

RI *Spotlight*  
MAY 2022

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# Biodiversity and private equity



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### What is biodiversity?

The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) describes variability among living organisms from all sources including terrestrial and aquatic ecosystems and the ecological complexes of which they are a part.



**Peder Prahl**  
CEO & Managing Partner



**Martin Huth**  
Managing Partner

*The loss of biodiversity and ecosystems has received less attention than other sustainability challenges. There are reasons – for one thing, it is hard to quantify, and for another, it is very hard to solve.*

## Welcome from our Managing Partners.

We need biodiversity in numerous ways – for food, materials, pollination, weather regulation, watersheds - the list is long. Yet our treatment of the planet has not been supportive of these natural functions. Three quarters of the land has been severely altered by human actions and two thirds of the marine environment. And around a million species are at risk if we do nothing.

At Biodiversity COP15 in Kunming China, now scheduled for H2 2022, delegations from around the world will meet to discuss the biodiversity crisis. Much as has happened with climate change via the Paris Agreement, the ambition here is to set out a long-term roadmap for reversing nature loss. At a high level, we hope that progress will be made towards a world in which we can continue to grow and develop, while interacting with the natural world in a sustainable way. Other major initiatives are also underway, such as the Taskforce on Nature-related Financial Disclosures, of which we are fully supportive. With many solution providers still being fairly young companies, we believe private equity can be well placed to help develop the potential response to the crisis.

We recognise that we have a responsibility in being a catalyst for positive change, and that is why we now ask portfolio companies to report on operations in biodiversity-sensitive areas. We also seek to invest in companies offering engineering and digital solutions to biodiversity loss, including in resource and water efficiency, remediation services, alternative materials, and sustainable forestry and food production.

In this report, we consider the importance of and threats to biodiversity and ask whether COVID-19 has increased the spotlight on our interactions with the natural world. We also look at what two of our portfolio companies are doing to address associated risks and opportunities.

We hope you will find this an interesting read and look forward to your feedback.

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# The importance of biodiversity

*“There is significant interconnectedness between damage to the environment and to our ecosystems and biodiversity, on the one hand, and negative socio-economic impacts on the other.”*

The pandemic has taught us a lot. Not least, that how we interact with the natural world can bring real risks. A disease apparently crosses from animals to humans, spreads between people around the world rapidly, and disrupts economies. More importantly, to date, several million fatalities have resulted.

Like SARS, Ebola, Zika and influenza variants, the COV-2 coronavirus is a zoonotic infection (one that is passed to humans from animals). By going ‘deeper into nature’, through our interaction with seldom-encountered species in previously unexploited ecosystems, we come into contact with more pathogens than was previously the case. And by removing their natural hosts, humans can become the host. Kate Jones, ecology lecturer at University College London, calls emerging zoonotic diseases an “increasing and very significant threat to global health, security and economies”.

More broadly, the destruction of ecosystems and loss of biodiversity, at the rates we are witnessing, puts our socio-economic well-being at risk in a myriad of ways:

## Food security

Crop species’ diversity protect against infestation and disease. Pollinators are essential in growing most fruit and vegetable crops. Trees in agricultural land can increase pollinators, help with fertilisation and reduce vulnerability to weather events. Animals provide natural fertiliser. Soil microbes make nutrients and minerals for plants, spur growth, stimulate plant immune systems.

## Medicine

Many drugs are derived from nature. For instance, 70% of cancer drugs are either organic or are synthetic products originally derived from nature. And many people are dependent on nature for their medicines – the WHO cites 4 billion people who rely primarily on natural medicines.

## Raw materials

We rely on nature for a range of raw materials, including timber and building materials, animal feedstock, fuel and fertiliser.

## Hydrological cycles

Marine and terrestrial ecosystems play a critical role in regulating the local climate. Vegetation absorbs heat better than more reflective bare soil. This warmth carries moisture from forest trees into the atmosphere, where it condenses as rain. Via this effect, forests cool the local climate and help generate rainfall. Forests also help maintain the hydrological cycle by influencing how water is routed and stored in a watershed – in turn contributing to the preservation of wetlands, which provide ecological services like water purification and supply, climate regulation and flood management.

