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NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS

Deploying an ambitious biodiversity strategy

Hadrien Gaudin-Hamama
Impact & ESG Specialist
Mirova

In this interview, Hadrien Gaudin-Hamama, Impact & ESG specialist at Mirova, explains the challenges investors are facing regarding biodiversity, and the crucial role they play in acceleration actions

Our planet's natural heritage is the result of the living world's gradual evolution since the first organisms appeared more than 3 billion years ago. Biodiversity, the living fabric of the Earth, is an extremely complex assembly of parts. As fragile as it is varied, the balance of the world's biodiversity is now under serious threat. Nearly 70% of wild vertebrate species have disappeared over the last 50 years[2] and 1 million animal and plant species are now endangered[3]. Through deforestation, urbanisation, pollution, overexploitation[4] and other pressure drivers, human activities are endangering the natural wealth of our planet.

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Why should biodiversity be a focus for investors?

Like climate change, the decline in biodiversity is threatening our activities, lifestyles and, ultimately, our very survival. Food production is currently on an unsustainable pathway and current agriculture practices, which are the main pressure drivers on biodiversity, are jeopardizing the capacity of agriculture to sustainably feed the world. Degradation of soils threatens essential ecosystem services such as water regulation and filtration, which reduces resilience to climate change.

Ecosystems are key carbon sinks and their restoration by food sector corporates willing to inset their impact can play a significant role in the path towards emissions neutrality by 2050 and achieving net zero biodiversity loss by 2030.

In strictly economic terms, 55% of global GDP depends directly on biodiversity[5] being in a healthy state. Additionally, biodiversity erosion induces transition and physical risks that can materialize as immediate profit loss for investors, but also as systemic risks affecting financial market stability.

To achieve zero biodiversity loss by 2030 requires a rapid systemic change in the way humanity produces and consumes. In this regard, active selection of assets can play a major role.

Key takeaways:

- Biodiversity funding must increase every year to reach the 2030 zero loss target set by the UN Global Biodiversity Framework. Bridging the financial gap is challenging. The financial sector needs to mobilize to reach the $200bn target.
- Private investors have a key role to play in accelerating biodiversity action by allocating capital to support and engage with companies that provide solutions.
- Equity investment enables rapid financing of solutions that reduce pressures on biodiversity across the value chain. Mirova has created a clear framework to achieve this, and this is reflected in the selection of investments across its portfolio (fully Article 9 under SFDR[1]) and through its continuous engagement/advocacy efforts.

1 "With exception of certain dedicated funds and funds delegated by management companies outside Groupe BPCE. The Sustainable Finance Disclosure Reporting (SFDR) Regulation aims to provide more transparency in terms of environmental and social responsibility in financial markets, through the provision of sustainability information on financial products (integration of risks and negative sustainability impacts). Products classified as Article 9 within the meaning of SFDR have a sustainable investment objective compared to products classified as Article 6 (no sustainability objective) or Article 8 (environmental and social characteristics).

2 https://livingplanet.panda.org/

3 https://www.ipbes.net/sites/default/files/2020-02/ipbes_global_assessment_report_summary_for_policymakers_fr.pdf

4 https://royalsociety.org/topics-policy/projects/biodiversity/human-impact-on-biodiversity/

5 https://www.pwc.com/gx/en/news-room/press-releases/2023/pwcboosts-global-nature-and-biodiversity-capabilities.html

What are our responsibilities as investors?

We believe private investors have a key role to play in accelerating the momentum of biodiversity action by allocating capital to support companies that provide solutions.

The World Bank's nature stress tests highlight three priority actions. The first, reducing detrimental subsidies[6], is the prerogative of governments. The other two are in the hands of private sector: remunerating natural assets owners to avoid land conversion, and investing in research on agriculture. To achieve this and reach the 2030 zero loss target, the financial sector needs to mobilize to reach a $200bn funding target.

Currently, up to $143bn is mobilized each year for biodiversity conservation, most of which comes from the public sector. By comparison, $632bn is mobilized annually for climate-related projects[7]. We think funding for biodiversity will steadily move towards the level we see for climate change investments as private investors realise the need and the opportunity. Biodiversity funding must increase every year together with engagement on sustainable value chains and footprint measurement.

The bulk of the required funding will need to be directed, through equity investment, to agriculture transition (54%), urban environment (10%) and fisheries and forest maintenance (6%). Other activities, such as conservation, mitigation of invasive species and coastal restoration, require 30% of the total funding and can be addressed through other asset classes[8].

What are your concrete actions as a leading investor in sustainability?

In response to such huge investment requirements, Mirova has been reviewing its sustainability methodologies while aligning with regulatory frameworks. To illustrate this, portfolios' compliance with SFDR article 9 ensures a clear definition of positive impact which is reflected in Mirova's sectoral ESG methodologies.

Our focus is on companies which contribute to reducing pressures on biodiversity through circularity improvement, pollution reduction, and climate change mitigation including sustainable land uses through synergies with sustainable forestry. Deployment of "do no significant harm" criteria supports risk reduction. As material sectors such as agriculture are insufficiently covered by the taxonomy, Mirova is filling the gap through an internal taxonomy of positive impact designed to converge with future taxonomy updates.

We have also updated our yearly engagement priorities to encourage companies in material sectors to improve their impacts, emphasizing a set of actions to ensure minimum standards and reach advanced practices. An illustration is regenerative agriculture, where the minimum requirements include issuance of guidance for suppliers, and advanced practices require third-party verified farming practices assessment using a scorecard.

Is there a roadmap for biodiversity investment?

There are a growing number of targets, frameworks, standards, commitments, and recommendations around the world which guide the finance sector in integrating biodiversity considerations.

