



Nest's position on nature

Our approach to managing nature-related investment risks and opportunities

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At a glance

Nature underpins much of the global economy, providing resources and services such as clean air, water, healthy soils and food production that businesses and communities rely on.

At Nest, we believe that nature-related risks and opportunities can affect long-term economic growth and investment returns, making them relevant to our members' retirement outcomes.

Healthy ecosystems support jobs, economic growth and long-term investment value creation. By considering nature-related issues as part of our investment decisions, we aim to help protect and enhance the long-term value of our members' pension savings.

We therefore consider nature-related risks and opportunities as part of our investment strategy and responsible investment approach. This includes engaging our fund managers to monitor risks and opportunities, as well as addressing such issues via our stewardship activities with companies.

Initially, we will focus on three nature-related priorities: **deforestation**, **water**, and **pollution**. These have been identified as key risks through portfolio analysis and because of their impact on the daily lives of our members and the wider economy.

Image: BTG Pactual Timberland Investment group and subsidiaries

Introduction

This document sets out Nest Corporation's approach to considering and integrating nature-related risks and opportunities in the way we manage assets on behalf of scheme members.

As a position paper, it is intended to be a high-level overview of how we think about nature and signals the direction of travel of our approach, rather than serving as a set of fixed commitments or targets.

Nature is one of our priority responsible investment themes, and this paper outlines our current areas of focus, and how we are taking action. It has been informed by academic and practitioner research on the financial materiality of nature, peer reviews and engagement, as well as conversations with our external managers, industry associations, and internal stakeholder reviews.

As nature is a relatively new area for responsible investors, our position will be reviewed regularly, and our expectation is that it will evolve in line with our thinking. We know that nature loss is a complex problem that we alone cannot solve. However, we aim to use our position and the voice that we have as an investor in the financial system to effect positive change where we can.

Financial markets navigated a complex and shifting landscape in 2024/25, shaped by persistent inflation, changing interest rate expectations, and renewed geopolitical tensions. While easing inflation and strong corporate earnings supported returns, particularly in developed markets, volatility remained a constant theme, with late-year geopolitical developments and trade uncertainties weighing on sentiment.

Why nature matters to Nest

Nature underpins the global economy by supplying natural capital – soil, forestry, water, and living organisms – as well as critical ecosystem services such as clean air and water, pollination of crops, regulation of climate, and soil fertility. These services are the bedrock of global food security, human health, and economic activities. Over 50% of global GDP is dependent on nature and ecosystem services¹, with sectors like agriculture, construction, and tourism being particularly exposed.

However, the natural world is in crisis, and nature loss is now a threat to the long-term resilience of the global economy. Human activities, including deforestation, land-use changes, overexploitation of resources, and pollution have caused significant harm to the natural world. A substantial proportion of global ecosystems are at risk of collapsing, and species extinction rates are accelerating. The average size of monitored wildlife populations has declined by nearly 70% since 1970², while measure of the size and quality of ecosystems have declined by 47% versus their baselines³.

As recognition of the crisis has grown, so too is momentum to halt and reverse nature loss. In December 2022, the Kunming-Montreal Global Biodiversity Framework, a landmark agreement to halt and reverse biodiversity loss, was adopted by nearly every country in the world. Investors are beginning to follow suit, with a growing number of asset owners and managers adopting nature-positive strategies.⁴ Corporates, particularly those in highly exposed sectors like food and agriculture, are also announcing plans to mitigate nature-related impacts and dependencies.

1 PwC (2023) Managing nature risks: [From understanding to action](#)

2 WWF (2024) [Living Planet Report](#)

3 IPBES (2019): [report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services](#)

4 Brunel, London CIV, Fidelity, Schroders, Impax, Aviva IM, Aberdeen and LGIM are among those who have announced the adoption of the Taskforce for Nature Financial Disclosures (TNFD). Others, like The Church Commissioners and Scottish Widows, have published position papers on nature or nature related issues.

With 14 million members as of June 2026, Nest is one of the UK's largest workplace pension schemes by membership. Millions of Nest members will be invested with us for decades. Over this time frame, we believe that nature risks will present significant investment challenges to our members' investments and could jeopardise our aim to create financial peace of mind for all.

We know from our member engagement work that many of our members would prefer for their Nest pensions to be working in a way that does not negatively impact nature and, where they present themselves, are invested in opportunities to preserve nature.

Our investment beliefs guide our approach to investing our members' money. These are published in our [Statement of investment principles](#).

Two of these beliefs relate to our responsible investment activities:

- Nest considers sustainable investment factors, such as (but not limited to) those arising from environmental, social and governance (ESG) considerations, including climate change, in the context of our broader risk management framework.
- Nest has a duty to act responsibly with regards to the assets it owns on behalf of Nest members. Nest believes that in order to fulfil this duty, and to protect and enhance the value of Nest's investments over the long term, it must act as a responsible and vigilant asset owner and market participant.

