

How Vancity Investment Management integrates biodiversity insights into investment strategies



Overview

Vancity Investment Management (VCIM), a pioneer in socially responsible investing in Canada, has prioritized sustainability since launching the country's first socially responsible mutual fund nearly 40 years ago.

As a signatory to the Finance for Biodiversity Pledge, VCIM sought to deepen its understanding of the risks that biodiversity loss poses to investors. To strengthen its approach, VCIM leveraged MSCI's Nature and Biodiversity Solutions to assess the biodiversity impacts and dependencies across its portfolios. The insights from this analysis now guide VCIM's engagement with portfolio companies and its approach to risk management.



Challenge

Understanding biodiversity risks in investment decision-making

The loss of biodiversity poses financially material risks to companies and the broader economy. More than half of the world's economic output – an estimated USD 58 trillion – depends moderately or highly on nature, yet only a portion of natural capital's value to the economy is priced into markets today.¹

As part of its commitment to the Finance for Biodiversity Pledge, VCIM aimed to:

- Assess and disclose biodiversity-related impacts in its portfolios
- Integrate biodiversity considerations into investment policies
- Engage with portfolio companies to mitigate biodiversity risks.

VCIM's strategy includes monitoring key biodiversity-related metrics, participating in investor-led biodiversity initiatives and advocating for corporate transparency on reliance on raw materials that have a significant impact on nature. To achieve these goals, VCIM needed robust data to evaluate exposure to biodiversity risks and to engage more effectively with companies operating in biodiversity-sensitive sectors.

¹ "New research finds 55% of the world's GDP – equivalent to \$58 trillion – is exposed to material nature risk without immediate action," PwC, April 19, 2023.



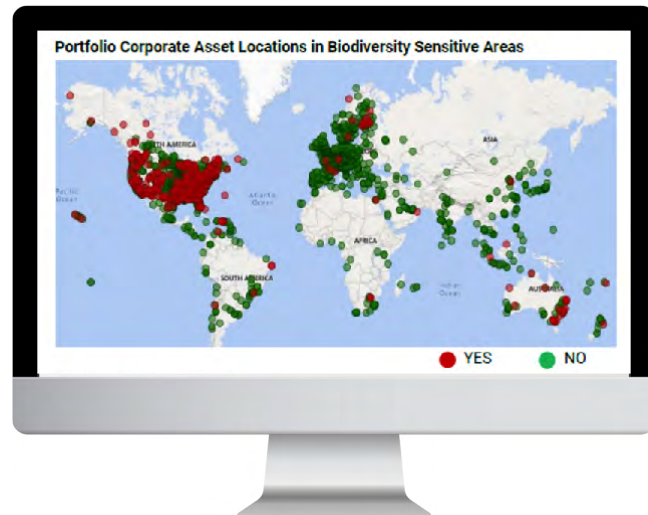
Action

Using MSCI's Nature and Biodiversity Solutions to surface biodiversity risks

VCIM conducted a portfolio-wide biodiversity assessment using MSCI's Nature and Biodiversity Solutions following a structured process.

1. Evaluating exposure to biodiversity risks by sector.

- VCIM evaluated its exposure to sectors ranging from paper and forest products to food production, chemicals, pharmaceuticals and utilities that have significant dependencies on biodiversity.
- MSCI's data helped VCIM better understand concentrations of biodiversity-related risk across its global equity portfolio.



Source: MSCI ESG Research GeoSpatial Asset Intelligence, December 2024

The 10 Industries that drive the lion's share of biodiversity impact



Oil, Gas &
Consumable Fuels



Consumer Staples
Distribution & Retail



Chemicals



Beverages



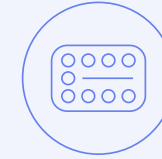
Metals & Mining



Food products



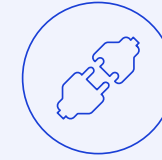
Paper & Forest
Products



Pharmaceuticals



Automobiles



Electric utilities

Ten priority sectors cover 30% market cap of the MSCI ACWI and 70% of the biodiversity impact on the MSCI World Index

Source: MSCI ACWI and World Indexes, December 2024



2. Identifying key drivers of biodiversity loss

- MSCI's metrics helped VCIM identify key biodiversity pressures, including changes in land use, exploitation of resources, pollution, and water use, from its investments.
- This analysis helped VCIM pinpoint exposure to companies in each of the priority sectors and engage with them to improve its understanding of their business models and financially relevant risks and opportunities.

