

Federated Hermes Biodiversity Equity

Ingrid Kukuljan

Head of Impact and Sustainable Investing

Jordan Patel

Deputy Portfolio Manager

Sonya Likhtman

Lead engager

Gemma Corrigan

Policy and Advocacy Lead

One-year review: 2022-2023

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Hermes** 
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2022 highlights

Using our proprietary Federated Hermes Biodiversity Impact Database, we are able to estimate the total biodiversity impact of the companies in which we are invested. We present the highlights below:

7.4m Hectares of land area preserved, where change of use has been avoided.

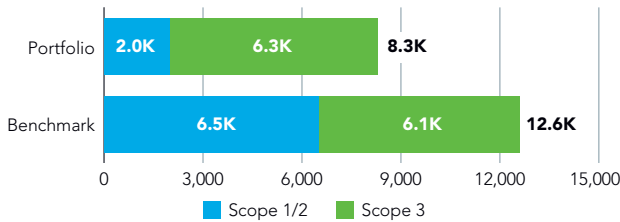
5.7m BII-adjusted¹ Hectares of normalised 'Biodiversity Footprint' avoided.

21.4k species, risk of loss avoided.

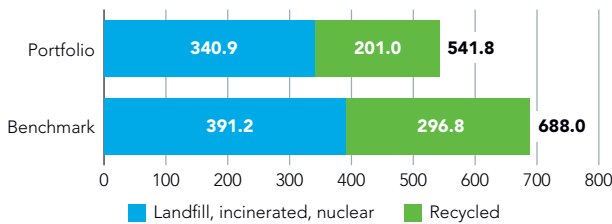
Our portfolio's environmental footprint

Our portfolio is considerably greener than our benchmark, the MSCI All Country World IMI Index in terms of total carbon emissions, waste generated and water usage.

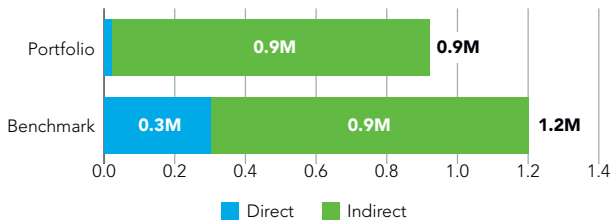
Total carbon emissions (tonnes)



Waste generated (tonnes)



Water usage (m³)



Source: Federated Hermes as at 31 March 2023. The benchmark is the MSCI All Country World IMI Index. We adopt the methodology set by the Task Force on Climate-related Financial Disclosures (TCFD) to measure our portfolio's emissions, carbon footprint and emission intensity.

In 2022 we engaged on

102 issues and objectives, engaging with

78% of our portfolio companies.

There were

27 engagements on environmental themes,

31 covering social themes, **30** relating to governance and

14 on matters of strategy, risk and communication.

Source: Federated Hermes from 21 March 2022 to 31 March 2023.



¹ BII: Biodiversity-Intactness-Index, a measure tracking biodiversity loss established and maintained by London's Natural History Museum.

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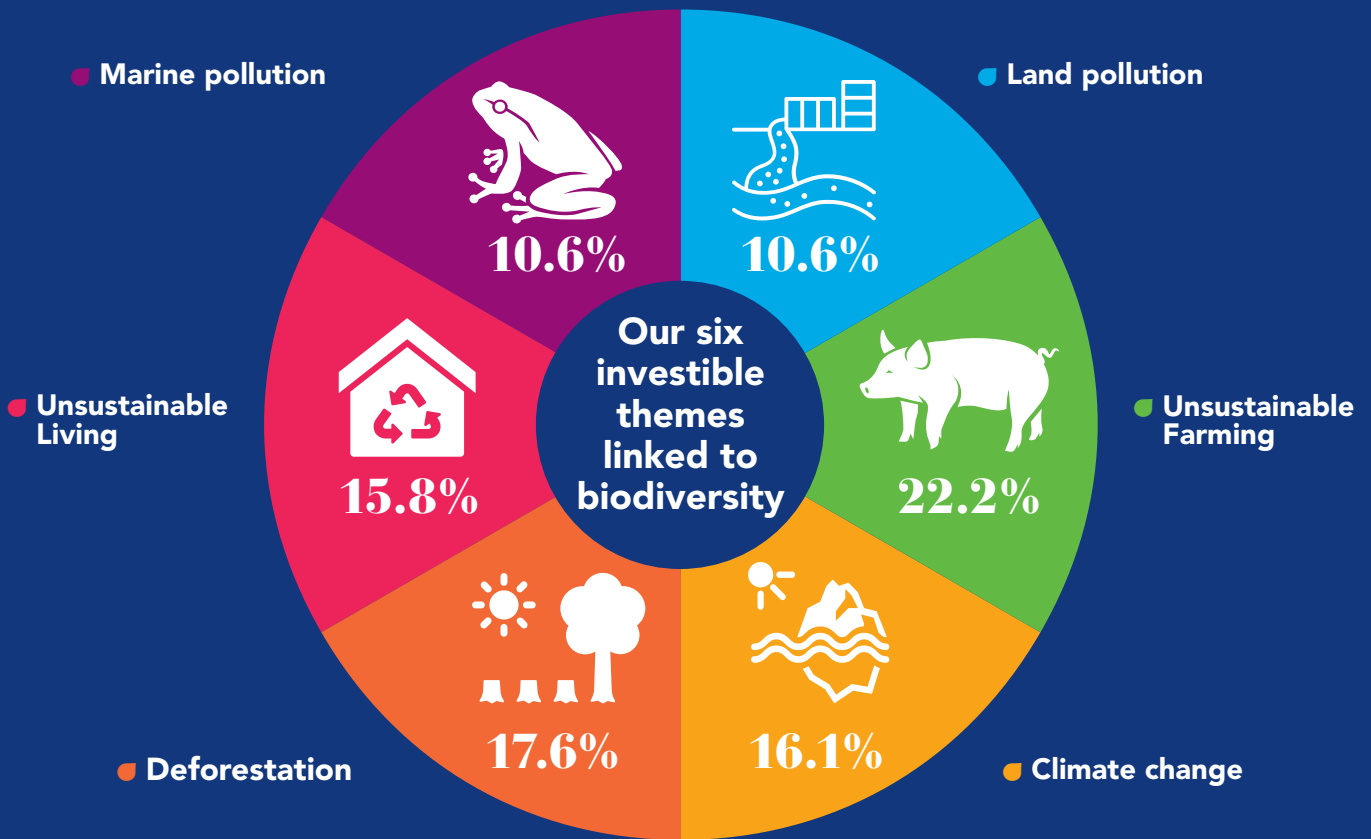


Fund philosophy

The Federated Hermes Biodiversity Equity Strategy aims to achieve long-term capital appreciation by investing in a concentrated portfolio of best-in-class companies that provide solutions to avert loss of and support restoration of biodiversity.