We recognise that nature loss is not just an environmental concern but a material source of investment risk and opportunity.

These risks may include:

- **Physical risks** from ecosystem degradation such as resource scarcity (e.g. food or water), disrupted operations, and damage from natural disasters, which can lead to significant financial losses.
- **Transition risks** may arise as companies adapt their business models to evolving environmental regulations, market expectations, and consumer preferences, which may incur costs.
- **Reputational risks** stem from negative perceptions of environmental harm. Companies seen to be damaging nature could alienate customers, lose revenues or their social licence to operate, or struggle to access capital.

At the same time, opportunities are emerging for businesses to align with sustainable practices, particularly around:

- **Resource efficiency:** by adopting sustainable practices, companies can reduce waste and improve efficiency, leading to cost savings and increased competitiveness.
- **Innovation and new markets:** nature-friendly practices can unlock new markets, drive innovation, and create opportunities for products and services that support biodiversity and ecosystem health.
- **Stronger stakeholder relationships:** companies that prioritise nature-related considerations can enhance relationships with stakeholders, including customers, investors, and regulators, fostering a more positive brand image and customer loyalty.

Nature loss will not just impact individual companies but present a systemic risk that will affect the global economy. By actively managing the impact of our investments on the natural world, we aim to safeguard long-term value for our members and, where we can, to encourage better practices among actors in the financial system.

Our nature priorities

Nature covers a broad range of issues with different implications for sectors, geographies, asset classes and overall portfolio performance. While we seek to incorporate nature risks and opportunities across our entire portfolio, we believe that prioritising a few specific nature-related issues is the most efficient way to achieve our objectives.

We have chosen to direct our efforts initially on **deforestation, water, and pollution**. These have been selected based on our prioritisation framework, for the following reasons:

- They emerged as key nature impacts and dependencies when we analysed our public markets portfolios to find nature-related risks.
- Pollution and water are prominent issues in the daily lives of our members.
- Deforestation plays a key role in driving climate change and action on the topic can build on our existing [climate change policy](#).
- Actionability is a key component of our framework, and we believe that these are issues for which there is scope for us to influence. For example, there are existing investor codes and standards, as well as momentum from regulatory developments, on these topics which we can leverage.
- While not perfect, data and tools are available for these issues.

While these are our initial priority issues, they may change over time. One important theme that is not currently among our three priorities is biodiversity. We recognise that biodiversity is a critically important issue for nature, but there are still challenges to its incorporation into nature-related investing. Therefore, we have decided not to prioritise it as a standalone issue currently. However, biodiversity loss is closely linked with our three chosen themes and progress on these fronts is very likely to have positive knock-on impacts on biodiversity.

Deforestation

Forests cover approximately one third of the world's land.⁵ They play a vital role in sustaining nature, society, and the economy. Ecologically, they support biodiversity, regulate water cycles, and sequester carbon. For communities, forests provide food, fuel, medicine, and cultural value. Economically, they generate jobs and growth via industries such as timber, tourism, and pharmaceuticals.

Despite their importance, forests are under threat around the world. Between 2015 and 2025, the world lost forest area the size of Portugal every year. Agricultural expansion drives roughly 90% of all deforestation and significant degradation, with commodities such as soy, palm oil, and beef key sources of risk.⁶ Unsustainable logging, infrastructure development, and wildfires further erode forest health and biodiversity.

The financial risks are significant. Deforestation undermines ecosystem services and resource availability. Deforestation is also amongst the largest contributors to climate change, contributing to 10% of greenhouse gas emissions according to the Intergovernmental Panel on Climate Change (IPCC).⁷

New regulations mean that companies directly and indirectly linked to deforestation are at growing risk of financial repercussions, either in the form of fines or losing market access (e.g., under the EU's new regulation on deforestation-free products).

While commodity-driven deforestation represents a clear risk to nature, there are opportunities for nature restoration when commercial forestry is managed responsibly and sustainably, even when some of the trees are harvested for timber. We see investment opportunities in such projects, as well as in forest restoration and regeneration.

5 Our world in data (2023): [Forests and deforestation](#), UN FAO (2026): [Forests](#)

6 UN FAO (2021) [COP26: Agricultural expansion drives almost 90 percent of global deforestation](#)

7 IPCC: [Climate change and land special report](#)

Water

The availability of clean, sufficient freshwater is central to societal well-being and economic stability. Freshwater ecosystems are critical for maintaining biodiversity, and essential for protecting public health and food security. Water is also a critical input for industrial processes and energy production, supporting sectors from manufacturing to data centres to hydro-electric power generation.

Climate change and other human pressures are affecting the world's water resources in different ways. Some regions will experience water stress or scarcity, whereas others may be more prone to increased flood risk. Some regions, like Southern Europe, are at risk of both greater flooding and water stress.

Pollution puts even greater pressure on scarce freshwater resources: over 80% of the world's wastewater is released, untreated, into the environment⁸. Industrial discharge, agricultural runoff, and improper waste disposal contribute to the contamination of rivers, lakes, and aquifers.

