



# **RAIL & OV** **ON THE WAY TO** **BIODIVERSITY**

A FIRST EXPLORATION


## PREFACE

# LOSS OF BIODIVERSITY AN URGENT AND COMPLEX RISK FOR RAIL & OV

**O**ur society is entirely dependent on nature. Just think of clean air and water, healthy soils, pollination and good climate conditions. It is estimated that roughly \$44 trillion of economic value creation worldwide is moderately or highly dependent on nature and its services. Climate change, pollution, agricultural intensification and industrial growth are putting pressure on the natural world and its biodiversity. The loss of biodiversity has far-reaching consequences for our society and economy, and therefore also for our pension fund. At the same time, the value of biodiversity and natural capital to produce products and services is barely recognised by investors today.

In this case study, we explore why biodiversity is a relevant topic for institutional investors such as Rail & OV. For the first time, we are analysing a large part of our portfolio to map out the impact on biodiversity and our dependency on biodiversity. Based partially on these results, we identify a number of follow-up steps. Last but not least, we hope to share our knowledge and experience in the area of biodiversity with our industry peers and enter into discussions with Rail & OV's member companies on the role of the rail infrastructure, public transport and transport sectors regarding this topic.

Bart Oldenkamp  
*Executive board member asset management*



This case study outlines a framework that provides insight into legislation and initiatives in the area of biodiversity, explains why biodiversity is an important topic for financial institutions such as Rail & OV and maps out the risks and dependencies of our investments. The opportunities that biodiversity offers are also explained. Ultimately, Rail & OV intends to use this document as input for developing a biodiversity policy.



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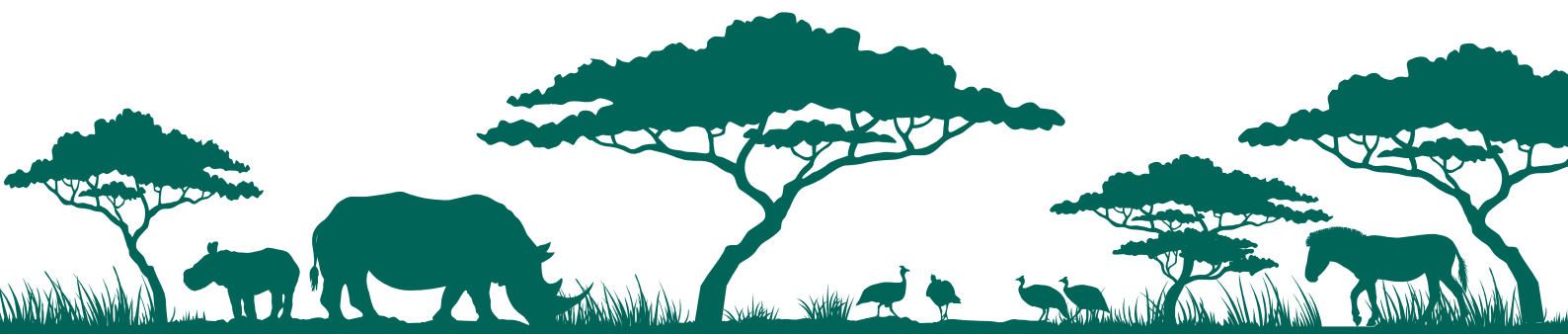
With special thanks to The World Wildlife Fund (WWF-NL) and Nicolas Poolen for their contribution and knowledge in the area of biodiversity and finance.

# 01.

## INTRODUCTION

\$44 trillion of economic value generation – over half the world’s total GDP – is moderately or highly dependent on nature and its services and, as a result, exposed to risks from nature loss. Construction (\$4 trillion), agriculture (\$2.5 trillion) and food and beverages (\$1.4 trillion) are the three largest industries that depend most on nature. Combined, their value is roughly twice the size of the German economy. Such industries rely on either the direct extraction of resources from forests and oceans or the provision of ecosystem services such as healthy soils, clean water, pollination and a stable climate (World Economic Forum, 2020).

Natural capital, consisting of soils, water, air and all living organisms is essential for people and the economy. Almost all sectors within our economy depend, to varying degrees, on this natural capital and the ecosystem services it provides. The degree of diversity within this natural capital is essential for the provision of these services. According to De Nederlandsche Bank (the central bank of the Netherlands), the loss of this diversity will therefore have far-reaching consequences in the form of substantial disruption of business processes resulting in significant financial damages.



Current statistics on biodiversity loss are alarming.

#### **DISAPPEARANCE OF THE HABITAT OF MANY WILD ANIMALS AND THE SUBSEQUENT EXTINCTION OF THESE SPECIES**

According to an analysis by the Swiss Re Institute, one in five countries is at risk of their ecosystem undergoing a potentially irreversible change that will lead initially to the disappearance of the habitat of many wildlife species and subsequently to the extinction of these species (Swiss Re Management Ltd, 2020). This loss of biodiversity will be particularly severe in Africa in the future (Hill, et al., Worldwide Impacts of Past and Projected Future Land-Use Change on Local Species Richness and the Biodiversity Intactness Index, 2018).

#### **CRUCIAL ECOSYSTEMS SUCH AS TROPICAL FORESTS AND CORAL REEFS ARE BECOMING INCREASINGLY SCARCE**

Crucial ecosystems such as tropical forests and coral reefs are becoming increasingly scarce, which could trigger a chain reaction that could fundamentally change our natural environment. This in turn could affect the habitability of the earth to such an extent that the living standards of billions of people are threatened.

#### **69% DECLINE IN THE GLOBAL WILDLIFE POPULATION**

A study by the World Wildlife Fund (WWF-NL) shows that there has been a 69% decline in the global wildlife population between 1970 and 2018. With Latin America showing the largest decline (WWF, 2022).

#### **BIODIVERSITY LOSS IS THE THIRD LARGEST GLOBAL RISK TO PEOPLE AND THE ECONOMY**

The World Economic Forum sees the loss of biodiversity as the third largest global risk for people and the economy, after insufficient action to combat climate change and extreme weather (World Economic Forum, 2022).



The way in which people produce and consume is the cause of the decline of biodiversity worldwide; this happens in spite of the fact that nature, biodiversity and the use of ecosystem services are the backbone of our economy and therefore financially material for business and financial institutions. For this reason, we are examining the link between biodiversity loss and our investment portfolio. As far as we are concerned, this connection works both ways:

- On the one hand, we are looking into how our portfolio affects the degree of biodiversity loss;
- On the other hand, how biodiversity loss affects our portfolio.

This case study outlines a framework that provides insight into legislation and initiatives in the area of biodiversity, explains why biodiversity is an important topic for financial institutions, such as Rail & OV and maps out the risks and dependencies of our investments. The opportunities that biodiversity offers are also explained. Ultimately, Rail & OV intends to use this document as input for developing a biodiversity policy and we hope to share our knowledge and experience in the area of biodiversity with other pension funds.

A wide-angle photograph of a misty forest landscape. The foreground shows a calm body of water reflecting the surrounding trees and the hazy sky. The middle ground is filled with a dense forest of tall, thin trees, their tops shrouded in a thick layer of white mist. The background shows more trees and a soft, blueish-grey sky. The overall mood is serene and quiet.

THE WAY IN WHICH PEOPLE PRODUCE AND CONSUME IS THE CAUSE OF THE DECLINE OF BIODIVERSITY WORLDWIDE.

# 02.

## THE VALUE OF BIODIVERSITY

Biodiversity refers to the variety of life in an area and thus encompasses the totality of living organisms, systems and the interactions between them. Financial institutions, such as pension funds, have an impact on biodiversity. This is mainly due to providing loans, or investing in projects and companies that engage in activities that harm biodiversity. At the same time, we are highly dependent on biodiversity. A study by De Nederlandsche Bank shows that Dutch financial institutions financed €510 billion across the globe to companies that have a high or very high dependence on biodiversity. This dependency means that biodiversity is important in the company's business processes.





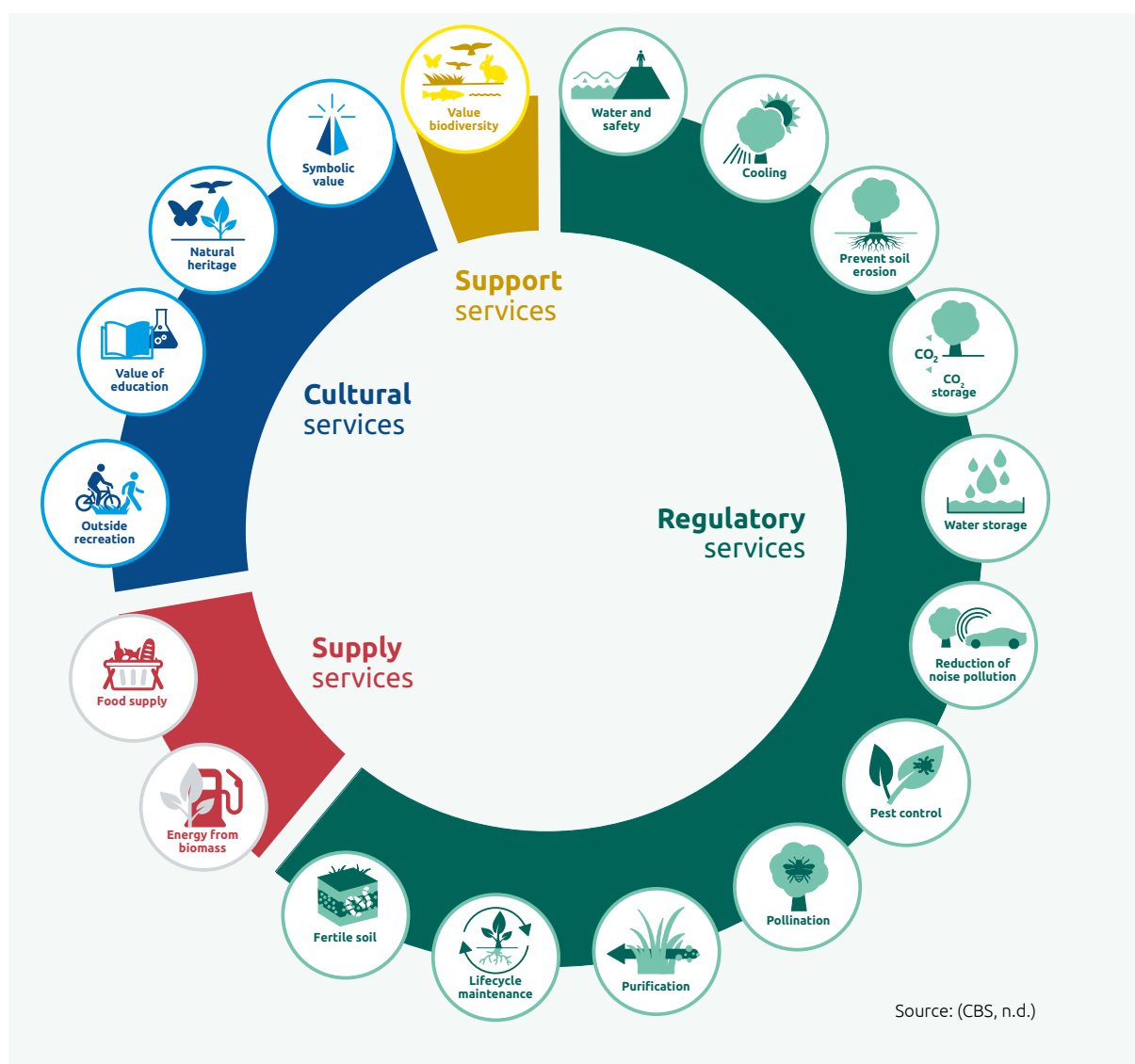
## 2.1

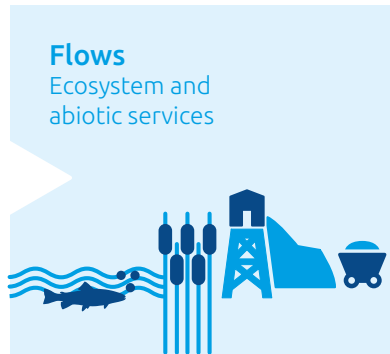
# WHAT IS BIODIVERSITY AND WHY IS IT IMPORTANT?

