

It takes Aviva Investors

STRATEGY IN BRIEF

# Aviva Investors Natural Capital Transition

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# We are the asteroid

**“** *We are losing our suicidal war against nature.*

*Our two-century-long experiment with burning fossil fuels, destroying forests, wilderness and oceans and degrading the land has caused a biosphere catastrophe.*

*Making peace with nature is the defining task of the 21st century. It must be the top, top priority for everyone, everywhere.”*

**UN Secretary General,  
António Guterres**

Source: Leaders Summit of the United Nations Biodiversity Conference, in Kunming, China, 11 October 2021.



# Natural capital loss, a significant challenge

We are facing one of the greatest sustainability issues of our time.

69%

Average decrease in species populations around the world since 1970<sup>1</sup>

Current extinction rates are

100-1,000

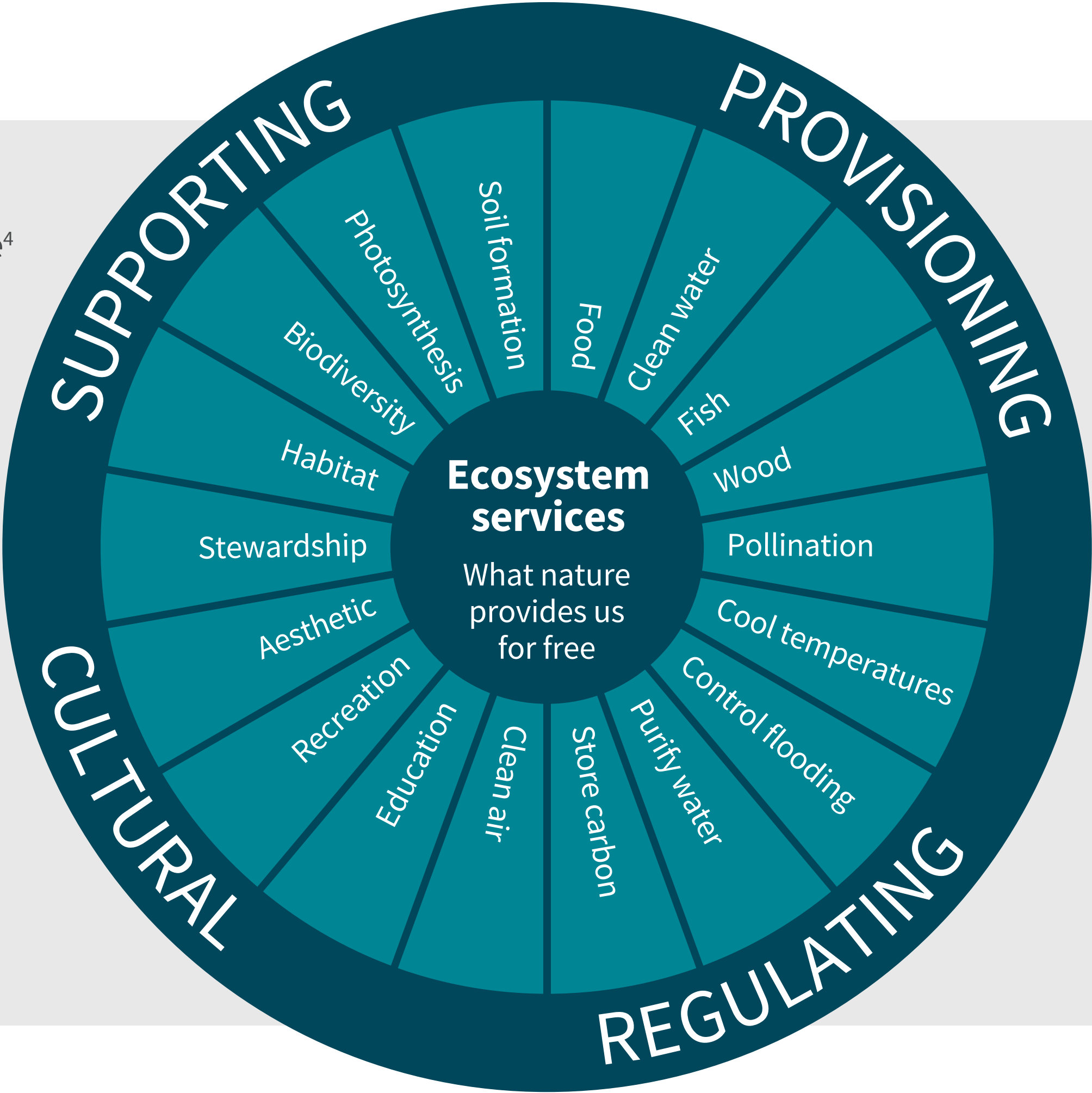
of the normal background rates.  
We are witnessing the ‘Sixth Great Extinction’<sup>2</sup>