The financial risks associated with water scarcity, flooding and pollution are significant. Companies operating in water-intensive industries, such as energy, agriculture, data centres, and textiles, face operational risks when water supplies become limited or contaminated, potentially increasing costs and disrupting production. Regulatory risks are on the rise as governments implement stricter water management and pollution control measures. Inadequate management of water resources could lead to company devaluations and increased capital costs, while reputational risks can arise from stakeholder perceptions of poor water stewardship. Flooding, on the other hand, could affect real asset valuations – especially property and agricultural assets.

There are also investment opportunities in the water sector, for instance in water management or purification technologies, and in flood adaptation and prevention measures.

8 United Nations (2021) [World Water Development Report](#)

Pollution

Pollution of water, air, and soil poses a grave threat to nature, including human societies. Toxic pollution typically involves harmful chemicals, heavy metals, pesticides, and/or industrial waste, which can cause direct, lasting harm to organisms, food, and water sources. These toxins can disrupt ecosystems and pose severe health risks to humans and wildlife.

Nutrient pollution from excessive runoff of fertilisers, animal waste, and sewage, leads to an overabundance of nutrients like nitrogen and phosphorus in water bodies and soils. Air pollution contributes to respiratory and cardiovascular diseases, while polluted water sources limit access to clean drinking water and can endanger human health. Soil pollution degrades agricultural land, which can reduce crop yields and lead to food insecurity. Together, these forms of pollution compromise the natural systems that support life, threatening the well-being of current and future generations.

Pollution and related health issues have a material economic impact. Billions of dollars are spent annually on treating pollution-induced illnesses, with more value lost through reduced productivity. In 2021, air pollution alone was estimated to cost \$8.1 trillion annually, or roughly 6% of global GDP⁹.

Pollution presents both risks and opportunities to corporates. Risks include fines, lawsuits, and reputational damage if a company is found to contribute to environmental degradation. For example, costs to remediate PFAS¹⁰ water pollution in the US could reach USD 175 billion. Consumer goods and chemical companies 3M and DuPont have already settled related lawsuits for USD 12.5 billion and USD 1.2 billion respectively¹¹. Stricter environmental regulations could lead to increased compliance costs, while shifting consumer demand toward sustainable products could impact sales. However, opportunities also arise for businesses that invest in green technologies, sustainable practices, or that are active in pollution mitigation and remediation.

⁹ World Bank (2021) [The Global Health Cost of PM 2.5 Air Pollution: A Case for Action Beyond 2021](#)

¹⁰ PFAS stands for Per- and polyfluoroalkyl substances, a large group of human-made chemicals used since the 1940s in products like non-stick cookware, water-repellent fabrics, food packaging, and firefighting foams. PFAS are often called “forever chemicals” because they don’t break down easily in the environment, and can accumulate in water, soil, wildlife, and the human body

¹¹ Risk & Insurance (2024) [Costs to Remediate PFAS Water Contamination Could Hit \\$175B](#)

How we're taking action

Below we set out a high-level strategy for managing nature-related risks and opportunities across the key elements of our investment process.

We note the deep interlinkages between climate change and nature. Climate change is one of the five key drivers of nature loss, per the United Nations Environmental Programme, and healthy ecosystems including forests, soils, and oceans play a vital role in absorbing carbon emissions and buffering against climate shocks like floods and storms. Nest's [Climate change policy](#) outlines our net zero ambition and approach to addressing physical climate risks, including the need to address nature and biodiversity loss. Addressing and mitigating climate change is therefore one of the most important drivers of halting nature loss. Our nature strategy will therefore sit alongside, and work in tandem with our climate change strategy.

It is important also to recognise the link between nature and other ESG issues, particularly governance. Good corporate governance is imperative for fully managing risks and opportunities and those related to nature are no exception. Our [voting and engagement guidelines](#) outline the governance practices that we expect to be embedded within our investee companies. These include an expectation for board-level oversight and accountability for ESG risks including, where relevant, nature.

The way in which we use different levers will vary for our priority themes and may also change over time as nature-related data improves.

Risk monitoring

We will monitor existing and emerging nature-related risks using third-party and fund manager research, and information from investor working groups, civil society organisations and governments. New issues will be assessed using our three-pillar ESG risk prioritisation framework (outlined in our [Responsible Investment Report](#) and further researched to identify key risks and opportunities, which sectors or underlying portfolio assets may be affected, and what tools we might use to address it.

We aim, where possible to conduct quantitative risk analysis of our portfolios, using established methodologies like the TNFD Locate, Evaluate, Assess and Prepare (LEAP) approach and Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE) tool. We have carried out an initial impact and dependency assessment for our equities and bond funds, though we are mindful that data is constantly improving, so this will be an iterative process. For now, we are mindful that the data is not sufficiently robust to be relied upon for investment decision-making. See [Case study 1](#).

