WHY BIODIVERSITY MATTERS
As part of our focus on delivering education for pension schemes and trustees, we’ve developed a guide on biodiversity and nature risk in partnership with the Zoological Society of London. Like climate risk, biodiversity and nature-related risks have financial consequences to pension scheme investments.

In this guide, we provide the practical insight and tips to help you develop your own policy around biodiversity and nature-related risk. Our step-by-step approach covers:

- **Insight into the current challenges of biodiversity risk**
- **Defining biodiversity and why it matters**
- **Explaining the key drivers of biodiversity loss**
- **The risks to pension schemes**
- **Practical insight for assessing biodiversity risk within your scheme**
- **Questions to ask your asset manager**
There has been a focus recently on climate change and the associated risks and opportunities it poses to pension schemes and their members. Climate-related risk management and disclosure frameworks, such as the Task Force on Nature-related Financial Disclosures (TNFD), and the availability of more data, have set the foundations for pension schemes to begin assessing, monitoring and acting on these risks. Regulators are also becoming more focused on these issues. For example, the Prudential Regulatory Authority (PRA) expects banks to assess their exposure to climate-related financial risks in the way they assess other risks.

Biodiversity loss and the degradation of nature is another risk that needs to be managed and will form an important part of the fiduciary duty of pension scheme trustees. The threat of biodiversity loss is now becoming more widely recognised and in the World Economic Forum’s Global Risk Report 2023, biodiversity and ecosystem collapse was cited as the fourth-largest global risk over the next decade.

We should expect focus on these issues to intensify. The United Nation’s Biodiversity Conference (COP 15) last year was an important global stage to elevate the challenges we face with biodiversity loss. More recently, the TNFD announced the launch of its new framework in September 2023, which will provide further valuable guidance to pension schemes and trustees.

Developing this guide with the Zoological Society of London has put us even closer to the concepts of biodiversity risk, a subject we have already explored in depth through our partnership with Re-Educating Earthlings, an environmental education programme committed to teaching the value of biodiversity.

The team and I are really looking forward to using our insight to help the pension scheme community through CACEIS Academy, our training platform.
FOREWORD BY JAMES PILKINGTON, ZSL SENIOR SUSTAINABLE FINANCE SPECIALIST

This guide from CACEIS provides a useful starting point for those in the pensions industry as they begin to look at biodiversity, and helps to demystify what is a complex and sometimes daunting topic by providing a clear framework to approach the issue.

Biodiversity is declining at a rate faster than ever before in human history, with over a million species currently at risk of extinction.

We have reached a crucial tipping point, and it is so important that biodiversity loss is put alongside climate change at the top of the global agenda. 44% of the global economy is dependent on the services nature provides.

As asset owners and investors, the finance sector has a significant role to play in mitigating this crisis, and the pensions industry is no exception. Instead of passing the responsibility of these issues on to their asset managers, pension funds must start to understand and take ownership over the risks and impacts of their portfolios, and put clear policies and actions in place.

Biodiversity is high on the priority list for savers, so taking action on this issue is reflecting the best interests of their clients.

“44% of the global economy is dependent on the services nature provides.”
Biodiversity is the fundamental infrastructure supporting life on earth, but it is rapidly diminishing.

Species’ extinction rates are currently between 100 and 1,000 times greater than historic rates, resulting in the loss of vital ecosystem services which underpin the continuity of society and business.

Companies face significant risks from biodiversity and nature loss, which can have an impact on pension schemes and their members.

Biodiversity is closely linked to everything we do on a daily basis – much more so than many of us imagine. In fact, around half of the world’s gross domestic product (GDP) is moderately or highly dependent on nature – emphasising just how much nature feeds into goods and services that enable companies to create value.

However, this reliance on nature has led to a degradation of biodiversity and ecosystems. Loss of natural capital – and the material products and services it provides – translates into growing productivity losses and significant financial impacts. This degradation in biodiversity and global ecosystems is so stark that the World Economic Forum ranked biodiversity loss and eco-system collapse as the fourth most severe threat humanity will face in the next ten years, only behind failure to mitigate climate change, failure of climate change adaptation, and natural disasters and extreme weather events.

