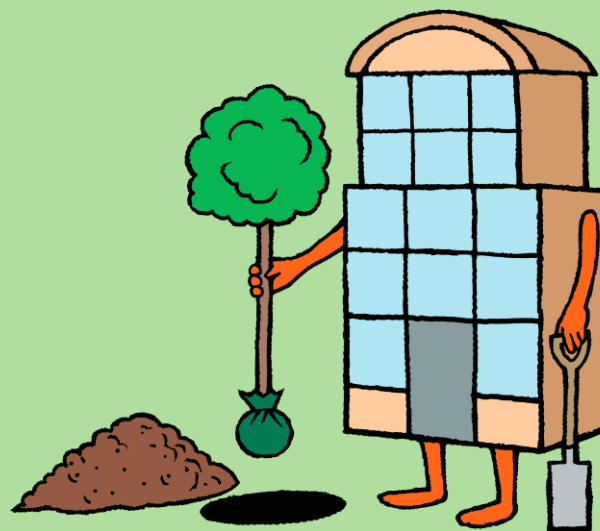


**MONTANARO**

ASSET MANAGEMENT

# TNFD Report 2025



**A summary of our approach to nature-related risks and opportunities**

*“No one knows smaller companies like we do”*

# What is the TNFD?

Montanaro Asset Management (MAM) is proud to be an inaugural Early Adopter of the Taskforce on Nature-related Financial Disclosures (TNFD). The TNFD provides a framework for organisations to report and act on evolving nature-related risks, such as biodiversity loss and ecosystem degradation.

## The TNFD framework is structured around four core pillars.

These pillars guide organisations in identifying, assessing and managing nature-related risks and opportunities.

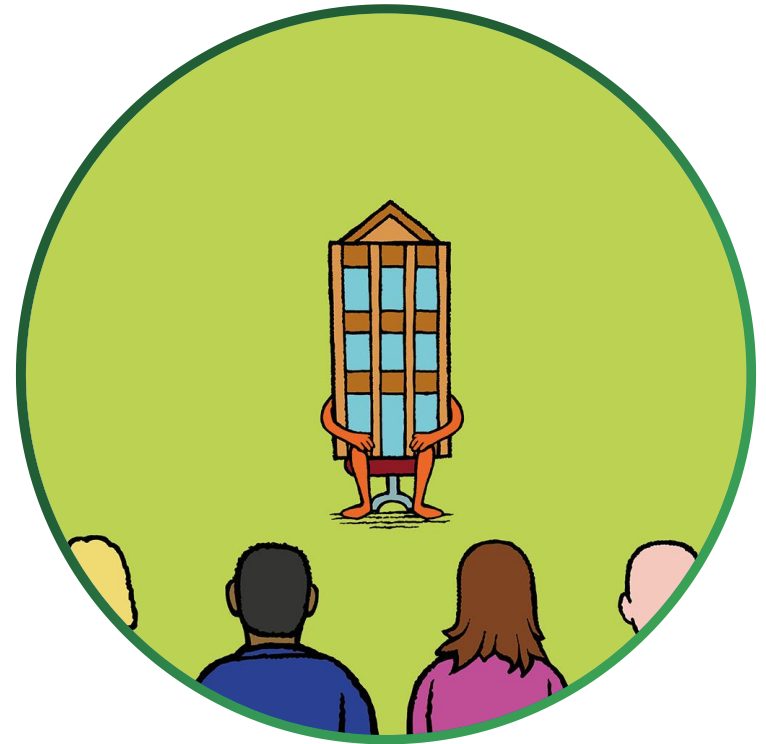
<b>Governance</b> Integrate nature-related issues into oversight and decision-making.	<b>Strategy</b> Understand dependencies, impacts, risks and opportunities related to nature.
<b>Risk &amp; impact management</b> Assess and manage nature-related risks and dependencies.	<b>Metrics &amp; targets</b> Measure and track progress toward nature-related objectives.

