companies are not reporting on natural capital in a consistent manner is a key reason for this diversity of approach.

Use of natural-capital-related metrics and performance data

Quantitative metrics are used by investors to inform their decisions and gauge how well a company is performing with respect to natural-capital-related issues. The perceived quality and availability of data is a limiting factor in this kind of analysis. The investors interviewed highlighted water and climate change as topics that are reported well, with topics such as biodiversity and forests being less well reported.

"Our fund managers have access to a lot of information and data around natural capital use and impact, and as such it can inform part of a mainstream investment consideration rather than just be useful for an SRI fund."
Freddie Woolfe, Hermes

The role of common standards in increasing the comparability of natural capital disclosure

The comparability of data from different companies was highlighted as a barrier to the greater incorporation of natural capital into investment decisions. The number of companies reporting is on the increase, but the approaches taken often differ. Sector-led initiatives and reporting standards help address this – particularly when considering natural capital at the commodity level.

The investors interviewed stressed the importance of commodity-focused initiatives, such as the Forest Stewardship Council, as a means to set sustainability performance standards. They acknowledged that such initiatives may not represent best practice, but do provide companies with a benchmark to aim for and some potential to charge a premium for higher sustainability performance, once certified.

Natural capital risk and management response

Whilst quantitative metrics are important to assess corporate performance, qualitative disclosures detailing natural capital risks and management approach allows investors to assess how well prepared a company is for uncertainty. They also allow companies to demonstrate that they fully understand an issue and are changing their business strategies accordingly.

"When we launched our water methodology, we saw that companies were just disclosing KPIs such as water consumption. We are now seeing more companies identifying initiatives to be more water efficient. We see companies not only disclosing more but also disclosing more about their practices, which are becoming more sophisticated over time."
Carlota Garcia-Manas, EIRIS

Engagement in the case of poor natural capital disclosure

A number of the investors interviewed are closely involved in the engagement activities of the investment firms they represent. It is commonly stated that companies manage what they measure, so if an investor feels that a company is not addressing a particular issue (be that natural-capital-related or otherwise) they may push company directors to increase levels of disclosure about that topic.

"We've engaged quite frequently around disclosure, covering a range of issues that are specific to the businesses we hold – including a company running waste incinerators that is being targeted by NGO campaigners and a chemicals manufacturer that is exposed to legislation around materials of very high concern" **Seb Beloe, WHEB Asset Management**

The need for a supply chain focus

A common theme that came out of the interviews was the need for companies to consider their supply chain impacts when looking to report on natural capital. Few companies have a solid understanding of the risks within their supply chains, with the horsemeat scandal in the UK frequently flagged as an example of this. If companies only consider their direct natural capital impacts and dependencies, they are not disclosing the full scale and scope of the risks facing their operations to investors.

Conclusions

Current corporate reporting

- Businesses can indicate how they manage their impacts and dependence on society and the environment, including natural capital, through their organisational sustainability strategies and reporting.

- Although a number of companies report on a small number of resource efficiency indicators that are material to their business and tell some of the story concerning their impacts on natural capital (e.g., water and energy use, greenhouse gas emissions, waste to landfill, etc.), reporting in detail on the impacts associated with the specific commodities that they source along their supply chains is limited.

- In the examples highlighted above, targets relating to the achievement of sourcing certified commodities is the most prevalent way in which companies are reporting on these issues. These can be grouped in the following themes:

    - o supplier certification

    - o supplier audits

    - o standards in development and monitoring.

  It should be noted that the links between certification schemes and the exact changes in impacts on natural capital have not been included within this briefing, and are still the subject of debate.

Investor perspective

- The quantity and sophistication of natural capital reporting has been on the increase, but few companies are reporting to a level that provides investors with sufficient information to assess all of the natural capital risks and opportunities facing their operations. To address this, companies should move away from piecemeal, site-based reporting to an analysis of natural capital risk and opportunity that considers all of a company's operations. A solid understanding of a company's supply chain is an essential element of this.

- When considering commodities such as palm oil, soya, beef, cotton and sugar, sustainability issues (e.g. water scarcity and climate change) are key to the future viability of production. Therefore, both producers and users of these commodities should articulate how they are addressing sustainability risks and opportunities, making clear links to the company's overall business strategy.

- In order for investors to fully integrate natural capital into their investment decisions, the subject needs to be factored into the assessment models of mainstream asset managers. To ensure that this is possible, sector-based reporting standards should be developed so that companies report in a consistent manner, allowing investors to draw meaningful comparisons.

Glossary and Acronyms

Biodiversity: The variability among living organisms from all sources at a species, habitat and genetic level – a constituent of natural capital[x]

Ecosystem: A dynamic complex of plant, animal, and micro-organism communities and their non-living environment interacting as a functional unit[xi], e.g. ecosystems include deserts, coral reefs, wetlands or rainforests

Ecosystem goods: Ecosystems goods are the generally tangible, material products that result from ecosystem processes, e.g. seafood, forage, timber, biomass fuels, natural fiber[xii]

Ecosystem services: The benefits, closely dependent on biodiversity, that human beings obtain from ecosystems[xiii]

Natural capital: The stock of natural ecosystems that yields a flow of valuable ecosystem goods or services[xiv]

Natural resources: Materials that occur in nature that can be used for economic consumption

ESG: Environmental, social and corporate governance

GHG: Greenhouse gas

NGO: Non-governmental organisation

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Investor interviewees: Seb Beloe, WHEB Asset Management; Carlota Garcia-Manas, EIRIS; James Hulse, CDP; Stephanie Maier, Aviva Investors; Meryam Omi, Legal & General Investment Management; Freddie Woolfe, Hermes Fund Managers

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Notes

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