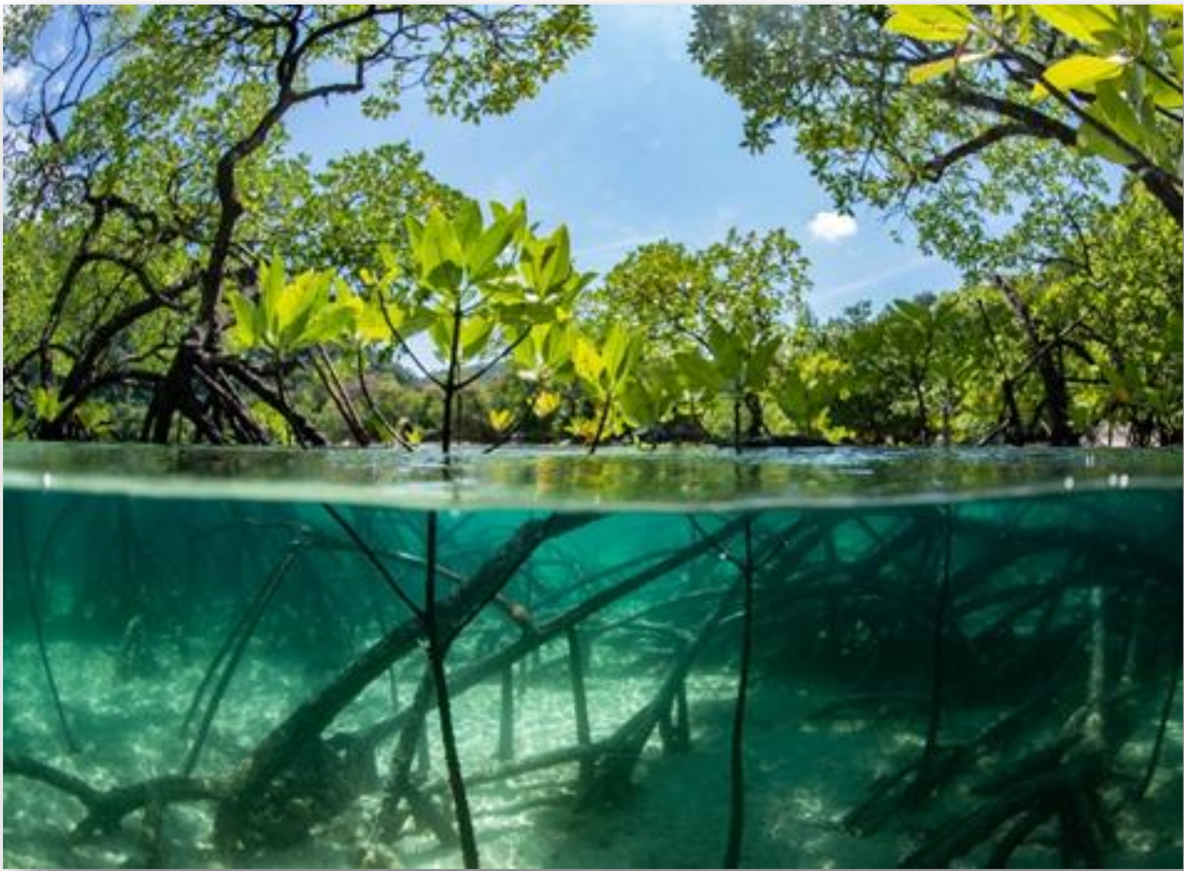


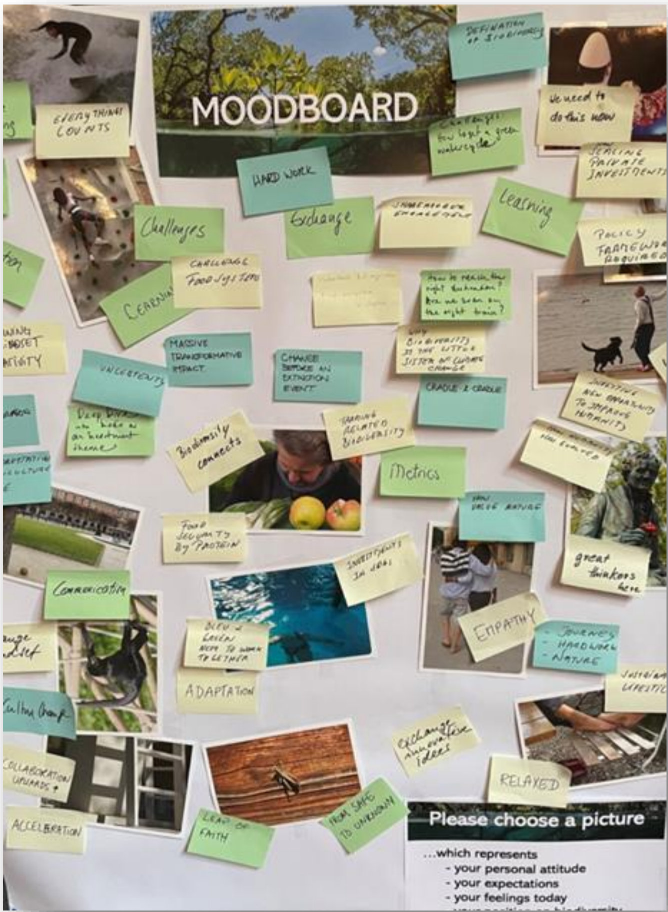
ACTION PLAN
1. GLOBAL ASSET OWNER MEETING 2024

Actions on Biodiversity Investing

2. SEPTEMBER 2024

FERI AG
Antje Biber

Content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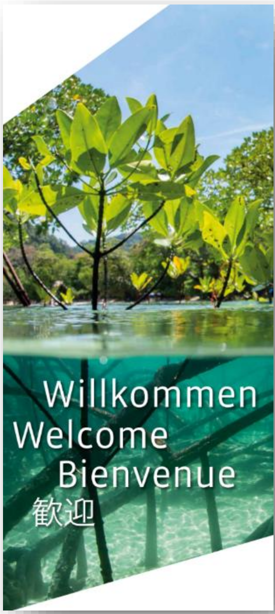
Introduction

An active working session with a concrete result

The inaugural Global Asset Owner Meeting on Biodiversity, held from June 4-6, 2024 at Villa Bonn in Frankfurt, marked a significant milestone in addressing the critical issue of biodiversity investment. This groundbreaking event brought together international asset owners in a focused, private setting to collaboratively develop a new investment framework and guidelines tailored to the needs of all investors.



The result of these efforts is this Action Plan, which encapsulates the collective wisdom, insights, and commitments of the participants.

The meeting was characterized by an exceptional level of engagement and energy, fostering intense, constructive, and creative discussions. Participants shared knowledge and explored strategies to accelerate the flow of capital into biodiversity-related investments. The gathering showcased exemplary practices from pension funds from the Netherlands, Switzerland, Austria and the US, providing inspiration for wider adoption across the industry.

Key findings from the meeting revealed that while sustainable finance has become more mainstream, biodiversity investments are still in their infancy, requiring significant investor capacity building.

Monitoring and measurement of biodiversity impact emerged as a primary challenge, highlighting the need for alignment with EU standards, international frameworks from the IFRS/ISSB, and proactive self-regulation of Swiss Pension fund based on industry best practices.

