Proxy Voting Guidelines for External Managers

**Topic:** Environmental Issues

**Subtopic:** Biodiversity

**Approved:** June 8, 2022

**Description:**

Resolutions on this topic ask companies to address biodiversity risk directly in their operations or indirectly through their supply chains. Such resolutions may request that a company report on biodiversity risk management, implement a policy to reduce negative impacts on biodiversity, or address biodiversity impacts through their supply chains.

**Topic background:**

Biodiversity is the variety of life on earth and an important component of economic activity. Research from PwC suggests that $44 trillion of economic value generation is moderately or highly dependent on nature.\(^1\) In analyzing dependency and impact on biodiversity, experts consider a company’s connection to ecosystem services and natural capital and resources. The concept of Ecosystem Services (ES) has been widely understood as any positive benefit that humans receive from the natural functioning of healthy ecosystems.\(^2\) Examples of these benefits include habitat provision for biodiversity, provision of food, climate regulation, flood and storm protection, disease control, pollination, soil quality, fibers, and other materials.\(^3\) Natural capital are the assets that underpin ecosystem services, for example, natural resource stocks, water, and soil. Stakeholders concerned about biodiversity risk look to understand (1) how business activities, directly and indirectly, depend on ecosystem services and (2) at what level some operations, dependent on biodiversity, are also contributing to its decline. Business operations may negatively impact biodiversity through land-use change, direct exploitation (e.g., overfishing), or waste and pollution. The World Economic Forum’s 2022 Global Risks Report ranks biodiversity loss as one of the top three threats humanity will face in the next ten years.\(^4\)

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\(^3\) A broader approach to ecosystem services is related to ecosystem health and resilience to change, commonly assessed through metrics on species richness and abundance (IPCC, Assessment Report 6, 2022).

While investors have historically paid attention to biodiversity impacts due to events or illegal activity, biodiversity loss through normal business operations is a growing material risk to companies because substantial economic activity and communities directly or indirectly depend on ecosystems services. Biodiversity loss can impact companies by reducing operational productivity, creating supply chain disruption, limiting access to land and resources, and depleting natural resources stocks. In addition to creating challenges to normal business operations, a company’s negative impacts on biodiversity can result in customer loss, regulatory or legal action, and reputational damage.⁵

There is growing momentum to address biodiversity loss. A longstanding working group convened by the United Nations Environmental Programme (UNEP), now known as the Convention on Biological Diversity (CBD) is working on a framework to implement broad-based action to address biodiversity with the goal of halting loss by 2030 and recovery by 2050. Some companies are addressing biodiversity risk by setting targets to become circular or to have a net-positive impact on biodiversity. Others have made issue-specific commitments such as securing deforestation-free supply chains for select commodities, or to protect and regenerate a critical ecosystem. On the investor side, some managers are addressing biodiversity risk through topic specific policies or commitments not to operate, or fund operations, in ecologically sensitive areas.⁶

Considerations for voting:

- Even in cases where scientists and NGOs are able to measure threatened biodiversity and depletion of natural capital, investors’ main challenge in addressing biodiversity risk is capturing data related to specific companies or business activities.⁷
  - The prevailing methods some investors use for managing biodiversity risk are identifying and avoiding operations in certain ecological areas, engaging directly with companies, or review controversies through negative screening. Shareholder resolutions considering biodiversity have focused on specific issues.
- More comprehensive data would support investors in proactively addressing biodiversity risk, developing portfolio metrics, as well as understanding opportunities that arise from positive impacts on biodiversity.
- Established reporting frameworks such as the Value Reporting Foundation and CDP⁸ address ecological-related disclosures. An emerging disclosure framework specific to

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⁵ For more information related to impacts on historically disadvantaged communities, please see related guideline, Human Rights Policy and Supply Chain Due Diligence.
⁶ Among others, Bank of America, Barclays, BNP Paribas, Citigroup, Goldman Sachs, Morgan Stanley, and Wells Fargo have prohibited financing in the Artic National Wildlife Refuge. For a more comprehensive list see The Gwich'in Steering Committee's list of Corporate Commitments.
⁷ Unearthing Investor Action on Biodiversity | Responsible Investor Research (esg-data.com), January 2021
⁸ More information about these organizations and their disclosure standards can be found on the CDP and Value Reporting Foundation’s websites.
biodiversity, the Taskforce on Nature-related Financial Disclosures (TNFD), seeks to create standards for risk management and disclosure around nature-related risks. Like the Task Force on Climate-related Financial Disclosures (TCFD), TNFD members include financial institutions, corporations, and data providers. There are also a variety of data tools such as Exploring Natural Capital Opportunities, Risks and Exposure (ENCORE) that aim to help economic participants understand links between business activity and natural capital.

- Harvard University’s support for well-constructed proposals to mitigate biodiversity loss reflects its institutional commitment to sustainability.

Illustrative examples of votes:

1. Vote in support of resolutions that ask companies to report on their policies and practices, using quantitative indicators where appropriate, to reduce negative impacts to biodiversity and to prepare for biodiversity loss associated with climate change.
2. Vote in support of resolutions that ask companies to provide a report assessing plans to increase the scale, pace, and rigor of their efforts to reduce biodiversity loss from supply chains.
3. Vote against resolutions that prescribe particular pathways to mitigate specific risks.

*Harvard offers broader general guidance on its recommended approach to considering shareholder resolutions in “Overview of Harvard University’s Proxy Voting Guidelines for External Managers” (follow link to download full text). When determining votes on resolutions, we consider each resolution in light of this general guidance as well as in light of a resolution’s specific request and contextual information about the relevant company and its approach to the issue.*