To put these challenges into some context, the world has seen an average rate of decline in monitored wildlife of 69% between 1970 and 2018.
Closer to home, in its 2021 UK food security report, the UK government highlighted that climate change, climate variability and biodiversity loss all threatened the long-term security of global food production\(^3\). It concluded climate change and biodiversity loss were among the biggest medium- to long-term risks to UK domestic food production, alongside other factors including soil degradation and water quality.

This means that informed investment decision-making needs to consider nature-related impacts and dependencies in asset portfolios, as a way to identify and mitigate risks and uncover opportunities for nature-positive outcomes.

This guide aims to give trustees a strong framework to start putting biodiversity risk at the heart of their sustainability governance policies, alongside environmental, social and governance (ESG) concerns and climate risk, to fulfil their fiduciary responsibilities.

---

**THE COMPLEXITY OF BIODIVERSITY VERSUS CLIMATE CHANGE.**

Biodiversity exhibits more complex dynamics of cause and effect. The relationship between greenhouse gas (GHG) emissions and climate change is essentially linear: more emissions produce more warming. But the relationships between the various pressures described in this guide and biodiversity loss are non-linear, each having a complex impact on inter-related biological systems at both a local and global level. As a result, tracking a business’s biodiversity footprint requires more sophisticated measurement systems than those needed to track its carbon footprint.

Addressing biodiversity loss also requires a localised approach by country and by regions within a country. Because no two ecosystems are alike, global target setting, alignment, and best practice sharing are inherently complex. In contrast, emission reduction can be achieved through similar approaches, regardless of where those efforts occur.
Biodiversity risk is multi-faceted.

We can summarise biodiversity into three distinct areas: diversity of ecosystems, diversity of species and diversity within species. Each area of biodiversity is closely connected with the other.

**Diversity of Ecosystems**

Biodiversity is all the different kinds of life you’ll find in one area—the variety of animals, plants, fungi, and even microorganisms like bacteria that make up our natural world. Each of these species and organisms work together in ecosystems, which are closely connected to maintain balance and support life.

Ecosystems are self-regulating. However, they can also tilt out of balance when a species of animal declines or is eradicated, which our case study alongside highlights.

**Diversity of Species**

Species diversity is the number and relative abundance of different species that live in a specific location. However, wildlife populations have fallen by 69% on average since the 1970s, although this number masks some big variances globally. For example, in Latin America, wildlife populations have fallen by an average of 95%, whereas North America has seen wildlife populations decline by 20%. Freshwater species populations have seen the greatest overall global decline of 83%.

**Diversity within Species**

This reflects the genetic variations between organisms within the same species. This diversity helps species become more resilient against abrupt changes and adapt to changing environments. However, genetic diversity can be lost when populations grow smaller or become more isolated, which reduces the ability of the species to adapt and survive.
Without wolves, the park’s elk population exploded. The elks grazed intensely on willows and aspens – especially young trees. Without those trees, the park’s bird population declined, and beavers could no longer build dams, which meant riverbanks started to erode. The beaver population declined.

However, 25 years ago, Yellowstone reintroduced wolves and, over time, the ecosystem was restored.

As a result of hunting, wolves became absent in Yellowstone in the 1930s and disappeared from the local ecosystem.

This overgrazing degraded plant communities and biodiversity.

This example demonstrates the destabilising impact that human activity can have on ecosystems.
Biodiversity has a significant role to play in our everyday lives, and provides an immense supply of resources for companies across the globe. These benefits are commonly referred to as ‘ecosystem services’ and can be split into three key areas, as highlighted below:

**REGULATION SERVICES**
Natural ecosystems provide many of the basic services that make life possible and are crucial for environmental stability. For example, plants help to regulate air quality and improve water quality through filtration. They also provide natural flood control and store carbon which is critical for the regulation of the climate. Trapped carbon is usually stored for the lifetime of the tree to aid their growth through photosynthesis, meaning deforestation puts nature’s ability to regulate the climate at risk. Other examples of regulation services include pollination and dispersal of seeds, which is essential for the growth of ecosystems, and bacteria, which helps to decompose waste.

