

Biodiversity underpins all we need to survive. It provides us with water and food as basic essentials, plays a key role in helping to address climate change, and delivers economic benefits that support human development.

According to the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), there has been a 68 per cent decrease on average in the population sizes of mammals, birds, amphibians, reptiles, and fish between 1970 and 2016 – a decline occurring at a greater rate than at any other time in human history. The IPBES identified the main drivers of biodiversity loss as habitat loss, overexploitation, pollution, climate change, and invasive species. These drivers are continuing to increase at an unsustainable pace, and nearly one million species are currently at risk of extinction, many within decades.

Addressing biodiversity loss requires a collective effort from all of society, from government regulations like Sustainable Finance Disclosure Regulation and the EU green taxonomy, to action from companies and their supply chains. As companies rely on biodiversity too, investors and consumers alike are increasingly seeking companies with business models that help to restore rather than degrade biodiversity. Large-scale investment in nature-based solutions such as restoring peatlands, mangroves or ocean ecosystems are some of the opportunities.

HSBC AM has been focusing on biodiversity as a key area, which we are implementing namely through engagement (including voting), policies, and ESG integration frameworks.

Engagement

In addition to engaging with companies on avoiding and minimising negative impacts on biodiversity and ecosystem services, we believe the topic is best approached by focusing on specific aspects that impact biodiversity. These include aspects like deforestation, regenerative agriculture, animal welfare and water management – all aligned with our [Biodiversity Policy](#) which was published in 2022.

Biodiversity was part of the conversation in 841 of our engagements with companies in 2022, out of a total of 3,456 engagements. Using internal and external sources including the Farm Animal Investment Risk and Return (FAIRR) Protein Producer Initiative assessment and MSCI Natural Resource Management Scores, we developed a short-to-medium term list of companies to focus our engagement efforts on, given their high impacts and dependencies on biodiversity. In addition, we engaged with companies based on where we have significant ownership, where we believe there to be a good chance of engagement success, and where the company is held in a fund with higher sustainability expectations.

Our engagements with companies focused on understanding their impacts and dependencies on biodiversity, how they are mitigating biodiversity risks - including policies – and encouragement around disclosure on biodiversity through existing and emerging reporting frameworks. We also participated in collaborative engagements at a national and international level through groups like CDP and FAIRR to facilitate and strengthen engagements with companies.



Voting

In 2022, we introduced a new policy to vote against the chair or relevant board directors of companies that are on our 'Say on Nature' watchlist. The list consisted of around 60 companies, based on third party assessments as well as internal analysis of how companies are managing biodiversity and nature-related risks.

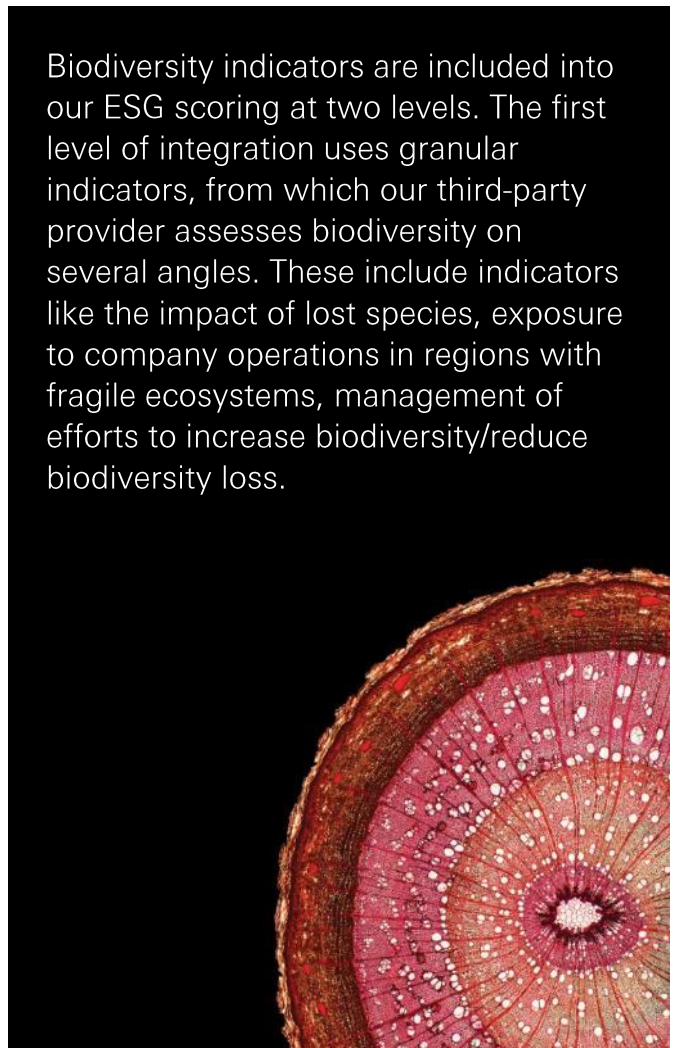
During the 2022 voting season, we voted against 16 directors based on our concerns about their companies' management of nature-related risks (typically only a portion of company chairs, alongside other directors, face re-election every year).

