

An aerial photograph showing a large area of deforestation. A blue excavator is visible in the upper left, working on a cleared patch of land. A small stream flows through the center of the cleared area. The surrounding forest is dense and green, contrasting sharply with the brown, cleared land.

Biodiversity and Natural Capital Stewardship Programme

Introduction

Biodiversity loss is accelerating at a global scale. Because the global economy is dependent on a biodiverse landscape to perform critical functions such as climate regulation and pollination, reductions in biodiversity threaten global economic stability and negatively affect industries ranging from agriculture to pharmaceuticals. It is estimated that more than half of the world's GDP (equal to USD 44 trillion) is moderately or highly dependent on contributions from nature. In short, biodiversity loss leaves the world less resilient to the worsening impacts of global climate change.¹

Morningstar Sustainalytics' Biodiversity and Natural Capital Stewardship Programme addresses this issue head-on by leveraging the power of investors to engage directly with corporations and other stakeholders to positively and materially address biodiversity loss and nature degradation.

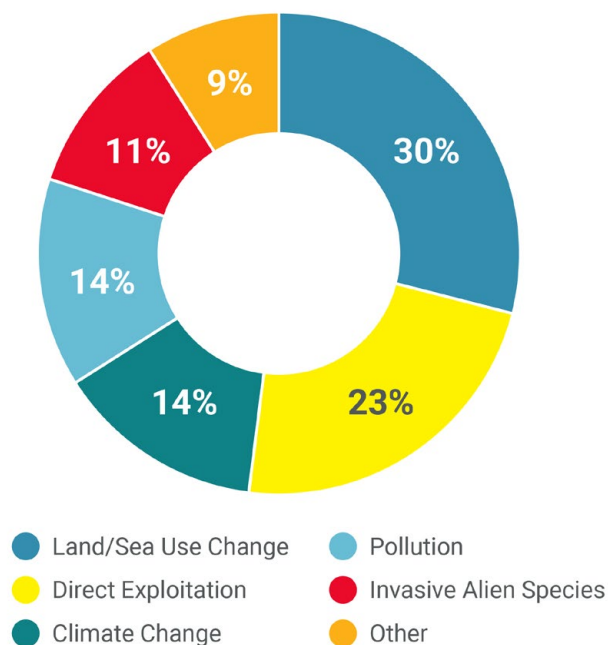
¹ <https://connect.sustainalytics.com/scs-ebook-natures-assets-why-biodiversity-is-good-for-business>

Why Invest in Nature?

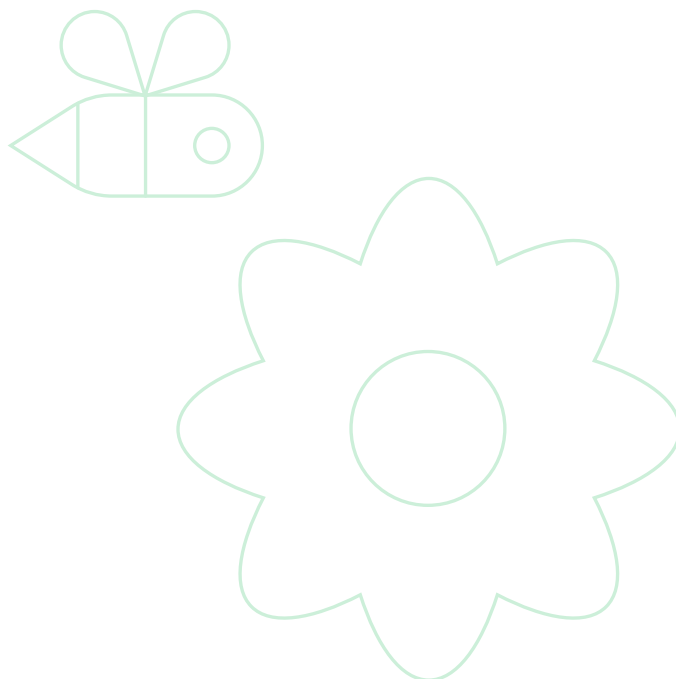
Biodiversity is crucial for the functioning of the earth system and the global economy. Alongside climate action failure and extreme weather, biodiversity loss is ranked one of the top-three global risks of the coming decade.² The Living Planet Index—an index that tracks the abundance of 4,392 species globally—fell by 68% between 1970 and 2016.³ Correspondingly, more than 40,000 species are currently threatened by extinction—equal to 28% of all species assessed by the International Union for Conservation of Nature (IUCN).⁴ The scientific community warns of irreversible global change to the earth system as a direct result of the loss of genetic biodiversity.

