

Where the wild things are: why investors should care about natural capital

Julie Zhuang, Portfolio Manager Global Equities at Aviva Investors

Finance must wake up to the risks associated with biodiversity loss and the opportunities that arise from nature-friendly solutions, argues Julie Zhuang, Portfolio Manager Global Equities at Aviva Investors.

It is exciting that biodiversity is now being recognised in our industry, but there are many nuances to consider. The role of asset managers is to help clients invest sustainably by identifying companies that are leading on reducing their impact on nature, which means we really need to understand the intricacies involved.

Responsibly-minded investors can allocate capital to transition leaders in their respective industries – companies that are moving in the right direction in terms of their management of natural capital and environmental risks – and engage with them to move even further and faster. They can also seek out innovative companies providing products or services that directly protect nature or lessen the harmful impact of human activity. Companies involved in, for example, precision agriculture, sustainable animal nutrition, wastewater management, meat alternatives, the circular economy, plastic reduction or biodegradable materials.

In many cases, the marked improvement of companies' management of biodiversity and environmental risks is underappreciated by the market as investors are not focused on natural capital as a theme. In particular, companies involved in testing, inspection and certification of natural capital tend to get overlooked, for example, despite facilitating better standards in biodiversity risk management globally.

In order to make informed decisions, investors need to gain a picture of relevant risks on a sectoral basis, by using data from a variety of sources. Aviva Investors has a proprietary transition risk model that draws on many different datasets.

To protect their credibility and integrity, investment managers in natural capital need to focus on their dual mandate: to deliver a positive outcome for nature as well as driving investment returns. If investee companies make promises but don't deliver on them, it is important to use engagement or time-bound divestment to facilitate a positive outcome in the long run.

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