

The bio-diversity opportunity

Companies that can address biodiversity loss with commercial solutions and sound business models present an opportunity for investors to benefit from a rapidly growing investment theme.

By Anna Väänänen

We know biodiversity boosts our planet's resilience against threats to our continued existence, such as flooding, food scarcity and infectious diseases. But its loss also poses major economic risks, such as higher material costs combined with disruptions to operations, supply chains and livelihoods, and contributes to climate change.

The growing appreciation of the importance of biodiversity is creating a global policy momentum and global commitments to stop biodiversity loss by 2030, and to have a net positive impact on biodiversity from 2050 onwards.¹

The transition to more sustainable economies has created a multifaceted engine for innovation and growth, powering multi-decade growth opportunities. Investors don't have to choose between positive biodiversity impact or the potential for strong financial returns – financial sustainability underpins both goals.

We see four different ways of approaching biodiversity in investing:

- Invest in companies with a low negative impact on biodiversity, creating a portfolio with a low biodiversity footprint.
- Integrate material biodiversity aspects in security selection, port-

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folio construction and active ownership (voting & engagement).

- Invest directly in natural capital to help protect and restore biodiversity.
- Invest in companies that provide solutions to help society transition to a lower biodiversity impact society – that portfolio could be very different from a low biodiversity footprint portfolio.

Each approach has a role to play, but investing in solutions is a relatively new idea. Investing in solutions provides the opportunity for investors to not only help protect biodiversity, but to benefit from the financial growth of companies that are creating the products and services that do so.

We believe that innovative companies with sound business models that are providing commercial solutions to preserve nature will be the winners of the biodiversity transition.

Here are some examples of the approaches that we think could make a difference to biodiversity and

the companies that are leading the way in putting them into practice.

Precision agriculture

Agriculture is responsible for 80% of deforestation and uses 50%² of habitable land, while one third of all food produced is wasted³. Precision agriculture has the potential to meet growing demand for food whilst reducing the use of pesticides and water.

‘See and Spray’ technology developed by agricultural equipment manufacturer John Deere & Co, for example, captures images of crops and processes them in the cloud to enable more targeted application of herbicides, reducing their use by up to two-thirds and offering both a positive impact on biodiversity and improved farmer profitability.

Environmentally responsible waste treatment

Humans are exploiting nature far more rapidly than it can renew itself: society's current rate of consumption equates to

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the resource use of 1.8 planets⁴ (2.8 in Europe⁵) each year. It’s crucial we move towards a more circular consumption model where more resources are re-used and recycled.

Republic Services offers a holistic suite of sustainable solutions across residential and business-scale recycling and waste services, as well as an environmental solutions division providing environmentally responsible waste treatment, exploration and production innovation.⁶ The company is building on its already significant position in the sustainable waste management and recycling industry by continuing to embrace new technologies and open new facilities, such as its recent Polymer Centre in Las Vegas. The facility is expected to produce more than 50,000 tonnes of high-quality recycled plastics annually. Its rollout is enhanced by a partnership with a specialist polymer processing company that enables Republic Services to supply the strict packaging quality requirements demanded by food and beverage manufacturers. Three more locations are planned by 2026 to further establish its position in this growth market in the US.⁷

Efficient water use

Ageing infrastructure, often driven by poor water-related governance in some de-

veloped countries in North America and Europe, is responsible for the loss of considerable freshwater volumes on an ongoing basis. For example, it is estimated that two trillion gallons of drinking water – equivalent to 15% of total fresh water supplies – is lost to leaks in the US every year.⁸ As global water demand rises with population growth, it is estimated that almost six billion people will suffer from clean water scarcity by 2050, further strengthening the demand to minimise its loss.⁹

Innovative water technology, such as smart metering and analytics, helps increase efficiency of water systems, identifying leaks and therefore reducing water loss. Companies addressing these issues have the potential to benefit from this rising need.

Xylem, for example, is a water technology company that develops and maintains solutions for the delivery and use of drinking water, as well as the treatment of wastewater on an industrial scale. The largest slice of its revenue is derived from water infrastructure designed to collect, treat and distribute wastewater.

Xylem also offers water solutions and services to commercial, residential and industrial clients alongside advanced, ‘smart’ water meters and

analytics. The company’s commitment to research and development allows it to develop sophisticated ways to improve efficiency and reduce needless waste from inadequate water distribution systems or lack of detailed measurement capabilities.

Acting on biodiversity requires more than good intentions. The ability to deliver – as a service and as a business – is just as important. Companies identifying the winners of the biodiversity transition could help investors towards a mutually satisfying future for their financial goals, the planet, and the continued viability of our global economies. ■

- 1 2030 Targets (with Guidance Notes) (cbd.int)
- 2 Half of the world’s habitable land is used for agriculture | Future of Food (ox.ac.uk)
- 3 5 facts about food waste and hunger | World Food Programme (wfp.org)
- 4 National Footprint and Biocapacity Accounts 2022, overshootday.org/how many earth
- 5 National Footprint and Biocapacity Accounts 2022, overshootday.org/how many earth
- 6 About Us (republicservices.com)
- 7 Successful acceptance at Republic Services Polymer Center in Las Vegas - Food & Drink International (fdiforum.net)
- 8 BofAM, The World is Not Enough - Scarcity Primer, 2022
- 9 Reassessing the projections of the World Water Development Report | npj Clean Water (nature.com)

Important information

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SUMMARY

There is a growing appreciation of the role that protecting the natural environment plays in addressing climate change and the economic importance of biodiversity.

The transition to a nature positive economy is a multi-decade growth opportunity.

Companies that can address biodiversity loss with commercial solutions and sound business models present the potential for long-term financial returns.