

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>

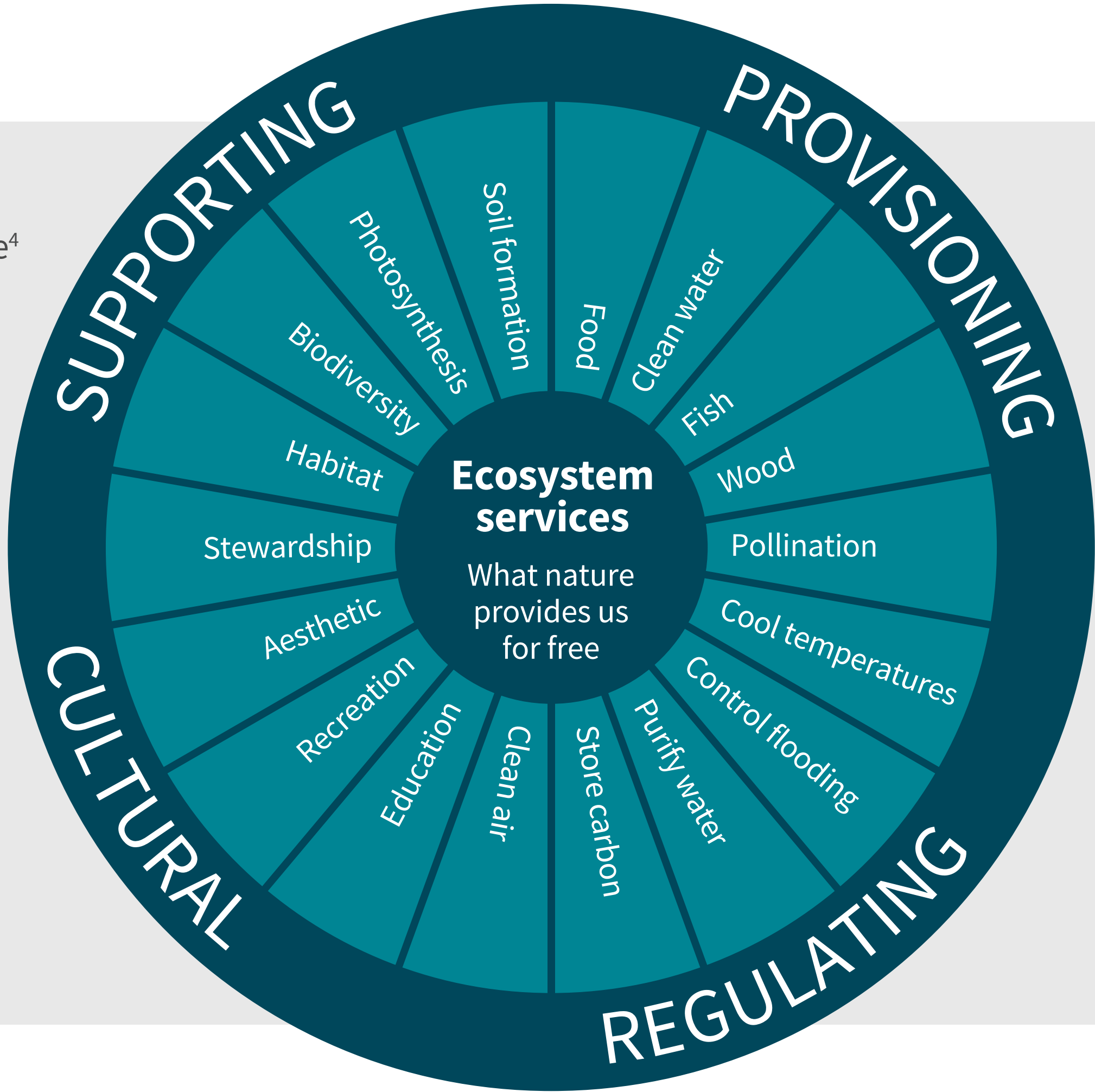
14 of 18

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**



**Infrastructure and the built environment**



**Energy and extractives**



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



# Our approach to investing in the Natural Capital Transition

We invest in global equities of solutions companies whose products or services reduce human impact on nature, or transition companies who are leading their sector in reducing their own impacts on nature.

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



Support the transition towards a more nature positive economy



## Portfolio details

- The Investment Manager seeks to outperform the MSCI All Country World Index by **+2% p.a.**
- Number of stocks: **35-50**
- Active share: **+90%**
- Portfolio tends to have **stronger natural capital metrics** than the benchmark.

## Key Strengths



### Transition focus

A simple ‘solutions only’ approach can lead to overly narrow and highly skewed portfolios. Our proprietary transition risk model helps us identify companies leading their sectors in reducing their own impacts on nature, giving us a wider opportunity set. This can result in a more diversified portfolio across sectors, geographies and style factors.

Our approach aims to deliver more resilient performance over the long term, uncover more alpha opportunities, and more effectively support the natural capital transition.



### Bespoke engagement

We seek to engage with every single company in the portfolio on specific social-related asks. Our 3-year programme systematically tracks all companies from leader to laggard and has an escalation pathway with possible divestment.

We believe this structured, bespoke programme with teeth can more effectively support the transition to a more socially equitable economy.



### Macro stewardship

We are leaders in actively engaging with policymakers to reform the market to correct what we perceive as material market failures.

We have a longstanding track record in actively engaging with policymakers on market reform to correct material market failures. We have specific market reform initiatives that can help deliver nature-positive outcomes.




# 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  
21+ years' experience  
in asset management

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  
9+ years' experience  
in asset management

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.



**Eugenie Mathieu**  
Senior ESG Analyst & Earth Pillar Lead  
20+ years' experience  
in Sustainability

Eugenie is Earth Pillar Lead at Aviva Investors. She carries out research and engagement on environmental issues, and co-manages the Natural Capital Transition strategy. Eugenie was previously part of Greenpeace International's Forests team and a sustainability consultant to major international companies. She worked with EIRIS on the creation of FTSE4Good in 2001, following an MSc in Business and Environment at Imperial College, London. She also worked with Bain & Co as a strategy consultant and studied Geography at Oxford University.



40 ESG specialists



25 Equities team

Team information includes open headcount as of 15 May 2023.



# Acting for biodiversity and nature



## Aviva Biodiversity Policy

Setting a commitment in line with Aviva’s policy to assess deforestation risk and other biodiversity impacts across portfolios by the end of 2023



## Pledge signatory

Pledge signatory to protect and restore biodiversity through finance activities and investments



## New Nature and Biodiversity Benchmark

Founding Member of WBA. Member of expert committee for Sustainable Seafood Index. Fed into new Nature benchmark, launching in 2022



## Driving change at COP 15

Aviva CEO and policy team represented Aviva at COP15 and had a key role by co-chairing the Finance for Biodiversity’s Public Policy Advocacy group.

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# At the forefront of responsible investing





# 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.



## Currency risk

The fund is exposed to different currencies. Derivatives are used to minimise, but may not always eliminate, the impact of movements in currency exchange rates.



## Emerging market risk

Investments can be made in emerging markets. These markets may be volatile and carry higher risk than developed markets.



## Derivatives risk

Investments can be made in derivatives, which can be complex and highly volatile. Derivatives may not perform as expected, meaning significant losses may be incurred.

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

Some investments could 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 can be volatile.





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