**PROVISIONING SERVICES**
These are the physical benefits to people and companies that can be extracted from nature. This includes services such as drinking water, crops, livestock, fish, timber, natural gas, oils and plants. Nature provides us with energy, food, raw materials and medicinal benefits. It’s no surprise that around half of the world’s goods and services are moderately or highly dependent on nature.

**CULTURAL OR NON-MATERIAL SERVICES**
Although harder to quantify, nature also provides important recreational, aesthetic and cultural services, which vary across regions and countries. An example of these non-material services is travel and tourism.

**WHY IS BIODIVERSITY IMPORTANT TO US?**

It’s important to note that climate change and biodiversity are also closely linked. For example, global warming is changing how ecosystems function. Over time, this creates inhospitable environments for some species and causes events such as wildfires and droughts, which destroy forests and release more carbon dioxide into the atmosphere.

At least two-thirds of food crops rely on pollination and between $235 billion and $577 billion in annual global crop output is at risk as a result of pollinator loss.

17% 85%

AROUND 17% OF THE WORLD’S TOTAL CARBON EMISSIONS ARE ABSORBED BY FORESTS

85% OF WETLANDS, SUCH AS SALT MARSHES AND MANGROVE SWAMPS WHICH ABSORB LARGE AMOUNTS OF CARBON, HAVE DISAPPEARED – UNITED NATIONS
THE KEY DRIVERS OF BIODIVERSITY LOSS

CHANGES IN LAND AND SEA USE

Where and how we produce food is one of the biggest threats we pose to biodiversity.

The world population has increased from 1 billion in 1800 to around 8 billion today and is expected to reach 9.7 billion by 2050. This has led to more demand for natural resources, and we are now overusing the Earth’s biocapacity (which is the ability of our planet’s ecosystem to regenerate) by at least 56%.

Alongside this population boom, we’ve seen changing patterns of consumption where the natural habitat is being used for agriculture, altering ecosystems on a global scale. The increasing demand for food has fundamentally changed the development of land, with around 38% of the Earth’s land surface now devoted to agriculture. One-third of this land is used for crops and the remainder consists of meadows for grazing livestock.

This changing use of land has accelerated the rate of species extinction globally. Since studies began in 1970, it has caused 70% of terrestrial biodiversity loss and 50% of freshwater biodiversity loss. Estimates suggest around half of all species at risk are threatened by agriculture.
**HOW WE IMPACT NATURE**

This measures how much demand human consumption places on the biosphere.

**HUMANITY’S ECOLOGICAL FOOTPRINT BY LAND USE**

- Grazing land footprint
- Forest product footprint
- Fishing grounds footprint
- Cropland footprint
- Built-up land footprint
- Carbon footprint

**HUMANITY’S ECOLOGICAL FOOTPRINT BY ACTIVITIES**

- Food: 60%
- Housing: 19%
- Personal transportation: 19%
- Goods: 15%
- Services: 5%

*Source: World Economic Forum and Humanities ecological footprint by land use and by activities. Part of the Living Planet Report, 2022.*
WHAT IS DEFORESTATION AND WHY DOES IT MATTER TO EVERYONE?

Deforestation is happening on a significant scale. Each year, we lose around 10 million hectares of forest around the world to make space for crops, livestock, and to satisfy the demand for manufacturing. Around 96% of deforestation takes place in tropical forests. Although not close to the UK, the destruction of these tropical forests creates consequences for us all, because tropical forests help regulate climate change and support biodiversity.

Closer to home, Europe’s 1,000 million hectares of forests comprise 25% of the world’s total forested area and cover 45% of the European landscape. At around 13%, the UK’s forest cover is among the lowest of any country in Europe.12

Forests cover 31% of the land area on our planet. They help regulate climate change and they absorb one-third of carbon emissions caused by humans.13

Forests are important ecosystems and support an abundance of biodiversity. Around 70% of land animals and plant species live in forests.14

When forests are destroyed or burned, they emit carbon, and deforestation is responsible for around 15% of all greenhouse gas emissions.17 This causes rising temperature changes and contributes to global warming. Deforestation also accelerates widescale habitat loss – smaller fragments of forest can support fewer animals.

