



NORTHERN TRUST

ASSET MANAGEMENT

BEYOND CLIMATE: ADDRESSING NATURAL CAPITAL RISKS IN EMERGING MARKETS

FINANCIAL
INVESTIGATOR
SEMINAR

Valeria Dinershteyn, CFA,

Director Sustainable Investment Engagement, EMEA

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SESSION GOALS



**Looking beyond
carbon**



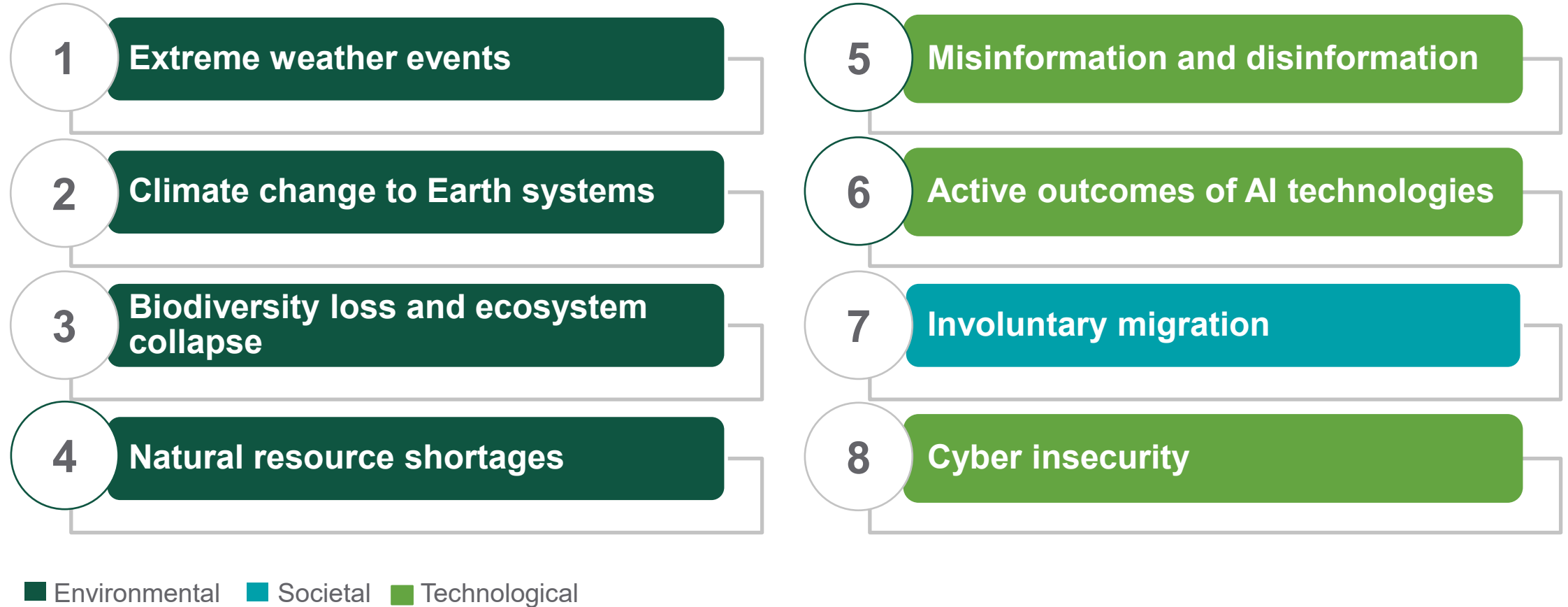
**What are the key
frameworks out there?**



