

Moral Money **Climate change**

What does biodiversity sound like?

Also in today's newsletter, a new way to put money to work for good



A road cuts through palm plantations in Borneo. A pilot study has been carried out on a palm oil plantation in Borneo to measure animal biodiversity © Bloomberg

Simon Mundy and **Persis Love** YESTERDAY

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Hello from London, which has — so far — been spared the brunt of the heatwaves sweeping much of the rest of the world in recent days. Wildfires are blazing from Canada to Greece. Temperatures hit 46°C in Sicily yesterday, while Phoenix, Arizona reached a record 19 consecutive days with temperatures above 110°F (43.3°C). We will have to wait to see the impact on death statistics, but research on previous heatwaves has made for [grim reading](#).

While developing nations from Bangladesh to Ethiopia have long been painfully familiar with the brutal force of climate change, it's worth considering the effect on rich-world politics as climate impacts strike closer to home. Will this serve to galvanise ambition for a rapid energy transition, crackdowns on heavy emitters, and greater support for low-income nations that are most vulnerable? For business and finance, the implications could be profound.

That's a topic we'll continue to pursue in future editions. Today, the FT's Persis Love explores how investors could use the power of sound to track biodiversity risk. And I look at an effort to unlock a new wave of funds into impact investment. — *Simon Mundy*

Few parts of the financial sector have been more controversial than the private equity industry. Yet PE firms are now making serious efforts to position themselves as sustainability leaders. Is this a marketing ploy — or can this sector play a role in tackling the world's environmental and social challenges? That will be the focus of our next Moral Money Forum report, and we want to hear from our readers. [Click here](#) to fill out our short survey.

Investors look to bioacoustics as indicator of biodiversity levels

For companies seeking to measure their contribution to the climate crisis, the key metric to track is in most cases pretty clear: tonnes of carbon dioxide emissions linked to their operations. But when it comes to assessing their impact on biodiversity, measurement has proved much trickier.

French green tech company GreenPRAXIS hopes that bioacoustics — measuring the sounds produced by the natural world — could provide a solution.

“We’re following the basic principle that you can’t improve what you don’t measure,” their chief executive Martin Guillaume told me.

