



# INVESTING IN BIODIVERSITY



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# Investing in Biodiversity

Julia Kindler, Ashraya Dixit, and Ivka Kalus | August 2023



**JULIA KINDLER**

Intern  
Promethos Capital, LLC



**ASHRAYA DIXIT**

Analyst  
Promethos Capital, LLC



**IVKA KALUS**

Chief Investment Officer  
and Portfolio Manager  
Promethos Capital, LLC

Biodiversity is essential for the optimal functioning of both ecosystems and economies. More than half of the world's economic output valued at USD 44 trillion is at least moderately or highly dependent on nature according to the World Economic Forum.<sup>i</sup> Central bankers across the world recognize biodiversity loss as a source of systemic risk, like climate risks.<sup>ii</sup> Biodiversity loss is a risk for most businesses, but not enough companies are focusing on preserving and promoting biodiversity. How can companies and investors focus on preserving and promoting biodiversity? They can start by building better understanding of biodiversity, establishing frameworks for systematically assessing biodiversity risks and opportunities across their operations and portfolios, and conducting standardized reporting to disclose their impacts and dependencies on biodiversity.

## What is biodiversity and why is it important?

The UN Convention on Biological Diversity (COP15) defines biodiversity as “the variability among organisms from all sources, including terrestrial, marine and other aquatic ecosystems, and the ecological complexes of which they are part.” Biodiversity is inextricable from functioning ecosystems and therefore the economy. All human and economic activities are supported by biodiversity. Biodiversity produces tangible commodities like clean water and nutritious foods, but it also plays a role in the proper functioning of less visible systems and processes like nutrient cycles and carbon capture. These less apparent processes that rely on biodiversity are equally as important for economic activity as the more evident byproducts of biodiversity. Functioning ecosystems responsible for ecosystem services are valued at US \$125 trillion annually (WWF).<sup>iii</sup> Biodiversity is crucial for life on Earth, both for ecosystems and economies.



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Biodiversity loss has been intensifying at an alarming rate. WWF's 2022 Living Planet Report found an average 69% decline in global populations of mammals, fish, birds, reptiles, and amphibians since 1970.<sup>iv</sup> Three major drivers - land use changes, pollution, and climate change - have been identified as the most globally impactful to biodiversity loss.<sup>v</sup> Companies and investors have the potential to play a large role in the reversal of biodiversity loss. Investment decision frameworks and company decisions need to prioritize nature. Biodiversity is one of the top three global risks due to its linkages with more than half of the world's economic output.<sup>vi</sup> Nonetheless, only one-third of Europe's major companies have established goals for biodiversity; rates are even lower in Asia and the U.S. Companies are not focused enough on preserving and promoting biodiversity.<sup>vii</sup>

COP15 laid out 2030 national-level targets to protect 30% of the Earth and degraded ecosystems. Currently, roughly 17% of land and roughly 8% of the oceans are protected. Despite the pressing need for action, investments and focus on biodiversity from investors and corporates face challenges because of the lack of universal guidelines, lack of standardized reporting practices, and persistent delays in commitments.<sup>viii</sup>

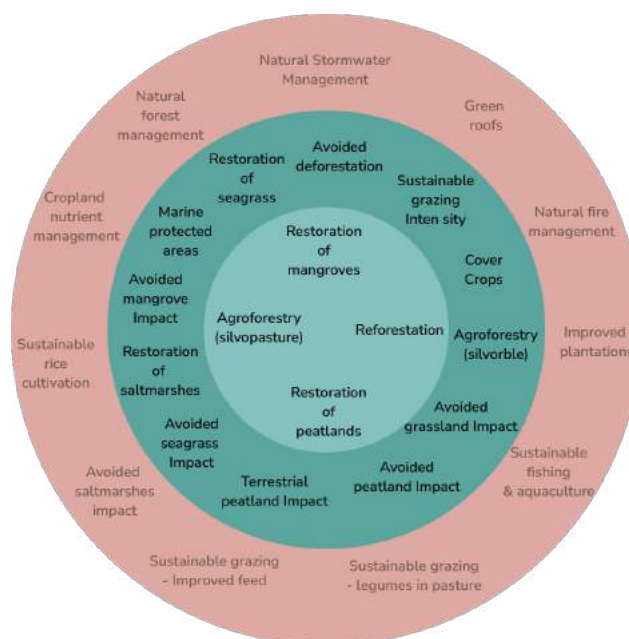
### **What can companies do to promote biodiversity?**

Biodiversity loss is financial loss. Yet, efforts have only just started on quantifying this for the finance and business community. While there are no clear globally accepted standards for biodiversity assessment and reporting, the Taskforce on Nature-related Financial Disclosures (TNFD) and COP15's Global Biodiversity Framework offer investors and

companies frameworks to manage, assess, and disclose their biodiversity footprint and impacts. TNFD's approach is framed upon locating a business' interactions with nature, evaluating dependencies and impacts, assessing material risks and opportunities, and preparing to report and disclose findings.<sup>ix</sup> Beyond a framework for disclosure, the TNFD is designed to make businesses and corporations aware of how they impact, and are impacted by, nature and biodiversity loss. Companies can use this framework to understand nature-related opportunities that will simultaneously promote biodiversity and improve their business performance.<sup>x</sup> The COP15's framework is for national governments, but it provides a helpful framework as well.