Case study 1:**Nature risk – portfolio exposure****Approach**

We used the Exploring Natural Capital Opportunities, Risks and Exposure (**ENCORE**) tool to identify the highest nature impacts and dependencies across Nest's public market portfolios. ENCORE is an open-source tool developed by environmental NGOs that maps how economic activities interact with nature. We can use this insight to infer which of our investments might be exposed to nature-related risks.

ENCORE defines two ways in which economic activity can interact with nature and the so-called 'ecosystem services' nature provides, such as water, soil, and biomass. A business has a 'dependency' on nature when it relies on one or more of these services. Agriculture and farming, for example, have high dependencies on a range of ecosystem services, as farmers need quality soil, water, and pollination to grow crops and tend to animals.

On the other hand, business activities can also impact nature as they are carried out. For example, a factory might produce waste that leaks into nearby rivers, reducing the quality of water and its stock of marine life. These are captured in the ENCORE analysis as 'pressures' on nature. ENCORE classifies impacts and dependences along a five-point materiality scale, from very low to very high.

In May 2026, we analysed our investments across our public market portfolios only – listed equities and bonds – which represented around 68% of our total investments at the time of analysis. Private markets holdings were not eligible for screening in this assessment. We previously ran this analysis in 2024, and the results this year are broadly similar: any variances are broadly attributable to shifts in portfolio composition rather than fundamental changes in the nature-related impacts and dependencies identified.

Key findings

Across our public markets holdings:

- Every sector that we are invested in has dependencies and impacts on nature.
- Overall, 26% of our assets under management (AUM) (2024: 31%) have at least one high or very high dependency on nature in their direct operations – meaning the company's own day-to-day activities (such as manufacturing or growing produce) rely significantly on nature to function. This increases to 95% (2024: 94%) when upstream tier 1 supply chains are considered – that is, when we also look at the companies that directly supply materials or services to those businesses. The dip in the direct figure largely reflects growth in our technology holdings (such as Nvidia, Apple, Microsoft). While chip manufacturing itself has little direct dependency on nature, the fabrication and mining behind it does, which is why the tier 1 figure has stayed broadly flat.
- Manufacturing, power, real estate, mining and human health and social work have the highest material dependencies on nature in their direct operations.
- Of the 25 ecosystem services assessed, water-related services (water flow regulation, water supply and water purification) are the most material dependency for the largest proportion of the investments we assessed. Around £18 billion of equities and bonds, representing c.39% of the portfolio (2024: 49%), have a high or very high dependency on these water services (see [Figure 1](#)). The decrease from 49% to 39% is largely due to growth in the overall portfolio, which has reduced the proportion of assets with high water dependencies, even though the underlying £18 billion exposure has remained broadly stable.

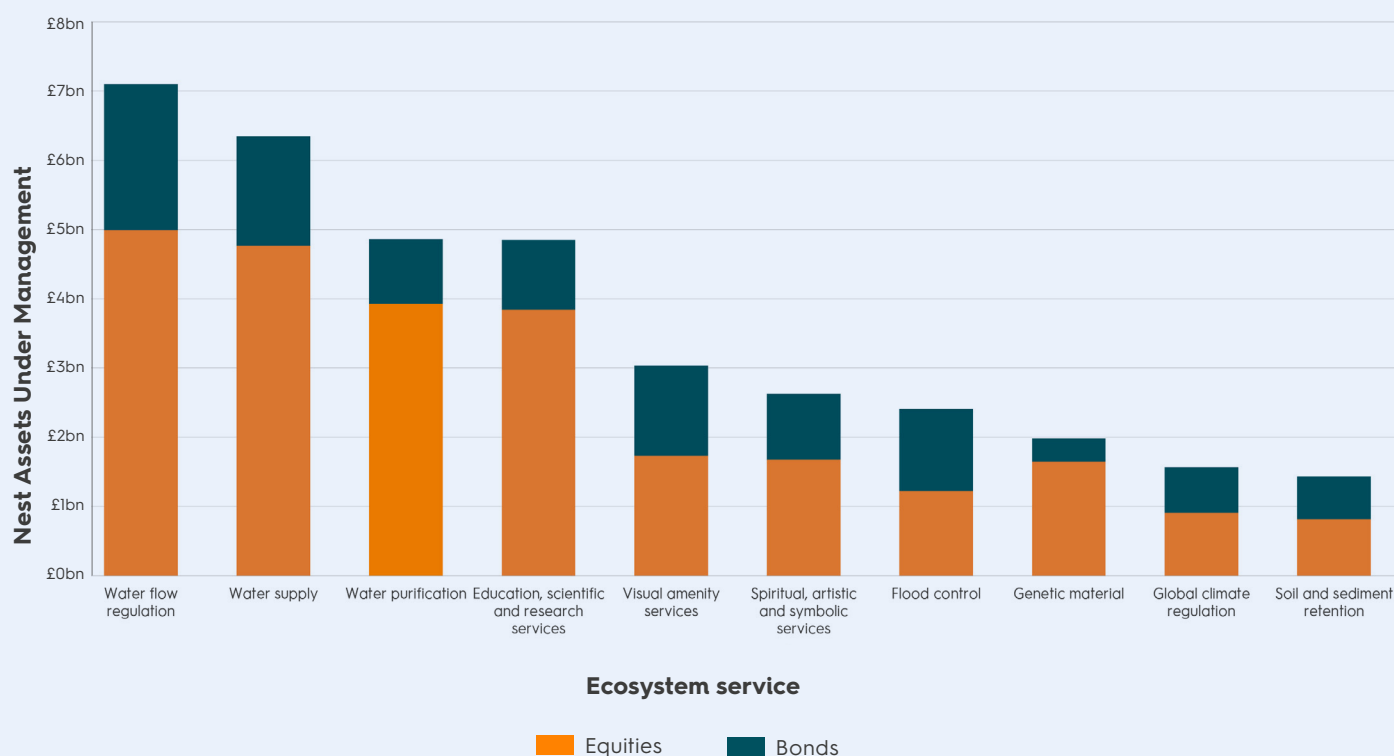
- The companies in our portfolio most materially impact nature via the release, from their direct operations, of greenhouse gas emissions and other pollutants. These impacts are most material in heavy industry sectors such as manufacturing, power, mining, transport and construction.
- 41% of our AUM (2024: 38%) have at least one high or very high impact on nature in direct operations. This increases to 100% (2024: 99%) when upstream tier 1 supply chains are considered, reflecting impacts from the companies that directly supply materials or services to those businesses (see [Figure 2](#)).

