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# Point of No Returns

## Part IV – Biodiversity

An assessment of asset managers' approaches to biodiversity

**ShareAction**»

ASSET OWNERS'  
DISCLOSURE PROJECT

# Acknowledgements

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## About AODP & ShareAction

ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

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# Executive Summary

## Overview

The unprecedented technological change and economic growth achieved over the last few decades, while bringing prosperity to many, has come at a heavy cost to natural systems that underpin all life on Earth. The 2019 landmark report released by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) illustrates starkly the extent to which human activity is eroding the world's ecological foundations. It finds that human activities have already severely altered 75 per cent of terrestrial and 66 per cent of marine environments, threatening the survival of around 25 per cent of the assessed animal and plant species, with one million species facing extinction, many of them within decades. Nearly half of the world's ecosystems have declined in size and condition against their estimated natural baselines and many continue to decline at the rate of at least four per cent per decade<sup>1</sup>.

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*The collapse of ecosystems is one of the defining global challenges of our time, with the current biodiversity-related trends estimated to undermine progress towards 80 per cent of the sub-targets under the Sustainable Development Goals framework<sup>2</sup>.*

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The depletion of ecosystems at individual species level, from large mammals like Central Africa's forest elephants to phytoplankton, will have grave consequences for the integrity and stability of global carbon sinks<sup>3,4</sup>, which could exponentially worsen the climate crisis and severely compromise the efficacy of global climate action. In reflection of this, the 2020 World Economic Forum's Global Risk Perception Survey conducted across a global community of experts and decision-makers, finds that the loss of biodiversity is considered among the greatest risks facing society today, with all of the top five risks sitting in the natural environment category for the first time in the history of the survey<sup>5</sup>.

Halting biodiversity loss is an extremely pressing and difficult challenge, rendered still more complex by the pressures arising from a changing climate. While tackling it requires a broad collective commitment from all stakeholder groups including governments, regulators and civil society, the financial sector has a key role to play in this mobilisation. The influence that it wields through the ownership and financing of companies worldwide and the resulting potential for change cannot be overstated. The financial industry is also uniquely positioned to advance a new economic agenda that fully accounts for nature and deals with the loss of biodiversity understood as an "asset management problem"<sup>6</sup>, in line with the framework proposed in the 2020 interim report of the Dasgupta Review on the Economics of Biodiversity.

The biodiversity crisis and the collapse of ecosystems, threatening vital ecosystem services such as pollination, are becoming even more prominent in the context of the currently ongoing coronavirus pandemic. Recent findings from interview research with leading institutional investors and governance experts indicate that the Covid-19 outbreak is generally believed to be serving as a catalyst for heightened awareness of biodiversity loss and habitat depletion due to the links between the root cause of the pandemic and these factors<sup>7</sup>. These findings show that the Covid-19 crisis is a source of additional motivation for bringing biodiversity into the heart of asset management,

and indeed all parts of the financial markets, and provide a further imperative to highlight biodiversity within engagement strategies and investment policies in a quest to manage the risk of future pandemics.

It is also clear that nature loss will increasingly affect profits of the financial industry, with several valuations already showing the high costs of the failure to address biodiversity-related risks incurred so far<sup>8,9,10</sup>. Research by the World Economic Forum also finds that US\$44 trillion of economic value generation – more than half of the world’s total GDP – is moderately or highly dependent on nature and its services<sup>11</sup>.

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*Yet despite the risks emerging from business dependency on nature, the progress in integrating biodiversity into business and investment decisions remains limited<sup>12</sup>.*

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It is in this context that ShareAction releases this assessment of the asset management industry’s approach to biodiversity, based on comprehensive data collected from 75 of the world’s largest asset managers that collectively hold over US\$56 trillion in assets under management. It follows the publication of a ranking of the surveyed managers, released as part of the first [\*Point of No Returns\*](#) report.

The picture emerging from our analysis suggests that the asset management industry is still very early on its journey to mainstreaming and systematically integrating biodiversity into strategy, investment decision making, risk management and impact assessment. Although biodiversity-related risks are appearing on the radar of some of the assessed asset managers, none has developed a comprehensive, dedicated biodiversity policy and concrete policy commitments are few and far between. The identification and disclosure of biodiversity-related risks, opportunities and impacts remain limited and have not gained the same momentum as climate-related disclosure in recent years. Our analysis further highlights the overwhelming reliance of asset managers on the provision of third-party data and limited use of metrics for quantifying biodiversity-related portfolio risks and impacts.

Given the urgency of the nature crisis, we hope that this report helps build momentum for intensified and sustained effort within the asset management industry to meet the challenges of biodiversity loss and ecosystem collapse, and galvanises other stakeholders, including policymakers, asset owners and service providers, into action. It is time for the financial industry to step up to the challenge and show the boldness necessary to tackle the unprecedented degradation and decline of the natural systems that are key to our existence and prosperity.

## Summary findings

### **FINDING 1 – The majority of asset managers’ policies on biodiversity-related risks and impacts remain critically undeveloped.**

- 1.1 None of the assessed asset managers has a stand-alone, dedicated policy on biodiversity covering all portfolios under management.
- 1.2 Asset managers’ publicly available responsible investment policies lack specific commitments on biodiversity-related issues.

### **FINDING 2 – Asset managers identify biodiversity-related portfolio risks and impacts less systematically than they do for climate change.**

- 2.1 Legal and regulatory risks are the most commonly identified biodiversity-related risks.
- 2.2 Sustainable agriculture and circular economy solutions are the most commonly identified biodiversity-related investment opportunities.
- 2.3 Asset managers see biodiversity as most material in the context of investments in agriculture, forest and paper products and the extractive industry.
- 2.4 There is little evidence of asset managers considering biodiversity-related impacts of their investments across all assets under management.

