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Our approach to engagement on natural capital

Investment Stewardship

At BlackRock, investment stewardship serves as a link between our clients and the companies they invest in and is one of the ways we fulfill our fiduciary responsibilities as an asset manager on their behalf. BlackRock Investment Stewardship (BIS) is responsible for stewardship activities in relation to clients' assets invested in index equity strategies. BIS takes a long-term approach in our stewardship efforts, reflecting the investment horizons of the majority of our clients. BIS engages with the boards and management of companies in which clients are invested to deepen our understanding of a company's business model, including how they are overseeing material business risks and opportunities over time, and to help inform our voting on behalf of clients.[1] Our sole focus when conducting our stewardship program under our Benchmark Policies is to advance our clients' long-term financial interests.[2]

For companies whose strategies, operations, or supply chains are materially reliant on natural capital, nature-related risks and opportunities may affect their ability to generate long-term financial returns.[3] Where natural capital is financially material to the long-term strategy of companies, we rely on disclosures to assess risk oversight and to understand how nature-related impacts and dependencies are managed.[4, 5]

Setting, executing, and overseeing strategy are the responsibility of management and the board. As one of many minority shareholders in public companies, BlackRock does not direct a company's strategy or its implementation, nor how they should manage material business risks, including natural-capital related risks and opportunities. Our role, on behalf of clients as long-term investors, is to better understand how corporate leadership is managing material risks and capitalizing on opportunities to help protect and enhance the company's ability to deliver long-term financial returns.

Natural capital as an investment issue

We refer to natural capital as the collection of natural resources (e.g., geology, biodiversity, water, soil, etc.) that provide value both to the economy, through the production of goods and services, and to society.[6] Some forms of natural capital have market value, including natural resource stocks, such as oil and gas, minerals, and timberland. We note the inextricable link between natural capital and climate-related risks and opportunities, as a changing climate can accelerate ecosystem degradation while nature loss in turn can amplify climate risks.[7]

More than half of global gross domestic product (GDP) — an estimated USD $58 trillion — is moderately or highly dependent on nature.[8, 9] BlackRock's research shows that only a portion of natural capital's value to the economy is currently priced into markets.[10] At the same time, the depletion and degradation of natural resources is already extracting a financial cost for companies by exposing them to physical risks, as well as changing consumer and investor preferences.[11] For example, companies reliant on water as an input, such as technology companies that utilize data centers, may face increased costs and potential operational disruptions from water stress.[12]

The policy response to natural capital risk has grown following the adoption of the Global Biodiversity Framework in 2024.[13] Technological advances and shifts in consumer and investor preferences can also influence natural capital value in the market, potentially creating risks and opportunities for companies whose strategies or supply chains are materially reliant on natural capital.[14]

Natural capital focus areas

Recognizing that natural capital is a broad and complex topic for companies to address, we focus on the governance of three key components — land use and deforestation, water, and biodiversity — which may affect the long-term financial returns of companies with material exposure. Companies with material nature-related risks and opportunities may benefit from robust governance and oversight of these areas, which can support durable financial value creation through operational efficiency, enhanced management capabilities, and innovation.

Land use and deforestation. Given the growing pressures on land and forests from expanding commodity-driven agriculture, timber harvesting and industrial mining, for example, companies whose activities significantly affect or depend on these resources may face financial risks if they are depleted.[15] Conversely, demonstrating responsible and regenerative practices —such as recycling programs or participation in resource protection initiatives—may unlock business opportunities and mitigate trade-related uncertainties.[16]

Water. A number of sectors and industries — such as agriculture, pharmaceuticals, manufacturing, technology, apparel, food, and beverage production — are heavily dependent on fresh water.[17] Given the scarcity of this natural resource in certain locations, overexploitation, pollution, or other factors may result in governmental regulations that restrict water availability and usage. For companies with material dependencies on water, this may result in business interruptions and/or government regulations. BlackRock's analysis shows that companies that use water efficiently have historically delivered higher financial returns than companies that are more water inefficient — with a particularly pronounced (and proportional) difference in performance between companies located in areas experiencing water stress.[18, 19]

Biodiversity. The Convention for Biological Diversity (CBD) defines biodiversity as the variability among living organisms, including terrestrial, marine, and other aquatic ecosystems, and the ecological systems they are part of.[20] Biodiversity is a core component of natural capital and its ability to provide ecosystem services. Biodiversity loss may pose financially material risks to companies in certain sectors. Lower biodiversity makes an ecosystem less productive, resilient, and adaptable meaning it cannot recover as quickly from extreme weather, fires, or diseases. Various companies, such as those in the food and beverage industry which rely on a secure source of crops and ingredients to manufacture products, identify this as a risk, and we have observed more companies disclosing their approach to natural capital.[21]

In our experience, natural capital-related risks and opportunities can manifest in several different ways, including operational challenges, policy changes and shifting consumer practices as well as relationships with key stakeholders such as the communities within which companies operate.

