



PAI
PARTNERS

BLOOM

A practical guide for
integrating biodiversity into
private equity

October 2023

About PAI Partners

PAI Partners (“PAI” or “the Firm”) is a pre-eminent private equity firm investing in market- leading companies across the globe with the objective of building bigger and better businesses.

Our purpose is to create value for all stakeholders, including investors, portfolio companies, employees, and the communities in which we operate. The Investment Policy of the Firm is to realise substantial long-term capital gains through investments made primarily in equity, and securities providing access to share capital, and in addition, as the case may be, other equity related and debt investments in unquoted companies, buyouts and leveraged transactions.

We use our deep sector expertise to accelerate growth, integrate environmental, social and governance (ESG) considerations into our investment process and actively work with our portfolio companies to become more sustainable. As a signatory of the Principles for Responsible Investment (PRI) since 2010, PAI implements and publicly advocates responsible investment practices, as well as shares its experience with the wider community.

Our extensive investment and sector expertise, and the long-term relationships we have built with prominent funds and investor organisations, help us to source investments across the globe for companies that are at a transformational stage in their development.

As an investor in the real economy and an active contributor to industry-wide sustainability initiatives, PAI is well positioned to drive action on sustainability, both within our own portfolio and across private markets.

With a controlling interest in most of our portfolio companies, and with representatives on the Boards of Directors, we are able to set the direction and provide key resources, insights and capabilities to support their development and help them meet ESG goals.

To maximise our impact, PAI’s ESG and Sustainability Strategy prioritises three key areas, which are fundamental to both PAI’s continued success and to the global environment in which we operate: Decarbonisation, Diversity and Inclusion, and Biodiversity.

Our investment sectors



Business Services



Food & Consumer



General Industrials



Healthcare

Learn more about PAI at: www.paipartners.com

Glossary

Please visit the [TNFD Glossary](#) for further definitions

Biodiversity	The variability among living organisms from all sources including terrestrial or aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems ¹
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
COP	Conference of the Parties
Ecosystem services	The contributions of ecosystems to the benefits that are used in economic and other human activity.
ESG	Environmental, social and governance
ENCORE	Exploring Natural Capital Opportunities, Risks and Exposure
GMO	Genetically modified organism
HCV	High conservation value
IPBES	Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services
IUCN	International Union for Conservation of Nature
KBAs	Key Biodiversity Areas
LEAP	Locate, evaluate, assess, prepare
MSA	Mean species abundance
Ramsar site	A wetland site designated to be of international importance under the Ramsar Convention, also known as 'The Convention on Wetlands'
Natural capital	The stock of renewable and non-renewable natural resources such as plants, animals, air, water, soils and minerals that combine to yield a flow of benefits to people ²
SBTN	Science-based Targets Network
SDGs	Sustainability Development Goals
TNFD	Taskforce on Nature-related Financial Disclosures (TNFD)
UNESCO	United Nations Educational, Scientific and Cultural Organisation
WHS	World Heritage Site
WRI	World Resources Institute
WWF	World Wide Fund for Nature

¹ Convention on Biological Diversity (2006). Definition on biodiversity.

² Capitals Coalition (2016). Natural Capital Protocol

Introduction

The biodiversity of life on our planet is a precious resource upon which human society depends. The global investment industry has begun to acknowledge nature-related risks alongside a growing awareness of the urgent need to preserve and replenish biodiversity for a sustainable future.

The purpose of this guide is to provide 5 practical steps for LPs, GPs and other private capital market participants, to implement and advance the integration of biodiversity considerations within investment practices. While this guide focuses on private equity, the guidance may also be applicable to other asset classes.

The guide uses the terms nature and biodiversity interchangeably though it is acknowledged that nature refers to the natural physical world including plants, animals, the landscape including the environment, wildlife, and the ecosystems they form. Biodiversity, on the other hand, is a specific term that refers to the variety of life found in nature.

Biodiversity loss and the consequent on businesses have emerged as critical aspects that hold profound implications for society and the global economy. Protecting nature and biodiversity is not only a matter of corporate responsibility but also strategic and of material importance to long-term sustainability. Taking steps to address these risks positions investors at the forefront of a rapidly changing financial landscape where sustainability is no longer a choice but a prerequisite for long-term success.