### **FINDING 3 – There is generally little evidence of asset managers engaging systematically on biodiversity-related issues with portfolio companies.**

- 3.1 Only 49 per cent of asset managers discuss corporate biodiversity strategy in their engagement.
- 3.2 Deforestation is the most common theme of biodiversity-related engagement.

### **FINDING 4 – Asset managers’ voting policies lack specific commitments on shareholder proposals relating to biodiversity.**

- 4.1 Only seven per cent of analysed voting policies include a commitment to vote in favour of increased transparency around the wider environmental impacts of company operations.

### **FINDING 5 – The use of biodiversity-related metrics by asset managers is still in its infancy.**

- 5.1 The vast majority of asset managers do not integrate biodiversity-related metrics into investment processes.
- 5.2 Asset managers find third-party ESG data key to the assessment and integration of biodiversity-related risks.

## Methodology

- Asset managers were selected based on the size of their assets under management (AUM) with adjustment for regional coverage (40 managers from Europe, 25 from the Americas, 9 from Asia Pacific, 1 from Africa).
- A questionnaire was sent to 75 asset managers, of which 92 per cent decided to participate.
- Asset managers that declined (8 per cent) had their response populated based on publicly available information and were subsequently provided with the opportunity to review their response.
- The analysis in this report series is based on answers selected and commentary provided in survey responses. The questionnaire, which can be viewed in full in the appendix of [part one](#) of the series, and the thematic reports follow the structure of the TCFD recommendations.
- Information was collected between July and October 2019<sup>i</sup>.

The full methodology can be viewed [here](#).

## The *Point of No Returns* report series

This report is the last in a series of four reports assessing the global asset management industry's approach to responsible investment. In this report series, we examine the performance of 75 of the world's largest asset managers in four key areas: responsible investment governance, human and labour rights, climate change and biodiversity.

[Part I](#) includes a ranking of the assessed asset managers based on their overall performance across all four topics and discusses performance across regions, asset managers' stewardship practices, and their approaches to governance.

[Part II](#) discusses asset managers' approaches to human and labour rights.

[Part III](#) focuses on asset managers' performance on climate change.

This report constitutes [Part IV](#) of the series and discusses asset managers' approaches to biodiversity-related issues.

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i All information relating to asset managers' policies has been updated to reflect the content and commitments made as of March 2020.

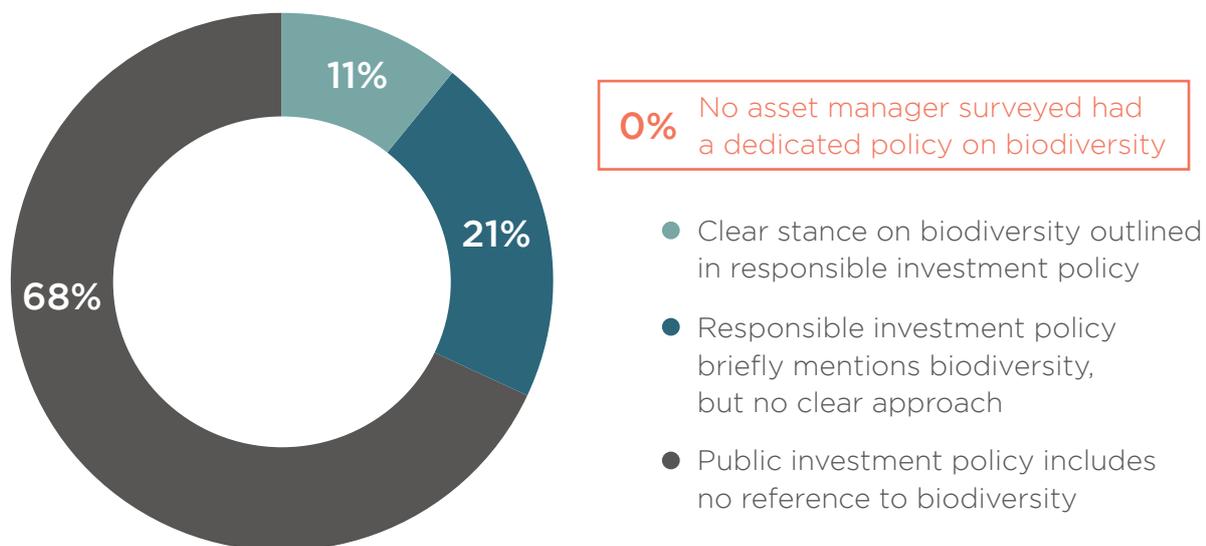
# Strategy

## FINDING 1 – The majority of asset managers’ policies on biodiversity-related risks and impacts remain critically undeveloped.

### 1.1 – None of the assessed asset managers has a stand-alone, dedicated policy on biodiversity covering all portfolios under management.

None of the asset managers included in this analysis has yet published a dedicated policy on specific biodiversity risks and impacts covering all portfolios under management. However, 11 per cent of the assessed asset managers have published responsible investment or engagement policies in which they adopt a clear stance with respect to the protection of biodiversity and outline general expectations in this respect for all investee companies. A further 21 per cent reference biodiversity in their publicly available documents, without, however, communicating a clearly defined position or outlining how biodiversity considerations are incorporated into general investment strategy<sup>ii</sup>.

Figure 1: Inclusion of biodiversity in asset managers’ investment policies



### 1.2 – Asset managers’ publicly available responsible investment policies lack specific commitments on biodiversity-related issues.

The vast majority of policies, including those that discuss biodiversity-related risks at length, lack concrete biodiversity-related commitments. For the most part, asset managers that do adopt a clear approach to biodiversity in their policies limit their commitments to stating that companies are generally expected to take measures necessary to mitigate any harmful impacts they are found to have on ecosystems.

ii Asset managers in this category typically refer to ecosystem protection, natural capital, the biosphere, or the responsible use of natural resources as factors that feature in sustainability analysis.