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# Introduction

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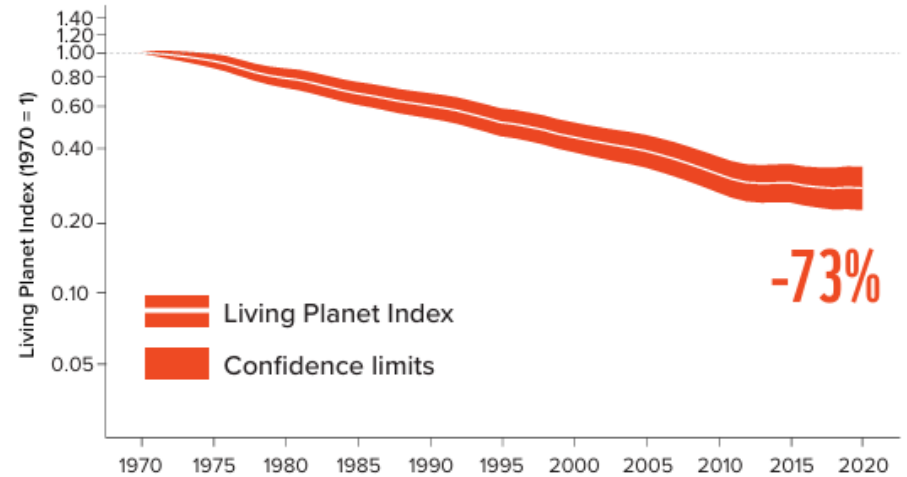


# Welcome

The natural world underpins our entire economy, from the bees that pollinate our crops to the forests that regulate our climate and the clean water that sustains industry.

Yet nature is in crisis, with species disappearing at unprecedented rates and ecosystems under mounting pressure. As investors, we recognise that healthy ecosystems are not just environmentally essential, but financially critical to the long-term success of the companies we invest in. Through analysis, engagement with companies and impact investment strategies, we're working to protect the natural systems that support all life on Earth.

**This report demonstrates how we're embedding nature within our investment decision-making processes.**



The Living Planet Index tracks animal populations and allows us to interpret recent changes in nature. **Since 1970 there has been a 73% decline in species.**

# Our approach

We recognise the importance of supporting efforts to protect and restore nature. Our most material impacts and dependencies arise through our role as an investor, which is the focus of this report.

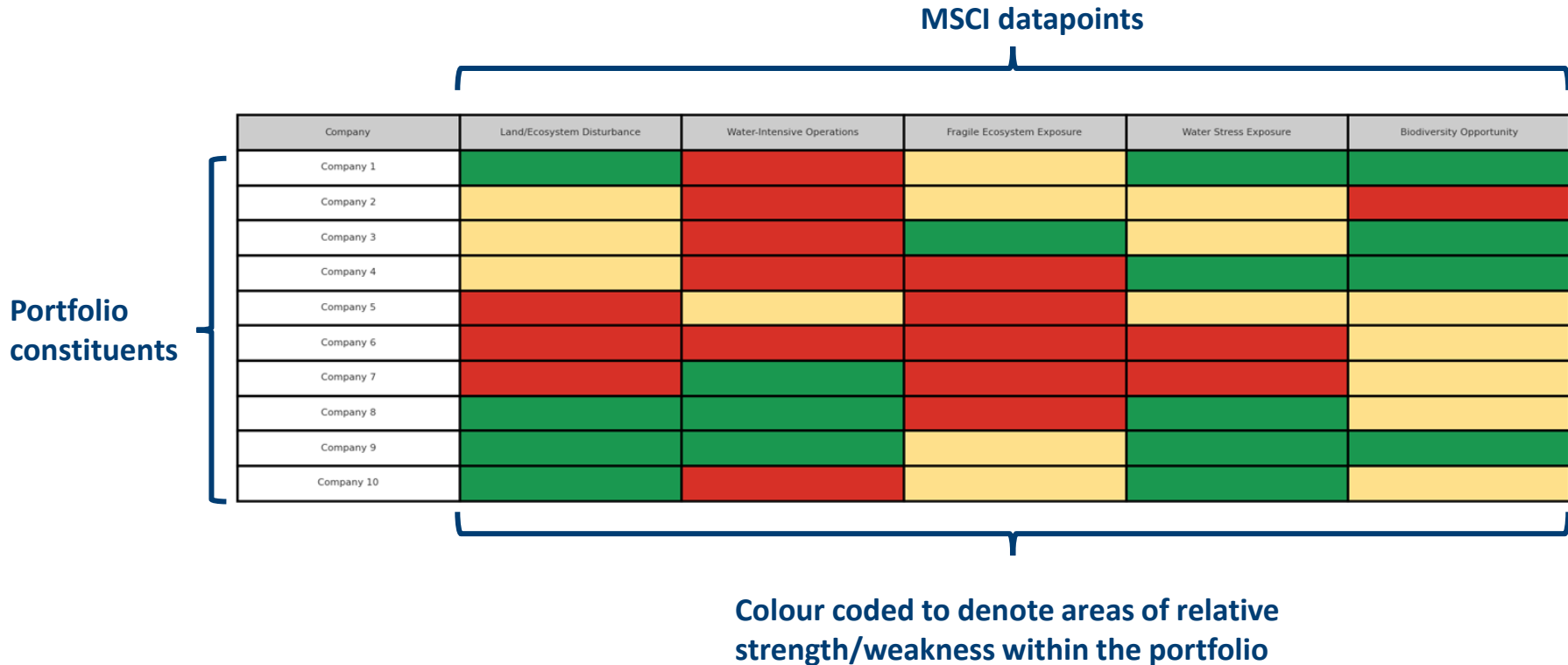
To guide our assessment, we have adopted the TNFD's LEAP approach:

- **Locate** – Identify where investee companies interact with nature.
- **Evaluate** – Analyse the materiality of dependencies and impacts.
- **Assess** – Recognise risks, opportunities and their financial relevance.
- **Prepare** – Develop strategies and engage companies to mitigate risks.

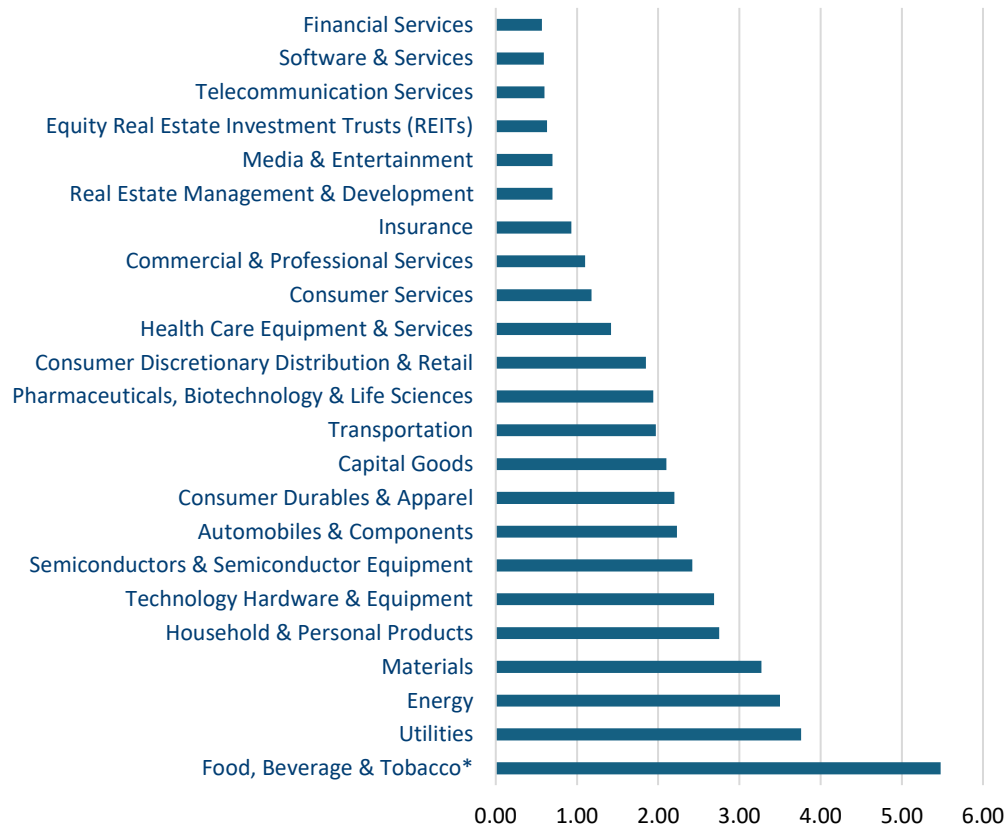
We apply this framework across portfolios to identify exposure, creating a nature-related risk heat map to support issue identification, monitoring and disclosures.