A nature-positive economy that prioritizes biodiversity can be both profitable for investors and environmentally sustainable in the long run. Agriculture and forestry, food and beverage, and materials industries possess the greatest potential to affect biodiversity.<sup>xi</sup> Biodiversity-related regulations for these land-intensive industries are also increasing faster than that for others. Investors can support companies that make an explicit effort to halt nature loss, and financially back nature-based solutions. Biodiversity can enable \$10 trillion in business opportunities for companies that adopt biodiversity-positive business models by 2030.<sup>xii</sup> Sustainable land management could increase crop production value by \$1.4tn, whereas sustainable agriculture could create \$96bn-480bn a year in carbon credits.<sup>xiii</sup>

Companies such as L'Oréal, Danone and Nestle, for example, have set high standards by trying to improve their biodiversity impact. Beauty products manufacturer L'Oréal has made aggressive commitments for conservation and product upgrades. They have committed that by 2030 100% of their industrial sites and all



*Figure 1: Nature based Solutions with the most investment needs<sup>xiv</sup>*

operated buildings will have a positive impact on biodiversity. They have also committed to 100% of biobased ingredients be traceable and from sustainable sources by 2030 and have 95% of its ingredients be biobased, derived from abundant minerals or from circular processes. L'Oréal has also launched a €50 million impact Fund for Nature Regeneration to support innovative projects that help restore damaged ecosystems such as forests, mangroves, marine areas, and degraded lands. The company expects to restore 1 million hectares of ecosystems by 2030. These commitments also complement L'Oréal's 2030 Forest Policy aimed at human rights in forest communities and sustainable forest management.<sup>xv</sup>

Food producer Danone has established two initiatives to promote regenerative agriculture and farming: Planet Business for Biodiversity (OP2B), which promotes regenerative agriculture to strengthen biodiversity, and Farming for Generations (F4G), which shares best practices for regenerative dairy farming.<sup>xvi</sup> Notably, Danone has created a scorecard for farmers to assess their regenerative agriculture

impact through water, soil, and biodiversity. Another food producer, Nestlé, achieved a 99% deforestation-free supply chain in intermediate goods ranging from palm oil to pulp in 2022. It has committed and set a course for sourcing half of its key ingredients through regenerative agricultural methods by 2030.

Yet, even though these companies are at the forefront of the movement to restore nature's biodiversity and serve as examples for other companies, they do not yet follow common standards to report on their biodiversity commitments and progress.

At COP 15, 190 nations adopted the Kunming - Montreal Global Biodiversity Framework (GBF) to end biodiversity loss by 2030. One of COP15's targets is Target 15 that requests the evaluation, monitoring, and transparent reporting of biodiversity risks, effects, and relations. In fact, Target 15 provides grounds for more momentum for global industry frameworks, such as the TNFD, to be adopted.<sup>xvii</sup>

TNFD provides a top-down framework for corporates and investors to systematically



assess biodiversity in their operations and their portfolios, while the Science Based Targets Network (SBTN) (Land<sup>xviii</sup> and Freshwater<sup>xix</sup> metrics, Oceans forthcoming) provides rigorous technical metrics to measure, set, and disclose on biodiversity impacts. TCFD's comprehensive framework and SBTN's reporting guidelines are absolutely needed to continue the momentum on measuring biodiversity for corporates and investors and can mirror ongoing efforts of the Taskforce for Carbon related Disclosures (TCFD) and the climate related SBTN metrics and

technical guidelines. Additionally, corporates and investors will need leaner approaches to align activities to biodiversity standards. Key Performance Indicators (KPIs) such as the Mean Species Abundance (MSA)<sup>xx</sup> ratio - that measures the average amount of species in a pristine environment relative to a degraded one- could be used in a similar way to carbon emissions or carbon intensity currently being used to assess companies and business activities across companies, geographies, and sectors.