As implied by the United Nations Sustainable Development Goals (SDGs), failure to maintain and restore biodiversity affects the value of commodities and sectors directly and indirectly dependent on the earth's natural capital. As an illustration, 75% of the world's food crop varieties are pollinated by animals⁵ – as the existence of many natural pollinators is threatened, inaction will make a severe decline in crop yields unavoidable. The economic value of the affected commodities is estimated to be between \$235 and \$577 billion⁶. Once an entire ecosystem collapses, society could suffer estimated annual losses of \$2.7 trillion by 2030⁷.

Beyond providing benefits to our society, biodiversity has proven to be the backbone of our economy. For example, the WEF⁸ estimate that more than 50% of global GDP is moderately or highly dependent on natural capital, and data shows that 35% to 54% of assets held by financial institutions are highly or very highly dependent on natural capital⁹. Moreover, approximately four billion people predominantly use natural remedies for their healthcare needs – around 70% of pharmaceuticals used in cancer treatment are either naturally derived or synthetically produced based on natural models¹⁰. In essence, the natural capital provided by biodiversity is an economic necessity.

Context

The significant loss of biodiversity on our planet is undoubtedly caused by human activities – such as land use changes, intensive monoculture, and climate change, which all pose systemic risks to the global economy.

To avoid irreversible changes to ecosystems and to mitigate the risk to related financial returns, investors need to take action to close the existing financial gap in conserving biodiversity. According to the world's most comprehensive biodiversity monitor, IPBES, 75% of the earth's land surface has been substantially altered³. To reverse changes and avoid further deterioration, an estimated \$700 billion in annual global investments is required by both public institutions and private markets⁴.

³ IPBES (2019). Media Release: Nature's Dangerous Decline 'Unprecedented'; Species Extinction Rates 'Accelerating'

⁴ IFC (2023). Biodiversity Finance: Protect the Planet, Strengthen Livelihoods

⁵ IPBES (2016). Press Release: Pollinators Vital to Our Food Supply Under Threat

⁶ IPBES (2016). Press Release: Pollinators Vital to Our Food Supply Under Threat

⁷ World Bank (2021). Protecting Nature Could Avert Global Economic Losses of \$2.7 Trillion Per Year

⁸ WEF (2020). Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy

⁹ Official Monetary and Financial Institutions Forum (OMFIF), Sustainable Policy Institute (SPI), Translating biodiversity and nature risks into financial risks

¹⁰ Sharfi-Rad et al. (2019). Natural Products and Synthetic Analogs as a Source of Antitumor Drugs

Linking Responsible Investing and Biodiversity

Investing responsibly has become a mainstream approach within private equity. Indeed, the Principles of Responsible Investing are aligned with reaching the SDGs. Protecting nature and biodiversity can be explicitly and implicitly linked to successfully reaching most SDGs and must be integrated into the core of responsible investment.

As a reference, **SDGs 14** and **15** overtly address the conservation of life below water and on land, which inherently involves the conservation of biodiversity. Moreover, marine and terrestrial biota¹¹ are substantial carbon sinks and are capable of sequestering 60% of global emissions, playing a crucial role in mitigating climate change¹².

SDG 3, which centres on health and well-being, is also linked to biodiversity, as a diverse ecosystem can help regulate diseases and provide medicinal resources. Similarly, **SDG 2** seeks to end hunger and promote sustainable agriculture, both of which implicitly rely on crop diversity and pollination.

PE firms are historically known as stewards of capital and agents of change, meaning they are uniquely positioned to drive positive environmental outcomes for biodiversity while delivering positive returns. Through their investments and influence, PE funds can catalyse businesses to reduce their negative impacts on biodiversity, adopt positive practices, reduce their dependency on natural capital, seize opportunities and align with the expectations of increasingly environmentally conscious stakeholders. Moreover, it reflects a commitment to responsible value creation, where profitability and social and environmental responsibility are not mutually exclusive but intertwined.

This framework plants the seeds to 'BLOOM' – a structured and simplified approach to integrating biodiversity. BLOOM seeks to promote the growth in nature positive actions within investment cycles. Users are encouraged to use the framework alongside the recommended guides signposted.



