

Responsible Investment – Biodiversity

Summary

1. This paper acts as a briefing note on biodiversity and considers general themes of TFND, asset manager engagement and initiatives in the context of Wiltshire Pension Fund's Responsible Investment Plan.

Background

2. Biodiversity is an emerging RI theme, initial investigation into biodiversity and TFND were planned for Q1 2023. Officers have begun to consider options for exploring this theme and to bring recommendations to the Pension Fund Committee.

Introduction

3. The loss of biodiversity (variety of life on earth, plants and animals) through human activity, for example, deforestation, depleting fish stocks and overconsumption, all pose significant risk to ecosystems and sustainability.
4. Biodiversity and TNFD consider how businesses interact with the natural world, resources and ecosystems. Over the last few years, this has become an increasing concern, but it has not had as much coverage as climate change.
5. The Taskforce for Nature Related Financial Disclosures (TNFD) is comparable to the TCFD initiative in that its aims are to promote nature-related disclosure via a framework in the same way as climate related disclosures.
6. This paper aims to provide a briefing on these topics and proposes recommended next steps.

Biodiversity

7. There is growing awareness of the harmful aspects of industry on nature. Environmental impact and how this is linked to financial risk are perhaps less clear and developed as they are for climate. But there are clear consequences to not managing these issues, for example:
 - Reduced fish stocks – overfishing, pollution, and habitat destruction are all detrimental
 - Extinction of plant and animal species – destruction of ecosystems or lack of management may lead to unintended or unforeseen consequences
 - Deforestation – in addition to climate related factors, deforestation could exacerbate other risks to climate, increase the risk of flooding etc.

8. Economic growth depends on natural resources, therefore understanding and management of the above is clearly required for business models to remain sustainable over the long term.
9. The World Economic Forum (WEF) 2021 Global Risk Report identified biodiversity loss, ecosystem collapse and human-made environmental damage, as top risks. Biodiversity loss is highlighted as an existential global threat, negatively affecting sectors through an increase in the risk of severe droughts, the disappearance of pollinators, or the collapse of agricultural yields.
10. The agriculture, food and drink, and construction sectors are particularly exposed to these trends. Other sectors depend on nature through their supply chains.
11. At a local level, biodiversity loss from plastics polluting oceans and harming ecosystems has led to the ban on single use carrier bags and drinking straws. More recently, artificial grass (which in addition to biodiversity loss, releases microplastics and raises disposal issues) has prompted debate on prohibiting its extensive use in new developments.
12. Companies may be aware of these issues, but action taken may be limited to high level intentions or policy statements.
13. Data availability on nature related issues is at an even earlier stage compared with climate and is much more localised and difficult to define.
14. Brunel identified biodiversity as a new priority focus for its broader Responsible Investment mandate. The new focus theme is laid out in its [2022 Responsible Investment and Stewardship Outcomes Report](#), alongside longer-standing priority themes such as cyber risk, circular economy and climate change.

TNFD (Taskforce for Nature Related Financial Disclosures)

15. The Taskforce on Nature-related Financial Disclosures was initiated in 2020. Sharing many similarities and borrowing principles from the Taskforce on Climate-related Financial Disclosures, TCFD, it is an international body designed to create reporting guidelines and standards.
16. The TNFD framework will be structured around the same four pillars as TCFD: governance, strategy, risk management, and metrics and targets. Plans for developing the framework will follow a staged approach, with the aims of assessing natural capital stock and channels through which ecosystems contribute to the economy and financial system.
17. In November 2022, TNFD released a beta framework for market consultation, with a further version expected in March 2023 (beta versions being working documents, i.e. <v1.0). A release of the full framework (version v1.0) for market adoption is due in September 2023.

18. It is likely that adoption and information will flow progressively from asset managers to asset owners enabling organisations to align themselves as the framework develops.
19. TNFD has received support from G7 Finance Ministers and funding from governments including France, Germany and the United Kingdom.

