

Position Paper biodiversity and nature loss



1. Introduction

Pensioenfond Zorg en Welzijn (PFZW) is the pension fund of, for, and by the Dutch healthcare and welfare sector. At PFZW, employees and employers jointly aim to ensure a good collective pension in a livable world. Our primary task is to provide our beneficiaries with the best possible pension. Hence, we first and foremost strive for an optimal risk-adjusted return on our investments. We believe that a good pension is worth more in a livable world. That is why investing in a responsible manner is important to us. We are convinced that integrating Environmental, Social and Governance (ESG) issues leads to improved financial performance in the long run. We believe that financial and social returns go hand in hand. In this paper, we present our perspective on the topic of biodiversity and nature loss, our current work on this theme and the next steps we are planning to take.

In recent years, momentum for action against biodiversity and nature loss finally appears to be building. Why now? First, global climate action is expanding its focus from GHG emissions reduction to a wider set of solutions, acknowledging that climate change is one element of a broader environmental crisis¹. Second, the COVID-19 crisis provided the world with a shocking example of a nature-related risk materializing. The loss of natural habitats and biodiversity increases the risks of zoonotic diseases emerging. Therefore, nature conservation plays a role in the prevention of future pandemics.²

In December 2022, the United Nations Biodiversity Conference (COP 15) ended in Montreal with an historical landmark agreement to guide global action on nature through to 2030. This provides a framework for governments to accelerate action in this decade.

Next to global politics, there is a proliferation of market-led initiatives that aim to foster action on this topic. The main challenges for financial institutions in this regard are the lack of shared metrics and methodologies as well as poor data availability. These issues are being addressed by the market by building on the approaches of successful climate change-related initiatives. However, compared to climate change mitigation, which has the overarching objective of GHG emissions reduction, nature is a much more complex topic that requires a multitude of goals, metrics, and pathways.

PFZW welcomes this wave of interest and action to address the challenge of biodiversity and nature loss. We are actively contributing to collaborative action with peers, as highlighted in the [Finance for biodiversity pledge](#), signed by our asset manager PGGM, and in this paper.

This paper serves three purposes:

1. Being transparent to our external stakeholders about PFZW's view on the topic of biodiversity and nature loss.
2. Communicating our views to companies we invest in, with regard to ESG issues related to biodiversity and nature loss.
3. Providing guidance for our asset managers on integrating ESG issues related to biodiversity and nature loss.

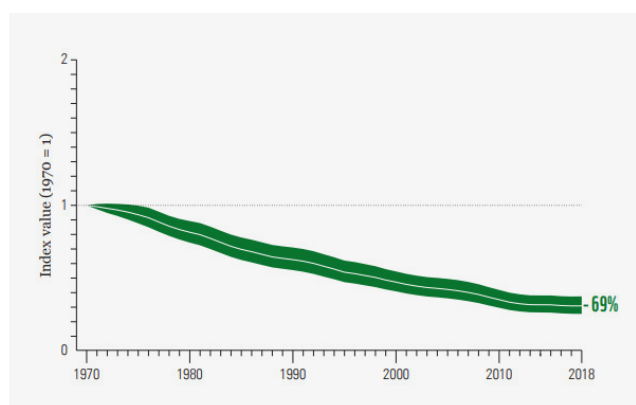
1. This became evident during the UN Climate Change Conference of Parties (COP) 26, which took place in 2021 where 100 world leaders pledged to end and reverse deforestation by 2030.

2. See the report ['The loss of nature and rise of pandemics'](#) (2020) from WWF. See paper ['Lawler et. al, The COVID-19 pandemic is intricately linked to biodiversity loss and ecosystem health.'](#) *Lancet Planet Health*. 2021 Nov;5(11):e840-e850. doi: 10.1016/S2542-5196(21)00258-8.'

2. Framing the problem of biodiversity and nature loss

Biodiversity is defined by the UN Convention on Biological Diversity (CBD) as ‘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 a part; this includes diversity within species, between species and of ecosystems.’³ Biodiversity loss is an indication of the incidence of human activities on nature which is defined as the physical world collectively, including plants, animals, and the landscape.

Biodiversity and nature are in sharp decline and this represents a threat to the foundations of our society and economy. Many ecosystems, from coral reefs to tropical forests, are already degraded beyond repair or are at critical risk. This decay is caused by human activities. In the words of the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES): ‘Nature across most of the globe has now been significantly altered by multiple human drivers, with the great majority of indicators of ecosystems and biodiversity showing rapid decline. Seventy-five per cent of the land surface is significantly altered, 66 per cent of the ocean area is experiencing increasing cumulative impacts, and over 85 per cent of wetlands (area) has been lost’.⁴ The direct causes of biodiversity and nature loss are changes in land and sea use, overexploitation, climate change, pollution, and invasive alien species.