Biodiversity is usually described as the 'variety of life, in all kinds of forms, on earth'. More specifically, it refers to the number of different plants and animal species, genetic variation and the interaction of these in a certain area (European Parliament, 2021).

Biodiversity is an important factor in safeguarding the resilience of nature and thus also the supply of capital goods (raw materials for food, clothing, medicine,

etc.) and ecosystem services. The loss of biodiversity reduces this resilience and affects the availability of natural capital goods and ecosystem services.





**Biodiversity**

Source: (CBS, n.d.)

Ecosystem services can be described as the benefits people get from nature. Ecosystem services are essential for human existence. Examples are materials extracted from nature, food we harvest from nature, but also services provided by nature that are less tangible, such as providing protection against flooding, natural water purification, mitigating climate change, and recreational opportunities (CBS, n.d.).

It is estimated that the combined annual value of all ecosystem services exceeds \$150 trillion. That is almost twice as much as the global gross domestic product (Kurth, Wübbels, Portafaix, & Felde, The Biodiversity Crisis is a Business Crisis, 2021). To give an example, over 75% of the global food production, including fruits, vegetables, almonds and coffee,

**150**

IT IS ESTIMATED THAT THE COMBINED ANNUAL VALUE OF ALL ECOSYSTEM SERVICES EXCEEDS \$150 TRILLION.

THAT IS ALMOST TWICE AS MUCH AS THE GLOBAL GROSS DOMESTIC PRODUCT.

depends on pollination (e.g. by bees). And about 70% of antibiotics and drugs used to treat cancer are made of natural substances or ingredients that originate in nature.

**70%**

70% OF ANTIBIOTICS AND DRUGS USED TO TREAT CANCER ARE MADE OF NATURAL SUBSTANCES OR INGREDIENTS THAT ORIGINATE IN NATURE.

**75%**

OVER 75% OF THE GLOBAL FOOD PRODUCTION, INCLUDING FRUITS, VEGETABLES, ALMONDS AND COFFEE, DEPENDS ON POLLINATION. FOR EXAMPLE BY BEES.

## 2.2

# CAUSE OF BIODIVERSITY LOSS

As a result of biodiversity loss, nature can provide fewer services. It is estimated that the cost of this loss, since the late 1990s, amounts to more than \$5 trillion a year. This means that the annual loss of ecosystem services is equivalent to about 6% of the global gross domestic product. This illustrates the urgency of combating biodiversity loss and of preventing that biodiversity loss erodes our economy. In other words, carrying on in the same old way is no longer an option.

Biodiversity loss can largely be narrowed down to five main causes:

1

### LAND USE CHANGE

Land-use change refers to deforestation, the conversion of nature to farmland, intensive monoculture and urbanisation. Land-use change is currently the biggest factor behind the loss of biodiversity.

2

### USE AND EXPLOITATION OF NATURAL RESOURCES

Use of natural resources and exploitation in the form of overfishing, excessive hunting of wild animals, excessive felling of trees for firewood, overgrazing and depletion of agricultural land and over-exploitation of water, soil and minerals.

3

### POLLUTION

Pollution can damage the quality of ecosystems and can lead to deterioration of soils, waterways, and large open waters. Examples of this are the presence of microplastics, heavy metals, herbicides, chemical components of pharmaceuticals, cosmetics and household cleaning products that are found in both soils and water.

4

### INVASIVE AND EXOTIC SPECIES

These are plants and animals introduced by humans into environments where they don't naturally live. Such species may enter through global trade or tourism, or multiply naturally through introduction in agriculture. By infiltrating areas in large numbers, they can destabilise entire ecosystems.



5

## TWO CRISES THAT REINFORCE EACH OTHER

Climate change and biodiversity loss are inextricably linked. They are two crises that reinforce each other. As an example, it is estimated that even if the earth warms by only two degrees, around 5% of all species will go extinct (Wageningen University & Research, n.d.).



Climate change and biodiversity loss are inextricably linked. If global warming is not limited to 1.5 degrees, climate change will likely be the main cause of biodiversity loss in the near future. To give an example, increased greenhouse gas concentrations lead to higher average temperatures, more irregular precipitation, increased frequency of extreme weather, ocean deoxygenation and ocean acidification (Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), 2021). This completely disrupts existing ecosystems, resulting in biodiversity loss. Ecosystems greatly benefit from stability over

long periods of time. Any change, including climate change, leads to a loss of quality in ecosystems and hence to biodiversity loss. Conversely, biodiversity contributes to the mitigation of climate change. According to the Intergovernmental Panel on Climate Change (IPCC), natural ecosystems annually store about a third of global emissions of greenhouse gases, preventing their release into the atmosphere. This is why regulators such as the European Commission or De Nederlandsche Bank point out that biodiversity loss and climate change should be seen as interlinked and tackled simultaneously.



CLIMATE CHANGE AND BIODIVERSITY LOSS ARE INEXTRICABLY LINKED. IF GLOBAL WARMING IS NOT LIMITED TO 1.5 DEGREES, CLIMATE CHANGE WILL LIKELY BE THE MAIN CAUSE OF BIODIVERSITY LOSS IN THE NEAR FUTURE.



## 2.3

# BIODIVERSITY LOSS AND THE ECONOMY

Many of the causes behind biodiversity loss can be traced back to specific economic activities. Although virtually all economic sectors contribute to biodiversity loss, Swiss Re Management Ltd has identified a number of sectors that clearly have the greatest negative impact.

### FOOD INDUSTRY

The food industry and agriculture have a major negative impact on the level of biodiversity. This is particularly due to the conversion of nature into agricultural land.

### INFRASTRUCTURE AND MOBILITY

Infrastructure has a negative impact because, on the one hand, it is large-scale: the network of motorways and railways cuts across existing ecosystems, disrupting natural processes. On the other hand, most forms of infrastructure use are polluting and therefore harmful to nature.

### ENERGY

Both the generation, transmission and consumption of energy harms nature and has disastrous effects on existing ecosystems.

### FASHION

The clothing industry relies heavily on raw materials and hence on the intensive use of land to produce these raw materials. The conversion of nature, polluting chemical processes for textile dyeing, and the exhaustion of raw materials for the benefit of the clothing industry, has a major negative impact on the level of biodiversity.

### MINING AND FORESTRY

Both mining and forestry lead to the direct disruption of existing ecosystems due to the mining of raw materials or conversion of forest



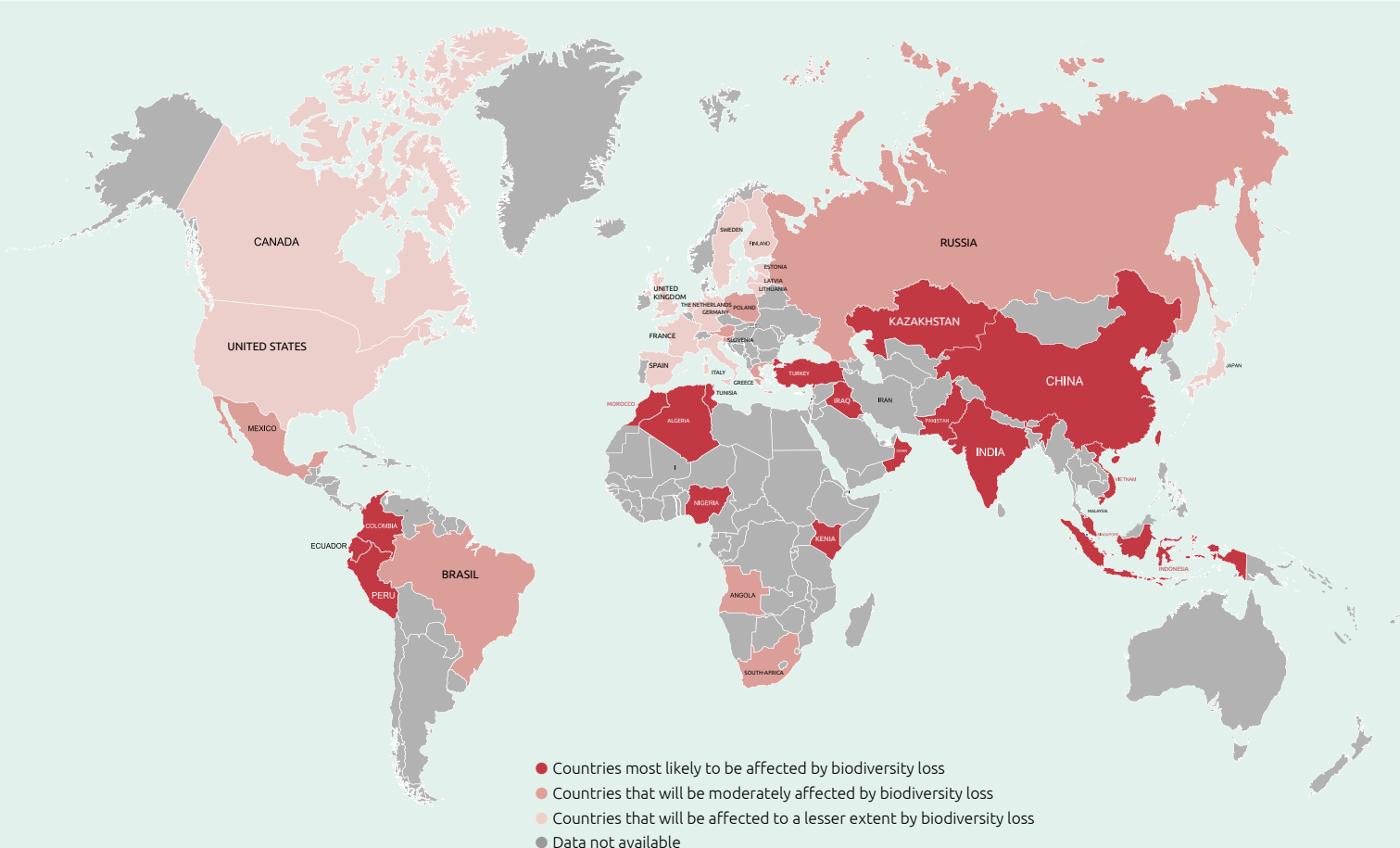
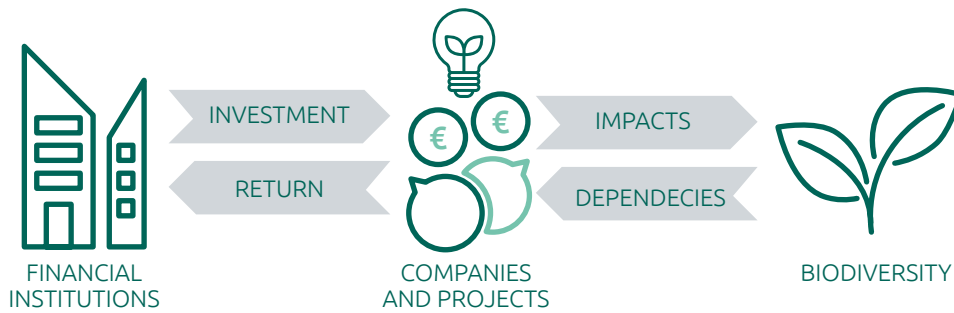
On the other hand, many economic sectors also suffer directly from the loss of biodiversity. The contradiction here is that many sectors that are responsible for causing major harm to the level of biodiversity are also the very sectors that are most dependent on the ecosystem services provided by nature. Examples include agriculture, forestry and fishery. These are the very sectors that benefit from the services provided by nature (Swiss Re Management Ltd, 2020).

