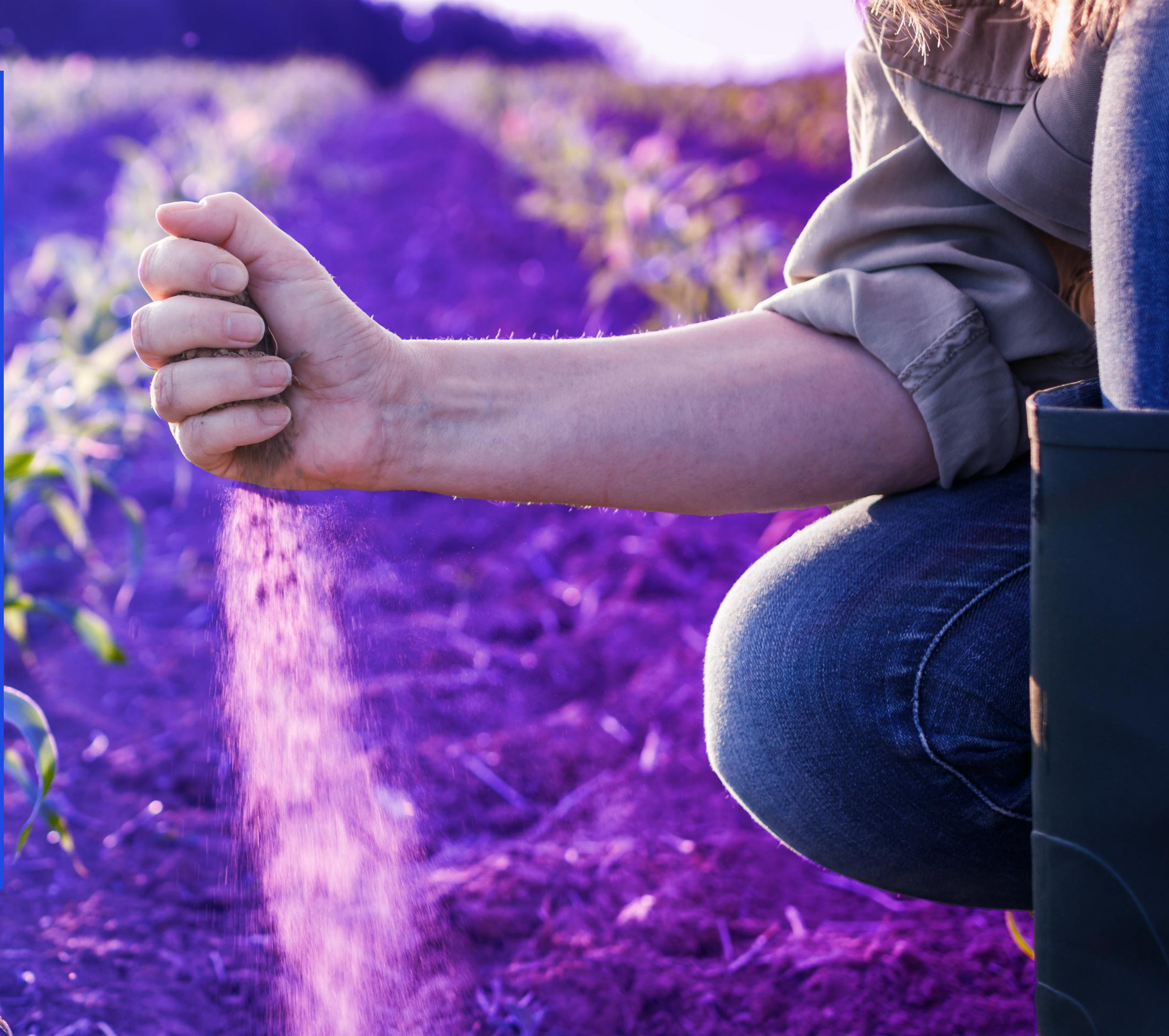
KPMG

Biodiversity Investing

Why It's the Future of Sustainable Finance



KPMG Asset Management & Pensions

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Biodiversity is the bedrock of economies, industries, and life itself. Yet, it's declining at an alarming rate due to deforestation, pollution, habitat destruction, and climate change. The financial implications are massive—over half of global GDP depends on nature, and its degradation poses serious risks to businesses, supply chains, and long-term investment returns.

For financial institutions, the message is clear: **investing in biodiversity is no longer just a sustainability goal – it’s an economic necessity**. The good news? There's a growing wave of opportunities to finance nature-positive solutions that drive both environmental and financial returns.

What is Biodiversity Investing?

