

SYSTEMS-BASED INVESTING - SOLVING THE RUBIK'S CUBE

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The concept of the **polycrisis**¹, popularised by the World Economic Forum (WEF) in its Global Risks Report 2023², refers to a state where multiple crises intertwine - their causes and processes inextricably bound together to create compounded effects. The report warned that the world faced the risk of an emerging polycrisis in relation to “shortages in natural resources such as food, water and metals and minerals” by 2030. A year later, the complexities we face in the world today remain as challenging, if not more. Roughly 10% (783m people) of the world’s population is undernourished as of 2023³ and the number of people living in extreme poverty has risen to nearly 700m⁴, a significant share living in conflict-affected areas. From wars in Gaza and Ukraine to hostilities in the Middle East, conflicts and violence have led to mass migrations, food and energy insecurity and disruption in trade which has caused ripple effects through society. The entire 2.2m population of Gaza is faced with the risk of famine as the war continues⁵. Geopolitical risks have also increased the probability of recession in Europe and the US⁶, while the economies of several emerging countries like Lebanon, Argentina, Sri Lanka and Bangladesh are already holding on by a thread.

Around the globe, unforeseen climate emergencies in 2023 – like torrential rains in Southeast Asia and droughts in Africa - have taken thousands of lives, caused billions in infrastructure and economic damage and have displaced vulnerable populations.⁷ During the wrap up of COP28, the United Nations (UN) issued an appeal for \$46.4bn for 2024, in order to bring aid to 181m people worldwide, suffering from famine and disease or subject to mass displacement, stemming from conflicts, climate emergencies and collapsing economies. People, planet and profit – all three P’s have been put under threat in this age of polycrisis.

Investing based on systems – a case for transformative investing

Big problems require strong actions. To address the polycrisis that we are experiencing, society needs to invest in transformative change across multiple planetary, societal and economic ecosystems. Systems-based investing or transformative investing is a school of investing that is theoretically guided by a systemic **theory of change**⁸ and that applies a comprehensive systems intervention approach.

¹ <https://www.weforum.org/agenda/2023/03/polycrisis-adam-tooze-historian-explains/>

² <https://www.weforum.org/podcasts/radio-davos/episodes/global-risks-report-davos2023/>

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<https://www.wfp.org/overview#:~:text=As%20the%20international%20community%20has,cycle%20of%20hunger%20and%20poverty.>

⁴ <https://www.worldbank.org/en/topic/poverty/overview>

⁵ <https://www.wfp.org/stories/gaza-brink-one-four-people-face-extreme-hunger#:~:text=Gaza%20risks%20falling%20into%20famine,worse%20levels%20of%20food%20insecurity.>

⁶ <https://www.financialresearch.gov/press-releases/2023/12/06/office-of-financial-research-report-2023/>

⁷ <https://www.greenpeace.org/international/story/64537/the-climate-emergencies-of-2023/#:~:text=2023%20was%20a%20year%20of,in%20infrastructure%20and%20economic%20damage.>

⁸ <https://www.theoryofchange.org/what-is-theory-of-change/>

Although there is no technical definition yet, under the umbrella of sustainable investing, **transformative investing should aim to direct financial resources systemically towards supporting the transformation from one way of doing things to another**. This is opposed to impact investing, which is usually focused on individual enterprises. Investing in systems change is also different from traditional thematic investing as it follows a holistic investment approach - considers the trade-offs and synergies between multiple sustainability themes, vs just one (for eg. climate change). Society, climate, economy and nature form a nexus that is highly interconnected – we cannot overlook one to the benefit of another.

Solving the Rubik's cube

The solution to dealing with a polycrisis is best understood as *solving a Rubik's cube* – all six faces of the puzzle must be solved, which requires making trade-offs and backtracking, all the while keeping an eye on the end result.

2023 was a hallmark year for making “*carbon tunnel vision*” a thing of the past. More companies and investors have recognized that holistic social and environmental solutions will bring society closer to a resilient future as opposed to just optimizing for carbon sequestration. The health implications of climate change were considered in the climate proposals of 91% of governments in their Nationally Determined Contributions (NDCs)⁹, although most of these health-promoting proposals remain unfunded. The giant leap in Generative AI is considered as transformative as the invention of the printing press¹⁰, but the industry has also faced essential questions on its potentially negative social and environmental impacts¹¹.