Finally, biodiversity loss not only leads to economic damage, but also affects our necessities of life. These include food supply, water security and air quality. A study by Swiss Re Management found that less developed countries will be hit particularly hard in this area the moment biodiversity loss continues at its current pace. The figure below shows which countries are expected to be hit the hardest by biodiversity loss.



The effects may intensify in the future, looking at the biodiversity loss rates. According to The Living Planet Index, published by WWF, biodiversity loss is highest in Latin America and the Caribbean (94%), Africa (64%), Asia and the Pacific (55%) followed by North America (20%) and Europe and Central Asia (18%).

Rail & OV invests in sectors that have an impact on and are depend on biodiversity. The same applies to our investments in government bonds or in other words countries. To determine the exposure to biodiversity and natural capital, we have carried out an impact analysis. This analysis is presented in this paper.





# 03.

## WHY IS BIODIVERSITY IMPORTANT FOR THE FINANCIAL SECTOR AND RAIL & OV?

Financial institutions, such as pension funds, have an impact on biodiversity. Most of this impact is indirect by providing loans or investing in projects and companies which, through their activities, have either a positive or negative impact on the degree of biodiversity. Examples include companies whose activities lead to deforestation or to the extraction and exploitation of natural resources. As Rail & OV has signed the IMVB Covenant, we are obliged to identify, mitigate and prevent negative impacts on the environment and society, including those that are not financially material.

## 3.1

# THE IMPACT OF BIODIVERSITY LOSS ON PENSION FUNDS

Through their investments, financial institutions such as Rail & OV face the following risks as a result of biodiversity loss (De Nederlandsche Bank, 2020).

### PHYSICAL RISKS

Physical risks can be divided into acute and chronic risks. An example of a chronic risk is the loss of natural resources that can jeopardize the production processes of companies which can then result in a deterioration of their financial position. Acute risks refer to natural disasters, for example, worsened by the loss of coastline protection.

### TRANSITION RISKS

Transition risk factors refer to government measures, technological developments, changing consumer preferences and reputational risk by investing in companies with a (disproportionate) negative impact on biodiversity. As a result, companies need to adapt to a new reality and increase their investments to keep up with the transition. This will impact the profitability of companies and can even lead to bankruptcies among those companies that do not adapt fast enough.

### SYSTEMIC RISKS

Systemic risks are risks that result from the disruption of the entire ecosystem, rather than the disruption of individual parts. For instance the droughts of recent summers in the Netherlands, with many consequences for agriculture, housing construction and other industries.

According to a study by De Nederlandsche Bank, Dutch financial institutions face a physical biodiversity risk of €510 billion and a transition risk of €81 billion (De Nederlandsche Bank, 2020). Rail & OV can potentially be exposed to physical, transition and systemic risks that can have financial consequences.

RAIL & OV CAN POTENTIALLY BE EXPOSED TO PHYSICAL, TRANSITION AND SYSTEMIC RISKS THAT CAN HAVE FINANCIAL CONSEQUENCES.



## 3.2

# LEGISLATION RELEVANT FOR THE FINANCIAL SECTOR

There are many national and international laws and treaties in connection with biodiversity conservation or the mitigation of biodiversity loss. In this chapter, we focus on treaties and legislation relevant to the financial sector.

### 3.2.1

#### INTERNATIONAL TREATIES

Internationally, since October 2021, the United Nations Human Rights Council has recognised access to a safe, clean, healthy and sustainable environment as a human right. This requires UN member states to adopt policies in this regard. These policies automatically include biodiversity and ecosystems. However, this is not the only example of an international treaty that addresses biodiversity.

#### UN CONVENTION ON BIOLOGICAL DIVERSITY

The CBD (Convention on Biological Diversity, 1992) is an international, legally binding treaty that provides a global framework for taking action for biodiversity conservation. Its main goals are:

- 1) The conservation of biological diversity
- 2) The sustainable use of the components of biodiversity.
- 3) The fair and equitable sharing of the benefits arising from genetic resources.

The CBD is has developed a new strategic framework, the post-2020 Global Biodiversity Framework. This is relevant to Rail & OV, as the framework specifies what financial institutions and investors can do to solve the global biodiversity crisis. Moreover, it provides a framework for the role of governments and regulators to enable financial institutions and investors to align financial flows for biodiversity. We are closely

following the developments in this area and will incorporate it into our biodiversity policy.

#### CITES CONVENTION ON TRADE IN ENDANGERED ANIMALS AND PLANTS

This is the treaty that regulates the international trade in endangered species of animals and plants and, if necessary, prohibits it. The aim of the treaty is to prevent species from becoming extinct in the wild or greatly reduced in numbers due to international trade.

#### THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT

This is a United Nations initiative that has 17 sustainable development goals at its core. Many of these goals are directly related to biodiversity, for example SDG 13 (climate action), SDG 14 (life below water) and SDG 15 (life on land).

As part of our responsible investment policy, we have selected seven SDGs. Many of these SDGs relate to biodiversity. This is further described in section 3.3.



### EUROPEAN GREEN DEAL (2019)

This is a range of initiatives by the European Commission with one overall goal: to make Europe climate neutral by 2050. The objectives of the Green Deal are to improve the well-being and health of citizens and future generations across eight topics. Two of these are directly related to biodiversity. *Environment and oceans*: increase biodiversity, protect ecosystems and reduce water and soil pollution. *Agriculture*: safeguarding food security in the face of climate change and biodiversity loss.

- Part of the European Green Deal is the **European 2030 Biodiversity Strategy**. The biodiversity strategy aims to gradually increase Europe's biodiversity between now and 2030 for the benefit of people, the climate and the planet. With the strategy, the EU aims to make societies more resilient to future environmental threats. Such as the effects of climate change, wildfires, food insecurity or disease outbreaks. By, among other things, protecting wildlife and combating the illegal trade in wild animals.
- **EUROPEAN CLIMATE LAW** (2021). The law is part of the European Green Deal and has indirect relevance to biodiversity. The European Climate Law sets a legally binding target that net emissions of greenhouse gases must be at least 55% lower in the EU by 2030 compared to 1990. The European Commission will set an interim climate target for 2040 (if necessary). The EU is committed to negative emissions after 2050. There will also be a new independent scientific EU body to track progress.
- Biodiversity is also part of legislation that applies to investors. **The Sustainable Finance Disclosure Regulation (SFDR)** and the **EU Taxonomy** determines which business activities make a positive contribution to the restoration of biodiversity and can be labelled as sustainable by financial institutions. Investors offering article 8 (light green) and article 9 (green) financial products must report on these annually including the steps they have taken to reduce the negative impacts of the investments. Because Rail & OV pension scheme is classified as light green, reporting requirements are applicable to the fund.

## 3.2.2

### NATIONAL CONVENTIONS

The Netherlands also has legislation on biodiversity, such as the Birds and Habitats Directive and Natura 2000. In addition, the Netherlands has committed to the Leaders' Pledge for Nature to combat biodiversity loss and has the ambition to become 'nature positive'. This means that nature is restored not only within nature reserves, but everywhere. In other words, also in cities, in the countryside and in large bodies of water. This framework is still relatively abstract at present, but it can be expected that more concrete strategies, plans and projects will be announced in the coming years. A focus on biodiversity was also

expressed during Budget Day 2022. In this regard, priority was given to reducing emissions, improving the water quality and restoring nature.

The importance of sustainability and specifically the effects of biodiversity loss for the financial sector are recognised as relevant topics by the national regulators (for Rail & OV these are in particular the Dutch Authority for the Financial Markets (AFM) and De Nederlandsche Bank (DNB)). Currently, the focus is on awareness-raising, with biodiversity being declared an important topic for regulators in the near future.

THE IMPORTANCE OF SUSTAINABILITY AND SPECIFICALLY THE EFFECTS OF BIODIVERSITY LOSS FOR THE FINANCIAL SECTOR ARE RECOGNISED AS RELEVANT TOPICS BY THE NATIONAL REGULATORS (FOR RAIL & OV THESE ARE IN PARTICULAR AFM AND DNB).