Biodiversity investing refers to the allocation of capital towards projects and companies that actively protect, restore, or sustainably manage natural ecosystems. This can take many forms, including:

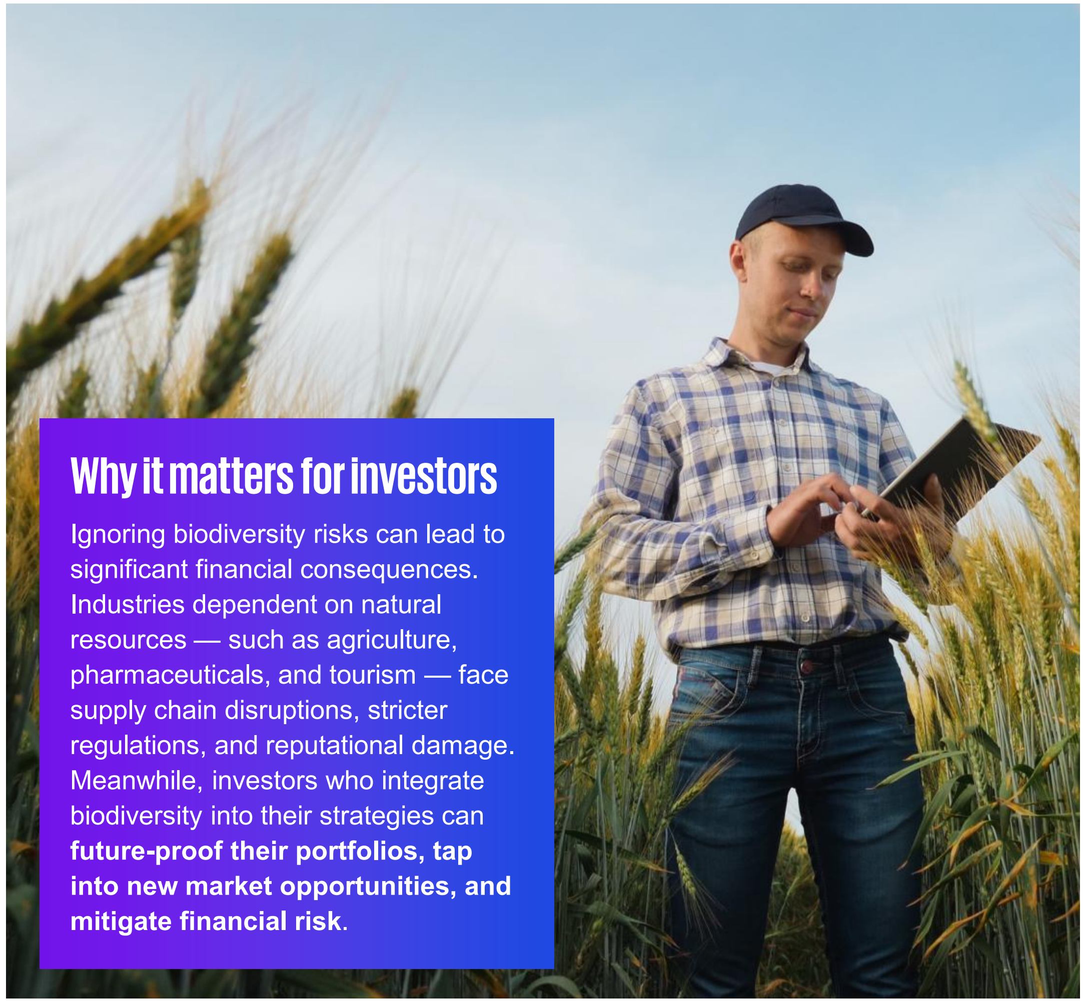
Nature-based solutions (NbS)
Investments in reforestation, regenerative agriculture, and wetland restoration that enhance biodiversity while delivering economic benefits.

Sustainable land and ocean use
Supporting industries like responsible forestry, regenerative farming, and sustainable fisheries.

Circular economy
Investing in circular economy projects that aim to reduce waste and mining of critical raw materials, especially in areas with high biodiversity importance.

The vehicle to drive such investments can also be from a range of various asset types, including:

- **Biodiversity bonds and credits**
  Financial instruments that channel funding into conservation and ecosystem restoration.
- **ESG-aligned equities and private capital**
  Investing in biodiversity-focused companies that integrate nature-positive practices into their supply chains.
- **Impact investing**
  Direct capital deployment toward conservation projects and biodiversity-focused startups.
- **Blended finance**
  Combination of both public and private finance to mitigate risks for both investors into biodiversity projects.



Why it matters for investors

Ignoring biodiversity risks can lead to significant financial consequences. Industries dependent on natural resources — such as agriculture, pharmaceuticals, and tourism — face supply chain disruptions, stricter regulations, and reputational damage. Meanwhile, investors who integrate biodiversity into their strategies can **future-proof their portfolios, tap into new market opportunities, and mitigate financial risk**.

Real-World Case Studies
How Finance is Driving Biodiversity Protection

1. HSBC's $5 Billion Green Fund for Nature-Based Solutions

In 2023, HSBC launched a $5 billion fund dedicated to financing nature-positive projects, with a strong focus on reforestation, sustainable agriculture, and biodiversity restoration. The bank integrates biodiversity risk assessments into its lending policies, ensuring that projects it finances actively contribute to environmental conservation.

