

HSBC CIO Perspectives – July 2023**Episode two video**

Hello everyone and welcome to the second edition of CIO Perspectives and today we're going to talk about biodiversity. Of course, it's a huge issue, if you remember your planetary boundaries framework, it's the most alarming aspect in it. And it's of course, a very hot topic because we have high food price inflation around the world and of course, all of those headlines around forest fires. So to discuss biodiversity, I have Wai-Shin Chan with me. He's the Global Head of ESG Research. So Wai-Shin thanks for joining. What is being done from a policy perspective? What did COP 15, the biodiversity COP promise and why is it so important?

Hi Willem, yes, governments around the world met in Montreal in December and they hammered out the Kunming-Montreal Global Biodiversity Framework, and this covers 23 targets, which look at the many objectives of the Convention on Biological Diversity: conservation, sustainable use of resources and benefit sharing and the implementation of that. One of the headline targets was 30 by 30. That means making 30% of protected areas by 2030. Governments need to be implementing that. They also need to be mobilising finance. They need to be getting those national biodiversity finance plans underway. The gap, we are told, for biodiversity finance is around \$700 billion, a phenomenal amount. Governments will also be looking to revise and update their what's known as NBSAPs, their national biodiversity strategies and action plans. Now, this is important for investors because biodiversity is heavily linked to other megatrends, such as climate change. It means that if investors are looking to understand the implications of climate change, they have to understand the linkages with biodiversity as well.

Well talking about investors and about markets. So we have the policy impetus. What about the impetus from the market? Why is biodiversity material for investors?

It's material in very many ways. It's not likely to be financially material for a few years yet, I think, but it will be sustainably material quite soon, so it will affect the reputations of companies in various industries. Now, long term, there are lots of structural risks that we could be expecting. For example, if a finely balanced ecosystem were to break down and the functions that they perform to fail, for example, then this could affect agriculture or could affect trade, could affect livelihoods, and that's not a good thing. There are also transition risks associated with biodiversity. So with all the legislation that we mentioned, those NBSAPs, those action plans that are coming forward, the adjustment to a more nature aware society will also create issues, maybe on a legal basis or on a policy basis for companies as well. Nearer term though we have these disclosures coming through. The EU has already mentioned that in their sustainability reporting standards, the ISSB, that's the International Sustainability Standards Board, will be looking at biodiversity next and the Task Force on Nature-related Financial Disclosures, TNFD will be looking to finalise their disclosures this year as well.

Lots of acronyms to remember there and clearly that can have an impact on a company's reputation. And of course, together with the policy impetus, how will that impact companies strategy or even also investors' strategy?

In very many ways to be honest with you. I mean, nature does so much for society. Let's have a look at the provision that it gives: that's food, energy, water and shelter. Nature has a cleansing function. So again, the air cycles, the water cycles, the soil, as well as providing general well-being, which we've all seen is very important during the pandemic. So we have to do right by nature ourselves. It must be done in an order that is pretty much like halting the drivers of biodiversity loss, preservation and then doing restoration. So there'll be lots of opportunities for investors to help these steps. But with a focus on addressing the drivers of biodiversity loss, so they will be asking businesses to incorporate nature and natural capital holistically into the decisions that they make, and that's very important. Afterwards, all the solutions will come and that's very exciting to look out for.

Well, so in terms of those solutions and the actions that investors can take, we see two clear examples here, in order to help, of course, create change, but also to tap into the opportunity from an investment perspective. So the first one being sustainable food and water. Why?

Because clearly food production is responsible for about 80% of deforestation and agriculture for about 70% of all fresh water use. So to produce our food in a more sustainable way is important also for the security of that supply of food and the quality of the food over the next years and decades. So that's the first opportunity in our view. The second one is around the circular economy and that's of course about producing less waste, to reuse and recycle in order to use fewer resources and leave more of that natural capital intact. And so in both areas, we look for companies that provide the solutions or companies that behave more responsibly than their competitors.

So I hope that has given you an overview of the reasons why investors should look at biodiversity, but also some examples of areas that really could be of interest to our clients. For more information to dig deeper into this, please do contact your relationship manager or your investment team. Thank you Wai-Shin for giving your insights and thank you all for watching.