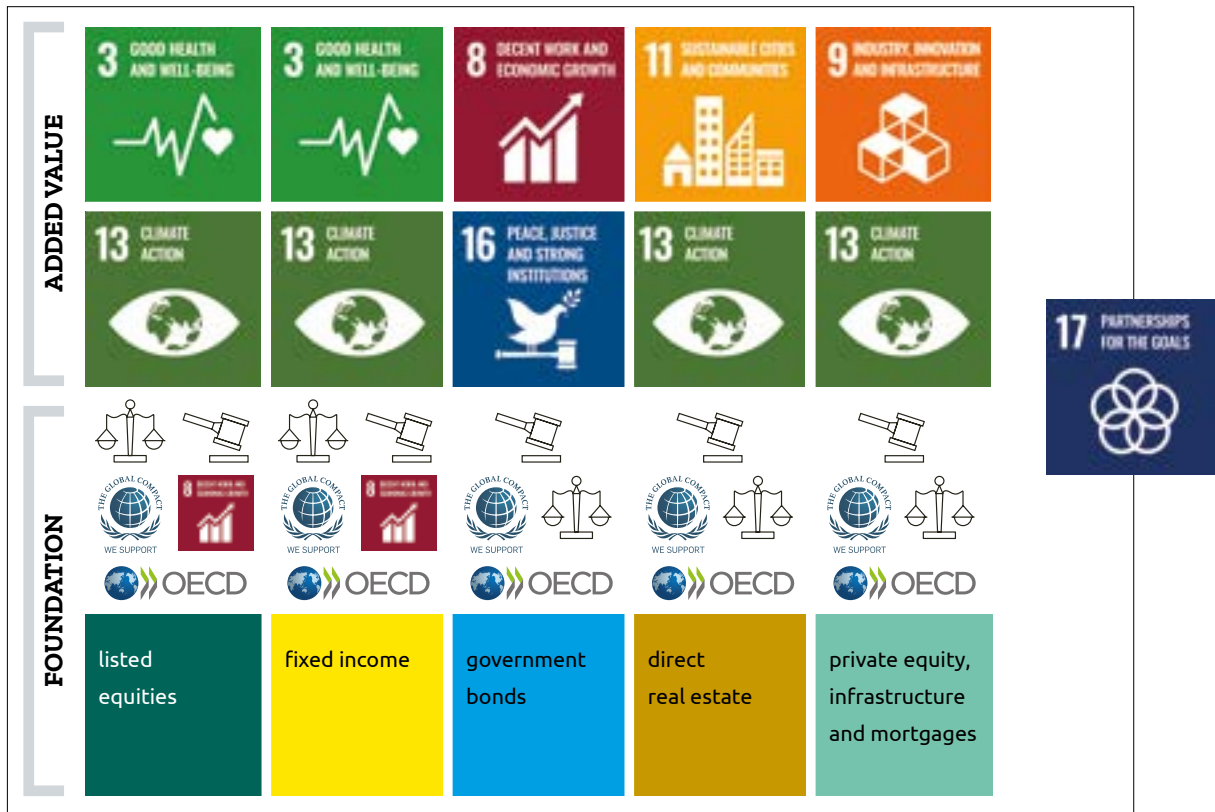




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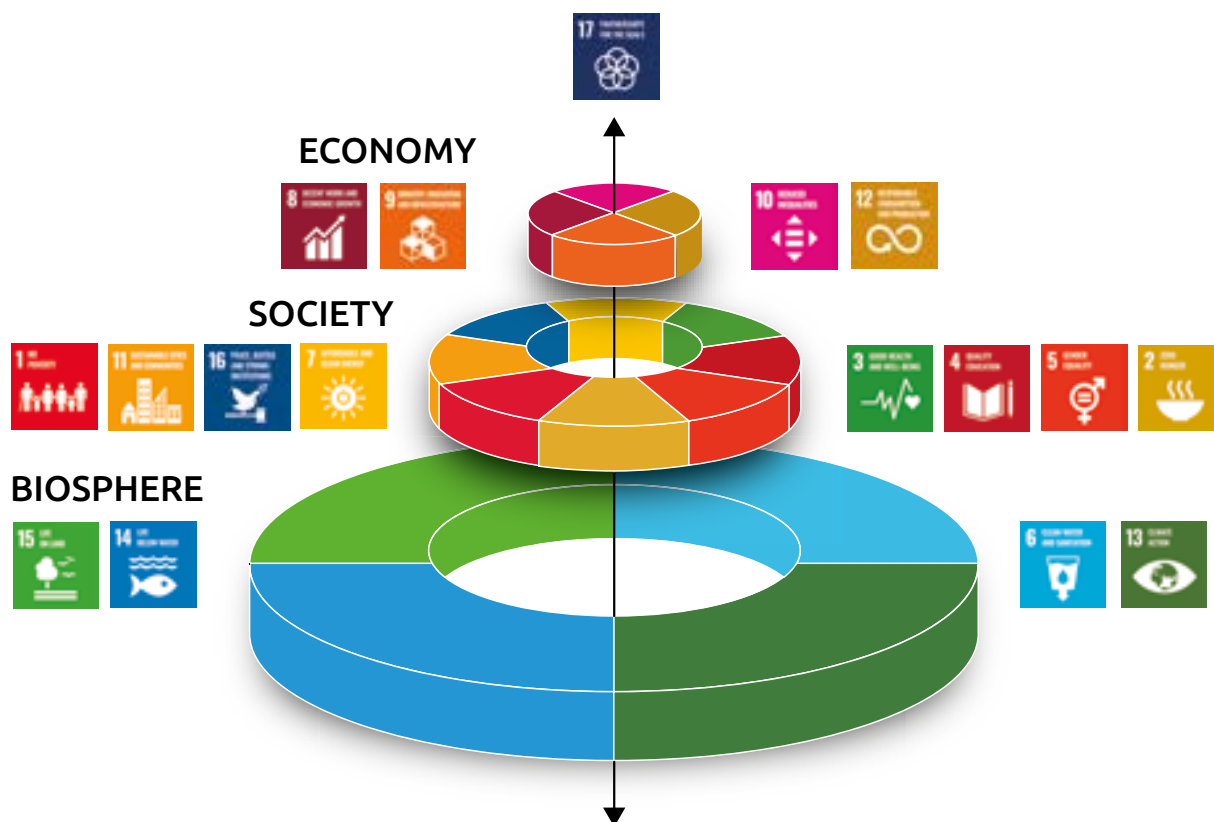
# BIODIVERSITY AND CONTRIBUTION TO THE 17 SUSTAINABLE DEVELOPMENT GOALS (SDGs)

As mentioned earlier, there is a clear link between the Sustainable Development Goals of the UN and biodiversity. This also applies to the seven SDGs selected by Rail & OV.



The Wedding Cake model of the Stockholm Resilience Institute shows which SDGs relate to the domains of biosphere, society and economy. The model

has biosphere as its foundation of economies and societies (SDG Netherlands, 2018). With this, biosphere is at the basis of achieving all SDGs.



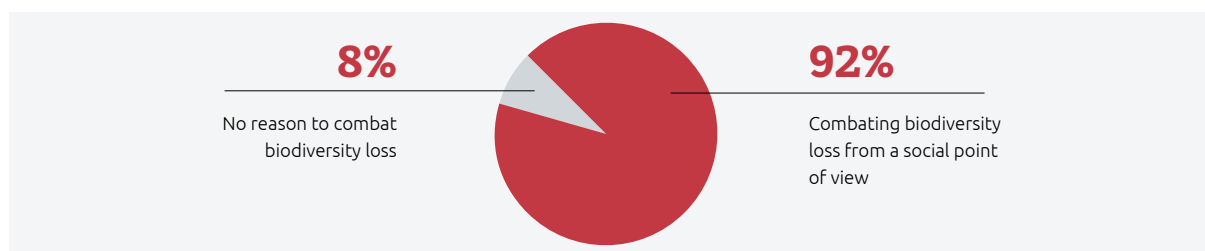
80%

BIODIVERSITY LOSS COULD POTENTIALLY UNDERMINE 80% OF THE SDG'S. TO MAKE RELEVANT CONTRIBUTIONS TO THE SDGS CHOSEN BY RAIL & OV, MAPPING THE BIODIVERSITY RISKS AND OPPORTUNITIES OF RAIL & OV PORTFOLIO IS VERY IMPORTANT.

## 3.4

# THE OPINION OF THE PARTICIPANTS ALSO COUNTS

Rail & OV values the opinions of participants and member companies on socially responsible investing.



Every three years, participants of the fund are asked for their opinions. Also on socially responsible investing, through a participant survey or a customer satisfaction survey. These surveys provide important input for the principles of the responsible investment policy. In addition, Rail & OV organises webinars for participants every year, which focus specifically on socially responsible investing.

The topic of biodiversity was also on the agenda of this webinar in 2022 and the following interesting observations emerged from it.

- Although the concepts of biodiversity and biodiversity loss are relatively new to the investor community, 81% of webinar participants said they were familiar with the topic of biodiversity.
- Many participants said they were also well aware of the risks of biodiversity loss, 52% stating they consider biodiversity loss a greater risk than climate change.
- Based on a participant survey during a webinar<sup>1</sup> more than 90% are of the opinion that the pension fund has a social responsibility to combat biodiversity loss.
- 92% of the webinar participants said Rail & OV has a social responsibility to combat biodiversity loss.

<sup>1</sup> In the second half of 2022, Rail & OV organised a webinar for its participants. Question pools were used to gather the opinions of participants.

Rail & OV's member companies (such as ProRail or NS) also have an impact on biodiversity through their business activities. Some of the member companies have started looking for solutions and are taking first steps to combat biodiversity loss. This gives us a unique opportunity to share knowledge and experience on this topic and

learn from each other. For this reason, Rail & OV wants to continue to discuss biodiversity with its participants and member companies. The first Biodiversity Roundtable Discussion will take place in January 2023. We hope to initiate an important cross-sectoral discussion, which is needed for a topic such as biodiversity.



## 3.5

# BIODIVERSITY ALSO OFFERS INTERESTING OPPORTUNITIES

In addition to stricter legislative requirements and social pressure on the financial sector to reduce adverse impacts on nature, there is also an increasing number of investment opportunities to invest in nature-positive solutions.

- The United Nations Environment Programme Finance Initiative (UNEPFI) has calculated that \$8.4 trillion in investments will be needed by 2050 to finance solutions to combat climate change, loss of nature, and land degradation.
- The World Economic Forum estimates that the transition to more nature-positive practices could generate more than \$10 trillion in economic growth by 2030 for just the sectors food, land and ocean use, infrastructure and construction, energy and mining (World Economic Forum in collaboration with AlphaBeta, 2020).
- Taskforce on Nature-related Financial Disclosures (TNFD) also identifies other opportunities for institutional investors to invest in nature-positive solutions, such as:
  - Investing in resource efficiency. For example, a transition to more efficient services and processes that require fewer natural resources such as water.
  - Investing in biodiversity-related and/or green funds or bonds (TNFD, 2022).
- All in all, a market is beginning to emerge that offers a great opportunity for the financial industry, and thus also for Rail & OV, to finance the transition to a nature-positive economy.

# \$8.4

\$8.4 TRILLION IN INVESTMENTS WILL BE NEEDED BY 2050 TO FINANCE SOLUTIONS TO COMBAT CLIMATE CHANGE, LOSS OF NATURE, AND LAND DEGRADATION.



# 04.

## RAIL & OV'S BIODIVERSITY EXPOSURE

The high impact of biodiversity loss makes it valuable for financial institutions such as Rail & OV to identify, on the one hand, our impact on biodiversity and, on the other, the extent to which our investments depend on biodiversity. For the first time, Rail & OV has carried out a biodiversity exposure analysis. This analysis shows that biodiversity loss can have financial impact on the Rail & OV portfolio. Within the listed equity, corporate bonds, private equity and infrastructure portfolios, we have identified high impacts on land and freshwater use, pollution and climate change. Here, industries such as consumer goods and manufacturing stand out. But our investments, especially our equity and infrastructure investments, also show a strong reliance on biodiversity and ecosystems to provide products and services.