Asset managers' sectoral policies typically outline investor expectations of portfolio companies with regard to the preservation of habitats and natural resources in more detail. However, only 13 per cent of assessed asset managers have a publicly available policy for a minimum of one high-risk sector that includes biodiversity considerations. Among these asset managers, policies relating to the sustainable sourcing of palm oil are the most prevalent, followed by agricultural, mining, wood pulp and fisheries sector policies.



Despite the generally weak performance in this area, there is, however, some evidence of more advanced steps being taken by leading investors, with one of the assessed asset managers including in its policy a formal target for all relevant companies in its portfolio to comply with No Deforestation, No Peat and No Exploitation (NDPE) commitments by 2020 for agricultural commodities (palm oil, soy, paper, timber and beef products) and by 2030 for non-agricultural sectors. The policy also indicates that a series of internal sub-targets regarding air, soil, oceans, biodiversity and waste have been set to support the achievement of the overall objective.

# Risk and impact management

## FINDING 2 – Asset managers identify biodiversity-related portfolio risks and impacts less systematically than they do for climate change.

### 2.1 – Legal and regulatory risks are the most commonly identified biodiversity-related risks.

56 per cent of the surveyed asset managers provide detail on material biodiversity-related risks identified in relation to their investment portfolios, with legal, regulatory and reputational risks generally seen as most material.

Around 29 per cent of asset managers describe legal and regulatory risks; mostly in the context of liabilities associated with poor environmental management, difficulty in obtaining licences, and environmental regulation on pesticides and other chemical products. It is worth noting, that asset managers see legal and regulatory risks as material to their investments more often than they do other types of risk in the context of both biodiversity and climate change<sup>iii</sup>.

Notably, shifts in public sentiment and the increasing scrutiny of businesses’ environmental practices are most often seen as a source of reputational risk, with market risk resulting from changing consumer preferences receiving less attention. Around 24 per cent of asset managers described operational risks to their portfolios, focusing predominantly on supply chain disruption and price volatility<sup>iv</sup>.

Figure 2: Most commonly identified material biodiversity-related risks

Risks	Percentage of survey respondents
Legal and regulatory	29%
Reputational	27%
Operational	24%
Market	15%

iii For an in-depth analysis of asset managers’ approaches to climate-related risks, please see [part III](#) in this report series.

iv Classification of biodiversity risks in this analysis draws on the framework for identifying nature-related risks for financial institutions outlined in the [supplement](#) to the Natural Capital Protocol published in 2018 by the Natural Capital Coalition.

## **At the forefront of biodiversity-related financial disclosure regulation – developments in Europe**

As the concerns over nature-related financial risks continue to grow, a rising number of financial institutions and civil society organisations have endorsed the setting up of a Task Force on Nature-related Financial Disclosures (TNFD), modelled on the Task Force on Climate-related Financial Disclosures (TCFD)<sup>13</sup>. With the rising demands for the Task Force to be launched at the forthcoming meeting of the Conference of the Parties (COP 15) to the Convention on Biological Diversity (CBD), investors could soon face increased pressure to report data on biodiversity-related risks to their portfolios.

In some countries, financial companies are already facing the prospect of regulatory changes in the context of biodiversity, with the notable example of the French government extending its pioneering Article 173 legislation to include the requirement for the disclosure of biodiversity impacts by asset owners and managers from 2021<sup>14</sup>.

Adding to the pressure, the 2020 Technical Expert Group's final EU Taxonomy report, while focusing on climate change mitigation and adaptation, integrates biodiversity through the "do no significant harm" principle, which applies to all six EU environmental objectives. These include, in addition to climate and biodiversity-focused goals, the sustainable use and protection of water and marine resources, circular economy transition, and pollution prevention and control. Investors and companies will be required to disclose against the Taxonomy by December 2021. The full Taxonomy including an evaluation of economic activities that can substantially contribute to objective 6 – "protection and restoration of biodiversity and ecosystems" – is to be finalised by the end of 2021 and ready for application by the end of 2022<sup>15</sup>.

Furthermore, on 8<sup>th</sup> April 2020, the European Commission opened a public consultation on the renewed sustainable finance strategy, which seeks advice on new reporting requirements on companies' exposure to biodiversity loss and pandemic risks, as the EU grapples with the Covid-19 outbreak<sup>16</sup>. The consultation, which could lead to legislative proposals at a later stage, highlights the links between disease outbreaks and transmission and human encroachment on habitats, and emphasises the risks these interdependencies pose to continued and stable economic development.

## 2.2 – Sustainable agriculture and circular economy solutions are the most commonly identified biodiversity-related investment opportunities.

Only 51 per cent of survey respondents describe specific biodiversity-related investment opportunities. The most commonly identified opportunities relate to sustainable agriculture and circular economy solutions, with the latter including recycling infrastructure, waste management and innovative closed-loop technologies. Other relatively popular investment opportunities are identified with regard to forest restoration, green finance instruments and the shift in consumer preferences towards more sustainable, certified or plant-based food products.

Figure 3: Most commonly identified biodiversity-related investment opportunities

Opportunities	Percentage of survey respondents
Circular economy solutions	15%
Sustainable agriculture	15%
Consumer demand for sustainable food products	12%
Sustainable forest management	12%
Green finance instruments	12%
Green infrastructure	11%
Raw materials substitutes	5%

## 2.3 – Asset managers see biodiversity as most material in the context of investments in agriculture, forest and paper products and the extractive industry.

A qualitative analysis of survey responses reveals that, in the context of biodiversity-related risks and opportunities, asset managers tend to focus on business activities within agriculture and forest and paper products industries, with over a third of survey responses referring to these sectors<sup>v</sup>. Oil and gas, mining and infrastructure and real estate were mentioned by just over a quarter of survey respondents, while industries such as tourism, fashion and transportation received relatively little attention.

v Sector classification in this analysis draws on the [Business Activity Group List](#) developed by the Global Reporting Initiative.