2. AXA's Biodiversity Impact Fund

Insurance giant AXA has committed €500 million toward biodiversity investments, funding sustainable forestry, regenerative agriculture, and companies developing nature-positive business models. This initiative aligns with the Taskforce on Nature-related Financial Disclosures (TNFD) framework, setting a precedent for insurers to integrate biodiversity into risk assessment.

3. The World Bank's Rhino Bond

In 2022, the World Bank issued the first-ever wildlife conservation bond, commonly known as the "Rhino Bond." This $150 million financial instrument directly funds rhino conservation efforts in South Africa, linking investor returns to conservation outcomes. If the rhino population increases, investors receive higher payouts – a model that could be replicated for other endangered species.

4. BNP Paribas' Biodiversity-Linked Loans

BNP Paribas has developed sustainability-linked loans (SLLs) where borrowers receive lower interest rates for meeting biodiversity and ecosystem protection targets. The bank works closely with corporate clients to integrate biodiversity metrics into their sustainability strategies.

What Financial Institutions Must Do

Different financial institutions have unique roles to play in scaling biodiversity investment:

1. Banks and Lending Institutions

- Incorporate biodiversity risk into lending decisions to ensure financing does not contribute to deforestation or ecosystem destruction.
- Develop green financing products, such as sustainability-linked loans and biodiversity impact bonds.
- Support businesses transitioning to sustainable models by offering lower interest rates for biodiversity-positive projects.

2. Asset Managers & Institutional Investors

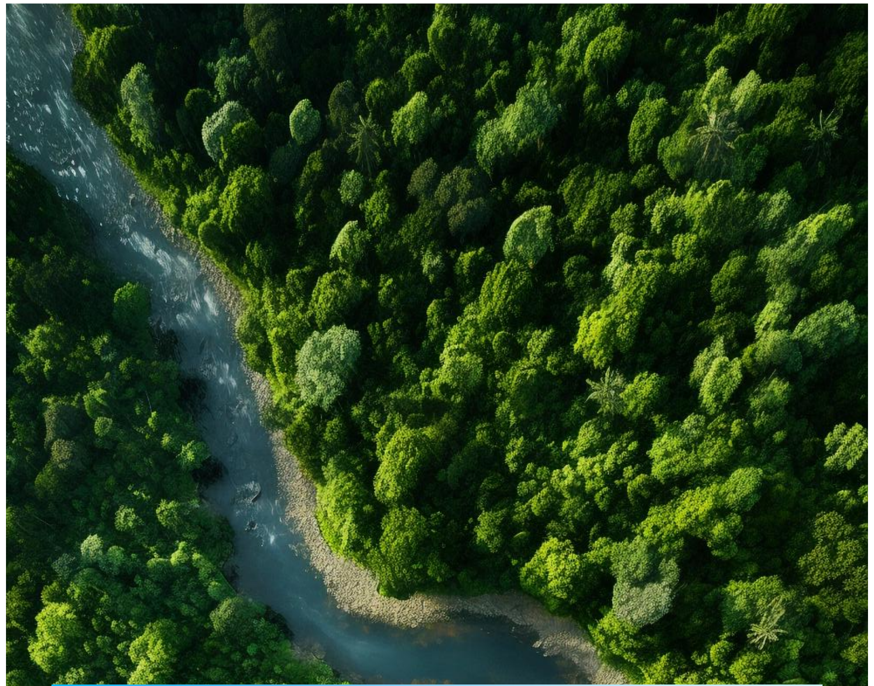
- Embed biodiversity into ESG investment criteria to avoid exposure to companies with high biodiversity risks.
- Engage with portfolio companies to enhance transparency on biodiversity-related risks.
- Allocate capital to biodiversity funds and nature-based solutions.

3. Insurance Companies

- Price biodiversity risks into underwriting models, particularly for industries exposed to nature-related disruptions.
- Develop insurance products that support biodiversity conservation, such as parametric insurance for coral reef restoration.
- Encourage nature-positive behaviors by offering premium incentives for companies adopting sustainable practices.

4. Development Finance Institutions (DFIs) & Multilateral Banks

- Catalyze private-sector investment by de-risking biodiversity projects through blended finance models.
- Scale up financing for conservation and ecosystem restoration in emerging markets.
- Support regulatory frameworks that drive corporate biodiversity accountability.



Looking Ahead:
The Future of Biodiversity Finance

Biodiversity investing isn't just about conservation — it's about **resilience, risk mitigation, and long-term value creation**. As regulations tighten, investor expectations evolve, and financial risks become more apparent, integrating biodiversity into investment strategies will be a defining factor in securing sustainable returns.

For financial institutions, the choice is clear: **adapt to the new reality of biodiversity-focused finance or risk falling behind**. The transition to a nature-positive economy is already underway — those who embrace it now will be the ones shaping the future of sustainable finance.

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