It’s estimated that around 60% of emerging infectious diseases come from animals, and habitat loss is a major cause of viruses jumping from wildlife to humans18.

Agriculture is the main driver of deforestation and accounts for about 70-90% of forest loss. Over half of all deforestation globally results from clearing land for crops and almost 40% to clear land for livestock15.

Since 1990, the world has lost more than one billion acres of forest.16

When forests are destroyed or burned, they emit carbon, and deforestation is responsible for around 15% of all greenhouse gas emissions. This causes rising temperature changes and contributes to global warming. Deforestation also accelerates widescale habitat loss – smaller fragments of forest can support fewer animals.

It’s estimated that around 60% of emerging infectious diseases come from animals, and habitat loss is a major cause of viruses jumping from wildlife to humans.

Agriculture is the main driver of deforestation and accounts for about 70-90% of forest loss. Over half of all deforestation globally results from clearing land for crops and almost 40% to clear land for livestock.

Since 1990, the world has lost more than one billion acres of forest.
WHAT CAN PENSION SCHEMES DO?

Pension schemes can set a ‘net zero’ deforestation policy. They can also actively engage with their asset managers to understand whether the companies they are investing in, and the associated supply chains of those companies, are contributors to deforestation.

It’s also important to understand whether companies that rely on wood as a natural resource are destroying primary forests and replacing them with monoculture plantations – areas with just one type of tree. This effectively destroys ecosystems as monoculture plantations contain fewer species of animal and vegetation.

SPECIES EXPLOITATION

This occurs when we extract more animals and other resources than can be naturally restored. Overexploitation of ocean resources, such as overfishing, threatens the viability of sustainable marine populations and impacts future food sources.

POLLUTION

Drivers of pollution, such as chemicals and waste, are major causes of biodiversity loss and ecosystem change. They also have a particular impact on freshwater and marine life. Microplastics, for example, have been a well-publicised risk to marine life and threaten biodiversity and ecosystems. In the UK, only 14% of English rivers meet good ecological status. These rivers have been impacted by pollution from agriculture, sewage, roads and single-use plastics. Nutrients such as phosphorus and nitrogen from sewage and animal waste is also reducing oxygen levels, suffocating fish, plants and invertebrates.

19
CLIMATE CHANGE

Climate change and biodiversity loss are intertwined. Climate change has altered marine, terrestrial and freshwater ecosystems globally and has led to the loss of local species. The examples below demonstrate how climate change has impacted ecosystems and also threatens species extinction:

CATASTROPHIC EVENTS

Catastrophic events such as wildfires also accelerate climate change by releasing carbon stored in trees and ecosystems. The effect of climate change on biodiversity is not regionally confined, as emissions accumulate on a global scale.

INVASIVE SPECIES AND DISEASE

Another threat that can amplify biodiversity loss is the spread of non-native plant and animal species that arrive through global trade or tourism and can increase rapidly as a result of crop cultivation. Such species can disrupt the balance of ecosystems by competing for food.

BUSHFIRES

Bushfires in Australia between 2019 and 2022 are estimated to have destroyed nearly 3 billion animals and had a significant impact on local ecosystems – World Wildlife Fund. Around 5.4 million hectares were burnt in the bushfires and around one-quarter was agricultural land, which had a significant impact on the food sector. In total, the bushfires caused around $4-5 billion of economic losses.

GLOBAL WARMING

Global warming has caused alpine glaciers to recede and are expected to lose 80% of their current mass by 2100 – UN Intergovernmental Panel on Climate Change.

LIVE CORAL REEFS

Live coral reef numbers have nearly halved in the past 150 years, and further warming threatens to destroy almost all remaining reefs. – United Nations.

GLOBE

Catastrophic events such as wildfires also accelerate climate change by releasing carbon stored in trees and ecosystems. The effect of climate change on biodiversity is not regionally confined, as emissions accumulate on a global scale.

LIVE CORAL REEFS

Live coral reef numbers have nearly halved in the past 150 years, and further warming threatens to destroy almost all remaining reefs. – United Nations.