Within our analyses, we approach biodiversity from two perspectives, impact and dependence.

- When looking at **impact**, we evaluate the extent to which our investments have an impact on biodiversity based on the industry within which the underlying companies operate.
- When looking at **dependency**, we evaluate the extent to which companies depend on biodiversity by assessing the extent to which the functioning of the company depends on underlying ecosystem services and how great the financial impact on the production processes of the underlying companies is.

Based on the data of [ENCORE](#), the exposure of investments is mapped out. When calculating impacts and dependencies, ENCORE bases the data on an average company within the industry. ENCORE does not take into account mitigation measures, commitments and policies of individual companies. Individual companies (or investors with an active selection that takes these factors into account) can therefore have a lower impact and dependency.

We map out the impact and dependency for different asset classes within the portfolio of Rail & OV. Namely investments in listed equities, corporate bonds (including high yield), private equity and

infrastructure. Fund investments in listed equities, as well as investments in government bonds and real estate, are out of scope. The limited availability of data means that insight into the exposure cannot be obtained for all positions in the portfolio. Within the asset classes, there is 100%, 81%, 95% and 99% coverage for listed equities, corporate bonds, infrastructure and private equity, respectively. In determining impacts and dependencies we have taken a conservative approach where - if multiple business processes are relevant within a given industry - we use the maximum exposure per ecosystem service for the analysis. As a result, exposures are higher than with an approach at the business process level.





## 4.1

# WHAT ARE THE IMPACTS ON BIODIVERSITY OF RAIL & OV INVESTMENTS?

Exposure to industries that have an impact on biodiversity is mapped out on the basis of different causes of biodiversity loss, such as pollution and land use.

Charts 1 to 4 show for listed equities, corporate bonds, private equity and infrastructure which impact areas have high or very high exposure. If a company has a very high impact on one of the ecosystem services, this means, among other things, that it is operationally and financially impossible to design projects differently to avoid the expected high and continuous impact. **Within both liquid and illiquid investments, there is a high impact on nature (natural capital) through land and freshwater use, pollution and climate change.** Examples of underlying sectors with high exposure to biodiversity are industry (e.g. companies active in transport and mechanical engineering) and consumer staples

(e.g. companies active in retail and agricultural enterprises). An airline company is a concrete example of a company that has an impact on ecosystem service disturbances through noise, among other aspects. The chart below shows that the impact on ecosystem services is higher for Rail & OV listed equity investments than the market index. One reason for this is that Rail & OV invests more in the sectors listed real estate and semiconductors than the market index. However, as indicated earlier, this is about impacts of industries and not specific companies in the portfolio of Rail & OV. Through selection process of our investments, we can take the impacts of investments into consideration when selecting companies.



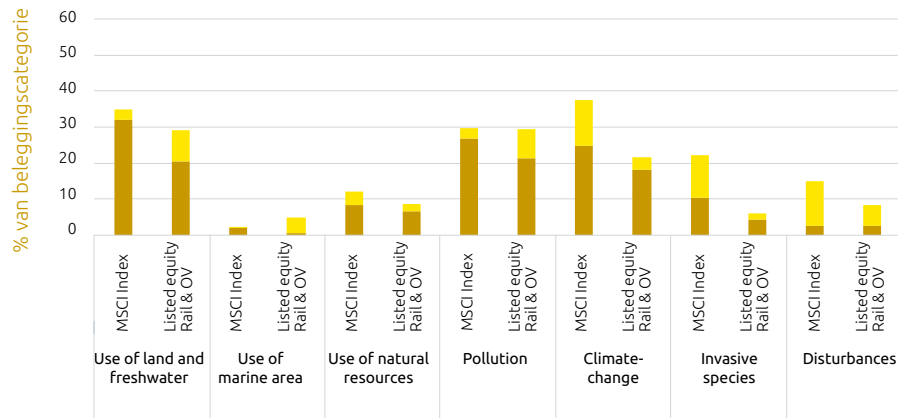


# IMPACT ON BIODIVERSITY

1

## LISTED EQUITY

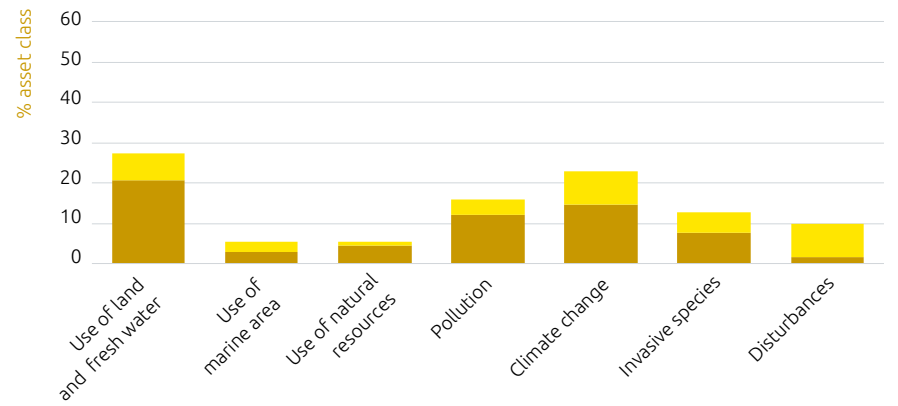
■ HIGH ■ VERY HIGH



2

## CORPORATE BONDS

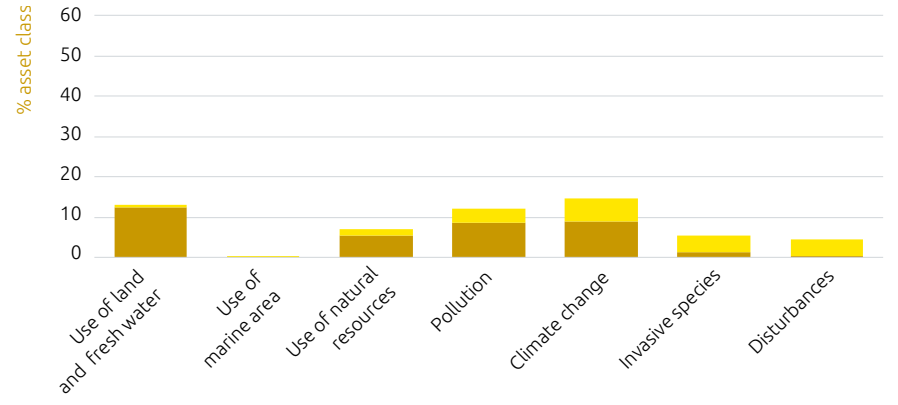
■ HIGH ■ VERY HIGH



3

## PRIVATE EQUITY

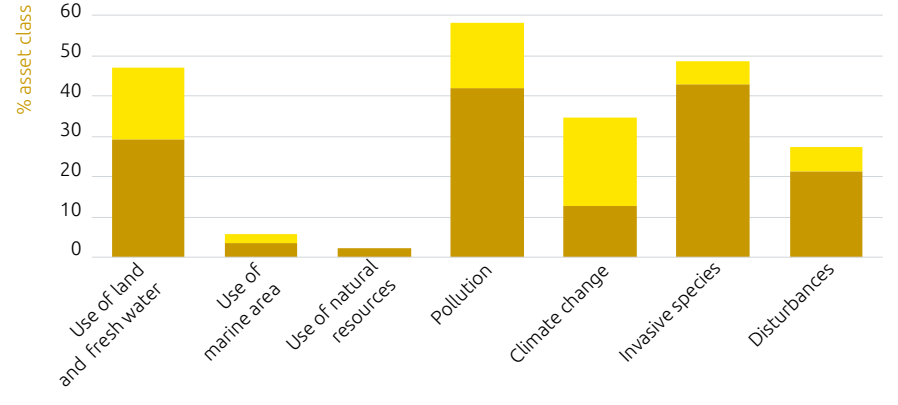
■ HIGH ■ VERY HIGH



4

## INFRASTRUCTURE

■ HIGH ■ VERY HIGH





## 4.2

# THE DEPENDENCY OF RAIL & OV INVESTMENTS ON BIODIVERSITY

In addition to mapping out the impact that Rail & OV's investments have on biodiversity, it is important from a risk perspective to understand the extent to which investments are dependent on biodiversity. Just as with impact, this dependency is mapped out for different ecosystem services. This analysis shows that the Rail & OV portfolio is dependent on ecosystem services and consequently biodiversity loss can pose financially material risk to our portfolio.

The analysis shows that 49% of the investments (based on assets under management) in listed equities have a high or very high dependence on one or more ecosystem services. For the categories corporate bonds, infrastructure and private equity, this is 33%, 83% and 25% respectively. The high exposure within the infrastructure category can be explained in part by investments in industries such as renewable electricity, highways and railways. A study by De Nederlandsche Bank (2020) shows that 36% of the portfolio of Dutch financial institutions has a high or very high exposure to one or more ecosystem services. This means that Rail & OV shows a higher dependence on ecosystem services than the average Dutch financial institution\*.

Within Rail & OV's portfolio, the dependence on groundwater, surface water and water flow maintenance is the highest. The exposures to these ecosystem services are shown in charts 5 to 8 on the next page. Listed equity and infrastructure investments have the highest relative dependence. Industries with a high dependence on biodiversity are consumer goods and materials (including companies active in construction products and producers of chemicals). Many companies in the materials sector, for example chemical companies and mining companies, depend on ground and surface water within their production processes. Within these industries, the dependence is mainly on water safety. Utility companies such as hydropower plants are an example of businesses that have a high dependency on the water flow maintenance.

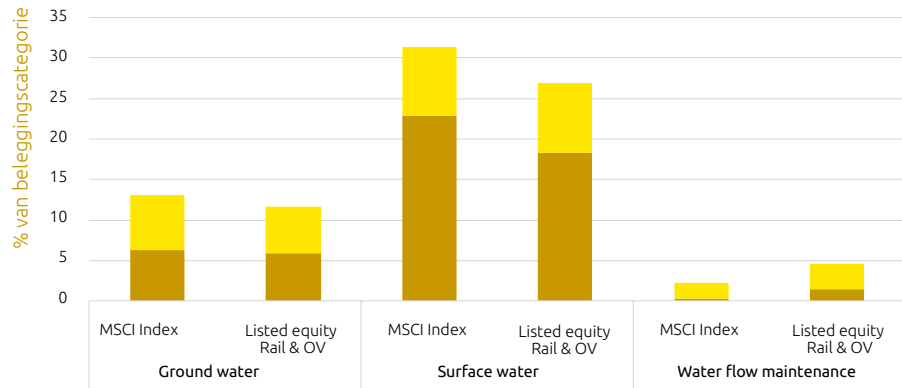
\* This is partly caused by the conservative approach in the analysis of exposures.