Regenerative agriculture¹² is occasionally considered a one-stop solution to addressing climate, food and nature crises. However, corporate-sponsored regenerative agriculture programs that pay farmers to implement sustainable practices do not always benefit native communities, as these programs usually run within the firm's own supply chain. In some cases, regenerative agricultural practices have also been found to unknowingly contribute to crop yield decline (endangering food security), and negatively affecting off-farm biodiversity or climate change mitigation. Contextual variations such as soil type and topography have been found to be key determinants of the outcomes in different geographies.¹³ Companies, in partnership with farmers, need to set an outcomes-based approach to determine the effectiveness of regenerative agricultural practices and adopt methods that are suitable to local contexts, while tackling issues at landscape and global levels.

Diversity and inclusion have been increasingly important topics since the death of George Floyd in 2020. Over the course of 2023, the role of local communities and indigenous populations in addressing

⁹ https://cdn.who.int/media/docs/default-source/climate-change/9789240074729-v2.pdf?sfvrsn=f4c8b157_4

¹⁰ <https://amplify.nabshow.com/articles/ic-ai-and-the-15th-century-printing-press/#:~:text=Like%20the%20printing%20press%2C%20AI,even%20our%20current%20world%20order.>

¹¹ <https://www.linkedin.com/pulse/threats-posed-generative-ai-genai-disinformation-david-f-george-crm8e/>

¹² <https://www.nrdc.org/stories/regenerative-agriculture-101>

¹³ https://www.foodandlandusecoalition.org/wp-content/uploads/2023/01/REPORT_-FOLU_key_messages_reg_ag_180123.pdf

biodiversity loss¹⁴ and transforming socio-economic systems¹⁵ came into particular focus. Society can lean on indigenous populations in addressing systemic crises locally, addressing their own needs and priorities¹⁶ – *solving faces of the rubik's cube in isolation* – before, or even instead of, looking for a universal solution. Indigenous populations are experts at living with uncertainty and making the most of it. From them, society can learn how to live in an increasingly uncertain world.

It is also important to note that one cannot systematically prioritize one crisis over another, nor assume that everyone shares the same priorities. Policymakers from the global North might articulate very different crises than those from the global South, affecting how responses are formulated. The one-size-fits-all approach can, sometimes, inadvertently, lead from one crisis to another. Research¹⁷ has shown that actions to contain Covid-19 had a devastating economic impact on the poor around the world. In preparing for future pandemics, infrastructure systems and policy responses have to be carefully adapted to local and regional considerations.

However, these considerations can also prevent and/or delay interventions on a potentially dangerous, and even urgent, “single crisis”; for example, refraining from acting immediately on one, in fear of exacerbating another – *being afraid to mess up a solved face*. This scenario played out at the recently concluded COP28 where the official global consensus advocated for a **phase away approach** to fossil fuels as opposed to a phase out, partly out of concern for energy security for the masses. Trade-offs must be made but is there enough time?!

Transformative or systems-based investing is still an underdeveloped financial and sustainability practice. The investment industry needs to be creative and innovative in developing the concept, processes and infrastructure systems that will enable it to take a systems-based approach and present viable financing solutions for the polycrisis. **Innovative financing mechanisms**, such as debt-for-nature swaps, nature-based solutions and credit enhancements, were a key part of the discussions at COP28 to address the multi-crisis of nature, climate and economic collapse in vulnerable countries/communities. According to Sustainable Fitch¹⁸, the sustainable bond market in 2024 is expected to increasingly require social co-benefits in nature or climate related issuances. For example, issuance could focus on areas linked to nature in which social co-benefits are specifically identified, such as food security, or on climate projects that also bring benefits to public health. Our hope only grows for this trend to become the norm, not an exception.

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¹⁴ <https://tnfd.global/publication/guidance-on-engagement-with-indigenous-peoples-local-communities-and-affected-stakeholders/>

¹⁵ <https://pastres.org/uncertainworlds/>

¹⁶ <https://www.thewomens.network/blog/indigineous-people-leading-the-environmental-movement>

¹⁷ <https://www.ids.ac.uk/news/impacts-of-covid-19-likely-to-increase-chronic-poverty-for-the-next-decade-says-new-report/>

¹⁸ <https://www.environmental-finance.com/content/analysis/fitch-social-to-rise-up-the-sustainable-bond-agenda-in-2024.html>

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