



Integrating **biodiversity** into private equity

A PRACTICAL GUIDE FOR MANAGEMENT COMPANIES

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Edito

Claire Chabrier

President of France Invest



Biodiversity, nature, ecosystems... these are all concepts that have come to the fore in recent years.

This is a result of changes in sustainable finance regulations but also of the increasing awareness of States, companies, NGOs and citizens of the critical situation we are facing. With everyone aware of the imperative need to act in the face of climate change, we now have to mobilise with strength and determination in order to preserve the biodiversity of our planet.

Private equity players, whether by current or future regulations or through their relationships with their various stakeholders, must now be able to understand what biodiversity is and take it into account during their activities, as a company and as an investor.

The profession intends to make its contribution and to take up the challenges of preserving biodiversity by supporting all France Invest members. This guide provides the necessary tools for the teams of France Invest's member asset management companies to discuss biodiversity with their holdings and to take the appropriate measures. Thusly it satisfies one of the objectives of our 2022–2027 Manifesto, which is to help SMEs and mid-caps to integrate biodiversity-related issues.

This guide is intended to be an educational reference for all professionals in our sector, as were the previous guides on ESG issues and the guide on understanding sustainable finance regulations.

I would like to offer my congratulations to Noëlla de Bermingham, President of the France Invest Sustainability Commission, who oversaw the preparation of the guide, as well as to all those who contributed to it.

Preamble

Noëlla de Bermingham

President of the France Invest Sustainability Commission



Biodiversity is declining at an unprecedented rate. We are currently experiencing the 6th mass extinction. This loss is mainly the consequence of human activities.

In its 2019 report[1], the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, IPBES (nicknamed the «PCC of biodiversity»), warned that «the current rate of global species extinction is higher compared to average over the last 10 million years, and the rate is accelerating ». According to IPBES, «Nature is declining globally at rates unprecedented in human history – and the rate of species extinctions is accelerating, with grave impacts on people around the world now likely». In 2021[2], the IPCC and IPBES published for the first time a joint report in which scientists outline the impacts of climate on biodiversity and vice versa. Yet, unfortunately, the issues related to the massive decline of biodiversity are not being addressed with the same urgency as those relating to climate change.

At its level, private equity has an important role to play in this challenge of preserving biological diversity, both by

financing activities that make a particular contribution and by promoting effective approaches within the companies it supports.

New European and French regulations are also prompting us to learn quickly about our impacts and dependencies on ecosystem services.

In this context France Invest felt the profession needed to have an educational document on the subject. This dedicated guide will be updated as progress is made in this area, which is still developing. This guide also aims to be as concrete and operational as possible to enable management companies to incorporate the issue of biodiversity into each stage of the investment cycle.

I would like to sincerely thank the contributors as well as BL Evolution for their efforts and strong commitment in producing a reference guide for our profession.

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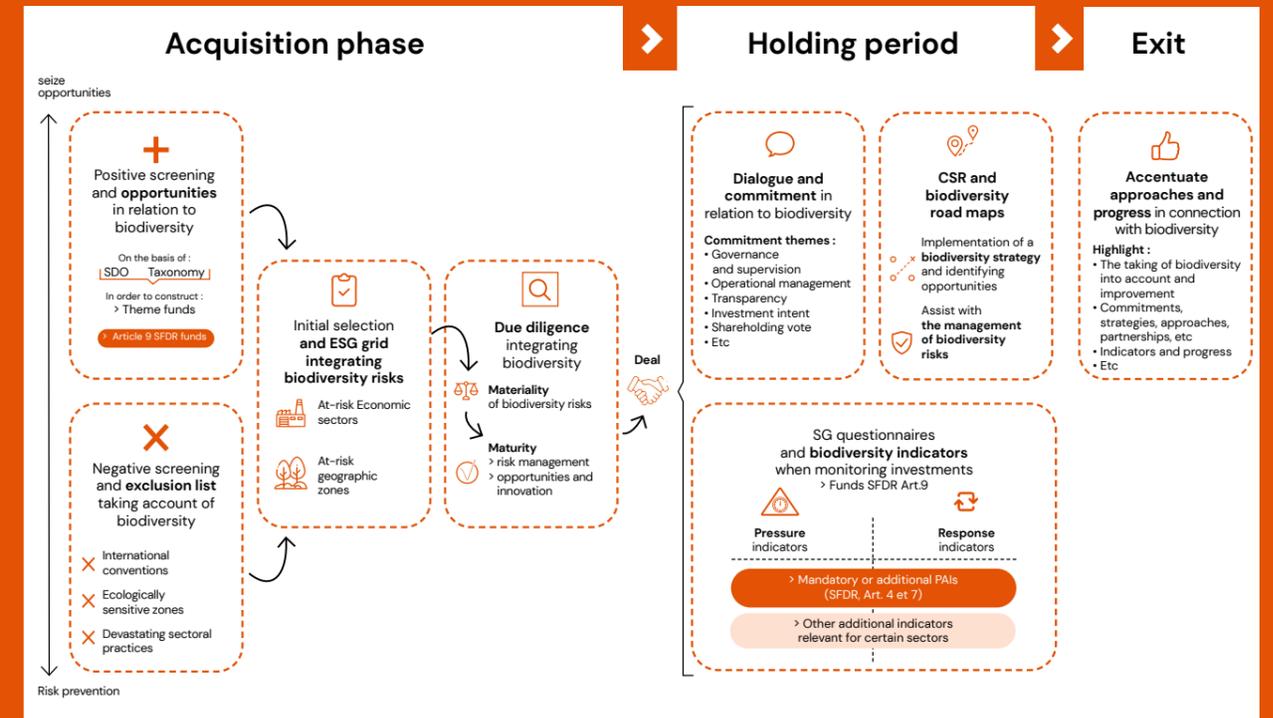
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[1] <https://ipbes.net/news/Media-Release-Global-Assessment-Fr>

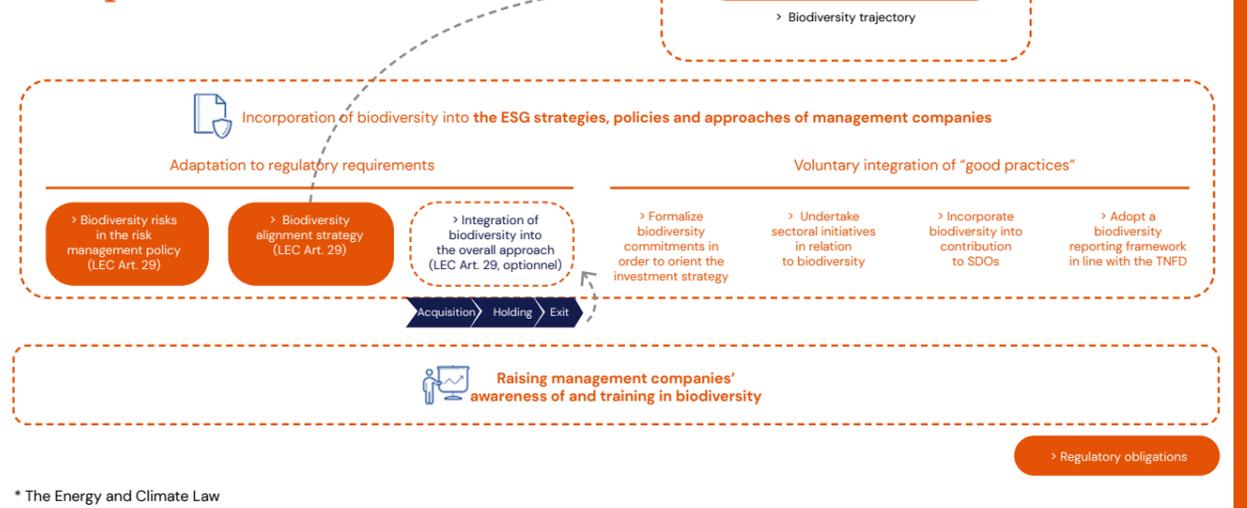
[2] <https://ipbes.net/events/ipbes-ipc-co-sponsored-workshop-report-biodiversity-and-climate-change>

Summary

Integrating biodiversity into the private equity investment cycle



Integrating biodiversity into the strategies and approaches of private equity management companies



* The Energy and Climate Law

INTRODUCTION

What is biodiversity ?

Biodiversity represents the entire living fabric of our planet. It includes:

Genetic diversity

Species diversity

The diversity of ecosystems and the ecological complexes of which they are part.

Biodiversity also includes all the interactions that exist between these ecosystems, species and individuals.



However, through their contributions, **ecosystem services support human activities and thus our economies.** We therefore speak of **dependencies on biodiversity** and on the ecosystem services provided by nature. **Three key figures** are particularly telling in illustrating the importance of nature to our economies.

More than 50% of the world's annual GDP is moderately or highly dependent on ecosystem services representing **\$44 trillion** in economic value. (According to World Economic Forum)

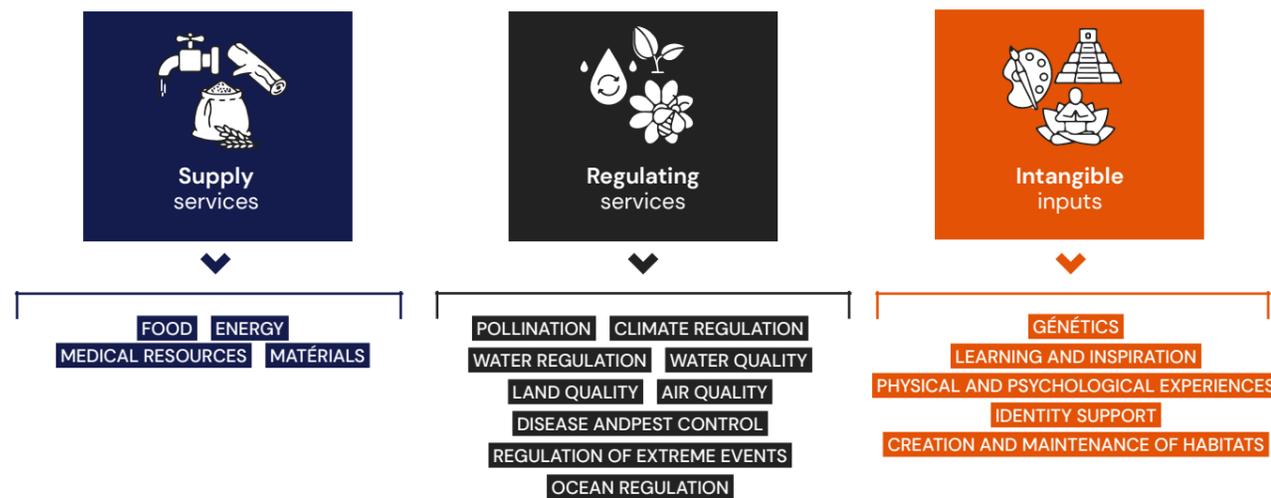
The decline in ecosystem functionality has cost the global economy more than **\$5 trillion** per year. (Based on the same TEEB estimates, BCG also points that out)

Ecosystem services alone are worth more than **\$150 trillion,** annually—about twice the world's GDP (Based on the same TEEB estimates, BCG also points that out)

Why the interest in biodiversity?

Biodiversity is **the source of many goods and services used by humans and their daily activities** : food, oxygen, air and water filtration, medicines, raw materials, pollination, flood and erosion prevention, inspiration, biomimicry, mental health, etc. These various contributions of nature are also called **ecosystem services**.

IPBES – the Intergovernmental Science–Policy Platform on Biodiversity and Ecosystem Services – identifies **18 ecosystem services** that constitute Nature's Contributions to People (NCP). IPBES divides these ecosystem services into 3 categories :



According to IPBES, of the 18 ecosystem services, **14 are currently in decline.**

Loss of biodiversity due to human activities

Biodiversity has always varied as species have appeared and disappeared on Earth as a result of evolutionary processes, but today species are disappearing at a rate unprecedented in history.

Human activities are responsible for this loss of biodiversity: since the industrial revolution, they have triggered what is now described as the 6th mass extinction.



25 %
of plants and animals are currently at risk of extinction

The productivity of **23 %** of the earth's surface has been reduced

1,6 million hectares of forest are lost per year, which is the size of Bangladesh, or 40 football fields every minute

Based on these findings, IPBES identified and prioritised **five direct drivers of biodiversity loss**, all of which are of anthropogenic origin, i.e. the result of human activities:



These direct factors therefore result from more global trends and from **indirect factors** related to our human societies, such as **demographic trends** (e.g. human population dynamics), **socio-cultural trends** (e.g. consumption patterns), **economic trends** (e.g. international trade), **technological trends**, and trends relating to **institutions, governance, conflicts or epidemics**.

Nature-related, economic and financial risks

The **loss of biodiversity**, which results in species extinctions, the decline of populations, as well as the degradation of ecosystems, leads to the loss of ecosystem services, of nature's contribution to populations.

These **nature-related risks** subsequently produce **economic risks**, and consequently, significant financial risks. By way of illustration, a Banque de France study conducted in 2021 shows that 42% of the value of shares and bonds held by French financial institutions is issued by companies that are highly or very highly dependent on at least one ecosystem service

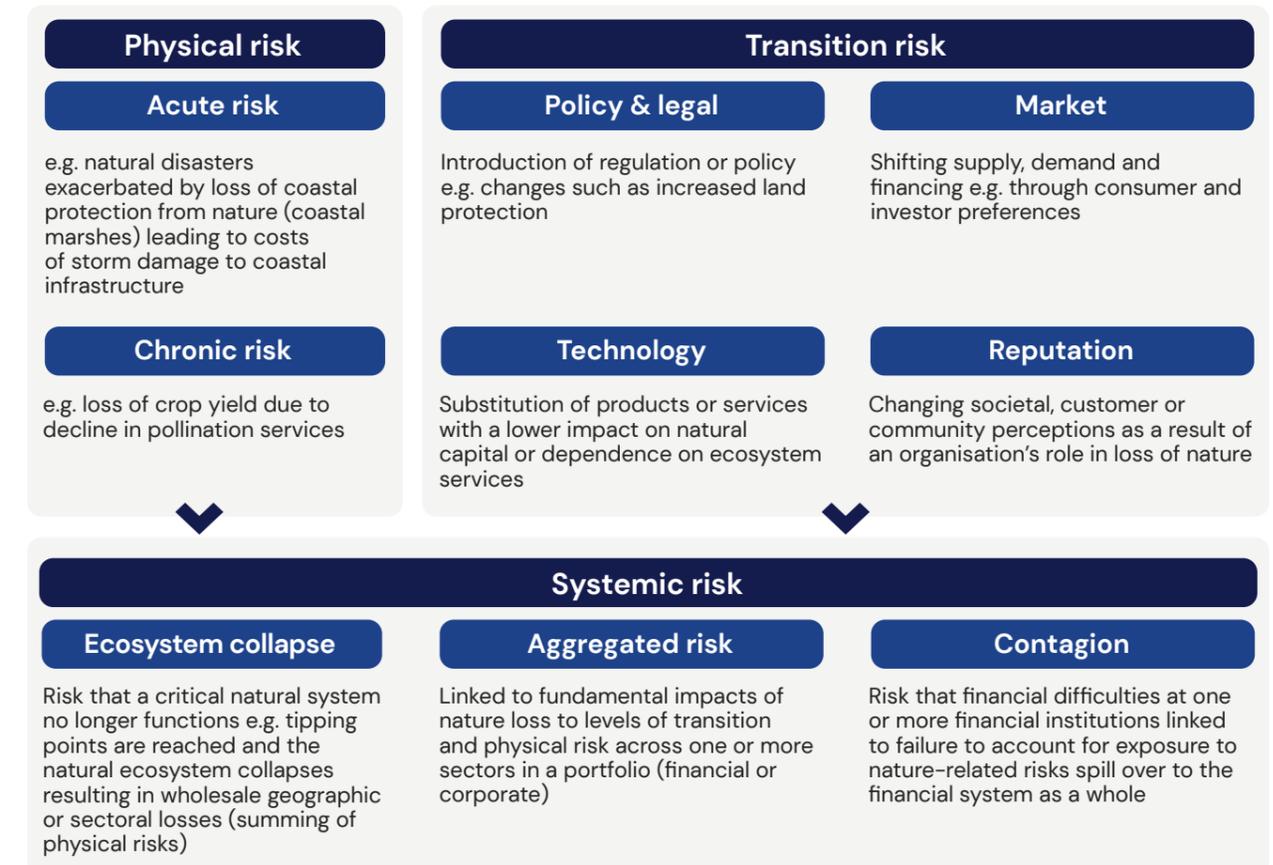
Understanding nature and biodiversity risks is therefore a matter of increasing importance for companies and financial institutions alike. On the back of numerous studies and reports, a reference framework is now taking shape through the work of the **TNFD** (Taskforce on Nature-related Financial Disclosures).