Thematic framework

We have extensively researched the major regional and global threats to biodiversity and have defined six investable themes: land pollution, marine pollution and exploitation, unsustainable living, climate change, unsustainable farming, and deforestation. Each of these themes has multiple sub-verticals that are aligned to specific UN Sustainable Development Goals (SDGs).



Source: Federated Hermes Limited, as at 31 March 2023.

Federated Hermes is a pioneer in this field, with a strong record advocating and engaging around biodiversity. We are members of industry organisations including the **Finance for Biodiversity Pledge**, the **PRI Sustainable Commodities Practitioners' Group**, the **SPOTT Supporter Network**, the **Partnership for Biodiversity Accounting Financials**, and the **PRI plastics working group**.



Biodiversity Impact Performance, 2022

Total company level impact of stocks held, 2022

Using our new proprietary Federated Hermes Biodiversity Impact Database, we are able to present our impact data on an aggregated, cross-company basis. We have extended our original Impact Database, launched in 2020, to create **three bespoke biodiversity** metrics, as well as having qualified **10 biodiversity-adjacent** metrics, from our original Impact Database. Put simply, these metrics depict our estimate of the total impact that the companies in which we are invested have delivered in 2022. Our database draws on data from company, sector and industry reports.

50.5m

Tons (Metric) of CO₂ avoided with only



21.4m

Tons of CO₂ released

38.2m

MWH of clean energy generated



50.9m ≈

m³ of water saved in solutions

2.3m

tons of waste recycled (through product solutions) plus a further

1.2m

tons through recycling programmes in operations



5.7m



BII-adjusted² Hectares of normalised 'Biodiversity Footprint' avoided

21.4k



Species risk of loss avoided

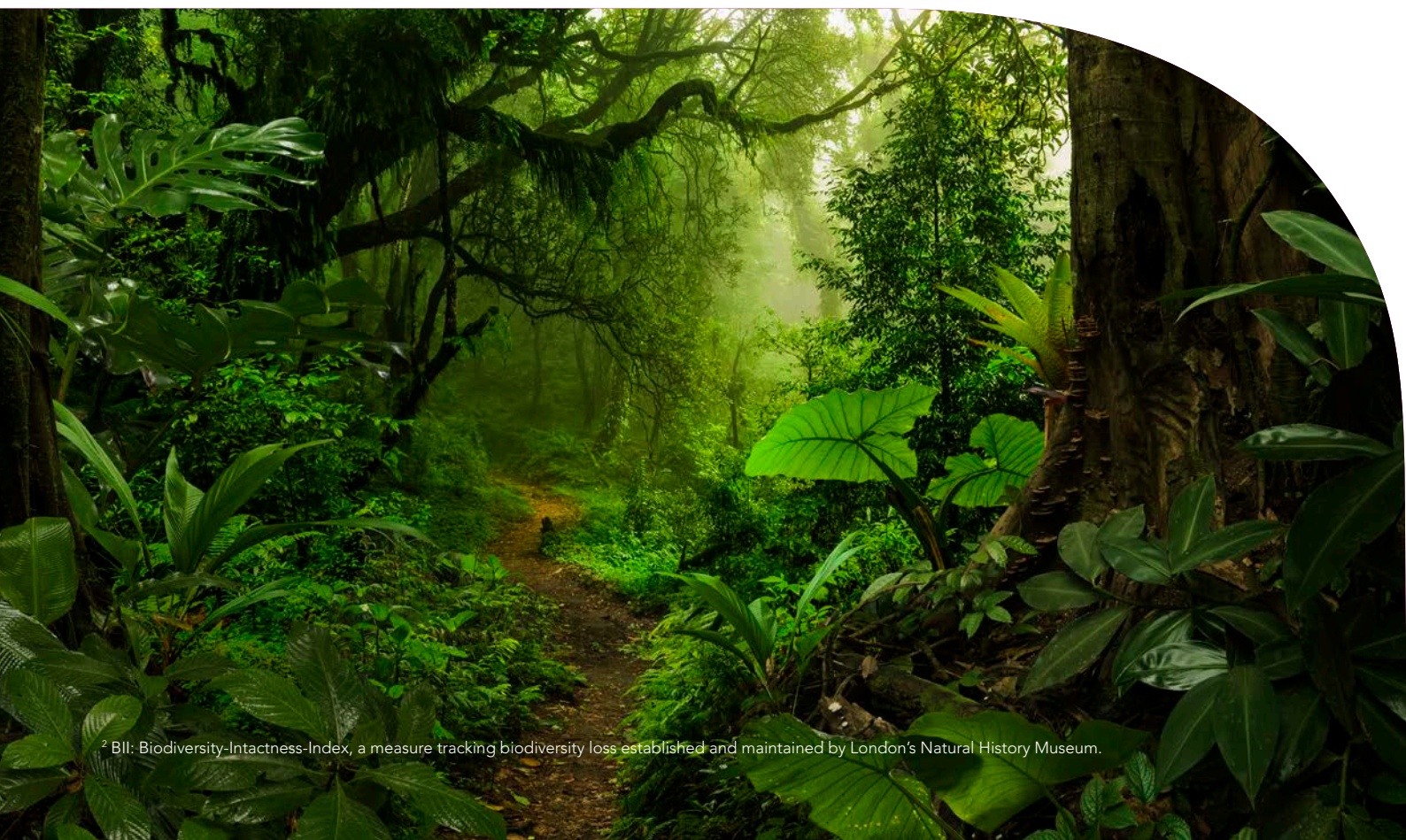
28.5m



tons of food waste avoided

7.4m

Hectares of land area preserved, where change of use has been avoided



² BII: Biodiversity-Intactness-Index, a measure tracking biodiversity loss established and maintained by London's Natural History Museum.

Impact achieved by capital deployed, 2022

As well as producing company-level impact, our database allows us to report on the impact of our strategy’s assets under management. Put simply, we scale the metrics to demonstrate the impact accomplished through the capital we deploy – US\$38m as at 31 December 2022 – on behalf of our clients, thereby reflecting our ownership of each company held in our portfolio.

7.2k 

Tons of CO₂ avoided with only 3.6k Tons of CO₂ released

1.2k 

Tons of waste recycled (through product solutions) plus a further

4.1k 

Hectares of land area preserved, where change of use has been avoided

4.0k 

MWH of clean energy generated

104 

Tons through recycling programmes in operations

2.9k 

BII-adjusted Hectares of normalised ‘Biodiversity Footprint’ avoided

8.9k m³

of water saved in solutions



2.9k 

Tons of food waste avoided

5.0 

Species risk of loss avoided

Source: Federated Hermes Impact Calculations, Net Purpose, Natural History Museum as at 31 December 2022.



Market and performance review

The last 12 months have been among the most challenging on record for global markets, although this was masked somewhat by the -7.69% return of the MSCI ACWI IMI Index. The Biodiversity strategy launched against a backdrop of rising inflation and interest rate expectations, which were amplified by the Russia-Ukraine war – and this set the tone for much of the rest of the year. Markets were dominated by short-term macro factors rather than long-term fundamentals as the preference for Value continued.