The event featured notable commitments, including the European Investment Bank's pledge to elevate biodiversity to the same priority level as climate issues and to shift lending standards towards a "no loss" approach for biodiversity. Discussions centered on risk assessment, impact measurement, and the integration of biodiversity considerations into industry value chains and financial markets.

Participants identified several **crucial factors** influencing asset owners' decisions to commit capital to biodiversity investments, including **conviction, persuasion, responsibility, and regulatory pressure**. The need for regulatory adaptation of fiduciary duties to incorporate nature considerations was emphasized, along with the potential for regulatory sandboxes to foster innovation.

This Action Plan serves as a guide and roadmap for implementing investment solutions and fostering collaboration in biodiversity conservation and restoration. It aims to establish regulatory, ecological, and economic targets for the investment opportunity universe, creating a structured and prioritized list of key parameters to chart the course forward.

As we embark on this journey to protect and restore Earth's vital ecosystems, this Action Plan represents the collective engagement of global asset owners to drive meaningful change through strategic investments in biodiversity. It marks the start of a transformative effort to align financial power with the urgent need to preserve and regenerate our planet's natural capital.

Executive Summary

The Global Asset Owner Meeting on Biodiversity responded to the growing awareness of the importance of biodiversity, driven by public attention, regulatory changes, and personal commitment.