Operational challenges may arise when production processes degrade ecosystems or rely on depleted resources — such as poor soil health leading to lower yields and increased input costs. Companies may also face reduced inputs, such as land, water, and minerals, which could prompt innovation in nature-based solutions and material re-use, such as farming practices that sequester more carbon naturally and enrich the soil, or cooling systems that allow for better water circulation.[22] These practices could lower costs, mitigate risks, and/or improve reputation among consumers and other key stakeholders.

Policy changes and shifting consumer preferences can further influence access and cost of natural capital for companies.[23, 24] Although policy actions will likely continue to be uneven globally, measures like resource pricing or taxation on externalities in some jurisdictions could become more common, while stakeholders may consider sustainability in their interactions with companies.[25]

Finally, in our experience, with respect to the management of natural resources, community relationships can also be relevant for companies. Support from local stakeholders can reinforce a company's reputation and reduce operational disruptions, contributing to long-term financial success. For example, this could be the case in areas where companies rely on a scarce resource opportunity in a community that is also reliant on it, such as water in a drought-prone area or areas with limited potable water.

Reporting on natural capital impacts and dependencies

Where natural capital is financially material to the long-term strategy of companies, we rely on public disclosures to assess risk oversight and to understand how nature-related impacts and dependencies are managed. We find it helpful when these disclosures include a discussion of financially material natural capital risks and opportunities in the context of a company's governance, strategy, risk management, and metrics and targets. This information could be augmented with an evaluation of the business impacts of potential, or unpredictable, changes in the availability of critical natural resources. It is also helpful to hear from companies about how they manage natural capital dependencies and impacts in the context of their value chains.

Nature-related disclosures have historically been limited and difficult to compare across companies. Private-sector initiatives, such as the Taskforce on Nature-related Financial Disclosures (TNFD), provide a risk management and disclosure framework to identify, assess, manage and, where applicable, disclose nature-related issues.[26, 27] As a reference, the TNFD recommendations may be useful to companies aiming to build or improve their reporting over time. Companies may also consider the disclosure metrics suggested in the TNFD recommendations where relevant and if applicable to their business model or the location they operate in. We recognize that some companies may report using different standards, as consistent with the practices or regulations in their home market.[28]

Our approach to engagement on financially material natural capital-related risks and opportunities

We engage with companies on natural capital to understand the following, as appropriate:

- Whether and how management assesses and discloses natural capital-related risks, opportunities, impacts, and dependencies identified as financially material to the company's business model, and how these have been evaluated in anticipation of increasing levels of stress on essential natural capital.
- The board's role in overseeing management's approach to financially material natural capital-related impacts and dependencies, and the associated risks and opportunities.
- Whether and how the company sets short-, medium-, and long-term targets for managing financially material natural capital-related factors and the metrics used; how the company monitors and discloses progress against stated goals; and how these efforts might contribute to process and resource efficiencies.
- Whether the company has corporate policies or codes of conduct addressing natural capital practices, including whistleblower protections, and mechanisms to oversee compliance and remedy breaches.
- How the company plans for and manages, where appropriate, changing requirements for sustainability reporting on natural capital-related impacts, dependencies, risks and opportunities such as the Corporate Sustainability Reporting Directive (CSRD) which is currently under review, given the potential that more jurisdictions will mandate nature-related disclosures.[29]
- The company's supply chain due diligence processes, including how the company is working with key stakeholders or participating in industry-specific initiatives, and how the company identifies and protects against adverse impacts and dependencies on nature across the supply chain.
- Any material investments in strategic initiatives or research and development to reduce natural capital dependencies and impacts, including contributions to programs that protect natural capital and/or participation, as appropriate, in industry collaborations aligned with addressing pervasive issues.
- Any efforts to engage with local communities directly impacted by company operations and use of natural capital.
- Any independent third-party assessments of the data and/or approach taken to manage natural capital-related risks including the benchmarking of policies, practices, and performance.