Graph 1. The Global Living Planet Index developed by WWF and ZSL indicates of average 69% fall in monitored populations of mammals, birds, amphibians, reptiles, and fish between 1970 and 2018⁵.

The ongoing loss of biodiversity and nature is a great concern. PFZW recognizes the intrinsic value of nature and life which in itself justifies the need to protect it. In addition to this, we argue that there is also a pragmatic argument to be made on why this trend needs to be reversed. Nature provides humans with goods and services that underpin the functioning of our society by making (economic) activities possible, including the production and consumption of goods. Thus, the loss of nature is a threat to the functioning of our socio-economic system.

This pragmatic argument evolves into an economic argument to safeguard nature⁶. The benefits provided by nature or ‘ecosystem services’ allow economic activities to be carried on.⁷ Examples include providing direct physical inputs (e.g., timber), enabling the production process (e.g., filtering water), and protection from disruption (e.g., flood control). Ecosystem services are generally undervalued or/and not integrated into business models. Nevertheless, they are of critical importance.

3. The Convention on Biological Diversity is an initiative of the United Nations that aims to 1)The conservation of biological diversity;2) The sustainable use of the components of biological diversity 3)The fair and equitable sharing of the benefits arising out of the utilization of genetic resources. Source of the quote: [here](#).
4. Established in 2012, the Intergovernmental Platform on Biodiversity and Ecosystem Services is an international organization committed to strengthening the role of science in public decision-making on biodiversity and ecosystem services. Source of the quote: IPBES (2019): Global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. E. S. Brondizio, J. Settele, S. Díaz, and H. T. Ngo (editors). IPBES secretariat, Bonn, Germany. 1148 pages. <https://doi.org/10.5281/zenodo.3831673>, pg.XV
5. Source: Living Planet Report (2022) published by WWF and Zoological Society of London.
6. Also often referred to as ‘natural capital’ to acknowledge its economic value.
7. As illustrated in the report ‘Dasgupta, P. (2021), The Economics of Biodiversity: The Dasgupta Review. (London: HM Treasury)’.

Table 1. Categories of ecosystem services as defined by the framework of the Taskforce of Nature-related Financial Disclosures (TNFD) in September 2022.

Categories of ecosystem services	Description
Provisioning services	The benefits that are extracted or harvested from ecosystems (e.g., timber and fuel wood in a forest, freshwater from a river).
Regulating and maintenance services	The ability of ecosystems to regulate biological processes and to influence climate, hydrological and biochemical cycles, and thereby maintain environmental conditions beneficial to individuals and society. Provisioning services are dependent on these regulating and maintenance services (e.g., the provision of freshwater depends on the ability of forests to absorb carbon and regulate climate change).
Cultural services	Experiential and intangible services related to the perceived or actual qualities of ecosystems whose existence and functioning contributes to a range of cultural benefits (e.g., the recreational value of a forest or a coral reef for tourism).

In the following chapter, we describe how biodiversity and nature loss translates into our work as responsible investor. Our understanding of these topics and their translation in our activities are guided by the latest science⁸ and the market standards that are under development.⁹

3. Framework to address biodiversity and nature loss in our investment portfolio

In relation to the topic of biodiversity and nature loss, PFZW adopts the principle of double materiality. This implies that we consider financially relevant both how the investments' performance is affected by nature-related risks (the 'outside-in' perspective) as well as the impacts that investee companies' operations have on nature (inside-out). The latter is deemed financially material because it contributes to the emergence of systemic risks for the whole economic system. More insight is provided in the next paragraphs.

3.1. Outside-in: Assessing the vulnerability of companies to biodiversity and nature loss

The integration of ESG risks in PFZW investment decisions varies per asset class and it is extensively illustrated in the dedicated SFDR disclosures.¹⁰ In general, PFZW relies on internationally recognized frameworks such as SASB standards, OECD guidelines, and UN Global Compact. In addition to the current practices, PFZW is performing piloting work to assess its exposure to nature-related risks as defined by the latest literature. The work of the Taskforce of Nature-related Financial Disclosures (TNFD) and of the Dutch Central Bank¹¹ provides guidance on how nature-related risks can impact the financial profile of companies.