¹¹ The animal and plant life of a particular region, habitat or geological period

¹² IPBES (2019). The global assessment report on biodiversity and ecosystem services – Summary for policymakers

BLOOM

5 practical steps for starting to integrate biodiversity into private equity

It is recommended **not** to open links using an Adobe Chrome plug-in

What to do

How to do it

Build

your understanding of biodiversity and its importance to your portfolio

Become familiar with the topic of biodiversity and why financial institutions need to act

- Learn about biodiversity and why it is critical for the existence of people and business by reading [WWF's Living Planet Report \(2022\)](#)
- Understand the link between nature-related risks and opportunities, and business performance as set out by the [TNFD](#) (see page 39)

Familiarise yourself with the big picture in terms of global action on biodiversity

- Explore the UN SDGs (namely [SDG 14 – Life Below Water](#) & [15 – Life On Land](#)), and get familiar with the commitments made at [COP15 of the Convention on Biological Diversity](#) in 2022 and with the [EU's Biodiversity Strategy 2030](#)

Understand your current biodiversity-related ambitions and commitments

- Clarify your current biodiversity-related ambitions and commitments, confirm any relevant requirements from your investors and regulatory requirements at international (e.g. under SFDR and CSRD in Europe) and national levels (e.g. the [US Endangered Species Act](#), [France's Article 29](#)), and at both firm and fund levels

Understand the material biodiversity impacts and dependencies for sectors invested in

- With consideration of your Assets Under Management AUM allocation by sector, explore publicly available qualitative tools such as the [WWF's Biodiversity and Water Risk Filter Tool](#), [ENCORE](#) and the [SBTN's Sectoral Materiality Tool](#). The [WEF's Nature Economy Report](#) (see page 14) and [France Invest's biodiversity paper](#) (page 24) also helpfully highlight the sectors which have the most impact – or are most dependent – on biodiversity across the full value chain (i.e. not just owned operations)

Launch

a structured information campaign

Share information about your biodiversity impacts and dependencies, and any expectations with respect to integrating biodiversity considerations into investment and reporting practices

- Decide which individuals, teams and departments across your firm and portfolio need information (hint: this will generally be where practical, positive change vs 'business as usual' can or should be taken)
- Choose appropriate and effective communication methods for each target audience and set clear expectations
- Consider using free training resources such as the [Biodiversity basics for financial professionals](#) (*DNB Sustainable Finance Platform*) and [Biodiversity fundamentals: The business case for action](#) (*UN Global Compact Academy*)

Organise

a system to integrate biodiversity considerations across your investment process

Explore potential benefits from positive screening and identify investment opportunities

- For impact and thematic investors, ahead of fundraising, consider whether there is an opportunity to pursue investments in sectors or activities that contribute to the conservation or restoration of biodiversity or allow for the reduction of pressures on biodiversity. Consider activities included in the EU Green Taxonomy (namely under the following objectives: [Protection and restoration of biodiversity and ecosystems](#), [Sustainable use and protection of water and marine water](#), [Pollution prevention and control](#)) or in line with the SDGs (see examples from [France Invest's Biodiversity paper](#) on page 21)
- For other investors, consider whether investments in such activities could generate attractive returns

Consider the opportunity to develop and expand your negative screening and exclusion lists to include activities that may be harmful to the preservation of biodiversity

- Comply with international conventions such as [CITES](#), [Bonn Convention](#), [Ramsar Convention](#), [UNESCO World Heritage Convention](#), [Nagoya Protocol](#)
- Add activities in sensitive geographical areas to your exclusion list: [IUCN categories](#), [High Conservation Value \(HCV\) areas](#), [UNESCO Natural World Heritage Sites \(WHS\)](#), [Key Biodiversity Areas \(KBAs\)](#) and [Ramsar Sites](#) (hint: you can locate these geographic areas using tools referenced below)
- Add sectoral practices that are harmful to biodiversity to your exclusion list: e.g. unsustainable fishing practices (such as bottom trawling, drift net 2.5+ km long, longline, blasting, poisoning), animal fur farming and manufacture, production of GMOs, production of pesticides and herbicides, banned chemicals, products associated with deforestation (e.g. soy, beef, palm oil, wood, cocoa, coffee, rubber), biodiversity-damaging tourism activities (e.g. hunting, performing animals)