Participants recognised that biodiversity investing is an emerging field building on the experiences of climate-related strategies. Many investors, having already invested in renewable energy, are now seeking ways to make a positive impact on nature. To drive meaningful change and increase investments in nature and biodiversity, asset owners developed a comprehensive action plan with key actions for asset owners.

It involves developing a compelling and **positive narrative** that highlights both the urgency and opportunities of biodiversity investment. **Integrating biodiversity considerations into economic decision-making** through the development of quantifiable metrics was deemed essential**.** Equally important is creating a clear **theory of change** to guide investments towards desired biodiversity outcomes.

Participants emphasised the need for **cross-sector collaboration** to scale biodiversity investments and overcome common challenges. They recommended seeking expert guidance to navigate the complexities of biodiversity investment strategies and incorporating sustainability expertise into investment decision-making processes. **Building investor confidence** through transparent reporting, reliable data, and successful case studies was considered crucial.

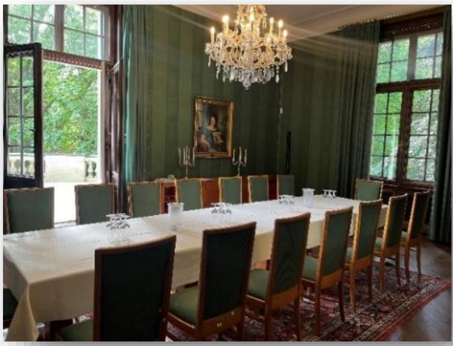
Furthermore, asset owners support the development of **standardised, comprehensive metrics** specifically for nature and biodiversity investments. They committed to setting clear and measurable **investment targets** that reflect their commitment to biodiversity and sustainable finance.

The action plan also addresses regulators and policymakers. Participants called for biodiversity action to be more prominently featured in public and policy discussions. They recommended regulations that encourage stakeholders to address biodiversity issues and invest in positive solutions. The establishment of **regulatory sandboxes** to test frameworks and incentives for biodiversity investment was proposed, rather than creating more bureaucratic regulations.

Asset owners also called for **more regulatory leeway for asset owners** to invest in biodiversity projects. They emphasised the need for increased education in policy, business, and finance on sustainable finance and biodiversity investing. Finally, they recommended requiring investors to integrate biodiversity considerations into their risk management, engagement and proxy voting policies.

By implementing these actions, asset owners can develop **robust and effective strategies** for biodiversity investing that align environmental goals with financial objectives. The action plan represents a collective engagement to addressing the challenges and opportunities in biodiversity investing, considering both marine and terrestrial dimensions. It provides a roadmap for asset owners to effectively channel capital into biodiversity-positive investments, balancing financial returns with meaningful environmental impact

Status Quo Analysis & Demand



During the asset owner meeting on the first day, working groups discussed the state of knowledge and experience, investment strategy in general and on biodiversity, as well as investors' current objectives.

Current Investment Status & Knowledge

The biodiversity investment landscape among asset owners is diverse, with expertise levels ranging from 10 to 80 on a 100-point scale. While some investors are just beginning to explore this area, others have already made initial investments in labeled bonds, blended finance and venture capital.

A strong majority of asset owners acknowledge a **significant knowledge gap** and are actively seeking collaboration to improve their understanding. However, there are clear global leaders among the attendees, such as ABP and TIAA, who have already incorporated comprehensive impact and ESG strategies into their long-term investment approaches. Although the majority of asset owners have taken initial steps to address biodiversity in their investment strategies, few have developed specific biodiversity-focused impact strategies. Some have implemented broader ESG or net-zero strategies, while many are still in the early stages of considering how to incorporate biodiversity into their investment decisions.

Measurement Experience

The measurement and reporting of biodiversity investments present a complex challenge for all asset owners. While there is a growing recognition of the importance of biodiversity metrics, the current landscape is characterized by a mix of general sustainability monitoring and emerging biodiversity-specific approaches.

Nature-related Sustainable Development Goals (SDGs) form the basis for many measurement frameworks, with asset owners assessing their contributions to biodiversity-related SDGs. This approach provides a broad, internationally recognized framework for evaluating impact.

Sector risk assessments are increasingly being employed to identify and mitigate biodiversity risks across different industries. This method allows for a more nuanced understanding of biodiversity impacts within specific economic sectors.

Some asset owners are gradually aligning their measurement practices with the **Technical Criteria of the EU Taxonomy**. This alignment is helping to create a more consistent approach to biodiversity measurement across the European investment landscape.