Endnotes

1. On February 11, 2025, the U.S. Securities and Exchange Commission (SEC) staff issued updated guidance for shareholders to maintain their eligibility to report their beneficial ownership under Schedule 13G of the Exchange Act. We comply fully with these requirements and do not engage with portfolio companies for the purpose, or with the effect, of changing or influencing control of any company.
2. The BIS Global Principles, regional voting guidelines, and Engagement Priorities (collectively, the BIS Benchmark Policies) set out the core elements of corporate governance that guide our investment stewardship program. The Benchmark Policies apply to clients' assets invested through index equity strategies, take a financial materiality-based approach, and are focused solely on advancing clients' long-term financial interests.
3. See Taskforce on Nature-related Financial Disclosures (TNFD), "Evidence review on the financial effects of nature-related risks," July 2025, and BloombergNEF, "When the Bee Stings Counting the Cost of Nature-Related Risks," December 9, 2023. Websites accessed in December 2025.
4. For the purpose of this commentary, BIS highlights key components of natural capital that we consider to be most clearly linked to certain companies' ability to deliver long-term financial performance. These themes may not capture all possible natural capital factors that companies may consider material, nor are they necessarily isolated from one another. We prioritize land use, water and biodiversity for engagement, as appropriate, as they are most likely to be, or become, material to companies in the near future. The interconnectedness of these components contributes to the availability of natural capital on which companies and economies globally depend on to operate effectively.
5. Given the growing awareness of the materiality of these issues for certain businesses, enhanced reporting on a company's natural capital dependencies and impacts would aid investors' understanding. The recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD) may prove useful to some companies. We recognize that some companies may report using different standards, which may be required by regulation, or one of a number of other private sector standards. TNFD-aligned reporting is not a voting issue. Website accessed in December 2025.
6. BlackRock Investment Institute, "Capital at risk: nature through an investment lens," August 2024.
7. University of Oxford, "$5 trillion of nature-related economic risks will amplify climate change, says Oxford study," December 2023, accessed in December 2025.
8. PwC, "How much does your bottom line depend on nature?", September 2025, accessed in December 2025.
9. Taskforce on Nature-related Financial Disclosures, "Evidence review on the financial effects of nature-related risks", August 2025.
10. BlackRock Investment Institute, "Capital at risk: nature through an investment lens," August 2024.
11. BlackRock Investment Institute, "Capital at risk: nature through an investment lens," August 2024.
12. BlackRock Investment Institute, "Capital at risk: nature through an investment lens," August 2024.
13. For example, the European Union Deforestation Regulation (EUDR) (which was set to go into effect for medium and large companies in December 2026 but may be delayed) applies to companies placing relevant commodities or products in the EU market, or exporting them from it. These companies will need to demonstrate that their products are deforestation-free, and not linked to forest degradation, nor illegal harvesting and trade. Also, the EU's Nature Restoration Law entered into force in 2024. It puts measures in place to restore at least 20% of the EU's land and sea areas by 2030, and all ecosystems in need of restoration by 2050. Several countries, including the U.S., UK, France, Germany, and Australia, have also developed systems that grant credits to projects that restore nature and biodiversity. Sources: BlackRock Investment Institute, "Capital at risk: nature through an investment lens," August 2024. Websites accessed in December 2025.
14. BlackRock Investment Institute, "Capital at risk: nature through an investment lens," August 2024.
15. European Commission, "Regulation on Deforestation-free Products", accessed in December 2025. Targeted simplifications are currently under discussion, as well a possible delay in enforcement.
16. World Economic Forum, "Building a pipeline of 50 investible opportunities for a nature-positive economy," November 2025, accessed in December 2025.
17. World Bank, "Water in Agriculture," last updated on July 26, 2023, accessed in December 2025.
18. **Past performance is not indicative of future results.** Source: BlackRock Investment Institute and Aladdin Climate® (Aladdin® Climate is a suite of climate analytics including forward-looking scenario analysis and net zero alignment analytics. Aladdin® is a proprietary investment and risk management platform), with data from MSCI and World Resource Institute, December 2025. Notes: This analysis is based off of the return on assets from MSCI ACWI companies that report on their water withdrawals. BlackRock measures water stress as the regional ratio of total water withdrawals to total water availability, and efficiency is measured by water withdrawal intensity. Companies with less than median average water withdrawal intensity are considered "high efficiency." Regions experiencing water stress are identified using the "baseline water stress" metric provided by the World Resource Institute Aqueduct 3.0 tool. Each company's water stress score is based on the water stress severity across the locations of their assets.
19. BlackRock Investment Institute, "Capital at risk: nature through an investment lens," August 2024.
20. Convention on Biological Diversity, "Use of Terms", accessed in December 2025.
21. BlackRock Investment Institute, "Capital at risk: nature through an investment lens," August 2024.
22. Nature-based solutions are commonly defined as conservation, restoration, and improved land management practices that increase carbon storage and/or avoid greenhouse gas emissions across global forests, wetlands, grasslands, and agricultural lands.
23. McKinsey Sustainability, "Ten tests for nature strategy", January 2025, accessed in December 2025.
24. University of Cambridge, "Dasgupta Review: Nature's value must be at the heart of economics", February 2021, accessed in December 2025.
25. BlackRock Investment Institute, "Capital at risk: nature through an investment lens", August 2024.
26. Given the growing awareness of the materiality of these issues for certain businesses, enhanced reporting on a company's natural capital dependencies and impacts would aid investors' understanding. The recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD) may prove useful to some companies. We recognize that some companies may report using different standards, which may be required by regulation, or one of a number of other private sector standards. TNFD-aligned reporting is not a voting issue. Website accessed in December 2025.
27. We note that in Europe, under the Corporate Sustainability Reporting Directive (CSRD), some nature-related disclosures are already required. Website accessed in December 2025.
28. More jurisdictions may mandate nature-related disclosures in the future, as is already the case in the EU with the EU Corporate Sustainability Reporting Directive (CSRD). Target 15 of the Global Biodiversity Framework (GBF) calls on parties of the Convention to take measures to encourage and enable business to monitor, assess and transparently disclose their risks, dependencies and impacts on biodiversity. Websites accessed in December 2025.
29. See previous footnote.

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