**Case for biodiversity
in the Emerging
Markets**

Investors Face Challenging Global Environmental Risks

Top global risks in next 10 years



Source: World Economic Forum The Global Risks Report 2024

Interconnected Impacts



The Effects of Biodiversity Loss Are Significant



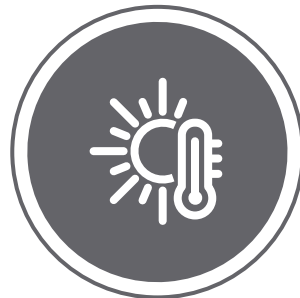
**FOOD
SHORTAGES**



**INCREASED SPREAD
OF DISEASE**



**MASS-SCALE
CLIMATE MIGRATION**



**REDUCED ABILITY OF
NATURE TO
REGULATE CLIMATE**

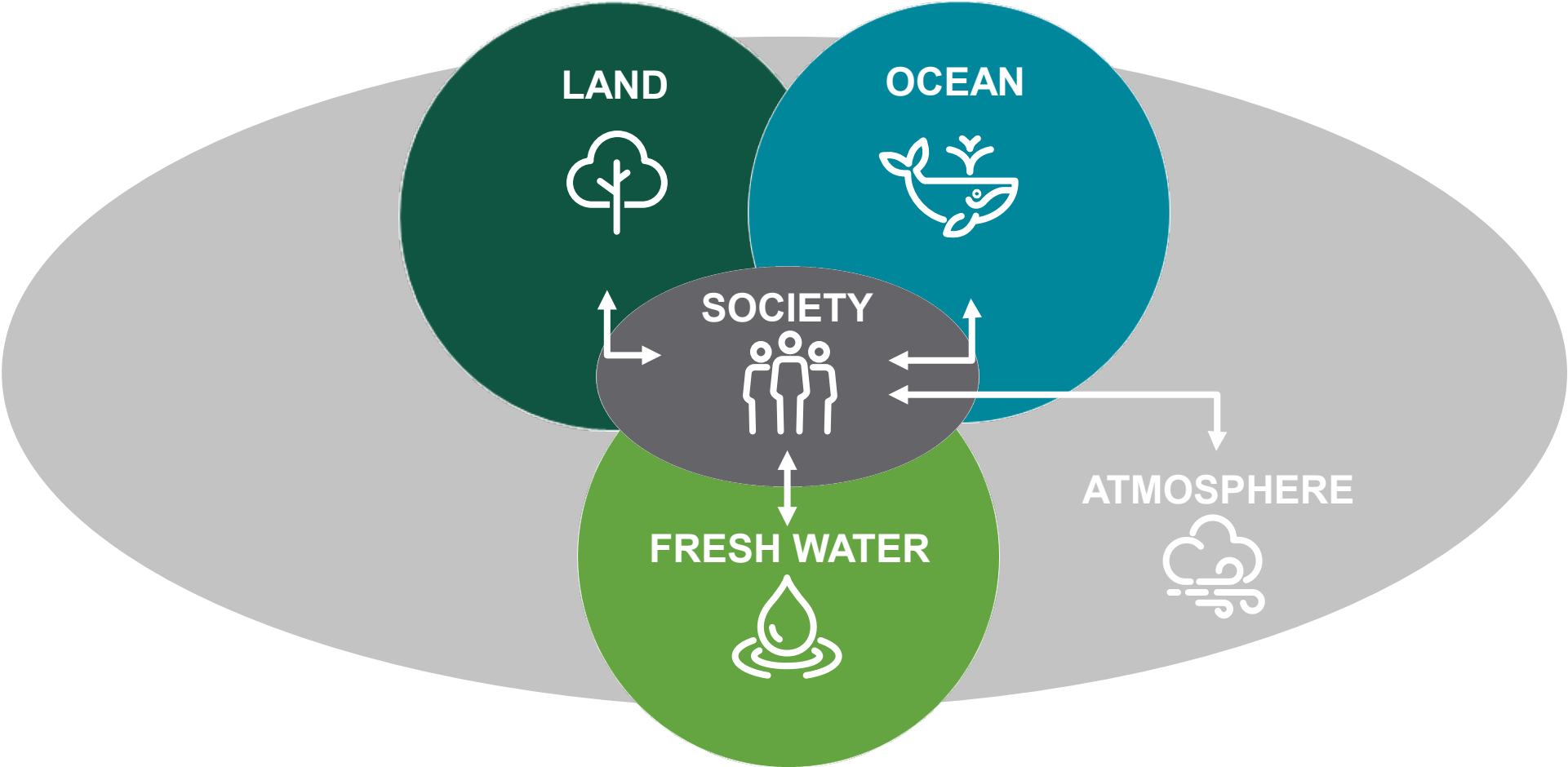


**ECONOMICS
RISKS (E.G.
SUPPLY CHAINS)**



**POLLUTED AIR
AND WATER**

Biodiversity – What Is Nature?