This initiative, launched in June 2021 in line with the internationally recognised framework for climate-related disclosures (the TCFD — Task Force on Climate Related Financial Disclosures), published its first recommendations in March 2022 and proposes a **reference analysis framework dedicated to nature-related risks and opportunities**, as well as recommendations relating to assessment and reporting processes for companies and financial institutions.

Focus

The TNFD framework for nature-related risk analysis

The TNFD defines **nature-related risks** as «the **potential threats** posed to an organisation linked to its and other organisations' **dependencies** on nature and nature **impacts**. These can derive from **physical, transition and systemic risks**.»



TNFD's definitions of nature-related risks, TNFD, 2022 ¹⁴

Physical risks are the direct result of an organisation's dependencies on nature. These nature-related physical risks result from changes in the biotic (living) and abiotic (non-living) conditions that allow ecosystems to function properly. They occur when natural systems are compromised, due to the impact of climatic events (e.g. extreme weather conditions such as drought), geological events (e.g. earthquake) or changes in the balance of ecosystems (e.g. changes in soil quality or ocean chemistry).

These risks can be **acute, chronic or both**. It is therefore important for companies and financial institutions to understand how economic activities lead to changes in the state of nature and how this affects the provision of ecosystem services.

Transition risks are risks that result from a misalignment between an organisation's strategy and management and the changing context in which it operates, particularly with regard to developments aimed at stopping or reversing damage to nature. **Regulations** or government policies, **technological** developments, **market** developments including changes in consumer preferences, as well as **disputes** and controversies can give rise to these transition risks.

Finally, **systemic risks** arise from the **potential collapse of an entire system**, rather than from the failure of individual elements. They are characterised by **tipping points that can combine and result in large-scale failures**, with cascading interactions of physical and transitional risks (through contagion) and where systems are unable to return to equilibrium after a shock, with one loss triggering others in a chain reaction.

These complex interactions of nature-related dependencies and impacts, which take the form of physical, transitional and systemic risks, can lead to **economic risks** through increased vulnerability of income and cash flows and result in a wider range of **financial risks**, including market, credit and liquidity risks.

The **transmission channels between nature, economic and financial risks** include both **micro-economic channels** (e.g. supply chain disruptions and unexpected costs, changes in profitability and asset values, increased litigation, etc.) and **macro-economic channels** (e.g. changes in demand, volatility of commodity prices, etc.).

Part 1 | A growing regulatory framework in relation to biodiversity

Awareness of the urgency of the ecological transition, and in particular of biodiversity-related risks and biodiversity loss, is leading European and national public authorities to develop new regulatory frameworks in order to strengthen requirements in relation to the conservation of nature and biodiversity.

In this context, **regulations specifically targeting financial actors include strict new requirements in relation to biodiversity**, at several levels: transparency requirements, taking account of biodiversity-related risks in investment processes, promotion of financing to support the redirection of capital to the preservation of biodiversity, etc.

The main sustainable finance regulations in relation to biodiversity

France has been a pioneer in the area of transparency obligations for financial institutions, notably through Article 173 of the Law on Ecological Transition for Green Growth which, as early as 2015, required investors to provide information on how extra-financial criteria and climate risks were taken into account.

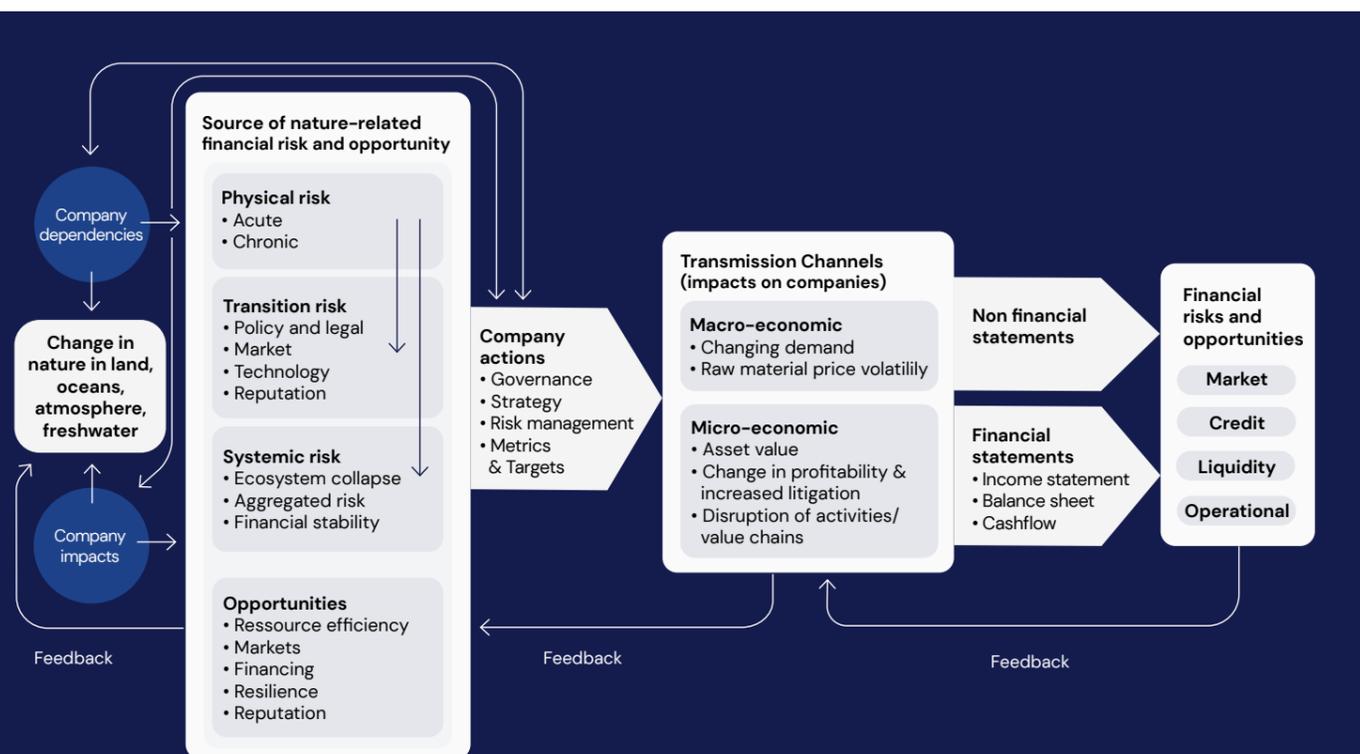
Since then, **the European Commission has taken up the baton by proposing a particularly ambitious vision and strategy for the development of sustainable finance.**

This growing European determination was translated in 2018 into a first Sustainable Finance Action Plan. In 2020, the EU Green Deal reinforced this objective. An ambitious investment plan (the «European Green

Deal Investment Plan») providing for €1,000 billion by 2030 was announced. In 2021, the European Commission presented its **renewed Sustainable Finance Strategy with the objective of legally transforming the financial system through several structuring regulations.**

Within this new regulatory framework, **four main biodiversity-related regulations that directly concern private equity players** imply significant changes :

At the European level : Taxonomy, SFDR and CSRD ▶



Financial risks and opportunities emerging from nature, TNFD, 2022

At the European level : Taxonomy, SFDR and CSRD

FOCUS : THE EU TAXONOMY FOR SUSTAINABLE ACTIVITIES

Taxonomy Regulation

Regulation (EU) 2020/852 – «EU Taxonomy for sustainable activities»

Presentation of the text and of the biodiversity-related requirements

The Taxonomy Regulation sets out precise requirements for an economic activity to be considered environmentally “sustainable”. In order to be “aligned” with the Taxonomy, an economic activity must demonstrate, among other things, that it makes a substantial contribution to one of the six environmental objectives* defined by the regulation, without causing harm to the other five objectives (the DNSH principle – “Do no significant harm”).

The protection and restoration of biodiversity and ecosystems is the 6th objective of the Taxonomy which implies :

- The identification of a list of eligible economic activities that can be considered “sustainable” because they contribute to the biodiversity objective, subject to compliance with the alignment criteria. Currently, **around ten economic activities** could be aligned** with the Taxonomy under the biodiversity objective, making a **substantial contribution** to it (see dedicated Focus).
- Biodiversity is one of the 5 criteria under the DNSH principle applicable to all economic activities eligible for the Taxonomy : they must therefore meet certain biodiversity-related safety criteria to be aligned with one of the other 5 objectives of the Taxonomy.

**The 6 environmental objectives of the Taxonomy are 1) climate change mitigation, 2) climate change adaptation, 3) sustainable use and protection of water and marine resources, 4) transition to a circular economy, 5) pollution prevention and control, and 6) protection and restoration of biodiversity and ecosystems.*

*** These activities have been proposed in the final report of the Platform on Sustainable Finance (PSF) on activities and criteria for the last 4 environmental objectives of the Taxonomy, published in March 2022. They are therefore not final and the European Commission is free not to adopt the proposals of the Platform on Sustainable Finance.*

Entities concerned and applicable thresholds

Entities concerned :

- Non-financial companies and financial institutions currently concerned by the European NFRD*, and therefore subject in France to the publication of an EPFD**.

Thresholds for entities (EPFD thresholds):

- Listed entities : balance sheet >€20M or turnover >€40M and >500 employees
- Unlisted entities (including cooperatives, excluding SASs and SARLs) : balance sheet >€100M or turnover >€100M and >500 employees

Products concerned :

- Financial products covered by Article 8 or Article 9 of the SFDR (see dedicated Focus).

Applicable thresholds :

- No threshold (all financial products covered by Art. 8 or Art. 9 of the SFDR)

**Directive 2014/95/EU NFRD – Non Financial Reporting Directive*

***The EFRD – Extra-Financial Performance Declaration, corresponds to the transposition into French law of the European NFRD Directive, under Decree No. 2017-1265 of 9 August 2017.*

FOCUS : THE SFDR OR “DISCLOSURE” REGULATION

SFDR or Disclosure regulation

Regulation (EU) 2019/2088 – Sustainable Finance Disclosure Regulation

Présentation du texte et des exigences relatives à la biodiversité

The purpose of the Disclosure Regulation is twofold: to improve the transparency of financial actors with regard to their consideration of ESG in their investment processes and to provide specific information with regard to financial products promoting environmental and/or social characteristics or pursuing a sustainable investment objective.

Biodiversity issues come into play at different levels within the SFDR :

- **Article 3 and Article 6** : Biodiversity may be identified as a **sustainability risk** by the entity concerned and, in this case, included in the mandatory disclosures
- **Article 4 and Article 7** : indicators directly or indirectly related to biodiversity* are included in the **principal adverse impact statement (PAI)**
- **Article 8 and Article 9** : Biodiversity can be **one of the environmental characteristics (Art. 8) or sustainable investment objectives (Art. 9) of a financial product**

**Indicators for key negative impacts on sustainability factors and biodiversity include: activities that negatively impact biodiversity-sensitive areas, natural species and protected areas*

Entities concerned and applicable thresholds

Entities and financial products concerned :

- **Entities** : financial market players and financial advisors, including private equity management companies, European venture capital or social entrepreneurship fund managers

Thresholds for entities :

- For sustainability risks at entity level (Article 3): no threshold, all management companies
- For the reporting of PAIs at entity level (Article 4):
 - Management companies >500 employees: mandatory compliance
 - Management companies <500 employees: comply or explain

Products concerned :

- Financial products: UCITS (Undertakings for Collective Investment in Transferable Securities), AIFs (Alternative Investment Funds) or mandates

Thresholds for financial products:

- For sustainability risks at product level (Article 6): no threshold, all funds, AIFs or mandates
- For the declaration of PAIs at product level (Article 7)*:
 - If *comply* at entity level, *comply or explain* at product level
 - If *explain* at entity level, *explain* at product level

**Regarding the consideration of PAIs at product level, we are awaiting answers and clarifications to be provided by the European Commission.*

Proposal for a CSRD* Directive

Proposal for a Directive 2021/0104(COD) – Corporate Sustainability Reporting Disclosure

**The entry into force of the proposed CSRD is initially envisaged at the earliest from 2023 (implying reporting in 2024 on the 2023 financial year for entities already within the scope of the NFRD) but this timetable is likely to be subject to changes or potential postponements until the final adoption of the text.*

Presentation of the text and of the biodiversity-related requirements

The transparency of financial actors in their consideration of ESG aspects, as required by SFDR (see dedicated Focus), relates directly to the accessibility of extra-financial data published by companies.

The NFRD directive that has governed extra-financial reporting in the European Union since 2014 is currently being revised via the proposed CSRD directive, which aims to expand the number of companies concerned, but also to standardize the information and data published through the establishment of sustainability reporting standards.

For environmental issues, the proposed Directive provides for alignment with the 6 environmental objectives of the Taxonomy Regulation (see dedicated Focus), which implies that :

- The protection and restoration of biodiversity and ecosystems will be an environmental theme on which disclosure will be mandatory for the entities concerned.
- Information on strategies, policies, targets, action plans and performance indicators related to biodiversity will be required.

Entities concerned and applicable thresholds

As the negotiations on the proposed CSRD Directive have not been completed, the following information is provisional:

Entities concerned

- At the very least, the legal forms of companies already covered by the European NFRD, and therefore subject to the publication of an EPFD in French law, would be concerned. The scope of the companies concerned is likely to be extended to all commercial companies, regardless of their legal form, as soon as they exceed the thresholds mentioned below.

Thresholds envisaged

- All large companies meeting 2 of the following 3 criteria:
 - >250 employees
 - balance sheet >20M
 - turnover > €40M
- All listed companies, including listed SMEs (<250 employees, but excluding micro-enterprises)
- Unlisted SMEs, on a voluntary basis (simplified sustainability standards and reporting)

**The scope of the CSRD will depend on the adoption of the proposed directive and its transposition into French law.*

At the French level : Article 29 of the Energy-Climate Law

Article 29 of the Energy-Climate Law and its implementing decree, applicable since May 2021, go beyond the requirements of the European SFDR regulation (see the dedicated Focus).

FOCUS : ARTICLE 29 OF THE ENERGY-CLIMATE LAW

Article 29 of the Energy-Climate Law

Law no. 2019-1147 of 8 November 2019 and its implementing decree no. 2021-663 of 27 May 2021

Presentation of the text and of the biodiversity-related requirements

Article 29 of the Energy-Climate Law and its implementing decree aim to strengthen the extra-financial reporting of financial market players in relation to ESG criteria and the means implemented to contribute to the ecological transition. In particular, **new obligations specifically relating to biodiversity are envisaged:**

- **Article I of the decree, III-1°:** presentation of the entity's general approach, requiring information on the consideration of ESG criteria in investment decision-making processes, whereby the entity may voluntarily detail the integration of biodiversity-related issues.
- **Article I of the decree, III-7°:** obligation to publish a strategy for alignment with the long-term biodiversity objectives, including:
 - A measure of compliance with the objectives of the Convention on Biological Diversity (CBD)
 - An analysis of the contribution to the objectives defined by IPBES
 - The use of a biodiversity footprint indicator to measure compliance with these objectives
- **Article I of the decree, III-8° and III-8°bis :** publication of information on how ESG criteria are taken into account in risk management, including physical, transition and liability risks related to climate change and biodiversity.