Innovative approaches are being tested, with some investors exploring models for investing **in "Nature Positive" investments**. These models aim to go beyond harm reduction to actively contribute to biodiversity gains.

Regulatory compliance is a key factor, with all projects requiring alignment with regulatory standards. The goal is that biodiversity investments meet all legal and environmental requirements.

Despite these advancements, the **current state of measurement** is still at an early stage but currently evolving.

Demand of Biodiversity Definition

A clear and consistent definition of biodiversity is necessary for effective measurement and reporting. The current ambiguity surrounding the term can lead to confusion and misalignment among stakeholders. A common understanding of biodiversity will facilitate better communication and collaboration. In-house and public education is very much in demand.

Develop Internal Policy Frameworks

Asset owners have clearly expressed a desire for greater integration of this issue into their overall strategies. For this to happen, there is a need for comprehensive internal frameworks within investor organisations to support biodiversity investment. A structured approach and additional internal capacity building are needed to support this effort.

Regulatory developments and requirements

The financial world of asset owners is changing. As a result of their fiduciary duty and growing interest and demand from participants, public and stakeholders, pension funds are increasingly being required to incorporate environmental and social impact considerations into their investment decisions. This paradigm shift, driven by growing risks in the face of climate change and social inequality, is creating new challenges for institutional investors. They now have to strike a balance between return, risk, regulation and responsibility.

Regulatory frameworks play a crucial role in shaping investment behaviors, yet current regulations present several challenges. These frameworks should include clear guidelines, incentives, and support mechanisms that encourage stakeholders to prioritize biodiversity in their investment strategies.

Key issues and potential solutions for this transition to a more sustainable financial system are:

Definitions and Timelines

A key issue is the lack of consistent definitions for sustainability issues such as biodiversity. This not only complicates measurement and reporting, but also creates uncertainty among asset owners. There is also a lack of standardisation in sustainable financial products, which makes screening time-consuming and complex. Greater standardisation would greatly simplify the process and increase the incentive for sustainable investment.

In addition, there is often a lack of clarity about regulatory timelines and expectations, which can hinder investment planning and decision-making. Stakeholders need a clear communication strategy that outlines when new regulations will be implemented and how they will impact biodiversity investments.

Regulatory Sandboxes: Innovation & Flexibility

Uncertainty about future developments and strict regulatory requirements hinder innovation, especially for pension funds. Regulatory sandboxes have been proposed as a promising solution. These would provide asset owners with the flexibility they need to develop new approaches to sustainable investment and would create a controlled environment in which innovative ideas and products could be tested without immediately facing the full force of regulatory requirements.

The benefits of such sandboxes could include

- Allow for controlled risk management when testing new approaches
- Enable innovative trial investments in new asset classes

- Integrate new investment structures or investment vehicles

-Enable investment in specialised impact vehicles in emerging markets

- Promote dialogue between regulators, innovators and other stakeholders.

Fiduciary Duty: Liability Driven Investments vs. Sustainability ?

Pension funds face a particular tension between Liability Driven Investment (LDI) strategies and sustainability goals. LDI strategies, which are geared towards meeting future liabilities, are often based on traditional market models and do not adequately consider sustainable approaches. This leads to a conflict between risk-return obligations and sustainability objectives.

A possible solution would be to redefine fiduciary duty to include ecological aspects. Additionally, regulatory adjustments should allow more room within the risk budget without immediate intervention from the regulator. A larger permissible tracking error would also allow more flexibility in implementing sustainable investment strategies.

Complexity

The complexity of existing regulations creates a barrier to entry for potential investors, potentially hampering efforts to protect and restore ecosystems.

The current regulatory landscape is often characterised by excessive complexity, granular detail that can be difficult to interpret and ambiguities that create uncertainty.

This regulatory complexity has several negative consequences:

Reduced investment: Potential investors may choose to allocate their resources elsewhere where the regulatory landscape is simpler.

Slower implementation: Even when investors do commit, navigating complex regulations can slow down the process of implementing biodiversity projects.

Increased costs: The need for legal and regulatory expertise to interpret and comply with complex regulations can significantly increase the cost of biodiversity initiatives.

In order to encourage greater investment in biodiversity, policy makers should consider simplifying regulations where possible, providing clear guidance and interpretation of existing rules, and harmonising regulations across jurisdictions to reduce confusion..