Limitations and next steps:

ENCORE only covers direct dependencies and impacts of sectors and excludes dependencies and impacts across supply chains to avoid double counting. It also does not account for geographic or company-specific differences. As part of our new nature framework, we have set expectations for all fund managers to assess and disclose to us key nature risks and dependencies in the portfolios they manage for Nest to help us improve our understanding and mitigation of natural capital risks.

Figure 1: Nest's investment exposure to sectors with a high or very high dependency on nature in direct operations, by top 10 ecosystem services.

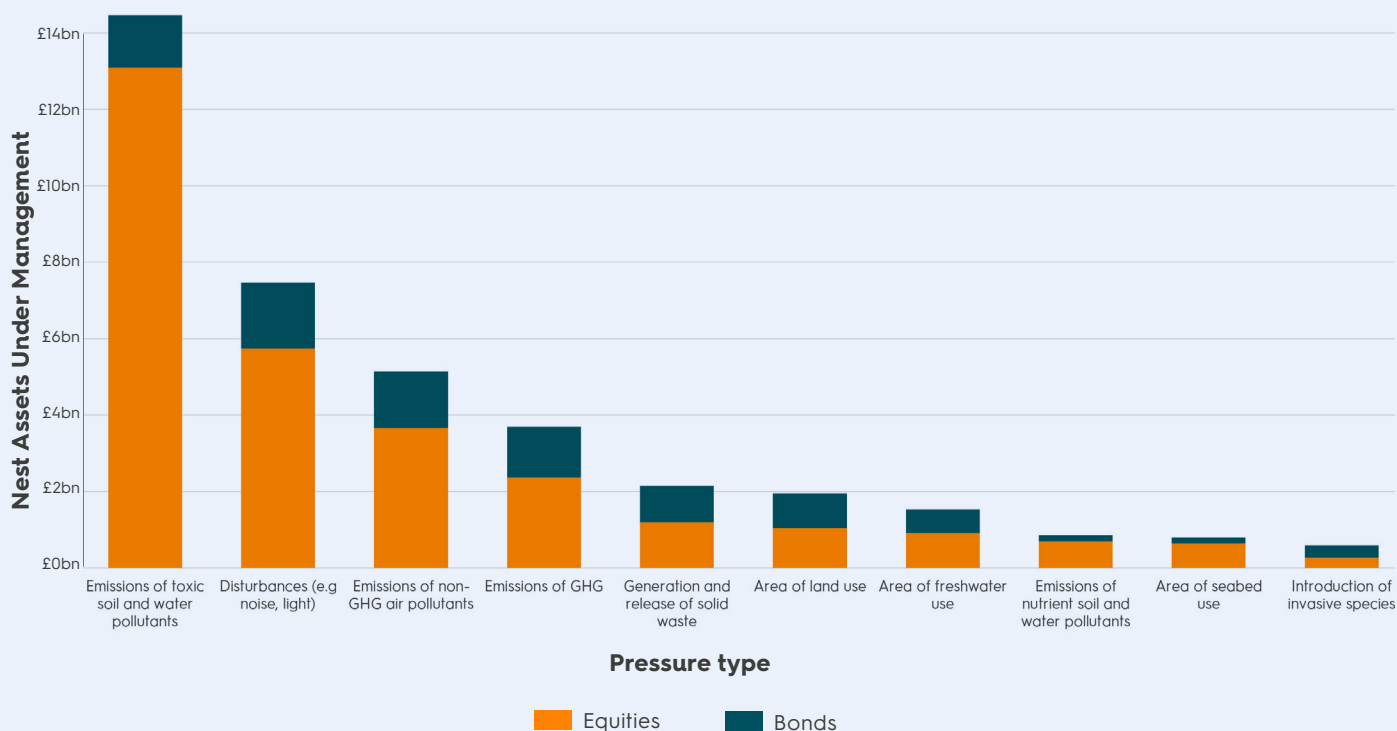
For instance, £5.0 billion of equity investments and £2.1 billion of bond investments in Nest's portfolio are highly or very highly reliant on water flow regulation in their direct operations and would be materially affected if this was disrupted.