How asset management companies can integrate these new biodiversity reporting requirements is detailed in the dedicated Focus.

Entities concerned and applicable thresholds

Entities concerned :

- **Entities :** financial market players including insurance companies, banks and management companies where they offer mutual fund management, discretionary management or investment advice

Thresholds for entities :

- Article I of the Decree, III-1° (general approach of the entity): no threshold, all management companies
- Article I of the decree, III-7° (biodiversity alignment strategy):
 - Management companies with >€500M in assets under management
- Article I of the decree, III-8° and III-8°bis (integration of biodiversity in risk management):
 - Management companies with >€500M in assets under management

Financial products concerned :

- Financial products: UCIs (UCITS, AIFs) and discretionary management (with assets >€500M)

Thresholds for financial products :

- Article I of the decree, III-7° (biodiversity alignment strategy):
 - AIF or mandates >€500M AUM
- Article I of the decree, III-8° and III-8°bis (integration of biodiversity in risk management):
 - AIF or mandates >€500M AUM

Other national regulations and targets relating to biodiversity

In addition to the European regulations or French legislation specifically relating to financial players, **numerous national objectives and laws** have been progressively introduced in France to help preserve ecosystems and biodiversity. Translating national political goals and their application at the territorial level, these various objectives and laws can **be applied indirectly to companies depending on their sectors and activities and thus affect management companies via their investment portfolio.**

Within the broad body of national biodiversity-related legislation, **three main components of national legislation or policies are particularly key for private equity actors**, as they guide national action on biodiversity and therefore impact a wide range of businesses and sectors :

FOCUS : THE LAW FOR THE RESTORATION OF BIODIVERSITY, NATURE AND LANDSCAPES

Law for the restoration of biodiversity, nature and landscapes

Law n° 2016-1087 of 8 August 2016

The law for the restoration of biodiversity, nature and landscapes, adopted in 2016, revises two previous French laws :

- the Nature Protection Act (1976)
- the law on the protection and enhancement of landscapes (1993)

This law enshrines in French law France's new vision and ambition in terms of biodiversity and its protection and enhancement, in particular through several key provisions:

- The inclusion of the **principle of non-regression** in environmental law
- The definition of the liability regime for compensation for **environmental damage**
- The introduction of the **"zero net loss of biodiversity" target**
- The creation of a legal regime for **ecological compensation obligations**
- The creation of **"priority areas for biodiversity"**.
- The creation of the **French Agency for Biodiversity**

FOCUS : THE NATIONAL BIODIVERSITY STRATEGY (NBS)

The national biodiversity strategy (NBS)

The National Biodiversity Strategy (NBS) is the translation of the French commitment under the Convention on Biological Diversity (CBD), in order to achieve the objectives set at international level.

It was the CBD, an international treaty signed at the Earth Summit in Rio de Janeiro (1992), which first recognised the importance of conserving biodiversity for the whole of humanity and which has since given rise to the various Conferences of the Parties (COP) on Biodiversity bringing together the signatory countries of the CBD.

The NBS translates these international commitments into national objectives and is divided into several ten-year sections:

- A first NBS 2004-2010
- A second NBS 2011-2020 and the 2018 Biodiversity Plan
- A third NBS 2022-2030 (under development)

In concrete terms, the NBS aims to **halt the decline in biodiversity** and sets, for a period of ten years, **objectives for the preservation of natural environments and species**, in line with the international objectives of the CBD.

FOCUS : THE "ZERO NET ARTIFICIALISATION" (ZNA) OBJECTIVE

The objective of «Zero Net Artificialisation» (ZNA)

The 'Net Zero Artificialisation' (NZA) target was first **introduced by the 2018 Biodiversity Plan**,¹ and reaffirmed in the **2021 Climate and Resilience Bill**,² part of which focuses entirely on combating land artificialisation and urban sprawl.

This ambitious objective of "no further loss of natural, agricultural or forest land" consists of **reducing urban sprawl as much as possible by limiting construction** on natural or agricultural land and **compensating for urbanisation** by giving more space to nature in the city.

In concrete terms, this objective requires territories, municipalities, departments and regions to **reduce the rate of artificialisation** and the use of natural, agricultural and forest areas by **50% by 2030** compared to the take-up measured between 2011 and 2020, and to **achieve zero net artificialisation by 2050**.

A government roadmap is being developed to set a timetable and trajectory for achieving this goal.

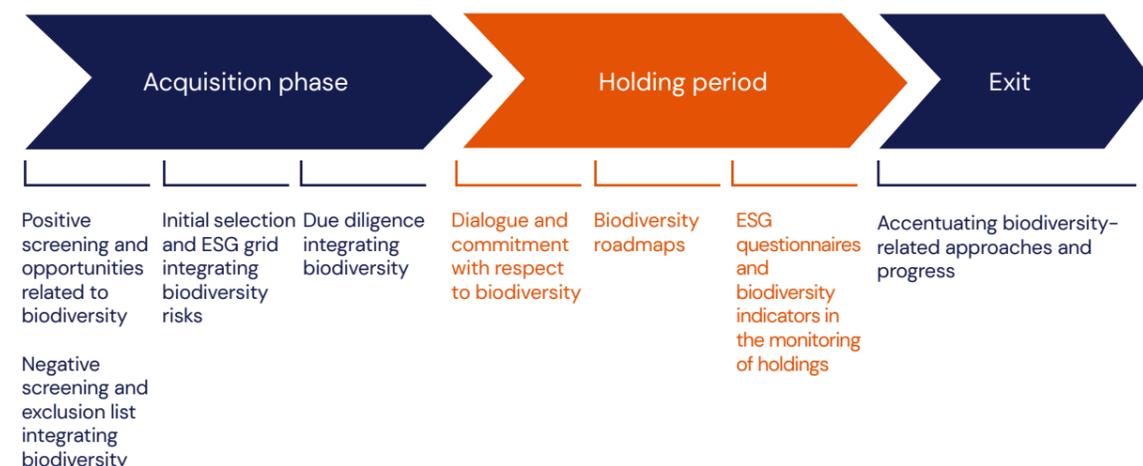
There are also many other national laws or objectives to translate France's commitment and action in terms of biodiversity preservation, and they concern directly or indirectly many specific economic sectors, such as the EGALIM law (2018), the "anti-waste for a circular economy" law (2020), the "climate and resilience" law (2021) or the National Strategy against Imported Deforestation (2018) and the National Strategy for Protected Areas (2020-2030). For more information, the report "Finance & Biodiversity: the French Ecosystem" provides a broad and detailed summary of these various national laws and strategies.

Part 2 | Integrating biodiversity into the private equity investment cycle

The democratisation of sustainable finance and responsible investment is leading all financial players to adapt their investment strategies and processes : while the regulatory requirements in the area of sustainable finance undeniably attest to this dynamic (see the dedicated section), the change in practices is also reflected in the field through a profusion of initiatives, good practices or collaborative work that is helping to transform the financial system and redirect capital to serve the ecological and social transition.

The methodologies and tools for understanding biodiversity issues in investment are rapidly being developed and structured, enabling private equity players to take them on board and fully integrate them into their ESG approach, over the entire investment cycle.

Overview of the investment cycle



In the acquisition phase : guide investment decisions while taking biodiversity issues into account

Today, successful fundraising by asset management companies increasingly requires the deployment of a responsible investment policy, which is becoming more and more important for investors. This trend is reflected in investment decisions and equity investments in different companies or assets, where ESG considerations are now crucial.

In the acquisition phase, management companies can fully integrate biodiversity issues, both in terms of risks and investment opportunities, from the identification and selection of investment targets to due diligence and the acquisition of an equity interest.

Positive screening and investment opportunities in relation to biodiversity

When creating a fund and selecting the companies, sectors or activities that will make up an investment portfolio, management companies, depending on the objective pursued, can **directly favour certain sectors or activities that may be beneficial to the conservation or restoration of nature and biodiversity.**

Such an objective can make it possible to propose investment strategies that fully integrate the economic opportunities that biodiversity and natural capital can represent, for example through :

- the creation of **thematic funds** oriented towards the preservation of biodiversity
- the creation of **funds offering an environmental and sustainable investment objective** in relation to biodiversity within the meaning of Article 9 of SFDR (see the dedicated Focus).

In order to identify and select such investment targets, two approaches can be considered :

- A **contribution-oriented approach**, which entails selecting activities whose core business contributes to the **conservation or improvement** of the state of nature and ecosystems
- A **“mitigation” approach**, which entails selecting activities whose practices allow for a **significant reduction of pressures** on nature and ecosystems

In support of these approaches, several frameworks can be used as a compass by management companies to identify investment opportunities, including :

- **Economic activities** and substantial contribution criteria defined by the **Taxonomy Regulation**
- **Economic activities** contributing to UN **SDG 14 (life below water)** and **SDG 15 (life on land)**

FOCUS : TAXONOMY ACTIVITIES CONTRIBUTING TO OBJECTIVE 6 – BIODIVERSITY

The economic activities and substantial contribution criteria related to Objective 6 – protection and restoration of biodiversity and ecosystems – of the Taxonomy Regulation (see dedicated Focus) are intended to serve as a **common framework for the identification of activities that contribute to the conservation or enhancement of ecosystems** (contribution-oriented approach) or that **allow for a significant reduction of pressures** on ecosystems (mitigation-oriented approach).

European Taxonomy activities contributing to Objective 6 – biodiversity*.	
Eligible activities	Substantial contribution criteria
<p>Agriculture, forestry and fisheries</p> <ul style="list-style-type: none"> • Animal production • Crop production • Forestry and logging • Fishing <p>Energy</p> <ul style="list-style-type: none"> • Environmental rehabilitation of hydropower plants • Bioenergy <p>Restoration and rehabilitation</p> <ul style="list-style-type: none"> • Habitat/ecosystem conservation • Restoration of biodiversity and ecosystems • Protection of biodiversity and ecosystems 	<p>Of these activities, only those that meet one of the following 5 general Substantial Contribution (SC) criteria can be aligned with the biodiversity objective of the European Taxonomy (subject to compliance with the DNSH – Do No Significant Harm criteria) :</p> <p>Conservation or improvement of the status of the environment:</p> <ul style="list-style-type: none"> • Maintaining the status of (semi-) natural ecosystems • Improving the status of (semi-) natural ecosystems • Maintaining sustainable use of managed ecosystems <p>Reducing environmental pressures:</p> <ul style="list-style-type: none"> • Reducing pressure on managed ecosystems • Reducing pressure or mitigating a previous impact
<p><i>*Important note: For the moment, these activities and substantial contribution criteria have been proposed in the final report of the Platform on Sustainable Finance (PSF) on activities and criteria addressing the last 4 environmental objectives of the Taxonomy, published in March 2022. They are therefore not final and the activities, substantial contribution criteria and DNSH criteria will be definitively adopted in the final Delegated Acts.</i></p>	

This list of activities and their substantial contribution criteria can be used in particular to create funds or financial products having a sustainable investment objective within the meaning of Article 9 of SFDR (see dedicated Focus), which defines eligible environmental characteristics in line with the objectives and criteria of the Taxonomy Regulation.

FOCUS : BIODIVERSITY-RELATED TARGETS OF SDG 14 AND 15

SDG 14 (life below water) and SDG 15 (life on land) can be used as a framework for identifying economic activities or practices that contribute to the **conservation or enhancement of ecosystems** (a “contribution” approach) or that **significantly reduce pressures** on ecosystems (a “mitigation” approach). In particular, the targets underlying these two SDGs can allow for a better identification of activities or practices that contribute to biodiversity conservation.

Exemples de cibles pertinentes pour des investissements contribuant aux ODD 14 et 15



SDG 14 – Life below water

14.1 : Marine pollution

By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution

14.4 : Fishing regulation

By 2020, effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics

14.4 : Fishing regulation

By 2020, effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics



SDG 15 – Life on Earth

15.1 : Preservation of terrestrial ecosystems

By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

15.2 : Sustainable forest management

By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally

15.3 : Soil degradation

By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world

Useful resources

The UN Global Compact offers the SDG Industry Matrix, a tool that identifies examples of actions related to the SDGs. Each matrix highlights the efforts, actions and decisions taken by various companies for each of the SDGs, including those related to SDG 14 and SDG 15, which can then make it easier to identify investment opportunities that contribute to these SDGs and their targets.

RECOMMENDATION :

Identify investment opportunities that benefit biodiversity

For management companies wishing to seize investment opportunities beneficial to biodiversity, it is possible, for example, to set up:

- thematic biodiversity funds
- funds with a sustainable investment objective in relation to biodiversity (Art. 9 of SFDR)

Two approaches can be considered for the constitution of such investment portfolios:

- A “contribution” approach (activities aimed at conserving or improving the status of ecosystems)
- A “mitigation” approach (activities aimed at significantly reducing pressures on ecosystems)

Several frameworks can guide these approaches to identifying such investment opportunities, for example

- The European Taxonomy’s biodiversity-related activities and criteria
- The targets of the UN SDG 14 (life below water) and SDG 15 (life on land)

Negative screening and exclusion list integrating biodiversity issues

Within the overall ESG approach of a management company or when creating a particular fund, the implementation of an exclusion list allows for the *de facto* exclusion of economic activities from an investment strategy.

Therefore, in contrast to positive screening, management companies can choose to **systematically exclude certain sectors or activities that may be considered harmful to the preservation of nature and biodiversity**, thus making it possible to protect against **certain biodiversity-related** risks and biodiversity loss. On the other hand, and unlike other ESG themes, **exclusion criteria relating to biodiversity are particularly difficult to determine**.

Indeed, a large number of fundamental economic sectors and activities (e.g. agri-food, construction and infrastructure, textiles, etc.) are highly dependent on biodiversity and/or contribute significantly to

biodiversity loss (see the dedicated Focus). These sectors cannot simply be excluded from investors' investment strategies since they are essential to human societies and cover a variety of activities and practices. Moreover, the impacts of these activities on biodiversity are often geographically localised, meaning that how the impact of a given activity must be taken into account differs depending on the geographical area of its operations. **A purely sectoral exclusion is therefore not appropriate when it comes to integrating biodiversity issues into an exclusion list.**

Nevertheless, it is possible for management companies to incorporate biodiversity-related exclusion criteria pursuant to an adapted approach, based on certain international conventions, geographical criteria and the exclusion of practices recognised as particularly harmful to biodiversity.

FOCUS : EXCLUSION LIST AND BIODIVERSITY

Several major categories of exclusion criteria aimed at preserving biodiversity are now emerging, based on recommendations put forward by several standards such as the PRI¹ (Principles for Responsible Investment), the PRB² (Principles for Responsible Banking) or on the basis of exclusion lists implemented by certain financial institutions and private equity players.