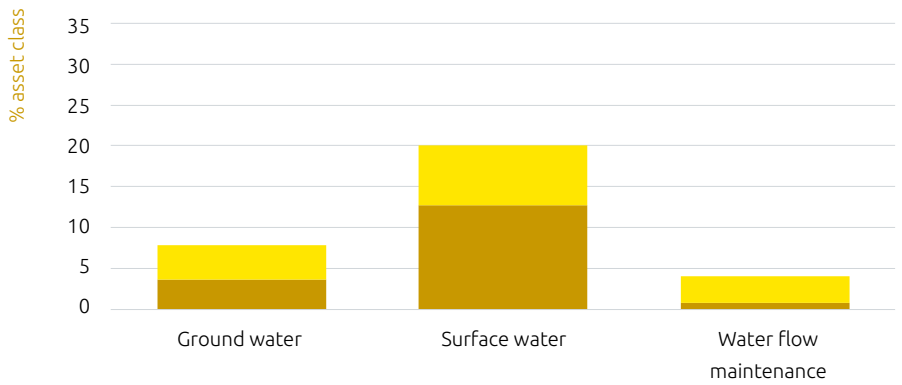


# DEPENDENCE ON BIODIVERSITY

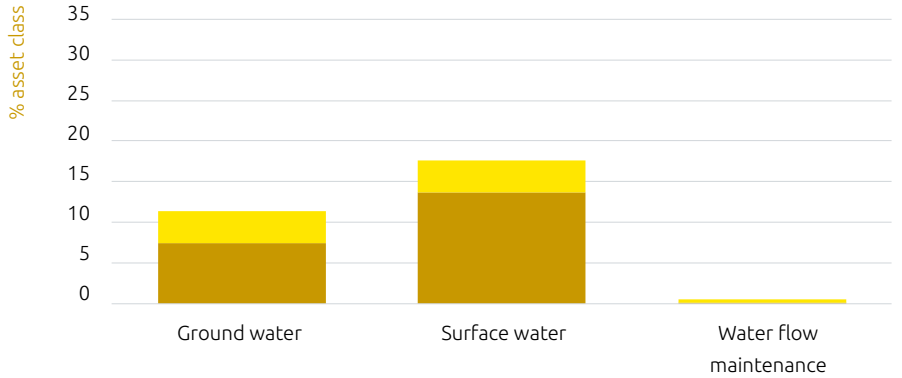
**5**  
**LISTED EQUITY**  
 ■ HIGH ■ VERY HIGH



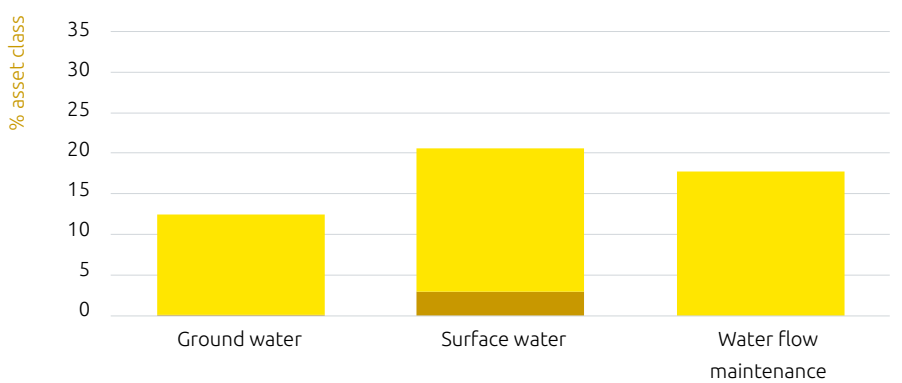
**6**  
**CORPORATE BONDS**  
 ■ HIGH ■ VERY HIGH



**7**  
**PRIVATE EQUITY**  
 ■ HIGH ■ VERY HIGH



**8**  
**INFRASTRUCTURE**  
 ■ HIGH ■ VERY HIGH





# 05.

## NEXT STEPS

The degradation of ecosystems can lead to the loss of uses for people which may have negative economic consequences. These effects impact financial institutions such as pension funds that offer financing to companies that may be affected by this loss of biodiversity. At the same time, there is growing number of regulation for investors to include biodiversity into responsible investment policies and to measure, prevent and mitigate risks of biodiversity loss. There is an increasing number of frameworks and international standards that Rail & OV can use to formulate policies and objectives and to provide transparency. By including nature in all investment decisions, financial institutions, such as pension funds, can play an important role in reversing the negative biodiversity trend.



Given the dependence of people and the economy on biodiversity, it is important to reduce biodiversity loss. And more than that: to turn it towards a nature-positive future. Accordingly, WWF describes the following goals and measures to reverse the trend of declining biodiversity:

- No loss of natural habitats
- No extinction of species
- Halving the footprint of consumption and production

Rail & OV recognises the importance of integrating such measures into its responsible investment policy wherever possible. Therefore, this chapter looks at the steps we can take as a pension fund to include biodiversity in our responsible investment policy and

investment cycle and what the guiding standards are that are suitable for Rail & OV. In doing so, we focus on aspects underlined by the Sustainable Finance Platform and by the findings of WWF and Deloitte in the study.





## 5.1

# POLICY AND STRATEGY

In order to include biodiversity into financial decisions, it is essential to construct a biodiversity policy.

Such policy describes the strategy on biodiversity, the principles that guide the choices one makes as an organisation and the corresponding processes and objectives. In the field of policy and strategy, several standards are now available. Rail & OV has made a selection of the most relevant standards. They are explained in this chapter.



### WHAT IS A GOOD BIODIVERSITY POLICY?

WWF identifies the following key elements which are essential to include in a biodiversity policy include in a biodiversity policy.

- **Establish criteria** for how companies act in high-risk sectors, such as consumer goods and retail, agriculture, mining and materials, oil and gas, utilities, real estate and construction.
- **Key commitments and goals** such as signing up for the Finance for Biodiversity Pledge, defining qualitative goals and setting targets for positive contributions to biodiversity. (See objectives and KPIs.)
- **Monitoring and managing** the impact on biodiversity and dependence on it. Such as applying IFC Performance Standard 6 for project finance.
- **Exclude** not invest in entities or projects that impact nature in an irreversible way. Examples include deep-sea mining and arctic drilling.

### WHAT ARE OTHER INSTITUTIONAL INVESTORS DOING?

Biodiversity is a theme that is getting more and more attention, also from other institutional investors. Rail & OV is following this development with much



interest and is also trying to learn as much as possible from it. According to a 2021 [study](#) by VBDO and IUCN only five financial institutions in the Netherlands had a biodiversity policy in place to proactively reduce negative impacts on nature and biodiversity by investments or customers. Banks are the most advanced in this area. We did our own research and came across the following initiatives.

- Asset manager [Actiam](#) has developed a strategy for ESG integration and active share ownership based on three goals:
  - Net zero greenhouse gas emissions by 2050.
  - Water neutrality in 2030.
  - No deforestation from its investments by 2030.
- [Triodos Bank](#) has committed to be 'net zero' by 2035 AND has developed a biodiversity strategy. The focus of the latter is on:
  - 'Do no harm': limit negative impacts on biodiversity through exclusions and strict selection criteria.
  - Invest in companies that have a positive impact on biodiversity.
  - Pursuing engagement and collaborations in the area of biodiversity.
- Asset manager [AXA IM](#) has drawn up an Ecosystem Protection & Deforestation Policy. The policy has an





exclusion strategy including engagements aimed at companies with a material impact on deforestation and natural ecosystems and activities that have a large global footprint with regard to biodiversity. In addition, AXA IM also invests in forestry and impact investments in natural capital.

- Insurance company [Aviva](#) has a biodiversity policy that lays down biodiversity principles with a focus on protecting and restoring biodiversity and on measuring the impact, and dependencies, on natural capital. Aviva uses engagement and exclusions as its key instruments.

Research by Rail & OV into Dutch pension funds shows that as yet no pension fund has published a biodiversity strategy. However, a number of pension funds have expressed their commitment. For example, [PME](#) has indicated that biodiversity has the highest priority for the fund. Furthermore [APG](#) is involved in developing joint standards to assess impacts on biodiversity, map out risks, using engagement with companies, and invest in solutions. Also, a number of Dutch pension funds or administrators have joined the Biodiversity Pledge (PGGM, APG) or PBAF (PMT, PME).



### RELEVANT INTERNATIONAL STANDARDS AND FRAMEWORKS

The Finance for Biodiversity Pledge is a commitment by financial institutions calling on global leaders to keep biodiversity intact and restore it through their financial activities and investments. The Pledge consists of five commitments for those financial institutions:

- Collaborating and knowledge sharing
- Engaging with companies
- Assessing impact on biodiversity
- Setting targets
- Reporting publicly on the above by 2025



### WHAT IS RAIL & OV DOING?

Rail & OV has a climate policy in which the Paris Agreement and reducing carbon emissions are the common thread. This also has a direct effect on biodiversity. At present, however, Rail & OV has not yet formulated a biodiversity policy. This case study will be used as a start for drawing up that policy.



## 5.2

# OBJECTIVES AND KPI'S

Setting measurable and robust objectives is essential for implementing a biodiversity strategy. Step two should therefore focus on formulating objectives and KPIs. In the first step, it became clear that a number of institutional investors has formulated objectives as part of their biodiversity policy. However, these objectives are mostly subject-specific, often focusing on deforestation, for example, and not on biodiversity as a theme that covers all aspects.



### WHAT ARE GOOD OBJECTIVES AND KPI'S?

Objectives for biodiversity are more complex than objectives for a subject like climate. This is because biodiversity impacts are determined by the sum of multiple causes (such as use of raw materials and pollution), by multiple stakeholders (individuals, companies, governments), and by different vulnerabilities of the ecosystems in question. One litre of water use will have a very different effect on biodiversity in Dutch wetlands than on a forest landscape in Uganda or a desert area in Chile. The performance of companies is best understood if location-specific information is taken into account. This is very complex for pension funds, with exposure to many companies with value chains spread across many different locations.

WWF and other organisations are working within international initiatives to find solutions to the complexity involved in biodiversity objectives, such as Science Based Targets Network (SBTN) & TNFD (See international standards and frameworks). These methods are still being developed, but a basic direction can already be provided.

In this regard, a distinction is made between three types of objectives.

- **Nominal objectives**, such as the ambition to invest in line with global goals, such as with the Convention on Biological Diversity (CBD), Global Biodiversity Framework or with Nature Positive in 2030.
- **Capital-related objectives**, such as ABP's objective to invest at least 20% in activities that contribute to achieving sustainable development goals (including nature-related goals).
- **Objectives linked to specific causes of biodiversity loss**, such as aiming to exclude deforestation from portfolios. This was done, among others, by a coalition of 35 financial institutions at the annual Climate Summit in the United Kingdom in 2021.

A robust objective should describe the biodiversity problems it aims to address, the indicators that will be used, how they will be measured, the intermediate effort to achieve the targets, and the concrete deadline.



