NATURAL CAPITAL FINANCING SOLUTIONS

Dr. Richard Mattison
CEO Trucost
The first and most fundamental challenge is how to appropriately and cost-effectively internalize environmental externalities. Such externalities can be positive for green investments as their benefits accrue to third parties, and negative when polluting investments inflict harm on third parties. Difficulties in internalizing these externalities result in under-investment in “green” activities and over-investment in “brown” activities.
CLIMATE CHANGE & NATURAL CAPITAL TRENDS

**Investors**

**Risk**
- Stranded assets
- Divestment
- Campaigns
- Portfolio decarbonisation

**Opportunity**
- Sustainable finance
- Energy transition
- Low carbon indices
- Green bonds

**Companies**

**Risk**
- Stress-testing
- Natural capital risk analysis
- Shadow pricing
- Commodity flow mapping

**Opportunity**
- Green bonds
- Science based targets
- Environmental Benefits Analysis
- Circular economy
- Net positive
FUNDAMENTAL ANALYSIS – NATURAL CAPITAL STRESS TESTING

MARKET RISK
Increased consumer awareness of environmental issues drives changes in product mix.

CLIMATE CHANGE RISK
Impact of a weak monsoon on agricultural income and hence rural sales volumes.

OPERATIONAL RISK
Higher supply chain costs such as steel can lead to narrowing margins.

REGULATION RISK
Potential fines due to failure to comply with emission standards may impact margins.

REPUTATIONAL RISK
Sale of heavily polluting cars can damage brand equity and pricing power.

REGULATION RISK
Impact of stricter emission regulation on capex requirements.

INCOME STATEMENT

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BALANCE SHEET

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CASH FLOW STATEMENT

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Source: TruCost

Stress testing (ICBC)

YEARS 1-5 (CASHFLOW)

MARKET RISK
Impact of unpriced natural capital costs on FCF and shareholder returns (lower dividends or capital appreciation)
POSITIVE IMPACT ASSESSMENT

TRUCOST'S APPROACH TO MEASURE AND VALUE ENVIRONMENTAL BENEFITS ASSOCIATED WITH REDUCED EMISSIONS AND RESOURCE USE

1. WHAT IS BUSINESS' EMISSIONS OR RESOURCE USE?

2. WHAT IS THE POSITIVE (OR NEGATIVE) IMPACT OF THE BUSINESS ACTIVITY ON THE ENVIRONMENT AND SOCIETY?

3. HOW DOES THIS IMPROVE OUR WELLBEING?

TRUCOST APPROACH

1. QUANTIFY EMISSIONS OR RESOURCE USE (TONNES OF GHGS, CUBIC METER OF WATER, ETC.)

2. QUANTIFY ENVIRONMENTAL CHANGE (CHANGE IN GHG CONCENTRATION, INCREASE IN WATER SCARCITY, ETC.)

3. VALUE COST AND BENEFIT TO SOCIETY ($)
POSITIVE IMPACT ASSESSMENT

Green Bond Evaluation Methodology

- **Transparency**
  - Information sufficiency

- **Governance**
  - Compliance with industry standards
  - Follow-up reporting

- **Mitigation**
  - Buildings
  - Energy
  - Transport
  - Other infrastructure

- **Adaptation**
  - Improvement in resilience

**Key Relevant eKPIs***
- Carbon
- Water
- Waste
- Land use
- Air and water pollution

**Key Relevant eKPIs***
- Reduction in financial and non-financial damages

Hierarchy overlay

**Final score** – weighted aggregate of the four categories

*eKPI—Environmental key performance indicator.