Examples of exclusion criteria in relation to biodiversity

Criteria based on compliance with certain international conventions relating to biodiversity

CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora)
Sectors potentially concerned: *cosmetics, luxury, pharma, etc. via the natural resources used*

Bonn Convention (conservation of migratory species of wild animals)
Sectors potentially concerned: *infrastructure, construction, transport, etc. via their geographical footprint*

Ramsar Convention (on Wetlands of International Importance especially as Waterfowl Habitat)
Sectors potentially concerned: *infrastructure, construction, transport, etc. via their geographical footprint*

UNESCO World Heritage Convention (protection of world cultural and natural heritage)
Sectors potentially concerned: *infrastructure, construction, transport, etc. via their geographical footprint*

Nagoya Protocol (access to genetic resources and fair and equitable sharing of benefits arising out of their use)
Sectors potentially concerned: *pharma, agriculture and seeds, etc. via the natural resources used*

Criteria based on the exclusion of activities operating in environmentally sensitive geographical areas

IUCN category Ia, Ib and II areas (at the very least)
IUCN category III to VII areas (potentially)

High Conservation Value (HCV) areas

UNESCO Natural World Heritage Sites (WHS)

The majority of **Key Biodiversity Areas (KBAs)**, including areas that encompass sites identified as :

- **Important Bird Areas (IBA)**
- **Important Plant Areas (IPA)**
- **Alliance for Zero Extinction (AZE)**

Ramsar Sites (Wetlands of International Importance, as defined by the Ramsar Convention)

To identify these geographical areas, it is possible to use specific tools (see the dedicated Focus).
The above list is based in particular on the definition of "critical habitats"³ defined by the IFC *Performance Standard 6*.

Criteria based on the exclusion of sectoral practices that are harmful to biodiversity EXAMPLES from the private equity and general investment sector (criteria that may be qualified by turnover exposure thresholds)

Certain unsustainable fishing practices, for example :

- Bottom trawling
- Drift net +2.5 km long
- Longline
- Blasting
- Poisoning

Certain activities related to animal furs, for example :

- Fur farming
- Animal fur manufacturing
- Clothing incorporating animal fur

Certain activities related to the production of GMOs

Certain activities related to the production of certain pesticides or chemicals, for example

- Production of pesticides and herbicides
- Chemicals banned from sale in several countries

Certain agricultural products potentially associated with deforestation, for example :

- **Palm oil** (production, sale and supply), where the companies involved :
 - do not comply with industry best practice (e.g. RSPO label, see dedicated focus)
 - do not have clear commitments to avoid deforestation
- **Production or purchase of beef or soybeans**, according to the same criteria

Certain biodiversity-damaging tourism activities, for example :

- In connection with destruction of wildlife (e.g. hunting tourism)
- In relation to the active use of wildlife for entertainment purposes (e.g. performing animals)

RECOMMENDATION :

Establish an exclusion list integrating biodiversity issues
For management companies wishing to incorporate biodiversity into their exclusion list, relevant criteria can be defined on the basis of:

1. **International conventions** to be observed
2. **Geographical areas to be excluded** (based on specific benchmarks)
3. **Particularly harmful sectoral practices to be excluded**

Initial selection and ESG grid : integration of biodiversity risks

During the initial selection of an investment opportunity, management companies can establish more precisely whether the investment target is in line with their own ESG policies, but also whether it presents identifiable ESG risks on the basis of an initial ESG grid or checklist. Within this framework and in terms of initial checks, management companies can thus **pre-assess the degree of exposure of an investment target to biodiversity-related risks.**

In order to make such an initial assessment and, for example, to determine whether or not further due diligence on biodiversity issues will be necessary at a later stage, **management companies can, for example, include three biodiversity-related questions in their ESG grid or checklist :**

Question 1: Are there any *a priori* sectoral or geographical risks in relation to biodiversity for this target?

- Relating to dependence on ecosystem services
- Relating to impacts on biodiversity
- Relating to the location of assets (especially production sites)
- see the *Focus on at-risk sectors and the Focus on at-risk areas for biodiversity*

If potential risks are identified as a result of question 1, consider questions 2 and 3 :

Question 2: Has the target set up a management system for biodiversity-related issues (e.g. policies, procedures, initiatives, partnerships, etc.)?

- see the *examples given in the dedicated Focus.*

Question 3: Does the target monitor environmental indicators in relation to biodiversity (e.g. land use and artificialisation, GHG emissions, natural resource exploitation, pollution, etc.)?

- see the *examples given in the dedicated Focus.*

Result: The combined answer to these three questions will determine whether the issue of biodiversity needs to be the subject of a dedicated section in the Due Diligence carried out later.

FOCUS : ECONOMIC SECTORS "AT RISK" IN RELATION TO BIODIVERSITY

Economic sectors «at risk» in relation to biodiversity	
with regard to dependencies on ecosystem services	with regard to impacts on the loss of biodiversity
Recommended main resource	
with regard to impacts on the loss of biodiversity	
Risk with regard to dependencies : <ul style="list-style-type: none"> • Agricultural products • Apparel, textiles, luxury goods • Brewers, distillers and vintners • Producers and suppliers of electricity and energy (including renewables) • Forest products • Water utilities • Furniture and building materials • Food and beverages (incl. alcoholic beverages) 	Risk with regard to impacts : <ul style="list-style-type: none"> • Marine ports and services • Agricultural products • Airport services • Oil and gas (exploration, drilling, production, storage and transportation) • Mining • Distribution

Additional resources

Does the company belong to one of the **risk sectors identified by the work of the World Economic Forum or the ENCORE sectoral database ?**

Nature dependency risk in 22 sectors assessed by the World Economic Forum,⁴ at the level of :

- the exposure of their direct operations
- the exposure of their value chains

Sectors most at risk among all sectors in the [ENCORE database](#)

Are biodiversity-related financial materiality risks identified according to the mapping proposed by the Sustainability Accounting Standards Board (SASB) ?

The [SASB](#) map identifies, for example, the **Materials Sourcing & Efficiency risk**, including natural resources dependent on ecosystem services, for a number of sectors.

The [SASB](#) map identifies, for example, the **risk of "Ecological Impacts and Biodiversity Impacts"** for a number of sectors.

FOCUS : GEOGRAPHICAL AREAS 'AT RISK' IN RELATION TO BIODIVERSITY

Geographical areas 'at risk' in relation to biodiversity

Many classifications of environmentally sensitive areas or geographical sites exist, some of which overlap.

- The main reference systems include
- IUCN category Ia, Ib and II areas (at the very least)
- IUCN category III to VII areas (potentially)
- High Conservation Value (HCV) areas
- UNESCO Natural World Heritage Sites (WHS)
- Key Biodiversity Areas (KBA)
- Ramsar Sites (Wetlands of International Importance, as defined by the Ramsar Convention)

Dedicated mapping resources and tools identify and compile these different geographical areas and locations and can be used relatively easily by management companies to identify whether a company's or an asset's activities are located in or near such areas.

Recommended main resource

Use of the [IBAT](#) tool, which identifies the world's major biodiversity datasets

Additional resource

Areas and sites referenced by the [Protected Planet](#) (whose data is also included in IBAT)

Integrate biodiversity into the initial selection of investment opportunities

For an initial assessment of a company's exposure to biodiversity risks, it is possible to **integrate three biodiversity-related questions into an ESG grid or checklist :**

Question 1 : Are there *a priori* sectoral or geographical risks in relation to biodiversity ?

If potential risks are identified:

Question 2 : Does the target have in place a system in place for managing biodiversity issues ?

Question 3 : Does the target track environmental indicators in relation to biodiversity ?

The combined answer to these questions can determine whether the issue of biodiversity should be the subject of dedicated Due Diligence.

Due Diligence: assessing the materiality of biodiversity issues and the maturity of a company

The due diligence phase allows management companies to effectively evaluate the potential investee company, particularly with regard to its environmental or social characteristics, by conducting ESG due diligence. At the time of acquisition, ESG Due Diligence (or Environmental or Social Due Diligence when carried out specifically) constitutes an inventory of the risks associated with the company relative to its ESG issues, and meets several objectives :

- Assess the ESG context of the business sector (regulations, sectoral risks, etc.)
- Identify the priority ESG issues specific to the company being assessed (in terms of risks or opportunities)
- Assess the company's ESG maturity level
- In some cases, lay the foundation for an action plan to be implemented post-acquisition

As a crucial environmental issue for a large number of sectors, the assessment of specific biodiversity issues can thus be integrated during this due diligence phase. Depending on the context of the investment target, particularly if a significant level of biodiversity risk is assessed *a priori* during the initial screening (see the dedicated section), both in terms of dependence on ecosystem services and impacts on biodiversity, the biodiversity issue should be specifically addressed during the ESG or Environmental Due Diligence, in order to assess more precisely the materiality of these biodiversity risks for the sector of activity and for the company concerned, as well as its level of maturity in terms of biodiversity management.

BIODIVERSITY ANALYSIS INCORPORATED INTO ESG DUE DILIGENCE

Étape 1 : Évaluer précisément la matérialité des risques liés à la biodiversité

with regard to dependencies on ecosystem services

The materiality of risks related to a target's dependence on ecosystem services consists of :

Identifying: What exactly are the ecosystem services on which the target depends ?

Assessing: What is the level of materiality of each of these dependencies ? (Is the target more or less highly dependent on ecosystem services ? Is the target exposed to their alteration?)

with regard to impacts on the loss of biodiversity

The materiality of risks related to the impacts of a target on biodiversity loss consists of :

Identifying : What are the precise impacts of the target's activity and its value chain on the 5 drivers of biodiversity loss ?

Assessing : What is the level of materiality of each of these impacts ? (Does the target participate more or less strongly in each of the 5 drivers of loss ?)

This assessment of the materiality of biodiversity risks can be carried out:

- **Firstly, at sectoral level**, on the basis of external tools and resources
- **Secondly, at the level of the target** by refining this assessment, if possible, on the basis of the company's available documentation, access to management, etc. and taking into account
 - its own operations
 - its value chain
 - its geographical areas of activity (own operations and value chain)

see the resources available to carry out such analyses in the dedicated Focus

This analysis of biodiversity risks carried out during due diligence is thus an extension of the analysis carried out during the initial selection, making it possible to identify precisely which environmental issues are priorities in relation to biodiversity (e.g. land use, pollution, direct exploitation of resources, etc.).

Step 2: Assess the biodiversity maturity level of the target in addressing this issue

This assessment could for example be based on:
 compliance with the regulations in force on matters relating to biodiversity
 the policies, approaches and management systems in place
 labels, standards, etc.

see examples listed in the dedicated Focus

FOCUS : MATERIALITY OF BIODIVERSITY RISKS

Assessing the materiality of a company's/investment's biodiversity risks

Example of an approach to assess the materiality of a company's biodiversity risks

Step 1 : At the sectoral level, identify high material dependencies and impacts

with regard to dependencies on ecosystem services

with regard to impacts on the loss of biodiversity

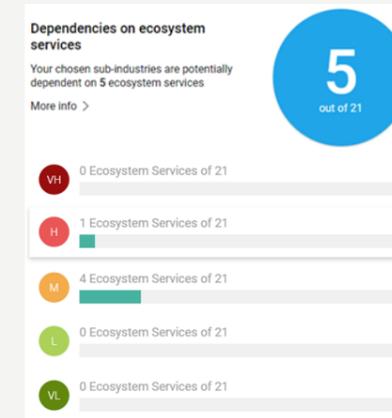
Using the ENCORE* tool, determine the number and materiality level of the sector's dependencies and impacts :

NB: the tool data can be downloaded in Excel format from the methodology page, after completing the free registration procedure

Assess the materiality of sectoral dependencies based on the :

- number of ecosystem services identified
- level of materiality reported by the tool :
 - Very High materiality (VH)
 - High materiality (H)
 - Medium materiality (M)
 - Low materiality (L)
 - Very Low materiality (VL)
 - Not applicable (NA)

Illustration for the "Airport services" sector :

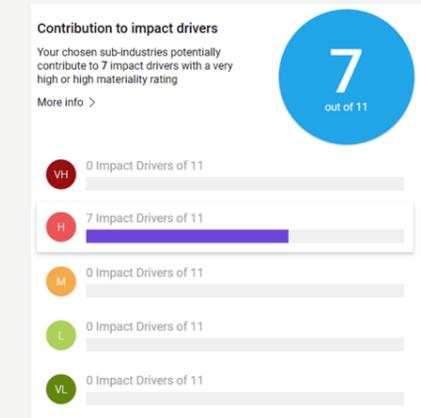


Screenshots from the ENCORE tool

Assess the materiality of sectoral impacts based on the :

- number of impacts identified
- level of materiality reported by the tool:
 - Very High materiality (VH)
 - High materiality (H)
 - Medium materiality (M)
 - Low materiality (L)
 - Very Low materiality (VL)
 - Not applicable (NA)

Illustration for the "Airport services" sector :



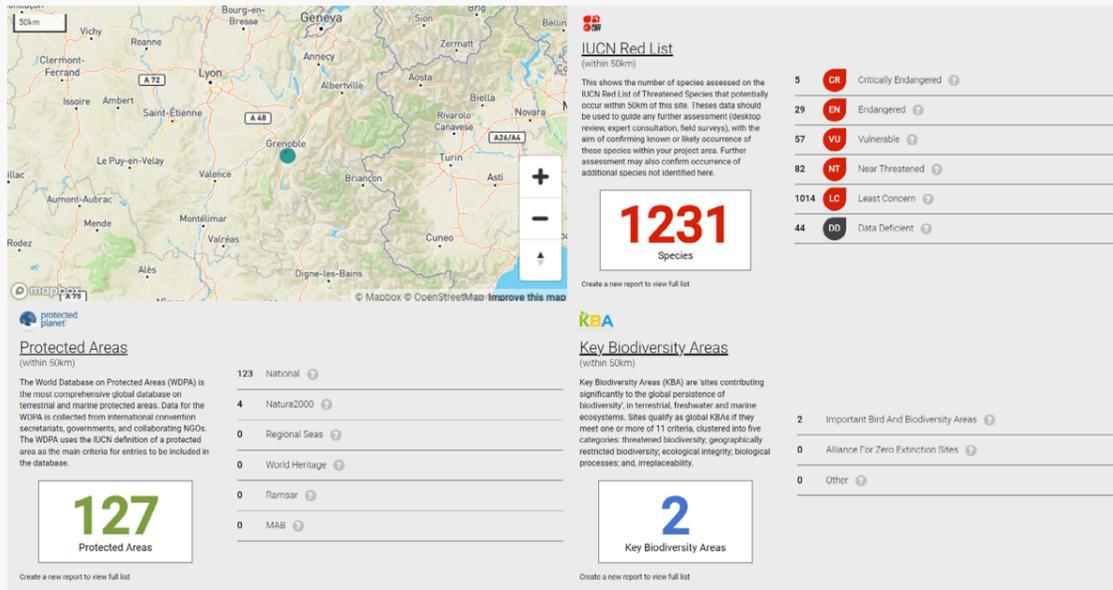
Screenshots from the ENCORE tool

Step 2 : At the level of the company's location, for each dependency or strong material impact identified at the sectoral level, qualify these items at the geographical level and specify their materiality :

Are the asset's activities **close to geographical areas at risk** in relation to biodiversity ?

- The **Integrated Biodiversity Assessment Tool (IBAT)** is used to map at-risk geographical areas, and in particular to identify :
 - the number of threatened species within 50 km (IUCN Red List)
 - the number of protected areas within 50 km (Protected Planet)
 - the number of Key Biodiversity Areas within a 50 km radius (KBA)

Illustration for a site near the city of Grenoble in France :



Screenshots from the IBAT tool

In addition, the **ENCORE tool map** allows the status of ecosystem services and biodiversity impacts for certain geographical areas to be viewed and can thus be used to geographically qualify the dependencies and material impacts identified in step 1, based on the **location of the assets studied** (production sites, locations, etc.).

*The *Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE)* online tool, developed by the Natural Capital Finance Alliance (NCFA), provides a qualitative assessment of biodiversity-related risks, both in terms of dependence on ecosystem services and impacts on biodiversity loss. The complete ENCORE database covers 167 economic sectors, 21 ecosystem services and 11 impacts. Starting with an industry sector, ecosystem service or natural capital, ENCORE can be used to begin exploring natural capital risks, including maps of natural capital assets and drivers of environmental change.

FOCUS : BIODIVERSITY MATURITY

Assessing the biodiversity maturity of a company

Examples of questions to assess the maturity of a company in terms of managing biodiversity issues

Does the company comply with the main regulations applicable in relation to biodiversity ?