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ecosystem services are degraded or in decline<sup>3</sup>

55% of global GDP is dependent on nature<sup>4</sup>

**Natural capital** – the world’s stock of natural assets such as all living things, air, water, geology, and soil – supports our whole existence. Over half of global GDP is dependent on high-functioning biodiversity and ecosystems such as the provision of food and clean water or supporting services such as soil formation. Currently, these are accessible for free, as they are not valued in economic accounts and market prices:



<sup>1,2</sup> The Living Planet Report 2022, WWF & ZSL. <sup>3,4</sup> SwissRe Biodiversity and Ecosystem Services (BES) 2020. IPBES (2019) Global assessment of the status of biodiversity and ecosystems. Planetary boundaries: Stockholm Resilience Centre. Ecology ecosystem services.

# The investment case for natural capital

Transforming practices to protect and preserve natural capital presents huge opportunities for investors.

The World Economic Forum estimates that to become nature-positive, critical shifts are needed across three key sectors as listed below.

The World Economic Forum estimates that transitions in these 3 key sectors could deliver \$10 trillion of annual business opportunities and 395 million jobs by 2030

Food, land and ocean use



\$3,565bn

Infrastructure and the built environment



\$3,015bn

Energy and extractives



\$3,530bn

Source: World Economic Forum (WEF), 2020. The future of nature & business.

# Our approach to investing in the Natural Capital Transition

We aim to deliver long-term capital growth by investing in equities of companies that are providing solutions to reduce human impact on nature, or transitioning their business models towards a more nature-positive economy, and by engaging with portfolio companies.

Investment opportunities in the strategy are linked to the following investment themes and are aligning to the principles of the following United Nations Sustainable Development Goals (SDGs):

Aligned with the United Nations Sustainable Development Goals



<div><div><div>12</div><div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div><div></div></div><div><div>Circular Economy</div><div>Moving to a circular economy means making sure we maximise the reuse of our planet’s finite natural resources, moving on from today’s throw-away society. Sub themes include: Recycling and reusing technologies, sustainable packaging, waste treatment.</div></div></div>	<div><div><div>13</div><div>CLIMATE ACTION</div><div></div></div><div><div>Climate change</div><div>Climate change poses an existential threat. Investment opportunities lie in sectors like renewables and green transport, however, there are also less well known but substantial opportunities like animal feed that reduces methane emissions from cows.</div></div></div>	<div><div><div>14</div><div>LIFE BELOW WATER</div><div></div></div><div><div>Sustainable oceans</div><div>Reducing our pollution of rivers and seas and the over exploitation of fish. Sub themes include: Water treatment, sustainable mariculture and aquaculture, plastic reduction and biodegradable materials.</div></div></div>	<div><div><div>15</div><div>LIFE ON LAND</div><div></div></div><div><div>Sustainable land</div><div>Shifting to systems that protect and restore our natural habitats, rather than those that exploit and deplete them. Land use change for agricultural expansion is one of the biggest single drivers of biodiversity loss. Sub themes include: Plant-based proteins, precision agriculture, sustainability monitoring and verification.</div></div></div>
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These investment themes are aligned with the principles of the four key SDGs as illustrated above, which give us a broad investment universe

# Investing with purpose

We invest with an active, high-conviction approach to address the needs of investors seeking two objectives:

Long-term capital growth



To support the transition to a nature-positive economy



### Portfolio details

- We aim to increase the value of investments over the long term (5 years or more) and aim to support the transition towards a nature-positive economy.
- Number of stocks: **35-50**
- Active share: **+90%**

## Key Strengths



### Transition focus

Our proprietary transition risk framework helps identify winners from the natural capital transition across all sectors. Our approach aims to deliver more resilient performance over the long term, uncover more alpha opportunities, and more effectively support the natural capital transition than by investing in solutions-focused companies alone.



