Position paper – English summary

Biodiversity, the clock is ticking!

AF Advisors

AF Advisors is committed to fostering a healthy financial sector. Through our series of position papers on sustainable investing, we aim to contribute to the dialogue on key sustainability topics. Our second paper focuses on biodiversity, an increasingly recognized yet often misunderstood issue. Given the significant impact of biodiversity loss on human, natural and financial capital, it is a pressing issue for the financial sector to tackle. Through sixteen statements, we share our perspective on biodiversity and investing. Our goal is not only to provide insights but also to stimulate discussion and encourage a broader conversation within the financial sector.

— 1. Biological diversity is under pressure

Biodiversity is rapidly declining worldwide due to human activities, such as deforestation, pollution, and habitat destruction. The current extinction rate is up to 1,000 times higher than naturally expected, with profound consequences for ecosystems and economies. Without drastic action, this trend will only accelerate.

— 2. Biodiversity loss can accelerate climate change and vice versa

Climate change and biodiversity loss are inextricably linked. Healthy ecosystems store CO_2 and provide protection against climate change. However, when biodiversity declines, ecosystems lose this function, accelerating global warming and causing further environmental damage.

— 3. Biodiversity loss reduces the Earth's habitability

A decline in biodiversity disrupts the natural balance and undermines essential ecosystem services such as food production, water purification, and climate regulation. This increases societies' vulnerability to natural disasters, disease outbreaks, and food shortages, fundamentally impacting the planet's habitability.

— 4. Biodiversity loss has economic impact

Biodiversity loss threatens economic stability. Around half of global GDP depends on well-functioning ecosystems. Sectors such as agriculture, fisheries, and pharmaceuticals rely heavily on natural resources and ecosystem services. The decline of pollinators, soil fertility, and water quality increases production costs and threatens long-term economic growth and employment.

— 5. Awareness of biodiversity loss is increasing

Biodiversity is increasingly gaining attention on the international agenda, with a milestone being the Kunming-Montreal Global Biodiversity Framework. However, implementation lags behind, as demonstrated at COP16 in 2024. This underscores the need for companies and financial institutions to structurally integrate biodiversity into their strategies.

— 6. Biodiversity conservation is equally crucial for the financial sector

Biodiversity loss not only causes ecological damage but also poses a direct financial risk. Asset management firms, pension funds, and banks are at risk due to asset devaluation and market instability. Stricter regulations such as CSRD and SFDR increasingly require financial institutions to identify and mitigate biodiversity risks.

— 7. It is important to distinguish between 'doing less harm' and 'doing good'

Most investments focus on minimizing biodiversity harm ('doing less harm'), while only a small fraction actively contributes to restoration ('doing good'). Private markets offer more opportunities for impact, whereas public markets mainly focus on reducing harm. Transparency prevents greenwashing and sets realistic expectations.

— 8. The financial sector would benefit from a broader return metric

Investing with biodiversity in mind requires a broader perspective on returns. Financial returns cannot be viewed in isolation from natural capital. Structurally integrating the impact on and dependence on biodiversity in investment decisions is crucial for long-term value creation.

— **9. Biodiversity risk is difficult to avoid**

Even with conscious investment choices, biodiversity risk remains a systemic risk that can only be addressed collectively. Financial institutions can manage biodiversity risks to some extent but cannot fully avoid them. Ignoring these risks increases reputational and legal risks.

— **10. Biodiversity loss is both a financial risk and an opportunity for returns**

Companies highly dependent on biodiversity face significant risks, while investments in nature restoration or sustainable alternatives can be profitable. Investors must weigh whether to focus on damage mitigation or actively contribute to biodiversity recovery.

— **11. Every asset class can contribute, but in a unique way**

Asset classes differ in their impact on biodiversity. Public markets provide opportunities for capital allocation and active ownership, while private markets enable direct financing of biodiversity restoration. A targeted strategy per asset class enhances the effectiveness of biodiversity integration.

— **12. The availability of data is increasing but remains insufficient**

Biodiversity data is still fragmented and incomplete, but it provides a valuable starting point. Tools and measurement methods are developing rapidly, allowing investors to gradually integrate biodiversity risks more effectively into their investment decisions.

— **13. Be transparent about what you do**

Investors should be transparent about the actual impact of their investments on biodiversity. The difference between less harm and actively contributing to restoration is significant but often confused in practice. Clear communication prevents misleading sustainability claims and sets realistic expectations for stakeholders.

— **14. Regulation and AI will contribute to better information flows**

Stricter regulations encourage better biodiversity reporting, while AI helps bridge data gaps. This accelerates the availability and quality of biodiversity information, making it more useful for investment decisions.

— **15. Actions speak louder than words – but what about data?**

The lack of comprehensive biodiversity data should not be a reason for inaction. Investors can assess risks and opportunities by applying existing insights and best practices. Active engagement with companies promotes better reporting and increased awareness of biodiversity issues.

— **16. Assess investments through a broader return lens**

Traditional return requirements do not sufficiently account for the impact of investments on biodiversity and their dependence on it. Incorporating ecological and social value into investment decisions not only benefits society but can also strengthen long-term returns by reducing biodiversity risks and leveraging opportunities for nature restoration.

This sums up our position on biodiversity and investing. Would you like to discuss this further and hear more about our vision? For more information on our position and advisory work in sustainable investing, our specialists are happy to help.

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