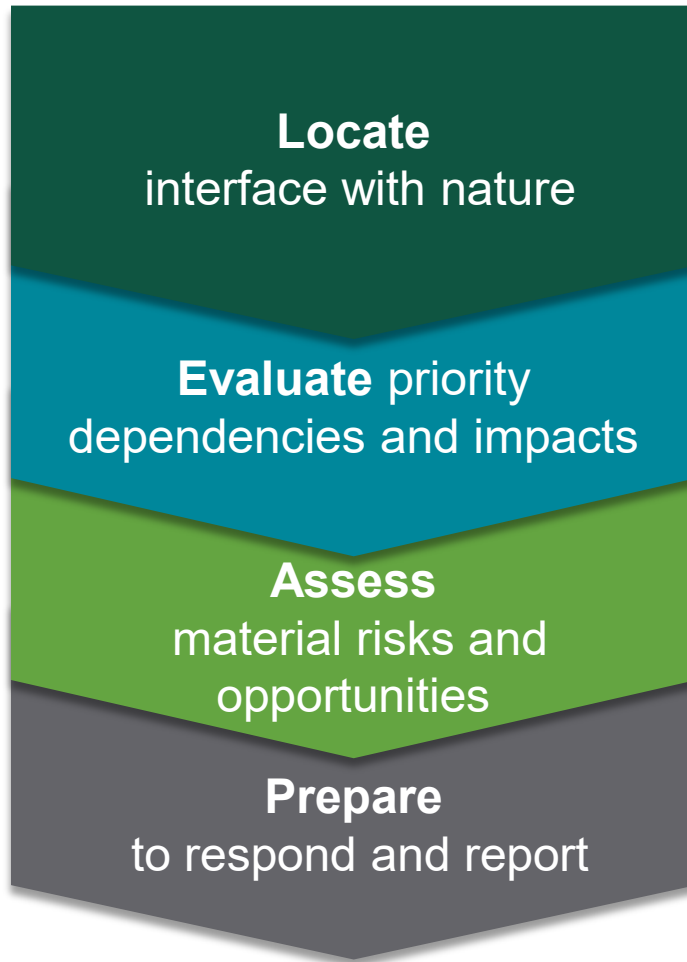
Source: TNFD

The Taskforce On Nature-related Financial Disclosures



How to Calculate Impact On Biodiversity

TNFD – LEAP Framework



Key Metrics

Mean Species Abundance (MSA)

Developed for use in
GLOBIO

Measures condition in terms of the average abundance of species in selected groups compared to a natural reference state.

Potentially Disappeared Fraction (PDF)

Developed for use in life cycle impact assessments (LCA)

Measure of local loss of ecosystem condition caused by specific anthropogenic pressures.

