

Investing in the materials transition

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Anna Ferschtman
Sustainability writer

What is required next for a more sustainable future? The energy transition is a hot topic: it is the subject of many conversations, and is supported by significant investments. There are also, however, two other transitions on which Van Lanschot Kempenn wants to focus. These are the food transition - food production which is more sustainable, diverse and healthier - and the materials transition, which aims to ensure fewer materials are used for longer and more circularly.

These transitions also require attention, and capital. But how should you invest in them? The Van Lanschot Kempenn Sustainable Equities team provides an example of investing in the materials transition.

The laptop or phone you're using to read this article, the table you're sitting at, the cup of coffee you're holding, the spoon and cookie to go with it: practically everything we use in our daily lives is made from materials and crops produced with natural resources. However, the downside of economic progress and the continuous exploitation of these resources has become increasingly obvious in recent years: pollution, global exhaustion, biodiversity loss, and climate change caused by hazardous emissions.

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Both footprint and handprint

With these essential transitions in mind, the Van Lanschot Kempen Sustainable Equity team is now taking a fresh look at the companies in its fund portfolio. 'In the longer term, we want more companies in the fund to contribute to these transitions with the products they make', Portfolio Manager Herman Kleeven explains. 'Our perspective is therefore shifting. In addition to a company's footprint, including emissions, we have increased our focus on the 'handprint'. That means we're looking more closely at the company's products and how they relate to transitions.'

The Danish Novozymes is an example of a company aligned with the transition philosophy. Novozymes is world leader in biological solutions for improving materials, making them less hazardous and lasting longer. This is mostly accomplished through the use of microorganisms and enzymes: proteins that can speed up or alter an industrial process so that it requires less chemicals.

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Herman Kleeven, portfoliomanager

From bread to biofuel

The list of possible applications is extensive. Enzymes can be used in agriculture, for example, to reduce the use of artificial fertilizers whilst improving output. In the food sector they can be used to improve the nutritional value of food, and to make items last longer naturally, preventing waste. They can also be used to produce greener, and more efficient detergents, recycle plastic bottles and enable the production of cleaner biofuels. Novozymes claims to have saved 65 million tons of CO₂ in 2022, by enabling the production of more sustainable biofuels with lower emissions. This is comparable to the average emissions of 27 million cars a year.

And this is just a selection of the possibilities. According to the company's estimate, millions of people use a product made using Novozymes' enzymes on a daily basis. The common denominator of these products is that with the benefit of enzymes, less water and energy are needed in production, in addition to fewer chemicals.

Alternative proteins

'It is a great example of a company that not only can help with the materials transition, but also with the food transition and the climate transition. Therefore Novozymes¹ fits well within our portfolio', Kleeven points out. 'Importantly, of course, we also believe that companies that are well prepared for the necessary transitions can also do well financially and show economic growth. One more example: with continued population growth and development of emerging markets, the demand for proteins is also rising sharply. If we want to meet this demand while reducing CO₂ emissions, there will have to be more alternatives to animal proteins. Proteins made using enzymes can reduce greenhouse gas emissions by 90% compared to animal proteins. Novozymes is therefore now building a plant in the United States to produce more plant-based proteins.'

The team, however, always remains cautious. Kleeven: 'Insights change, and so do social norms. What is considered as a step forward one day may be debated the next. As we consider biofuels: the debate over them is still in full swing. We also examine a company's entire supply chain, and use independent databases and metrics to assess the sustainability of inputs and outputs, such as water use and, of course, CO₂ emissions.'

'Through engagement with the company we address issues which we believe are not progressing well. We believe in ongoing improvement through dialogue, and yet there will be firms with which we will part ways with little remorse. Our goal is to significantly raise the fund's percentage of sustainable investments, as defined by the SFDR. And to do this, we will continue to raise the bar.'

1 The company announced late last year that it would merge with the Chr. Hansen, a Danish company specialising in microbiological solutions for food and plant improvement, to create a global leader in bio-solutions.

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Beethovenstraat 300
1077 WZ Amsterdam
Postbus 75666
1070 AR Amsterdam

T +31 20 348 80 00
E sustainabilitycentre@vanlanschotkempen.com
vanlanschotkempen.com/en/sustainability