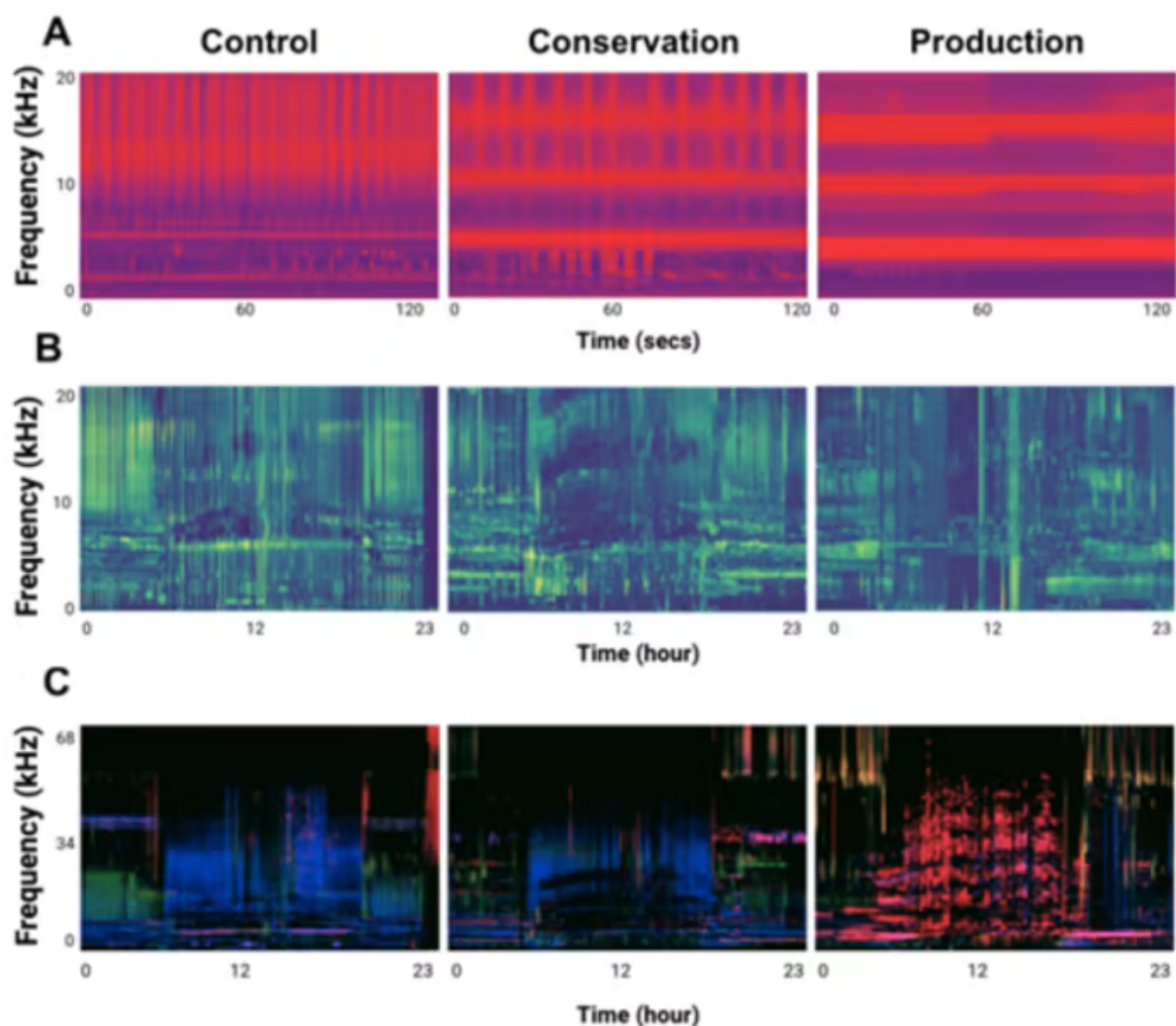
The natural world is noisier than many of us thought. Tomato plants pop when lacking water, unhatched turtles make noises from within their shells, healthy soil emits a cacophony of noise from worms and bugs, and coral larvae can hear the sound of their home reef from across the ocean.

GreenPRAXIS, which offers tech and data-led sustainable solutions for vegetation management, partnered with financial services companies Fidelity International, Cardano and Nomura to conduct a pilot study on a palm oil plantation in Borneo to measure animal biodiversity.

Greta Fearman, senior responsible investment officer at Cardano, said it was looking for “concrete evidence” of a company’s impact. The current methods it uses to assess a company’s commitment to biodiversity are mostly qualitative — based on the company’s policies and targets. “I think biodiversity as an overarching concept is still abstract for a lot of companies,” Fearman said.

The Borneo study yielded positive results. Researchers compared audio recordings taken on a working palm oil plot, a conservation plot that hadn’t been farmed for decades, and a control plot of relatively untouched forest in the same region.

The recording from the working plot showed mainly insect noises, that from the conservation plot showed a much greater presence of birds too, and the audio from the control plot captured the sounds of primates such as gibbons and other creatures.



Spectrogram images from GreenPRAXIS's study in Borneo © GreenPRAXIS

Similar methods are being used by researchers to measure the [success of biodiversity restoration projects on coral reefs](#). A second pilot is on the cards for later this year.

Jenn-Hui Tan, Fidelity International's head of stewardship and sustainable investing, said its asset managers had a responsibility to assess how environmental changes would impact businesses.

"The loss of biodiversity presents significant financial risks for the companies that we invest in in two ways," he told me. "One is around the dependency that businesses have on ecosystem services provided by natural capital" — you can't farm crops without a functioning ecosystem, for example.