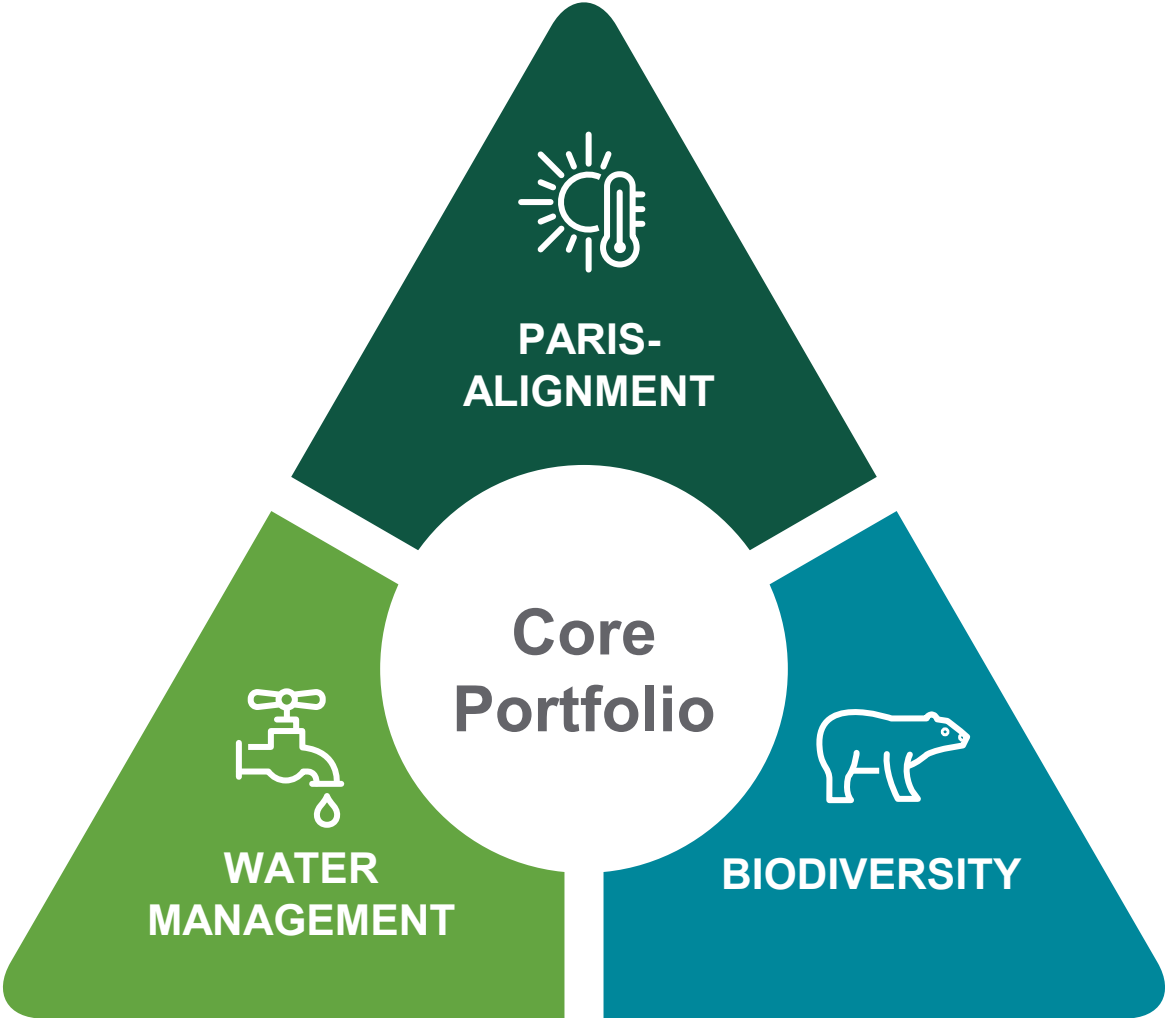
THE CASE FOR BIODIVERSITY IN THE EMERGING MARKETS



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A Wider Environmental Approach