Asset Class specific challenges & solutions

The asset class specific workshop broke into different groups to discuss the possibilities of implementing biodiversity investments in different asset classes such as private equity and venture capital, blended finance, real assets, infrastructure and green and labelled bonds. The aim was to discuss key challenges and formulate actionable solutions to improve sustainable investment practices.

Private Equity and Venture Capital

The workshop focused on investment opportunities in private equity (PE) and venture capital (VC) related to biodiversity, generating insightful discussions and strategic directions.

Challenges:
The primary challenge in biodiversity investment lies in the mismatch between investors' short-term expectations and the long-term nature of biodiversity projects. Venture capital often presents small-scale opportunities, making it difficult for large institutional investors to achieve economies of scale. Additionally, there is a significant knowledge gap regarding the integration of impact considerations into investment decision-making, which necessitates robust measurement frameworks.

Regulatory and Political Factors:

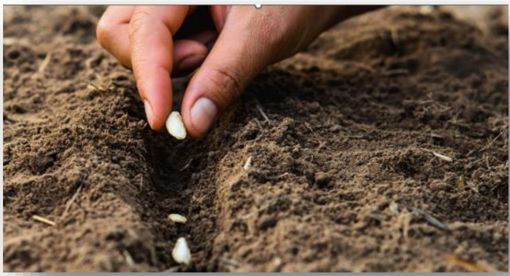
Regulatory and political aspects are critical in addressing these challenges. Current regulations often lack sufficient incentives for investors to prioritize biodiversity, and the absence of standardized frameworks for measuring impact hinders effective decision-making. Public sector support is essential to facilitate investments in first-time funds and smaller-scale initiatives.

Proposed Solutions:

1. **Develop Comprehensive Biodiversity Strategies:** Establish platforms for collaborative investments that integrate impact considerations into governance models.
2. **Public Sector Support Mechanisms:** Similar to the European Commission's BlueInvest platform, these can attract institutional investment in emerging funds.
3. **Enhance Transparency:** Improve governance models and capacity building to create a more supportive environment for biodiversity investments.

By addressing these regulatory and political aspects, policymakers can foster sustainable practices and innovative financial instruments that align economic interests with ecological preservation.

Blended Finance



The workshop on blended finance highlighted the need for enhanced dialogue and collaboration between private investors and international institutions to bridge understanding gaps and align different financing approaches for biodiversity projects.

Challenges:

The primary challenges in blended finance stem from differing timelines and objectives between private investors seeking quick returns and public financing institutions like Development Finance Institutions (DFIs), which operate on longer timelines. This misalignment can perpetuate reliance on philanthropy and DFIs for funding.

Regulatory and Political Factors:

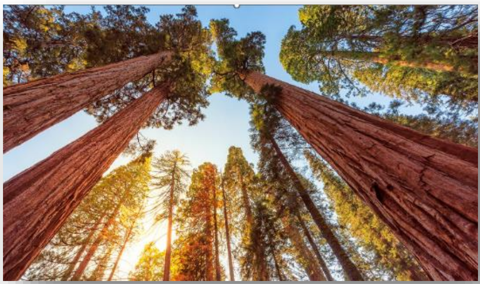
Current regulations, including complex frameworks like Solvency II, often fail to provide adequate incentives for prioritizing biodiversity in investment portfolios. Policymakers emphasize that blended finance should complement existing funding mechanisms rather than replace them; however, regulatory compliance intricacies can hinder progress.

Proposed Solutions:

1. **Develop Blended Finance Vehicles:** Address maturity mismatches at the fund level.
2. **Enhance Technical Assistance:** Improve impact reporting and transparency through direct engagement between Multilateral Development Banks (MDBs), International Financial Institutions (IFIs), and asset owners.
3. **Create Scalable Funds:** Implement incentives such as impact carry to motivate fund managers towards biodiversity goals.

By addressing these regulatory and political dimensions, stakeholders can cultivate a more conducive environment for biodiversity investments, encouraging sustainable practices while aligning financial interests with ecological objectives.

Real Assets – Land and Timber



The workshop focused on investment opportunities in land and timber as biodiversity investments, highlighting unique challenges and opportunities. As urgency grows around addressing biodiversity loss, understanding these challenges is essential for developing sustainable investment strategies.

Challenges:

Significant challenges arise primarily from the strong influence of petrochemical and agrochemical industries on public policy. These industries promote narratives that pesticides and fertilizers are essential for food production, complicating efforts to implement biodiversity-friendly practices. Additionally, traditional agricultural methods are deeply ingrained, leading many farmers to resist transitioning to regenerative practices that could enhance biodiversity.