Source: ENCORE, Nest. Data as at May 2026

Figure 2: Nest's investment exposure to sectors with a high or very high pressure on nature in direct operations, by top 10 pressures.

For instance, £13.1 billion of public equity investments and £1.4 billion of bond investments in Nest's portfolio are highly or very highly contributing to emissions of toxic soil and water pollutants through their direct operations.



Source: ENCORE, Nest. Data as at May 2026



Asset allocation

Nature considerations in asset allocation

We will consider how new allocations may affect nature and, where feasible, we will consider investments that can generate strong financial returns while having a positive impact on nature. The incorporation of nature-related issues into the asset allocation process will require more robust data than what is currently available. We will continue to advocate for the development and provision of improved, high-quality nature data.

Investment opportunities

We invest directly in natural capital assets through our investment in timber. While the primary activity of these investments is the production of timber, our timberland managers implement enhanced practices that aim to maintain or improve forest quality, biodiversity, and critical habitats in the forests that they manage (see [Case Study 2](#)). They also protect ecologically significant land areas over the long term.

Our thematic equity fund targets three themes, one of which is nature and biodiversity. This fund will invest in companies likely to experience higher growth driven by changes in regulatory, technological, and structural economic shifts linked to nature-related issues.

Case study 2:

Investing in Nature through Sustainable Forestry

In 2025, Nest made its first investment with BTG Pactual Timberland Investment Group (TIG), one of the world's largest timberland managers, through a £500 million allocation to implement a bespoke timberland strategy that provides exposure to sustainably managed forests across the Americas. This marks our second dedicated allocation to timberland. As part of the strategy, Nest invests in TIG's commingled Open Ended Core US timberland fund which, as of the end of 2025, had invested in over 600,000 acres of sustainably managed forests across North America – an area roughly twice the size of greater London.

Timberland, or forestry, is an established asset class for institutional investors like Nest. Timber is commercially valuable and is a sustainable resource for a growing economy – it provides a renewable material for use in construction, bioenergy production, and the manufacture of consumer products. At the same time, forests are critical natural assets: healthy forests support biodiversity, regulate water systems, and capture and store carbon. Rather than viewing forests solely as sources of timber production, we recognise their role as multi-functional natural assets that can provide a range of environmental and social benefits.

We believe that owners of natural assets have a duty to manage them responsibly, and partnering with fund managers who demonstrate high-quality forestry management practices has been a priority for us when investing in timberland. When appointing this strategy, it was clear that TIG integrates environmental considerations throughout the investment process, from asset selection and due diligence through to ongoing management and monitoring.

Key to TIG's approach to forestry stewardship is its partnership with The Nature Conservancy (TNC) in the U.S. and Conservation International in Latin America. These strategic collaborations help management to incorporate conservation science into day-to-day forestry operations, as well identifying opportunities to enhance outcomes for biodiversity, water resources, and ecosystem resilience.

These are particularly important to consider in light of the infrastructure and operations required for harvesting timber. Steps must be taken to preserve the integrity of the forest and ensure its functioning within the broader ecosystem to protect habitats, maintain wildlife corridors, and conserve waterways. To do this, TIG conducts biodiversity assessments, and monitors species and habitats of conservation importance across all of its assets. It also dedicates significant areas to conservation or special management designations. These activities help support the long-term health and resilience of the landscapes under management.

For example, in 2025, TIG implemented a streamside management protocol across all Strategy properties in Ohio and West Virginia. While state regulations require measures to protect waterways during timber harvest, TIG and TNC introduced additional voluntary practices, including designating streamside buffers as Streamside Management Zones (SMZs) and increasing retention of mature trees. The initiative resulted in 7,525 acres of newly designated SMZs and improved management across 404 miles of streams, supporting water quality and aquatic habitat. Permanent protection of forestry supports biodiversity and ecosystem health by legally safeguarding ecologically significant lands in perpetuity. In addition to conserving biodiversity, protected forests can store carbon, safeguard freshwater, and provide recreational opportunities and other important cultural values for communities. In 2025, TIG completed three conservation sales, two of which aim to permanently protect freshwater sources – 579 acres in Washington State's Green River watershed and 575 acres in the headwater tributaries of Ohio's Salt Creek.