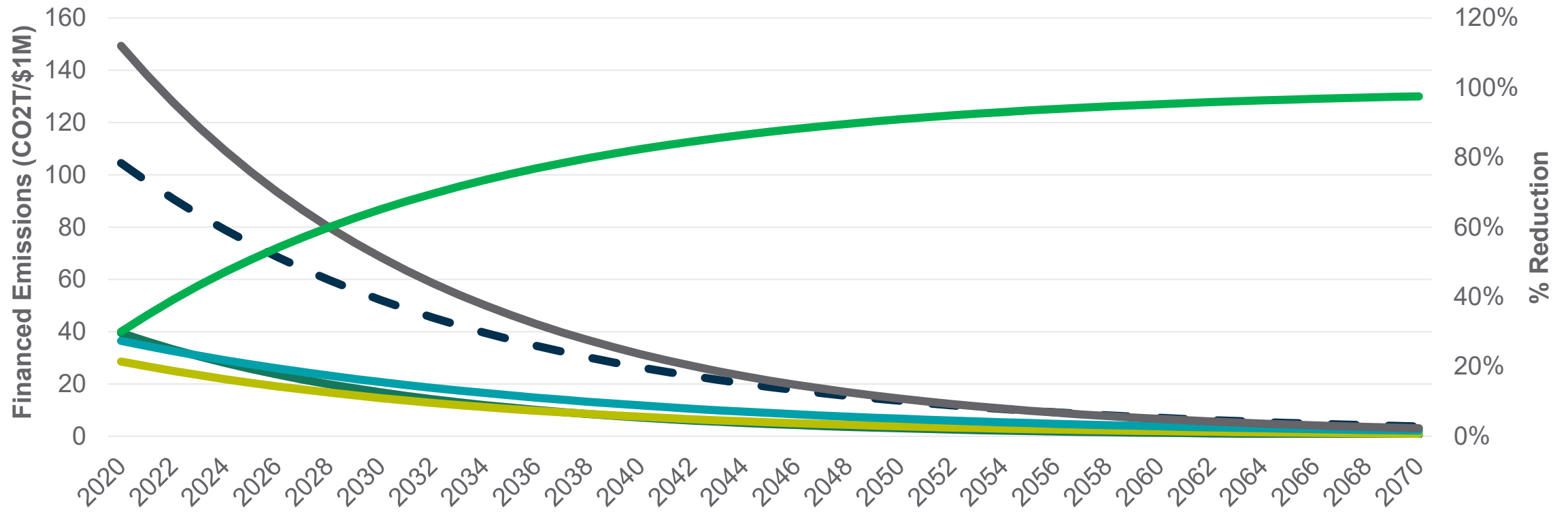


Emerging Markets Decarbonisation: Differing Timelines

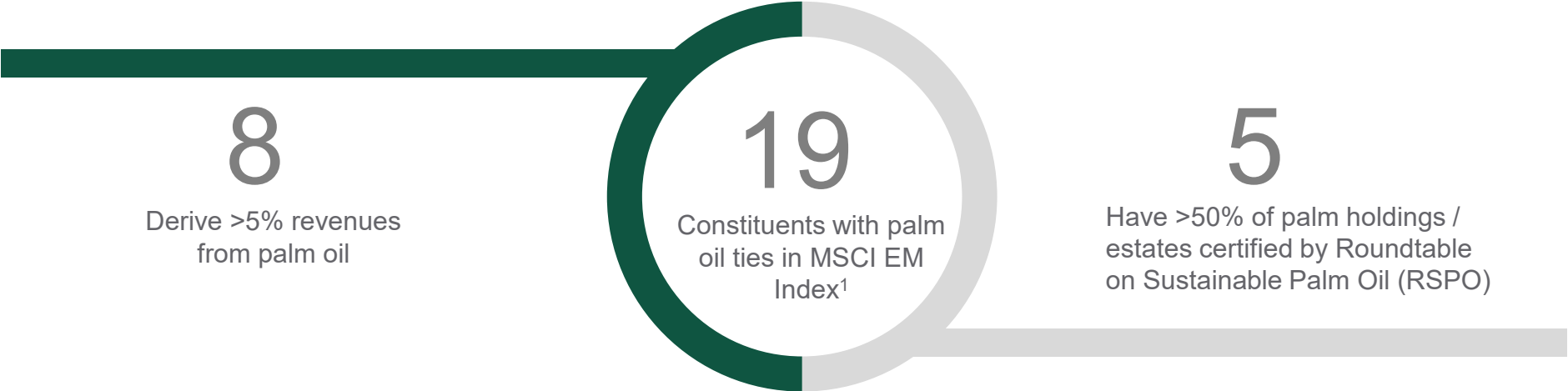
Illustrative example of the bucketed decarbonization approach using MSCI Emerging Markets

FINANCED EMISSION BUILD UP

2050 2060 2070 Build Up MSCI EM % Reduction



Palm Oil Production: A Significant Contributor To Deforestation



¹ Source: Northern Trust Asset Management, as of March 2024

² Palm oil contributed to ~ 7% of tropical deforestation between 2000- 2018, and Positive trend in improved traceability, although vast markets in China (16%) and India (15%) free of regulations similar to those in Europe or Americas. Source: Progress in Sight? Status of Palm Oil Certifications as a Way to Address Deforestation Risks, MSCI, December 2022

Emerging Markets – Exclusion Case Studies

IOI Corporation Berhad, Malaysia

Industry: Food Products
Palm Oil Revenues: 80%
RSPO: 83%

Severe historical controversies related to palm oil cultivation (forced labour)

