June 2022

Investing in the planet’s natural wealth

Biodiversity is a single word encompassing – quite literally – a whole world of meaning. When we talk about biodiversity, we are referring to the variety within and between the Earth’s species, as well as variability within the ecological systems that these species inhabit (geology, soil, air, and water).

These are the planets natural assets, and biodiversity directly facilitates a wide range of goods and services for us all, including our most critical resources: food, water and medicine. Today, though, the planet’s biodiversity is in crisis. As investors, what can we realistically do to change this? And – to ask a deeply uncomfortable question – is it financially worth our while to act?

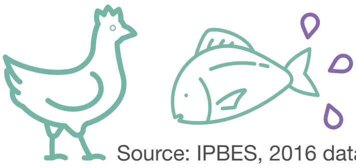
What does biodiversity mean for the global economy?

The global economy is hugely reliant on well-functioning ecosystems, and financial markets themselves are extremely vulnerable to further loss of biodiversity. According to the World Economic Forum, more than half the value of the global output of goods and services ($44trn) is highly or moderately dependent on nature.

However, over the past century, the planet has experienced an unmatched deterioration in its natural assets. So far, humans have caused the loss of 83% of all wild animals and half of all plants.[1] The loss of wild pollinators around the planet is already impacting an enormous range of plants, including major food crop varieties, as well as species we are reliant upon for medicinal purposes. In the water, a third of reef-forming corals, two-fifths of amphibian species, and more than a third of marine mammals are under threat.[2] The earth and the sea – though heavily overloaded – provide the planet's only true sink for carbon emissions: the weaker they grow, the more desperate the climate change situation becomes. The biodiversity crisis is real, urgent, and far-reaching.

$1.2trn

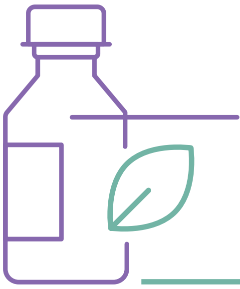
The combined **market value** of the **planet's livestock** and **fisheries**



Source: IPBES, 2016 data

Importantly, while global economic growth has cost the planet dearly, the depletion of our planet's biodiversity will come home to roost for humans unless we take steps to protect our natural assets. Some biodiversity declines can be recovered through the restoration of damaged ecosystems, but other changes are already irreversible. If not for the sake of the planet, then for the sake of ourselves, it is critical that we act now.

But we need to act collectively – restoring the planet's biodiversity simply cannot be achieved on an individual basis. In the same way that recycling household plastic waste and opting for reusable coffee cups are a step in the right direction, but cannot alone halt climate change, small-scale steps like rewilding one's own back garden are not enough to make a real difference in isolation. As with the climate change crisis, by acting in unison, investors can play a critical role in turning the tide for biodiversity loss.



70% =

cancer treatment **drugs** which are **natural** or **inspired by nature**

Source: IPBES

Does investing in biodiversity make financial sense?

Happily, we believe that it makes both ethical and financial sense to invest in biodiversity. Unfortunately, this is currently an overlooked area for investors, with the investment community only in the early stages of awakening to the crisis.

Nevertheless, a number of our sustainable investment strategies directly invest in this area through a fund which identifies companies adopting innovative approaches to protecting and restoring biodiversity. The fund's manager also has a relationship with the UK's Natural History Museum, helping to determine the validity of each of the biodiversity-focused stocks within the fund. Through this fund we are able to tackle biodiversity loss by promoting conservation, agricultural solutions and engaging with indigenous communities. Our position in this fund offers something new and different to our sustainable strategies, and represents an under-researched and under-exposed area of high impact and importance. While this investment is not suitable for all of our sustainable strategies (partly because it focuses on shares, which are relatively higher risk assets), we expect our position here to deliver superior growth in financial terms over the long run.

We are on the lookout for further opportunities in the area, where we see potential for robust growth supported by increased awareness and regulation. Natural ecosystems are the bedrock upon which economic growth, our health, and our livelihoods are built. So, setting aside ethical considerations or environmentalist principles, rising to meet the challenge of protecting and restoring the planet's biodiversity is in our collective best interest.

What are the world's policymakers doing to tackle the biodiversity crisis?

Investors cannot – and should not have to – act alone. Fortunately (if a little belatedly), policymakers are sitting up and taking note of the crisis.

- Later this year, the in-person events of the UN Biodiversity Conference ('COP15') are set to take place in China, with attendees aiming to produce biodiversity guidance akin to the Paris Agreement on climate change.
- In 2015, the international Task Force on Climate Related Financial Disclosures (TCFD) was created, seeking to provide investors with information about what businesses are doing to mitigate climate change risks. Today, a Taskforce on Nature-related Financial Disclosures (TNFD) is also in the works, aiming to help companies to report on nature-related risks, including biodiversity.

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Caroline Von Celsing, Investment Associate

[1] World Economic Forum

[2] IPBES (Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services)

The Asset Management Awards 2022

Winner: Multi Asset Manager of the Year award

2022 Wealth Briefing European Awards

Winner: Specialist Wealth Manager With Assets Under Management Between £2-5 Billion

2022 PAM 50 Most Influential

Tracey Davidson, Chair of Handelsbanken Wealth & Asset Management has been named in the 2022 PAM 50 Most Influential list

2021 Wealth Briefing European Awards

Winner: High Net Worth Team

Commended: Tax Team

Commended: Marketing or PR campaign

Assessing the performance of our investment strategies

Our 'target return' performance benchmarks

Most of our investment strategies aim to deliver financial returns at levels linked to the rate of UK inflation (measured by the Consumer Price Index, or CPI). Over any given five-year period, these strategies target returns which are a pre-defined level above the rate of inflation. Our CPI-linked goals are known as the strategies' target return benchmarks, and are designed to help customers evaluate the strategies' performance in a real-world context. These targeted returns range from CPI+1% for our lowest risk (Defensive) strategies up to CPI+4% for our higher risk (Growth) strategies. Our highest risk (Adventurous) strategy is the exception, as it does not use a CPI-linked goal. Instead, this strategy aims to beat the returns offered by the global stock market (represented by the MSCI All Country World Index).

If the strategies deliver total financial returns to investors (after all costs and charges have been taken) equivalent to the total return of their target return benchmarks, we consider the strategies to have achieved their targets.

Our financial market performance benchmarks

The performance of our investment strategies can also be compared to representative indices for two of the main asset types in which most of the strategies invest. These indices are 'MSCI United Kingdom (£) – net total return' (representing the performance of UK shares) and 'BoA Merrill Lynch UK Gilts' (representing the performance of conventional UK government bonds). These indices are known as the strategies' comparator benchmarks, and are designed to help clients evaluate the strategies' performance in a financial market context.