

July 2020

Biodiversity – our approach for investments

The issue

Biodiversity is fundamental to both planet and people. It describes the infrastructure supporting the Earth's life forms, from plants and animals to fungi and bacteria; the ecosystem that houses them; and the genetic diversity among them. Biodiversity contributes to flows of ecosystem services that benefit and create value for business and society. For instance, many medical cures have their origins in nature. However, poor environmental management can result in the destruction of biodiversity, which has a significant impact on the world we live in and the investments that we make.

Human activities are causing a worldwide decrease in biodiversity. These actions include deforestation, encroachment on wildlife habitats, intensified agriculture and acceleration of climate change. At Aberdeen Standard Investments, we acknowledge that deforestation is one of the most imminent and direct threats to biodiversity. We have a particular focus on the risks and opportunities associated with the core four commodities – beef, soy, wood and palm oil – that drive the majority of the world's deforestation. Accordingly, we have a dedicated position statement on palm oil, which can be found on our Responsible Investing webpage.

Given our long-term focus, we are diligent in considering the environmental risks of our investments, as well as in pursuing opportunities that can generate a positive impact. Biodiversity is just one of the many environmental issues that we consider to understand both the risks and opportunities for our investments. Biodiversity loss is an acute risk for many sectors: pharmaceuticals, drug development, agriculture and food, infrastructure, forestry, pulp and paper, mining, fisheries and agriculture. It can also have an impact on many other sectors to a lesser extent. Therefore, we consider biodiversity in relation to all the investments we make.

The challenge of understanding how biodiversity is linked to business is complex, and tackling it requires a broad collective commitment. Aberdeen Standard Investments acknowledges that it has a role to play in seeking out opportunities that contribute to biodiversity and minimising the risks associated with poor practices.

Opportunities

Agricultural practices

Agriculture is one of the main causes of biodiversity loss. But by practicing sustainable agriculture, negative outcomes can be mitigated and biodiversity enhanced. Sustainable agriculture and good stewardship of the natural capital base can result in a number of benefits for businesses. These include enhanced yields, cost savings, improved product quality and the creation of new products and business lines.

At Aberdeen Standard Investments, we believe that futures markets and forward-looking contracts on agricultural commodities can facilitate sustainable agriculture. They perform two key functions that can be helpful for farmers: risk management and price discovery. These hedging and price-discovery functions enable farmers to fix their prices for the future, reduce their risks and better plan their production and investment decisions. We support, and see opportunities in, measures to reduce or eliminate potential market manipulation, which could exacerbate biodiversity challenges.

Circular economy solutions

The circular economy is a key research theme at Aberdeen Standard Investments. With regard to biodiversity, circular-economy approaches are valuable to drive innovations in waste management, encourage sustainable consumption patterns and reduces reliance on natural resources. For example, by minimising the quantity of waste that will end its life cycle in the natural environment, pollution is reduced and biodiversity is preserved. Likewise, by encouraging the use of sustainable resources, circular-economy models minimise excessive consumption of natural resources and prevent the encroachment of exploitative human activities into untouched habitats.

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Risks

Legal and regulatory

When a business fails to integrate biodiversity considerations into its operation, it runs the risk of potential lawsuits and fines. This risk is heightening as governments and regulators increasingly request more disclosure and reporting of biodiversity impacts. Additionally, the potential of more stringent biodiversity-related regulations may result in further transition risks, such as stranded assets. Responding to regulation in a reactive manner is often costly and may result in slower growth or being less agile.

Reputational

Shifts in public sentiment and increased scrutiny of businesses' environmental practices pose reputational risks for our investments. This damage to corporate reputation could stem from a variety of stakeholders such as the media, campaigns by non-governmental organisations or shareholder resolutions. Customers are increasingly switching to sustainably sourced or certified products. For firms that are perceived negatively, changing customer preferences may affect their ability to operate and therefore increase financial risks for investors.

Operational

As a result of failing ecosystem services, natural resources may become inaccessible and therefore lead to production disruptions. This may result in broad supply-chain disruption and price volatility. Despite these risks, many investments or potential investments can fail to recognise their dependence on ecosystem services and the likelihood of operational disruptions of degraded services.

How do we manage biodiversity in our investments?

1. Investment approach

We recognise that we make investments that have high biodiversity risks, that are highly dependent on ecosystems or that have high impacts on ecosystems. Poor risk management can result in the crystallisation of legal, regulatory, reputational and operational risks. In contrast, robust biodiversity management has the ability to unlock opportunities. A strong approach to biodiversity management will have a positive impact on operations, brand reputation and, ultimately, our investments.

At Aberdeen Standard Investments, our Environmental, Social and Governance (ESG) Investment team researches environmental issues such as biodiversity and assists our investment teams in engaging with our investments on these matters. This is both to enhance our knowledge and understanding of a company's approach to biodiversity and to drive change and improvement where we feel this is needed. We embed this expertise within investment teams and across all asset classes via our ESG-integration processes. Our in-depth understanding of environmental issues allows us to make better investment decisions for our clients.

2. Approach to engagement

Corporate engagement is essential to outline our expectations and support biodiversity strategies. During engagement, we encourage our investments to tackle environmental issues, including biodiversity, and expect them to demonstrate their commitment to improve their environmental performance. Our level of engagement varies depending on the materiality of the issues identified. This allows us to monitor performance proactively, challenge on key issues and promote a forward-looking approach. We also engage collaboratively on environmental issues with other asset managers and asset owners as part of our involvement with the Principles for Responsible Investment.

We expect our investments to seek to preserve natural habitats and take a prudent approach towards natural resources. When they do not have appropriate policies, risk-management systems or clear strategies and targets regarding environmental issues such as biodiversity, we escalate our concerns through voting.

3. Voting and shareholder resolutions

As active managers, we influence corporate behaviour through voting and support of shareholder resolutions. Our ESG Investment team is well resourced with stewardship expertise and a dedicated proxy-voting capability that can provide escalation on environmental matters such as biodiversity. Our voting record on environmental issues and other ESG-related issues is available on the Responsible Investing page of our website

Responsible investing at Aberdeen Standard Investments

As a leading global asset manager, we believe that investing responsibly can help generate long-term value for our clients. We offer an extensive and growing range of investment solutions, as well as the very highest levels of service and support.

When investing our clients' capital, ESG considerations are an integral part of our decision-making. By understanding how ESG factors affect our investments, we believe we can generate better outcomes for our clients, society and the wider world.

To help us achieve this, our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset classes to support this work. A further 30 dedicated ESG asset-class analysts provide an additional layer of expertise.

For more detail, please visit our [website](#).

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