CleanTechIQ: Investors Turn Their Attention to Biodiversity Investing

Supported by Impax Asset Management

Biodiversity is just as important to life on this planet as a stable climate. But impact-minded investors have been focused on carbon emissions rather than biodiversity – understandable, as climate change is seen as a more immediate danger.

But biodiversity is starting to attract attention from progressive-minded pensions and others looking for more impact investments and to reduce their portfolio's carbon emissions. Asset managers are taking part too, developing new investment strategies and nature-based solutions to help investors channel their money toward protecting biodiversity.

"Investors have begun the journey to using investment as a tool to protect and, hopefully, restore biodiversity," says **Julie Gorte**, senior VP for sustainable investing at **Impax Asset Management**.

Biodiversity is a broad concept, which adds to the challenge of protecting it. "There is a mountain of knowledge we don't yet have on what the connections are between our economic activity and biodiversity, including things like how to measure it," Gorte says. Still, proponents are cautiously optimistic that more investors will put their money to work in the field going forward.

The interconnected variety of plant and animal life are vital for ecosystems that produce clean air and water, pollinate plants, create oxygen, and much more. "Maintaining biodiversity is just as crucial to life on the planet as fighting climate change," says **Marion Maloney**, head of responsible investment and governance for the UK's **Environment Agency Pension Fund**, which has been a leader in biodiversity investing.

What's more, nature and biodiversity lead directly to $44 trillion in economic value, experts say – more than half of the total global GDP.

Yet the crisis is clear. Experts estimate that humans have caused the loss of some 83% of all wild mammals, and about 50% of all plants. The **World Wide Fund for Nature** (WWF) says animal and plant species are being lost at a rate that is up to 10,000 times faster than the natural rate of extinction.

"The current rate of biodiversity loss is unsustainable and nothing less than a global emergency," reads a recent report from Impax Asset Management. "To address these problems, we need collaboration and innovation in finding and scaling up solutions. Urgently."

The topic is getting more attention. "We have seen in the last two years or so the increasing recognition of the importance of biodiversity, and the importance of maintaining the integrity of nature," says **Lars Erik Mangset**, chief advisor on climate change at Norway's **KLP**.

"The good news is that there are a lot of things one can invest in that helps to stem biodiversity losses," Gorte says. It's not always direct: "Two of the five major drivers of biodiversity loss are climate change and pollution," she notes. "So investing in solutions providers that help to reduce emissions and create circular supply chains with no residual pollution will all contribute to biodiversity protection."

There's also attention being paid to more direct protection. "Biodiversity as a stand-alone topic is a new focus for many institutional investors," notes **Lydia Guett**, sustainable and impact investing specialist at **Cambridge Associates**. "Biodiversity has historically been more impact- rather than returns-focused, which is one of the reasons institutional investors have not previously focused on this area."

What can investors do?

A growing number of institutions are signing on to the UN's Finance for Biodiversity Pledge, committing to making a positive contribution to biodiversity through their investments and other activities.

But investors are also taking concrete action, beyond just a pledge.

"For several years now we have been working on issues within biodiversity," Mangset says. For instance, "We have been very active in the forestry domain, in terms of investing in sustainable forestry companies and also focusing on engagement to prevent deforestation.'

Engagement is, in fact, a key part of biodiversity investing. The goal is to get portfolio companies to support "more sustainable production and more sustainable consumption," says **Oliver Withers**, biodiversity lead at **Credit Suisse**. "There is a great opportunity for institutional investors to be active owners and to engage with companies to get them to deliver" on those goals.

This is already underway, he adds. "From an investor perspective, engagement is undeniably ramping up. We're starting to see multiple institutional investment managers working collaboratively on particular topics around biodiversity."

KLP is a big believer in engagement around biodiversity issues, Mangset says. "Our strategy is to maintain our investments and focus on shareholder activism."