3. Assessing portfolio-level impacts

- VCIM mapped its investments to understand the proximity of portfolio-company assets to biodiversity-sensitive areas. It used data and metrics such as Mean Species Abundance and the Potentially Disappeared Fraction of Species to evaluate portfolio companies' adoption of biodiversity-related policies.
- The firm also analyzed portfolio companies' biodiversity-related policies to assess corporate commitments to mitigating nature loss.

Assesing portfolio impact on species diversity (illustration)

Indicator	MSCI Metric	Portfolio	Benchmark	Active
Mean Species Abundance	Financed extent of local ecosystem degradation <i>MSA.km2/M invested</i>	0.0000	0.0014	-99.7%
	Financed global potential species extinction <i>PDF/M invested</i>	0.0052	0.0231	-77.3%
Potentially Disappeared Fraction of Species	...related to GHG emissions <i>PDF/M invested</i>	0.0017	0.0082	-79.7%
	...related to water consumption <i>PDF/M invested</i>	0.0036	0.0137	-74.1%
	...related to spatial footprint <i>PDF/M invested</i>	0.0000	0.0011	-99.8%

Source: MSCI ESG Research, December 2024

4. Addressing nature-related risks and opportunities.

- VCIM also assessed the impacts that nature- and biodiversity-related risks may have on its investments, as well as how its investments may be contributing to nature loss. The data provided a benchmarked view of material risks and opportunities to guide engagement and decision-making.
- In addition to risk assessment, VCIM used MSCI's insights to identify nature-positive opportunities.

Benchmarking exposure to nature-related risks and opportunities

Nature Risks

Indicator	MSCI Metric	Portfolio	Benchmark	Active
Physical Risks	Assets in biodiversity sensitive areas	0.92%	0.72%	0.20%
	Average water scarcity hazard	56.19%	55.76%	0.43%
Transition Risks	Operations in high land/marine disturbance segments	0.00%	3.93%	-3.93%
	Operations in high toxic emissions segments	3.96%	10.92%	-6.96%
	Operations in high water intensity segments	5.81%	8.73%	-2.92%
	Revenue from high packaging waste products	3.17%	7.27%	-4.10%
Reputational Risks (Controversies)	Land use and biodiversity	0.000%	0.022%	-0.022%
	Operational waste (non-hazardous)	0.00%	0.00%	0.00%
	Toxic spills & releases	1.00%	0.025%	0.025%
	Water stress	0.01%	0.001%	0.001%

Nature Opportunities

Indicator	MSCI Metric	Portfolio	Benchmark	Active
Sustainable Revenues	Pollution prevention revenue	0.07%	0.18%	-0.11%
	Sustainable agriculture revenue	0.00%	0.06%	-0.06%
	Sustainable water revenue	0.48%	0.10%	0.39%
Sustainable CAPEX	Renewable energy CAPEX share of total CAPEX	0.00%	0.54%	-0.54%

"MSCI's data and analytical tools have supported our fulfillment of commitments under the Finance for Biodiversity Pledge by allowing us to assess our investments for significant positive and negative impacts on biodiversity"

Rachel Beechinor, ESG Analyst, VCIM

Source: MSCI ESG Research, December 2024



Impact

Strengthening biodiversity-focused engagement and investment strategies

Targeted engagement with portfolio companies.

The analysis enabled VCIM to prioritize engagement with companies based on their biodiversity-related impacts and disclosures. As a result, VCIM has initiated discussions with portfolio companies in the consumer staples and materials sectors to encourage biodiversity assessments and risk mitigation strategies in areas at risk for loss of biodiversity.

Expanding biodiversity-focused investment strategy

Building on this analysis, VCIM plans to expand its biodiversity-related risk assessments by incorporating additional biodiversity performance indicators and setting biodiversity-related targets. By leveraging MSCI's data, the firm aims to refine its engagement strategies and track progress in addressing biodiversity risks across its portfolio.

Through its collaboration with MSCI, VCIM is enhancing transparency on nature-related risks and aligning its strategy with global biodiversity objectives and its focus on investments that deliver competitive returns while making a positive impact on the world.



"Our clients are increasingly assessing the impact of nature-related risks on their investments, as well as the role their investments play in biodiversity loss. MSCI's Nature and Biodiversity Solutions help us deepen insight into these risks, enhance corporate engagement, and identify opportunities."

Rachel Beechinor
ESG Analyst, VCIM



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