

# Integrating Biodiversity into Investment Strategies

## *Application at Sienna IM*

Biodiversity has become a central issue for investors concerned about the sustainability and resilience of their portfolios. As the risks associated with biodiversity loss become increasingly material, it is essential for investors to integrate these considerations into their investment strategies. This article explores the approaches investors can take to integrate biodiversity into their strategies, focusing on the listed asset classes and private debt and illustrating with the approach taken at Sienna IM.

### **The importance of biodiversity for investors**

Integrating biodiversity into investment analysis is becoming a must for investors looking to navigate the complexities of today's financial landscape. As ecosystem degradation accelerates, the implications for financial performance become more obvious. Investors should recognise that companies' impact and reliance on biodiversity represent significant risks, including risks related to regulatory changes, reputational damage, and operational disruptions. By integrating biodiversity considerations into their investment strategies, investors can identify risks and opportunities that are not immediately apparent through traditional financial metrics. This proactive approach not only improves risk management, but also aligns investment practices with global sustainability goals. Engaging in dialogue with companies about their impacts on biodiversity promotes accountability and drives improvements in environmental management, thus contributing to a more resilient and sustainable economy. As the financial community increasingly recognizes the

interconnection between natural capital and economic performance, integrating biodiversity into investment analysis is not only an ethical necessity, but a strategic imperative for long-term success.

### **General framework for integrating biodiversity**

Excluding certain sectors from the portfolio is the first step in reducing biodiversity-related risks, even if there is no systematic exclusion of sectors with a high impact on biodiversity or dependence on it. By excluding certain sectors, such as tobacco, coal and unconventional hydrocarbons, investors can reduce their exposure to risks linked to biodiversity while supporting a more sustainable economy. However, exclusion should not be the only approach. It is also important to integrate biodiversity issues into ESG analysis – an approach developed in this article – before engaging in constructive dialogue with companies operating in sectors with a high impact on

biodiversity. By engaging , we can encourage concrete improvements in the practices of companies, while promoting a better understanding of environmental issues.

### **Integrating biodiversity**

The integration of biodiversity into the analysis of investments in private debt and listed assets is essential to ensure responsible investment decisions and sustainability.

### **Private debt**

A structured approach begins with an in-depth analysis of controversies, making it possible to identify those that are specifically related to biodiversity issues. Understanding these risks through proper assessment leads to better-informed portfolio construction. In addition, it is crucial to consider potential impacts on biodiversity hotspots, whether through an ESG questionnaire during due diligence or through other assessment methods. This consideration makes



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it possible to identify and assess the risks associated with the activities of the companies and projects financed. Incorporating criteria such as proximity to sensitive areas and other factors that can affect ecosystems, such as waste management and discharges to water, into the ESG score is key to fully considering biodiversity in the analysis. This ensures a comprehensive assessment of biodiversity-related risks and opportunities, thereby enhancing the sustainability of investment decisions..

### Listed assets

For listed assets, biodiversity issues are directly integrated into the analysis of ESG risks used in the stock selection process. The extra-financial rating

used retains the most relevant ESG issues, those with a significant impact on the financial value of an issuer and, consequently, on the financial risk and return profile of an investment. For each ESG issue identified, the policy, practices and results obtained by the management systems dedicated to ESG risks are analysed and quantified. This results in an ESG risk rating. ESG issues can include, depending on the sector, issues directly related to the degradation of biodiversity, in addition to climate issues.

### Impact clauses

As part of its Biodiversity Fund, Sienna IM has integrated impact clauses related to biodiversity. These clauses make it possible to adjust the financial conditions according to the environmental performance of the projects financed. For example, we apply a reduction of 15 basis points for one of our financing if the project obtains a specific sustainability label from a certain date, and another 15 basis points if the farm has been issued an organic certification of less than 12 months, guaranteeing production without chemical inputs. In addition, a 10 basis point reduction is expected if the land cover rate reaches projected levels under a specific land cover trajectory on a given date. These measures incentivise companies to improve their environmental practices, while reinforcing our commitment to preserving biodiversity.

### EXAMPLES OF QUESTIONS ASKED BY SIENNA IM IN THE ANNUAL ESG QUESTIONNAIRE:

- If the company is located in or near a key biodiversity area, have appropriate assessments been carried out for these areas, and on the basis of their findings, the necessary reduction measures implemented?
- Has the company carried out an assessment of its impact and dependencies on biodiversity?
- Has the company carried out an assessment of its biodiversity footprint?
- Has the company carried out measurements of its aquatic pollutants?
- Is the amount of waste on construction sites controlled?
- Has a system for monitoring water consumption or detecting leaks been put in place?





Poor management of biodiversity issues is thus reflected, along with other ESG issues, in the ESG risk score, which is then used to exclude the riskiest issuers. Taking into account controversies related to biodiversity is also essential because it materialises the impact of a company on

biodiversity. These events are analysed and must be taken into account in the extra-financial investment process.

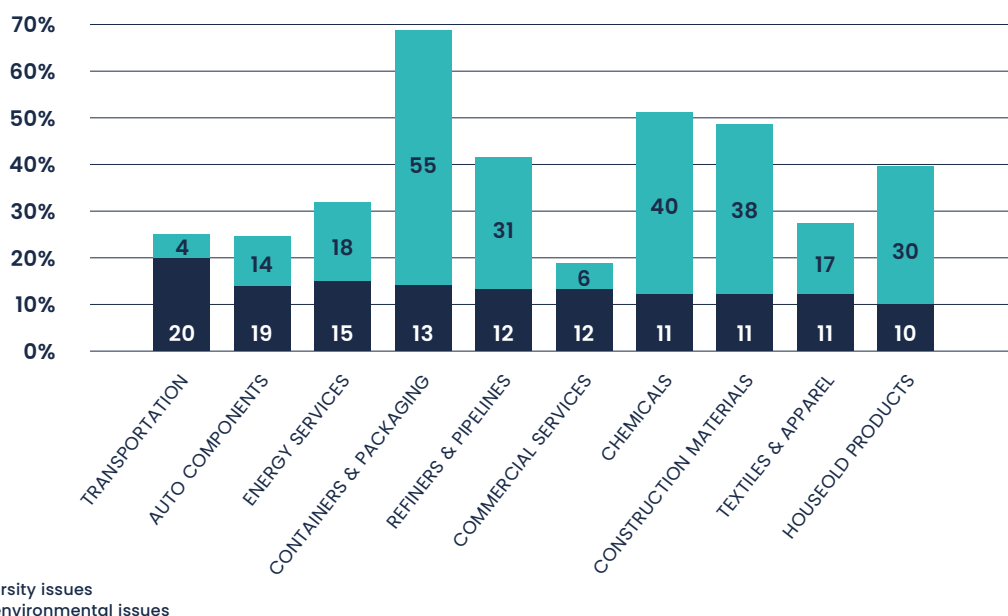
Find out more about [Sienna IM's biodiversity policy](#) its approach, commitments and biodiversity initiatives.

## EXAMPLES OF BIODIVERSITY ISSUES TAKEN INTO ACCOUNT IN THE ESG RATING OF ISSUERS INVESTED BY SIENNA IM'S LISTED ASSETS EXPERTISE:

- Emissions, effluents and waste
- Land use and biodiversity
- Resource utilization

*Below are the 10 MSCI Europe sectors most exposed to biodiversity issues, put into perspective with the other environmental issues to which the sectors are exposed.*

**Sectoral weighting of biodiversity-related themes among environmental issues**



Source: Sienna Listed Assets, Sustanalytics, 2024

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