The second relates to the impact of a company's activities on biodiversity. "There's an increasing raft of both regulation and also reputational risk associated with having an outsized impact [on biodiversity]."

But he emphasised that there wasn't one right way of measuring biodiversity. Alternatives include the Biodiversity Intactness Index, an indicator devised by the Natural History Museum that collates data from pre-existing ecological studies, and environmental DNA, which measures genetic traces left behind by plants and animals in water or soil.

GreenPRAXIS chief operating officer Jerome Di Giovanni said the strengths of the bioacoustics approach were that it is non-invasive, and that it can be deployed at speed. "If someone calls you and says 'hey, I need a diagnostic of biodiversity', then they need it yesterday, not in six months," he said. (*Persis Love*)

A new way to put donor-advised funds to work

Over the past couple of decades, a once obscure financial structure has mushroomed into a massive part of the philanthropic landscape. It's called the donor-advised fund (DAF), and now accounts for one in every seven dollars of US charitable giving, and a fast-growing share in the UK.

When a (typically wealthy) donor transfers money into a DAF, they get to book a tax deduction immediately, as they would when donating to a public charity. But while the money in a DAF legally has to be passed on to charities, this can be done whenever the donor decides — so the money can sit in the fund, under the donor's effective control, indefinitely.

DAFs have been [attacked by critics](#) who say they are tying up money that would otherwise be available to charities. Assets in US DAFs [reached \\$234bn in 2021](#), up 40 per cent year on year; payouts from DAFs to charities ([or, in some cases, to other DAFs](#)) rose at a slower pace of 28 per cent, to \$46bn.

There's no immediate prospect of an end to this boom, after a bill to reform DAFs stalled in Congress last year. And the trend is [picking up in the UK](#): contributions to DAFs reached £626mn in 2021, against total charitable giving of £10.7bn.

So, while all that cash sits in DAFs before (eventually, one hopes) being donated to charity, can it at least be put to good use?

That's the logic behind a new fund of funds being set up by Social Finance, an impact finance and advisory non-profit. At the moment, Social Finance's chief executive Tracy Palandjian told me, the cash in DAFs is commonly invested in money market funds or index trackers. Her organisation's new Impact First Fund aims to raise money from DAFs — and other investors — and in turn invest this cash with funds committed to positive social and environmental impact.

While a growing number of investors and philanthropists are attracted to the idea of impact investment, Palandjian says, many feel ill-equipped to choose from the large number of impact funds on the market. With its established record and existing partners including Google, she argues, Social Finance can offer them an effective means of deploying capital in the space.

The fund of funds will have its first close this summer, and is aiming to raise \$100mn by the end of this year. It's already drawn up a shortlist of 20 funds for potential investment. One of these focuses on supporting the rollout of solar power in low-income areas; another invests in work to help communities vulnerable to climate impacts; a third is pursuing investments in sustainable agriculture.

Palandjian says the fund will pursue a “principal plus” strategy, aiming to deliver investors a return that more than keeps pace with inflation. Significantly, she's not seeking to convince them that this fund will match the financial returns they could make with a conventional investment portfolio.

As impact funds have proliferated in recent years — notably among some of the biggest private equity firms — some managers have been promoting a “have your cake and eat it” message, promising serious social impact without any compromise on financial returns. Palandjian argues that, if fund managers want to pursue serious impact, they'll need to take on “all kinds of risks that will not be compensated financially”.

It's a pitch that may not appeal to all investors. But if the vast sums in DAFs are to be a permanent feature of the financial landscape, serious thought needs to go into what is done with that money while it sits there. (*Simon Mundy*)

Smart reads

- FT reporters in Europe wrote a [disturbing dispatch](#) on the extreme heat sweeping the continent.

- Redwood Materials, a battery recycling start-up established by Tesla co-founder JB Straubel, [is in talks to raise \\$700mn](#) at a valuation of nearly \$5bn, Patrick McGee and Ivan Levingston reported.

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