Biodiversity Investing Standards Picking Up Steam

Supported by Impax Asset Management

by **Chris Larson**

Corporations and asset owners alike are increasingly wanting to measure and manage their impact on nature and biodiversity. They have long been stymied in doing so by, among other things, a lack of common standards around how to measure, or even define, impacts on biodiversity and the environment.

Recent developments – including new investor initiatives and a nearly-finished set of proposed standards from an industry task force – have proponents feeling optimistic that, if and when those regulations do arrive, investors will be ready. And in any case, nature and the environment will benefit.

Biodiversity investing essentially means finding a way to generate positive investment returns while also promoting the sustainable use of natural resources. It can be investing in companies that actively promote conservation or sustainability or in companies that utilize conservation in their day to day practices. It can also be simply avoiding investments in the most polluting companies.

It's still a young field. "Interest in biodiversity as an investment theme is increasing at light speed, but we haven't yet developed a good sense of where the best opportunities are, and how those will affect biodiversity itself," says **Julie Gorte**, senior VP for sustainable investing at **Impax Asset Management**.

A number of factors are pushing pensions and other investors to look at biodiversity. There's risk-avoidance, in the sense that damage to nature or biodiversity can hurt economic growth. There's a desire to prepare for expected regulations that will likely impact how companies behave and report their numbers. And, as Gorte notes, there's also a real sense of wanting to do good with your investments.

"People want to feel good about their investments, and not wake up in the wee hours fretting about how their investments may be pushing polar bears into extinction," she notes.

A leading proponent of considering biodiversity in investment decisions is **PensionDanmark,** Denmark's largest labor market pension fund. Among its other investments, the pension develops a range of properties on land that it buys, and it is working to minimize the environmental impact of those developments. A report it published earlier this year says pension officials are "committing ourselves to making all our investments in urban development and new construction a positive contribution to biodiversity by 2030."

Another institutional investor that's committed to biodiversity is Norwegian pension giant **KLP**. The pension has seen an "increasing recognition of biodiversity, of maintaining the integrity of nature, and the overlap of climate and biodiversity," **Lars Erik Mangset**, the pension's former chief advisor on climate change, said in a CleantechIQ virtual fireside chat last year. “Based on that recognition, we have, for several years worked on single issues within biodiversity.”

While there aren't that many investment products specifically focused on biodiversity as of yet, one way KLP focuses on biodiversity is pressuring its portfolio companies to ensure they are taking proper steps to maintain and protect biodiversity and the environment.

But exactly what counts as protecting biodiversity can be very much open to debate. That’s why a major challenge to greater adoption of biodiversity investing is the lack of metrics and standards.

When investing to fight climate change, investors can look at the relatively straightforward – and universal – metric of the concentration of greenhouse gasses in the atmosphere. For biodiversity, though, “while there are a number of metrics under development, we don’t have anything that simple or widely accepted in the world of biodiversity investing,” Gorte says.

Indeed, “With biodiversity, you're measuring insects and elephants and everything in between,” says **JP Gibbons**, senior director for sustainable and impact investing at **Cambridge Associates,** speaking at the Transition-IQ Forum in February. “Understanding how to measure that is very localized and it’s a very difficult process.”

That creates issues for anyone seeking to manage their impacts on pollution and other biodiversity measures.

“At the moment, the data is very disjointed, for investors and for companies,” says **Gemma James**, head of biodiversity and nature at **Chronos Sustainability**. “So we don’t have a good idea of, say, how much of what is sourced from where. And mapping out things like dependencies is quite difficult.”

She adds: “When you're an investor, you are looking for data on your exposure, your risk management, your ecological impacts and your financial impact. But it’s really hard when you've got data sets that maybe only focus on one of those stages.”

A major effort aimed at changing that is the **Task Force on Nature-Related Financial Disclosures**, or TNFD. The group is modeled on the **Task Force on Climate-Related Disclosures** and has been working to create a risk management and disclosure framework that will give companies and investors standards to measure, report and manage nature-related risks.

In late March, the group released the fourth and final draft of that framework, with the final version expected later this year.

“I think that TNFD will allow better, more precise understanding of the mechanisms by which corporations and economic value depend on biodiversity, and identify key ways to avoid biodiversity loss,” Gorte says.

At the COP15 meeting on biodiversity in Montreal last December, a coalition of institutional investors and environmental groups announced the **Nature Action 100**. It's intended to pressure investors to take action on the "nature-related risks and dependencies in the companies they own."

The initial efforts will include identifying 100 companies that investors should focus on for biodiversity action, outlining what steps those companies need to take to protect and restore biodiversity and nature, and encouraging investors to engage with those companies.

Other efforts around biodiversity investing include the **World Benchmarking Alliance**'s ongoing program to rate large companies in terms of how well they protect biodiversity. The group has rated 400 companies so far and plans to release data on another 600 later this year. The goal, the Alliance says, is to offer up "publicly available, evidence-based insights into where the world's most influential companies stand on their contributions to a nature-positive future."

All these initiatives point to a rising level of interest in biodiversity across the investment world. "We're seeing interest from everyone, clients included, in investing to promote, restore, and protect biodiversity," Gorte says. She adds: "Anytime there's more interest in an issue like this, it's a signal to data providers and scientists that better datasets and measures are needed, and that is indeed an improving situation."

Other experts say much the same.

"I think there is a lot of recognition that it's really important to have a standardized disclosure framework that goes across the economy," says **Caitlin Clarke**, director for policy and external affairs in the Timberland Investment Group at **BTG Pactual,** also speaking at the Transition-IQ Forum. "And recognition that biodiversity loss is a systemic risk, and that reversing it, is really important across the economy."

There's already been a positive impact from the changes to date. "The kind of guidance that's now being provided to corporates is much more nature-positive than it was even a year or two ago," says **Lorenzo Bernasconi**, head of climate and environmental solutions at **Lombard Odier Investment Managers**.

Companies, though, say they want more.

"We're definitely hearing from companies that want to be Montreal-aligned – that is, the equivalent to being Paris-aligned," James says. "But we're going to have to wait to see whether there are incentives and disincentives [around biodiversity-related action] coming from public policies."

Indeed, while proponents of biodiversity investing are pleased to see the recent movement, there's still a lot of work left to be done.

"We're definitely moving forward in ways that weren't apparent before COP15 and TNFD," Gorte says. "But we're still far behind where we are with climate change" in terms of standards, measurements and related investment options."