# Example LEAP heat map



# Average biodiversity risk score by sector



The chart illustrates the average MSCI Biodiversity & Land Use Score, which measures a company’s exposure to biodiversity risks (0–10), reflecting business activities and geographic footprint. This enables comparison of risks across sectors and portfolios.

Higher scores indicate greater exposure to biodiversity and land-use risks, such as agricultural dependency, raw material extraction or water-intensive processes. As shown, Food, Beverage & Tobacco companies carry the highest risk due to direct reliance on land and natural resources. In contrast, service-based sectors demonstrate very low direct biodiversity impact.

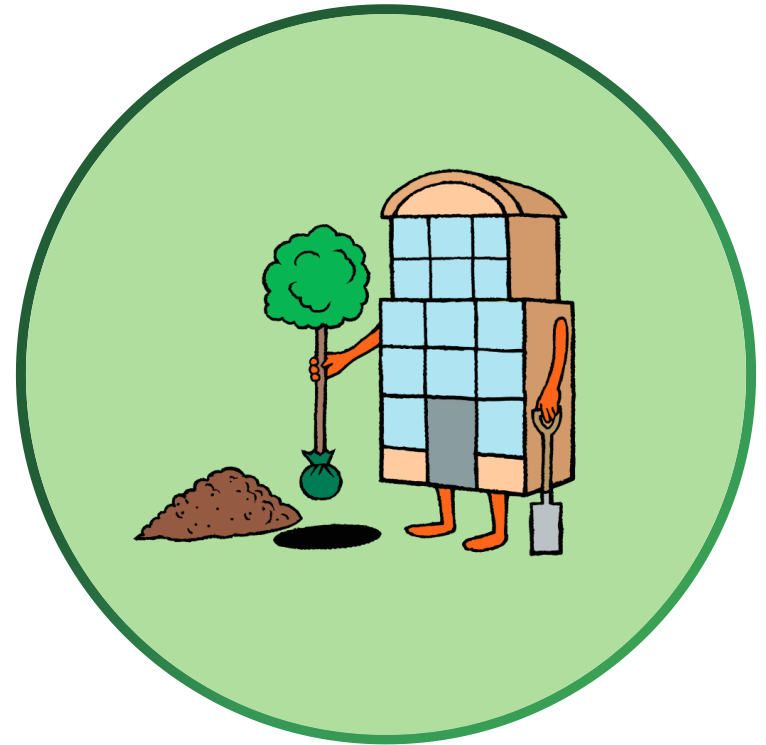
This analysis helps us identify where biodiversity risks are most concentrated, informing our engagement priorities.

\*although tobacco forms part of the sector shown here, we have no exposure to tobacco due to our ethical restrictions.



# Governance

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# Oversight & responsibilities

Ultimate responsibility for MAM's sustainability strategy, including nature-related issues, rests with our Board of Directors. As a certified B Corporation, we are legally required to consider the impact of our decisions on all stakeholders, including the environment. This is written into our Articles of Association.

Implementation is led by our Head of Sustainable Investments with oversight provided by two committees:

- **Sustainability Committee:** meets quarterly to integrate sustainability and nature considerations into our investment process. Reviews ESG analysis, oversees stewardship activities and monitors progress against targets and initiatives.
- **Executive Committee:** reviews Sustainability Committee recommendations and ensures nature-related risk management aligns with overall business objectives and regulatory obligations.