This preference was best reflected in the stellar returns of the Energy sector. It also highlighted an issue for strategies, such as ours, in that value was typically being driven by areas of the market which are part of our exclusions such as fossil fuels, and as such are un-investable. In the brief periods when fundamentals took centre stage, the strategy performed relatively well and, judging by the consistently high proportion of the portfolio that beats earnings expectations, the portfolio continues to look attractive from a fundamental perspective.

The Biodiversity strategy launched against a backdrop of rising inflation and interest rate expectations, which were amplified by the Russia-Ukraine war.

As 2023 dawned we witnessed a sea-change in risk appetite with sentiment boosted by the reopening of the Chinese economy and signs that inflation was receding from its autumn peaks, reflected in falling bond yields. In addition, excitement around artificial intelligence (AI), following the launch of ChatGPT in late 2022, drove the Information Technology (IT) sector higher. It wasn't all rosy though – rising rates were the underlying catalyst for the collapse of Silicon Valley Bank and several other regional banks in the US; and, in Europe, as confidence in Credit Suisse evaporated, leading to an arranged takeover by UBS.

The lack of market breadth was noticeable during the period, with indices being driven by a small number of mega cap tech-focused stocks. Indeed, the Information Technology, Communication Services and Consumer Discretionary sectors accounted for approximately 95% of the benchmark return in Q1 2023.³ Outside of the AI-generated excitement, investors remained cautious. Inflationary pressures proved to be more persistent than anticipated, especially in Europe. However, the overall performance of equities in Q1 2023 confounded the sceptics.

The market environment was undoubtedly difficult for the strategy, which returned -18.24% in the period in US dollar terms.⁴ The underperformance was primarily due to the macro-driven market that had adopted a more short-term outlook: an environment not suited to a strategy that has a long-term fundamental focus.

In attribution terms, stock selection was the main driver for the strategy's relative performance. The largest detractors from relative performance came from stock selection in Consumer Staples, Materials, Financials, Consumer Discretionary and having no Energy exposure. Sector allocation positively contributed to relative returns, most notably through our overweight to Industrials and Consumer Staples and having no exposure to Communication Services, due to its weak performance in 2022.

Top-three contributors

- Brambles (**Deforestation**) consistently reported earnings that surpassed expectations and raised guidance during the period with the company benefiting from a strong pricing environment.
- Biffa (**Land Pollution, Marine** (Pollution and Exploitation), **Sustainable Living**) shares rose significantly following a bid for the company from Energy Capital Partners.
- AECOM (**Energy Transition**) benefited from solid underlying demand, reflected in a healthy order backlog and pipeline, as infrastructure investment, energy transition and sustainability projects increase.

Top-three detractors

- Hannon Armstrong (**Climate Change, Marine** (Pollution and Exploitation)) shares were impacted by poor sentiment towards clean energy/solar for much of 2022, despite the company reporting decent results and having exposure to favourable tailwinds from the US Inflation Reduction Act that should benefit renewable energy deployment.
- Tomra Systems (**Land Pollution, Marine** (Pollution and Exploitation)) had a mixed year with a strong order backlog being offset initially by higher logistics costs and then input cost inflation, which impacted margins.
- CubicFarm Systems (**Farming**) experienced component shortages in its supply chain that impacted its ability to complete orders and deploy equipment. In addition, a major investor divested some of its stake. Subsequent to this, there was a change in CEO, with a view of implementing a recapitalisation plan. We exited this position.

The above does not represent all of the securities held in the portfolio and it should not be assumed that the above securities were or will be profitable. This document does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

³ Source: MSCI as at 31 March 2023

⁴ Performance in US\$, gross of fees as at 31 March 2023. Management fees are not included and will have the effect of reducing performance. Past performance is not a reliable indicator of future returns.

Trading – Purchases (to March 2023)

Bioceres Crop Solutions – Farming

A provider of a variety of crop productivity technologies designed to help growers and other stakeholders adopt more environmentally friendly agriculture practices. The company provides patented technologies for seeds and microbial aggregate-inputs, as well as nutrition and protection solutions.

Sunnova – Climate Change

A full-service solar panel provider in the United States. The company's products and services help towards our climate change theme by providing clean energy and reducing users' need for unsustainable energy sources.

Grocery Outlet – Sustainable Living

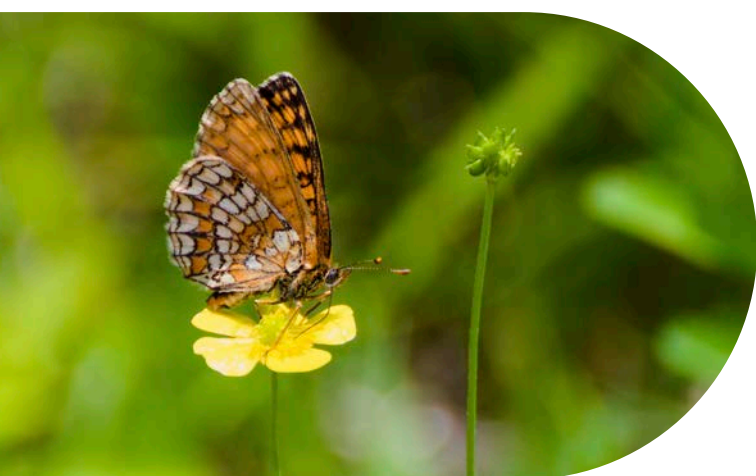
Sells packaged and fresh food at a significant discount to traditional grocers and so helps avoid food waste. With inflationary pressures rising and recession increasingly likely, we believe the company could benefit from the trading-down effect.

Fortune Brands Innovations – Sustainable Living, Marine (Pollution and Exploitation)

A leader in home water and built environment plumbing solutions. We see this as a play on water and energy efficiency. The protection of fresh water for human consumption is imperative, with the creation of new reservoirs, basins, and fresh-water catchments posing material biodiversity risk.

Clean Harbors – Land Pollution, Marine (Pollution and Exploitation), Climate Change

As North America's leading provider of environmental and industrial services, CLH's core purpose is to prevent the release of hazardous waste into the environment. CLH has recycled 1.4 million metric tonnes of waste and through its Safety Kleen business; its facilities have re-refined almost four billion gallons of used oil.



Trading – Sales (to March 2023)

CubicFarm Systems – Farming

This company was impacted by several factors, including component shortages in its supply chain that hampered its ability to fulfil orders. Also, one of its major investors signalled its intention to divest some of its holding. Interest in its products remains high, but these factors ultimately led to our decision to exit the position.

Tattooed Chef – Farming

Closed after a conversation with the company highlighted that margins were being squeezed significantly more than anticipated and there was no respite in sight. In addition, recent expenditure had weakened its balance sheet which raised the possibility of a capital raise (something that the company subsequently signalled).

The RealReal – Sustainable Living and Deforestation

Closed following a meeting with the company where some of the milestones we had expected to be reached did not materialise.

Outlook

Market breadth has continued to improve, increasing the opportunity set across sectors and down the market cap spectrum. We also remain encouraged that inflation, despite being somewhat off the fabled 2% target is moving in the right direction.