When selecting a partner for this strategy, it was important for us that the assets are managed responsibly, and in accordance with internationally recognised sustainable forestry standards. TIG seeks certification of eligible assets under independent third-party schemes, including the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC).

We recognise that biodiversity loss, land degradation and declining ecosystem resilience have the potential to affect long-term economic outcomes across sectors that are represented throughout our investment portfolio. By investing in forests managed with a strong stewardship ethos and informed by conservation expertise, we are supporting an approach that recognises the importance of maintaining natural capital over time. This investment, and our partnership with TIG, reflects a joint belief that productive forestry and nature conservation can be mutually reinforcing when forests are responsibly managed over the long term.

Exclusions

We are a long-term investor and generally don't view exclusions as an effective way of managing systemic risks – our preferred approach is to stay invested in companies and encourage better behaviour.

However, there are times when we will choose to exclude a company or sector from our portfolio (see our Investment Policy on Exclusions for more information). While our policy does not currently include any specific nature-related exclusions, it may be that we introduce some in future if due progress on issues is not being made.

Our policy does include scope for exclusion as a tool for escalating stewardship activities: in limited circumstances, where engagement and escalation by Nest or one of our fund managers have proved unsuccessful, and the issue is considered significantly material and persistently damaging, we may consider reducing our exposure or divesting from the company entirely.

Fund manager selection and monitoring

- Nest's assets are managed by external fund managers, with whom we work closely to implement our investment strategy. We expect managers to be aligned with our approach to ESG integration and to have the capability to manage such risks effectively. We have developed a set of expectations for our fund managers to integrate nature-related financial risks and opportunities which we expect our current and future managers to adhere to. As a baseline, we set the following expectations for managers to apply to our portfolios:
- Identify, assess and manage the nature-related financial risks and opportunities based on robust scientific methodologies and industry best practice. For instance, by assessing nature-related dependencies and impacts following the [TNFD's LEAP approach](#).¹²
- Where feasible, explore and set time-bound, context-specific, science-based targets informed by risk assessments on nature-related dependencies, impacts, risks, and opportunities.
- Use their stewardship resources to manage nature-related financial risks in their portfolios and increase the proportion of investments that have nature targets and robust transition plans in place. This includes engaging through collaborative initiatives such as Nature Action 100+. We expect to see a clear link between risk management, engagement and portfolio construction.
- Work with their clients and peers to stay abreast of the latest scientific, policy and industry developments.
- Disclose key nature-related information to clients, including data on nature risk exposure, investment in nature (based) solutions, and stewardship activities.

In addition to these baseline expectations, we also work with managers to set more asset-class specific expectations that are tailored to the mandate that they manage for us.

Stewardship and engagement

Stewardship is an important tool for Nest to manage risks in our portfolios and create real-world change by encouraging companies to improve their practices over time. We expect our fund managers to carry out stewardship activities on issues pertinent to our portfolios on our behalf, but we also engage with companies directly and via collaborative initiatives like [Nature Action 100](#). We believe that collaborative initiatives, in which investors' influence and resources are pooled, are among the most effective to influence corporate behaviour.

Through active ownership, we will seek progress against our priorities and other nature issues. Given that some issues around nature risk are still nascent, we believe speaking to companies is an important step to understand how they are managing nature risks and opportunities. Some sectors will be more important than others for our three key issues, and we will seek to prioritise engagement with these sectors:

- **Deforestation:** The agricultural sector is responsible for 90% of global deforestation, via the conversion of native forests to cropland and livestock pasture.¹³ Nine commodities are chiefly associated with forest risk: beef, cocoa, coffee, leather, palm oil, pulp and paper, rubber, soy, and timber.
- **Pollution:** The agricultural value chain is a key source of pollution globally: agrichemicals producers manufacture pesticides and fertilisers which then cause runoffs from the farms and cropland. Agrichemicals can have among the most material systemic impacts, as their products can create long-term, persistent contamination risks. Other sectors can have material impacts on local pollution, like mining and heavy industry, and water utilities.

- **Water:** We have elected to prioritise engaging with key players in the water sector in the UK, due to the strong influence the sector here has on members' financial and broader lives, the high degree of reputational risk, and the interlinkages between the sector and pollution in the UK. Globally, certain sectors – tech, food, beverage and agriculture – have extremely high levels of freshwater resource use, which can be a particular risk in areas of water stress.

We establish clear expectations and milestones for corporate engagement and monitor progress over time. Where due progress is not being made, we may seek to escalate our engagement via, for example, voting at company's annual general meeting (AGM).

Voting is a key element of our stewardship strategy. We have developed our own [voting and engagement guidelines](#), which includes guidance on nature. We have and will continue to vote against companies' management resolutions if they do not make adequate disclosures on nature-related financial risks and opportunities.

¹² The TNFD has developed an integrated four-step approach to identify and assess nature-related issues: Locate your interface with nature, Evaluate your dependencies and impacts on nature, Assess your nature-related risks and opportunities, and Prepare to respond to nature-related risks and opportunities and to report on your material nature-related issues.