8. Above all, the research of the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES) and of the Intergovernmental Panel on Climate change (IPCC). We also track developments from Universities and research institutes.

9. Such as the Taskforce of Nature-related Financial Disclosures (TNFD); the Finance for biodiversity pledge; the Science Based Targets Network (SBTN); Partnership for biodiversity Accounting Financials (PBAF).

10. Available on PGGM's website at: [Compliance | PGGM](#)

11. The Dutch Central Bank is pioneering research on this topic. Notably, the French Central Bank provides also valuable insights. See the [report](#): A 'Silent Spring' for the Financial System? Exploring Biodiversity-Related Financial Risks in France.

Table 2. Types of nature-related risks that can impact the financial profile of companies.¹²

Categories of nature-related risk	Description
Physical risks	The loss of ecosystems threatens companies' production processes and this causes the deterioration of their financial position. The exposure of a company to physical risks on their dependency on one or more ecosystem services. Dependencies refer to the aspects of ecosystem services that an organisation or other actor relies on to function. ¹³ (E.g. food production depending on pollination).
Transition risks	Government measures, technological developments, or changing consumer preferences aimed to reduce loss of biodiversity and nature can bring transition risks as companies struggle in adapting to the new reality. (E.g. economic sectors being limited in their economic activities due to legally determined emission allocation aimed to protect sensitive natural area).
Reputational risks	The financial position of companies with a disproportionately negative impact on biodiversity can be affected by a consequent deterioration of their reputation (E.g. consumers boycotting a brand).
Liability risks	Operations resulting in biodiversity loss may lead to lawsuits by the parties that incur damages (E.g. Fine for the damage incurred to natural resources and marine biodiversity following oil spillage).
Systemic risks	A systemic risk is the risk of the collapse of an entire financial system or entire market. In 2020, the spread of the COVID-19 virus led to a pandemic. This health emergency led to an economic, financial and social crisis. Biodiversity and nature loss increases the likeability of zoonotic viruses to emerge and spread. Next to this example, biodiversity and nature loss also contribute to and worsen our resilience to climate change which is another important systemic risk. Finally, biodiversity and nature loss consists of a systemic risk itself as it threatens the availability of the very same resources that life, and socio-economic systems are based upon. It was ranked as one of the top-three global risks in the next 10 years in the 2022 World Economic Forum Global Risks Report (GRR).

To manage these risks, we need relevant, reliable, and comparable information from investee companies. That is why, we expect companies to be transparent about their exposures to nature-related risks and their mitigation strategies. We encourage companies to disclose this in their reporting and via recognized channels such as CDP.¹⁴ We encourage the adoption of the framework of the Task Force of Climate-related disclosures (TCFD) and to actively pilot and start integrating the insights coming from the Task Force on Nature-related Financial Disclosures (TNFD)¹⁵. This provides a structure to disclose about governance, strategy, risk management, as well as metrics and targets in relation to biodiversity and nature.

3.2 Inside-out: reducing negative and environmental impact related to biodiversity and nature loss and fostering positive impact

As previously highlighted, nature and its services are at the basis of the economy. Productive processes depend upon natural resources. Therefore, it is inevitable that economic activities have a negative impact on nature. Nevertheless, companies can mitigate the extent of their negative impact by embedding the preservation of nature into their strategies and by adopting virtuous practices such as resource efficiency; circular design and processes, and sustainable procurement. Moreover, by adopting regenerative practices, nature-based solutions,¹⁶ and investing in nature restoration, companies can contribute to fostering biodiversity and nature. The specific mitigants and strategies depend on the type and location of a specific company's operations.

12. Integration of the categorization of the report 'Indebted with Nature' (2020) from DNB and PBL and the report 'Biodiversity Opportunities and Risks for the Financial Sector'(2020) from the Sustainable Finance Platform.

13. As defined by TNFD.

14. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts. They provide templates to companies to facilitate transparent and standardized disclosure on the topics of climate change (inc. biodiversity since 2022), forests, and water.

15. The standard is under development.

16. We adopt the European Commission's definition of nature-based solutions: 'Solutions that are inspired and supported by nature, which are cost-effective, simultaneously provide environmental, social and economic benefits and help build resilience. Such solutions bring more, and more diverse, nature and natural features and processes into cities, landscapes and seascapes, through locally adapted, resource-efficient and systemic interventions.' At a company level, this might include practices such as greenery in buildings or nature-inclusive agriculture. This shall not be confused with over-reliance on offsetting to meet climate mitigation goals. In order to evaluate the off-setting practices of companies, we apply the 5 Principles established by Oxford University in 2020. Moreover, we rely on guidance from the Institutional Investors Group on Climate Change (IIGCC) and Science-based Targets Initiative (SBTI).