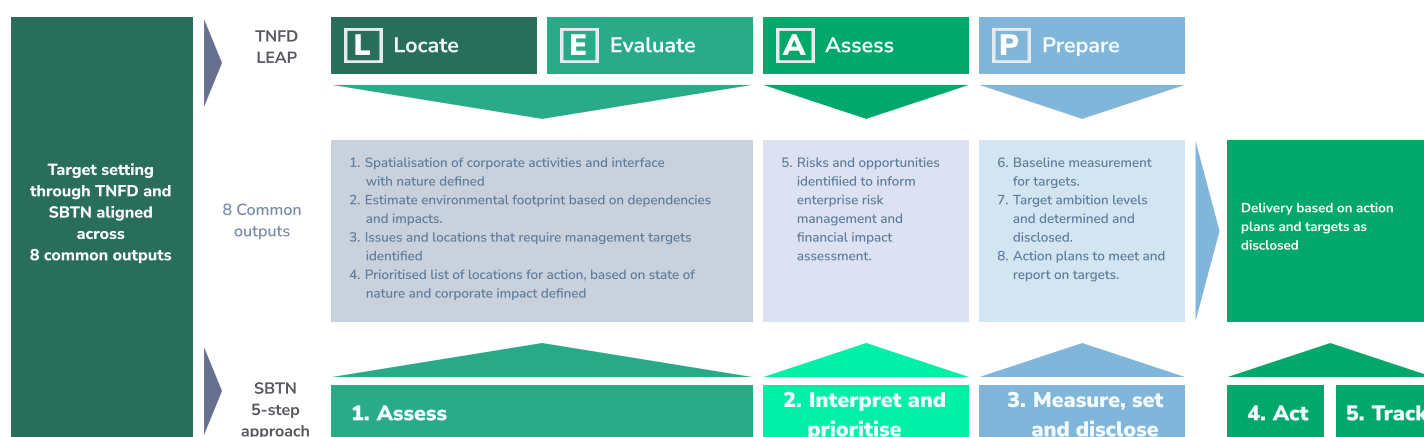


Figure 2: TNFD and SBTN alignment on target-setting<sup>xxi</sup>

## What can asset allocators do?

A nature positive economy cannot be successful without the commitment of investors. Current investments into nature-based solutions are valued at just \$155 billion per year, only 16-21% of the estimated \$722-\$967 billion needed each year until 2030 to reverse the decline in biodiversity.<sup>xxii</sup> Only 17% of that investment, \$26 billion, comes from the private sector. The rest comes mostly from governments' tax and fiscal policy. Investors have a massive opportunity to alter the ongoing and expected biodiversity crisis.

Reputed asset allocators such as Finnish pension funds Ilmarinen and Varma are actively working to fight biodiversity loss and have recently produced their own biodiversity

roadmaps. Ilmarinen's approach follows the TFND and includes four key steps: building understanding, portfolio assessment, investment policy & portfolio management, and reporting. They believe that by building an understanding of biodiversity and natural capital, they can analyze their portfolio's impact on biodiversity and vice versa. Follow on activities like establishing biodiversity-specific investment selection criteria or enhanced biodiversity risk based due diligence, especially using SBTN's technical guidelines, can help the pension fund build portfolios that are resilient to biodiversity loss and contribute to nature-based solutions.

In 2020, Varma launched their own biodiversity initiative with an initial biodiversity footprint assessment of their investment portfolio. The



assessment specifically focused on the forest industry, considering its direct and relevant connection to the Finnish economy and to land use and biodiversity. Varma's Biodiversity Roadmap uses the TNFD definitions of dependencies and impacts, which are key. A sector risk assessment survey covering 77% of the investment portfolio is used to establish an exposure baseline. Targets set through this Roadmap include integrating biodiversity into the investment process in specific asset classes in 2023, while guidelines for biodiversity in their real estate portfolio are scheduled to be implemented in 2023-2025. Important next steps for Varma will be impact analyses and reporting. Varma also seeks to conduct engagement starting with signing the Finance for Biodiversity Pledge and voting in companies' general meetings on biodiversity-related issues. Varma emphasizes both internal and external reporting with a goal of reporting in line with the TNFD in 2024 or 2025.

Ilmarinen and Varma are industry leaders in thinking about biodiversity systematically and their consideration for reporting demonstrates their commitment. However, there are areas for improvement. For example, Ilmarinen utilizes the Encore tool to assess its equity portfolio's dependency on biodiversity, which only uses revenue data and does not provide information on geographical location. Geographical location is critical to analyzing biodiversity dependency as it provides context for the ecosystem at play and health of the area. As for Varma, they only use biodiversity guidelines for built properties and not for the design, construction, and raw material inputs for greenfield projects.<sup>xxiii</sup>

## Conclusion

Biodiversity loss and impacts are systemic issues for businesses and investors. Most money going towards mitigating biodiversity

loss or nature-based solutions today are from government programs, while some forward-thinking companies have taken steps to minimize and improve their biodiversity footprint. However, private investments into nature-based solutions contribute less than 20% of what is needed. And while there are globally accepted frameworks for understanding biodiversity, methods to assess investment and business portfolios, and reporting metrics, they are yet to be broadly adopted by investors and companies. As more investors start using the TNFD framework, the SBTN technical measurement standards, and conducting biodiversity footprints of their activities and portfolios, we can be more hopeful that more capital will move towards nature-based solutions.



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