Figure 4: Sectors seen as most relevant by asset managers in a biodiversity context

Sectors	Percentage of survey respondents
Agricultural and animal source food production	41%
Forest and paper products	35%
Oil and gas / Mining	29%
Infrastructure / Real estate	25%
Food and consumer staples - processing and retail	21%
Utilities	16%
Chemicals	15%
Pharmaceuticals	8%
Tourism services	5%
Textiles / Fashion	1%
Transportation	1%

### Human health and well-being in the context of biodiversity loss

While only six of the assessed asset managers make a reference to pharmaceutical companies and the development of new medicines in the context of biodiversity-related portfolio risk, the future growth of the pharmaceutical industry is greatly dependent on the preservation of the genetic diversity of plant and animal species. As much as 70 per cent of drugs used in cancer treatment are natural or synthetic products inspired by nature<sup>17</sup>, while around 50 per cent of all prescription drugs are based on molecules naturally occurring in plants<sup>18</sup>. The rich biodiversity of tropical rainforest is particularly important for new discoveries, with around 25 per cent of drugs used in modern medicine derived from rainforest plants<sup>19</sup>. According to some estimates, due to the current extinction rates and the fact that only a fraction of the world's plant species has been examined for their pharmacological potential, one major drug is lost every two years<sup>20</sup>. The continued loss of genetic diversity is therefore detrimental from the point of view of medical scientific progress and undermines the prospects of pharmaceutical R&D and the industry's future revenues.

Changes in the environment resulting from resource exploitation, agricultural activity and human settlements have also been found to drive the increase in the rate of emerging infectious zoonotic (animal-borne) diseases since the turn of the 20<sup>th</sup> century. Encroachment on natural habitats has been shown to create opportunities for pathogen spillover from wild animals to humans, particularly where the natural disease resistance resulting from abundant biological diversity is lost<sup>21,22</sup>. Over the last couple of decades, several emerging zoonotic diseases made headlines globally, including Ebola, Middle East respiratory syndrome (MERS), sudden acute respiratory syndrome (SARS), West Nile virus, Zika virus, as well as the ongoing Covid-19 pandemic, which is a manifestation of the magnitude of consequences that human encroachment on natural ecosystems can have for the global economy and human health<sup>23,24</sup>.

## 2.4 – There is limited evidence of asset managers considering biodiversity-related impacts of their investments across all assets under management.

The management of short-term biodiversity-related risks by financial institutions will not be enough to stay within safe ecological limits<sup>25</sup> and to restore and protect the resilience of our biosphere, as the traditional risk mitigation approach is insufficient in the face of ecosystem complexity and the interdependencies between human activity, biodiversity loss and climate change<sup>26</sup>. The inclusion of impact considerations in stewardship strategies and all investment decision-making is paramount, if biodiversity loss and environmental decline more generally are to be successfully addressed. As in the context of climate change, asset managers have a better chance of fulfilling their fiduciary duty if the financial materiality perspective at the heart of risk-oriented frameworks, such as TCFD, is broadened to include impact of investments on ecosystems, in line with the double-materiality perspective proposed in the EU Non-Financial Reporting Directive<sup>27</sup>.

However, our analysis shows that the identification of biodiversity-related impacts of investments is still very limited, with only one third of survey respondents describing at least some positive or negative impacts of their investments on biodiversity. Positive biodiversity-related impacts, identified by 33 per cent of respondents, are almost exclusively limited to green investment products, which constitute only a fraction of asset managers' portfolios, while the identification of negative impacts by 32 per cent of respondents is mainly restricted to high-level, generalised observations (e.g. "deforestation") or individual case studies.

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*The examples of negative impacts given by survey respondents largely relate to high-profile cases of grave environmental mismanagement, such as the BP Deepwater Horizon oil spill or the Brumadinho dam disaster involving Vale, which may indicate that the consideration of negative impacts is limited to controversy monitoring, rather than being part of a systematic approach.*

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## FINDING 3 – There is generally little evidence of asset managers engaging systematically on biodiversity-related issues with portfolio companies.

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### 3.1 – Only 49 per cent of asset managers discuss corporate biodiversity strategy in their engagement.

Just under half of the assessed asset managers indicate that they engage with companies on corporate strategy on biodiversity, which further underlines the lack of investor attention to the potential consequences of biodiversity-related impacts and dependencies of portfolio companies for both short-term corporate performance and core business model.

Similarly, only around half of assessed asset managers engage with companies to request improved disclosure of the biodiversity-related impacts of companies' direct business operations (56 per cent) and supply chains (45 per cent). This is particularly concerning, considering the insufficient availability of consistent and comprehensive data, that would allow the financial industry to accurately measure impacts of investments on biodiversity<sup>28</sup>. According to a recent study, less than half of the top 100 Fortune 500 companies mention biodiversity in their sustainability reports; only

nine of them provide quantitative indicators to verify the magnitude of their activities (e.g. area of habitat restored), and only five make specific biodiversity-related commitments that are measurable and timebound<sup>29</sup>.

When asked to specify which areas of engagement are prioritised in the context of biodiversity-related risks, 22 per cent of the asset managers that responded to our survey indicated that they do not have biodiversity-related engagement priorities<sup>vi</sup>. This is in stark contrast with asset managers' approach to climate-related engagement: only two of the asset managers that disclosed to us indicated that they do not have any climate-related engagement priorities. While this is no doubt partly due to the fact that the relevance of biodiversity criteria can vary widely between sectors, geographies and asset classes, more so than in the case of climate-related issues, it does confirm that, on the whole, asset managers' approach to biodiversity-focused stewardship is much less mature.

### **3.2 – Deforestation is the most common theme of biodiversity-related engagement.**

A qualitative analysis of survey responses shows that deforestation associated with the sourcing of soft commodities is by far the most frequent theme of biodiversity-related engagement. While the sustainable sourcing of palm oil features most prominently in this context, a few asset managers also make reference to other commodities which are among the main drivers of tropical deforestation, such as soy, cattle, timber and pulp.