### Bespoke engagement

We engage with all portfolio companies on specific biodiversity issues. Our three-year structured engagement programme systematically tracks all companies, categorised across five grades (1-5) to indicate the extent to which they meet our expectations, with an escalation pathway that could potentially lead to divestment if we are not satisfied with their progress.

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# Why now?

We believe markets will increasingly price in the cost and consequences of natural capital depletion as well as the opportunities to protect nature. We see three specific catalysts that will drive further change:

1

### Increasing physical risks



Companies which depend on the exploitation of natural capital for their business models are most obviously at risk. For example, food producers bearing the costs of the decline of natural pollinators such as bees, soil degradation ruining the economics of farming and pushing up soft commodity prices, or diminishing fish stocks.

2


### Regulatory and legal development



As the existential risks of the loss of our natural capital becomes increasingly understood, like with climate change, we expect a huge increase in regulations to protect and preserve nature. This will come with incremental costs in the form of penalties and taxes on businesses that fail to reduce their negative impact on the environment, as well as opportunities for those companies leading this transition.

3

### Growing consumer activism



Society and the consumer are rapidly waking up to this biodiversity crisis and the threats posed to them personally from the loss of our ecosystem. Increasingly customers appear to be looking for brands that reflect their own identity given their heightened concern about the environment around them.

# Leveraging strong in-house expertise

## Natural Capital Transition Global Equity strategy team



**Jonathan Toub**  
Portfolio Manager

Jonathan is a co-Manager of the Natural Capital Transition global equity strategy. Jonathan also covers global consumer companies with a focus on US and Emerging Markets. Formally a portfolio manager at Aberdeen Standard Investments and Collabrium Investment Advisors as well as a GEM equity analyst at Landsdowne Partners. Jonathan holds an LLB (Hons) Law from Kings College, London. He also holds the Investment Management Certificate and is a CFA® charterholder.



**Julie Zhuang**  
Portfolio Manager

Julie is a co-Manager of the Natural Capital transition global equity strategy and also covers the Global TMT and Global MedTech sectors. Previously, Julie was a consumer equity analyst having covered European Luxury Goods, Global Brands, and European Food Retail at UBS Investment Bank and Barclays Investment Bank. Julie holds a MSc in Management from HEC Paris with a CEMS double degree from the LSE, and a BA in French Language and Literature from Beijing Foreign Studies University. She is also a CFA charterholder.



**Ivelina Stefanova**  
Sustainable Investing Analyst

Ivelina works in an advisory capacity to the portfolio managers, researching sustainability aspects of the Natural Transition Strategy and supporting the engagement programme. Additionally, her role extends to product and process development, thematic research and supporting the investment processes in the Stewardship range .

Before joining the team, Ivelina was part of the Climate and Natural Investment Risk team at Aviva UK Life and held a Climate Strategy role in the Aviva Investors Investment Solutions team.



30+

ESG specialists



25+

Equities team

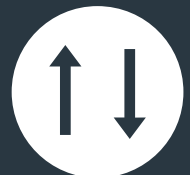
Team information includes open headcount as of 28 March 2024.

# Key risks



## Investment/objective risk

The value of an investment and any income from it can go down as well as up and can fluctuate in response to changes in currency and exchange rates. Investors may not get back the original amount invested.



## Equities risk

Equities can lose value rapidly, can remain at low prices indefinitely, and generally involve higher risks – especially market risk – than bonds or money market instruments. Bankruptcy or other financial restructuring can cause the issuer's equities to lose most or all of their value.



## Counterparty risk

The strategy could lose money if an entity with which it does business becomes unwilling or is unable to meet its obligations to the Fund.



## Derivatives risk

Derivatives are instruments that can be complex and highly volatile, have some degree of unpredictability (especially in unusual market conditions), and can create losses significantly greater than the cost of the derivative itself.



## Illiquid securities risk

Certain assets held in the strategy could, by nature, be hard to value or to sell at a desired time or at a price considered to be fair (especially in large quantities), and as a result their prices could be very volatile.



## Sustainability risk

The level of sustainability risk to which the strategy is exposed, and therefore the value of its investments, may fluctuate depending on the investment opportunities identified by the Investment Manager.



# Important information

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Where relevant, information on our approach to the sustainability aspects of the strategy and the Sustainable Finance disclosure regulation (SFDR) including policies and procedures can be found on the following link: <https://www.avivainvestors.com/en-gb/capabilities/sustainable-finance-disclosure-regulation/>

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