PFZW is a responsible and active asset owner and, through its voting behaviour¹⁷ and by engaging in dialogues with its investees, it aims to mitigate the negative impact of its investee on biodiversity and nature. PFZW actively uses its influence to seek improvement in this field thereby contributing to the quality, sustainability, and continuity of companies and markets.

In order to understand how our investee companies contribute to biodiversity and nature loss, we start with their contribution to the drivers of biodiversity loss. PFZW steers companies to:

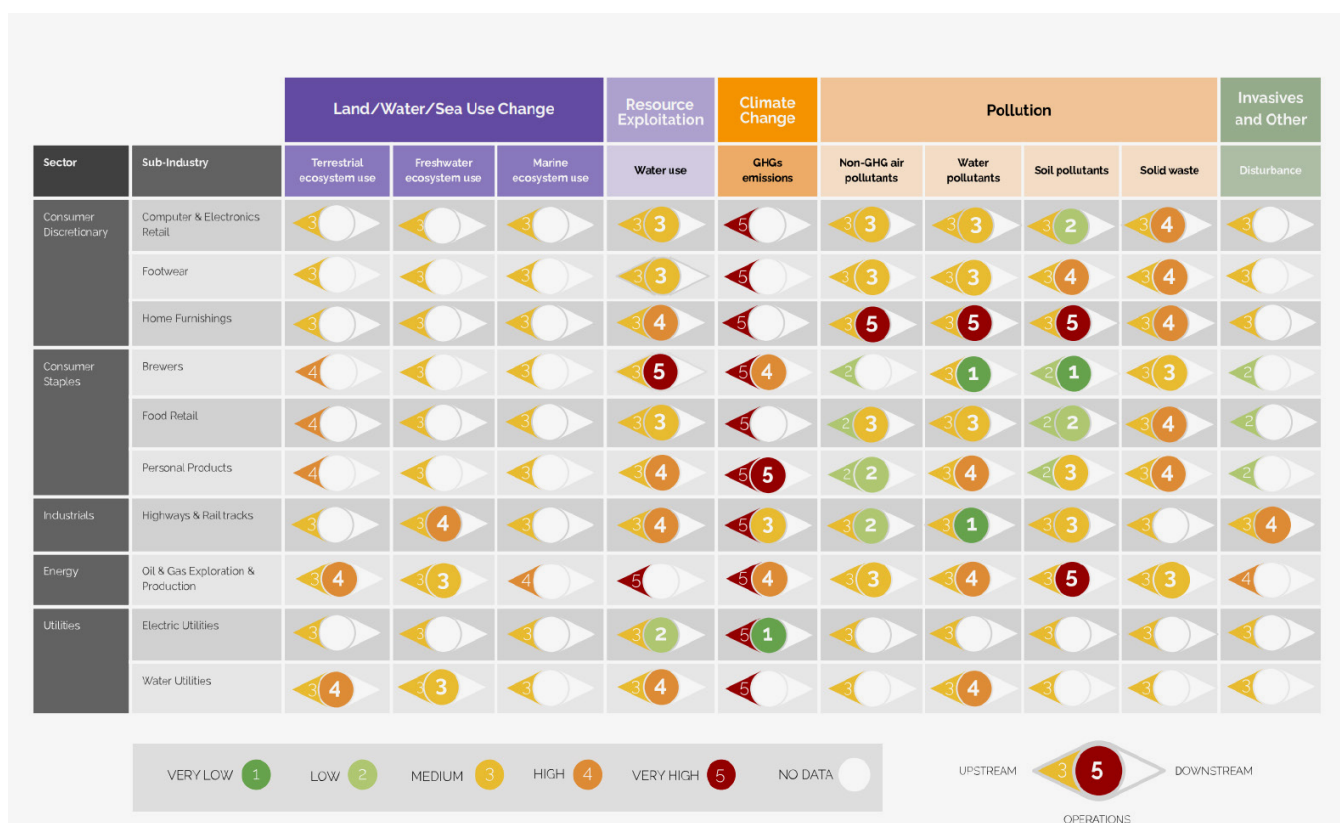
- Assess and monitor how they contribute to nature depletion via their own operations and supply chains.
- Establish quantitative and time-bound targets to decrease their negative impact (e.g. In 2030, 100% of the water used in industrial processes will be recycled and reused in a loop).
- Report on their progress in a transparent and clear manner.