## Policies & tools

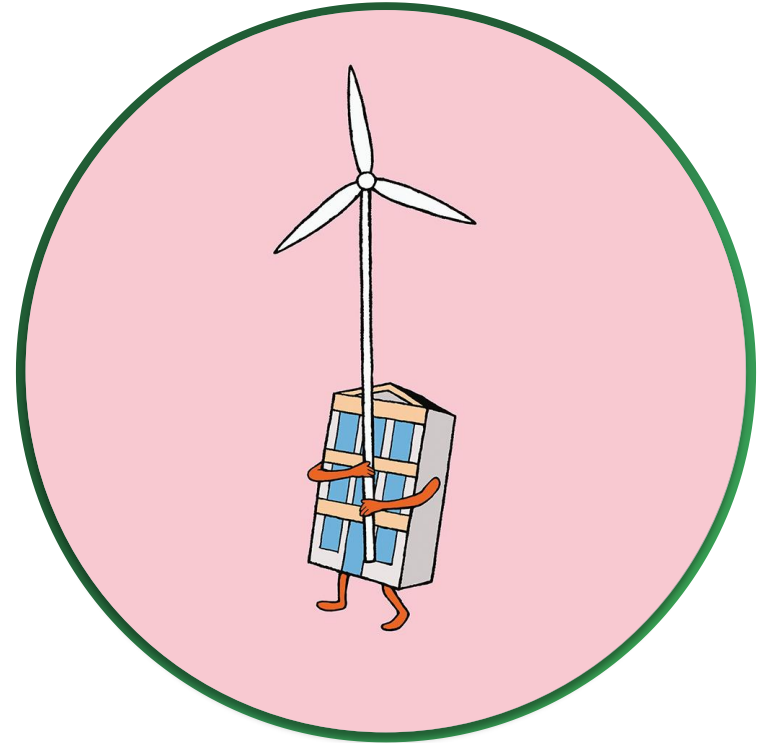
MAM has embedded nature considerations across policies and investment processes to support strong governance of biodiversity and natural capital risks. Key tools include:

- **Biodiversity policy:** outlines our approach to preserving natural capital through investment decisions and at a company level. Defines how we consider biodiversity and ecosystem health when evaluating new investment ideas. This policy is reviewed at least annually to ensure it stays up-to-date with best practices.
- **Proprietary ESG checklist:** all investee companies are assessed against biodiversity indicators including exposure to land/ecosystem disturbance, operations near fragile ecosystems, MSCI biodiversity scores and existence of company biodiversity policies. There is also scope to consider the human rights implications of ecological damage, recognising that environmental degradation often disproportionately affects vulnerable communities. This enables analysts to identify nature-related risks, opportunities, dependencies and impacts as part of our investment quality assessment.
- **LEAP:** Provides additional scrutiny of nature-related dependencies and impacts through a structured assessment processes applied at portfolio level.

MAM's governance framework provides clear oversight and accountability for nature-related issues. By embedding biodiversity into our policies, tools and committee structures, we are well-positioned to respond to the evolving risks and opportunities associated with nature loss.

# Strategy

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# Our biodiversity strategy

## Exclude

We exclude companies whose activities we deem to pose an unacceptably high risk to nature, e.g. fossil fuel producers.

## Integrated analysis

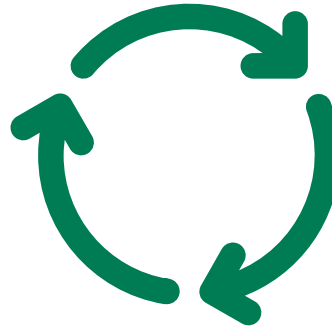
We use our ESG checklist and LEAP assessment to analyse nature-related dependencies and impacts.

## Disclosure

We report on our efforts to our clients and other stakeholders via our various communications channels.

## Engage

Where we identify risks and impacts, we engage to improve disclosures and practices.





# Integrating nature

## Resilience

Our strategy integrates nature-related risks into investment analysis to strengthen portfolio resilience. We invest in Quality businesses with strong governance and responsible practices, embedding nature indicators in our ESG checklist and engagement priorities to address systemic risks such as biodiversity loss.