Regulatory and Political Factors:

There is an urgent need to shift state subsidies from conventional agriculture towards supporting regenerative practices. This transition necessitates financial assistance for farmers who may experience income loss during the changeover. Furthermore, the lack of a clear framework for trading biodiversity credits limits investment opportunities.

Proposed Solutions:

1. **Implement Stricter Regulations:** Enforce regulations on chemical use while promoting pro-biodiversity policies.
2. **Education and Training:** Provide farmers with training on regenerative methods to facilitate transitions.
3. **Establish a Robust Carbon Credit Market:** Create incentives for biodiversity investments while fostering a cohesive ecosystem for trading credits.

Standardizing metrics for biodiversity investments will enhance transparency, allowing investors to assess their impact effectively. Redirecting state subsidies towards supporting regenerative agriculture can further create a favorable environment for biodiversity investments.

Infrastructure

Investing in biodiversity through infrastructure projects presents a complex set of challenges and opportunities for asset owners and investors. This chapter explores the challenges faced in biodiversity investing within infrastructure and proposes solutions to enhance the effectiveness of these investments.

Challenges:

Promoting biodiversity through infrastructure investment faces significant obstacles due to the lack of straightforward Key Performance Indicators (KPIs) for measuring impacts. Existing metrics are often complex and not universally applicable, complicating investors' ability to assess project outcomes. Moreover, infrastructure projects can inadvertently harm biodiversity through habitat destruction and pollution.

Regulatory and Political Factors:

The absence of standardized guidelines for reporting biodiversity-related information hinders transparency, making it difficult for investors to compare project impacts. Without established pricing models for biodiversity risks, justifying costs associated with integrating these considerations becomes challenging.

Proposed Solutions:

1. **Adopt Successful Practices from Other Jurisdictions:** For example, implement rules like the UK's 10% biodiversity net gain mandate.
2. **Integrate Biodiversity Requirements into Tender Processes:** Ensure externalities are accounted for in project proposals.
3. **Advocacy for Supportive Policies:** Investors should push for regulations that incentivize renewable energy integration with biodiversity-enhancing practices.

By focusing on these regulatory aspects, stakeholders can create a more conducive environment for biodiversity investments that promote ecological health while achieving sustainable financial returns.

Labelled & Green Bonds

The workshop on Labelled and Green Bond investments related to biodiversity highlighted several innovative strategies and challenges in investing for nature. The discussions emphasized the need for a multifaceted approach to protect and restore natural environments while aligning investments with measurable biodiversity outcomes.

Challenges:

The investment landscape faces several challenges due primarily to regulatory factors. A significant issue is the mismatch between short-term return expectations of investors versus the long-term nature of biodiversity projects—necessitating innovative financing mechanisms that recognize nature's intrinsic value.

A critical regulatory challenge is the absence of clear pricing mechanisms for natural capital and ecosystem services, complicating investment decisions.

Additionally, current regulations do not provide sufficient incentives or guidelines prioritizing biodiversity within portfolios.

Proposed Solutions:

1. **Establish Transparent Reporting Frameworks:** Enhance accountability regarding green bond proceeds.
2. **Create Pricing Mechanisms for Natural Assets:** Facilitate clearer valuation frameworks.
3. **Engage NGOs:** Collaborate with non-governmental organizations to implement effective strategies for biodiversity initiatives.

By addressing these regulatory aspects, stakeholders can foster a supportive environment for biodiversity investments that enhance ecological outcomes while aligning financial goals with sustainable practices—ultimately contributing to a healthier planet while achieving competitive returns.

Key messages of Asset Owners

Several key messages emerged from the conference that reflect the current state of the field and the urgent need for action. These statements encapsulate the collective understanding and concerns of the participants, providing a clear picture of the challenges and opportunities for biodiversity conservation and investment.

1. First and foremost, there was a unanimous agreement that **biodiversity is extremely critical** and interlinked with multiple aspects of our ecosystem and economy. This recognition underlines the far-reaching implications of biodiversity loss and the need for a holistic approach to addressing it.

2. Despite the widespread recognition of the urgency of the situation, participants highlighted a significant gap in practical options for action. This **gap between awareness and implementation** is a major obstacle to advancing biodiversity conservation efforts.