Our strategy seeks quality businesses trading at attractive valuations that also have a sustainable competitive advantage through their positive action towards biodiversity. With increasing awareness and regulation around biodiversity, we believe companies that are leading the way and helping protect and replenish biodiversity through their operations, products or services should benefit from material tailwinds. These structural tailwinds ensure the portfolio has a superior growth profile and, with a valuation that is similar to that of the index, we believe it looks well-placed to outperform.

As North America's leading provider of environmental and industrial services, CLH's core purpose is to prevent the release of hazardous waste into the environment.

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Engagement focus

Engagement with portfolio companies is a core aspect of the strategy, with a dedicated Lead Engager in place. In total, 78% of the strategy’s holdings were engaged on a range of environmental, social and governance issues between inception and the end of June 2022.

Many of the companies in the portfolio are already actively addressing biodiversity loss, so engagement is focused on driving forward best practice and addressing potential gaps.

Many of the companies in the portfolio are already actively addressing biodiversity loss, so engagement is focused on driving forward best practice and addressing potential gaps. The specific engagement objectives vary by company and sector. They include asking companies to assess and disclose their impacts and dependencies on biodiversity in-line with upcoming guidance from the Taskforce on Nature-related Financial Disclosures (TNFD), develop biodiversity strategies to address the most material impacts, and scale up products and services that are addressing biodiversity loss. Our white paper on biodiversity, *Our Commitment to Nature*⁵, provides further information on our engagement approach and expectations.

The company has published a biodiversity strategy and committed to have a net-positive impact on biodiversity by

2025



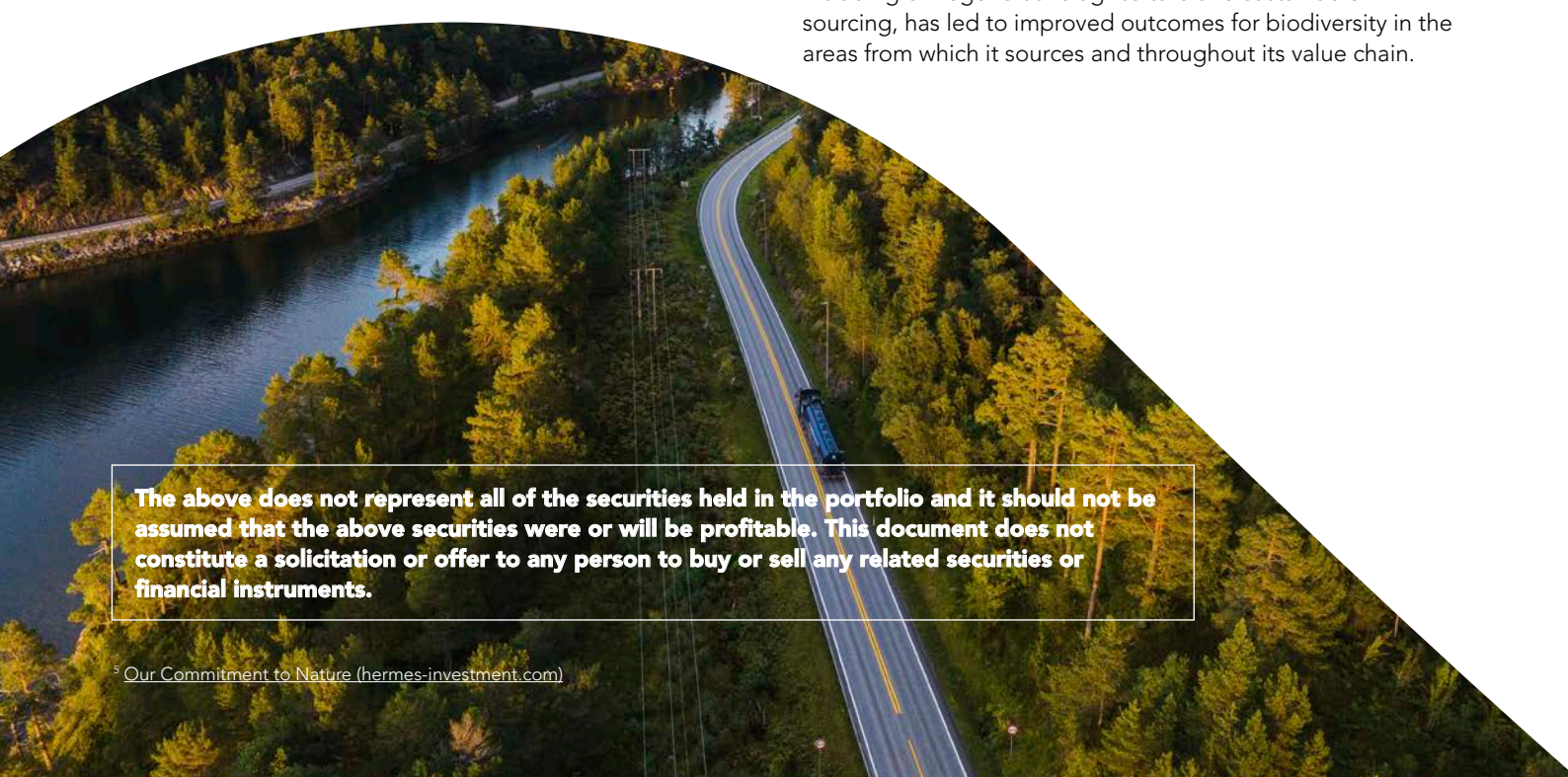
Engagement examples

AECOM

The company already provides a range of biodiversity-related services, including nature restoration for industrial clients after site closures, nature-based solutions, and natural capital assessments. We have asked the company to articulate a clear strategy for how it will provide and scale up services and solutions to ensure that customers can demonstrate a net-positive impact on biodiversity. The company has set an aspirational goal to design out 50% of carbon on major projects. We would like to see this goal become more concrete, including with a baseline, details of which projects it applies to and a target date.

Kering

The company has published a biodiversity strategy and committed to have a net-positive impact on biodiversity by 2025. We would like Kering to demonstrate effective implementation of its biodiversity strategy, including following the mitigation hierarchy and achieving an overall net-positive impact on biodiversity throughout its supply chain by 2025. We believe it should be able to outline how its approach, including on regenerative agriculture and sustainable sourcing, has led to improved outcomes for biodiversity in the areas from which it sources and throughout its value chain.



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⁵ [Our Commitment to Nature \(hermes-investment.com\)](https://www.hermes-investment.com/our-commitment-to-nature)

Thematic focus

Cleared and present danger: halting the deforestation crisis


Despite the scale of destruction to key global forestry regions there is a developing consensus that collective action from multiple stakeholders can halt, or even reverse, the ecological damage.

