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How Does Biodiversity Investing Measure Up?

Supported by Impax Asset Management

By **Chris Larson**

The recent [news](#) that the monarch butterfly is now an endangered species underscores the importance of biodiversity – and the dire threats that face many of the planet's ecosystems.

That's why a growing number of institutional investors are looking to use their investment portfolios to support the protection and restoration of biodiversity. It's a broad and ill-defined area of investing, but proponents say that biodiversity investing is just as vital to life on Earth as is investing to fight climate change.

Whether it means shareholder engagement or direct investments in biodiversity-related programs, this new form of focused investment brings with it many challenges. A key one – one that is starting to get solutions from the investment community – is just how exactly does an investor measure biodiversity?

While biodiversity investing is sometimes paired with climate investing, it's a very different beast. "With climate change, emissions is the main indicator that we are measuring," says **Lars Erik Mangset**, chief advisor on climate change at the Norwegian pension fund **KLP**. "Nature can be a lot more complicated."

There are many potential data points that need to be measured for biodiversity investing. It could be the impact of a company's operations on a particular watershed. The air pollution emitted by a certain project. Habitat loss. Water usage. It's a long and diverse list, and measuring and managing such data points can be far more complex than measuring carbon emissions.

Biodiversity investing doesn't have to mean avoiding any investment that has nature-related risks or that has an impact on the natural environment. But those exposure and risks need to be understood, notes **Gemma James**, senior manager for biodiversity and nature at **Chronos Sustainability**.

"A company can be exposed to nature-related risks, but an investor needs to consider the company's ability to manage these risks and opportunities, to assess whether a company is suitable for a portfolio and the potential for engagement to drive improvements in the company's risk management systems and processes," she says. Investors and managers can look at biodiversity-related risks and opportunities by using their existing in-house ESG methodologies, using third-party data to screen companies

that face greater nature-related risks. But the datasets for biodiversity are not yet as well-developed or readily available as data for more traditional ESG factors. “There’s no real standard or measure,” notes **Julie Gorte**, senior VP for sustainable investing at **Impax Asset Management**. “We need real-time measures of the impact of our activities on biodiversity, and that, for the most part, is lacking.

Some of that stems from basic knowledge limitations. “There are a few ecosystems we understand well, a lot more we understand at a superficial level, and even more that we don’t understand much at all,” says Gorte.

When it comes to biodiversity, “There’s just not enough good data,” adds **Marion Maloney**, head of responsible investment and governance at the UK’s **Environment Agency Pension Fund**.

There have been improvements, she notes. “For sustainable agriculture and forestry, for instance, we do have managers that can give us that data [on biodiversity] at a very local level,” she says. “But it requires a huge amount of work to gather that data. You need an asset manager that can put in place baseline monitoring, and track it.”

And despite such improvements, much more data is needed. The good news is that these expanded data points are coming, if slowly. “There are a number of initiatives underway, including across NGOs, banks and investors, to try and improve the availability of data in the space and what those metrics should look like,” says **Oliver Withers**, biodiversity lead at **Credit Suisse**.

A major initiative is coming from the **Task Force on Nature-Related Financial Disclosures** (TNFD), founded last year and modeled in part on the Task Force on Climate-related Financial Disclosures (TCFD). TNFD members from the finance sector include officials from **BlackRock**, **Bank of America** and **Macquarie Group**, as well as representatives from multinational corporations and service providers.

The group is developing a risk management and opportunity disclosure framework that includes definitions, guidance for corporates and investors to deal with nature-based risks and opportunities, and – crucially – guidance around metrics and targets around biodiversity and related investments.

The task force has released two iterations of the framework so far; it’s soliciting industry feedback and will issue additional drafts before the planned release of final recommendations in September of next year.

Though that’s a ways off, the early efforts are welcomed. “It’s helping to pressure people to start thinking about biodiversity,” Maloney says.

Meanwhile, investors and managers have additional options, including new online tools like Exploring Natural Capital Opportunities, Risks and Exposure, or ENCORE, a tool developed by the **Natural Capital Finance Alliance** in partnership with the **UN Environment Programme's World Conservation Monitoring Centre**.

“To understand risks and opportunities, the [ENCORE tool](#) can help impacts and dependencies on ecosystem services linked to specific production processes,” says James. “There is a biodiversity module which can help investors know if their portfolio is aligned with global biodiversity goals, starting with the mining and agricultural sectors.”

And investors and managers have access to a growing number of other guides and tools. “There are lots of practical, useful approaches out there,” James adds. For instance, “**Finance for Biodiversity** developed a very helpful [guide](#) on these which highlights the underlying datasets, strengths and limitations of each.”

But, Withers notes: “There’s a lot of work still to be done for the data and standards to be made more mature before investors can start making targeted commitments, with real robust data to achieve those targets.”

Proponents are clear-eyed about the many other challenges that persist for this nascent investment area. “Actually defining biodiversity, and what is biodiversity risk, and connecting that to company activities, is really a significant challenge,” Mangset says. “It’s one that has to be solved if we are to move from where we are today.”

But there’s optimism too, as investors start to put money into biodiversity investments. Observers also say a growing number of institutional investors are getting educated about the topic, which should mean more money flowing to such investments in the near term, once the challenges start to be addressed.

Indeed, perhaps the greatest challenge to wider adoption of biodiversity focused investing, Impax’s Gorte says, is the fact that it can be hard to make money by simply protecting nature.

“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.”

Untying that knot may well be the key to unlocking more institutional capital for biodiversity investing, however it is measured.