INVASIVE SPECIES AND DISEASE

Another threat that can amplify biodiversity loss is the spread of non-native plant and animal species that arrive through global trade or tourism and can increase rapidly as a result of crop cultivation. Such species can disrupt the balance of ecosystems by competing for food.
WHAT ARE THE RISKS TO PENSION SCHEMES?

Nature degradation poses a financial stability risk, not just to companies but to the broader financial system, which has the potential to affect the value of assets held by pension funds. We’ve outlined four key risks that pension scheme trustees should consider.

PHYSICAL RISKS

There is the potential for declining asset values for equities and corporate bonds as a result of ecological risks affecting the way that companies operate. This might impact profits or cause a market-based re-evaluation of that company because of operational risks associated with dependency on natural resources, especially if those resources become scarce or fall in quality. This could lead to an increase in raw material costs, a deterioration in supply chains, or disrupted business operations.

BREACHES OF LEGAL FRAMEWORKS AND NEW REGULATIONS

This includes the reputation risk faced by companies that continue to have a negative impact on nature. New regulations could impose limitations on companies or impose limitations in activities that impact biodiversity. Finally, risks increase that companies will be subject to damages because of ‘greenwashing’ – where a company makes deceptive or misleading statements about their environmental activity or footprint.

TRANSITION RISK AS ECONOMIES MOVE TO CONSERVE AND RESTORE BIODIVERSITY

Here, losses could incur as a result of holding companies subject to sanctions or where the company owns or operates ‘stranded’ assets (as the company cannot properly move to conserve biodiversity). There is also a risk that companies’ access to nature services will be impacted should they fail to make and meet biodiversity commitments. Further, reputation loss may arise as a result of companies failing to meet biodiversity commitments.

SYSTEMIC RISK

Systemic risk describes the potential collapse of parts of the financial system. For example, there is the possibility of bond default risk for countries that are highly-dependent on natural resources, or the potential for a significant market-related event because of diversity loss. Certain industries that are heavily reliant on nature could also face reputational loss.

Finally, companies that are perceived as having little or no direct exposure to biodiversity risk might still be indirectly impacted through their supply chains.
<table>
<thead>
<tr>
<th>AREAS</th>
<th>SECTORS</th>
<th>CHALLENGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies reliant on wood as a natural resource or changing land use from forests to agriculture</td>
<td>Construction, energy, paper, tobacco, food businesses across the supply chain, personal care</td>
<td>How they are managing exposure to forest-risk commodities, setting policies on net-zero deforestation, and finding alternative raw materials</td>
</tr>
<tr>
<td>Companies reliant on agriculture</td>
<td>Food businesses across the food supply chain</td>
<td>Global food production is the largest contributory factor to loss of biodiversity. Companies in this sector are also more vulnerable to threats such as loss of pollinators, deforestation, erosion and declining soil fertility</td>
</tr>
<tr>
<td>Companies reliant on water</td>
<td>Fashion or other heavy water-usage industries such as computer chips</td>
<td>Computer chip manufacturers can use up to 150,000 tonnes of water a day. A 2021 drought in Taiwan caused disruption to one of its largest semiconductor makers</td>
</tr>
<tr>
<td>Companies operating in watersheds experiencing deforestation</td>
<td>Built assets in downstream areas (e.g. real estate, warehouses, manufacturing)</td>
<td>Deforestation and habitat conversion can lead to increased flood risk downstream as upland areas lose their ability to absorb high rainfall</td>
</tr>
</tbody>
</table>
IMPACT AND RISKS OF BIODIVERSITY LOSS

HIGHEST IMPACT SECTORS
- Forest Products and Fisheries
- Food, Beverage and Tobacco
- Mining
- Oil and Gas
- Transportation

DIRECT DRIVERS OF BIODIVERSITY LOSS
- Land Use/Sea Use Change
- Direct Exploitation
- Climate Change
- Pollution
- Alien Invasive Species

HIGHEST DEPENDENCE SECTORS
- Forest products and fisheries
- Textiles, Apparel and Luxury Goods
- Food, beverage and tobacco
- Electric Utilities
- Independent Power Producers

PHYSICAL RISK
- Loss of raw materials
- Disruption of operating environment
- Loss of resilience

LITIGATION RISK
- Increasing legislation e.g., EU action plan for sustainable finance or article 173 of the French law on Energy transition for Green Growth

TRANSITION RISK
- Policy shifts
- Change in market preferences
- Civil society campaigns
- Voluntary standards and commitments

SYSTEMIC RISK
- Risk impacting all sectors and economies e.g. global pandemics

Source: UNPRI: Investor Action on Biodiversity
ACCOUNTING FOR BIODIVERSITY RISK: WHERE TO START?

