




Trend report

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Trend report | Nature & biodiversity investment

Awareness of industry's dependence and impact on nature was brought into focus by COP15 and the new and historic Global Biodiversity Framework, given that nature degradation and exceeding planetary boundaries in relation to natural capital remains a systemic risk to economic activity. But a few months on from COP15, how are finance institutions reacting to these developments?

A selection of core themes characterising the current landscape for asset managers regarding nature and biodiversity in investment decision-making and disclosure reporting are detailed in this latest trends report.

 *In summary:*

- Awareness of forthcoming disclosure & the theme of nature/biodiversity risk mitigation is widespread and growing

“Financial flows must now be aligned with the aims of the Global Biodiversity Framework, and this should be implemented as soon as possible.” (Aviva)

- Biodiversity is quickly rising up the ESG investing agenda, with managers considering how to create investment opportunity.
- Nature will be mainstreamed into ESG analyses more generally for mainstream investors' analyses and portfolio construction, and stewardship approaches will begin to include questions about nature/biodiversity considerations.

Biodiversity fund assets tripled in 2022 (Environmental Finance). Coming off a low base, there is plenty of room for more: nature & biodiversity remain underrepresented compared to the size of the challenge – according to Morningstar.



Awareness of forthcoming disclosure & the theme of nature and biodiversity risk mitigation is widespread

The TNFD has played and is playing a crucial role in focusing the attention of the financial sector on nature and biodiversity. SFDR, the EU Taxonomy, and disclosure initiatives such as CDP are all pushing forward with elements of nature and biodiversity reporting.

How this will affect managers’ stewardship approaches will be an evolving development. In their stewardship/corporate governance role, asset managers are beginning to include nature and biodiversity in engaging with investee companies. Currently, few AGMs have any form of nature-related agenda items.

Alongside this, in NatureAlpha’s primary research with asset managers on attitudes to nature related disclosures, conducted in 2022, noted that if TNFD came into force, a significant proportion said that they would ask companies to disclose on nature-related risks.

Managers are considering how to make nature-positive companies, or nature itself,

into an investment opportunity

Biodiversity & nature is becoming an investment and active ownership theme with commercial returns as evidenced by the launch of actual investment funds by Aviva, Schroders, Lombard Odier, HSBC and Federated Hermes (see below).

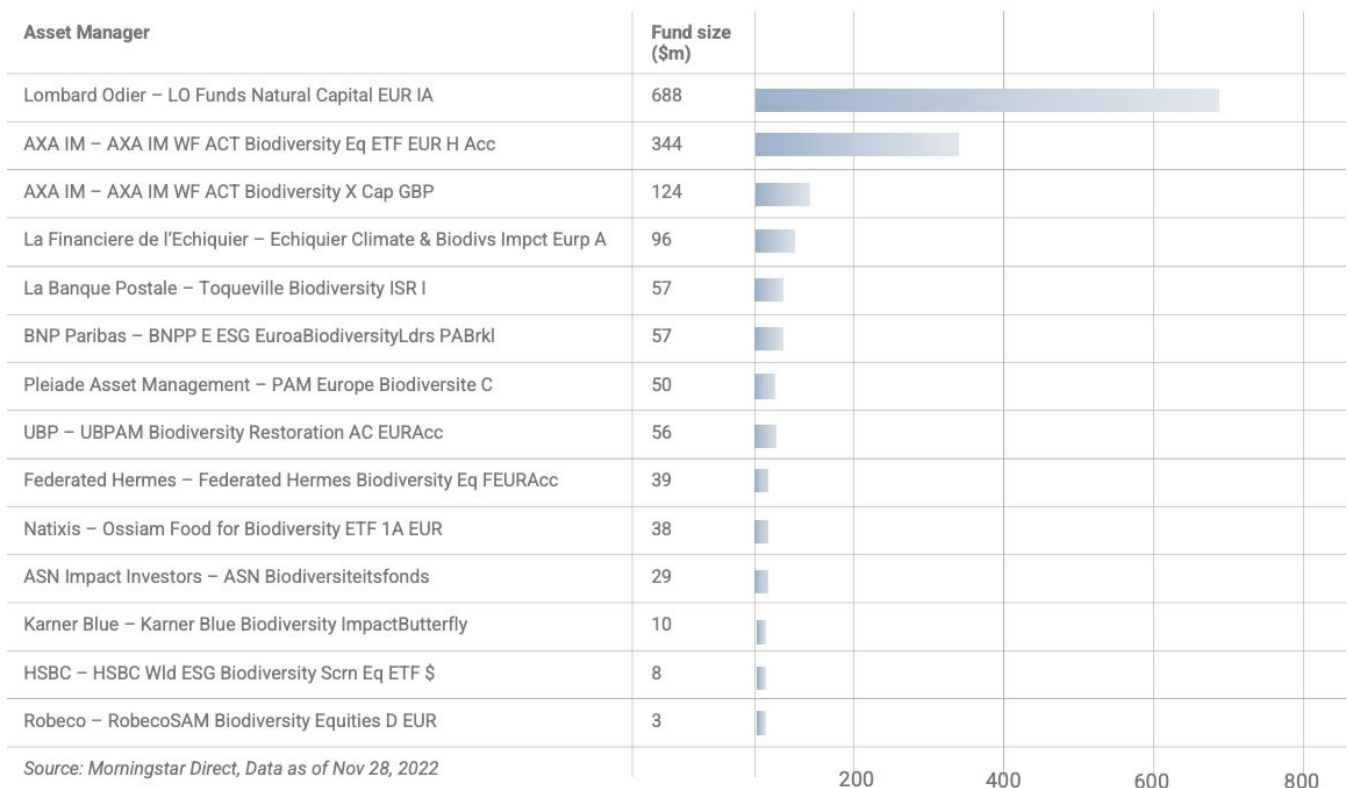
Mainstreaming of nature into investment decision-making

