

Biodiversity: Its Impact on Portfolios & Returns

Impacting the Future
Today



Introduction



Biodiversity refers to the variety of life on Earth, encompassing all living organisms, including animals, plants, fungi, microorganisms, and humans. It encompasses different levels, from genes to ecosystems, and includes the interactions between these life forms. Biodiversity is a measure of the richness and variety of species and their role in maintaining the balance of ecosystems. It plays a crucial role in the health and stability of the planet by supporting various ecological functions. Biodiversity has emerged as a pivotal factor shaping the landscape of modern finance and investment. This paper delves into the intricate relationship between biodiversity and investment portfolios, aiming to shed light on how the natural world's richness profoundly influences financial decisions.

In recent years, the world has witnessed a growing awareness of the environmental challenges posed by biodiversity loss. As corporations and investors grapple with the consequences of climate change, deforestation, and habitat degradation, biodiversity's role in investment decision making has come into sharp focus. This paper seeks to provide a comprehensive understanding of what biodiversity entails and why it stands as a critical consideration for investors. Moreover, it explores the dual facets of biodiversity's significance, emphasizing not only its pivotal role in fostering positive environmental change but also its potential to impact investment returns.

As the global financial landscape continues to evolve, integrating biodiversity considerations into investment strategies is becoming a necessity rather than an option. By exploring the multifaceted dimensions of biodiversity's influence on investment portfolios and returns, this paper endeavors to provide insights into Genus Capital Management's biodiversity screen as a tool to provide investors with valuable insights into the environmental affects of biodiversity and the investment case for the screen itself.

Biodiversity

Taking Centre Stage in ESG Investing

The theoretical foundations at the intersection of biodiversity and public equity investing are intricate and continuously evolving. At its essence, this nexus recognizes that biodiversity, the intricate web of life on Earth, extends beyond environmental concerns to become a tangible factor with substantial economic implications. Foundational frameworks such as the Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI), and the Natural Capital Protocol play a pivotal role. They stress the importance of corporations disclosing their environmental impacts, including those tied to biodiversity, enabling informed investment choices. These frameworks promote a broader view of corporate performance, acknowledging that biodiversity considerations hold not just ethical but also direct financial consequences. Investors are increasingly considering biodiversity risks alongside traditional financial metrics, reflecting the growing awareness that biodiversity loss poses systemic risks to portfolios and beneficiaries.



Moreover, the post-2020 Global Biodiversity Framework emphasizes equity and justice outcomes in biodiversity conservation. Research highlights biodiversity's substantial impact on economic activity, influencing an estimated **\$44 trillion of the global economy**.

This shift in conservation theory underscores the interconnectivity of biodiversity, human well-being, and economic systems. Investors are progressively embracing a more inclusive conservation approach, focusing on the equitable distribution of benefits and responsibilities in biodiversity initiatives. As investors aim to align their portfolios with environmental goals and address climate change, theoretical frameworks adapt to incorporate biodiversity as a vital element of sustainable investing. The ongoing expansion of ESG indexes, equity, and fixed-income funds mirrors the practical integration of these concepts, offering opportunities for biodiversity-conscious investments.

Recent studies affirm the pivotal role of biodiversity investments in listed equities, providing strong evidence that investments in nature can yield substantial improvements in equity and economic returns. These investments have demonstrated annual gains ranging from \$100 to \$350 billion USD, showcasing the tangible financial benefits of biodiversity-focused investments. This insight underscores the potential for investors to not only contribute to environmental preservation but also enhance their financial portfolios through sustainable biodiversity investments.

Our Methodology

Genus Capital Management has introduced an innovative investment screening methodology that specifically targets the exclusion of underperforming companies in terms of raw materials sourcing, water stress, biodiversity and land use. These criteria collectively evaluate a company's capacity to conserve and enhance natural capital, encompassing finite resources related to ecosystem services, including clean air, water, fertile soil, productive oceans and forests, and all-natural resources contributing to human well-being.

As previously mentioned, biodiversity, a critical component of natural capital, holds substantial economic implications, and Genus believes it is integral to its investment strategy. The development of this screening process aims to identify and eliminate corporations significantly contributing to biodiversity loss. Over time, such corporations may witness a decline in their stock value due to increasing value-at-risk resulting from policy changes, shifting customer sentiment, and the growing recognition of the costs associated with biodiversity loss. By implementing this screening process, Genus not only reduces its environmental footprint but could also enhance long-term portfolio performance.

Addressing biodiversity loss presents new opportunities. The World Economic Forum has estimated that companies focusing on nature-positive solutions for biodiversity protection could create \$10 trillion in business opportunities and generate 395 million new jobs by 2030. Excluding ventures that negatively impact biodiversity allows our portfolio the opportunity to invest in companies that pioneer innovative approaches to biodiversity preservation. This presents the chance to refine supply chains, develop cutting-edge technologies, and promote biodiversity conservation, pivotal for climate change mitigation.

Screen Implementation

Genus Capital Management has developed this screen with the dual aim of enhancing portfolio performance and mitigating environmental risks, particularly those related to biodiversity. Leveraging the Natural Capital Theme Score from the MSCI ESG Manager, Genus can identify and exclude 40 of the lowest-performing companies in terms of biodiversity impact. This screening procedure is systematically applied to all Fossil Free Funds within Genus's fund lineup. The overarching objective of this approach is to reduce the adverse ecological footprint of the fund's portfolio holdings while actively supporting companies recognized for their excellence in biodiversity conservation.