It’s important to highlight that biodiversity is complex, multi-faceted and location specific. Moreover, company disclosure around nature impacts and dependencies is still imperfect and while data relating to biodiversity risk is improving, there is still a lack of unifying metrics.

However, pension trustees can still make a start in integrating biodiversity considerations into their decision-making, and new frameworks such as the Taskforce on Nature related Financial Disclosures (TNFD) will provide good guidance on this.

We’ve outlined some steps that trustees can consider below to begin the journey of considering biodiversity and nature-related risks and opportunities for their members.

### BUILD KNOWLEDGE

Trustee boards can begin building knowledge on biodiversity and nature-related risks and opportunities.

### DEVELOP A POLICY ON BIODIVERSITY

Develop a policy that outlines how your scheme will manage biodiversity risks and opportunities.

### UNDERSTAND WHERE YOUR SCHEME’S RISKS ARE

Make use of existing information sources to provide a high-level view (by industry and country) of where your scheme’s risks lie. We’ve outlined some of these information sources above. You can use this information to create a dialogue with your scheme’s asset managers. SDG 13: Climate action – climate change and biodiversity loss are interwoven.

---

**IDENTIFY SECTORS AND COUNTRIES MOST AT RISK OF BIODIVERSITY LOSS.**

The Sustainability Accounting Standards Board (SASB) provides a materiality map to identify sectors that may be financially material. You can access it here:

https://www.sasb.org/standards/materiality-map/

ENCORE was developed by the Natural Capital Alliance to help financial institutions better understand their natural capital risks by sector.

https://encore.naturalcapital.finance/en/
Engage with your asset managers on their biodiversity-related risk assessment and stewardship activities being conducted with the companies they invest in. Are they ‘ground truthing’ – conducting on-the-ground due diligence on the supply chains of the companies they are investing in?

Engage with your asset managers on how they are allocating capital to companies or sectors that are avoiding or reducing biodiversity risk.

As part of your approach, you can develop a set of questions for each asset manager to make it easier to compare responses and benchmark managers against each other on biodiversity risk. Here are some questions to ask:

1) What’s your policy on biodiversity risk? Are you planning to adopt the TNFD framework?

2) How are you integrating biodiversity risk into your investment decision-making when you select companies?

3) How do you engage with companies in sectors where biodiversity risks are known challenges?

4) How do you conduct due diligence on companies and their supply chains specifically in sectors or countries that pose risks to biodiversity?

5) How do you monitor companies that need to mitigate biodiversity risk? Do you set targets and if companies fail to meet them, what’s your policy on disinvestment?

6) Are you looking to integrate nature-positive policies into your investment decision-making to leverage opportunities where companies are making a positive impact to nature?

Establish a programme of ongoing engagement and reporting with your asset managers to monitor their progress on managing biodiversity risk.

Publish regular updates for your members that explain your approach to mitigating climate and biodiversity risk within your scheme’s investments, and any actions that you have undertaken.

Keep abreast of new initiatives such as the TNFD and the European Union’s Sustainable Finance Disclosure Regulation (SFDR).
USEFUL TERMS

There are many different terms used when discussing issues such as biodiversity or nature risk. Some of these terms are below:

**NATURAL CAPITAL:** Natural capital is the world’s stock of natural resources, which includes geology, soils, air, water and all living organisms. Some natural capital assets provide people with free goods and services.

**ECOSYSTEM SERVICES:** An ecosystem service is any positive benefit that wildlife or ecosystems provide to people. The benefits can be direct or indirect—small or large.

**BIODIVERSITY RISK:** The risks related to ecological impacts and dependencies related to biodiversity loss or ecosystem degradation.