KL Kepong Berhad, Malaysia

Industry: Food Products
Palm Oil Revenues: 45%
RSPO: 78%

No recent controversies – leader amongst peers

Sime Darby Plantation Berhad, Malaysia

Industry: Food Products
Palm Oil Revenues: 45%
RSPO: 88%

Moderate controversies – previous US import ban recently lifted

Genting Berhad, Malaysia

Industry: Casinos & Gaming
Palm Oil Revenues: 15%
RSPO: 13%

Severe controversies related to deforestation and biodiversity loss

PT Indofood Sukses Makmur Tbk, Indonesia

Industry: Food Products
Palm Oil Revenues: 10%
RSPO: n/a

Severe controversies related to deforestation and biodiversity loss

Energy Absolute Public Company, Thailand

Industry: Utilities
Palm Oil Revenues: 10%
RSPO: n/a

Renewables company with good ESG practices, palm oil exposure through distribution

Emerging Markets – Stewardship Case Study



WILMAR INTERNATIONAL

One of Asia's leading agribusiness groups and of the world's largest oil palm plantation owners in Malaysia and Indonesia

THE CHALLENGE

Around 90% of the world's oil palm trees are grown in Malaysia and Indonesia islands which has most biodiverse tropical forests. However, these forests have been cleared to make room for vast monoculture oil palm plantations.

WHAT WE DID

We engaged with Wilmar International to assess the company's strategy to produce sustainable palm oil. Wilmar has adopted policies and processes and comply with external certifications but the company needs to strengthen process to audit tier 2 and tier 3 suppliers.

THE OUTCOME

We will continue to engage with Wilmar to check if the company is adopting stringent audit systems to track its direct and indirect suppliers and commits to producing deforestation free palm oil to avoid reputational, legal and market risks.

Managing Risks and Harnessing Opportunities

Exclusions

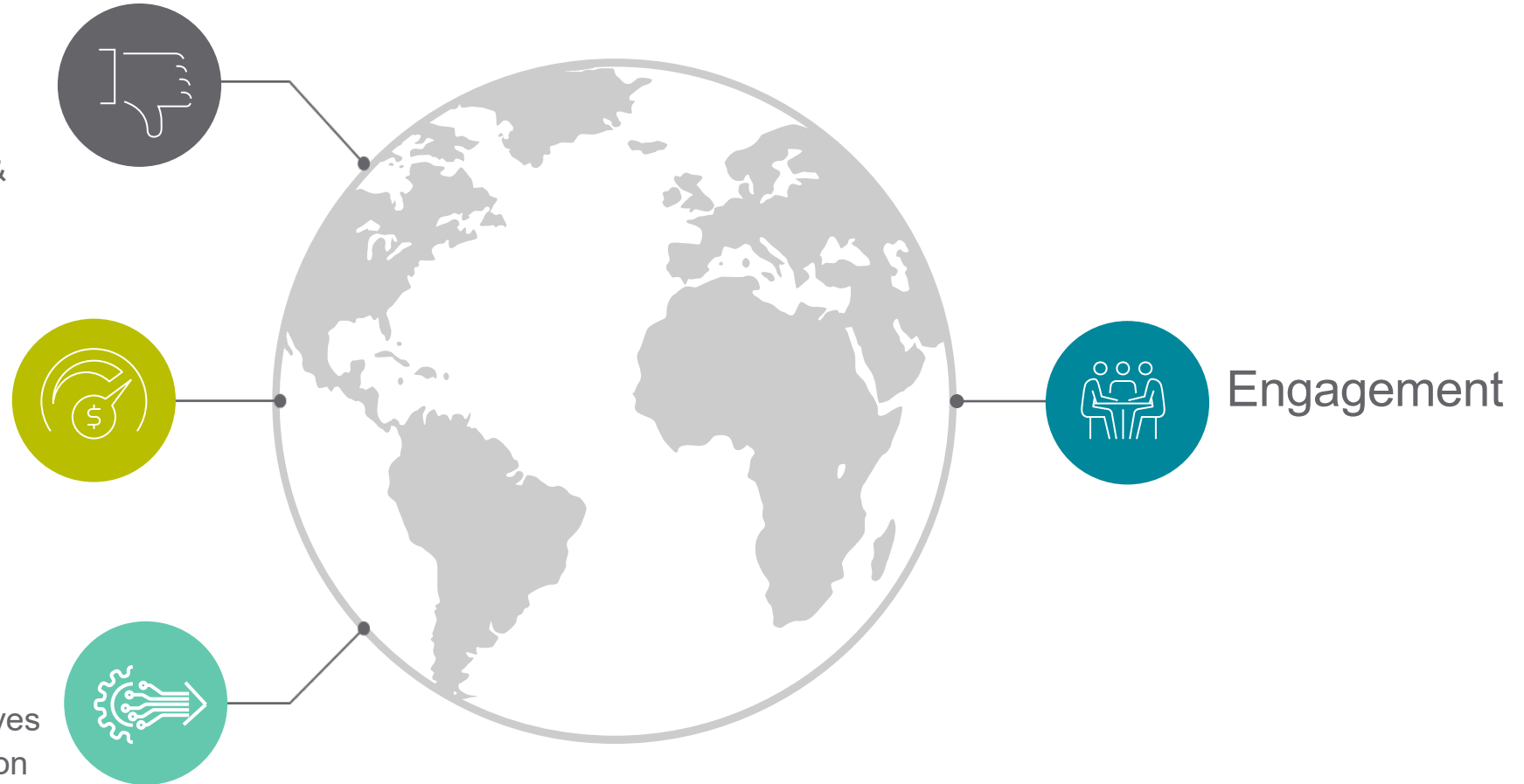
- SDG Alignment
- High-risk Products (e.g. Palm Oil)
- Water Management & Intensity