Case Studies

Companies and Biodiversity Performance

Bad Actor: Bath & Body Works

Bath & Body Works, a worldwide retail company, conducts its sales operations through company-operated retail establishments in the United States and Canada, as well as its online platforms and other distribution channels. It distinguishes itself by offering a wide array of body and home fragrances, with a unique combination of scents and packaging. However, this distinctive approach comes at a price, as Bath & Body Works heavily relies on palm oil in the creation of over 4,400 products. The use of palm oil is vital for their product differentiation and competitive advantage.

Unfortunately, Bath & Body Works has yet to take measures to enhance its sourcing of raw materials. They lack established best practices for procuring certified sustainable palm oil, have not disclosed the sources of their palm oil, and have not initiated efforts to address the environmental impacts associated with palm oil production. The company continues to source palm oil from various regions across the world. Today, a significant portion of palm oil, more than 80%, originates from Indonesia and Malaysia. This large-scale production is achieved at the expense of extensive deforestation in some of the world's most biodiverse regions.

Bath & Body Works' extensive utilization of palm oil, coupled with their limited commitment to sustainable sourcing and transparency, results in a biodiversity score of zero in our evaluation. Consequently, the company does not meet the criteria for inclusion in our investible universe. We perceive businesses like Bath & Body Works as having a short-term focus and a failure to comprehend the environmental repercussions of biodiversity loss. Therefore, Genus aims to divest from such firms and allocate capital to those that actively support biodiversity conservation through their operations.

Bad Actor: Ross Stores

Ross Stores, Inc. operates two off-price retail apparel and home fashion store brands, namely Ross Dress for Less (Ross) and dd's DISCOUNTS. Ross stands as the premier off-price apparel and home fashion chain in the United States, boasting a substantial presence with 1,693 locations spanning 40 states. While offering a wide range of apparel, like many peers in the industry, Ross Stores heavily relies on cotton as a raw material. Cotton production is often associated with environmental risks, including water overuse and pesticide utilization. Unfortunately, Ross Stores has not adopted sustainable sourcing policies or implemented measures for cotton traceability in its products, whether they are its own or licensed. This absence of policy and traceability has led to Ross Stores receiving a low Natural Capital Theme Score of 0.9, indicating that the company falls short of even the most basic standards concerning raw material sourcing, water consumption, and land use in its operations. Ross Stores will remain excluded from the investible universe until the company initiates the development of policies and standards for sourcing cotton and other raw materials from its suppliers.

Conclusion



Biodiversity has transcended the confines of biology textbooks to become a defining factor in modern finance and investment decisions. This paper has unveiled the profound interplay between biodiversity and investment portfolios, highlighting its critical role in shaping environmental landscapes and financial returns. In a world increasingly attuned to the environmental challenges posed by biodiversity loss, the integration of biodiversity considerations into investment strategies has shifted from optional to imperative. Genus Capital Management's innovative biodiversity screen emerges as a tool to provide investors with investments that take into consideration the environmental consequences of the companies they hold and the compelling financial case for biodiversity-conscious strategies.

This screen is set to be integrated into Genus' Fossil Free suite of Funds, effectively eliminating 40 companies from the Funds' investible universe. By doing so, it redirects capital toward the best-performing biodiversity-conscious companies. The nexus of biodiversity and investing, driven by frameworks like SASB, GRI, and the Natural Capital Protocol, underscores the importance of corporate transparency in disclosing environmental impacts, recognizing that biodiversity matters ethically and financially.

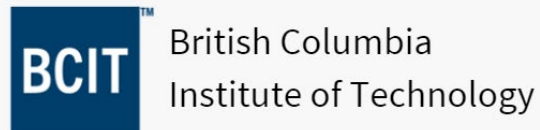
Biodiversity risks are now acknowledged as systemic threats to portfolios and beneficiaries, and the post-2020 Global Biodiversity Framework accentuates the economic significance of biodiversity conservation. Recent studies reveal that biodiversity-focused investments not only contribute to environmental preservation but also bolster financial returns, demonstrating the link between biodiversity and financial success. In conclusion, biodiversity's prominence in sustainable investing is undeniable, and its role in modern finance is no longer just an ethical commitment but a wise financial strategy for investors and corporations, guided by institutions like Genus Capital Management in embracing biodiversity-conscious investing.

About Genus

Genus is a leading provider of values-based investing strategies including responsible, Fossil Free, and impact investment strategies with 34 years of investment innovation experience.

- We use a quantitative approach to customize and systematically incorporate Environmental, Social, and Governance (ESG) criteria into investment portfolios
- We offer Canadians a 9-year Fossil Free balanced track record
- We've created Canada's first Net Impact Score, enabling investors to better align their investments with their values across all our impact funds
- Genus Capital Management is proud to be a certified B Corp since 2017. In 2022 Genus was named one of B Labs Best for the World in the Customers category.
- Our commitment to diversity helps us to better serve our clients, our communities and pursue innovation. Together we are committed to making an impact on the world.

A Few of Our Public Clients



**Are you ready to
make an impact
with your
investments?**

Let's talk!

GENUS⁷
CAPITAL MANAGEMENT

860 – 980 Howe Street
Vancouver, BC
V6Z 0C8, Canada

T 1.800.668.7366

info@genuscap.com

genuscap.com