Just under a third of asset managers indicate that they engage on certification for investee companies' direct operations and/or suppliers, with nine asset managers within this group referencing the RSPO certification for palm oil producers and three mentioning the FSC forest management standard. While engagement on certification is strongly encouraged, investors should also be aware of the limitations of certification schemes both with regard to potential adverse social implications<sup>30</sup>, as well as the general effectiveness in improving performance on key sustainability metrics<sup>31</sup>. In light of these limitations, certification should be seen as a minimum standard which, however, does not alone fully protect investor interests or ensure optimal biodiversity outcomes.

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vi The survey question allowed for multiple choice between the following answer options: a) Improved disclosure of the impact of business operations on biodiversity, b) Engagement on corporate strategy on biodiversity, c) Improved disclosure of the impact of suppliers on biodiversity, d) Certification to appropriate sustainability standards for investee companies' direct operations and/or suppliers, e) Ensuring robust third party Environmental Impact Assessments are conducted, d) Ensuring a conservation or mitigation hierarchy approach is used, e) Other, f) We do not have biodiversity engagement priorities.

## Soft commodities and tropical deforestation

An estimated 4.3 million hectares of tropical primary forest, an area the size of Denmark, are lost annually<sup>32</sup>, with just four commodities – palm oil, soy, cattle and timber products – contributing to over a third of tropical deforestation each year<sup>33</sup>. An estimated US\$1 trillion of turnover of publicly listed companies is dependent on these commodities<sup>34</sup>, which underscores the urgent need for investor engagement on deforestation practices in this context.

Furthermore, the most recent transparency assessments conducted by the ZSL (Zoological Society of London) SPOTT initiative found that only 20 out of 97 assessed companies in the timber and pulp industry have a clear commitment to zero conversion of natural forests, while only 11 extend this commitment across their supply chains and only 12 have a system to monitor deforestation<sup>35</sup>. In the palm oil sector, only four out of 99 companies were found to provide strong evidence of monitoring deforestation<sup>36</sup>.

In the context of biodiversity-related engagement, several of the surveyed asset managers cite involvement in collective engagement initiatives on deforestation, such as the [Statement on Investor Expectations on Sustainable Palm Oil](#), the [Investor statement on deforestation and forest fires in the Amazon](#) and the [Statement of Support for the Cerrado Manifesto](#)<sup>vii</sup>.

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*While participation in such initiatives is encouraged, it is critical that they are organised and planned with an emphasis on the subsequent monitoring of compliance and outcomes. The results of the most recent SPOTT transparency assessment provide evidence that investors must go beyond expressing support for collective initiatives and commit to actively engaging with and monitoring portfolio companies to ensure that changes in business operations are introduced and maintained.*

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vii [Investor statement on deforestation and forest fires in the Amazon](#) has been supported by 26 out of the 75 assessed asset managers, [Position Statement on Investor Expectations on Sustainable Palm Oil](#) – 10 out of 75 managers; [Statement of Support for the Cerrado Manifesto](#) – 9 out of 75 managers; [Open letter on soy and the Amazon](#) – 4 out of 75 managers.

Significantly fewer asset managers cite other engagement themes, such as the use of fresh water resources, overfishing and ocean health, and only three survey respondents mention instances of engagement on company impact on pollinator populations.

**Figure 5: Most common themes of biodiversity-related corporate engagement**

Engagement themes	Percentage of survey respondents
Deforestation risks associated with the sourcing of soft commodities	27%
Sustainable use of fresh water resources	7%
Overfishing and ocean health issues	5%
Sustainable protein supply chains	5%
Impact on pollinators	4%
World Heritage Sites protection	3%

#### **FINDING 4 – Asset managers’ voting policies lack specific commitments on shareholder proposals relating to biodiversity.**

##### **4.1 – Only seven per cent of analysed voting policies include a commitment to vote in favour of increased transparency around the wider environmental impacts of company operations.**

In the [first report](#) in this series, we provide an overview of the proxy voting commitments around environmental and social issues made by asset managers in their voting policies. With regard to biodiversity, we found that very few of the reviewed policy documents contain explicit guidance for shareholder resolutions relating to the disclosure and management of wider environmental impacts of company operations.

While 36 per cent of asset managers state that their voting policy covers biodiversity, only around seven per cent commit to increased transparency with regard to the wider environmental impact of company operations in their public voting policies. Only one policy document was found to contain an explicit commitment to support proposals asking companies to abstain from operating in environmentally sensitive areas or using products produced from materials extracted from such areas.

# Metrics, risk assessment and integration

## FINDING 5 – The use of biodiversity-related metrics by asset managers is still in its infancy.

### 5.1 – The vast majority of asset managers do not integrate biodiversity-related metrics into investment processes.

Quantifying biodiversity-related risks and impacts presents a major challenge. Standardised methodologies, such as carbon footprinting in the context of climate-related risk analysis, are in early stages of development and are unlikely to become as universally applicable across sectors and asset classes as certain climate-related metrics. While some of the assessed asset managers state that they are looking into ways of integrating biodiversity-related metrics throughout their investment processes, the majority indicate that these metrics are the same that already form part of third-party ESG research and analytics.

Around 16 per cent of surveyed asset managers indicate that they have a proprietary scoring system which includes at least some biodiversity-related criteria, most of which are sector- or asset class-specific. Examples of biodiversity-related sub-indicators mentioned by survey respondents include percentage of RSPO certification, percentage of operations near high risk geographies, volume of spills, fresh water use (m<sup>3</sup>/US\$m invested), virgin materials avoided through recycling and targets around natural resource use reduction, among others.

Encouragingly, a small number of asset managers are actively contributing to the development of new biodiversity footprint methodologies as part of collaborative initiatives headed by the CDC Biodiversité's B4B+ Club and the University of Cambridge Institute for Sustainability Leadership.