Wiltshire Pension Fund Commitments

20. The Responsible Investment Plan agreed at the meeting of 5 April 2022 set out a roadmap, which under training and engagement for Q1 2023 included; “investigate the topics of biodiversity, and reporting against the Taskforce on Nature-related Financial Disclosures (TNFD)”.
21. As a signatory to the 2020 Code, exploring biodiversity would be considered stewardship activity defined as “the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”.
22. The Pension Fund Committee considered the United Nations Sustainable Development Goals (UN SDGs) through an investment lens and identified a strong investment case for supporting Climate [SDG 13 Climate Action] as a priority engagement activity for discussing investment opportunities and risk mitigation with investment managers.
23. Climate change and biodiversity are linked and interrelated. Re-forestation, nurturing soil and restoring ecosystems could help redress the carbon emission balance and advance the path to net zero. If climate change accelerates, natural habitats and ecosystems will decline more rapidly.

Brunel Pension Partnership

24. Brunel Pension Partnership are working with Federated Hermes EOS to begin exploring biodiversity in the ‘Global High Alpha Fund’, an actively managed equity fund. Whilst the decision to select the five underlying managers reflects Brunel’s confidence in their ability to integrate environmental, social and governance (ESG) considerations, it is expected that biodiversity related challenges may be greater compared with the ‘Sustainable Equities Fund’, for example, where sustainability is at the forefront.
25. Wiltshire Pension Fund is invested in the Global Alpha Fund and updates on this project will flow through the Responsible Investment Sub-Group.

Asset Management

26. Officers have opened conversations with Brunel and asset managers on biodiversity and asked questions on progress to date. Brunel have identified biodiversity as a priority, [made pledges](#), incorporated policy into the [Responsible Investment and Stewardship Outcomes report](#) and published these on their website. Responses from asset managers referenced specific products targeted at addressing

biodiversity loss, but also included some more specific to Wiltshire Pension Fund holdings. As noted above, asset managers are preparing for a working release of TNFD. The Environment Act 2021 will be relevant for new developments to be held in the affordable housing portfolio. Under regulations expected in November 2023, a mandatory condition will be applied to every planning permission granted: a biodiversity net gain (BNG) of 10%. Conversations with the investment managers will continue.

Fiduciary Duty

27. As with climate change and TCFD, biodiversity is fraught with intricacies that are difficult to measure and manage. It is highly probable that market and societal sentiment will move more quickly than regulatory timelines. As an initial step, company boards, asset managers and owners will need to understand how nature-related risk will affect their organisation's business, operations, finance and investments.
28. Risks related to tackling nature-related risks could include legislation to limit use of insecticides which in turn could lead to higher operating costs for some businesses. Conversely, action taken that reduces risks of severe flooding could reduce underwriting costs that could otherwise become unviable.
29. As an emerging theme, opportunities for investment may increasingly be viewed through a 'biodiversity lens'. Companies and solutions that are innovative or implement new technology are more likely to grow and succeed. Those that minimise environmental impact, solve ecological problems in farming or develop a more circular economy are likely to be more sustainable over the long term and yield better investment returns than those that do not.

Environmental Impacts of the Proposals

30. This report includes information on actions and policies which directly deal with addressing climate change risk.

Safeguarding Considerations/Public Health Implications/Equalities Impact

31. There are no known implications at this time.

Proposals

32. The Pension Fund Committee is asked to consider and agree the following recommendations:
 - use this paper, and links to further reading below, as initial training material on this subject area
 - note the Brunel/Federated Hermes EOS Global Alpha Fund biodiversity analysis project
 - consider initiatives such as the Biodiversity Pledge, which has been signed by a small number of European Pension Funds
 - further engage with asset managers on their plans

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Unpublished documents relied upon in the production of this report: NONE

Further reading/sources:

[Biodiversity - Brunel Pension Partnership](#)

[Signatories - Finance for Biodiversity Pledge](#)

[TNFD – Taskforce on Nature-related Financial Disclosures](#)

[Metrics & Targets » TNFD](#)

[Room151 Biodiversity Opportunity Risk and the LGPS](#)