### WHAT ARE OTHER INSTITUTIONAL INVESTORS DOING?

Research by Rail & OV shows that currently very few institutional investors publicly communicate about the potential objectives and KPIs they have within their policies. For instance, among pension funds, we have not been able to find a public biodiversity objective. Only in the case of ASN Bank a clear objective can be identified.

- [ASN Bank](#) assesses all the countries, companies and projects it invests in or finances on their biodiversity impacts. The bank has formulated the goal to have a positive effect on biodiversity by 2030. This means that ASN Bank's investments and funding must have a net positive effect on biodiversity by 2030. As a result, ASN Bank will decrease biodiversity loss from its financing and investments, increase biodiversity by investing money in the development of nature and in renewable energy, and develop a methodology to measure its ecological footprint.



### RELEVANT INTERNATIONAL STANDARDS AND FRAMEWORKS

Currently, there are no frameworks available that could help financial institutions formulate biodiversity objectives and KPIs. Part of the [Finance for Biodiversity Pledge](#) is a commitment to formulate objectives. The [Taskforce on Nature-related Financial Disclosures \(TNFD\)](#) has formulated a draft TNFD approach to targets. In addition, the [Science Based Targets Network](#) is also developing a guide for companies to formulate nature-related targets in line with science and social objectives. The aim of this Network is to set science-based objectives for climate and nature on how companies can further reduce financial risk, increase resilience and harness innovation that drives competitiveness. These three initiatives align with the post-2020 Global Biodiversity Framework (GBF). The convention requires participating states to align private and public financial flows with biodiversity goals. The framework has been adopted at the UN Biodiversity Conference in Montreal, Canada in December 2022.



### WHAT IS RAIL & OV DOING?

Rail & OV has not formulated any objectives at this time. These will be set as part of a biodiversity policy.



## 5.3

# ENGAGEMENTS

The third step is more about the implementation and the instruments that can be used. Starting with engagements. Engaging with companies is an important instrument that can be used by pension funds and can contribute to reducing biodiversity loss. There are many initiatives in the field of engagements. Here, the most relevant ones are described.



### WHAT IS A GOOD ENGAGEMENT STRATEGY?

Research by a UK NGO shows that biodiversity-related engagement is still limited and most of this dialogue focuses on deforestation. More biodiversity-related engagement is needed. For these engagements to be successful, the following aspects are important (for more information, see Shareaction's Leading Practices).

- Engagement is focused on the sectors, themes and companies that have the highest impact.
- Engagement is carried out with a concrete target- and time-specific escalation strategy.
- Engagement is linked to voting at shareholder meetings and asset allocation.
- Engagement objectives refer to leading standards and initiatives (e.g. TNFD & SBTN, CBD).
- Engagement refers to joint action that companies can contribute to, such as at the regional level (e.g. SOS Cerrado Manifesto) or sector level (e.g. SOS Cerrado Manifesto or UK Basket Initiative Retailers Commitment).

However, engagement should go beyond simply engaging in a dialogue with companies. Biodiversity loss is the result of the impacts of multiple stakeholders. Tackling the underlying causes requires an approach that involves the entire society, including



government bodies, civil society organisations, the business community and the financial sector. It would be a major risk for each financial institution to independently assess its risks and develop individual strategies. In doing so, larger systemic risks would be overlooked that can only be addressed by working together as a collective. It is therefore essential that pension funds also enter into dialogues with their sector peers, sector platforms, government bodies, data providers and other stakeholders. Like in 2019, when more than 40 European companies, including financial institutions, called upon the European Commission to propose a law to combat EU-driven deforestation and the conversion of ecosystems. Thanks in part to this appeal, this legislation is becoming a reality.

[More information is available here.](#)



## WHAT ARE OTHER INSTITUTIONAL INVESTORS DOING?

In the area of engagement, several initiatives are seen among institutional investors.

- Asset manager [Robeco](#) launched a special engagement programme in 2019, focused on biodiversity. This focuses on the impact of deforestation on biodiversity and land conversion related to five crop products (cocoa, natural rubber, soy, beef, tropical timber and pulp). The engagement aim is that companies commit to combating deforestation and conduct biodiversity impact assessments. In addition, Robeco engages in engagement activities with palm oil producers. This engagement strategy includes an exclusion strategy.
- ShareAction, in their report 'Point of No Returns Part V – Leading Practice, a guide to current leading practices by asset managers on responsible investment', provides an example of NN Investment Partners (NNIP) engagement with six companies with exposure to the livestock industry and related products that face deforestation-related risks within their supply chains. The goals of the engagements are that companies adopt policies specific for raw materials with a commitment to zero deforestation.
- [PMT, PME and MN](#), together with a number of other investors, are involved in engagements with five companies on the prevention of deforestation in their supply chains. In doing so, the group uses satellite imagery, which provides up-to-date information on global deforestation.
- Given the major impact of land-use-related industries on biodiversity, APG looks at deforestation in food chains. Its focus is on key commodities, including palm oil, soy and livestock. APG has a team of specialists who engage with companies on-site to encourage them to produce more sustainable palm oil. In addition, APG is working with a number of companies in the value chains of cattle and soy to demand appropriate management and disclosure of deforestation risks in their supply chains.



## RELEVANT INTERNATIONAL STANDARDS AND FRAMEWORKS

- [Nature Action 100](#) is a collaborative engagement initiative led by investors with a focus on companies and policymakers deemed relevant to achieving the goal of reversing nature loss by 2030. The engagements with companies serve to ensure that key companies take robust and timely action to address their impact on and dependence on biodiversity. The engagements with policymakers will be supported by a technical advisory group, including civil society organisations and knowledge institutions. These will help identify priority engagement to ensure engagement targets are in alignment with social and scientific objectives. The launch of the initiative is planned during the UN Biodiversity Conference (COP 15).
- [FAIRR](#) is an investor network with a focus on topics linked to ESG risks in the global food sector. FAIRR biodiversity engagement strategy focuses on waste and pollution, land management, resource use, and land/sea use change. These three focus areas were identified as the three key elements to tackle biodiversity loss. The first part of a three-pronged engagement series, seeks to address animal waste mismanagement and nutrient pollution. The focus is on chicken and pork producers (Maple Leaf, Tyson, Hormel Foods, Seaboard Corporation, Muyuan Foodstuff, WHGroup, CPF, BRF, JBS, Granswick) and agrochemical companies (Darling Ingredients, Yara).



## WHAT IS RAIL & OV DOING?

Since 2021, Rail & OV has been involved in collective engagements as part of the IMVB Covenant, initiated by the insurance covenant. The engagements are aimed at stopping deforestation in Brazil, one of the most crucial forest areas in the world which is simultaneously seriously threatened by cattle ranching and soy production. This engagement trajectory focused on three major food and nutrition companies, with four main goals.

- Reducing/excluding soy from deforested land, both directly and indirectly (via meat and dairy).
- Increasing the share of local livestock feed from waste streams, reducing the demand for soy from vulnerable forest areas.
- The transition to regenerative/circular/nature-inclusive agriculture which will reduce the demand for soy.
- The transition to a relatively higher plant-based protein consumption and reducing the consumption of animal proteins.

In addition to the engagement process from the insurance covenant, within the pension funds IMVB covenant, of which Rail & OV is a signatory, it was chosen to start engagement with a focus on accelerating the protein transition. In addition to food producers, large supermarkets are an important link in the chain that influences the demand for soy, as they sell protein in products and at the same time have a lot of market power towards food producers (including farmers). There has been with one major Dutch retailer with the engagement objectives to formulate a commitment to the ratio of plant versus animal proteins on the shelves in 2030, to make a

commitment to remove perverse price incentives to make products with a large(r) negative impact less attractive, and to commit to the use of marketing budgets and shelf space in favour of plant-based and sustainable products.

EOS at Federated Hermes (EOS), Rail & OV's engagement provider, has developed a biodiversity engagement strategy outlining expectations for sectors with a high impact on biodiversity as well as dependence on it. EOS expects from companies that they make a strong managerial commitment to biodiversity and monitor it. Furthermore, companies should have a focus on biodiversity impact assessments, that they formulate a net positive impact on biodiversity objective, formulate a clear strategy, and report on the approach and steps taken to reduce biodiversity loss.

In 2022 (up to September), 18 companies in the Rail & OV portfolio were engaged by EOS on the topic of biodiversity, biodiversity policy and biodiversity measurement.

Rail & OV has signed the statement '[Moving Together On Nature: Statement From The Private Financial Sector To The Conference Of The Parties To The Convention On Biological Diversity](#)'. In this statement, financial institutions, including Rail & OV, commit to contributing to the protection and restoration of biodiversity and ecosystems through the financing of activities and investments. It also calls for the adoption of an ambitious Global Biodiversity Framework (GBF) that can be translated into effective actions to be taken by the financial sector.

<sup>3)</sup> Deere & Co, Carrefour SA, adidas AG, Industria de Diseno Textil SA, Yum! Brands Inc, Burberry Group PLC, Koninklijke Ahold Delhaize NV, UniCredit SpA, Zalando SE, Gildan Activewear Inc, Nestlé SA, Sumitomo Corp, Brambles Ltd, Kikkoman Corp, Mitsubishi Corp, Reckitt Benckiser Group PLC



## 5.4

# RISK AND IMPACT MANAGEMENT

As described in this paper, biodiversity loss can lead to physical, transition and systemic risks that in turn can have negative financial consequences for the portfolio. Managing these risks is crucial in order to avoid financial impacts and the disappearance of nature. An increasing number of data and tools are available to identify risks and impacts. Here we present of a few that are most relevant to Rail & OV.



### RELEVANT INTERNATIONAL STANDARDS AND FRAMEWORKS

There are a number of data providers that make it possible for investors to measure a portfolio's impact on biodiversity as well as its dependence on biodiversity. Iceberg Data Lab has data-based sector models that estimate the potential extent to which ecosystems are affected by business activities compared to their original natural state. The methodology is helpful when it comes to prioritising mitigation measures and takes into account land use, nitrogen deposition, greenhouse gas emissions and the release of pollutants.

[ENCORE](#) (Exploring Natural Capital Opportunities, Risks and Exposure) is a web-based tool that focuses on measuring dependencies and impacts of economic activities on nature. It provides spatial data to help understand potential location-specific risks associated with environmental changes. Results can be used for the assessment of risks and opportunities for banking, investment and insurance portfolios and for prioritising possible new mitigation measures.

[The Nature and Biodiversity Benchmark](#) uses a slightly different approach than ENCORE and the [Iceberg Data Lab](#). It focuses purely on companies, but more at the policy level. The benchmark assesses 1,000 companies in 22 sectors and their adoption of a nature-positive strategy. Topics that are assessed are governance and strategy, the state of nature, change of land use, direct exploitation of resources, pollution, climate change, invasive alien species, and social and community impact. In total, the benchmark will include 25 indicators, including the 18 core social indicators.