Tilts

- Environmental Impact Solutions Revenue
- SDG Alignment
- Transition Preparedness

Optimisation

- PAB Climate Objectives
- Portfolio Diversification



CONCLUSION

1

Investors commitment to environmental solutions requires an integrated approach as a myopic carbon-focused solution has its limitations

2

With the new frameworks emerging, investors are able to build a core portfolio which manages risks and targets opportunities related to climate, natural capital and water.

3

Investing in Emerging Markets presents unique and differentiated risks in terms of carbon and biodiversity.

— **QUESTIONS?** —

CONTACT US



NTAM_AMS_Sales@ntrs.com



+ 31 20 794 1040


APPENDIX

Defining Stewardship Priorities


BIODIVERSITY

- Water security, deforestation risk management and biodiversity preservation.


- Target industries for 2024:
 - Oil & Gas
 - Metals & mining
 - Chemicals
 - Agriculture products
 - Pulp & Paper Products
 - Semiconductors
 - Water Utilities
 - Processed Foods



6 CLEAN WATER AND SANITATION



14 LIFE BELOW WATER




15 LIFE ON LAND


CLIMATE

- Strategic alignment to 1.5°C & TCFD aligned disclosure. We are using the Net Zero Benchmark developed by CA100+ as a guiding framework along with our preoperatory ESG Vector scores to shortlist companies that are facing high carbon risk and are laggards in setting decarbonization plans.

- Target industries for 2024:
 - Oil & Gas
 - Airlines
 - Utilities
 - Steel and Cement