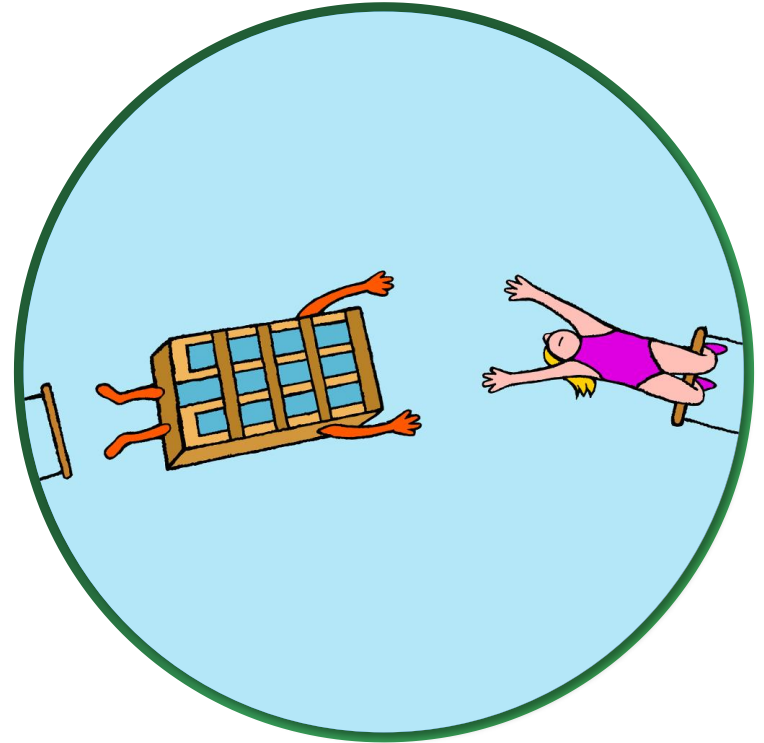
## Priorities

Using the LEAP framework, MSCI data and company disclosures, we map investee impacts and dependencies. This highlights geographic and resource-related exposures while identifying opportunities in ecosystem services and sustainable resource management.



# Risk & impact

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# Risks & opportunities

We recognise the growing materiality of nature-related risks and opportunities across short, medium and long time horizons. These include both transition risks (e.g. regulation or reputational impact) and physical risks (e.g. water stress or ecosystem decline).

Time Horizon	Risks	Opportunities
Short (1–3 years)	Increasing regulatory scrutiny and reputational risks for companies that fall behind.	Early mover advantage.
Medium (3–5 years)	The physical effects of nature loss may become more pronounced. For instance, more frequent extreme weather events, water scarcity or soil degradation.	Over this horizon, investment in nature-friendly innovation can yield cost savings and efficiency gains.
Long (over 5 years)	Continued biodiversity loss and ecosystem degradation could pose systemic risks to the economy and financial system.	Nature-based innovation could unlock new markets and revenue streams.