Include biodiversity considerations in due diligence and portfolio monitoring (iterative process)

- Simplify and decide on the [scope](#) of your analysis (with due consideration to cost, time and data constraints) by applying a materiality approach (see above). Then, follow the TNFD's [LEAP Approach](#) ([example](#)) using its recommended [metrics architecture](#) and supplementary [guidance](#) where needed:
 - Locate** where your potential investment and/or portfolio interfaces with biodiversity in [sensitive locations](#) (i.e. areas where ecosystems have high integrity and/or rapid decline, high biodiversity importance and/or water stress). Publicly available qualitative mapping tools such as [ENCORE](#), the WWF's [Biodiversity and Water Risk Filter maps](#), [WRI Aqueduct Water Risk Atlas](#) and [Global Forest Watch](#) will help with this. [France Invest's paper](#) has useful guidance on qualitative, non-aggregated quantitative and quantitative footprinting. Consider whether you require third-party support and/or additional tools (hint: explore the [TNFD Tools Catalogue](#))
 - Evaluate** impacts and dependencies in those sensitive locations using a short-list of relevant [impact](#) and [ecosystem services](#) metrics
 - Assess** the magnitude of risks and opportunities relating to these impacts (i.e. the extent of physical, transition and systemic risks and opportunities) using the TNFD's suggested [assessment metrics](#)
 - Prepare** to respond (using [response metrics](#)) after understanding the action already taken or required to address these risks and opportunities
- To further develop your analysis, consider the TNFD's guidance on [scenario analysis](#) and keep an eye out for sector guidance pending from TNFD

Open

dialogues with industry stakeholders

Engage with peers, industry bodies, data providers and other relevant stakeholders to agree consistent approaches to biodiversity stewardship and reporting

- Consider joining global working groups and initiatives: [EU Business & Biodiversity Platform](#), [Natural Capital Investment Alliance](#), [Sustainable Finance Platform](#), [TNFD Forum](#), [Finance for Biodiversity Pledge](#), and local working groups (e.g. [Dutch FI Biodiversity Working Group](#))

Manage

your reporting in line with globally accepted reporting frameworks

Select the right reporting framework and scope to showcase your biodiversity stewardship

- Report in line with the recommended disclosures set out by the [Taskforce on Nature-related Financial Disclosures \(TNFD\)](#) and the [TNFD's Additional Guidance for Financial Institutions](#), which will challenge you to consider the maturity of your governance, risk management, strategy and metrics/targets
- Monitor and report on exposure at fund level using the TNFD's recommended core metrics for [Financial Institutions](#) (consider ['additional'](#) metrics):
 1. Absolute amount and/or % of invested capital in the defined set of sectors (see [TNFD Annex 1](#), pages 22-25) considered to have material nature-related dependencies and impacts
 2. Absolute amount and/or % of invested capital in companies with activities in sensitive locations
- Consider collecting relevant portfolio core and additional metrics from TNFD from page [83](#) and [89](#) respectively) and engaging your portfolio with respect to [science-based targets for nature](#) under the SBTN



Conclusion

In conclusion, nature and biodiversity play a pivotal role in the global economy. Across sectors in the real economy, investments depend on them as essential resources. BLOOM contributes to nature risk management which is critical for the sustainability and profitability of businesses. Users should see this framework as a seed to grow capacity and ultimately generate innovation and opportunities. By integrating nature positive solutions into strategy, PE firms can build resilience, enhance their reputation, and contribute to global sustainability goals.

Acknowledgements

This guide draws on an abundance of existing research, guides and frameworks, acting as a synthesis to facilitate action in private equity.

In particular, the guide draws on [IFC's Biodiversity Finance Reference Guide](#), [France Invest's Integrating biodiversity into private equity: a practical guide for management companies](#) and the [Taskforce on Nature-related Financial Disclosures \(TNFD\) framework Version v0.4 Beta Release](#) (as well as supplementary TNFD guidance).

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Learn more on sustainability at PAI Partners [here](#)

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