Four critical elements for asset managers to meet the biodiversity challenge

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- Biodiversity must be prioritised alongside climate change and asset managers should implement specific engagement strategies.
- Collecting, analysing, and reporting environmental data is key.
- Dedicated strategies backing biodiversity-related solutions should drive investment.

Our biodiversity system is deteriorating at an alarming rate and its loss is causing damage to the natural world, society, and global economy. The World Economic Forum estimates that more than half of global GDP – around $44trn[1] – depends on high-functioning biodiversity. As such, biodiversity loss is increasingly recognised as a systemic risk.

Understanding how biodiversity risks might impact long-term portfolio returns and how to best manage them is just a part of the equation. We believe investors should also consider how to contribute positively to good social and environmental outcomes.

Asset managers cannot address the environmental crisis alone, but they have a role to play in protecting livelihoods through how they engage with companies and direct clients' capital. We believe there are four critical elements required for asset managers to meet the biodiversity challenge.

1: Make biodiversity a priority alongside climate change

The destruction of habitats and food systems causes about 25% of climate emissions. In turn, climate change is becoming an increasingly significant driver of biodiversity loss - land and marine ecosystems absorb over half of man-made carbon emissions.[2]

This interconnectedness means climate change and biodiversity loss must be tackled together.

However, whereas climate change focuses on a single metric – carbon emissions – biodiversity is multifaceted. Damaging a complex system like the natural world has innumerable economic consequences.

For instance, intensively farming land with pesticides and fertilisers limits its ability to continue producing food by reducing crop yields. Similarly, polluting water supplies can have terrible consequences for the company responsible as it could incur in backlash , fines and/or higher taxes.

These are economic risks that asset managers cannot afford to ignore. As such, biodiversity must have equal billing with climate change when making long-term investment decisions.

2: Implement specific engagement strategies around biodiversity

Biodiversity has only recently become a mainstream concern for investment managers. As a result, a comprehensive risk and disclosure framework – akin to the Task Force on Climate-related Financial Disclosures– was lacking. A major step forward was made in September with the launch of TCFD's sister framework, the Taskforce for Nature-related Financial Disclosures (TNFD).

With higher-quality reporting on companies' environmental footprints, asset managers will be better equipped to identify more exposed businesses and how they impact the environment.

This will be crucial to navigating a world lacking a single point of focus – and will also facilitate more detailed engagement around those companies' long-term plans.

Nevertheless, asset managers need to implement their own biodiversity engagement strategies or risk squandering this opportunity to drive environmental change.

3: Use the data

Given preserving biodiversity and ecosystems are now urgent priorities, it is crucial to have metrics and tools which measure the impact of investments on the environment.

Companies like Iceberg Data Lab offer assessment tools and data solutions demonstrating the impact of issuers and assets throughout their value chain.[3]

Moreover, advances in 'big data' mean it is now much easier to monitor environmental factors, using technologies which provide a reliable picture of how and where the environment is changing. This enables investors to make more detailed investment decisions.

However, having the right tools does not automatically mean that asset managers will use them. Genuine commitment to tackling biodiversity loss is required, which is not yet wholly evident across the sector.

4: Develop strategies backing biodiversity solutions

As with carbon emissions, the investment approach to biodiversity is twofold. We can mitigate risks by allocating capital to either companies reducing their biodiversity footprints or biodiversity-friendly solutions. The latter, we believe, will most excite investors seeking to have a real environmental impact.

Companies in the solutions space develop products and services which can have a positive benefit on biodiversity preservation beyond their own footprints. Key areas include agriculture, aquaculture, water treatment, and sustainable materials.

There is already a myriad of investment opportunities and innovations in these areas. The more strategies there are to back the companies developing these solutions, the better.

Policy in this space will be key. Upcoming government interventions, such as banning plastic packaging for food, will be game changers for providers on the right side of future legislation. But to help these companies scale and innovate, we need dedicated strategies channeling capital to them.

Around $133bn is invested annually in nature-based solutions – including $18bn from private sector finance – but this needs to at least triple by 2030 if the world is to meet its climate targets.[4] To support a sustainable global economy, we need increasing numbers of single-focus strategies to help meet the risk that biodiversity loss poses to us all.

FOOTNOTE

1 The Future Of Nature And Business, World Economic Forum, 2020
2 Biodiversity and Climate Change, IPBES and IPCC, June 2021
3 AXA IM is a shareholder of Iceberg Data Lab and is working with the provider to support the development of a biodiversity footprint metric.
4 State of Finance for Nature | UNEP - UN Environment Programme