Biodiversity Strategy

COP16 resumes in Rome: key roadmap for $200bn per annum biodiversity fund unveiled

- Biodiversity accountability metrics established for first review at COP17 in 2026
- Global equities declined in February led by US while Europe, the UK and China were positive
- Sustainable Food & Agriculture was the strongest led by Gea Group

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What's happening?

Global equity markets declined in February in US dollar terms led by the US while Europe, the UK and China were all positive. Growing concern over the Trump administration's policy agenda weighed on business and consumer sentiment in the US, with consumer confidence posting its largest decline since August 2021. House republicans passed a budget plan that lays the groundwork to extend the Tax Cuts and Jobs Act but it was largely overshadowed by increasing geopolitical tension, an escalation in tariffs and ongoing Department of Government Efficiency (DOGE) related job cuts. Meanwhile, European equities benefitted from the prospect of a ceasefire in Ukraine and excitement around DeepSeek supported the broader technology sector in China. Defensive sectors such as consumer staples, real estate and utilities performed best while consumer discretionary and the technology sectors were negative. Value meaningfully outperformed growth during the month.

February saw the resumption of COP16 in Rome after it was prematurely ended in Cali, Colombia in October 2024 with several important decisions yet to be taken. "Part II" was considered a salvaging of Cali with a roadmap agreed upon to put in place a $200bn per annum biodiversity fund by 2028. Accountability metrics were also agreed; these will first be reviewed at COP17 in 2026 in the form of national reports. In addition, the Cali Fund was launched; this is a private vehicle to better compensate countries for the monetisation of genetic resources and is considered symbolic in moving to better value nature and biodiversity. While there was meaningful progress, and evidence of international collaboration, the US steadfastly chose not to send a delegation, highlighting the continued challenging backdrop for environmental initiatives in the country.

Portfolio positioning and performance

The Biodiversity strategy underperformed the broader equity market in February.

Source: All data sourced from Bloomberg, local currencies, as at 28/02/2025

Sustainable Food & Agriculture was the strongest performing solution in February with German food equipment company Gea Group leading returns. Gea is one of the leading systems and components suppliers to the food, beverage and pharmaceutical industries. Shares performed strongly in February as the company held a Q4 2024 "pre-close" call at the end of January, noting likely continued year-over-year order growth, extending momentum from Q3 when orders grew for the first time in 18 months. Gea also benefitted from general share price strength in German industrials, which have considerably underperformed in recent years. Farm equipment manufacturer AGCO offset Gea's strong returns as the agriculture cycle troughs and inventories continue to be right-sized, especially in the used market.

Republic Services led returns in Responsible Productions & Consumption as the market sought safe-haven companies with predictable cash flows. This was bolstered by the company reporting strong results midway through the month demonstrating healthy organic growth driven by pricing power and new investments. A relatively new position, Zebra Technologies, was a detractor to returns as investors worried about the impact of tariffs and macroeconomic uncertainty on the company. Around 50% of the company's products sold in the US are manufactured in China; this prompted management to include a $20m offset to gross margin in 2025 guidance to compensate for pricing initiatives.

Technology Enablers returns were led by NXP Semiconductors, which was upgraded by multiple brokers based on expected analog end market recovery. There is potentially further downside in autos, however industrial recovery should offset this. In addition, 2025 earnings downgrades have been material, de-risking the valuation at current levels. Cadence Design Systems, the leading semiconductor design company, was the biggest detractor to performance in the sub-theme as the company's 2025 guidance received a negative response from investors. Guidance was perceived to be too cautious, even accounting for no growth in China. Nevertheless, we retain conviction in the structural growth to which the company is exposed and thus our position in the portfolio.

The largest US water utility, American Water Works, was the biggest contributor to returns in Resilient Infrastructure over the month. Similar to Republic Services, the shares performed strongly as the market favoured defensive characteristics during a volatile month. This was aided by solid results reported in the second half of February, serving to reiterate the company's strong growth, driven by the structural need for investment in water-related infrastructure. Environmental testing company Thermo Fisher was the biggest detractor to returns as concerns regarding US federal funding for healthcare trumped solid results and the announcement of the acquisition of Solventum's Purification and Filtration business later in the month. We believe Thermo's exposure to federal funding cuts is limited and instead are excited about a life science tools recovery continuing to manifest.

During February we closed positions in Symrise, Ball and Agilent, and opened positions in Core & Main, Accenture and Manhattan Associates. We grew frustrating by Symrise's inconsistent communication and believed their 2025 guidance was too ambitious. With Ball, we grew increasingly concerned about lower alcohol consumption and weak volume growth trends in North America. With Agilent, we were concerned about their exposure to China. Core & Main is a leading US water-product distributor with attractive organic growth opportunities. Accenture – the leading US IT services and sustainability consultancy – gives the strategy exposure to an excellent business model. And Manhattan Associates is a leading software company enabling greater supply chain efficiency. We also trimmed positions in strongly performing names including Gea Group, Republic Services and Ecolab.

Outlook

We think the portfolio is well-positioned to benefit from the structural tailwinds supporting investment in biodiversity. We think agriculture and food, closely followed by water, are the two biggest issues facing the natural world, and we think the fund's holdings in these sectors provide highly valued solutions to these challenges. While good progress has been made in recent years regarding regulation, in particular the Global Biodiversity Framework and the EU Nature Restoration Law, we find the more recent lack of consistency on environmental regulation frustrating. However, we don't think this is stifling innovation or progress in the private sector where companies are making sustainability-oriented investments independent

Source: All data sourced from Bloomberg, local currencies, as at 28/02/2025

of regulation. In fact, we are encouraged to see technology beginning to disrupt old-fashioned industries, like construction and agriculture, which have some of the largest negative biodiversity footprints.

Our outlook on financial markets remains unchanged. We believe markets are adjusting to a "higher for longer" environment where there will be greater scarcity of finance and growth. This should favour higher quality companies – those with strong cash flow generation and organic growth opportunities – who should be relatively unaffected. We believe the portfolio has good balance and can weather a potentially weaker economy or can outperform a more buoyant market in the event of a "soft" or "no-landing" outcome.

No assurance can be given that the Biodiversity strategy will be successful. Investors can lose some or all of their capital invested. The Biodiversity strategy is subject to risks including Equity; Emerging Markets; Global Investments; Investments in small and micro capitalisation universe; Investments in specific sectors or asset classes.

Source: All data sourced from Bloomberg, local currencies, as at 28/02/2025

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