Sustainable Action Requires Whole System Approach

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Systemic investing will allow investors to drive positive real-world impacts in line with chosen objectives, according to University of Zurich.

New academic research has argued that investors should adopt a more holistic and collaborative approach to fully address the interconnected nature of **systemic risks**.

The University of Zurich's Center for Sustainable and Private Wealth (CSP) has published an **investor guide** to systemic investing in collaboration with the Sustainability Initiative at MIT Sloan, the TransCap Initiative, The ImPact and TWIST.

The report outlines how investors can define systemic boundaries, understand their selected systems, identify their potential role in improving those systems, and test portfolio strategies that leverage synergies across asset classes.

"Systemic investing is ultimately about achieving an objective – as such, it's often collaborative and multi-capital," Dr Falko Paetzold, CSP's Founder and Managing Director, told *ESG Investor*.

It is an emerging approach that has evolved from investment strategies focused on exclusions, ESG and impact, he added. While these approaches usually involve focusing on individual point solutions, such as replacing internal combustion engines with electric motors, systemic investing requires investors to consider the interconnected nature underpinning these challenges, such as an outdated personal transportation system.

The report pointed to the US food system as an example, with some problem areas investors has identified including emissions, food insecurity and human rights violations.

"Looking at the problem systemically, […] two of the most critical issues to address in the US food system are capacity-building for farmers and new insurance products," it said.

To apply a systemic approach to an investment strategy, the investor must first understand how their chosen system works, said Paetzold. This includes understand how actors in the system influence one another, what the main leverage points are that can change aspects of that system, and ultimately how the investor can maximise their positive impact.

"It's important for the investor to draw very clear – and optimally narrow – boundaries around the chosen system, and that's usually related to geography, issue or sector," he added.

This could be the food system in Hawaii, the education system in Mexico or food waste in the US, he explained.

Such borders are provisional and may expand or contract as an investor's understanding of their selected system deepens and collaboration brings new perspectives to the table.

"Systemic investing is a hugely promising, yet nascent field," said Dominic Hofstetter, Executive Director of the TransCap Initiative, an open innovation space focused on systemic investing.

"We need many more capital holders applying these ideas on the ground and collaborating to create waves of learning and impact across industries and geographies."

A new approach

In terms of portfolio management, **transitioning** to systemic investing requires investors to shift from a risk-return approach to one based on synergies-return optimisation, the report said.

“Traditional portfolio construction is all about diversification – picking different types of assets that complement one another in terms of risk and return, cancelling each other out from a risk perspective,” said Paetzold.

“A systems thinking approach requires looking for synergies in their investment portfolios. For example, an investor in a start-up may choose to invest in another start-up that provides the technology the first company depends on.”

The paper highlighted existing groups working to establish systemic investing, including the Good Investors, which is a network of family offices mobilising capital to transform essential systems like water and biodiversity through systems investing, and the Tara Health Foundation, which combines multiple investments and philanthropic disbursements to focus on the intersection of race and gender.

Recognising that limited and unequal access to reproductive healthcare stems from deeply rooted systemic barriers, the Tara Health Foundation has developed financing solutions. These include combining low-interest loans with unrestricted grants to support independent abortion providers and establishing the Reproductive Health Investors Alliance to expand the ecosystem of investors committed to reproductive healthcare.

More broadly, **institutional investors** are increasingly looking to address **systemic risks** like climate change through their investment and engagement strategies.

Possible approaches to systems-focused **stewardship** have also been explored by investors including **Aviva Investors**, with collaborative investor groups like **Nature Action 100** also exploring systemic risks through their direct engagements and voting activity.

“As the world becomes more volatile, there are very **significant systemic changes** to account for – whether it’s energy, food or transportation,” said Paetzold.

“There are many interconnected pieces, and our suggestion is that investors should be mindful of this in the interest of ensuring strong financial returns and having a positive impact.”