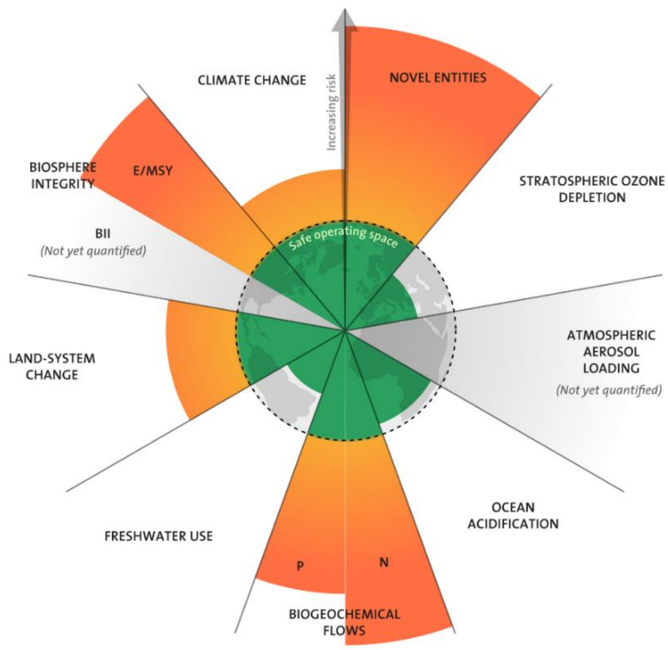
## 4.2 Biodiversity & Nature-based Solutions

Our objectives and approach to addressing biodiversity and nature-based solutions align with our Biodiversity Policy published online.

## Our position

Biodiversity is the variability among living organisms – the diversity within species, between species, and of ecosystems [4]. In other words, biodiversity includes every living thing on earth. It underpins all we need to survive and flourish – it provides us with water and food as essentials, and it plays a key role in addressing climate change. It also provides us with economic benefits that help to support human development. However, biodiversity is in trouble. According to the Stockholm Resilience Centre, which developed the planetary boundaries framework,[5] the biodiversity and nature-based pillars of the planet’s biosphere integrity are already far beyond what is considered a safe level[6], even more so than with climate change, highlighting the urgency to address this issue (see below) :

**Planetary Boundaries for Nature [7]**




4. Convention on Biological Diversity 1992
5. The planetary boundaries framework defines a safe operating space for humanity based on the intrinsic biophysical processes that regulate the stability of the Earth system.
6. According to the framework, "transgressing one or more planetary boundaries may be deleterious or even catastrophic due to the risk of crossing thresholds that will trigger non-linear, abrupt environmental change within continental-scale to planetary-scale systems”.
7. Azote for Stockholm Resilience Centre, based on analysis in Wang-Erlandsson et al 2022 (https://www.stockholmresilience.org/)

# 4. Our Core Themes for Engagement (cont'd)



Addressing biodiversity loss requires a collective effort from all of society, and the importance of this is increasingly being recognised by the finance community and companies, both of which have a critical role to play in helping to halt and reverse biodiversity loss and support a transition to a nature-positive future. Investors and consumers alike are increasingly seeking companies with business models that help to restore rather than degrade biodiversity, while governments and regulators will also continue to expect more action. As such, the finance community and companies must act now. Those who do not will face increasing risks. For this reason, HSBC AM has been focusing on biodiversity as a key area, and some of our work in this space includes:

- Being an early signatory of the Finance for Biodiversity Pledge, and participating in numerous underlying working groups;
- Participating in the Task Force for Nature Related Financial Disclosures (TNFD) consultations and pilot programmes to test the framework;
- Developing a natural capital real assets investment business - Climate Asset Management (CAM);
- Launching a biodiversity screened passive investment solution; and
- Attending COP15 to participate in numerous panels and to contribute to the Finance for Biodiversity negotiating position

## What we do

Biodiversity loss is a broad and complex issue. We engage with companies on mitigating and then reversing their negative impacts on biodiversity by focusing on key topics including but not limited to deforestation (on key commodities including cattle, palm oil, soy, wood products), regenerative agriculture (including soil health and chemical inputs), responsible husbandry (including by taking a one health approach to antimicrobial resistance), animal welfare, water management, plastic and other pollution, as well as circularity by design.

We continue to work to understand company impact and dependency on biodiversity – both our own and that of our holdings. We do this by working with biodiversity data providers to understand which companies and sectors are most exposed, and how we can drive positive change.

## How we engage

We have developed a list of companies we believe our global engagement efforts should be most focused on in the short and medium term given their high impacts and dependencies on biodiversity. Data to inform this selection is drawn from numerous internal and external sources including FAIRR, MSCI, Iceberg Data Labs, World Benchmarking Alliance, Forest 500, CDP, as well as InfluenceMap. In addition, we also engage where we have significant ownership, where we believe there is a good chance of engagement success, and where the company is held in a fund with higher sustainability expectations, such as our sustainable ETF range for example. Some companies will be part of our ongoing engagements, while others may be part of engagement campaigns focused on key topics. We also participate in collaborative engagements that can help to amplify our voice or facilitate engagements with companies we may not already have engaged with. Internally, we seek to provide support to a range of investment teams who require greater understanding on biodiversity, and on how to guide investment decision-making that is aligned with a nature-positive future.

## What we expect

We expect companies with high exposure to deforestation risks to have a deforestation policy, and will in due course also expect a broader dedicated biodiversity policy. Companies must recognise the importance of biodiversity loss, and that while it is intrinsically linked to climate change and plays a key role in mitigating and adapting to climate change, it also has distinct challenges that must be addressed. Companies with high exposure to biodiversity risks should therefore look to present a plan that aligns them with a nature-positive future that puts biodiversity on a path to recovery by 2030. This will be necessary to achieve the Convention on Biological Diversity's 2050 Vision for Biodiversity: living in harmony with nature.

For companies with high exposure to biodiversity risks we believe a biodiversity policy should amongst other things look to assess the company's impacts and dependencies on biodiversity, and the potential risks and opportunities these present. A company should describe how it plans to mitigate and then reverse the negative impacts of its operations and supply chains on biodiversity, while taking into account principles of a just transition. Furthermore, a company should detail the board and management oversight in place to ensure accountability and transparency.

Moving from policy to practice, a company should set science-based and time-bound targets to achieve its objectives of mitigating and then reversing its negative impacts on biodiversity. Companies should prioritise actions based on their activities that can contribute the most positively to biodiversity, and as part of this we encourage them to engage with their supply chains as well as with indigenous peoples and local communities in areas the company operates in and sources from. Further, we expect companies to positively influence system-level change through their participation in industry associations and biodiversity-related public policy.

Finally, companies must comprehensively report their progress on biodiversity-related targets through existing reporting frameworks (e.g. GRI, CDP), while keeping informed of developing frameworks (e.g. TNFD).

As a complex and continuously developing topic, addressing biodiversity loss will benefit from effective collaboration and partnerships, including with NGOs as example. As part of our engagement we will also seek to continuously learn and share best practices.

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