#### Global Biodiversity Score (GBS)

The Global Biodiversity Score, developed by CDC Biodiversité, aims to represent corporate biodiversity footprint using Mean Species Abundance (MSA) as the basic unit of analysis. The results of assessments conducted with the metric are expressed in MSA.km<sup>2</sup>, with MSA values ranging from 0 per cent to 100 per cent, where 100 per cent represents an undisturbed pristine ecosystem. The main approach of the GBS is to link data on economic activity to pressures on biodiversity (land use, fragmentation of natural ecosystems, human encroachment, infrastructure, atmospheric nitrogen deposition and climate change), and to translate these pressures into biodiversity impacts.

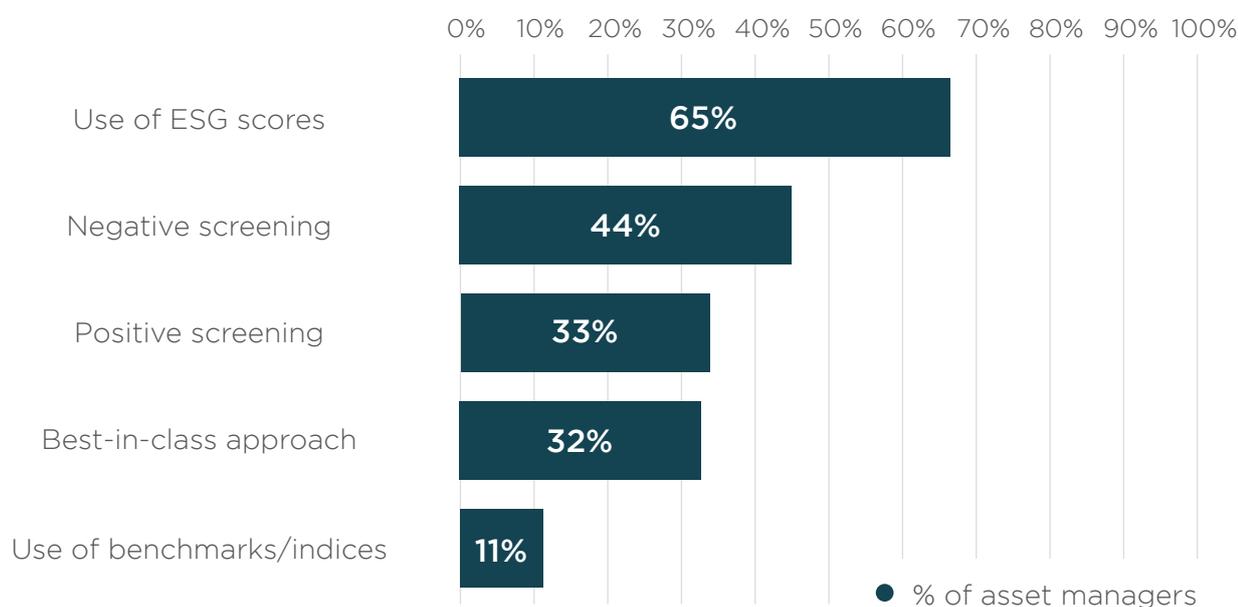
#### Species Threat Abatement and Restoration (STAR) metric

STAR has been developed to measure the impact of investment on species, which are the best-known component of biodiversity and an indicator of ecosystem health. It is based on the IUCN Red List of Threatened Species and can be used to calculate the change in risk of species extinction, both through mitigating existing risk factors and assessing contributions to habitat restoration. For a particular site, land management unit, or administrative region, STAR shows the potential for reducing extinction risk before investment activities start or measure the achieved impact of conservation interventions on extinction risk over time.

## 5.2 – Asset managers find third-party ESG data key to the assessment and integration of biodiversity-related risks.

65 per cent of asset managers that indicate that they integrate biodiversity risks and impacts into investment decisions, do so through the use of ESG scores. Just under half of the surveyed asset managers apply screens based on performance on biodiversity-related indicators to at least parts of their portfolios, and around a quarter adopt the best-in-class approach – mostly, however, only as part of thematic ESG products strategies.

**Figure 6: Integration of biodiversity-related risks and impacts into investment decisions**



*Considering asset managers' reliance on third-party data, it is clear that ESG research and rating agencies have a critical role to play in the mainstreaming of informed and efficient biodiversity risk assessment and integration within the industry.*

The concerns aired more widely around ESG data, providers' diverging methodologies, ratings discrepancy, and lack of transparency<sup>37</sup> are no less relevant in the case of biodiversity. The length and quality of questionnaires sent by rating agencies to companies with the aim of collecting biodiversity-related data can vary widely between different providers. For instance, in the case of agri-food companies, one major ESG data provider only includes one question on biodiversity in its questionnaire, while another provider dedicates two pages of its questionnaire to biodiversity-related issues for the same industry<sup>38</sup>. Asset managers should, therefore, be aware of the shortcomings of third-party data, avoid overreliance on data providers for the assessment of biodiversity-related risks and engage with providers on the development of methodologies to ensure that biodiversity is accurately reflected in ESG scores.



In recognition of these limitations, some asset managers are starting to use additional web-based tools, such as ENCORE and SCRIPT, in order to supplement the data sourced from ESG research providers and better understand portfolio exposure to biodiversity-related risks. One of the assessed asset managers also indicates that its analysts utilise satellite imagery to monitor deforestation.

### Tools for biodiversity-related risk assessment

**ENCORE** (Exploring Natural Capital Opportunities, Risks and Exposure) is a web-based tool developed to support financial institutions in the assessment of portfolio exposure to biodiversity-related risks by linking potential disruptions in the provision of ecosystem services with specific production processes by sector. It covers several types of natural capital and considers the whole economy, so that asset managers can apply it to any portfolio. However, the tool does not contextualise some of the spatial and temporal aspects of the data, even though the materiality of ecosystem services to business activities may vary depending on the time frame and the wider context. Nonetheless, ENCORE can be a useful tool in the initial assessment of asset managers' exposure to natural capital risks.