Monitor compliance with applicable environmental regulations in relation to biodiversity (see dedicated Part).

Has the company carried out a diagnosis and analysis of biodiversity risks?

Carry out a diagnosis of biodiversity risks (dependencies, impacts, see dedicated Focus)

Analysis of the economic risks that dependencies and impacts entail for the business model (see dedicated Focus)

Measure the company's global biodiversity footprint (see the dedicated Focus)

Does the company implement an approach and systems in relation to biodiversity management?

Existence of a biodiversity policy or strategy (see dedicated Focus)

Existence of an environmental management system (e.g. ISO 14001) that incorporates biodiversity issues

Monitoring of or compliance with the standards, labels or certifications associated with the biodiversity approach, for example :

- Biodiversity standard NF X32-001 (France)
- Afaq Biodiversity (Afnor)
- Biodiversity Label (SGS)

Obtaining recognition for the biodiversity approach, e.g. :

- Companies committed to Nature (French Office for Biodiversity)
- Act4nature International (EpE)

Obtaining cross-sectoral labels, e.g. :

- Ocean Approved Label

For a more complete map of biodiversity-related standards, labels and certifications, please refer to the report " *Finance & biodiversité : l'écosystème français*"⁶⁵ which provides a broad summary.

Science-based trajectory and biodiversity targets (e.g. following the methodology for building Science-Based Targets for Nature proposed by the international SBTN coalition, see dedicated Focus)

Does the company have thematic certifications or labels for its activities or products?

- Examples for real estate :
 - Biodiver'City Label
 - Effinature certification (real estate)
- Examples for the wood and paper industry :
 - FSC (Forest Stewardship Council) label
 - PEFC label (Programme for the Endorsement of Forest Certification)
- Examples for the fishing industry :
 - MSC (Marine Stewardship Council) label
- Examples for agriculture :
 - RSPO (Roundtable on Sustainable Palm Oil) label
 - RTRS (Round Table on Responsible Soy Association) or Proterra label for soy

For a more complete map of biodiversity-related standards, labels and certifications, please refer to the report " *Finance & biodiversité : l'écosystème français*"⁶⁶ which provides a broad summary. Important note : Certifications and labels have their limits and are regularly subject to controversy. While they can be a sign of a certain maturity on the part of companies in their management of biodiversity-related issues, all management companies should form their own opinion on the use of a particular label or certification and ensure that they are qualified by a broader focus on biodiversity management within the businesses studied.

Has the company put in place a governance system that incorporates biodiversity issues?

Responsibility assigned, if possible, at the level of the executive body
And/or if biodiversity issues are highly material, regular monitoring by the monitoring body

RECOMMENDATION :

Conduct specific due diligence to assess biodiversity risks

If the preliminary analyses carried out during the initial selection of an investment target reveal potential biodiversity-related risks, management companies can then **specifically address the issue of biodiversity during the due diligence phase, with two main objectives**

1. Accurately assessing the materiality of biodiversity risks
2. Assessing the level of biodiversity maturity

In the holding phase : promoting biodiversity management within investee companies

While the implementation of an ESG approach during the acquisition phase makes it possible to select assets or companies in line with the responsible investment strategies targeted by the management companies, it is during the holding period that management companies' ESG approach can create value and sustainability for businesses in concrete terms.

The implementation, jointly with investee companies, of transformation plans in terms of ESG risk reduction, but also the identification of ESG opportunities linked to operational efficiency or innovation, are therefore an integral part of the ESG support provided by management companies to portfolio businesses or assets and of the actions to be undertaken with them.

During the holding period, management companies can consider biodiversity-related issues and integrate them into the ESG monitoring of their investees, both in terms of dialogue and commitment

and the implementation of biodiversity strategies or the monitoring and measurement of performance, via the implementation of biodiversity indicators.

Dialogue and commitment with respect to biodiversity

To allow portfolio companies to adopt a genuine rationale for progress in ESG matters, the establishment of clear governance of these subjects with the investee companies, as well as ongoing dialogue and commitment, are essential to support and embody the transformation of investees' ESG practices, strategies, values or culture.

In the context of active management in particular, and depending on the relevance, it is thus possible to **integrate biodiversity-related issues into the management company's commitment with respect to its holdings.**

For example, the PRIs identify several commitment themes in relation to biodiversity :

Biodiversity commitment themes	
Examples of investor commitment themes in relation to biodiversity	
Governance and surveillance of challenges related to biodiversity	<ul style="list-style-type: none"> • Biodiversity on the agenda of the executive body • Raising the awareness of the executive body, provision of training and expertise • Awareness raising and monitoring by the supervisory body
Support for the operational management of investees for biodiversity-related issues	<ul style="list-style-type: none"> • Monitoring and reporting of biodiversity indicators • Identification of biodiversity risks • Assessment of company-wide impacts and dependencies • Implementation of policies addressing biodiversity • Definition of a biodiversity approach • Implementation of biodiversity impact management programmes • External assurance or audit of biodiversity actions or information • Depending on the business sector, thematic discussion and commitment topics (e.g. sustainable seafood, deforestation, plastic pollution, palm oil, environmentally sensitive sites, etc.)
Biodiversity transparency	<ul style="list-style-type: none"> • Monitoring and reporting of biodiversity indicators • Setting biodiversity targets • Monitoring developments and progress with the holding
Response of investees to the management company's commitment	<ul style="list-style-type: none"> • Willingness to discuss biodiversity • Response to time commitment • Participation in external stakeholder initiatives
Shareholder voting policy on biodiversity-related issues	<ul style="list-style-type: none"> • Proposals for resolutions • Voting and proxy voting

RECOMMENDATION :

Put biodiversity at the heart of the dialogue and commitment with investee companies

Where relevant, biodiversity issues can be incorporated into management companies' dialogue and commitment vis-à-vis their holdings, for example through **various commitment themes:**

- Governance and monitoring of biodiversity issues
- Support for the operational management of investee companies with respect to biodiversity-related issues
- Biodiversity transparency
- Response of the investee companies to the management company's commitment
- Shareholder voting policy on biodiversity-related issues

CSR and biodiversity roadmaps

When ESG reviews are carried out with investee companies and the resulting action plans or CSR roadmaps are drawn up, the attention of management companies is focused on the opportunities that better management of ESG issues by their holdings can provide, in addition to managing and reducing ESG risks. Following the assessment of the materiality of ESG issues and investees' maturity in managing these issues, the support of the investees in the implementation of CSR strategies and roadmaps is then a source of value creation and concrete sustainability that the management companies can act upon, within the rationale of a responsible and committed investor.

In this respect, it is possible to **integrate specific biodiversity elements into the ESG reviews of investee companies and the definition of the resulting CSR roadmaps or action plans**, in order to include biodiversity issues in investee companies' corporate culture, organisation and innovation processes.

Thus, when conducting ESG reviews, several biodiversity-related elements can be studied :

- The materiality of biodiversity issues, with regard to impacts and dependencies (see the dedicated Focus)
- The level of maturity in the management of biodiversity issues (see the dedicated Focus)
- Environmental monitoring indicators in relation to biodiversity (see dedicated Focus)

These elements can thus be addressed in the same way as in the due diligence phase. However, beyond a risk identification perspective, which is more suitable for the acquisition phase, the approach of management companies when carrying out ESG reviews of biodiversity issues may then be more in line with a perspective of guidance and opportunities to be seized and, supported by greater proximity to management, extended access to information on investee companies as well as a rationale of value creation and shared sustainability.

On the basis of such ESG reviews dealing with biodiversity issues, the formalisation of **biodiversity strategies and roadmaps** can be put in place with investee companies.

FOCUS : IMPLEMENTING A BIODIVERSITY STRATEGY

Biodiversity strategy	
Examples of steps in the implementation of an effective biodiversity strategy	
Steps	Resources
1	Define the scope of the approach Take stock of existing policies and actions
2	Carry out a biodiversity footprint assessment
3	Prioritise topics and define priority issues (e.g. the main items from an aggregate measure or the most significant impacts associated with concrete risks)
4	Identify indicators for these priority issues Define objectives and a trajectory that reflect the company's goal and meet the challenges involved
5	Implement an action plan to achieve these objectives

6	Monitor the achievement of these objectives and adapt the actions and trajectory	
7	Communicating and reporting to stakeholders	See recommendations of the TNFD and the Science-Based Targets for Nature methodology

RECOMMENDATION :

Integrate biodiversity into ESG reviews and CSR roadmap proposals

In addition to the assessments that may be carried out in the due diligence phase, it is possible to **integrate specific biodiversity aspects into the ESG reviews** of holdings, making it possible to **identify biodiversity-related opportunities** that can be assessed on the basis of:

- The materiality of biodiversity topics, with regard to impacts and dependencies
- The level of maturity in the management of biodiversity issues
- Environmental monitoring indicators in relation to biodiversity

On this basis, management companies can assist their investee companies in **formalising biodiversity strategies and roadmaps**.

ESG questionnaires: including biodiversity indicators in the monitoring of investee companies

The issue of monitoring ESG indicators through annual questionnaires sent to investee companies is complex: while this type of monitoring meets key needs on the part of management companies (monitoring the ESG performance of the portfolio, expectations of LPs, regulatory expectations with respect to management companies, etc.), it must also integrate constraints related to resources and investee companies' ability to respond.

These requirements, which can be multiple, thus encourage a rationalisation of the information and indicators requested in the ESG questionnaires, which must nevertheless cover at least :

- regulatory expectations for ESG reporting by asset management companies
- as well as the ESG issues identified as priorities for holdings, in order to support the monitoring and deployment of the CSR roadmaps that may be proposed to them (see the dedicated section).

Depending on these two aspects, the inclusion of **biodiversity-related questions and indicators in ESG questionnaires** may be relevant or necessary for management companies, in order to monitor and control the impacts of portfolio companies on biodiversity as well as their performance, but also to be able to meet the regulatory requirements that are being developed in relation to biodiversity issues.

In order to implement such monitoring of biodiversity issues within a portfolio, it is necessary to distinguish between :

Monitoring of dependence on ecosystem services, which is based more on qualitative information concerning the practices implemented by the companies in order to report on the proper preservation of the ecosystem services on which they depend (via standards, certifications, labels, etc.). In this respect, questions on biodiversity maturity (see the dedicated Focus) can, for example, be included in the ESG questionnaires

Monitoring of impacts on biodiversity, which is based more on **quantitative indicators relating to impacts on the drivers of biodiversity loss** (see the dedicated Focus). Some indicators will be relevant for all holdings (e.g. GHG emissions), while other indicators will concern the specific pressures exerted by a given holding, the relevance of which can be determined on the basis of the biodiversity materiality assessment (see dedicated Focus) before being submitted to a given holding.

FOCUS : BIODIVERSITY INDICATORS

Three main types of biodiversity-related indicators can be distinguished, in line with the DPSIR model (Drivers, Pressures, State, Impact and Response – as illustrated below), and can be used to assess the impacts on biodiversity that a company may have and the corrective actions taken.

<p>1</p> <p>PRESSURE INDICATORS measure the pressures (“Pressures”) exerted by an activity (“Driver”). These indicators therefore relate to operations because they result directly from the activities of a company, for example. Examples of pressure indicators: quantities of pollutants discharged, artificial area, stocks consumed, etc.</p>	<p>2</p> <p>STATE INDICATORS measure the state of biodiversity. These indicators therefore relate less to operations and may vary according to pressures external to the company in question. Examples of state indicators: number of species, environmental quality, etc.</p>	<p>3</p> <p>RESPONSE INDICATORS make it possible to monitor the actions implemented by a company with the aim of mitigating its pressures on biodiversity or improving its state. Examples of response indicators: number of labelled sites, number of awareness-raising actions carried out, etc.</p>
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For monitoring a portfolio of holdings, pressure indicators seem to be the most relevant for a management company. These can be supplemented by response indicators, depending on the context of the investee companies and their actions.

Examples of pressure indicators	
Cross-sectoral geographical indicators	
Geographical indicators reflecting a diversity of potential pressures on ecologically sensitive environments :	
PAI (SFDR)	<p>Mandatory IPA indicator</p> <p>TAB 1.7 – Activities negatively affecting biodiversity-sensitive areas</p> <p><i>Share of investments in issuing companies whose sites/operations are located in or near biodiversity-sensitive areas, where the activities of these issuing companies have a negative impact on these areas</i></p>
	<p>Additional PAI indicator</p> <p>TAB 2.14 – Natural species and protected areas</p> <p><i>Share of investments in targets whose operations harm threatened species; Share of investments in targets with no biodiversity protection policy covering operational sites owned, leased or managed in a protected area or with high biodiversity content</i></p>
France Invest	<p>Corresponding indicator recommended by the France Invest questionnaire:</p> <p><i>Have you mapped your sites and activities to identify those located in Key Biodiversity Areas (KBA) ? If so, how many KBAs are you exposed to (in number of entities)</i></p> <p><i>> If sites or activities are located in KBAs, then particular attention should be paid to potential pressures in these areas (see examples of indicators below)</i></p>

Examples of pressure indicators					
Indicators by pressure					
Depending on the holdings and their identified impacts on biodiversity (see dedicated Focus), additional indicators specific to certain loss drivers:					
	Change in land and sea use	Exploitation of natural resources	Pollution	Climate change	Invasive alien species
PAI (SFDR)	Mandatory PAI indicators in relation to biodiversity loss factors				
			TAB 1.8 Water emissions TAB 1.9 Hazardous waste emissions	TAB 1.1 GHG emissions TAB 1.2 Carbon footprint TAB 1.3 Carbon density	-
	Additional PAI indicators in relation to biodiversity loss factors				
	TAB 2.10 Soil degradation, desertification, sealing	TAB 2.6 Water use and recycling TAB 2.8 Exposure to high water stress areas	TAB 2.1 Inorganic pollutant emissions TAB 2.2 Air pollutant emissions TAB 2.3 Emissions of ozone-depleting substances TAB 2.13 Ratio of non-recycled waste	-	-
France Invest Reco	Corresponding indicators recommended by the France Invest questionnaire : Have you carried out an assessment of your biodiversity footprint ? In relation to :				
	Land use (m2) Land conversion (m2)	Water withdrawal (m3) Water consumption (m3)	Pollutant emissions Nutrient emissions (kg) (total nitrogen emission + total phosphorus emission)	Greenhouse gas emissions in (CO2e)	-
Sectoral indicators	Exemples d'indicateurs additionnels pertinents pour certains secteurs : Certains indicateurs peuvent-être particuliers à certains secteurs d'activités, comme par exemple :				
	Real estate Biotope coefficient per area Agriculture Regeneration index ⁷	Fisheries Net resource extraction, relative to local stocks	Agriculture Regeneration index	-	Trade Foreign biomass introduced, by type of species

Examples of response indicators	
Indicators concerning the implementation or not of approaches or policies dedicated to the management of biodiversity-related issues :	
PAI (SFDR)	Additional IPA indicators
	TAB 2.11 Investments in companies without sustainable land management and agricultural practices or policies.
	TAB 2.12 Investments in companies without sustainable ocean and sea management practices or policies
	TAB 2.15 Investments in companies without a policy to combat deforestation.
France Invest Reco	Corresponding indicators recommended by the France Invest questionnaire: <i>Does the company have a formalised environmental policy ? If so, has the company formalised a biodiversity conservation policy (commitments and objectives) ?</i>

RECOMMENDATION :

Integrate biodiversity indicators into the ESG questionnaire for investee companies
Add biodiversity-related questions and indicators to the ESG questionnaire sent to investee companies, including

- **Pressure indicators**, to monitor certain impacts of portfolio companies on biodiversity
 - At the very least, the pressure indicators listed in the PAIs (relative to SFDR)
 - Possibly, additional indicators on a case-by-case basis relative to certain loss drivers or sectors of activity
- **Response indicators**, to monitor the actions implemented by the investee companies, e.g. relative to the additional indicators of the PAIs (SFDR regulation)

At exit : emphasise the steps taken and progress made in relation to biodiversity

When selling a holding, management companies are also required to respond to requests from potential buyers on ESG issues : what are the ESG risks associated with the holding in question, how does the holding take into account its priority ESG issues and what progress has been made during the holding period, etc. In this context, Vendor Due Diligence (VDD) may be relevant for mature investee companies that have worked and made progress on their ESG issues. Furthermore, this transmission of information to potential future buyers also makes it possible to ensure the sustainability of the approach undertaken in order to continue the actions beyond the holding period.