[Partnership for Biodiversity Accounting Financials \(PBAF\)](#) is an international partnership of banks, asset managers and investors. It has developed a harmonised approach for assessing and measuring biodiversity impacts by the financial sector. The standard also gives guidance on methodologies and tools that financial institutions can use for their impact measurement.



### WHAT DOES STRONG RISK AND IMPACT MANAGEMENT LOOK LIKE?

There are a number of methods for mapping out the complexity of nature-related risks. For instance, the Taskforce on Nature-related Financial Disclosures, is working on the LEAP framework. This framework consists of four steps of risk management.

- **Locate:** the interface with nature.
- **Evaluate:** the dependencies and impacts.
- **Assess:** financial risks and opportunities.
- **Prepare:** to respond to nature-related risks and opportunities.

For financial institutions, 'scoping' is added to this. Given the wide variety of activities financed and interactions with ecosystems, it is important for financial institutions to prioritise risk management and focus effort on those activities that are most risky. One way to do this is using the ENCORE analysis described earlier in this paper.

For the different steps of the LEAP framework, approaches are already available, as explained in a TNFD analysis on data and tools.



### WHAT ARE OTHER INSTITUTIONAL INVESTORS DOING?

According to a 2021 [study](#) by VBDO and IUCN, only 28% of Dutch financial institutions have started to assess the financial risks of biodiversity loss.

According to research by Rail & OV, no pension fund has currently published a biodiversity impact analysis. It is possible that pension funds are already engaged in impact and risk measurement, but that the information has not yet been published. However, other initiatives can be observed within the financial sector.

- For instance, asset manager Robeco has reported a biodiversity assessment based on ENCORE data in its publication 'Robeco's approach to biodiversity'.
- And, as part of its commitment to the Finance Biodiversity Pledge, Achmea has expressed its commitment to measure the biodiversity impact of its investments by 2023 at the latest, and to subsequently formulate concrete targets to reduce the negative impact on biodiversity and increase the positive impact.



### WHAT IS RAIL & OV DOING?

In 2022, Rail & OV measured the biodiversity impact and dependency for the first time using ENCORE data. This analysis has been made available in this case study. Rail & OV has a major impact on human use of ecosystems in both liquid and illiquid investments. This concerns the use of land and freshwater, pollution and climate change. In addition, parts of the Rail & OV portfolio depend on the use of the ecosystem. This applies in particular to infrastructure investments and shares. Chapter 4 describes what Rail & OV can do to mitigate the impacts and dependencies.





## 5.5

# TRANSPARENCY

Transparency on the integration of biodiversity into the investment process and the impact realised through the integration is essential for structural change in the financial sector.



### WHAT IS A GOOD WAY OF REPORTING?

As a co-founder of the Taskforce on Nature-related Financial Disclosures, WWF endorses the preliminary reporting recommendations of the third version of the TNFD beta framework, published on 4 November 2022. In line with the TCFD, reporting should provide insight into how nature-related impacts, dependencies, risks and opportunities are factored into an organisation's governance, strategy, risk management, objectives and measurement methods. (For more information, see the framework on the TNFD website).



### RELEVANT INTERNATIONAL STANDARDS AND FRAMEWORKS

The Taskforce on Nature-related Financial Disclosures (TNFD) is a new framework for companies and financial institutions. It helps to map out which economic activities involve nature-related risks and opportunities. This may help financial institutions understand interactions with nature for their investments. It also provides guidance on how financial institutions can implement nature-related risk management and how to report on it. Besides TNFD, there are other initiatives that promote transparency on biodiversity. These are the Sustainable Finance Disclosure Regulation of the EU ([SFDR](#)) and [SASB/ISSB](#), [GRI](#) and [IRIS](#).



### WHAT ARE OTHER INSTITUTIONAL INVESTORS DOING?

Because biodiversity reporting frameworks are still very much in development, there are not many investors yet who are reporting impact measurement alongside policies and strategies. AXA Group has published a ['Climate and Biodiversity Report'](#) in 2022, which presents reports on biodiversity impacts (both from investments and own operations/offices). It can be expected that, once TNFD is established, more and more investors will start publishing biodiversity reports.



### WHAT IS RAIL & OV DOING?

Also within the SRI policy of Rail & OV transparency plays an important role. Publishing this biodiversity case study is the first step for us in reporting on biodiversity. We expect that more will follow in the future.



# 06.

## RAIL & OV ON THE WAY TO BIODIVERSITY

The earth's biodiversity has been declining rapidly in recent years. As indicated earlier, \$44 trillion of economic value depends on the natural world. The loss of biodiversity threatens not only economic development but also society as a whole. An example of this is reduced availability of water and food.

As an institutional investor, we increasingly face legislation that also affects biodiversity. Under the IMVB Covenant and SFDR, we are committed to limiting, mitigating or preventing negative impacts from our investments. Under the SFDR and EU Taxonomy, we will report on green investments in our portfolio and on investments in activities that negatively impact biodiversity.

Biodiversity is closely related to climate change. Although climate change has not been the main cause of biodiversity loss so far (human activities are), unless global warming is limited to two degrees, climate change is likely to become the main cause of biodiversity loss and the degeneration of ecosystems.<sup>4</sup>

Our listed equities, corporate bonds, private equity

and infrastructure portfolios have major impacts on land and freshwater use, pollution and climate change. This especially relates to sectors such as manufacturing and consumer goods. Our investments also depend on biodiversity and ecosystems to provide products and services. We see this particularly in our equities and infrastructure portfolio and especially in the consumer goods and materials sectors.

It is important that Rail & OV takes steps in the area of biodiversity. This allows us to identify financial risks our portfolio faces due to biodiversity loss and mitigate negative impacts of the Rail & OV portfolio on biodiversity. Consequently, this enables us to achieve the net-zero climate target in addition to complying with relevant legislation.

1

A logical next step is to formulate a **biodiversity policy and an associated strategy** as part of the overarching responsible investment policy, which will also reinforce the goal of the Rail & OV climate policy. The following is important in this respect.

- Biodiversity will be integrated into the entire investment cycle.
- Objectives and KPIs are formulated.
- Both risks and opportunities are taken into account.
- The biodiversity policy dovetails well with the climate policy.
- Biodiversity is included under the SFDR as one of the key adverse impacts and indicators that Rail & OV takes into consideration.

2

**Biodiversity will have to become a board-level area of concern and as such receive the necessary managerial support.**

By this we mean that the topic must be widely supported within the board, the organisation and its rank and file. This means that there must be sufficient understanding of and knowledge about the topic. To this end, knowledge sessions with the board will be held, and the topic will be put on the agenda within several administrative bodies.

<sup>4</sup> Citation WWF (2022) Living Planet Report 2022 – Building a naturepositive society. Almond, R.E.A., Grooten, M., Juffe Bignoli, D. & Petersen, T. (Eds). WWF, Gland, Switzerland.

3

In formulating focus topics of the biodiversity strategy, **emphasis will be placed on asset classes and sectors that have the most impact on biodiversity or are highly dependent on it.**

- For Rail & OV, this mainly concerns listed equities and infrastructure and within the sectors consumer goods, materials and industrial manufacturing.
- In terms of biodiversity-specific issues relevant to Rail & OV that require additional attention and a strategy, these include in particular land use, water in a general sense, pollution and climate change.

4

Although Rail & OV already engages with companies on biodiversity, this is still on a small scale.

**Scaling up (quantitatively and qualitatively) engagements** with companies that have the highest impact on biodiversity and strongly depend on it, is necessary. Rail & OV could:

- Expand in-house engagements.
- Join collective engagements, such as Nature Action 100.
- Endorse sector statements on biodiversity.
- Enter into discussions with the current engagement provider about the possibility of expanding engagements on this topic.

5

In this report, we have for the first time mapped out the impacts of our investments on biodiversity as well as our investments' dependencies on biodiversity. Best practice would be to **conduct the biodiversity analysis on an annual basis** to properly identify risks and opportunities and use the results to adjust the policy and strategy accordingly.

6

**Regular reporting** on steps taken, risk and mitigated risks and results of engagements is important.

- Frameworks such as TNFD can help in setting up the reporting structure.

7

Biodiversity is a relatively new and rapidly evolving topic in the investment world. Today's knowledge and data may be outdated a year from now. **Building knowledge on biodiversity** across the entire organisation (from board to front office) is essential.

- Organising knowledge sessions for the board and the internal organisation helps create commitment to the topic and helps in developing tailored strategies.
- Joining forces with think tanks, NGOs or organisations other investors are involved in, such as Finance for Biodiversity Pledge, helps to build and maintain knowledge within Rail & OV.

8

Biodiversity is considered an important issue by participants. It is therefore important to **engage in conversations about biodiversity with participants and member companies.**

- This can be done by organising webinars or round table discussions with experts within the member companies.



# ANNEXES

## LIST OF DEFINITIONS AND REFERENCES



# LIST OF DEFINITIONS

## **AFM**

Dutch Authority for the Financial Markets.

## **DEPENDENCE ON BIODIVERSITY**

The extent to which companies depend on biodiversity, which is determined by assessing the extent to which the functioning of the company depends on underlying ecosystem services and how great the financial impact on the production processes of the underlying companies is (ENCORE definition).

## **BIODIVERSITY**

The variety of life in an area. It encompasses the totality of living organisms, systems and the interactions between them.

## **DNB**

De Nederlandsche Bank.

## **ECOSYSTEM SERVICES**

The benefits to humans provided by ecosystems that contribute to the economy and other activities. These services are grouped into three categories: production services, regulating services and cultural services.

## **PROTEIN TRANSITION**

The shift from animal proteins to plant proteins.

## **FRONT OFFICE**

This department deals with the management and investment of assets.

## **IMPACT ON BIODIVERSITY**

The extent to which investments have an impact on biodiversity, based on the industry within which the underlying companies operate (ENCORE definition).

## **IPCC**

Intergovernmental Panel on Climate Change.

## **INVASIVE**

Non-native species found to be harmful to their new habitat or to the local economy.

## **KPI**

Key Performance Indicators.

## **NATURAL CAPITAL**

The collective term for all natural resources on Earth. It refers to all the physical and natural resources. Natural capital provides ecosystem services.

## **NGO**

Non-governmental organisation.

## **SBTN**

Science Based Targets Network.

## **SDGs**

Sustainable Development Goals. -

## **SFDR**

Sustainable Finance Disclosure Regulation.

## **TCFD**

Task Force on Climate-Related Financial Disclosures.

## **TNFD**

Taskforce on Nature-related Financial Disclosures.

## **WWF**

World Wildlife Fund.

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**PENSION FUND RAIL & OPENBAAR VERVOER**

**Office address:** Arthur van Schendelstraat 850, 3511 ML Utrecht, the Netherlands

**Postal address:** Postbus 2030, 3500 GA Utrecht, the Netherlands

**Telephone:** +31 30 23 29 325

**E-mail:** [pensioen@railov.nl](mailto:pensioen@railov.nl)

**Website:** [www.railov.nl](http://www.railov.nl)