



From our **Fund Manager's Desk**

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The vicious cycle of climate change and biodiversity loss


Climate change and biodiversity loss are two of the most pressing challenges facing humanity today. They are closely linked and mutually reinforcing, as climate change alters the habitats and ecosystems that support life on Earth, while biodiversity loss reduces the resilience and adaptability of nature to cope with climate impacts. In this article, we explore how climate change and biodiversity loss affect each other, what the consequences for human well-being and the planet are, and how impact investing in the listed equity universe can provide potential solutions to address these intertwined crises.

Climate change affects biodiversity by altering the habitats, distributions, and interactions of species. For example, rising temperatures have caused coral bleaching, melting of polar ice caps, shifts in flowering and migration patterns, and increased risks of wildfires. These changes reduce the abundance, resilience, and functioning of ecosystems, leading to the loss or extinction of many species and natural habitats. Simultaneously, Biodiversity loss affects climate change by weakening the capacity of nature to regulate the climate and store carbon. Forests, wetlands, and oceans are natural carbon sinks that absorb and store large amounts of greenhouse gas emissions, and when these ecosystems are degraded or destroyed by human activities, they release carbon into the atmosphere, contributing to global warming. And so the cycle perpetuates.







As humans, we depend on biodiversity for many fundamental needs and services, such as food, water, medicine, pollination, pest control, soil formation, nutrient cycling and cultural values. The loss of biodiversity due to both climate change and human interference can undermine these needs and services, posing significant threats to our health and well-being, and ultimately our survival. As of today, more than a quarter of the global population already experiences food insecurity. By 2025, half of the global population will face water insecurity. We will have to deal with not only the increased spread of diseases as population migration and density increases, but also the emergence of new infectious diseases, with already 30 new infectious diseases having emerged in the past 20 years. These are just a few of the real-world implications, which in addition to the tragic loss of lives, provides an enormous public health and economic burden. The World Economic Forum estimates that more than half of the world's GDP depends upon nature and its services.


50% 
Of global GDP is dependent upon nature

26.4% 
In 2019 26.4% of the global population experienced **food insecurity**

REAL WORLD IMPLICATIONS

-  Higher average temperatures / longer droughts
- Looming food crisis 
- Scarcity of clean, fresh water 
- Increased spread of diseases 
- Loss of nature-based pharmaceutical solutions 

About **30** new **infectious diseases** have emerged in the past 20 years 

50% Of the population faces **water insecurity** by 2025 

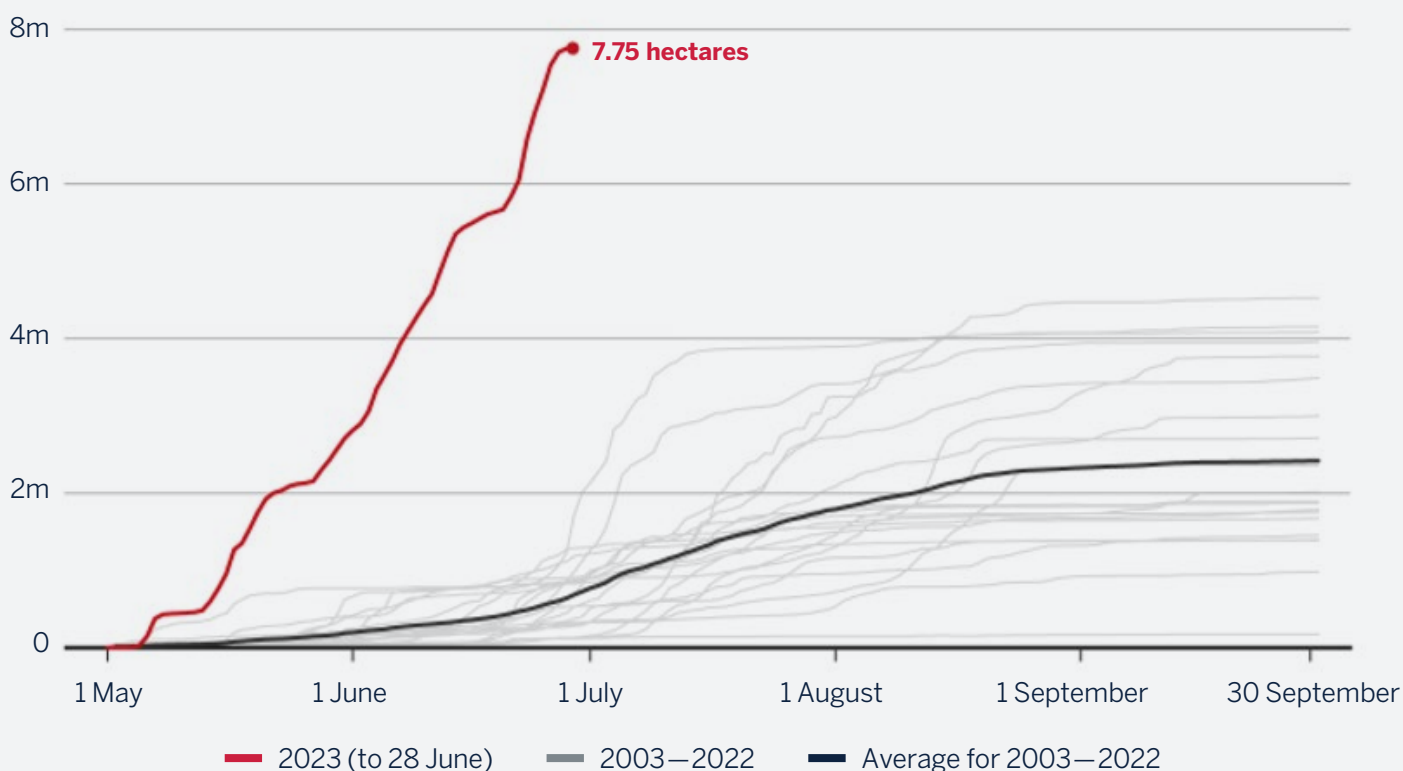
Global heat records are being broken with alarming frequency. 2023 is on track to become the hottest year ever recorded, with current data from Climate Reanalyzer showing that sea surface temperatures are much higher than usual year to date and well above two standard deviations above the mean. The likelihood of achieving the Paris Agreement goal of pursuing efforts to limit the global temperature increase to 1.5°C by the end of the century seems very slim indeed. Sadly, whilst 95 countries have made net-zero pledges, research shows a significant credibility gap in these targets, leaving the world at high risk. Current policies and practices have the world on pace to hit nearly 3°C of warming by the end of the century, with even the most dependable net-zero pledges still leading us close to 2.5°C of warming.