¹³ UN FAO (2021) [COP26: Agricultural expansion drives almost 90 percent of global deforestation](#)

Advocacy

Policy and regulation are essential to address the drivers of nature loss. There remains an implementation gap between current policies and the actions needed to reverse nature loss by 2030. Policymakers also play a role in creating an environment for investors to make investments in nature, for example by creating markets for ecosystem services or removing subsidies encouraging the unsustainable use of natural resources.

We believe that investors have a role to play in encouraging policymakers to create a regulatory environment that facilitates the transition to a nature positive economy. We will support policies to develop consistent and global disclosure frameworks, such as the [International Sustainability Standards Board](#) disclosure standards, including its work to incorporate nature-related disclosures building on the work of the [Taskforce for Nature-related Financial Disclosures](#).

We will support initiatives that seek to address deforestation, water, and pollution risks and/or promote responsible corporate or governmental stewardship of natural capital.

As the pension provider for millions of people in the UK, we will use our voice to raise awareness publicly about the nature crisis and what we are doing to manage nature-related financial risks for members, and how we are holding companies and our fund managers to account.

Image: BTG Pactual Timberland Investment group and subsidiaries

How we will report on progress

We are cognisant that linking investment activity directly to nature-related outcomes is complex, and so, in our reporting, we will focus on actions that we have taken, with progress evidenced where possible.

In the first instance, we will disclose nature and biodiversity-related risks and impacts through our annual Responsible Investment reports. Once we have set specific metrics and targets, we will report on progress annually, including available data. Such reporting could include progress against nature-related engagement objectives, and changes in our portfolio's nature impacts and dependencies. We will disclose nature and biodiversity considerations to the extent that they impact climate change risks and opportunities in our annual TCFD report.

We also provide detail on how we will vote for nature and biodiversity-related resolutions at company AGMs in our UK and global voting policies. We also publish our voting activities [here](#).

Nest's approach to managing nature and biodiversity is intended to set out a pathway for change. It does not propose that radical actions be taken simultaneously or straight away. We expect approaches to implementation will be adjusted as datasets and frameworks are developed over time, with different actions taken at the right time.

Forward look and integration with frameworks

We will support policies to develop consistent and global disclosure frameworks, such as the [International Sustainability Standards Board](#) (ISSB) disclosure standards, including its work to incorporate nature-related disclosures, building on the work of the [Taskforce for Nature-related Financial Disclosures](#) and [Transition Plan Taskforce](#), and advocate for transposing them into regulation.

We will encourage our managers to follow best practice in this regard, and to follow the TNFD LEAP framework when assessing their portfolios, regardless of their intentions to publish a full TNFD report. We will also encourage, where feasible, corporate adoption of TNFD standards when engaging with companies.

Glossary

Biodiversity: The variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.

Dependency (on nature): Dependencies are aspects of environmental assets and ecosystem services that a person or an organisation relies on to function. A company's business model, for example, may be dependent on the ecosystem services of water flow, water quality regulation and the regulation of hazards like fires and floods; provision of suitable habitat for pollinators, who in turn provide a service directly to economies; and carbon sequestration.

Deforestation: Loss of natural forest as a result of: i) conversion to agriculture or other non-forest land use; ii) conversion to a tree plantation; or iii) severe and sustained degradation. Loss of natural forest that meets this definition is considered to be deforestation regardless of whether or not it is legal. The Accountability Framework's definition of deforestation signifies 'gross deforestation' of natural forest where 'gross' is used in the sense of 'total; aggregate; without deduction for reforestation or other offset'.

Impact (on nature): Changes in the state of nature (quality or quantity), which may result in changes to the capacity of nature to provide social and economic functions. Impacts can be positive or negative. They can be the result of an organisation's or another party's actions and can be direct, indirect or cumulative.

Natural capital: The world's stocks of natural assets, which include geology, soil, air, water and all living things. It is from natural capital that humans derive a wide range of services, often called "ecosystem services", which make human life possible.

Nature: All the existing systems created at the same time as the Earth, all the features, forces and processes, such as the weather, the sea and mountains.

Nature-positive economy: Nature-positive economies are good for people, climate and nature. They help conserve and restore the many benefits that ecosystems provide, while enabling sustainable development for local communities. Efforts to support nature-positive economies can range from helping communities maintain their traditional livelihoods by promoting sustainable agriculture practices, to investing in the development of local, nature-based enterprises and improving market access for their products.

Taskforce for Nature-Related Financial Disclosures (TNFD): a set of disclosure recommendations and guidance for organisations to report and act on evolving nature-related dependencies, impacts, risks, and opportunities.

Water risk: The probability of an entity experiencing a damaging water-related event. Water risk is felt differently by every sector of society and the organisations within them and thus is defined and interpreted differently. Many water-related conditions, such as water scarcity, pollution, poor governance, inadequate infrastructure, climate change, and others, create risk for many different sectors and organisations simultaneously.

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