Fast reading

- Rainforests are biodiversity hotspots. When forests are lost or degraded, it sets off a series of changes that affect life both locally and around the world. Some 77 million hectares of tropical rainforest were destroyed across Latin America, Southeast Asia and Africa between 2013 and 2019, with about 60% of clearances linked to commercial agriculture.⁶
- While large-scale farming operations in cleared areas of rainforest are the primary culprit, there is evidence to suggest smaller environmentally-friendly agricultural methods can effectively replace existing commercial practices and be much more sustainable.
- Investors have a significant role to play in the battle against deforestation. Biodiversity Equity invests in 'Biodiversity Champions' and engages with portfolio companies with a focus on achieving reportable outcomes, including reversing nature loss and mitigating deforestation. Engagement examples in this report include Danish biotech firm Novozymes, Australian pallet maker Brambles and Finnish forestry firm UPM.

More than one billion poor people depend on forests for their livelihoods⁷, while we all depend on these ecosystems as a central part of the global carbon, water, and climate systems. Yet over the last 50 years, more than 17% of the Amazonian rainforest has been lost, mostly cleared for cattle ranching.⁸ In the tropics, close to 30 football fields' worth of trees were chopped down every minute during 2019 alone.⁹

The deforestation crisis is not just about trees being cut down. Rainforests, in particular, are biodiversity hotspots: integrated ecosystems that are home to some of the most diverse life on Earth. The loss affects us all – but investors can play a significant role tackling the issue.



The deforestation crisis is not just about trees being cut down. Rainforests, in particular, are biodiversity hotspots.

Injustice in the jungle

The economic incentives to raid environmentally sensitive areas for resources have too often overwhelmed compelling evidence that preserving natural forests is essential to the long-term health of the planet. When forests are lost or degraded, it sets off a series of changes that affect life both locally and around the world. At the current rate of destruction, an area of tropical forest more than twice the size of Texas could be lost over the next 15 years.¹⁰

An in-depth 2021 study by US non-profit Forest Trends provides further evidence on the scale of the devastation – 77 million hectares of tropical rainforest was destroyed across Latin America, Southeast Asia and Africa between 2013 and 2019, with about 60% linked to commercial agriculture (70% of the forest cleared for farming was illegal).¹¹

Overall, based on data from 23 countries, the Latin American and Caribbean regions accounted for 44% of tropical forest losses with Asia (31%) and Africa (25%) making up the difference. Commercial agricultural practices drove about 80% of all deforestation in Latin America and Asia while in Africa tree-clearing is linked almost exclusively to subsistence farming.

"We don't need to clear more forests in order to grow food. People need to understand the role of commercial agriculture in driving illegal deforestation and how important tropical forests are," Arthur Blundell, co-author of the Forest Trends report, said at the time.¹²

On the BII scale, expressed as percentage, any score below **90%** would breach the 'safe space' limits for humanity within the planetary boundaries concept.

The treeless reality

While the carbon-capturing qualities of tropical forests are perhaps better understood, scientists are beginning to gauge the biodiversity features of these critical regions.

The UK Natural History Museum, for example, has created the Biodiversity Intactness Index (BII) mapping a sample of 58,000 species in 46,000 locations covering birds, mammals, plants, fungi and insects.¹³ On the BII scale, expressed as percentage, any score below 90% would breach the 'safe space' limits for humanity within the planetary boundaries concept.¹⁴

Crossing this boundary increases the risk that the area and ecosystem can no longer be relied upon to provide key ecosystem services such as clean air and water, food, and fuel.

⁶ [Illicit-Harvest-Complicit-Goods.pdf \(forest-trends.org\)](#)

⁷ [New High-Resolution Forest Maps Reveal World Loses 50 Soccer Fields of Trees Per Minute | World Resources Institute \(wri.org\)](#)

⁸ World Wide Fund for Nature (WWF)

⁹ [Deforestation and Forest Degradation | Threats | WWF \(worldwildlife.org\)](#)

¹⁰ [Deforestation and Forest Degradation | Threats | WWF \(worldwildlife.org\)](#)

¹¹ [Illicit-Harvest-Complicit-Goods.pdf \(forest-trends.org\)](#)

¹² [Illegal agriculture driving worldwide decrease of tropical forests \(innovationnewsnetwork.com\)](#)

¹³ [What is the Biodiversity Intactness Index? | Natural History Museum \(nhm.ac.uk\)](#)

¹⁴ [Biodiversity Intactness Index data | Natural History Museum \(nhm.ac.uk\)](#)

Over the first two decades of this century, the BII score for the Amazon declined by 1.5%, falling below the safety limit in several key regions.

However, the collapse of ecosystems in tropical rainforests such as the Amazon is not simply a local issue confined to each jurisdiction: rampant deforestation has global consequences that companies and investors must address.

The cascade effect of broadscale destruction of tropical forests – particularly via climate change and biodiversity loss – could tip the entire Earth’s environmental system irrevocably away from the stable state that has characterised the last 11,000 years.

Of course, apart from the intrinsic tragedy, any planet-wide disruption of the ecological processes underpinning life would cause incalculable damage to the global economy and financial system.

And if avoiding a systemic financial meltdown is not sufficient to push corporates and investors to act on deforestation, at Federated Hermes we believe there are three other risks that will act as catalysts for change:

- **Physical** – deforestation accelerates climate change and biodiversity loss, increasing the likelihood of negative outcomes such as more extreme weather, disruption of essential services like water while pharmaceutical and cosmetic companies, for instance, may lose access to essential forest-derived materials;
- **Regulatory** – governments, especially in the European Union and UK, have introduced, or are considering, new rules requiring companies to conduct due diligence on supply chains to verify source materials have not come from illegal tropical forestry operations;
- **Reputational** – non-government organisations and consumers are waking up to the links between deforestation and everyday products – with name-and-shame campaigns putting pressure on companies to end commercial relationships with suppliers involved in illegal, or irresponsible, tropical forest activities.

Green shoots: sowing solutions

Despite the scale of destruction to key global forestry regions there is a developing consensus that collective action from multiple stakeholders can halt, or even reverse, the ecological damage. Not only is there the widespread acceptance that large-scale farming operations in cleared areas of rainforest are the primary culprit¹⁵, but there is also evidence to suggest smaller environmentally-friendly agricultural methods can effectively replace existing commercial practices and be much more sustainable.¹⁶

While it is farfetched to expect alternative farming techniques to immediately end current Amazonian commercial agriculture operations (which, incidentally, can be productive and profitable in the short-term), they nonetheless offer viable hope for change.

As is so often the case, public opinion will be key, with increasing international awareness and consumers’ preference for more sustainable products, alternative production methods should start to become more attractive.



Detailed information of commodity crop plantings is crucial for corporations trying to avoid deforestation risks in their supply chains

A path to change

Actions led by the food industry and civil society organisations can prove useful to encourage the uptake of more sustainable practices. Furthermore, there is increasing evidence that public policies, in combination with international trade treaties and protocols, have positive effects on sustainable land use. Technology, too, is proving more effective in helping governments, business, investors, consumers and independent watchdogs understand, and combat, the deforestation crisis.

Non-profit research groups The Sustainability Consortium and the World Resources Institute use satellite data to develop extremely granular high-resolution images of deforestation.