**IBAT** (Integrated Biodiversity Assessment Tool) is a web-based map and reporting tool which brings together three global biodiversity-related datasets: the World Database on Protected Areas, the IUCN Red List of Threatened Species, and the World Database of Key Biodiversity. It enables companies and investors to gain insight into the impacts of business operations on species and key biodiversity areas for specific project sites and conduct high-level, early stage risk screening. In its current form, IBAT does not capture company asset data and is therefore perhaps most useful for project finance risk assessment. However, the IBAT Alliance has indicated that it is working on mapping the tool's biodiversity datasets against individual companies' assets, which will help actors in the financial sector build a better picture of their exposure to biodiversity-related risks in the context of corporate global operations<sup>39</sup>.

**SCRIPT** (Soft Commodity Risk Platform) is a freely-available platform containing two main tools to help financial institutions to strengthen their approach to managing risks associated with the sourcing of soft commodities. One tool allows investors to benchmark their policies on seafood commodities and deforestation (relating to soy, palm oil, timber and cattle products) against their peers and suggests tailored policy development recommendations, while the other enables an assessment of portfolio exposure to deforestation-related risks.

**TRASE** is an open-access online platform providing improved supply chain transparency of internationally traded agricultural commodities. It allows users to map supply chains from the countries of origin to the final destination countries, identifying the key supply chain companies along the way, and assess supply chain actors' exposure to reputational, legal, operational and other risks associated with deforestation. Trase aims to cover 70 per cent of the total traded volume of major forest risk commodities, including soy, beef, palm oil, timber, pulp and paper, coffee, cocoa and aquaculture by 2021.

# Recommendations

The recommendations in this section broadly cover the topics included in this report. As part of this report series, we have also released thematic reports on [human and labour rights](#) and [climate change](#), which contain specific recommendations for asset managers and policymakers on these topics. General recommendations covering asset managers' responsible investment approach more broadly are made in [part 1](#) of this series.



## For asset managers

Despite the continued, dramatic decline in the health of ecosystems and accelerating extinction rates, biodiversity remains an area neglected by many of the world's most influential asset managers. The lack of investor awareness of portfolio companies' impacts and dependencies on ecosystem services puts at risk both the financial interests of asset managers' clients and the continued stability of the financial system. All asset managers included in this analysis must intensify their efforts to ensure that their investment strategies, stewardship and risk and impact assessment processes with regard to biodiversity are fit for purpose and guarantee both the resilience of the global financial system and a healthy planet.

In the context of this report, we recommend that asset managers:

### Strategy

- Develop a dedicated policy on biodiversity that covers all portfolios under management, starting with high-impact sectors, such as agriculture and food, forestry, pulp and paper, infrastructure, mining and extractives and fisheries and aquaculture.
- Ensure that the policy framework is complete with biodiversity-specific voting and engagement guidelines.
- Work towards introducing policy commitments to 'no net loss' for forests, as well as other ecosystems including river, wetland and lake ecosystems, grasslands, coastal and ocean ecosystems.

### Risk & Impact Management

- Improve the quality of biodiversity-related engagement with companies by including the following topics:
  - Embed biodiversity into overall corporate strategy, including the development of biodiversity-specific policies and targets consistent with the global targets set out in the Convention on Biological Diversity<sup>viii</sup>;
  - Conduct biodiversity-related impact and dependency assessments across organisational levels (site, project, supply chains);
  - Disclose of key biodiversity-related indicators and reporting on the results of internal impact assessments;
  - Comply with biodiversity-related certifications.

viii In February 2020, the CBD Open-ended Working Group released a [zero draft](#) of the post-2020 global biodiversity framework with targets to be confirmed at CBD COP15.

- Broaden the focus of engagement to include the impacts of whole value chains on biodiversity.
- Ensure that a clear engagement escalation strategy which includes time-bound objectives is implemented and publicly disclosed.
- Build capacity to conduct biodiversity-related impact and dependency assessments at the asset and portfolio level.

## Metrics, Risk Assessment & Integration

- Engage with third party data providers to ensure that biodiversity is adequately captured in company questionnaires and reflected in ESG scores. Encourage more transparency around service providers' methodologies.
- Participate in the development of quantitative biodiversity-related indicators and integrate them into risk assessment processes and target-setting.
- Develop and disclose biodiversity-related targets and your performance against these targets.

## For asset owners

Asset owners have a key role to play in driving up standards across the asset management industry. With their case strengthened by their own direct accountability to beneficiaries, long-term investment horizons and vulnerability to macroeconomic risks, asset owners must act as catalysts and provide the right incentives to their managers.

In the context of this report, we recommend that asset owners:

- Strengthen due diligence of asset manager selection by reviewing performance in the areas of biodiversity-related voting and engagement, policy commitments and accounting for impacts of investments.
- Firmly embed clear and specific expectations on the integration and reporting on biodiversity-related issues, as well as investment objectives regarding negative biodiversity impacts, into Investment Management Agreements (IMAs).
- Asset owners who are also shareholders in asset management companies should use their shareholder influence via voting or engagement to address poor performance on biodiversity-related issues.

## For policymakers

Addressing the ongoing decline of ecosystems and species loss requires an unprecedented level of cooperation between governments, regulators and the private sector. The failure of the Aichi Targets shows that policymakers must urgently raise the level of ambition and facilitate greater engagement with the topic among both financials and corporates. As global targets are revisited at CBD COP15, policymakers and regulators must mobilise the tools at their disposal to strengthen the business case for action on biodiversity and drive sustainable finance.

