A staggering 85% of the world's largest companies[1] significantly rely on nature for their operations. Indeed, there is no production without energy, and all energy comes from nature.

But the relentless pursuit of growth on a finite planet has come back to bite in the form of climate change and huge biodiversity losses — threatening production itself, and investors in the financial world.

In large part, this is also because most economists ignored the intrinsic link between production and nature until recently.

The World Bank has projected an annual loss of $2.7 trillion in the world's gross domestic product by 2030 due to partial ecosystem collapses.

Such alarming forecasts are urging investors to course-correct and reassess nature-dependent portfolios.

Two big shifts are driving this.

Reframing natural capital

The first is a mindset shift among investors who have started acknowledging that natural capital is not 'free' but must be valued as finite assets requiring strategic management and preservation. For instance, extractive industries such as mining often operate in biodiversity-rich areas, posing severe environmental and social threats.

Exponential shift in policy action

As the regulatory landscape on biodiversity continues to evolve, investors are being forced to stay abreast of new requirements and adapt their approaches accordingly. Initiatives like the EU Biodiversity Strategy for 2030 aim to restore ecosystems, reduce pollution, and promote green economies. Financial institutions are also being encouraged to openly divulge their vulnerabilities and correlation/impact of their portfolios with biodiversity.

All this is driving an investor rush to develop strategies for disclosing biodiversity impacts and engage with companies to promote nature-friendly practices.

But it's not that easy

Investors face numerous challenges in attempts to course-correct.

Hurdles range from scarcity of reliable data and standardised metrics for assessing biodiversity-related risks to potential financial losses due to neglect of biodiversity conservation.

Additionally, the evolving regulatory landscape and reporting standards increase compliance costs and necessitate stricter requirements for investee companies.

Roadblocks to Biodiversity Investing

Towards better integration

It is imperative that comprehensive biodiversity risk assessments and sustainable business practices become an integral part of investor strategies. These may include:

Embracing a strategic, three-tiered approach

Investors must first screen and exclude companies with harmful practices before conducting a comprehensive biodiversity assessment of their portfolio dependencies with nature and favouring companies committed to biodiversity preservation. The final step involves future-focused investments and evaluation, prioritising companies leading in both mitigation of threats and conservation.

Steps to seamless biodiversity investment

Streamlining biodiversity metrics

To arrive at more standardised measures, initiatives such as the LEAP (locate, evaluate, assess, and prepare) approach of the Taskforce on Nature-related Financial Disclosures (TNFD) and guidelines of Partnership for Biodiversity Accounting Financials are working to provide comprehensive metrics and indicators to help investors assess biodiversity risks and opportunities.

For instance, a leading European asset manager assesses biodiversity impacts of its portfolio companies across the value chain by quantifying each environmental pressure point (land use, air and water pollution, and climate change). It is further aggregated to calculate the biodiversity footprint of each company, expressed in Mean Species Abundance (MSA) per square km.

Tailoring strategies for sector-specific impact

Sector-specific approaches, like mentioned in the table below, could maximise impact and offer better potential for risk mitigation and conservation.

Sector	**Impact on biodiversity**	**Mitigation action**
Agriculture	Largest contributor to biodiversity loss	Sustainable farming, government measures, alternative meat
Infrastructure and mobility	Habitat clearance, mineral extraction	Green infrastructure, bioswales, permeable pavements, wild corridors
Fashion	High freshwater use, aquatic pollution	Sustainable fashion, environmental awareness, Fashion industry charter
Healthcare	Natural resource usage, habitat disruption	Sustainable sourcing, disposal methods, Nagoya Protocol

Biodiversity stewardship

Asset managers must proactively engage with companies on nature-related concerns. Investors will need to collaborate and share knowledge, engage with companies, assess impact, set targets, and report publicly. Precedents set by leading asset managers show the efficacy of such engagement in nudging companies to incorporate biodiversity in their business strategies and operations.

Supporting initiatives such as Nature Action 100, targeting reversing biodiversity loss, can amplify asset managers' contributions towards collective action for biodiversity conservation.

Conclusion

Biodiversity, hitherto an ecological concern, is now pivotal in investor decision-making due to the significant economic implications of neglecting it.

Integrating it into investment strategies presents hurdles, from dealing with metric standardisation to regulatory complexities.

However, refining metrics, devising sector-specific approaches, and proactive stewardship and engagement with portfolio companies are crucial to sustainability of both, investors' portfolios and the planet.

Reference:

[1] *Represented in the S&P Global 1200 index, research according to Sustainable1.*

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