General mainstreaming of nature into investment decision-making alongside other ESG themes will take place because of resulting demand (and increasing mainstreaming of biodiversity and nature data). Given awareness of forthcoming disclosure & the theme of nature/biodiversity risk mitigation plus the increasing availability of data to enable both the risk and the opportunity side of the equation.

🔗 Outcomes and future trends

Given the previous developments:

- 1) Nature is being added to ESG analysis for



instrument selection and portfolio construction, and stewardship approaches will begin to include questions about nature/biodiversity considerations. Mainstream ESG data providers have either launched or are launching metrics given demand.

According to Morningstar, out of a selection of 25 U.S. and European asset managers, including the global Fidelity Investments, Capital Group, and State Street – only 13 of the 25 asset managers provided detail on their active ownership approach to biodiversity. Out of the top five global asset managers by fund assets, Morningstar found that BlackRock and Capital Group made significant specific comments about their approach to investment stewardship on biodiversity. Of the other 20 asset managers reviewed, 11 provided detail on their biodiversity-related active ownership policies. AllianceBernstein, AXA, BNP Paribas, LGIM, and Schroders are the largest of these managers.

2) The nature/biodiversity theme within products is likely to spread along the value chain across asset owners and wealth management (retail) because the theme is compelling for investors and because pension funds are already engaged with the theme (e.g. the Make my Money Matter campaign).

3) Coming off a low base, there is plenty of room for more: nature & biodiversity remain underrepresented compared to the size of the challenge – according to Morningstar, 'It remains rare to find funds that specifically target biodiversity and natural capital as an investment theme. At the time of writing, there are 14 such funds in Morningstar Direct, representing USD 1.6 billion of fund assets (shown below); however what is notable is the pace of growth - biodiversity fund assets tripled in 2022 (Environmental Finance). There appears to be momentum supporting more nature-aware investment funds to be launched in a similar manner to climate aware/transition/low carbon funds and indices.

NatureAlpha helps banks, asset managers and the world's largest data providers understand nature & biodiversity risk using data & analytics.

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Terms & definitions

Frequently used terms

Biodiversity	The variability among living organisms from all sources, including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems (Convention on Biological Diversity, 1992).
Dependencies	Aspects of ecosystem services that an organisation or other actor relies on to function. Dependencies include ecosystems' ability to regulate water flow, water quality, and hazards like fires and floods; provide a suitable habitat for pollinators (who in turn provide a service directly to economies), and sequester carbon (in terrestrial, freshwater and marine realms) (as referenced in TNFD Beta framework).
Direct impact	A change in the state of natural capital caused by a business activity with a direct causal link (as referenced in TNFD Beta framework).
Impacts	Changes in the state of nature, which may result in changes to the capacity of nature to provide social and economic functions. Impacts can be positive or negative. They can be the result of an organisation's or another party's actions and can be direct, indirect or cumulative (as referenced in TNFD Beta framework).
Ecosystem services	The contributions of ecosystems to the benefits that are used in economic and other human activity, drawn from UN-SEEA (2021) System of Environmental-Economic Accounting-Ecosystem Accounting (as referenced in TNFD Beta framework).
Nature	The natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment (as referenced in TNFD Beta framework).
Natural capital	The stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people (as referenced in TNFD Beta framework).
Nature-related risks	Potential threats posed to an organisation linked to their and wider society's dependencies on nature and nature impacts. These can derive from physical, transition and systemic risks (as referenced in TNFD Beta framework).

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