Figure 1. Sector-based map to assess the potential negative impact of companies on environmental issues.¹⁸

As discussed, standardization and frameworks in this field are ongoing and we expect this to provide more guidance to our investee and to increase comparability among the targets of companies and their progress. This will also facilitate engagement, portfolio analysis, and monitoring.

With this being said, there is already knowledge available on several of the drivers of biodiversity and nature loss thus mitigation is possible and PFZW is playing its part. More information about how PFZW addresses water scarcity and climate change can be found in the [water scarcity](#) and [climate change](#) thematic position papers as well as in the most recent [Climate Plan](#), published in June 2022.

PFZW has a due diligence system in place to avoid new investments in companies that are in severe violation of the OECD Guidelines for Multinational Enterprises and/or the UN Global Compact principles and to identify violators in the existing portfolio¹⁹. This screening identifies companies that have a negative impact on several topics including biodiversity and nature. In addition to that, we are developing an additional thematic screening to identify laggards on biodiversity and nature loss in the portfolio and develop mitigation actions.



17. For more insights, please refer to our voting guidelines, available on PGGM's website.

18. Source: Science-based targets for Nature: Initial Guidance for Business (2020, pg.20) by SBTN

19. The results of the screening lead to ad hoc engagement or divestment depending on the severity of the violation and the asset class.

Moreover, we integrated deforestation and circularity KPIs in our climate active ownership program, we expect companies to avoid deforestation and adopt circular practices as means to reach their decarbonization targets and to mitigate their negative impact on nature.

KPI	Description	Description
Commitment to deforestation-free supply-chain	The company adopts a deforestation-free target that encompasses all brands and product lines covering all key commodities. Net deforestation targets do not qualify.	Consumer Staples Consumer Services
Traceability of products	The company shall have systems in place to trace and label products.	Consumer Staples Consumer Services
Integration of targets in procurement policies and practices	Supplier-facing policies and supplier code of conduct that outline expectations and requirements for suppliers to comply with environmental standards.	Consumer Staples Consumer Services
Transparent grievance mechanism	Clear mechanisms are in place to deal with eventual incidents of deforestation in its supply chain, including a transparent process to deal with suppliers that do not comply with the requirements of the company. This shall include stopping business with uncompliant suppliers.	Consumer Staples Consumer Services
Production of material	Increase the recyclability of materials and amount of recycled materials.	Materials
Use of material	Increase the use of non-virgin materials in the share of materials used.	Materials

In 2023, we will enhance our active ownership activities on the topic of biodiversity and nature loss and develop a dedicated program. With this goal in mind, we are coordinating with peers under the Finance for Biodiversity Pledge.²⁰ We believe collaboration and coordinated action to be essential to reach standardization in this important but fragmented field and to maximize the effectiveness of our engagement.

As far as investing directly in nature conservation is concerned, we acknowledge that private capital is highly needed to restore the natural environment. From a pension fund's perspective, there needs to be more development in the market for opportunities to arise that are of an adequate scale and risk profile. We notice that thanks to the high interest in this topic, there is an increasing number of relevant initiatives and novel financial instruments. Some examples are: "biodiversity" green bonds, thematic equity funds, sustainable commodities, real assets and environmental markets, including carbon and biodiversity credits. This, in combination with standardization and enabling regulation, may improve the number of investible opportunities in the longer term. We welcome and monitor this development while keep pursuing our impact goals as described in our [responsible investment policy](#).

20. Signed by our asset manager PGGM.

4. Conclusions and Further Steps

PFZW welcomes the surge of interest and attention from peers and regulators around the topic of biodiversity and nature loss. The ongoing biodiversity crisis is doubly tied to the topics of climate change and health. Thus, it resonates strongly with the core values and identity of PFZW.

In the last years, PFZW steadily increased its focus on this topic. In particular, our climate active ownership integrates explicitly deforestation and circularity KPIs and we have been piloting risk assessment tools. PFZW and its asset manager PGGM are actively taking part and supporting market-led initiatives to foster action and standardize methodologies around biodiversity and nature loss.

In 2023, PFZW will continue and enhance our research activities and collaborative efforts. Moreover, we will develop a strategy to mitigate the negative impact on biodiversity and nature in our portfolio and develop a dedicated active ownership program.

This thematic position paper will be regularly updated to reflect our growing effort on this topic as well as the latest insight on this field which is developing rapidly.