In this respect, at the time of disposal, it may be relevant for management companies to **emphasise the steps taken in relation to biodiversity as well as the performance and progress made by a holding**, when significant objectives have been achieved during the holding period, in particular in the following areas

- Assessment of the materiality of biodiversity issues and how they are taken into account by the investee
- Improvements made by the investee to its biodiversity-related management processes (policies, standards, etc.)
- The implementation of specific commitments, strategies, biodiversity approaches, partnerships, etc.
- Progress on certain biodiversity indicators
- Measurement and potential progress in relation to the investee's biodiversity footprint

Part 3 | Integrating biodiversity into the strategies and approaches of private equity management companies

Beyond the commitments or practices deployed at the level of each holding company, management companies' must also support the implementation of ESG approaches with a structured and a global vision.

The implementation by management companies of responsible investment strategies, as well as their deployment of policies, action plans, changes in investment processes, etc., must respond to this rationale and requires integration into all functions of management companies. Such strategies respond to several requirements, from investors and LPs and from new European or national regulations, as well as to the growing expectations of civil society for an in-depth transformation of how financial institutions operate

In this respect, and given the urgency of the biodiversity loss crisis for our societies (see Introduction), the various drivers of transformation that are imposed on management companies (financial, regulatory, societal, etc.) now require specific and explicit consideration of biodiversity-related issues. **The current challenge for asset management companies is to structure their biodiversity policy and incorporate it into their overall ESG approach in order to meet the new requirements in this area**, in terms of their responsible investment strategies and policies, the monitoring of their investment portfolios, and the educating and training of their teams.

Responsible investment strategy and taking biodiversity into account

A range of expectations and requirements have successively led financial players to take ESG criteria into greater account in their investment strategies and risk management systems, as well as to greater transparency in the communication of ESG information. In particular, these various expectations, and regulatory requirements in particular, are no longer limited to setting a framework and general themes, but are increasingly specifying the information, and even the indicators, to be taken into account and communicated by management companies.

In addition to general ESG issues, **European and national regulations now require management companies to take into account issues specifically related to biodiversity**, both in their investment strategy and policy and in their risk management process (see the dedicated section). Consequently, if management companies are now obliged to take account of biodiversity, the purpose is also, and above all, to promote the development of responsible investment strategies and the advancement of ESG approaches by management companies, as well as to encourage the implementation of ambitious and mature practices that fully encompass the risks and opportunities represented by biodiversity-related issues.

Adaptation of management companies' ESG strategies, policies and approaches to the biodiversity-related regulatory requirements of Article 29

For French asset management companies, Article 29 of the Energy-Climate Law and its implementing decree come with strong and restrictive new requirements with regard to taking biodiversity into account and transparency in this regard, which consequently requires an adaptation of the ESG strategies, policies and approaches of asset management companies as well as their risk management framework.

These various elements (possibly formalised in policies, charters, web pages, ESG reports, etc.) must now be disclosed by the management companies concerned. In particular, three main categories of biodiversity-related information can now be integrated into the strategies, policies and ESG approaches of management companies, within the meaning of Article 29 of the Energy-Climate Law: Focus: Compliance with the provisions of Article 29 of the Energy-Climate Law on biodiversity

1. Integrate biodiversity-related risks into the management company's risk management policy	
With reference to	<ul style="list-style-type: none"> • Article 29 of the Energy-Climate Law (II-3°-I and II-3°-II) • Implementing Decree of Article 29 of the Energy-Climate Law (III-8° and III-8°bis)
Applicable thresholds	<ul style="list-style-type: none"> • Management companies with more than €500m of assets under management • Funds, AIFs or mandates with more than €500m in assets under management • Possibility of <i>Comply or explain</i>
<p>For the management companies concerned, Article 29 of the Energy-Climate Act and its implementing decree require the publication of information on how ESG criteria are taken into account in the management of the entity's risks and, in particular, the risks related to climate change and biodiversity, which are explicitly required.</p> <p>This presentation of ESG risks and, in particular, those relating to biodiversity, presented at the entity level on the basis of the risks associated with the different holdings, must comply with certain detailed disclosure requirements such as :</p> <ul style="list-style-type: none"> • A segmentation of risks (physical, transition, litigation or liability) • An indication of the economic sectors and geographical areas affected by these risks • A presentation of the action plan put in place to reduce the entity's exposure to the main risks • A quantitative estimate of the proportion of exposed assets and the financial impact of the main risks, including the impact on the valuation of the portfolio • [...] <i>non-exhaustive list (refer to III-8° of the implementation decree of Article 29 of the Energy-Climate Law)</i> <p>In particular, the description of biodiversity risks should meet the following methodological criteria :</p> <ul style="list-style-type: none"> • Make a clear distinction between: <ul style="list-style-type: none"> • transition risks, arising from the impacts of the investment strategy on biodiversity • physical risks, arising from the biodiversity dependencies of the assets and activities in which the entity has invested • Provide the following details: <ul style="list-style-type: none"> • the scope of the value chain selected • whether the risk is relates to the activity or geographical area of the asset <p><i>For more details on the presentation of biodiversity-related risks, the TNFD recommendations (see dedicated Focus) can serve as a framework for the management companies concerned.</i></p> <p>Furthermore, Article 29 specifies that this presentation of ESG and biodiversity risks must be integrated into the sustainability risk policy, which is required by SFDR and must be published on the website of the management companies concerned (Article 3 of SFDR, see the dedicated Focus).</p>	

2. Implementing a strategy of alignment with long-term biodiversity objectives	
With reference to	<ul style="list-style-type: none"> • Article 29 of the Energy-Climate Law (II-3°-II) • Implementing Decree of Article 29 of the Energy-Climate Law (III-7°)
Applicable thresholds	<ul style="list-style-type: none"> • Management companies with more than €500M of assets under management • Funds, AIFs or mandates with more than €500M in assets under management • Possibility of <i>Comply or explain</i>
<p>For the management companies concerned, Article 29 of the Energy-Climate Law and its implementing decree require the implementation of a strategy for alignment with long-term biodiversity objectives, which must establish objectives for 2030, subject to review every 5 years, and contain :</p> <ol style="list-style-type: none"> 1. A measure of compliance with the objectives of the Convention on Biological Diversity (1992) 2. An analysis of the contribution to the reduction of the main pressures and impacts on biodiversity identified by IPBES 3. A reference to the implementation of a biodiversity footprint indicator and, if applicable, how it measures compliance with targets <p><i>Recommendations for meeting the requirements of item 1) Measuring compliance with the objectives of the Convention on Biological Diversity (1992) :</i></p> <p>The management companies concerned are encouraged to define specific commitments within their ESG strategy or policy aimed at respecting and contributing to the objectives of the Convention on Biological Diversity (CBD). In order to define and frame these commitments, management companies can refer, firstly, to the three objectives of the 1992 CBD :</p> <ul style="list-style-type: none"> • The conservation of biodiversity; • The sustainable use of its components; • The fair and equitable sharing of benefits arising from the utilisation of genetic resources. <p>In order to specify these commitments more thoroughly, management companies can also rely on the objectives set out by the various Conferences of the Parties (COP) that bring together the signatory countries of the CBD. While the 20 Aichi Targets, resulting from the 2011-2021 framework of COP10 held in 2010, can guide the commitments to be made by management companies, the future targets of COP15 and the post-2020 framework (Global Biodiversity Framework), currently under negotiation at the international level, will very soon offer an updated international framework and targets in order to respond to biodiversity loss. In this respect, the draft post-2020 framework, unveiled ahead of COP15, can already serve as a guide for defining the commitments to be made by the management companies concerned in order to meet the requirements of Article 29 (see the dedicated Focus).</p> <p><i>Recommendations for meeting the requirements of 2) Analysis of the contribution to the reduction of the main pressures and impacts on biodiversity identified by IPBES and 3) A reference to the implementation of a biodiversity footprint indicator and, if applicable, how it measures compliance with targets.</i></p> <p>The management companies concerned are thus also required to analyse the impacts of their investment portfolios on biodiversity and, in particular, on the five drivers of loss defined by IPBES (see Introduction). This analysis must be based on a biodiversity footprint indicator. The latter is mandatory for the management companies concerned, in order to underpin the analysis of the portfolio's impact on biodiversity, but its format is not specified or required by Article 29. This indicator should therefore make it possible to assess the impact of the investment portfolio on the five drivers of biodiversity loss defined by IPBES and thus, to attest to the management company's alignment with the international biodiversity objectives of the CBD.</p> <p>Different approaches can thus be adopted for the implementation of such a biodiversity footprint indicator (see dedicated section). Within their ESG strategies and policies, the management companies concerned can ultimately determine which types of approaches are put in place to monitor and analyse the biodiversity footprint of their investment portfolios and how these analyses attest to their alignment with long-term biodiversity objectives.</p>	

3. Voluntarily detail the integration of biodiversity considerations into the management company's general approach

With reference to	<ul style="list-style-type: none"> • Article 29 of the Energy-Climate Law (II-3°-II) • Implementing Decree of Article 29 of the Energy-Climate Law (III-1°)
Applicable thresholds	<ul style="list-style-type: none"> • No threshold, all management companies

Voluntary approach: Article 29 of the Energy-Climate Law does not require the integration of biodiversity-related topics into the presentation of the entity's general ESG approach.

Nevertheless, for management companies setting up a framework in which to manage biodiversity-related issues, it may be possible to voluntarily detail the way in which these biodiversity-related issues are integrated into their investment strategy and processes and to incorporate this information into the presentation of the general approach to taking ESG criteria into account, published under the implementing Decree of Article 29 (III-1°).

In particular, management companies can detail the biodiversity-related processes implemented during the investment cycle (see Part 2 on implementing such processes).

Objective C – Equity

Examples of targets:

- Target 13 : Implement measures globally and in all countries to facilitate access to genetic resources and to ensure the fair and equitable sharing of the benefits arising out of their use

Objective D – Funding and means of implementation

Examples of targets :

- Target 15 : All companies assess and report on their dependencies and impacts on biodiversity, from local to global levels, and progressively reduce negative impacts by at least half [...].
- Target 18 : Redirect, reallocate, reform or eliminate incentives that are harmful to biodiversity [...] by reducing them by at least \$500 billion per year, including all the most harmful subsidies [...].
- Target 19 : Increase financial resources from all sources to at least \$200 billion per year [...], including an increase of at least \$10 billion per year to developing countries

These four objectives and their associated milestones and targets should contribute to an **overall target of halving negative impacts on biodiversity by 2050**. For the management companies concerned, these objectives and targets of the draft post-2020 framework could inspire and frame the definition of their commitments, enabling them to implement a strategy of alignment with the long-term biodiversity objectives.

FOCUS : THE DRAFT POST-2020 FRAMEWORK FROM COP15 BIODIVERSITY

Expected objectives of the COP15 Biodiversity post-2020 framework

The post-2020 framework targets are intended to take over from the 20 Aichi targets adopted in 2010 and to provide a framework for international biodiversity targets and action for the next decade. Initially scheduled for October 2020, the COP15 summit was postponed for a year and then finally split into two parts : the first was to be held virtually in October 2021; the second was to be a face-to-face meeting in Kunming, China, but has been postponed for the time being.

In anticipation of this summit, a **"First Draft" of the objectives of the post-2020 framework**¹ was communicated on 5 July 2021 at the end of the preparatory work, proposing provisional objectives and quantified actions. This draft post-2020 framework is organised around **4 targets for 2050** and specifies milestones to be reached by 2030 as well as **21 targets for urgent actions to be taken by 2030** :

Objective A – Ecosystem integrity

Examples of targets:

- Target 2 : At least 20% of degraded ecosystems are restored [...]
- Target 3 : At least 30% of ecosystems are conserved through protection and conservation measures [...].
- Target 6 : Reduce by at least 50% the introduction and establishment of invasive alien species [...].
- Target 7 : Reduce pollution to levels that do not harm biodiversity, and in particular :
 - Halve the amount of fertiliser discharged into the environment
 - Reduction of pesticides by two thirds
 - Elimination of plastic waste dumping
- Target 8 : Contribute to climate change mitigation and adaptation through ecosystem-based solutions, contributing at least 10 Gt CO₂e per year to global mitigation efforts [...]

Objective B – Ecosystem services

Examples of targets :

- Target 9 : Ensure benefits including nutrition, food security, medicines and livelihoods for people, especially the most vulnerable [...].
- Target 10 : All agriculture, aquaculture and forestry areas are sustainably managed [...]
- Target 12 : Increase the area of, access to and benefits from green and blue spaces for the health and well-being of people in urban areas...

RECOMMENDATION :

Adapt the formalisation of the ESG approach to the biodiversity requirements of Article 29

The management companies concerned can adapt their ESG approach, formalised via the strategies, policies or ESG approaches implemented and published, to the biodiversity-related regulatory requirements of Article 29, by incorporating 3 elements into these documents :

1. Integrating biodiversity risks into the risk management policy
2. Establishing or integrating a strategy for alignment with long-term biodiversity objectives, for example by formalising commitments based on the draft post-2020 framework of the Convention on Biological Diversity
3. On a voluntary basis, a description of biodiversity-related elements integrated into the investment process or commitment with investee companies, in the description of the management company's overall ESG approach

Voluntary integration of biodiversity “best practices” into the ESG strategies, policies and approaches of management companies

Beyond the regulatory requirements stemming from Article 29 of the Energy-Climate Law, the purpose of these new expectations for management companies to take into account biodiversity-related issues is above all to encourage the development of responsible investment strategies and to advance the overall ESG approaches of management companies. **Generally speaking, management companies are thus encouraged to implement ambitious approaches and practices when taking account of biodiversity in order to fully integrate the risks and opportunities related to this issue.**

From this perspective, several “good practices” can be recommended to management companies wishing to take an advanced position in relation to biodiversity-related issues, voluntarily and over and above regulatory expectations.

FOCUS : FORMALISING VOLUNTARY COMMITMENTS ON BIODIVERSITY

Formalise biodiversity commitments that guide the investment strategy of management companies

Several types of biodiversity commitments can be formulated and formalised by management companies within their responsible investment strategy or ESG policy, such as :

- Commitments to **biodiversity-related investment themes** (see dedicated section)
- Commitments around **sectoral exclusion policies or activities that are harmful to biodiversity** (see dedicated section)
- Commitments to **specific biodiversity targets** (e.g. commitments to «zero deforestation» or «zero net artificialisation» investment policies, etc.).

FOCUS : COALITIONS OR SECTORAL INITIATIVES IN RELATION TO BIODIVERSITY

Engagement ou participation dans des initiatives sectorielles en lien avec la biodiversité

In order to support or adapt their commitments in favour of biodiversity and to participate in the promotion or methodological developments of biodiversity-related issues, management companies may increasingly be incited to join sectoral initiatives, coalitions, declarations or labels, such as :

- The European Commission’s **EU Business @Biodiversity** platform and its Finance@Biodiversity component
- The alliance and the **Natural Capital Finance Alliance** work programme, led by UNEP-FI
- The **Finance for Biodiversity Pledge**, with over 80 signatories
- The **Act4nature International** initiative, supported by the French Association of Enterprises for the Environment (EpE)
- The programme **Entreprises engagées pour la nature**, supported by the French Office for Biodiversity (OFB)
- The **Business For Nature** coalition, supported by more than 70 actors including the World Economic Forum, the WBCSD, etc.
- The communities of actors associated with certain labels, such as the **Ocean Approved Label** supported by the Fondation de la Mer

For a more exhaustive list of existing biodiversity-related coalitions and initiatives, please refer to the report “Finance & biodiversité : l’écosystème français” which provides a broad summary.

