

## CIO Viewpoint

## Investing in natural capital for better returns

Investment Solutions

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Last month, 76 world leaders [pledged](#) to reverse the globe's biodiversity losses over the coming decade at a virtual summit hosted by the United Nations. That matters to investors, since our economies are dependent on the world's natural resources. As these dwindle and their exploitation pollutes our planet, we must encourage the transition to a sustainable economic model, and invest accordingly.

Natural capital is the foundation upon which our entire economy rests. Ecologists John Seymour and Herbert Girardet [warned](#) in 1986 that civilisations since the Sumerians have routinely collapsed as their farming practices failed. Humans, they argued, still fundamentally depend on just a few centimetres of topsoil. Five thousand years after Mesopotamian farming in the Fertile Crescent salted up, we now have the technological tools to enable our transition to a more sustainable economic model.

The need is urgent. Our consumption and pollution levels are unsustainable, as we have crossed four irreversible thresholds: climate change, species extinctions and displacements, loss of habitats, and soil degradation from intensive agriculture – the latter has exhausted one third of farmland in just a few decades. According to estimates by the UN's Environment Programme, in 2017 we extracted [92 billion tonnes](#) of materials from the earth in a single year. That amounts to 10 tonnes of raw material per person in the developed world and is three times the resource extraction seen as recently as 1970. Of all the resources we use, a mere 9% is recycled.

Nature also provides services, in addition to the resources we extract. For the most part, these services go unnoticed and unvalued, in large part because, for example, bees do not send invoices for pollinating our crops. Nor do we put a price on other natural functions such as the filtering of our atmosphere, disease and pest control, erosion prevention, and stabilisation of our weather patterns. Attempting to account for some of this, as well as farmlands, water and oceans, and forestry (from which we derive 60% of new pharmaceuticals), the World Economic Forum [estimated](#) last year that more than half of the world's economy is highly or moderately dependent on the natural world.



Stéphane Monier  
Chief Investment Officer, Lombard Odier Private Bank

### Key takeaways

- Our economic activity is critically dependent on the world's natural resources
- The current wasteful and unsustainable economic model needs a transition to a circular, leaner, inclusive and cleaner alternative
- Businesses are accelerating their transition through ambitious and sustainable solutions
- We see opportunities in firms that preserve, make efficient use of, and regenerate these resources.

**Important information:** Please read the important information at the end of the document.

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Our dependence on natural capital and our associated economic vulnerabilities were starkly revealed this year with the Covid-19 pandemic. The [jump](#) made by pathogens from wildlife to humans to create this virus is likely a consequence of species displacement or habitat loss. Such [zoonotic diseases](#) are responsible for more than 70% of emerging infectious illnesses, and their number is rising. Today we understand that the health of humans, livestock, wildlife, our food and the environment are all connected.

### **New business models**

As investors, we want to encourage the transition to a circular, lean, inclusive and clean economy (CLIC™) – one that is capable of generating economic growth based on true value-added, rather than on resource depletion. This cannot be achieved by doing business as usual. Instead, we look for firms that can deliver new solutions better, cheaper, and faster. Such solutions can provide the products or services we need while simultaneously taking carbon dioxide out of the atmosphere and regenerating oceans or forests, for example.

Every aspect of our economy will be affected and can be transformed. In the high-polluting textiles industry, to name one, it is now possible to dye clothes in a process that uses no water at all, and no chemicals other than the dyes themselves. Recycling can also spawn new business lines through leasing, pay-per-use, and take-back schemes, creating fresh revenue streams.

Digitalisation will enable many of the new solutions as connectivity can be ensured without necessarily involving air travel, for instance. This is our core-conviction investment strategy. It is where we are convinced that superior financial returns will be created. It is also where we believe that risks will be relatively lower, because not embracing the transition carries outsized risks, even for low polluters.

In this context, we favour companies that transition from brown to green by developing new technologies and products, even if today they might be higher CO2 emitters. As firms undergo this transformation, it will make a significant contribution to cooling the climate. We prefer such firms to a company in a low-emitting industry that does little to evolve and contribute to the climate transition.

As we rethink our future, we must also rethink how we invest – not only for the good of our planet, but because that is how financial performance will be generated.

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