The best known of these is probably the Global Biodiversity Framework (GBF). The GBF was agreed at the 15th Conference of the Parties of the Convention on Biological Diversity (CBD) in Montreal in December 2022. It was signed by nearly 200 countries and a large chunk of the business and finance sector, and has since become widely known as the "Paris Agreement for biodiversity". It sets six over-arching targets to which Mirova has committed to the three which are most relevant to equities and bonds: recognizing the role of nature-based solutions for climate mitigation – which is relevant for forestry and food companies – reducing the footprint of large companies, and mobilizing additional finance for biodiversity.

Industry frameworks guiding financial institutions include Finance for Biodiversity Foundation's "Act Now" guidance report and its "Climate-biodiversity Nexus" guide, and the PRI's target-setting guidance. Meanwhile, the Taskforce on Nature-related Financial Disclosures (TNFD[9]) provides essential disclosure recommendations. Launched in September 2023, these recommendations are likely to transform the way investors assess and manage risks associated with nature and biodiversity. Mirova is an early adopter of these recommendations, committing to disclose in 2025 on 2024 performance.

So what is your starting point for making a positive impact on biodiversity?

Our biodiversity approach contributes to the Convention on Biological Diversity's objective of halting and reversing biodiversity loss by 2030, while remaining consistent with the <2°C climate scenario set out by COP15 in Paris.

To stop and reverse biodiversity loss, we adopt the mantra set out by the Science Based Targets for Nature – also known as the mitigation hierarchy – **avoid, reduce, restore**.

Avoidance is likely to make the biggest impact – but relies on comparison with forward-looking pressure reduction scenarios that do not yet exist in full. Avoidance is illustrated by substitution of animal proteins by plant-based proteins. In forestry, impacts stem from use of wood by-products for the production of goods and biochemicals. Meanwhile, waxes can substitute for persistent-plasticizing chemicals in liquid cardboard packaging.

Reduction is achieved through transition towards new and disruptive products and services and relies on comparison with past environmental performance. Examples include precision agriculture-enabling soil sampling and intercropping, which reduces the use of inorganic fertilizers while improving soil health. Wastewater reclamation is another illustration, whereby municipal wastewater is reused for agriculture and groundwater replenishment.

We also consider companies committing to improving their impacts by leveraging influence on their value chain. This includes credible targets

6 subsidies which have been identified as environmentally harmful
7 source: Financing Nature: Closing the Global Biodiversity Financing Gap - Paulson Institute
8 source: https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Global-Landscape-of-Climate-Finance-2021.pdf
9 TNFD : the Taskforce on Nature-related Financial Disclosures

aligned with Science-Based Targets for Nature (SBTN[10]) for land and freshwater and internally-defined best practices defined by our analysts in each economic sector.

Restoring nature where it has been degraded is possible through processes such as the conversion of landfill sites, remediation of industrial wasteland, and advanced filtration of polluted water for persistent chemicals compounds. This can happen in corporate supply chains through insetting efforts, for instance.

How is it possible to measure a company's biodiversity impact?

The complexity of measuring biodiversity is a significant hurdle for investors who want to integrate nature-related metrics in their analysis. The need for clear global standards and guidelines has resulted in new indicators. Adopting a parallel approach to climate, where the main indicator is GHG (greenhouse gas) emissions, researchers have established the Mean Species Abundance (MSA) as a standard to measure biodiversity.

MSA is a biodiversity indicator expressing the average abundance of native species in an ecosystem compared to their abundance in undisturbed ecosystems.

We evaluate the magnitude of companies' pressures on biodiversity, using correlations between pressures and abundance. Relative abundance is a key parameter of functional diversity, an identified role of the Biosphere in Planetary Boundaries framework. Improvement in relative abundance complements existing ecosystem conservation and restoration actions that focus on species diversity.

There are five key pressures on biodiversity, as defined by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES). These are: land and sea use; direct exploitation of organisms; climate change; pollution; and invasion of alien species.

We have chosen to report on impacts using biodiversity footprint through MSA.km2, or "MSA x surface unit" which equates to corporate land use, thereby expressing (on the positive side) land surface fully restored to its pristine state and (on the negative side) land surface converted to zero biodiversity.

The footprint generated by each company is calculated using a life-cycle approach, which takes into account the impact of the company's products and services as they are used, as well as upstream inputs. Before these targets were even created, Mirova had long integrated biodiversity into its investment analysis. Yet this contributes to evidence of our progress towards our CBD-aligned target of reducing corporates pressures and increasing positive impact.

Can biodiversity impact measurement be applied to all companies?

We have a global focus, analysing listed companies of all sizes and in all geographies. We prioritize analysis of companies in sectors that exert the highest pressures per unit produced, per the SBTN materiality matrix.

Our partner – Iceberg Data Lab – is able to simulate any corporate's biodiversity footprint based on products' revenue exposure, and their averaged impact over their value chain using an input-output database and an environmental conversion database. Companies that disclose their impacts using physical indicators – according to TNFD sectoral recommendations and/or CSRD[11] – enable consultants to refine the analysis and provide a more accurate picture of their impacts.

Nevertheless, we recognize the current limitation of these footprinting tools given the limited scope on pressures, ecosystems, and their reliance on correlations rather than actual state-of-nature, and we support further improvement. Our sector-specific impact and ESG analysts also rely on open-source database on supply chain deforestation, chemicals, and water, and also on controversies. In any case, Mirova's sustainability methodology relies on the precedence of qualitative analysis, where data is leveraged to add specialized insight to analysts' sectoral methodologies.

Published in January 2024

10 SBTN : Science Bases Targets Network
11 CSRD : Corporate Sustainability Reporting Directive

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HUBINT20ENG-1223