In the context of this report, we recommend that policymakers:

- Ensure that global targets set out in the Convention on Biological Diversity are translated into strong national targets and private sector indicators and incentives, so that the global biodiversity targets are applicable and implementable for businesses and drive corporate action.

- Develop clear frameworks for corporate reporting on biodiversity-related risks and impacts aligned with global targets set out in the Convention on Biological Diversity and support the creation of a Task Force on Nature-related Financial Disclosures.
- Raise awareness among financial regulators of the systemic implications of biodiversity loss.
- Develop and enforce strong, mandatory stewardship codes for asset owners, asset managers and service providers that cover biodiversity-related risk management, engagement, disclosure, and voting.
- Empower regulators with clear mandates to supervise and, where necessary, penalise performance on responsible investment practices relating to biodiversity.
- Move away from legislation which frames ESG factors as relevant only as material financial risk to portfolios towards considerations of the impact investments have on the environment.
- As investors will act based on how likely, or not, they think regulatory action is to happen, ensure strong policy signals for action on biodiversity are sustained and achieved.

# Appendix

Figure 7: Ranking of 75 of the world's largest asset managers based on their approach to responsible investment, with a heatmap illustrating performance on biodiversity<sup>ix</sup>.

Heat-map key: section percentage scores\*

- 87.5 > 100    ● 37.5 > 50
- 75 > 87.5    ● 25 > 37.5
- 62.5 > 75    ● 12.5 > 25
- 50 > 62.5    ● 0 > 12.5

Rank	Asset manager	Rating	Responsible investment governance	Biodiversity
1	Robeco	A	50 > 62.5	75 > 87.5
2	BNP Paribas Asset Management	A	75 > 87.5	75 > 87.5
3	Legal & General Investment Management	A	37.5 > 50	12.5 > 25
4	APG Asset Management	A	50 > 62.5	12.5 > 25
5	Aviva Investors	A	50 > 62.5	12.5 > 25
6	Aegon Asset Management	BBB	50 > 62.5	12.5 > 25
7	Schroder Investment Management	BBB	37.5 > 50	12.5 > 25
8	NN Investment Partners	BBB	50 > 62.5	12.5 > 25
9	M&G Investments	BBB	37.5 > 50	12.5 > 25
10	PGGM	BBB	37.5 > 50	12.5 > 25
11	AXA Investment Managers	BBB	37.5 > 50	62.5 > 75
12	HSBC Global Asset Management	BBB	50 > 62.5	12.5 > 25
12	Nordea Investment Management	BBB	37.5 > 50	12.5 > 25
14	La Banque Postale Asset Management	BB	37.5 > 50	12.5 > 25
15	Amundi Asset Management	BB	37.5 > 50	12.5 > 25
16	Aberdeen Standard Investments	BB	37.5 > 50	12.5 > 25
17	Bank J. Safra Sarasin	BB	37.5 > 50	12.5 > 25
18	Allianz Global Investors	BB	50 > 62.5	12.5 > 25
19	DWS Group	B	50 > 62.5	12.5 > 25
20	BMO Global Asset Management	B	37.5 > 50	12.5 > 25
21	Nuveen	B	37.5 > 50	12.5 > 25
22	Pictet Asset Management	B	37.5 > 50	62.5 > 75
23	Union Investment	B	37.5 > 50	12.5 > 25
24	PIMCO	B	12.5 > 25	12.5 > 25

Rank	Asset manager	Rating	Responsible investment governance	Biodiversity
24	Alliance Bernstein	B		
26	Columbia Threadneedle Investments	CCC		
27	Asset Management One	CCC		
28	Ostrum Asset Management	CCC		
29	Swisscanto Invest by Zürcher Kantonalbank	CCC		
29	Caisse de dépôt et placement du Québec (CDPQ)	CCC		
31	Investec Asset Management	CC		
32	Nomura Asset Management	CC		
33	Generali Investments	CC		
33	UBS Asset Management	CC		
35	Wellington Management	CC		
36	Nikko Asset Management	CC		
37	Manulife Investment Management	C		
38	Eurizon Capital	D		
39	State Street Global Advisors	D		
40	Insight	D		
41	Royal London Asset Management	D		
42	Baillie Gifford	D		
43	Fidelity International	D		
44	RBC Global Asset Management	D		
45	GAM Investments	D		
46	Invesco	D		
47	BlackRock	D		
48	Sumitomo Mitsui Trust Asset Management	D		
48	Northern Trust Asset Management	D		
50	Mitsubishi UFJ Trust and Banking Corporation	D		
51	MFS Investment Management	D		
52	China Asset Management Company	D		
53	Goldman Sachs Asset Management	D		

Rank	Asset manager	Rating	Responsible investment governance	Biodiversity
54	Lyxor Asset Management	D		
55	Macquarie Asset Management	D		
56	Franklin Templeton Investments	D		
57	Swiss Life Asset Managers	D		
58	Capital Group	D		
59	Deka Investment	D		
60	SEB	D		
61	Janus Henderson Investors	D		
62	PGIM Fixed Income	E		
63	T. Rowe Price	E		
64	Santander Asset Management	E		
65	Eastspring Investments	E		
66	Bradesco Asset Management (BRAM)	E		
67	MEAG	E		
68	Mellon Investments Corporation	E		
69	Vanguard	E		
70	Dimensional Fund Advisors	E		
71	J.P. Morgan Asset Management	E		
72	Credit Suisse Asset Management	E		
73	Fidelity Investments (FMR)	E		
74	MetLife Investment Management	E		
75	E Fund Management	E		

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ShareAction is a non-profit working to build a global investment sector which is responsible for its impacts on people and planet. We mobilise investors to take action to improve labour standards, tackle the climate crisis, and address pressing global health issues, such as childhood obesity. Over the last 15 years, ShareAction has used its powerful toolkit of research, corporate campaigns, policy advocacy and public mobilisation to drive responsibility into the heart of mainstream investment. We want a future where all finance powers social progress.

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