

Nature and Biodiversity: How Bloomberg provides insights to assess nature-related impacts

Climate change and biodiversity loss are two of the most pressing issues facing the planet today. They are also inextricably linked. These can have a significant impact on corporate resiliency in terms of financial performance and reputational risk, as well as on the ability of investors to adequately assess portfolio risk.

WWF's 2020 Living Planet report estimated a 68% loss in population sizes of mammals, birds, fish and amphibians occurred between 1970 and 2016, driven by anthropogenic factors such as changes in land use, species exploitation, pollution and climate change. At the same time, much of the global economy is dependent on ecosystem services provided by nature, according to a 2020 WEF-PWC study.

The depletion of natural resources and biodiversity poses a risk to the parts of the economy that depend on them. Companies are increasingly facing nature-related risks, in terms of potential impacts on nature and dependencies on ecosystem services. Yet, interactions between companies and nature are both challenging to measure and difficult to bring into a single all-encompassing metric - such as in the way that carbon emissions are currently used to assess climate impact.

For example, companies that rely on natural resources - such as water or timber -- for operations and/or product development may be at risk of disruption if those resources are depleted or polluted. Measuring a company's impacts and/or dependencies on nature takes into account multiple factors, including:

1. The type of activities in which the company is engaged.
2. The sensitivities of operational locations.
3. The extent to which raw materials used in production processes are sustainably produced/sourced.

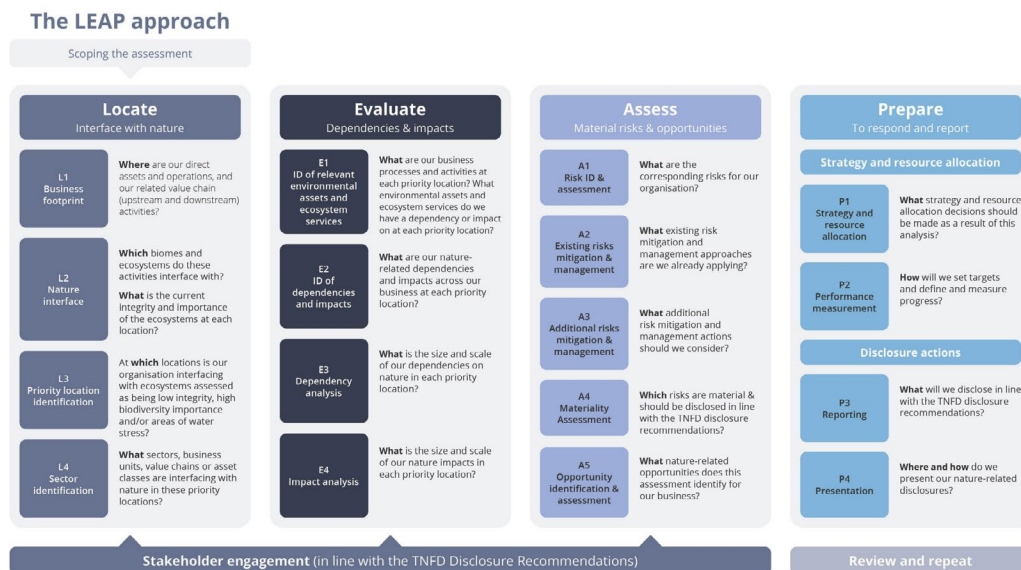


Figure 1: Taskforce on Nature-Related Financial Disclosures (TNFD) LEAP Framework.

How Bloomberg combines data and analytical tools to measure impact

Only with a clear view into nature-related and biodiversity risks can financial market participants take steps to assess the impacts on their portfolios and investment strategies, and set appropriate risk tolerances. To facilitate this transparency, Bloomberg brings together comprehensive data and analytical tools to help clients understand the nature-related impacts and dependencies, risks and opportunities of portfolio companies, in alignment with the requirements of the TNFD “LEAP” Framework.

Driven by international agreements such as the Global Biodiversity Framework signed by 196 nations at COP15, the development of risk and reporting frameworks such as the TNFD as well as regulations such as EU Taxonomy and SFDR, financial market participants are starting to assess how nature and biodiversity risks impact their portfolios and take positive steps to address these risks.

Bloomberg supports investors in uncovering and assessing nature-related risks in a single workflow on the Bloomberg Terminal. This 4-step process enables users to:

1. Understand the segments in which a company operates.
2. Identify whether a company operates in locations of high-impact or dependency risks.
3. Reference supply chain data to understand the flow of commodities.
4. Capture data reported by companies on their nature-related exposures.

1) Understand the segments in which a company operates

Bloomberg collects revenue from over 50,000 public and private companies and allocates it to over 2,000 business segments, down to 7 levels of granularity.

Using Bloomberg’s Industry Classification System (BICS), investors can see that Company A in figure 2, generates all of its revenue from Palm Oil Farming and Palm Oil Processing sectors. Bloomberg has also reviewed all segments, in line with the EU Deforestation-Free Products regulation, to determine which segments carry the greatest sensitivity to deforestation.

Company A is therefore flagged as being involved in the production and processing of a commodity which is linked to deforestation and biodiversity loss.

Company A		Get Link	Export	Settings
Classification	BICS	Currency	USD	
Hierarchy	Rev	% Rev		
▼ Consumer Staples				
▼ Consumer Staple Products				
▼ Food				
▼ Agricultural Producers				
▼ Food Crop Production				
▼ Oilseed Farming				
Palm Oil Farming	596.86M	11.81		
▼ Sugar, Grain & Oilseed Mill				
▼ Grain & Oilseed Milling				
*Palm Oil Processing	4.46B	88.19		

Figure 2: Company A revenue segmentation.