The linkage between global warming and extreme weather events is clear, and we have witnessed increased violence and deadliness of natural disasters such as wildfires, hurricanes, flooding, and heatwaves,

as the world has warmed. The top 10 such natural disasters, ranked by economic losses in US\$, have occurred within the last 5 years, with 6 of the top 10 having occurred within the last two years. The cumulative losses from these events totalled over \$1trn, and more than 10,000 people lost their lives. Year to date June 2023, climate change related natural disasters are breaking records, with the wildfires currently raging in Canada having burnt close to 8 million hectares of land, more than 11 times the average for the same period from 2003-2022. Climate change leads to a higher risk of wildfires because it causes higher temperatures, lower humidity and earlier snowmelt. These factors make vegetation drier and more flammable, creating more favourable wildfire conditions. The secondary effects of these climate related disasters are widespread. In early June, a thick plume of smoke from these Canadian wildfires turned the sky orange in New York, raising health risks, closing schools and businesses, and even delaying or grounding flights for a time.

THE AREA BURNED BY CANADIAN WILDFIRES THIS YEAR IS 11 TIMES THE AVERAGE FOR THE SAME PERIOD OVER PREVIOUS YEARS

Cumulative burned areas in hectares



Source: Canadian Wildfire Fire Information System



Source: iStockphoto.com (Photographers: Graham Montanari & RapidEye)

Whilst weather-related events are indiscriminate in their locale, it is often the developing world that experiences the most severe humanitarian effects of extreme weather, as poor or ageing infrastructure, urban sprawl, and lack of resources exacerbates the level of destruction. Melville Douglas has its roots in South Africa, and the tragedy of the KZN floods in April 2022 is still fresh in our minds. The slow-moving storm Issa brought long periods of heavy rain to KwaZulu-Natal which caused flooding and mudslides in Durban and surrounding areas. More than 17,000 households and 120,000 people were affected by the disaster. More than 440 people lost their lives. The total cost of the flood damage is estimated to have been over R17bn (\$1.1bn), primarily as a result of the destruction to infrastructure such as roads, bridges, and railway lines. Flood related claims from the private sector totalled around R250 million (\$17m), placing strain on insurance companies and embedding higher insurance premiums.

Tracking cumulative GHG emissions data since 1751 shows that just four developed regions, being North America, the European Union, Japan, and Australia, have contributed >53% of global CO₂ emissions. Africa in its entirety has contributed only 3%, with South Africa having contributed approximately 1.3%. As we contemplate the 'just transition' of the global economy towards a low carbon environment, it is essential that developed countries take the lead in delivering on the climate change agenda, whilst supporting developing countries in their transition efforts as their economies are often dependent on fossil fuels. In addition, given that governmental pledges are unlikely to result in the world meeting the Paris Agreement targets, the onus rests largely on companies domiciled in developed countries to take up the challenge. It is encouraging to see more and more listed companies in developed markets, particularly in the US, UK and Europe, adopt progressive strategies to achieve net zero or Paris Aligned emissions targets, and improve efficiencies in areas such as energy and water utilization. In the investment world, developed market listed equities provide the most viable way to identify, and mobilize significant amounts of capital into, progressive companies that are intent on generating positive, tangible impact. Through the mobilization of such capital, the market should reward impactful companies with superior share price appreciation.



Because of this inextricable linkage of climate change and biodiversity loss, the effort of trying to solve for one of these challenges in isolation is futile. They both require equal attention and financial investment if we are to avert the very worst scenario of global warming, and the exponential pressure this will place on adaptation and survival mechanisms for humanity. Solving for these crises presents a golden opportunity for listed equity impact investors to generate positive social and environmental impact alongside financial returns by investing in companies providing such solutions for a sustainable future.

At Melville Douglas, we understand this, which is why the themes of Climate Change and Biodiversity Preservation feature prominently in the Global Impact Fund. Through our detailed approach to impact investing, we are identifying the best quality, most progressive companies that are contributing to the transition to a low carbon economy and helping protect ecosystems by integrating nature-based solutions into their operational activities. Join us in delivering on a shared objective of growing your wealth while making a positive impact, the Melville Douglas way.

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