The Sustainability Consortium’s Christy Slay says that detailed information of commodity crop plantings is crucial for corporations trying to avoid deforestation risks in their supply chains.

“If we know where deforestation is common and what crops are involved, we can go to companies and say: ‘Be careful if you’re working with suppliers that are sourcing this particular product from this particular part of the world’,” Slay says. “Satellite data of forest change and loss is the first step in the process.”¹⁷

Greenpeace, also lays out a path for companies to bring anti-deforestation pressure to bear via responsible business practices.

Among other elements of its ‘Protecting Forests’ campaign, Greenpeace says corporations should:

- Establish ‘zero deforestation’ policies holding suppliers to account;
- Set ‘ambitious targets’ to maximise the use of recycled wood fibre etc while only sourcing responsibly produced virgin timber products based on ‘transparent, credible assurances’;
- Use only respected, independent third-party certification providers such as the Forest Stewardship Council as a ‘starting point’ in due diligence; and,
- Collaborate ‘with other like-minded institutions in their sectors’ to drive change.

“If corporations have the power to destroy the world’s forests, they also have the ability to help save them,” Greenpeace says.

¹⁵ Source: Proceedings of the National Academy of Sciences: ‘Large-scale commodity agriculture exacerbates the climatic impacts of Amazonian deforestation’, 8 February 2021.

¹⁶ <https://www.eitfood.eu/blog/can-regenerative-agriculture-replace-conventional-farming>

¹⁷ <https://landsat.visibleearth.nasa.gov/view.php?id=148674>

Role of investors

Investors also have a significant role to play in the battle against deforestation.

As stewards of global capital, institutional investment managers have a duty to use their growing influence to steer portfolio companies towards best practice across all key environmental, social and governance (ESG) challenges.

Federated Hermes is an industry leader in responsible investment with its dedicated stewardship arm, EOS, providing extensive guidance across ESG issues including biodiversity as outlined in a 2021 commitment.

Financial institutions managing close to US\$9tn collectively have committed to eliminating agricultural commodity-driven deforestation risks... in their investment and lending portfolios by 2025.

EOS can play a key role in accelerating the process of companies recognising the importance of biodiversity and then taking meaningful steps to protect it. The EOS biodiversity framework sets a series of corporate accountability measures covering governance, measurement, targets, strategy and disclosure.

The considerable financial heft of the FSDA signatories and other institutions is dedicated to achieving tangible goals within a tight timeframe.

The EOS framework, which feeds into the processes that underpin Federated Hermes' Biodiversity Equity Strategy, is designed to achieve reportable outcomes in portfolio companies, namely:

- reversing nature loss and showing the company contributes to biodiversity improvements;
- mitigating biodiversity risks including deforestation; and,
- ensuring the business and supply chains operate within planetary boundaries.

Prior to the COP26 global climate conference held in Glasgow late in 2021, Federated Hermes also joined with other investors in signing the 'Commitment on Eliminating Agricultural Commodity-Driven Deforestation' in addition to the ensuing Finance Sector Deforestation Action (FSDA) agreement.

Under the FSDA almost 40 financial institutions managing close to US\$9tn collectively have committed to eliminating "agricultural commodity-driven deforestation risks (from cattle, soy, palm oil, pulp, and paper) in their investment and lending portfolios by 2025".

The considerable financial heft of the FSDA signatories and other institutions is dedicated to achieving tangible goals within a tight timeframe.

COP15 sets stage for biodiversity action

Federated Hermes took part in the COP15 – also known as the UN Biodiversity Conference – last year as a member of Finance for Biodiversity Foundation delegation. Sonya Likhtman, the lead engager on Biodiversity, recaps our role in the landmark convention and what it means for investors.

Hopes were high when COP15 went ahead in a frosty Montreal in December 2022, after multiple pandemic-induced delays, that world leaders would seize this unique opportunity to transform our relationship with nature and reverse a long trajectory of decline.

And despite a few shaky moments, COP15 ended with the triumphant adoption of the [Kunming-Montreal Global Biodiversity Framework \(GBF\)](#).¹⁸

While the COP15 agreements are between countries, the conference saw unprecedented attendance and interest from businesses and financial institutions. The biodiversity event hosted the first ever [Finance and Biodiversity Day](#), for example, as well as numerous side events focused on driving urgent action across the private sector.

The GBF features four goals for 2050 and 23 action-oriented targets up to 2030 including a commitment to effectively conserve and manage at least 30% of land and oceans, versus [current protected areas](#) of about 17% and 8%, respectively.

Some scepticism might be justified considering countries almost completely missed the previous Aichi biodiversity targets that were in place from 2010 to 2020.

Furthermore, the landmark agreement also commits signatories to restoring at least 30% of degraded ecosystems along with targets such as halving food waste, addressing pesticide and hazardous chemical risks and putting in place nature-based solutions to align climate with biodiversity actions.

Some of the most important finance-related targets of the GBF include:

- phasing out or reforming subsidies that are harmful to biodiversity by at least US\$500bn per annum (Target 18);
- and,
- mobilising at least US\$200bn annually from public and private sources for biodiversity-related funding (Target 19).

¹⁸ RECOMMENDATION ADOPTED BY THE WORKING GROUP ON THE POST-2020 GLOBAL BIODIVERSITY FRAMEWORK (cbd.int)



The Kunming-Montreal agreement largely met with broad approval bar a few expert opinions calling for more numerical targets and specificity in some areas.

Some scepticism might be justified considering countries almost completely missed the previous Aichi biodiversity targets that were in place from 2010 to 2020.

However, we expect to see heightened scrutiny of the newly agreed framework given the greater awareness of the systemic risk posed by biodiversity loss.

Federated Hermes' role

Federated Hermes Limited formed part of the Finance for Biodiversity Foundation delegation at COP15, taking an active role as co-chair of the Public Policy Advocacy working group.

For a year and a half leading up to the conference, the Public Policy Advocacy working group followed the negotiations, engaged bilaterally with member states, and provided suggestions for the draft text.

We developed three position papers ([Part One](#)¹⁹, [Part Two](#)²⁰, [Part Three](#)²¹) for each round of negotiations to explain the position and rationale behind the text suggestions.

Our core goal was to ensure that the Global Biodiversity Framework (GBF) language captures and emphasises the important role that the private finance sector must play in halting and reversing biodiversity loss.

We advocated for the framework to require the alignment of public and private financial flows with biodiversity goals and targets – similar to article 2.1(c) in the Paris Agreement, which called for consistency between capital allocations and climate ambitions.²²

Framing the next moves

Pleasingly, parts of the framework that reference private finance closely mirror the position we advocated for through the Finance for Biodiversity Foundation.²³ Goal D and Target 14, for instance, require the alignment of financial flows with both the 2030 targets and the 2050 vision, which secures a focus on implementation in the short, medium and long term.

