



Earth Overshoot Day: towards a more sustainable post-COVID world

Topic of the month October 2020

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The global health crisis has led to a drastic decline in humanity's ecological footprint. How can the world continue along this sustainable trajectory?

Equities Thematics Sustainability

August 22 marks Earth Overshoot Day, the point in the calendar when humans will have used up a year's worth of the planet's natural resources. For the rest of 2020, humanity will be running up an environmental debt, consuming more than the Earth can naturally replenish in a 12-month period, and drawing down on what will be available for future generations. Just as worrying, we will be producing waste such as carbon dioxide emissions as we do so. Earth Overshoot Day has been calculated every year since the 1970s by the Global Footprint Network (GFN), a non-profit research group. Over that time, the overshoot has been found to occur earlier each year. This year saw a reversal of that trend. Thanks to coronavirus-induced lockdowns, there has been a drastic shrinkage in humanity's ecological footprint. GFN estimates that the global carbon footprint, for instance, has fallen nearly 15 per cent from last year, while that for forest products is down by more than 8 per cent. The question now is whether the world can continue along this sustainable trajectory. The pandemic has alerted us to a number of environmental issues which, left unchecked, could either aggravate the current health crisis or even sow seeds for future virus outbreaks. Take air pollution, which is estimated to kill 7 million people prematurely every year. Researchers have found that air pollution may have exacerbated the impact of the pandemic. Several studies have linked high levels of particulate matter in the air to elevated coronavirus mortality rates. What is equally clear from the pandemic experience, however, is how quickly air pollution can be reduced. As road and air traffic ground to a halt and factories were shuttered, air quality improved dramatically. In China, concentrations of particulate matter, known as PM2.5, fell by as much as a third in early March from a year earlier. Although there is a strong possibility that pollution will rise rapidly to pre-crisis levels as lockdowns ease – as is already the case in China – local and national governments are not letting this crisis go to waste. The city of Milan is introducing one of Europe's most ambitious schemes to reallocate street space from cars to pedestrians and cyclists. More streets in London and Paris will also become vehicle-free, while New York and Seattle are widening pavements and pedestrianising neighbourhoods.

But air pollution is just one of many pressing environmental problems the pandemic has highlighted. Biodiversity is another. A number of scientific studies – most recently conducted by University College London researchers – show that biodiversity loss increases the risk of disease pandemics. We expect safeguarding biodiversity to take centre stage in the public debate on how to prevent future pandemics and achieve better health outcomes.

More radical economic transformation needed

It has taken an unprecedented lockdown to make even limited progress in delaying Overshoot Day by a few weeks. This reveals the scale of the environmental problem we're facing. Clearly, putting the brakes on economic activity is not a viable solution. **What is needed is a much more determined transformation of our economic structures. This is a challenge that requires an all-hands-on deck approach involving everyone** -- governments, businesses and individuals.

Investing to make a positive environmental impact

- Our Global Environmental Opportunities (GEO) strategy invests exclusively in businesses providing innovative solutions to environmental challenges facing our planet, while at same time using resources efficiently, minimising their waste and limiting other adverse impacts on the environment. These companies are part of the thriving environmental products and services industry, already worth some USD2.5 trillion and growing at 6 per cent per year¹.
- Stocks in GEO have a significantly lower environmental footprint than those represented in the MSCI All-Country World equity index. Analysing the nine environmental dimensions of the Planetary Boundaries framework using a proprietary life-cycle assessment methodology², the GEO portfolio achieves a significantly more positive impact than that of a typical global equity strategy, particularly in climate change and biodiversity. This is how our strategy allows investors to safeguard the planet while retaining the prospect of long-term outperformance.
- With a risk-return profile similar to that of a growth-oriented investment strategy, Pictet AM's Global Environmental Opportunities can be used to complement an equity allocation within a global portfolio.

[1] Long-term scenario. Source: Pictet Asset Management

[2] Rockström, J., W. Steffen, K. Noone, Å. Persson, F. S. Chapin, III, E. Lambin, T. M. Lenton, M. Scheffer, C. Folke, H. Schellnhuber, B. Nykvist, C. A. De Wit, T. Hughes, S. van der Leeuw, H. Rodhe, S. Sörlin, P. K. Snyder, R. Costanza, U. Svedin, M. Falkenmark, L. Karlberg, R. W. Corell, V. J. Fabry, J. Hansen, B. Walker, D. Liverman, K. Richardson, P. Crutzen, and J. Foley. 2009. Planetary boundaries: exploring the safe operating space for humanity. *Ecology and Society* 14(2): 32. [online] URL: <http://www.ecologyandsociety.org/vol14/iss2/art32/>

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We are convinced that Environmental, Social and Governance (ESG) considerations can help us make better long-term investment decisions for our clients.

For decades, sustainability has been central to our way of thinking. Since the Pictet group was founded in 1805, we have aimed to ensure the prosperity of our clients over the long term. In doing so, we have instinctively considered the interests of future generations.

We believe in responsible capitalism and take an enlarged view of the economy and its interactions with civil society and the natural environment. Consistent with our fiduciary duty to act in the best interests of our clients and our adherence to the UN Principles for Responsible Investment (UN PRI), we are committed to integrating material ESG criteria in our investment processes and ownership practices with a view to enhance returns and/or mitigate risks.

We also aim to embed ESG in our risk management and reporting tools in order to maintain high standards of transparency and accountability.