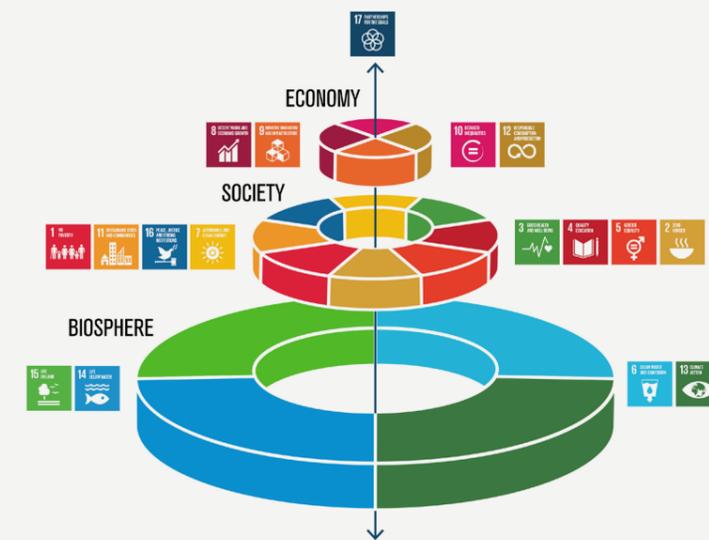
Management companies’ adherence to such biodiversity-related initiatives, coalitions, declarations or labels can be integrated into the presentation of the general approach of the management company, in accordance with the recommendations of Article 29 of the Energy-Climate Law, which recommends mentioning these memberships in the description of the general approach of the entity, as described in the implementing Decree of Art. 29 (III-1°)

FOCUS : IDENTIFYING BIODIVERSITY IN THE CONTRIBUTION TO THE SDGS

Credibly and coherently integrating biodiversity into the contribution to the SDGs

Management companies may choose to specifically target the biodiversity-related SDGs (SDG 14 – Life below water and SDG 15 – Life on land) in identifying their contributions to the SDGs.

In order to do so, certain good practices can be recommended. Firstly, it is useful to **recall and highlight the relationship between the different SDGs, the achievement of which depends on the integrity of natural capital and climate.** Indeed, as the PRIs point out⁹, more than 80% of the SDGs depend on biodiversity for their achievement. **The integrity of the biosphere** and the achievement of the targets attached to SDG 6 (clean water and sanitation), SDG 13 (combating climate change), SDG 14 (life below water) and SDG 15 (life on land), are therefore a *sine qua non* for achieving the targets of the other SDGs. These SDGs relating to the integrity of the biosphere cannot therefore be overshadowed or neglected in favour of achieving other SDGs relating to our human societies or economies.



Representation of the relationship between the SDGs by the Stockholm Resilience Center¹⁰

In this way, management companies can specify whether their investment strategy :

- **Contributes positively** to the achievement of SDG 14 and SDG 15, in the case of investments in companies whose activities contribute directly and positively to the conservation or restoration of ecosystems and biodiversity;
- **And/or contributes to controlling or mitigating the negative impacts** affecting the achievement of SDG 14 and SDG 15, by taking into account biodiversity-related issues in the investment process and by actively engaging with investee companies to promote the mitigation of impacts on biodiversity. This approach could be used as a basis for an investment strategy geared towards contributing to other SDGs: for example, for a thematic fund in health, the idea would be to demonstrate that the investment strategy aims to make a positive contribution to achieving SDG 3 (health and well-being) while controlling or mitigating its potential negative impacts on biodiversity (SDG 14 and 15).

Finally, it is recommended that the parties concerned **identify the targets of SDG 14 and 15** for which it is hoped a positive contribution and/or mitigation of negative impacts can be achieved via the investment strategy (see dedicated Focus).

Adopter un cadre de reporting des risques liés à la nature aligné sur les standards en construction

In response to the growing and unequivocal expectations of financial market actors for a coherent and integrated approach, the TNFD's draft recommendations and reference framework for reporting on nature and biodiversity issues was published in March 2020.

This draft explicitly builds on the existing TCFD recommendations and uses the same four reporting pillars : governance, strategy, risk management and metrics and targets :

Governance	Strategy	Risk Management	Metrics & Targets
Disclose the organisation's governance around nature-related risks & opportunities.	Disclose the actual and potential impacts of nature-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	Disclose how the organisation identifies, assesses and manages nature-related risks.	Disclose the metrics and targets used to assess and manage relevant nature-related risks and opportunities where such information is material.
Recommended Disclosures A. Describe the board's oversight of nature-related risks and opportunities. B. Describe management's role in assessing and managing nature-related risks and opportunities.	Recommended Disclosures A. Describe the nature-related risks and opportunities the organisation has identified over the short, medium, and long term. B. Describe the impact of nature-related risks and opportunities on the organisation's businesses, strategy, and financial planning. C. Describe the resilience of the organisation's strategy, taking into consideration different scenarios. D. Describe the organisation's interactions with low integrity ecosystems, high importance ecosystems or areas of water stress.	Recommended Disclosures A. Describe the organisation's processes for identifying and assessing nature-related risk. B. Describe the organisation's processes for managing nature-related risks. C. Describe how processes for identifying, assessing, and managing nature-related risks are integrated into the organisation's overall risk management.	Recommended Disclosures A. Disclose the metrics used by the organisation to assess and manage nature-related risks and opportunities in line with its strategy and risk management process. B. [Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.]* *Adaptation under consideration by TNFD C. Describe the targets used by the organisation to manage nature-related risks and opportunities and performance against targets.

Draft TNFD recommendations on disclosures

RECOMMENDATION :

Include biodiversity-related best practices in the formalisation of the ESG approach

On top of the regulatory requirements, several «good practices» can be put in place voluntarily by management companies and integrated into the formalisation of their ESG approach, as part of their ESG strategies, policies or approaches, such as :

- Formalise and publish voluntary commitments on biodiversity
- Join biodiversity-related sectoral coalitions or initiatives and communicate in this regard
- Identify biodiversity in the contribution to the SDGs and communicate in a coherent and appropriate manner
- Align with the draft TNFD reporting framework and provide standardised and transparent biodiversity information

Portfolio monitoring : biodiversity footprint and trajectory

Still in its infancy, the development of biodiversity indicators for the financial sector is now gradually being structured to meet the growing needs of actors in terms of measuring and managing the impacts of their investments on biodiversity.

In particular, the emergence of methods and tools that make it possible to assess the biodiversity footprint, both for economic activities and investments, appears to be a fundamental building block to permit genuine management of the impact of financial sector investments on biodiversity, but also and above all to promote positive investment oriented towards the conservation and restoration of biodiversity and natural capital.

By providing precise information on the impact of economic activities on biodiversity, the goal of these analyses, and quantitative approaches in particular, is to enable a harmonised comparison of the different economic sectors, but also of the companies themselves and their practices within the same sector. This level of information can then allow investors to deploy ambitious investment policies aimed at combating biodiversity loss, in particular by implementing targeted actions to mitigate the impacts of their investment portfolios, as well as a genuine proactive policy of redirecting capital towards economic activities and companies that are more beneficial to biodiversity.

The need to measure the biodiversity footprint of investments, which is fundamental for financial actors to guide their actions, was confirmed in France by Article 29 of the Energy-Climat Law, which explicitly requires a biodiversity footprint measurement of the investment portfolio for financial actors exceeding certain thresholds. Management companies, as well as funds, AIFs or mandates with assets under management >€500M, are required to monitor their portfolio via a biodiversity footprint measurement, as defined by the implementing decree of Article 29 (see the dedicated Focus).

To meet these new requirements, but also with a broader view of improving the ESG approaches of management companies in order to take biodiversity-related issues into account more effectively, the latter can then implement several approaches enabling them to measure and monitor the biodiversity footprint of their investment portfolios.

First approach : qualitative biodiversity footprint

Pursuant to an initial qualitative approach, management companies can make an initial estimate of the biodiversity footprint of their portfolios by qualitatively assessing the biodiversity-related impacts and dependencies of their investment sectors.

This first approach presented below can be carried out using the ENCORE tool in order to identify, for each investment sector, the biodiversity-related impacts and dependencies and then to consolidate these analyses at the level of a portfolio or a management company.

Assessing the qualitative biodiversity footprint of an investment portfolio <i>Example of an approach to qualitatively estimate the biodiversity footprint of a portfolio</i>	
Step 1 : Identify high material dependencies and impacts at the level of each investment sector,	
with regard to dependencies on ecosystem services	with regard to impacts on the loss of biodiversity
Using the ENCORE tool, determine the number and materiality level of the sectors' dependencies and impacts : <i>NB : the tool data can be downloaded in Excel format from the methodology page, after completing the free registration procedure (see more details on the use of this tool in the dedicated Focus)</i>	
Assess the materiality of sectoral dependencies based on the : <ul style="list-style-type: none"> • number of ecosystem services identified • level of materiality reported by the tool : <ul style="list-style-type: none"> • Very High materiality (VH) • High materiality (H) • Medium materiality (M) • Low materiality (L) • Very Low materiality (VL) • Not applicable (NA) 	Assess the materiality of sectoral impacts based on the : <ul style="list-style-type: none"> • number of impacts identified • level of materiality reported by the tool : <ul style="list-style-type: none"> • Very High materiality (VH) • High materiality (H) • Medium materiality (M) • Low materiality (L) • Very Low materiality (VL) • Not applicable (NA)
Step 2 : Consolidate qualitative analyses at portfolio level	
For an overall analysis of portfolio exposure to biodiversity impacts and dependencies	
<ul style="list-style-type: none"> • Consolidate these sectoral analyses at portfolio level, based on : <ul style="list-style-type: none"> • the number of dependencies and impacts identified for each sector • the materiality level of the dependencies and impacts identified for each sector • weighted by the share of investment in each sector • The (qualitative) biodiversity footprint can then be approximated by the share of the portfolio that negatively impacts biodiversity (e.g. X% of the portfolio has a very strong or strong negative impact on biodiversity) • Furthermore, it is possible to estimate the share of the investment portfolio that is significantly dependent on biodiversity (e.g. X% of the portfolio is very strongly or strongly dependent on ecosystem services) 	
For a pressure / dependency analysis of portfolio exposure to biodiversity impacts and dependencies	
The ENCORE tool allows the approach described above to be applied to each pressure and/or dependency identified at the sectoral level. This level of detail can thus be used to identify the share of an investment portfolio that impacts one or other of the five drivers of biodiversity loss defined by IPBES. This refined approach can thus make it possible to respond more precisely to the requirements of Article 29 (e.g. X% of the portfolio has a very high or high impact on the generation of pollution).	
Limitations of this qualitative approach	
Several points need to be noted in relation to this first approach : <ul style="list-style-type: none"> • The qualitative approach does not allow the biodiversity footprint to be «measured» as such, but only enables a qualitative estimation of this footprint. • The sectoral analysis alone does not take into account the characteristics of each holding. • It is not possible to detail the scope of the operations and value chains considered. 	

Second approach : non-aggregated quantitative biodiversity footprint

In a second approach, management companies can **assess, in a quantitative but non-aggregated way, the biodiversity footprint of an investment portfolio by consolidating at the portfolio level various environmental indicators collected at the level of each holding and reporting on their biodiversity impacts.**

Assessment of the non-aggregated quantitative biodiversity footprint of an investment portfolio <i>Example of an approach to assess the biodiversity footprint of a portfolio based on environmental indicators from ESG questionnaires sent to investee companies</i>
Step 1 : Include biodiversity-related indicators in the ESG questionnaires sent to investee companies
These environmental indicators should make it possible to assess the impacts of holdings on the drivers of biodiversity loss defined by IPBES (see Introduction). To include such indicators, it is possible to rely on the ESG questionnaire proposed by France Invest for investments as well as on examples of possible additional indicators (see the dedicated Focus).
Step 2: Consolidate these indicators at portfolio level
These environmental indicators collected at the holding level can then be consolidated at the portfolio or management company level, weighted by the share of investments in a given holding. Each consolidated indicator can then be compared with the 5 drivers of biodiversity loss, as defined by IPBES, in order to assess the portfolio's impacts on biodiversity, but in a non-aggregated manner. In particular, with certain thematic portfolios, biodiversity indicators specific to certain sectors will be particularly relevant if they are widely available to investee companies and thus easily consolidated by management companies (e.g. the Biotope Coefficient by Area for a real estate or infrastructure portfolio, see the dedicated Focus).
Limitations of this non-aggregated quantitative approach
Several points should be noted in relation to this second non-aggregated quantitative approach : <ul style="list-style-type: none"> • The environmental indicators in question are not necessarily available to all investee companies • The diversity of environmental indicators relating to biodiversity and their relevance to a given sector of activity can multiply the number of indicators to be monitored and reported for consolidation. Such an approach may be easier for thematic funds or a portfolio with relatively homogeneous activities. • The absence of a sector or cross-sector benchmark for a particular indicator may make it difficult to assess the performance of a particular holding or portfolio in relation to its peers. On the other hand, within the same portfolio, management companies may still be able to compare holdings with each other with respect to a particular indicator, for example in the case of similar activities. • It is not possible to detail the scope of the operations and value chains considered.

Third approach : aggregated quantitative biodiversity footprint

In a third approach, management companies can assess the biodiversity footprint of an investment portfolio in a quantitative and aggregated way via methodologies and tools that measure biodiversity impacts in an aggregated metric.

This type of aggregated approach corresponds to a measure that combines in a single metric the different impacts of an activity or portfolio on the 5 drivers of biodiversity loss. The single metrics used to aggregate these different impacts on biodiversity are often measures of ecological integrity, representative of the ecological functionality of an area. Such single metrics thus capture a global biodiversity footprint and could potentially permit comparison between sectors, companies, portfolios, etc., regardless of their impacts on biodiversity.

FOCUS : THE TWO MAIN AGGREGATED METRICS FOR MEASURING BIODIVERSITY FOOTPRINTS

The two main single metrics for measuring the overall state of biodiversity	
MSA (Mean Species Abundance)	PDF (Potentially Disappeared Fraction of species)
<p>The Mean Species Abundance (MSA) metric is an indicator of the intactness of local biodiversity. The MSA ranges from 0 to 1, where 1 means that the species community is completely intact and 0 means that all original species are extinct (locally extinct).</p> <div data-bbox="163 1029 890 1701"> <p>The Mean Species Abundance (MSA) metric</p> <p>$MSA = \frac{1/2 + 0/1 + 1/3 + 2/2}{4} = 0.46$</p> <p>● Included in MSA ● Not-included in MSA</p> </div> <p>Source: Globio, The MSA Indicator ³⁸ Expressed as a percentage, the MSA metric approximates a percentage of remaining "pristine" biodiversity to measure its status. By measuring the variation of this status over time, it is possible to estimate the impacts on biodiversity.</p>	<p>The Potentially Disappeared Fraction of species (PDF) is the rate of species loss (i.e. the rate of extinction) in a particular terrestrial or aquatic area over a given time. This loss is due to adverse conditions (land conversion, land use, toxicity, average global temperature increase, etc.). The PDF therefore represents the percentage of species that are no longer found due to human impact.</p> <p>Expression of PDF in PDF.m².an</p> <p>The PDF, which is a percentage, is then expressed as a function of area (or volume of water) and time.</p> <p>Unlike the MSA, the PDF also incorporates a temporal notion. On the other hand, the size of the area and time are linked and interchangeable when measuring using the PDF.</p> <p>For example, a result of 100 PDF.m².year can mean that we have a total loss (PDF=100%) of biodiversity on an area of 100 m² for one year, but it can also mean a 10% loss of species on an area of 10 m² over a period of 100 years.</p>

According to work by the Dutch Environmental Assessment Agency PBL, in 2010 the average global terrestrial MSA was about 65% (Lucas & Wilting, 2018¹¹). In other words, about 35% of the world's terrestrial MSA had been lost by that date, which is comparable to turning North America, Europe and Oceania into a huge car park of more than 47 million km² with nothing living on it.¹² Moreover, by 2050, the average global MSA could be 57% (Lucas & Wilting, 2018).