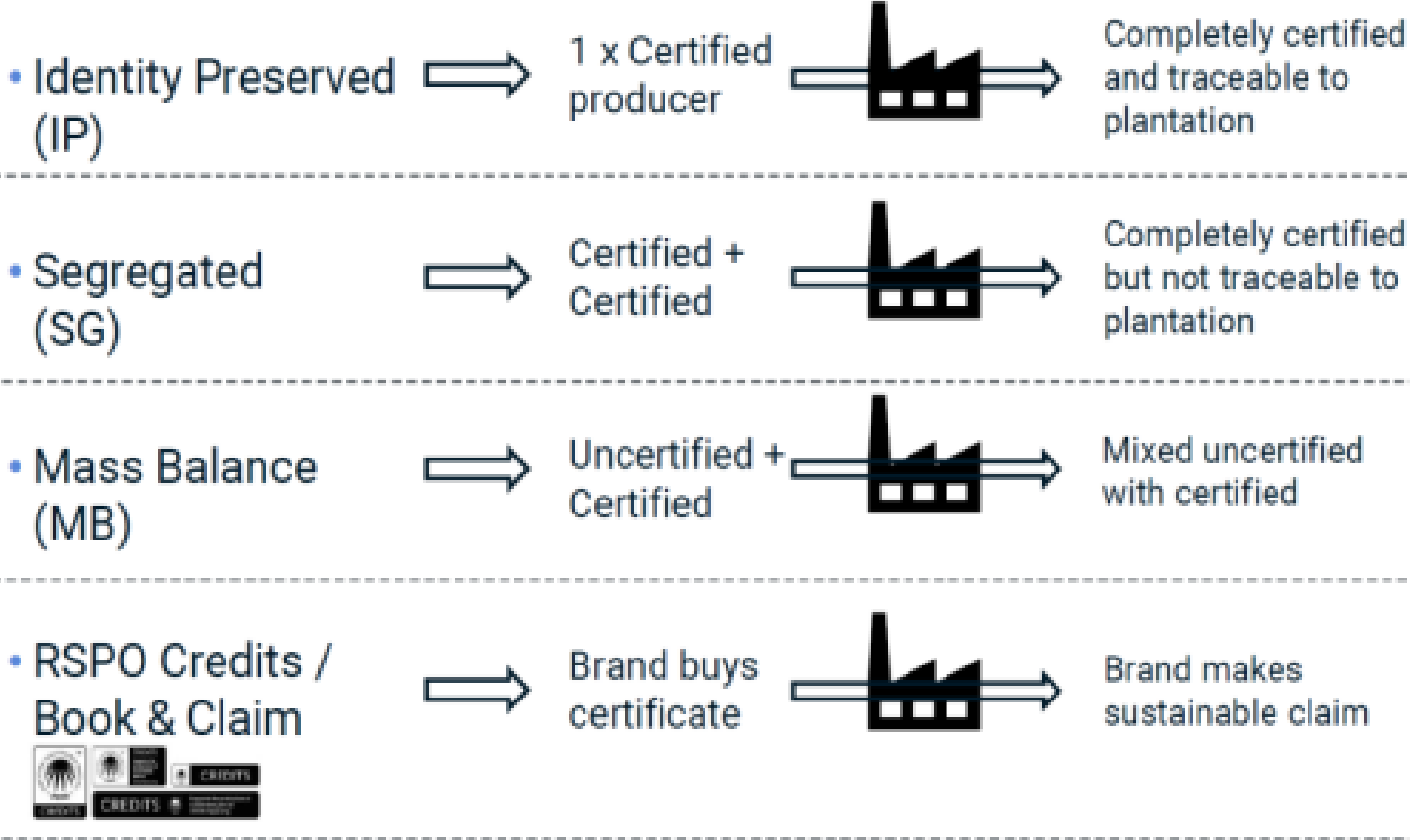
7 AFFORDABLE AND CLEAN ENERGY



13 CLIMATE ACTION

Source: Northern Trust Asset Management

RSPO Certification Schemes



Source: MSCI ESG Research, RSPO, November 2022

Emerging Markets – Differing Timelines

Net Zero Target Year	2050	2053	2060	2065	2070	N/A
Countries (Portfolio Weight)	Brazil Chile Colombia Czech Rep. Greece Hungary S. Korea Malaysia Mexico Peru S. Africa Taiwan UAE	Turkey (0.7%)	China (25.2%) Indonesia (1.7%) Kuwait (0.7%) S. Arabia (3.7%)	Thailand (1.6%)	India (16.8%)	Egypt (0.1%) Philippines (0.6%) Poland (0.9%) Qatar (0.8%)

Bucket Approach

Bucket 1 - 2050
 2050, 2030 + N/A
 Total weight: c.50%

Bucket 2 - 2060
 2060 + 2065
 Total weight: c.33%

Bucket 3 - 2070
 Total weight:
 c.17%

Note: not all targets in law yet, some only propose/declared. N/A means country has not set complete carbon neutrality target.

IMPORTANT INFORMATION

About Sustainable Investing

At Northern Trust Asset Management (“NTAM”), we define Sustainable Investing as encompassing all of NTAM’s investment strategies and accounts that utilize values based and norms based screens, best-in-class and ESG integration, or thematic investing that may focus on a specific ESG issue such as climate risk. NTAM’s Sustainable Investing includes portfolios designed by NTAM as well as those portfolios managed to client-defined methodologies or screens. As the data, analytical models and aforementioned portfolio construction tools available in the marketplace have evolved over time, so too has NTAM. NTAM’s Sustainable Investing encompasses strategies and client assets managed in accordance with client specified responsible investing terms (historically referred to as Socially Responsible), as well as portfolios that leverage contemporary approaches and datasets, including ESG analytics and ESG thematic investing.

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