## Weather resilience

Natural ecosystems can also provide barriers to weather events, many types of which are becoming more frequent and more severe with global warming. Mangroves and coral reef systems protect coastal populations from hurricanes and typhoons. And tree breaks can protect agricultural land from winds, protecting crops and preventing ‘dustbowl’ effects.

## Why we need biodiversity



### Food security

Pollinators  
Crop diversity



### Medicine

Drugs and natural medicines



### Raw material

Building materials  
Fuel  
Fertiliser



### Hydrological cycles

Rainfall  
Water storage



### Weather resilience

Damage from storms  
Droughts  
Flooding  
Wildfires



### Health and wellness

Cultural identity  
Mental health and spiritual well-being

So we need natural capital for our socioeconomic well-being. Furthermore, nature is key to many cultures, religions, belief-systems and our understanding of how we fit into the world.

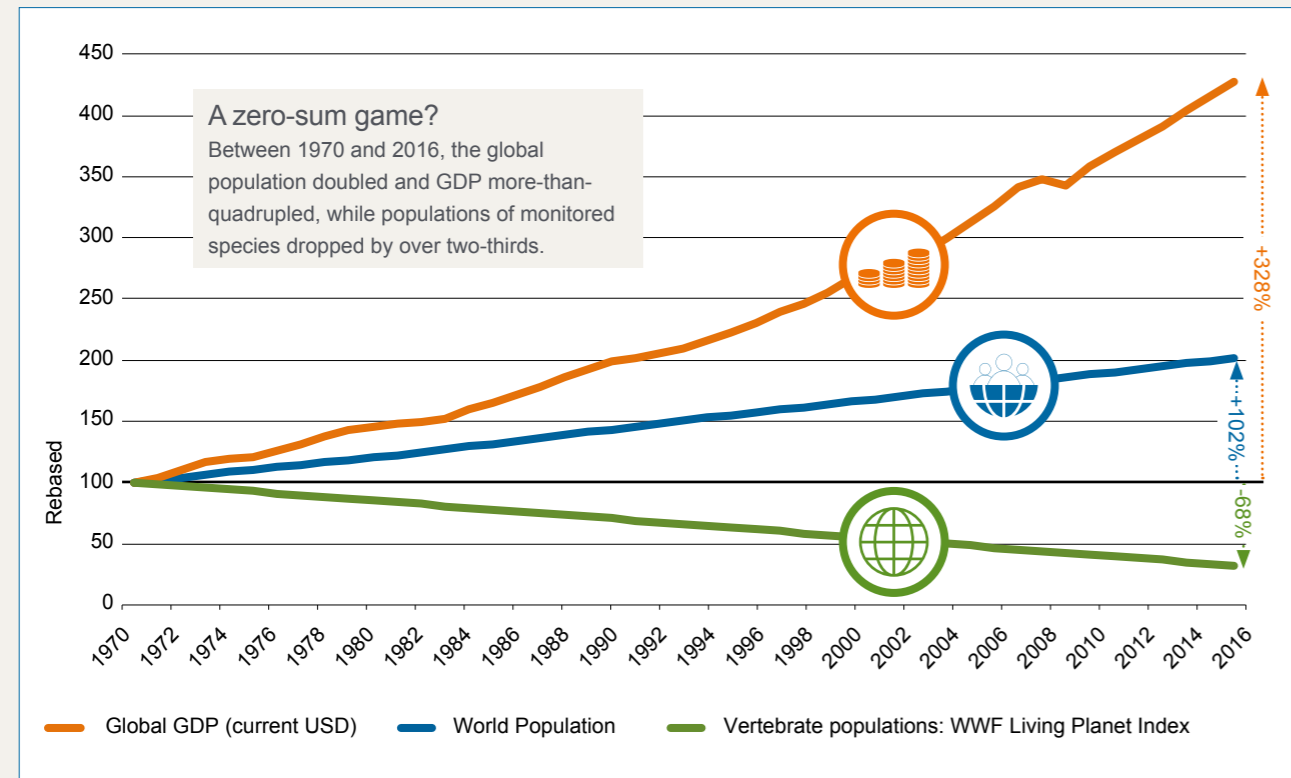
# Threats to biodiversity

As the global population has increased, GDP has increased more. Between 1970 and 2016, the population roughly doubled from 3.9bn to 7.4bn. Meanwhile, global GDP grew by over four times. Without adjusting for inequality, this looks broadly positive – it equates to an approximate doubling in GDP per capita.