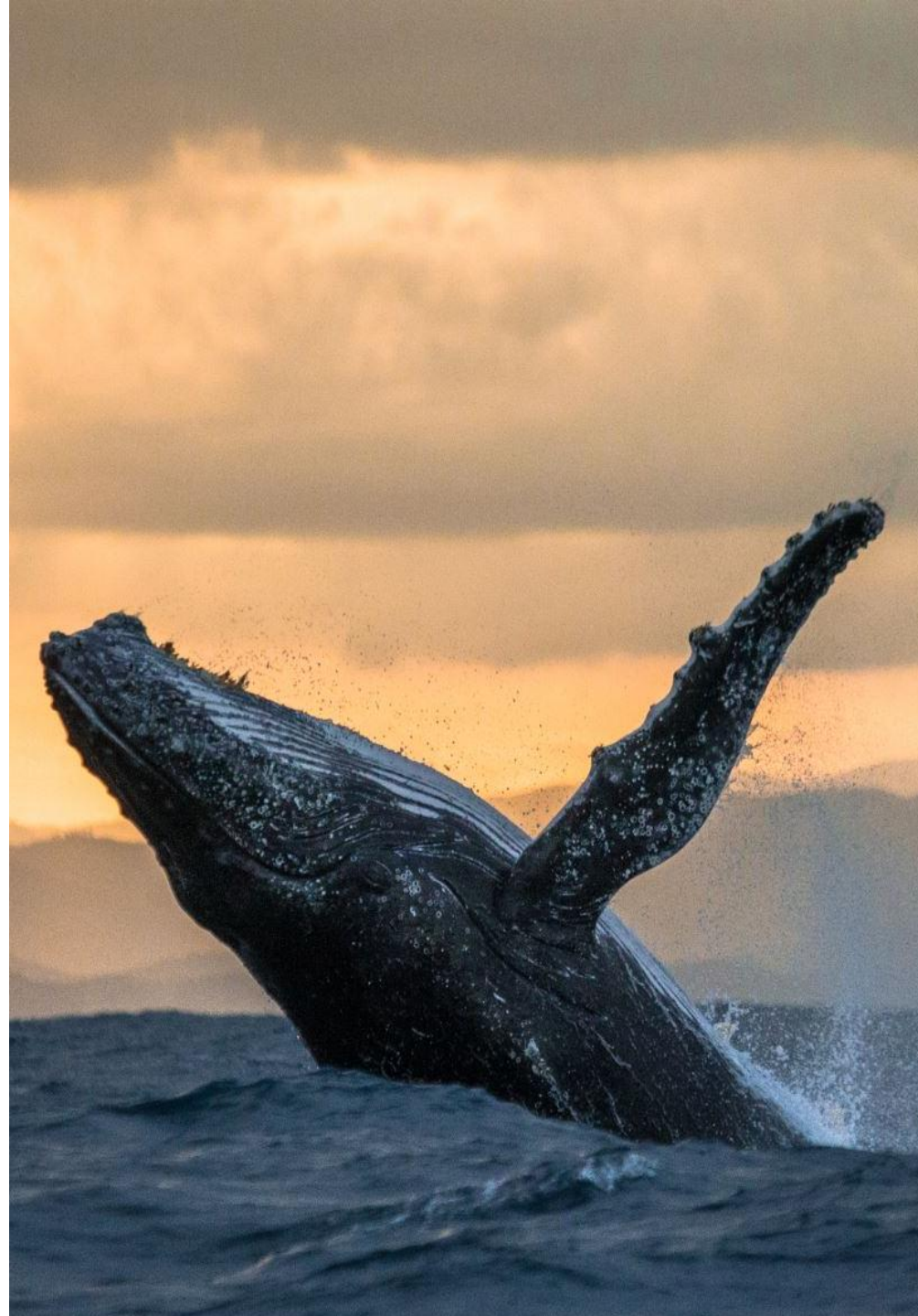


## Identifying nature-related issues

Our risk identification begins with systematic screening using our **proprietary ESG checklist**. We combine MSCI data with company disclosures to create comprehensive risk profiles, allowing us to identify high-risk companies, sectors and regions.

Companies with **elevated biodiversity risk scores trigger enhanced due diligence** and targeted engagement. We supplement this research with portfolio LEAP assessments and prioritise the most material risks through deeper analysis of ecosystem dependencies and biodiversity impacts.

We also identify **positive opportunities**, particularly for our impact strategies, where companies provide solutions that contribute to measurable nature-positive outcomes



## Case studies

### Nature & climate

We engaged with a company identified as having operations in biodiversity-sensitive areas to understand how it manages related ecological risks. The company reported that it had assessed over 250 sites using **WWF's Biodiversity Risk Filter**. Most sites were found to be low-risk, though some showed exposure to water stress and pollution. These insights have since informed **enhancements to supply chain due diligence** and water management practices, demonstrating how credible data can support more effective risk mitigation.

The company also highlighted its growing focus on the link between nature and climate, noting that Scope 3 emissions represent its most material impact on biodiversity. As a result, its **Net Zero ambitions are closely aligned with efforts to halt nature loss and environmental degradation.**



## Case studies



### Sustainable sourcing

We engaged with a company to understand how it manages nature-related risks, **particularly regarding water use**, operations in sensitive areas, and supply chain sourcing. The company explained that it conducts an annual water footprint assessment, covering both direct and supply chain use, and has implemented efficiency measures such as **water recycling** and LEED certification for new sites. It uses tools like Aqueduct to monitor water stress and is piloting **regenerative farming projects** to improve soil health and water retention. The company also confirmed that none of its production sites are located within or adjacent to protected areas, following a biodiversity hotspot analysis using WWF's Biodiversity and **Water Risk Filter**. Its most material biodiversity impacts were identified in the supply chain, especially in cotton, wool and cashmere sourcing, where regenerative agriculture programmes are underway. The company is beginning to align its approach with Science Based Targets for Nature and the latest SBTN-AR3T framework, demonstrating a clear link between its Net Zero targets and efforts to **restore ecosystems and prevent deforestation**.

# Collaborations

## The Business Coalition for a Global Plastics Treaty

We endorsed calls for the adoption of harmonised regulations to end plastic pollution. A binding UN treaty would help to tackle marine ecosystem degradation.