Biodiversity loss is a consequence of different, yet interconnected, pressures on nature (Figure 1). Human activities, such as agricultural expansion and associated deforestation, have reduced ecosystems worldwide by 47%.⁵ Additionally, 80% of global wastewater is discharged into the environment without prior treatment,⁶ including 300-400 million tons of toxic waste.⁷ The impacts of climate change add further pressure on biodiversity—the latest report (AR6) from the Intergovernmental Panel on Climate Change (IPCC) states that 3% to 18% of land-based species will have a high risk of extinction in a 2.0°C scenario.⁸

Figure 1: Drivers of Nature Loss on a Global Scale



Source: The Global Assessment Report on Biodiversity and Ecosystems Services, IPBES.



² <https://doi.org/10.5281/zenodo.3831673>

³ <https://f.hubspotusercontent20.net/hubfs/4783129/LPR/PDFs/ENGLISH-FULL.pdf>

⁴ <https://www.iucnredlist.org/resources/summary-statistics>

⁵ <https://doi.org/10.5281/zenodo.3831673>

⁶ <https://unesdoc.unesco.org/ark:/48223/pf0000247153>

⁷ <https://doi.org/10.5281/zenodo.3831673>

⁸ <https://www.ipcc.ch/report/ar6/wg2/>

Introducing Morningstar Sustainalytics' Biodiversity and Natural Capital Stewardship Programme

The objective of Morningstar Sustainalytics' Biodiversity and Natural Capital Stewardship Programme is to partner with global investors to address the complexity and interlinkages of biodiversity loss and climate change, assess double-materiality, protect and promote long-term value, and capitalize on opportunities and results.

Scope

Initially, the program will focus on the agricultural value chain. As the program progresses, the scope and inclusion of other sectors or topics will be assessed. According to ENCORE, the agricultural sector relies on local weather regulation, pest and disease control, and soil health. Paradoxically, the sector is also the single largest contributor to biodiversity decline,⁹ thereby accelerating its risk exposure.

How Will We Achieve This?

Our solution must be as complex and far-reaching as the issue of biodiversity loss itself. To achieve this, we plan to take a holistic approach. We will work with participating investors to engage a diverse stakeholder group with representation across the value chain. This includes:

ENGAGING

with 50+ upstream and downstream companies, from financiers all the way to retailers;

COLLABORATING

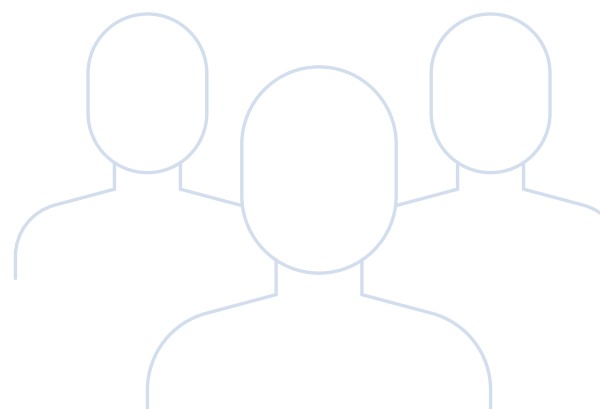
with NGOs and thought leader networks to share ideas, learnings, and best practices;

PARTICIPATING

in and supporting investor-led coalitions and alliances, and

ESCALATION

integrated into our engagement approach.



⁹ https://www.chathamhouse.org/sites/default/files/2021-02-03/2021-02-03-food-system-biodiversity-loss-benton-et-al_0.pdf

What We Expect from Companies?

To set the strategic direction of the programme, we employ a Theory of Change for companies to achieve key outcomes. The outcomes are: governance, risk and impact assessment, strategy, targets and results, and transparency and accountability.

