Paris Alignment Forum

Biodiversity crisis – can pension funds save the world?

By Cameron Turner

> We very much need sovereigns and governments to make policy changes, but we can't wait for them to do that. The institutional investor powerhouse is very real, and we need to be leveraging that in the right direction.
>
> KERRY KING, A4S

This blog reflects views expressed during our all-stakeholder Paris-Alignment Forum event, focused on pension funds' responsibility to account for biodiversity loss in their investment decision-making, and what best practice looks like.

The session featured **Fergus Campbell**, Sustainable Finance Advisor at the *Zoological Society of London (ZSL)*, and **Kerry King**, Director of Capital Markets and Fundraising at *Accounting for Sustainability, A4S*, as speakers, the event was hosted by Karen Shackleton.

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Why should pension funds take biodiversity into account?

The living planet index (LPI), produced by *ZSL* in partnership with the *World Wide Fund for Nature (WWF)*, measures trends in over 30,000 monitored species and population sizes in over 5,000 species, and can be used as an indication of the health of worldwide biodiversity. From 1970 to 2018, the LPI has decreased by 69%. This number is even more severe in the most biodiverse regions on the planet. For example, in Latin America it has decreased by 94%.

So, what has this got to do with fiduciary duty? The global economy is incredibly dependent on nature. More than half of global GDP depends on it. In fact, up to $140tn dollars a year is generated by nature's ecosystem services, supported by biodiversity. Failure to account for this systemic risk will result in worse outcomes across whole portfolios.

To what extent are pension schemes incorporating biodiversity into their decision making?

Pensions for Purpose's recent Impact Lens research on biodiversity and natural capital uncovered that many schemes aren't doing any work on biodiversity, while the ones that are mostly focus on stewardship and engagement. Pension schemes should start by creating biodiversity policies and setting them as a priority for voting and engagement. To create maximum leverage with portfolio companies, collaborative engagement should be utilised where possible. UK pension schemes have had several notable successes using this technique, garnering large scale media attention.

However, engagement should not stop at the company level. Pension schemes need to use their voice, as the world's largest asset owner, to influence policy at the sovereign level in order to change systems that are not built for sustainability. Without adequate policy and regulatory intervention, the ability of pension schemes to drive the transition to a nature positive global economy is limited.

Where possible, trustees should seek expertise, whether that is through training from their investment consultants or through hiring biodiversity experts. Accounting for biodiversity can be difficult – unlike climate change and emissions there is no single metric to unite efforts. This makes specific biodiversity expertise even more valuable to pension schemes looking to reduce risks and seek opportunities.

What challenges are pension schemes facing in accounting for biodiversity?

Of course, the multi-metric approach pension schemes must take when measuring their biodiversity risks, dependencies and impacts is a big challenge. The Taskforce on *Nature-related Financial Disclosures (TNFD)* LEAP framework may make it easier to assess where pension funds should focus their engagement efforts, but frameworks like this can be confusing to the uninitiated.

Investing in solutions to biodiversity loss presents more issues for pension schemes. Our Impact Lens research uncovered several asset owner concerns with investment in natural capital (a popular investment solution for biodiversity loss):

- Limited opportunities.
- Risk around financial outcomes – unproven track record.
- Illiquidity.
- Small allocations and high governance requirements.
- Time horizon is a challenge for private markets.
- Fee levels.
- Concerns that investments sit at the point on the spectrum of capital where returns start to drop off.
- Nature-related data is insufficient.
- Poor specialist knowledge in this area.
- Evolving carbon markets – uncertainty over returns.

Can pension funds save the world?

Pension schemes alone cannot save the world - systemic problems require systemic change. However, pension schemes can play their part. Through leveraging all their capabilities in engaging with sovereigns and underlying assets, and investing in solutions to the biodiversity crisis, they can drive systemic change which will reflect positively on the long-term health of their portfolios.

- ***Cameron Turner is an Intern at Pensions for Purpose and recent Durham University graduate.***

Click the link to read the original event post on our website, with details of the speakers.

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