Under Target 15, governments will have to ensure that large companies and financial institutions assess and disclose risks, impacts and dependencies on biodiversity throughout their operations, value chains and portfolios in a policy that reflects the expectation we set in the [Our Commitment to Nature](#) white paper.²⁴

The Taskforce on Nature-related Financial Disclosures (TNFD) framework will also enable companies and financial institutions to produce more standardised and relevant nature-related disclosure.

The GBF references numerous other areas that are relevant to companies and investors that will support our ongoing engagement efforts on topics such as deforestation, climate change and the circular economy while also recognising the important role of Indigenous communities.

The Kunming-Montreal agreement is an important step and signals hope for nature, but it is just the starting point.

We expect companies to help implement the GBF by continuing their contribution to the five main drivers of biodiversity loss: land and sea use change, direct exploitation of species, climate change, pollution, and invasive alien species.²⁵

The Kunming-Montreal agreement is an important step and signals hope for nature, but it is just the starting point.

Stakeholders, including the financial sector, have a significant amount of work to do to successfully meet the full scope of GBF goals and targets.

All eyes must now turn towards effective implementation of the GBF at the national level with countries due to submit their National Biodiversity Strategies and Action Plans (NBSAPs) ahead of COP16 in 2024.

We will be there.

¹⁹ [Finance-for-Biodiversity-Foundation-Paper_Financial_Flows_16Feb2022.pdf](#) (financeforbiodiversity.org)

²⁰ [Finance-for-Biodiversity-Foundation-Paper_Financial_Flows_2_13June2022.pdf](#) (financeforbiodiversity.org)

²¹ [Finance-for-Biodiversity-Foundation-Paper_Financial_Flows_3_2December2022.pdf](#) (financeforbiodiversity.org)

²² [Paris Agreement](#) (un.org)

²³ <https://www.financeforbiodiversity.org/governments-reached-an-agreement-at-cop15/>

²⁴ [Our commitment to nature | Federated Hermes Limited](#) (hermes-investment.com)

²⁵ [Global Assessment Report on Biodiversity and Ecosystem Services | IPBES secretariat](#)

Engagement case studies



CASE STUDY

Novozymes: catalyst for positive change

In February 2023 we met with representatives of the Danish biochemicals firm, Novozymes, to discuss – among other items – the implications of the recent COP15 conference in Montreal.

With solid sustainability credentials, the storied Danish company meets the objective and investment criteria for the strategy but we aim to support the company in its efforts to improve its biodiversity impact with regular engagement.

For instance, while both Novozymes and Federated Hermes were active in the COP15 talks, we took slightly different perspectives on the Global Biodiversity Framework (GBF) that emerged out of the process.

With solid sustainability credentials, the storied Danish company meets the objective and investment criteria for the strategy.

We both agreed the GBF would help phase-out subsidies for practices that harm biodiversity, limit the use of hazardous pesticides and recognise the important role of indigenous peoples in protecting ecosystems.

But while Novozymes noted the framework would impact how it stored and shared genetic information, we highlighted why the GBF sets a clear role for private finance and tighter disclosure requirements around biodiversity.

The company confirmed it follows the EU-developed biodiversity standards included in the Global Reporting Initiative and Carbon Disclosure Project. However, we also urged Novozymes to review and prepare for reporting in line with the Task Force on Nature-related Financial Disclosure (TNFD).

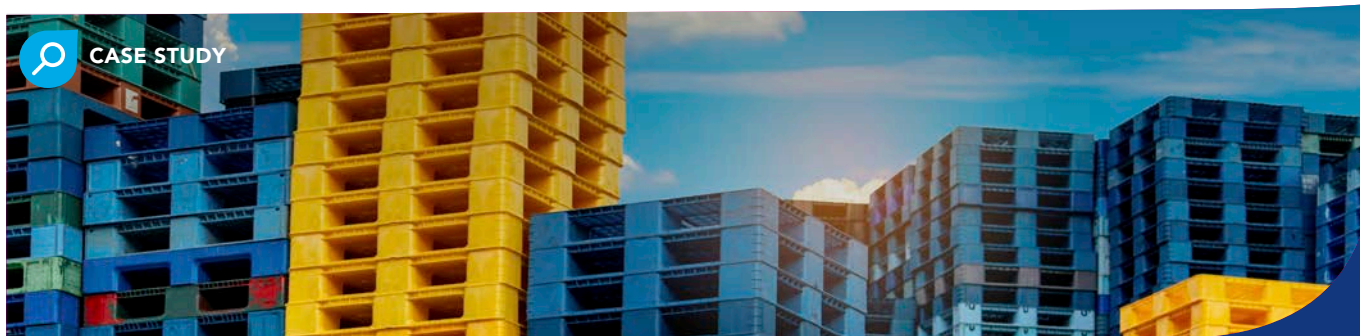
Encouragingly, the business has signed-up to a pilot science-based target for nature program that we will follow up on.

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After presenting our analysis of how the Novozymes products help address the five main drivers of biodiversity loss we offered suggestions to further embed the approach across the business through governance, resourcing and specialist expertise initiatives.

In particular, we asked the group to produce a biodiversity strategy by the third quarter of this year. Novozymes said the issue was high on its agenda, with an imminent biodiversity presentation for the senior leadership team planned.

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CASE STUDY

Brambles: crate expectations

As the world's largest supplier of reusable pallets, crates and containers, the Australian-listed company, Brambles, is a major consumer of timber.

Since 2020 the business has sourced all wood from certified sustainable forests while also implementing a two-for-one tree replanting policy that has enhanced its environmental, social and governance (ESG) claims.

Historically, Brambles has framed its sustainability approach around climate change but we encouraged the firm to also consider biodiversity impacts at a similar priority during our recent corporate engagement – suggesting, for example, it introduces reporting procedures that comply with the Taskforce on Nature-related Financial Disclosures (TNFD).

According to the Brambles team, the company has held regular communications with TNFD and global peers on how to achieve better reporting on biodiversity metrics.

Since **2020**

the business has sourced all wood from certified sustainable forests while also implementing a two-for-one tree replanting policy that has enhanced its environmental, social and governance (ESG) claims.

And rather than settling for 'zero impact', Brambles is now aiming for a positive sustainable approach with a mantra of 'reuse, resilience and regeneration' that will see the business consume less waste and create more resources.

As part of the ESG-enhancement, the firm told us it is also committed to tackling biodiversity challenges in addition to the traditional carbon-based reporting.

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Following our request for more detail, the Brambles team said the company largely relies on third-party certification, especially from the Forest Stewardship Council (FSC), but has increased scrutiny on how these standards apply across supply chains for biodiversity and other key goals such as social co-benefits.

Furthermore, the group told us that while the firm does not currently lobby for improved policies at a government level to protect and restore nature, Brambles is a strong advocate for circular business models through partnerships with customers.