**NATURE-POSITIVE:** Where nature – species and ecosystems – is being restored and is regenerating rather than declining.

REGULATION AND FRAMEWORKS

There are good reasons to believe that global economies, private sector companies and financial services more broadly will act to increase and protect biodiversity. We’ve already seen several initiatives take shape, and the introduction of regulations will continue to impact and drive change within the finance sector.

TASKFORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD)

The TNFD is set to launch in September 2023. Its goal is to develop and deliver a risk management and disclosure framework to report and act on evolving nature-related risks and opportunities, with the aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.

At the core of TNFD is a framework that enables companies, asset managers and asset owners to effectively consider, report, and act on evolving nature-related risks and opportunities using the LEAP (Locate, Evaluate, Assess, Prepare) approach.

The TNFD framework follows on from the Task Force for Climate-related Financial Disclosures (TCFD), which pension schemes over £1 billion must now adopt when assessing and reporting on their exposure to climate risks.

EUROPEAN UNION DEFORESTATION REGULATION

The EUDR, adopted in December 2022, prohibits the import of a range of forest-risk commodities including palm oil, timber, and natural rubber, if they have resulted in deforestation. This means mandatory due diligence and traceability requirements for EU importers, and it will be a key engagement topic for asset managers due to heightened risk of non-compliance. The UK is expected to introduce similar regulation as it amends Schedule 17 of the Environment Act.
SCIENCE-BASED TARGETS FOR NATURE

Following the success of the SBTi in allowing corporates to align their individual sustainability actions with globally-agreed environmental goals, companies will soon be able to set science-based targets on biodiversity-related impacts. This will be a key framework for action, and provide pension schemes with guidance on target-setting across their portfolios.

FURTHER READING

Deforestation-Free Finance: The not-for-profit agency Global Canopy has brought together practical guidance developed by a broad range of organisations to support financial institutions in eliminating deforestation, conversion, and associated human rights abuses from their financial portfolios. Global Canopy recently partnered with Make My Money Matter and Systemiq to offer guidance on ‘How to achieve deforestation-free pensions’. [https://makemymoneymatter.co.uk/wp-content/uploads/2022/02/Cutting-Deforestation-from-our-Pensions-final-report.pdf](https://makemymoneymatter.co.uk/wp-content/uploads/2022/02/Cutting-Deforestation-from-our-Pensions-final-report.pdf)

Point of No Returns 2023: The UK-registered charity ShareAction has ranked 77 of the world’s largest asset managers by their approaches to responsible investment, including how they deal with biodiversity. This year showed only 10% of asset managers reported having a dedicated biodiversity policy covering all portfolios under management. Pension schemes can use the findings to push for more consideration of biodiversity in the policies and practices of asset managers. [https://shareaction.org/reports/point-of-no-returns-2023-part-i-ranking-and-general-findings](https://shareaction.org/reports/point-of-no-returns-2023-part-i-ranking-and-general-findings)
References

1. Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) (2019): Global assessment report on biodiversity and ecosystem services (Summary)
2. WeForum: Global Risks Report 2023
3. United Kingdom Food Security Report 2021
4. WWF, Living Planet Report, 2022
5. London School of Economics.
8. WWF and ZSL Living Planet Report.
10. WWF and ZSL Living Planet Report.
11. The Royal Society.
12. The UK Forestry Standard.
13. European Commission: Most forests are less able to cope with hazards under climate change.
15. Climataik: The Role of Agriculture in Deforestation.
17. WWF: Deforestation and Forest Degradation.
18. National Geographic – why deforestation matters
19. UK Environmental Audit Committee
20. WWF: Fire on the farm: Assessing the impacts of the 2019-2020 bushfires on food and agricultures in Australia

ZSL is an international conservation charity driven by science, working to restore wildlife in the UK and around the world by protecting critical species, restoring ecosystems, helping people and wildlife live together and inspiring support for nature.

CACEIS, May 2023. CACEIS UK Branch, 5 Appold Street, London, EC2A 2DA, United Kingdom. This brochure is intended for information purposes only and does not constitute an offer of service, recommendations or contractual investment advice.