In the example of Company A, Bloomberg’s Forest Risk Commodities Exposure data fields show the amount and percentage of revenue generated from involvement in the production and processing of commodities linked to deforestation.

2) Identify whether a company operates in locations of high-impact or dependency risks

When assessing a company's location, it's important to ascertain:

- The geolocation of a company's operating assets.
- The proximity of those assets to areas of biodiverse sensitivity, for example forest land.
- The environmental performance of those areas and trending performance over time.
- The proximity of those assets to nature-related dependency risks such as areas where water is scarce.

Using geospatial asset location data, Bloomberg enables users to identify company locations that have high impact or dependency risks.

Once it has been established that Company A is involved in the production of forest risk commodities, investors can look at its asset locations, overlaid with tree cover loss, which shows whether there is significant loss near its assets.

Bloomberg's asset location database covers over a million assets for 30,000 global companies. It also integrates the Nature and Biodiversity related geospatial data layers such as water risk and tree cover loss, providing a comprehensive view to ascertain risk.

When combined, these datasets help investors understand the impact companies have on nature and whether companies have dependency risks.

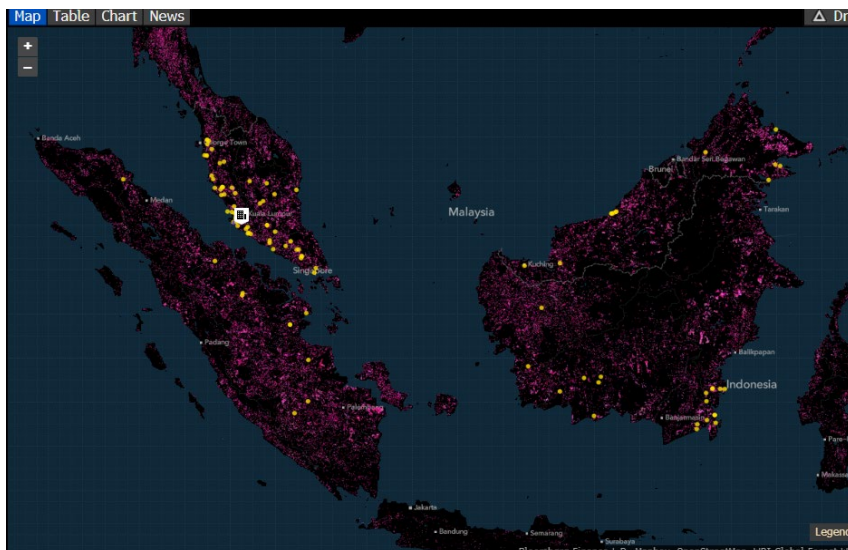


Figure 3: Company A assets overlaid with Global Forest Watch Tree Cover Loss.

3) Reference supply chain data to understand the flow of commodities

Investors cannot hope to fully understand nature-related risks by just looking at the companies which are producing and extracting raw materials. Investors need to look at the flow of commodities through supply chains and into consumer facing goods.

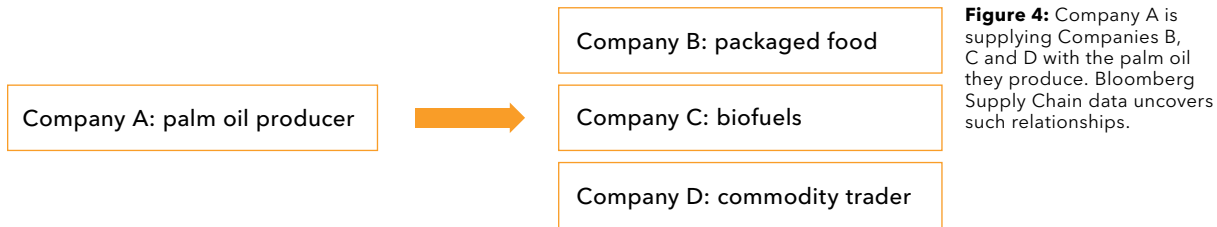


Figure 4: Company A is supplying Companies B, C and D with the palm oil they produce. Bloomberg Supply Chain data uncovers such relationships.

Bloomberg Supply Chain data covers 23,000 public and 90,000 private companies around the world, comprising more than 1 million relationships. This Supply Chain data is crucial to understanding the relationships between companies producing commodities that directly drive biodiversity loss, and those companies further downstream that turn such commodities into consumer facing goods – driving loss indirectly.

4) Capture data reported by companies on their nature-related risks

Whilst both industry activity and geospatial overlays can find risk exposures, company-reported data also plays a key role in giving the investor insight into the extent to which the company acknowledges and manages their nature-related risks.

For example, Company A may only produce Roundtable on Sustainable Palm Oil (RSPO) certified palm oil. The downstream value chain (Companies B, C and D) may ensure that their senior management have oversight on Biodiversity issues affecting the company and have adopted sustainable supply chain management practices. This dataset is an important differentiating factor when selecting companies in industries with high-risk potential and helps reduce the nature-related risks in the investment portfolio.

Bloomberg is capturing company-reported Nature and Biodiversity data with full transparency to source, from over 15,000 global companies, representing over 88% of global market capitalization.

Summary: Delivering insights that make a difference.

With guidance from frameworks such as the TNFD's LEAP, paired with Bloomberg's comprehensive datasets and analytics, investors can now review and risk-assess how companies around the world impact nature as well as depend on it.

Making informed investment decisions with Nature and Biodiversity in mind is achievable with Bloomberg, helping companies protect their financial performance and contribute to a more sustainable future.

Learn More

To learn more about Bloomberg Nature and Biodiversity content, please reach out to your Bloomberg account manager or email us at biodiversity@bloomberg.net

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