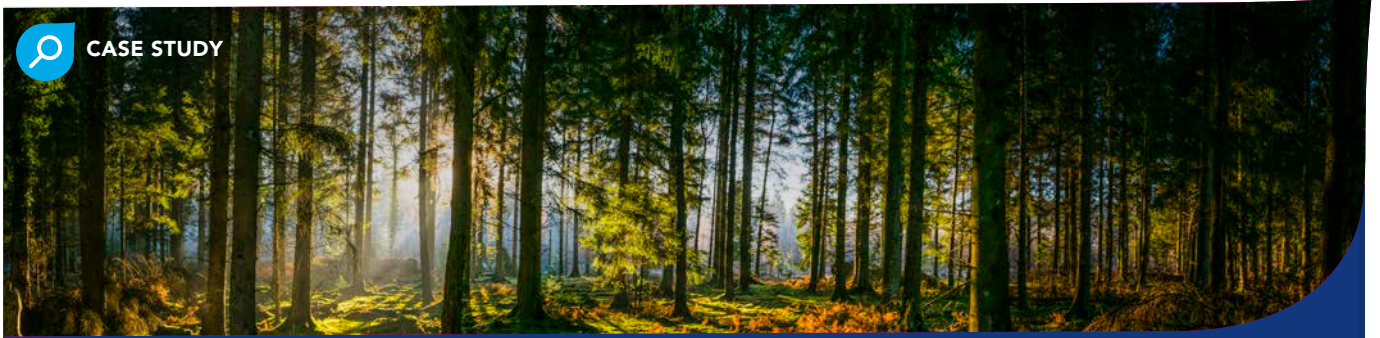
We expect the Brambles biodiversity strategy to evolve rapidly and look forward to seeing progress in our future engagements.

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CASE STUDY



UPM: pulp non-fiction makes for sustainable paper profits

Finnish forestry firm, UPM, is a major global supplier of sustainable timber-based products in industries such as packaging, labelling, transportation, electrification, construction, communication, tissue, hygiene products, manufacturing, bioplastics and biomedical.

The company operates across six core business units, namely: Biorefining, Energy, Raflatac, Paper Asia, Paper Europe and North America, and Plywood.

Rooted in a history dating back more than 100 years, the Helsinki-listed forestry conglomerate, UPM, has grown into a worldwide timber giant with branches now spanning six continents.

The business booked annual sales of €11.7bn for 2022 in a result chief executive, Jussi Pesonen, declared in the recent annual report as the “best year ever for the company”.

UPM explicitly manages the biodiversity risks of its forestry business in a number of ways ranging from sustainable timber sourcing protocols to replanting programmes and recycling processes.

But solid financial performance goes hand-in-hand with strong sustainability metrics for UPM, as Pesonen notes: “We have ambitious, science-based targets and a solid track record of concrete action to both mitigate climate change and safeguard biodiversity. We source our raw materials from sustainably managed forests and process them into climate-positive products that help our customers achieve their sustainability goals.”

Indeed, as with climate change, the company is looking to go above-and-beyond standard targets with an ambition to reach “net-positive biodiversity” in its own Finnish forestry assets.

Cut once, measure twice

Forests host the most diverse collection of life on land – as documented in a 2020 United Nations Food and Agriculture Organisation (FAO) report.

For example, the FAO study estimates forest areas contain 60,000 different tree varieties as well as the majority of animal species including amphibians (80%), birds (75%) and mammals (68%).

Yet the insatiable human demand for timber-based products and cleared-ground for agriculture has seen forest coverage retreat from 32.5% of total world land area in 1990 to just 30.8% in 2020, the report says, with inevitable negative consequences for biodiversity.

At the same time, wood, paper and pulp remain essential to the global economy and can, in fact, be biodiverse-positive compared to less environmentally friendly materials such as plastic.

UPM explicitly manages the biodiversity risks of its forestry business in a number of ways ranging from sustainable timber sourcing protocols to replanting programmes and recycling processes.

And even the location of its timber assets can improve the odds, according to a Federated Hermes analysis that shows most virgin forest wood pulp is produced in the biodiverse-rich regions of the US, Brazil and Canada: the Amazon alone accounts for 10% of known life species. The FAO study rates eurozone forests as less biodiverse compared to these other species-rich geographies.

Almost two-thirds of UPM-owned forestland is in Finland with the remainder in Uruguay (34%) and the US (9%), leaving a minimal biodiversity impact from its pulp-making activities given the core source in Europe, which also has the toughest regulation on sustainable forests.

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The business goes to great lengths to ensure all of its wood comes from legally logged and sustainably managed forests – excluding timber harvested from tropical rainforests or plantations established on cleared natural woodlands.

All UPM-owned forests have been certified, or are in the certification process, as sustainable by independent bodies such as the Forest Stewardship Council (FSC) or the Programme for the Endorsement of Forest Certification (PEFC).

The firm has begun to link such biodiversity outcomes to financial metrics with more to come, according to the annual report.

Furthermore, almost 85% of total wood fibre sourced by the firm has been certified sustainable with a target of reaching 100% by 2030.

Corporate environmental disclosure watchdog, CDP, has rated UPM as a 'Forest A List' company for its efforts in both climate change and deforestation.

The latest annual report highlights a step up in the group's biodiversity efforts via a "new global Forest Action programme, launched in 2022... [that] considers the various regional regulation, requirements and guidelines regarding forest management in Finland, Uruguay and the US".

Recently, UPM also signed up to the Science Based Targets Network Corporate Engagement Program "to develop and test tools, methodology and guidance for setting science-based targets for the preservation of nature".

Finished details

Investors rightly view broad-sweeping corporate environmental pledges with some scepticism unless they are backed up by evidence and commitment to ongoing action. This is something UPM does.

Aside from seeking independent verification of sustainability claims, UPM supplies a wealth of detailed data on the biodiversity impact of its forestry management approach.

The 2022 report, for example, lists nine different indicators of forest health including age, structure, habitat information and the "amount of dead wood".

Data clearly shows commercial forests have a much lower deadwood component than natural counterparts, which is a largely underappreciated gauge of biodiversity.

"More than a fifth of Finland's forest species – fungi and insects in particular – depend on deadwood at some point in their lives," the UPM report says.

Last year the company doubled the deadwood target for its commercial forests from the current ratio of about 5 cubic metres to 10 cubic metres per hectare.

As of 2022, all of the nine Finnish "quantitative indicators showed a positive trend", the report says, while noting similar improvements in its Uruguayan and US forests.

See the trees: a vision of future forestry

While cutting-edge management practices and sustainable wood-sourcing represent UPM's most direct contribution to reducing deforestation, recycling plays its part too by dampening the need to log virgin timber.

The UPM paper production business sources about one-third of the required raw materials from recycled fibre.

Importantly, the firm has begun to link such biodiversity outcomes to financial metrics with more to come, according to the annual report.

"We want to increase the role of biodiversity in our business to respond to the current and future ecological challenges," the UPM report says. "In 2020, we linked the margin of a €750m revolving credit facility to the biodiversity enhancement in our forests in Finland. In 2022, we further strengthened this link by including biodiversity as a measure in UPM's management remuneration."

Demand for paper, timber and wood-based products will only increase amid a growing global population and rising appetite for natural solutions to everyday needs.

However, given the risks posed by rampant deforestation, investors need to take care to back companies that can see both the wood and the trees.

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- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

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