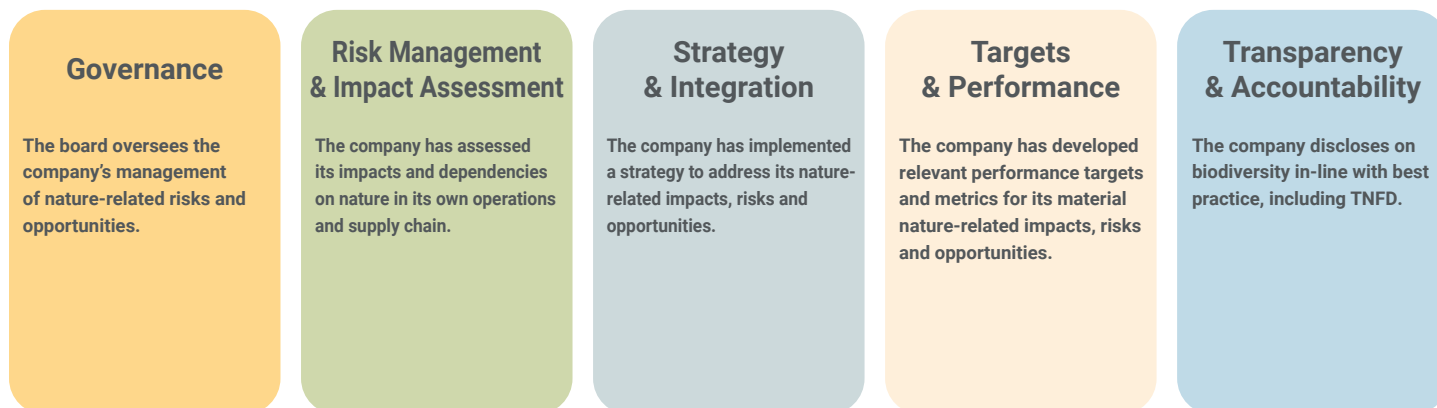


Figure 2: The Key Outcomes of the Biodiversity and Natural Capital Stewardship Programme

Our Engagement Approach

Theory of Change

Theory of Change (ToC) is a comprehensive description and illustration of how and why the desired change is expected to happen in a particular context. Employing a ToC framework provides a blueprint to evaluate measurable indicators of success. Applied in our Biodiversity and Natural Capital Thematic Stewardship Programme, the ToC will be oriented towards conducting collaborative and change-focused engagement activities to deliver tangible outcomes among companies and other relevant stakeholders. The ultimate, long-term outcome is to support investors' efforts towards effective active management and to generate long-term impact.

Toolbox

In the framework of the Biodiversity and Natural Capital Thematic Stewardship Programme, we will engage in constructive dialogue with issuers to listen and gain an understanding of their approach, forming collaborative relationships and building trust. This will lead to effectively communicating investors' perspectives and supporting efforts advocating for resilience and sustainable adaptation of companies through fact-finding questions, encouraging best practices, and providing suggested actions and opportunities for positive change. Our toolbox approach is constantly innovating and includes a variety of activities, such roundtables, collaborations, and webinars to influence change.

Escalation

Constructive dialogue is our first and preferred engagement tool. However, if an issuer is unresponsive to dialogue or is not making significant progress without a reasonable cause, the Sustainability team can escalate the engagement in coordination and collaboration with investors. This approach aims to bring investors' concerns to the attention of the board via a series of steps that encourage action. Persistent unwillingness to engage will result in a status update to inform investors of any stalled engagement.

Standards Supporting Investor Engagement on Biodiversity and Natural Capital

To secure long-term value, it is paramount that companies, and consequently investors, assess and manage physical, transition and systemic risks as recommended by the Taskforce on Nature-Related Financial Disclosures (TNFD).¹⁰ Morningstar Sustainalytics' Stewardship Programme works to support investor alignment by encouraging aligned disclosure, including addressing company-level dependencies, risks and opportunities driving reporting on outcomes, Science-based target setting and effective governance on nature.



Physical Risks

include damage to assets, disruption of supply chains, and loss of services on which a business depends. 75% of global crop production benefits from pollinators and 5-8% percent are pollinator-dependent—the latter equal to an annual market value of USD 235-577 billion.¹¹



Transition Risks

result from changes in policy, legislation, technology as well as the market. Furthermore, a business' impact on biodiversity may become financially material if it damages the business' reputation, resulting in liability and litigation cases, or non-compliance.



Systemic Risks

may arise from the breakdown of entire systems rather than individual parts. Consequently, the impact of such risks has the potential to affect a wide swath of economic actors and the global economy. For example, the Amazon rainforest is at high risk of a system-collapse due to deforestation and climate change, which would have serious consequences for the global economy.



¹⁰ <https://tnfd.global/tnfd-framework/>

¹¹ <https://royalsocietypublishing.org/doi/pdf/10.1098/rspb.2006.3721>; https://ipbes.net/sites/default/files/downloads/pdf/2017_pollination_full_report_book_v12_pages.pdf

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG data, research, and ratings firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider material sustainability factors in policies, practices, and capital projects. Morningstar Sustainalytics has analysts around the world with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit www.sustainalytics.com.



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