Very few shareholder proposals directly address biodiversity and nature, however, we have supported 25 shareholder proposals related to the main drivers of biodiversity loss identified in the landmark IPBES study.

ESG integration

The finance industry has previously struggled with understanding how to account for the importance of biodiversity impacts due to the lack of data and standardised frameworks. Since 2018, we have been working closely with investment teams to build an ESG framework and create ESG checklists by industry to tackle ESG risks and opportunities, as well as offer some guidance on engagement questions.

Biodiversity indicators are included into our ESG scoring at two levels. The first level of integration uses granular indicators, from which our third-party provider assesses biodiversity on several angles. These include indicators like the impact of lost species, exposure to company operations in regions with fragile ecosystems, management of efforts to increase biodiversity/reduce biodiversity loss.



The second level of integration is through screening for controversies. Any severe controversy linked to biodiversity will be screened out from our analysis for our existing holdings and discussed within the investment team on a case-by-case process. To help us with the screening, we use several third-party providers that utilise artificial intelligence, such as RepRisk.

As an example, the following table indicates the number of flagged companies when using RepRisk for controversies around topics like endangered species, forest burning, plastics and indigenous people.

RepRisk numbers of companies flagged ¹⁷	2020	2021	2022
Very severe controversies	100	332	381
Severe controversies	1650	1929	1927

An innovative investment solution

In 2022, we launched an open-ended biodiversity screened passive fund. The objective is to provide investors with a tool to build biodiversity considerations to their portfolios by investing in companies that have stronger biodiversity credentials. The fund aims to track the Euronext ESG Biodiversity Index series which we jointly developed with Euronext and Iceberg Data Labs. The fund has European Article 8 SFDR classification.



17. RepRisk categorises how severe a controversy is deemed to be based on consequences, extent and intentionality of an incident. There are 3 levels of severe controversies, with 'very severe' being the highest category.

Our voice in the industry

We have contributed to numerous biodiversity initiatives over the year, including the following:

- We contributed to a new guide under the Finance for Biodiversity pledge, titled 'Act Now! The Why and How of Biodiversity Integration by Financial Institutions', which launched during a side event at the UN CBD COP15 conference.
- We participated in numerous COP15 activities including panels, the Finance for Biodiversity Negotiating position, the launch of the Business Handbook for Biodiversity Conservation, and the Business for Biodiversity Conservation Cases
- We took part in testing the beta framework to contribute to the development of the Taskforce on Nature-related Financial Disclosures (TNFD).
- We participated in the consultation process of the World Benchmark Alliance Biodiversity Benchmark and the InfluenceMap Biodiversity report.
- We published an [ESG Insights – Biodiversity](#) Paper introducing the concept of biodiversity, the current crisis we face and how nature loss is a major risk for companies while nature-based investments offers opportunities

2023: enhancing our approach to biodiversity

As part of our engagements, and as detailed more comprehensively in our 2023 Stewardship Plan, we will expect companies to recognise the importance of biodiversity loss. This includes companies presenting a plan that aligns them with a biodiversity positive future, and reporting their progress on biodiversity-related key performance indicators through reporting frameworks. We will also expect companies to positively influence system-level change through participation in industry associations and biodiversity-related public policy.

On voting, we will use more data sources to enrich our watchlists, and will raise our expectations of the monitored companies. On our 'Say on Nature' watchlist for example, we will incorporate information from Iceberg Data Labs, the World Benchmark Alliance's Nature Benchmark and the Seafood Stewardship Index.

Preservation of biodiversity is one of the environmental indicators assessed within the ESG Virtual Sector Teams mentioned in the ESG Research and Integration section. We will continue to refine this approach in 2023 to assess and understand corporate biodiversity footprints.



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