Expression of the MSA in PDF.m²

The MSA can be combined with the surface areas of the ecosystems under consideration and therefore expressed in units of surface area (MSA.m²), which is equivalent to multiplying a percentage (the MSA, as a %) by a surface area (m²). For example, 1 MSA.m² could represent the total destruction of 1 m² of pristine natural area (100% MSA x 1 m² destruction) or represent a 50% destruction of the intactness of a 2 m² area (50% MSA x 2 m² destruction).

To simplify the presentation of the footprint results using PDF, the time is set to one year and the PDF is set to 100% (all biodiversity is lost).

As with the MSA metric, this then allows the result to be expressed as the area (in m²) where all biodiversity is lost over one year.

By using these aggregated metrics, several tools make it possible to measure the overall biodiversity footprint at the company or portfolio level. As the development of such tools is still ongoing, various approaches exist today. Knowing the general structure and the main operating principles of such approaches, as well as their current limitations, can help financial actors to take advantage of them.

FOCUS : THE GENERAL FUNCTIONING OF BIODIVERSITY FOOTPRINT MEASUREMENT TOOLS (AGGREGATED APPROACHES)

Description of the general functioning of the biodiversity footprint measurement tools
<p>Operating principle: from physical inventory to single metric</p> <p>In a nutshell, the functioning of the main biodiversity footprint measurement tools can be summarised in 3 steps :</p> <ol style="list-style-type: none"> 1. Physical inventory* of economic activities: the basic building block of these tools is the existence or modelling of physical inventories for different economic activities, which list all the emissions and extractions of natural resources (GHG emissions, land use, water consumption, etc.) relating to a given activity. 2. From inventory to pressure: these physical inventories, once known or estimated for different economic activities, are converted into indicators of pressure on the five drivers of biodiversity loss. 3. Aggregate impact pressures: these various pressures are then converted and aggregated into a single metric (MSA.km² or PDF.m².yr), allowing for a measurement of the overall biodiversity footprint. <p><small>*These physical inventories can be estimated from different data sources, such as information originating directly from companies, LCA (Life Cycle Assessment) studies available for certain economic activities or production processes, or physical inventories estimated on the basis of models of trade flows between different sectors and countries (so-called input-output models, such as Exiobase).</small></p>
<p>Scope</p> <p>Different areas of focus relating to the notion of biodiversity footprint can be covered by these tools :</p> <ul style="list-style-type: none"> The different types of biodiversity : <ul style="list-style-type: none"> • Terrestrial Biodiversity • Aquatic (freshwater) biodiversity • Marine Biodiversity

- The distinction between static and dynamic footprints :
 - The **static footprint** refers to persistent effects on biodiversity that persist over time
 - The **dynamic footprint** concerns the evolution of the footprint caused by changes, consumptions or restorations, over a given period of time (e.g. one year)
- The various organisational areas of focus (similar to those used in the carbon footprint framework) :
 - **Scope 1** covers all the impacts of the organisation's direct operations
 - **Scope 2** concerns all impacts related to energy purchases
 - **Scope 3** concerns all indirect impacts from the value chain, upstream (purchases excluding energy) and downstream (use and end-of-life of products)

For this third approach, two levels of analysis are possible to obtain an aggregated biodiversity footprint at the level of a portfolio or a management company.

Carry out an initial estimate based on aggregated sectoral biodiversity footprint data <i>Example of an approach to assess the aggregated biodiversity footprint of a portfolio based on aggregated sectoral biodiversity footprints</i>
Step 1 : Obtain aggregate sectoral biodiversity footprint data
<p>Although the literature is limited at this stage, some studies refer to aggregate biodiversity footprint data by sector, using the MSA.km² metric.</p> <p>In particular, a study by Banque de France¹³ in 2021, aimed at providing quantitative estimates of the dependencies and impacts of the French financial system on biodiversity, references the static terrestrial footprint of different sectors of activity (based on the EXIOBASE 3.0 industry classification).</p>
Step 2 : Consolidate these indicators at portfolio level
<p>By multiplying this sectoral biodiversity footprint data (data in MSA.km² / M€ of turnover) by the amounts invested in these different sectors and the turnover of the corresponding investee companies, it is possible to obtain an estimated static terrestrial biodiversity footprint for the portfolio. Example of application : on the basis of the graph published in the Banque de France study, we can obtain the following data :</p> <ul style="list-style-type: none"> • The sector iO1.h – Cultivation of crops nec has a biodiversity footprint (terrestrial, static) of about 1.4 MSA.km²/M€ of turnover • The sector iO1.l – Meat animals nec has a biodiversity footprint (terrestrial, static) of about 4.6 MSA.km²/M€ of turnover <p>For a fictitious portfolio of two holdings, allocated as follows :</p> <ul style="list-style-type: none"> • 50% in a company in the sector iO1.h – Cultivation of crops nec, with a turnover of €1M • 50% in a company in the sector iO1.l – Meat animals nec, with a turnover of €1M <p>An estimate of the (terrestrial, static) biodiversity footprint of this portfolio would then be :</p> <ul style="list-style-type: none"> • (50% x 1.4 MSA.km²/M€ of turnover x 1 M€) + (50% x 4.6 MSA.km²/m€ of turnover x 1 M€) = 3.0 MSA.km²
Limitations of this aggregated quantitative approach
<p>This third aggregate quantitative approach has several limitations :</p> <ul style="list-style-type: none"> • This estimate is partial and limited to the data currently available, which is not as easy to read as it could be • The sectoral data is limited to a restricted number of sectors and its scope is only valid for France• The sectoral biodiversity footprint data only concerns terrestrial biodiversity and the static footprint • It is not possible to detail the scope of the operations and value chains considered

For a more comprehensive aggregate approach, it is now possible to **measure the biodiversity footprint of a portfolio using dedicated tools**. Today, three main dedicated tools are available to investors to measure the aggregate footprint of an investment portfolio, whose main characteristics are presented below.

FOCUS : 3 EXAMPLES OF BIODIVERSITY FOOTPRINT MEASUREMENT TOOLS ADAPTED TO PRIVATE EQUITY

	Comparison of 3 biodiversity footprint measurement tools adapted to private equity		
	GBS-FI <i>Global Biodiversity Score for Financial Institutions Developed by CDC Biodiversity</i>	CBF <i>Corporate Biodiversity Footprint Developed by Iceberg Data Lab</i>	BFFI <i>Biodiversity Footprint for Financial Institutions Developed by ASN Bank</i>
Metric used	MSA	MSA	PDF
Types of biodiversity covered			
Terrestrial Biodiversity	✓	✓	✓
Freshwater Biodiversity	✓	✓	✓
Marine Biodiversity	X	X	Partial
Pressures covered			
Land and sea use	Land and freshwater use only	Land and freshwater use only	✓
Direct operations	Partial (water use only)	Partial (water use only)	✓
Climate change	✓	✓	✓
Pollution	✓	✓	✓
Invasive species	X	X	Qualitative only
Areas of focus			
Scope 1	✓	✓	✓
Scope 2	✓	✓	✓
Scope 3 upstream	✓	✓	✓
Scope 3 downstream	X	✓	✓
Accessibility of the tool			
Private equity tool	✓	✓	✓
Availability of the tool	Marketed	Marketed	Open-source with support
Expertise required	External expertise required	External expertise required	External expertise required
Time required	Moderate to Significant	Limited to Moderate	Limited to Moderate

Note : These tools for measuring the biodiversity footprint are evolving very rapidly, so the information given above is subject to change as the tools develop, particularly with regard to the type of biodiversity, pressures and scope covered, etc.

Incorporate the measurement of the biodiversity footprint into a biodiversity trajectory

Measuring the biodiversity footprint, or at least monitoring the impacts of companies or investment portfolios on biodiversity, ultimately leads to the setting of biodiversity targets.

At this level, the determination of targets based on science to reduce pressures on nature makes it possible to respond to the need for coherence and rigour in order to act in line with the environmental challenges. The **Science Based Target Network (SBTN)**, supported by a group of international players whose aim is to get public and private organisations to reduce their pressure on the environment, is developing a methodology for defining **Science Based Targets (SBTs)**. The setting of SBTs makes it possible to measure a company's environmental footprint and, above all, to **set reduction trajectories in**

line with global environmental objectives. The SBTN, a leader in the field thanks to the legitimacy it gained with its first initiative on climate targets (SBTi – Science Based Target Initiative), is now developing a broader method for building **targets for nature: SBTn, or Science Based Targets for Nature**.

Following a first proposal published in September 2020, this methodology is likely to become globally accepted, by supporting the establishment of a consensus in relation to the scientific frameworks to be used for the construction of targets and limits that should not be exceeded, in order to meet the environmental challenges relating to nature and biodiversity, and to allow everyone to act at their own level.

FOCUS : THE CONCEPT OF THE SBTN BIODIVERSITY TRAJECTORY

The biodiversity trajectory defined by the SBTn

To determine the “**science-based**” nature trajectory by which targets for specific sectors or businesses will then be determined, the SBTN has drawn on the draft elements of the global biodiversity targets currently being developed under the Convention on Biological Diversity and for which the post-2020 framework is being negotiated (see dedicated Focus). The initial version of the proposed SBTn is thus structured around the provisional goal of «Nature-positive» in 2050, i.e. a world with a «positive impact on nature.»

Pursuant to this objective, a nature-positive world requires several fundamental steps :

- no more net loss of nature from 2020
- a net positive state of nature by 2030
- full recovery of nature by 2050

Achieving this 'nature-positive' outcome will require urgent and ambitious action by all stakeholders, regardless of the timeframe in which this occurs, to address the main drivers and pressures on nature and biodiversity loss.

RECOMMENDATION :

Portfolio monitoring through the implementation of a biodiversity footprint measurement

In order to meet the regulatory requirements of Article 29 (for the management companies concerned), but also with a view to improving the ESG approaches of management companies to better take into account biodiversity-related issues, three types of approaches can be implemented to measure and monitor the biodiversity footprint of an investment portfolio :

1. An initial qualitative approach to estimate the biodiversity footprint of a portfolio by consolidating the biodiversity-related impacts and dependencies of the investment sectors at portfolio level
2. A second quantitative but non-aggregated approach, by consolidating at portfolio level the indicators of pressure on biodiversity exerted by the various investee companies
3. A third, quantitative, aggregated approach, by consolidating, at portfolio level, sectoral biodiversity footprint data associated with each investment sector (for a first estimate) or by using a dedicated biodiversity footprint measurement tool

The implementation and monitoring of biodiversity footprints at portfolio or management company level can then form part of a biodiversity trajectory, based on science-based targets, to ensure the objective and credibility of this type of commitment and trajectory.

Biodiversity education and training for management companies

The training of management company teams is an essential step in the deployment of an ESG approach and therefore, in particular, in the integration of biodiversity issues into private equity. Indeed, given the depth and breadth of this issue all teams must be informed about and trained in biodiversity-related issues and, in particular, an increase in the operational skills of certain teams must be organised :

- **Investment teams**, to ensure biodiversity issues are taken into account in the identification of investment targets, the monitoring of the initial selection, due diligence and the identification of key biodiversity issues as well as to support the monitoring of holdings in relation to biodiversity issues during the holding period ;
- **Back-office teams**, notably in relation to regulatory compliance, risk management and reporting in line with the new biodiversity requirements and standards.

Several levels of education and training can then be envisaged :

- Raise general awareness of biodiversity issues among teams, for example by creating “Biodiversity Murals”¹⁴;
- Training for professions directly concerned by biodiversity issues, for example :
 - for investment teams: training on how to take biodiversity issues into account in the investment cycle and processes;
 - for back-office teams : training in new regulatory requirements and new standards in relation to biodiversity;
- Make employees aware of their responsibilities in connection with these issues, for example by incorporating into variable remuneration extra-financial criteria in relation to biodiversity ;
- Take leadership positions and participate in sectoral initiatives or working groups on biodiversity and investment issues (see dedicated Focus).

RECOMMENDATION :

Raise awareness and provide training in relation to biodiversity issues

To support the implementation of biodiversity approaches within private equity, raising awareness and providing training to teams is essential, in particular to :

- Raise teams' awareness of the issues relating to the preservation of nature and biodiversity
- Provide practical training for operational teams, especially investment and back-office staff
- Make employees and management aware of their responsibilities in connection with these topics
- Engage in sector initiatives and take a leadership position on biodiversity and investment issues

Conclusion

The presentations and recommendations outlined in this guide are based on a clear observation: a global momentum is gathering in relation to biodiversity and its conservation. The progressive and massive loss of biodiversity is endangering human societies and our economies, and an ever-increasing number of reports and international conventions are calling for a reversal of this trajectory.

Although the widespread awareness of biodiversity-related issues is relatively recent, it is now at the heart of the pivotal year of 2022, during which the COP15 on biodiversity is supposed to be held in order to set new objectives for the post-2020 framework of the Convention on Biological Diversity and to guide international action on nature and biodiversity conservation for the coming decade. This awareness now requires all actors in society to (re)act, in an increasingly significant and collaborative manner, in the political, economic and financial spheres.

In this context, private equity is positioning itself as a key player to take up this challenge and help the economic and financial sphere to take nature and biodiversity into account. For like few other sectors, private equity has been able to make a difference quickly in terms of integrating sustainable development and implementing ESG approaches and is now mature, to a great extent, with respect to these issues. Moreover, given the mistrust and lack of confidence that part of civil society and the political sphere may express in relation to the world of finance, private equity can pride itself on proposing another way, a system of finance and investment that serves the real economy.

By participating in the development of a considerable number of medium-sized companies, SMEs and ETIs, which make up the bulk of our economic fabric, private equity plays a concrete role in the creation of economic value, but also, and increasingly, in the creation of “sustainable” value via the support and growing commitment of private equity players with their investee companies in relation to sustainable development issues, if they take ambitious positions.

Today, in order for private equity players to take biodiversity into account, we must, in keeping with other ESG themes, look beyond a need for compliance and risk analysis in order to move companies and the economy towards a trajectory of biodiversity conservation and nature regeneration.

Nevertheless there is a need for compliance and risk management because, first of all, biodiversity-related issues are now encompassed by an ever-increasing number of regulations, which are being structured and developed and which constrain financial players, including those in the private equity sector.

There is a need to go beyond these regulatory requirements because, today, the ways of addressing biodiversity issues proactively and positively are developing and becoming more structured. Indeed, tools and methodologies exist to assess the nature-related risks and the materiality of biodiversity issues but one must above all else, assess the maturity of companies, to review their performance by means of indicators or biodiversity footprints in order to monitor progress and seek opportunities for innovation and development.

Financial players need to come to grips with these new approaches, which are constantly developing. Biodiversity issues are indeed complex and multidimensional. Moreover, the climate issue is one of the key components. Although these methodologies and tools are still incomplete and sometimes ill-suited to the reality of the private equity sector, they nevertheless offer a multitude of possibilities for orienting and redirecting investments, supporting businesses and investee companies and, in this way, contributing to the trajectories needed to ensure that the economy respects the biosphere and biodiversity.

For private equity players, it is therefore a question of starting today, of taking up the challenges in relation to nature and biodiversity and of being part of a process of continuous effort and progress. Because along with transparency, the sustainable and responsible vision put forward by private equity, as well as its economic, environmental and societal footprint, are all factors that make it one of the pillars of the financing of the economy and of the green transition.

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