

The emergence of biodiversity among essential ESG priorities

Desjardins Global Asset Management

2022 has been marked by a significant momentum in biodiversity and natural capital, which have become the topics of many conversations. Biodiversity is defined as the variety and variability of living organisms on Earth, while natural capital is the stock of renewable and non-renewable natural resources that combine to produce a stream of benefits for people.¹ Despite the significant visibility that this issue has enjoyed in recent months, several investors are questioning the relevance of biodiversity among priority ESG themes. This article aims to answer this question and provide food for thought to integrate this theme into a portfolio management process.

DOES BIODIVERSITY DESERVE AS MUCH ATTENTION AS CLIMATE CHANGE?

The World Economic Forum ranks biodiversity loss and ecosystem collapse as the *Fourth global risk - External link* over the next 10 years. According to the organization, almost 50% of GDP is moderately or highly dependent on nature. For its part, the *Living Planet Report 2022 - External link* indicates that the world's populations of wild animals have decreased by an average of 69% since 1970. This decline is also reflected in natural resources and pristine spaces. Globally, there's a 47% reduction in the size and condition of ecosystems.²

This crisis has raised biodiversity to the heart of the topics covered in conferences on sustainable finance. The dual importance of nature within finance is fundamental, as our impact on nature is likely to affect our dependencies on it. Geographic locations also represent dynamic elements of biodiversity, such as the Amazon and coastal regions where biodiversity is greater than elsewhere (versus a desert, for example) and where changes must be applied more quickly.

The protection of biodiversity and natural capital is a very complex issue, but it's as critical as climate change. Our carbon footprint is no longer the only essential data to measure and reduce. More than ever, we're aware that nature is an ecosystem in which all forms of life are interconnected, which must be considered for sustainable prosperity.

1. Source: <https://www.spglobal.com/esg/solutions/nature-risk-profile-methodology.pdf>

2. Source: <https://globalcanopy.org/insights/insight/whats-next-for-biodiversity-data-in-the-finance-sector/>

WHAT'S IMPORTANT TO REMEMBER FROM COP15

The fifteenth Conference of the Parties (COP15) on biodiversity was held in Montreal in 2022. This was the second part of the conference, the first having been held in Kunming in 2021. It brought together delegates from 196 countries to establish new goals and an action plan for nature by 2030 with the aim of halting biodiversity loss and reversing its decline.

COP15 was the first edition to include a day dedicated to finance, in which more than 100 financial institutions participated. Many themes recurred during the conference, including the following:

- **Climate and biodiversity are not 2 distinct subjects.** Protecting nature and reversing negative effects together are the solution to climate change.
- **Collaboration** is essential.
- **Indigenous communities** are stewards of ecosystem conservation and should be recognized as such.
- **Waiting for perfect data is the best way not to act.** Data already exists; the more we measure biodiversity parameters, the more data we'll have.

The conference ended with the signing of the Kunming-Montreal Global Biodiversity Framework, which calls for the reduction of negative impacts on biodiversity. The framework includes 4 long-term goals, the fourth of which (Goal D) requires adequate methods of application including financial resources, building capacity, scientific cooperation, and technology. The agreement also includes 23 targets to be achieved by 2030, including the fifteenth requiring companies and financial institutions to disclose biodiversity risks and impacts.

SUBSTANTIVE WORK TO DECRYPT A SURGE OF INITIATIVES

The biodiversity momentum in research and conferences has influenced initiatives and working groups focused on this theme as well as how financial institutions can act.

At Desjardins Global Asset Management (DGAM), our responsible investment team analyzed no less than 19 initiatives that largely focused on nature. This in-depth analysis allowed us to identify those that are most relevant to our organization. Two initiatives caught our attention:

- **The Taskforce for Nature-Related Financial Disclosures (TNFD):** A science-based, market-orchestrated management and disclosure framework that enables organizations to report and act on evolving nature-related risks. Currently in beta, the framework is evolving with the industry to ensure its relevance.
- **The Finance for Biodiversity Pledge (FFB):** This commitment is an initiative of financial institutions that invites leaders to commit to protecting and restoring biodiversity. In December 2022, it brought together 126 financial institutions from 21 countries and represents 18.8 trillion euros in assets. By joining this initiative, we're committed to respecting the following 5 principles by 2024: collaborate and share our knowledge, dialogue with companies, understand our impact, set targets, and include our progress on biodiversity in our annual report.



19 initiatives dealing largely with nature

1.	TNFD	Taskforce for Nature-related Financial Disclosures
2.	FFB	Finance for Biodiversity Pledge
3.	ENCORE	Exploring Natural Capital Opportunities, Risks and Exposure
4.	Nature Finance	
5.	PRI	Principles for Responsible Investment
6.	PRB & ILP	Principles for Responsible Banking & Investment Leadership Platform
7.	PBAF	Partnership for Biodiversity Accounting Financials
8.	CPIC	Coalition for Private Investment in Conservation
9.	CISL	University of Cambridge Institute for Sustainability Leadership
10.	Ceres	Land Use and Climate Working Group
11.	CBF	Consortium for Biodiversity Footprint
12.	F@B	Finance@Biodiversity Community
13.	Align	Aligning accounting approaches for nature
14.	BIOFIN	Biodiversity Finance Initiative
15.	WEF	Biodiversity Finance Learning Coalition
16.	Le Club B4B+	Le Club des entreprises et institutions pour une biodiversité positive
17.	C4C	Capital for Climate
18.	SBTN	Science Based Targets Network
19.	CFA	Conservation Finance Alliance

CASE STUDY

The approach favored by DGAM

At DGAM, protection of biodiversity and natural capital has been added to the list of our priority ESG issues in 2021. Since then, our Responsible Investment team has devoted considerable effort to researching and analyzing this theme to identify financial implications and implications for issuers. Based on our in-depth research, in 2022 we developed a concrete action plan for biodiversity-related ESG engagement and integration.

We developed our approach to integrating biodiversity criteria by first identifying 3 areas of focus:

1. Deforestation and land rehabilitation
2. Water quantity and quality
3. Regenerative agriculture and sustainable agroindustry

ESG measures for these 3 focus areas have been integrated into our internal issuer assessment grid and into our engagement strategy. In addition, we talk to companies about their nature risk management and ask them to provide examples of their zero-deforestation strategy and sustainable farming processes. We also consider biodiversity best practices in our proxy voting activities. For example, we supported a shareholder proposal submitted to a consumer goods company asking it to report on its efforts to eliminate deforestation in its supply chain.

In 2022, we integrated several initiatives, including Framing the Future for Nature, from S&P Global, as well as meetings of the Ceres Task Force on Land Use and Climate. These working groups are sources of research that address various topics that allow us to deepen our understanding of biodiversity.

COLLABORATE TO RAISE AWARENESS AND MOBILIZE OUR COMMUNITY

A collaborative effort involving all players in the financial sector is necessary to increase the role of biodiversity in engagement and investment activities. More than half of CO₂ emissions are absorbed by land and oceans. We won't be able to achieve the objectives of our initiatives in the fight against climate change without a strong commitment to biodiversity. This is why Desjardins Group signed the Declaration of the private financial sector at COP15, confirming our commitment to continue to work for the protection of nature. We encourage all other players in our industry to take concrete measures and to mobilize in the face of the protection of biodiversity and natural capital.