The chart captures this. However, it also contains a third line – which shows a 68% decline in a wildlife indicator over the same 46-year period.

In essence, economic growth has come at a massive price – the unsustainable exhaustion of natural capital (the value and wealth embedded in nature and created by ecosystems), with the monitored vertebrates as one of many possible proxy indicators for biodiversity decline.

## Unsustainable development: More people and a lot more wealth...but at the expense of natural capital



*“Despite the clear importance of biodiversity and ecosystems to our existence and way of life, human activities thus continue to place tremendous stress on the natural world.”*

Pollution, habitat degradation, unsustainable resource exploitation for food and materials, some traditional medicines, invasive species and anthropogenic climate change, all play major roles in damaging the natural systems which sustain the global economy and society.

Via water extraction, air, soil and water pollution, use of chemicals, deforestation and land degradation, global warming, and trade in wildlife and plants, humankind has engaged in activities in ways that have caused local and global extinctions and disrupted ecosystem functions.

Recognising all of these risks and threats is key to furthering an investment mantra which seeks to mitigate and even reverse biodiversity loss. Additionally, through participation with broader stakeholder networks, we believe progress can be made in embedding biodiversity and ecosystems in sustainable finance frameworks. We anticipate that, in future, financial markets will be guided to fully analyse and embed risks and opportunities relating to natural capital, as well as to measure and report on these.



# How our companies aim to be biodiversity-positive

At Triton, we think it is prudent to invest in businesses which protect natural capital. We think now is an opportune moment for private equity to help drive growth in solution providers and steward companies towards low and positive impact operations. At Triton, we ask portfolio companies to report on operations in biodiversity-sensitive areas. From the current reporting cycle, we ask for direct reporting to the Board explicitly on natural capital and that specific risk assessments be carried out where appropriate. Data collation will be key to the global response to the biodiversity crisis – we need data to understand the risk, the magnitude and the complexity of the challenge. This is in addition to the reporting of climate change risks and circular economy opportunity assessments, both of which are adjacent areas important to managing biodiversity risks.

We are also looking to invest in companies offering products and services which are well-placed to provide solutions to biodiversity loss. These can be both engineering and industrial technologies and more high-tech, digital solutions. Examples include monitoring and verification equipment, ecosystem restoration, materials re-use, water efficiency and sustainable food production.



## leadec

Triton invested in Leadec, a global service specialist for factories, in 2016. The company offers services which include production equipment maintenance, technical and infrastructure facility management, automation and engineering.

Stephan Förschle, Co-head of the Business services team:

*“Leadec continuously explores the development of value-add services for its customers by leveraging new technologies and capabilities. Amongst others, Leadec seeks to offer ESG services to help customers reaching sustainability goals and move towards net zero emission manufacturing environments. Internally, Leadec’s sustainability strategy highlights environmental impact as one of four pillars, with a focus on water, soil and biodiversity preservation.”*



Stephan Förschle

Leadec seeks to mitigate its negative impact and make a positive contribution to the local communities in which it operates. Sourcing practices also seek to ensure no harm to biodiversity. Current initiatives with a biodiversity focus at Leadec include green space management practices – water, soil and biodiversity preservation and sustainable snow removal practices.

### Key themes

- Water resilience
- Soil improvement
- Healthy ecosystems

## Geia

Triton invested in Geia Food, a leading supplier of food concepts in Scandinavia, in 2021. Geia products are certified as safe to consume, reliably labelled and produced in a responsible way, with a strategy focussed on responsible procurement.