## PRI Spring Initiative

We are an official endorser of this investor-led programme, which drives engagement on deforestation, land use and human rights in high-risk agricultural supply chains.

# Metrics & targets

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# What we measure

## Metrics for assessing material nature-related dependencies, impacts, risks and opportunities

We track several metrics aligned with our investment strategy and risk management processes:

- **Environmental risk metrics:** We monitor business and geographic exposure to land disturbance, fragile ecosystems, water stress and high-risk geographies, supported by MSCI Biodiversity & Land Use Scores.
- **Resource dependencies:** Water consumption and exposure to resource-intensive operations provide insight into reliance on critical ecosystem services.
- **Climate-nature integration:** Climate change is one of the leading drivers of biodiversity loss. Rising greenhouse gas emissions disrupt ecosystems and accelerate species decline. As part of our ESG Checklist, we collect and review climate data to assess company performance on emissions.
- **Solutions:** We track exposure to alternative energy, energy efficiency, green buildings, pollution prevention and sustainable water solutions. This forms part of our LEAP assessment of exposure to opportunities.

In addition, inclusion in our global impact portfolios necessitates products or services that align with our impact themes. Opportunities linked to biodiversity and the stewardship of nature fall within our Environmental Protection theme, which supports The United Nations Sustainable Development Goals 14 (Life Below Water) and 15 (Life on Land).



# Our objectives

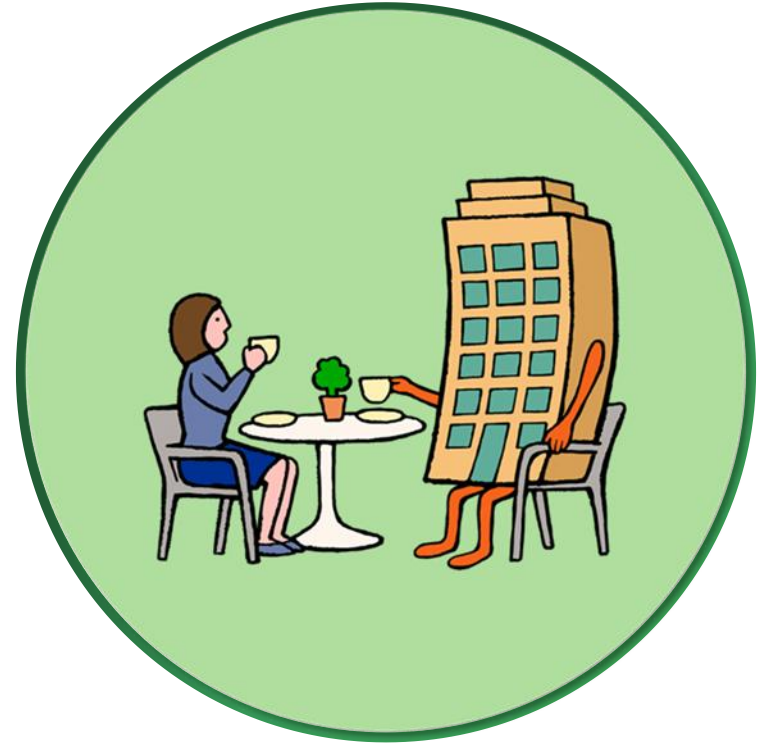
Looking ahead, we will continue to raise standards on nature and climate through active engagement:

- **Support** companies to set biodiversity policies and targets aligned with global frameworks.
- **Deliver** on our own Net Zero commitments, recognising the nature–climate nexus.
- **Encourage** investee companies to cut emissions, strengthen stewardship and protect ecosystems for the long term.



# Conclusion

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**This first TNFD report marks an important step in embedding nature into our investment approach:**

- We have **established a framework** to manage biodiversity risks and opportunities systematically.
- We have **committed to progress** over perfection as data and standards evolve.
- We will **continue using engagement**, risk assessment and reporting to deliver returns and positive environmental outcomes.

# Resources

- [Sustainability Library](#)
- [Biodiversity Policy](#)
- [ESG Handbook](#)
- [Impact Report](#)
- [Project Net Zero](#)
- [Stewardship Report](#)



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