Shareholder engagement on biodiversity is also important to Netherlands-based pension fund **PGGM**, which published a blog this month that states: "At PGGM we are engaging with our investees on a major driver of both climate change and biodiversity loss: deforestation. Together with peers, we are speaking to companies on how to improve their sourcing practices and overall transparency. Besides exercising our influence, these conversations also provide the basis for informed voting during shareholders' meetings."

Food and agriculture companies, whose operations can lead to deforestation and thus biodiversity loss, are a major target for engagement efforts. A year ago, for instance, shareholders of agribusiness company **Bunge** voted overwhelmingly in favor of a proposal that asks the company to report on its efforts to “eliminate native vegetation conversion in its soy supply chain” – part of a pressure campaign around deforestation on Bunge-owned land in Brazil.

New products coming to market

Increasingly, though, institutional investors are looking to be even more direct in their support for biodiversity. One example came last year when a consortium that included **British Columbia Investment Management Corp**. and pension provider **APG** acquired 80,000 hectares of sustainably-managed Chilean timberlands.

And now, asset managers are developing ways to make it even easier for investors to put their money to direct use.

“There have been a few biodiversity funds launched, which indicates that strategies are being developed,” says Gorte. But investors have other options too. “We at Impax have incorporated biodiversity into our Impax Sustainability Lens tool, which was designed to categorize the risks and opportunities in each industry as they pertain to the transition to a sustainable economy.”

Among the managers developing biodiversity-focused funds is Maryland-based **Karner Blue Capital**, which says it “seeks to provide market-based returns for its investors while promoting corporate environmental and biodiversity stewardship.” Karner’s funds include the Biodiversity Impact Fund and the Global Conservation Strategy.

The goal is to gain “competitive returns” by investing in public companies “that use innovative business models to generate industry-leading impacts regarding biodiversity preservation, climate change mitigation, environmental stewardship, and animal welfare,” marketing documents state. Top holdings tend to be names you’ll see in other ESG-focused funds, including solar developers, electric vehicle charging companies and some big tech companies.

The market for biodiversity investing is evolving. “What we're starting to see on the conservation finance side is what were originally innovative first-time products and instruments are now starting to get replicated and scaled,” Withers says, citing as one example the $364 million blue bond that the government of Belize issued last year to support conservation efforts.

And the **Nature Conservancy**’s impact investing team **NatureVest** raised a $15 million impact loan to allow the Seychelles government to restructure debt and fund a huge marine protected area, which is home to endangered species, coral reefs and, yes, tremendous biodiversity that is now protected.

These innovations are “really exciting – but it does take time for a market to get up around them, and for those products to have demonstrated that they work,” says Withers. “As we start to see these products get replicated on the back of good track records, we're starting to see them become more mainstream.”

Nature-based solutions – where investors fund projects like planting mangroves or protecting forests – are also gaining steam. These can be more difficult to show a return, although they can be used to generate carbon credits that investors can sell. Investors can also use those credits to move their own portfolio toward net-zero.

“Timber is probably one of the most established investments in the space,” Guett says. “It has come into favor as part of the net zero discussions and now investors also consider the biodiversity benefits more thoroughly.”

(Still, while some biodiversity investments can lead to carbon reductions, there are questions around the carbon credits that such projects can generate, and biodiversity overall is probably best looked at as an impact investment than a carbon-reduction tool, many experts say.)

In any case, while investors are finding more products and strategies that allow them to support biodiversity, “most of these strategies do not have a proven track record, which can make adoption slower,” Guett notes.

Another emerging concern: in some instances, managers could label a strategy as “biodiversity-focused, but without robust methodologies,” she adds. “Perhaps this is the next frontier after impact and rainbow washing: now we could see ‘bio-washing.”

But the greatest challenge to biodiversity investing, Gorte says, is financial. “There are lots of ways to create revenue by reducing emissions and adapting to climate change,” she says.

“Biodiversity works best when we leave nature alone – and that doesn’t create a stream of revenue.”

There are plenty of other challenges, and solutions that the industry is trying out. We’ll explore those in the second part of this article series.