Graeme Arduis, Triton Head of ESG:

*“Geia Food’s position in the value chain, between skilled food producers and customers in the retail and food service sector, makes it possible to influence innovation in Nordic food concepts, quality and sustainability.”*



Graeme Arduis

Geia Food has mapped its entire value chain to understand where business activities risk affecting society in a negative way. In agriculture and procurement of raw materials, the company has identified a risk of affecting biodiversity, which has raised awareness and action about sourcing more sustainably. One such action is joining Sedex – one of the leading global systems for responsible procurement - in 2021. In doing so, Geia has now introduced globally recognised requirements for suppliers, such as supplier codes of conduct and self-assessment procedures, as well as supplier audits. The company is also evolving to meet growing customer demand for more sustainable foods, including seafood – currently 84% of its fish products carry a sustainability mark.

### Key themes

- Healthy ecosystems
- Intact marine and aquatic systems
- Food & nutrition
- Supply chain management

Footnote: Please refer to our mapped sustainability trends with all key themes on page 7 [here](#).

# Embedding biodiversity in investing



Ruth Linz



Ashim Paun

The loss of biodiversity and ecosystems around the world is a structural risk. It threatens our food security, medicine provision, supply of materials, weather systems and our sense - throughout history and across cultures - of how we exist on our planet.

Ruth Linz, Triton's Co-head of the Consumer team, spoke with Ashim Paun, Triton's Head of Sustainable Investing, about how investors are responding to the crisis.

**RL:** Solving the biodiversity crisis, given its near-infinite heterogeneity of life on earth and the multiple systemic risks, seems a huge task. Almost too huge. Is there hope?

**AP:** It's not too late. A paper in Nature journal found that a 29% average reduction was achieved in the extinction risk for mammals and birds thanks to conservation investments from 1996 to 2008. Private capital can play a role here, financing benign and biodiversity-positive production and services. Scale-up will need to come via concerted, meaningful measures from investors, but also from companies, regulators and civic society.

**RL:** For responsible investors, tackling biodiversity is clearly rising up the agenda. But are there real economic implications which can embed this theme across finance?

**AP:** Biodiversity loss is both an economic and an environmental risk – the two are inextricable. According to the World Economic Forum, more than half of global GDP is moderately or highly nature-dependent. Meanwhile, the WWF has cited an economic cost of inaction resulting in changes in ecosystem services, of a cumulative loss of almost USD 10 trillion between 2011 and 2050. But we believe this can be averted, and that as the socio-

economic risks grow and become more apparent, so the urgency in markets to address the crisis will grow.

**RL:** It is a simple deduction to make that the current rate of biodiversity loss is not sustainable – that there will be little left for future generations unless a wholesale change is made in our approach to ecosystem and biodiversity conservation. What can investors do?

**AP:** We've tracked an emerging trend amongst the global asset management community - a greater focus on the impacts of investments and issuers on biodiversity and ecosystems. This 'other' crisis has, particularly over the past two years, entered the list of prime sustainability focus areas amongst ESG-oriented investors.

The basics of public market responsible investment – engaging, disclosure and proxy voting – are key in this area. Additionally, assets can be allocated towards companies which operate in environmentally sustainable ways and which offer services and technologies beneficial to habitats and species.

**RL:** Biodiversity loss is often described as a global challenge with local solutions. This is not an easy challenge for markets to solve, with multiple causes, imperfect data, methodology and other risks such as climate change. Do you envisage that the biodiversity crisis will require investors to collaborate?

**AP:** The point about this being a tough challenge for markets is well made – without data, markets struggle to understand value and thus to establish price. But we are seeing efforts to develop data collation methods and appropriate, comparable metrics. Collaboration will indeed be key here, with investors linking up via fora such as the Principles for Responsible Investment, Private Equity Sustainable Markets Initiative Taskforce, Taskforce for Nature-based Financial Disclosure and the CDP, as well as universities and business schools.

And support is now coming through from regulators – via the EU Biodiversity Strategy, France's requirements for financial institutions to disclose biodiversity-related risks and impacts, and the Dutch Central Bank requirement for banks to identify portfolio exposure to biodiversity risks. Hopefully, COP15 will deliver a further boost to this trend.

So we can be optimistic that efforts will now increase exponentially, to establish a robust methodology for measuring biodiversity loss, and developing investment approaches which deliver conservation and enhancement.

And we are now seeing the private equity industry embedding a response to biodiversity loss in its approach and methodologies around sustainable investing.



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