3. The meeting emphasized that action on biodiversity investing is not only critical, but also **central for achieving the Sustainable Development Goals** (SDGs). This link between biodiversity and broader sustainability objectives underscores the cross-cutting nature of the issue.

4. **Leadership and collaboration** emerged as key themes, with participants highlighting the need for coordinated efforts across sectors and industries. The lack of a common standard for biodiversity investing was identified as a significant obstacle, highlighting the need for standardized metrics and approaches.

5. The urgency of the situation requires a fundamental shift in the way we approach biodiversity. Participants agreed that this requires both a **change in mindset** and a strong will to act, emphasizing the need for bold and decisive action.

6. A key finding of the conference was the prioritization of **effectiveness over efficiency** in biodiversity efforts. This suggests a shift towards focusing on effective action rather than getting caught up in perfecting processes.

7. Finally, the conference echoed the sentiment that **"the perfect is the enemy of the good"**. This pragmatic approach encourages immediate action, even if current methods and measurements are not perfect. The consensus was that it's better to start with imperfect solutions than to delay action in pursuit of perfection.

Taken together, these key messages paint a picture of a field that recognizes the critical importance of biodiversity, the urgent need for action, and the challenges that lie ahead.

They also provide a roadmap for moving forward, emphasizing practical action, collaboration, and a willingness to start with imperfect solutions in the face of pressing environmental challenges.

Call to Action

For Regulators and Policymakers:

1. **Address and Communicate:** Biodiversity must be addressed at the policy level, and the scale of the problem should be clearly communicated to the public.

2. **Develop Supportive Regulations:** Implement regulations that encourage stakeholders to address biodiversity issues.

3. **Create Regulatory Sandboxes:** Establish regulatory sandboxes to test frameworks and incentives for biodiversity investment**.**

4. **Involve Local Communities:** Develop policies that involve local communities in biodiversity conservation efforts, such as programs that pay fishermen to monitor and protect oceans instead of overfishing.

5. **Price Externalities:** Implement regulations to price in positive and negative externalities, possibly through biodiversity credits.

6. **Increase Regulatory Flexibility:** Provide traditional asset owners with more regulatory leeway to invest in biodiversity projects, possibly coupled with an obligation to assume responsibility.

7. **Promote Education:** Increase education on sustainable finance and biodiversity investing.

8. **Mandate Biodiversity Integration:** Require asset managers to integrate biodiversity considerations into their engagement and proxy voting policies.

9. **Set Clear Goals:** Set clear, measurable goals and targets for biodiversity conservation and restoration at national and international levels.

Conclusion

The path to a more sustainable financial system requires balanced regulation that provides both stability and flexibility. Regulatory sandboxes could play a key role by allowing asset owners and financial service providers to test innovative, sustainable investment approaches in a controlled environment. This would allow the challenges of LDI and sustainability to be addressed without jeopardising the stability of the financial system.

Clear definitions, flexible rules and safe testing environments can reduce existing uncertainty about the performance and risks of sustainable investments compared to conventional investments. In this way, the financial sector can actively contribute to addressing global challenges while fulfilling its fiduciary duties.

More generally, policymakers need to consider introducing regulations that require asset owners and their asset managers to invest in initiatives that secure the future for the next generation, thereby broadening the definition of fiduciary duty. Such an obligation can create a sense of responsibility and a sense of urgency among investors.

For Asset Owners:

1. **Develop Biodiversity Strategies:** Design and implement a theory of change for your organization and comprehensive biodiversity investment strategies within your portfolios.

2. **Collaborate and Share Knowledge:** Actively participate in industry collaborations and be open to sharing best practices and lessons learned to address the biodiversity challenge together.

3. **Demand Better Data:** Use your influence to demand better biodiversity data and reporting from investee companies.

4. **Integrate Biodiversity in Decision-Making Structures:** Integrate biodiversity considerations into investment decisions by reforming internal processes and structures.

5. **Support Innovative Solutions:** Allocate capital to innovative biodiversity-focused investment vehicles and technologies.

6. **Engage with Policymakers:** Advocate for supportive policy frameworks that enable increased investment in biodiversity.

By implementing these actions, Asset Owners can accelerate the pace of biodiversity investment and make significant progress toward achieving our sustainable development goals.

"Our shared challenge is to mobilize collective action now from governments, international financial institutions, regulators, the private sector, philanthropists, and civil society by unlocking finance for nature and demonstrating nature-positive outcomes"