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Three reasons not to be blue about the ocean economy

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Excitement around the discovery of a plastic-eating fungus is just one example of the world's growing focus on ocean transition opportunities. CIO sees three key forces driving sustained focus in the area, and proposes ESG engagement as our preferred strategy to participate.

The recent discovery of a plastic-eating fungus, *Parengyodontium album*, offers a promising development to tackling the scourge of plastic pollution. This fungus, found in the Great Pacific Garbage Patch, can break down UV-exposed polyethylene, the most common plastic pollutant. Speed, though, is an issue: The plastic degradation rate of approximately 0.05% per day means it would take an impractically long time to significantly reduce oceanic waste.

But CIO believes the blue economy—encompassing sustainable use of ocean resources for economic growth, improved livelihoods, and ocean ecosystem health—presents a set of current and compelling investment ideas with appealing financial and societal return potential. We identify three key reasons for optimism about investing in this sector:

Investing in the oceans supports growth and jobs. The ocean is a significant driver of the global economy, accounting for around 30 million jobs and providing essential protein to over 3 billion people, according to the OECD. The blue economy is projected to nearly double in size, reaching USD 3 trillion by 2030. This growth is driven by various sectors, including global trade, passenger transportation, fishing, and tourism. Investing in the blue economy not only supports these vital industries but also promotes sustainable practices that can enhance long-term economic stability. The OECD estimates that protecting 30% of the ocean by 2030 could require USD 140 billion in annual investments but could yield up to five times as much in economic benefits.

Investing in the oceans supports the green transition. The ocean is our largest carbon sink. It absorbs a quarter of carbon emissions and generates half the oxygen we breathe. However, pollution, overfishing, and global warming are causing severe damage to marine ecosystems. While just 5% of the ocean is presently protected, a 2020 paper by A Waldron et al. presents scientists' views that increasing this to 30% by 2030 could restore marine ecosystems, improve fish supply, and support decarbonization goals. The recent adoption of the High Seas Treaty by the UN, which aims to place 30% of high seas into marine protected areas by 2030, marks a significant step towards achieving these goals.

Investments may be underpinned by growing policy support. National governments are implementing policies to harness the economic potential of the ocean sustainably. For instance, the US announced a federal climate plan for the ocean, focusing on offshore wind farms, green shipping, and carbon sequestration. The EU has included shipping in its carbon tax system, and China has revised its Marine Environment Protection Law to mandate the monitoring and restoration of marine ecological corridors. We foresee that these regulatory measures will drive capital deployment in ocean-related projects and increase investor confidence in this theme.

So, we believe the above factors can unlock potentially promising investment paths for long-term investors. Key areas we favor include pollution prevention and ocean conservation, which are aligned with SDG 14 targets. Investments in waste and wastewater treatment solutions, next-generation chemicals, and plastics are crucial to address the 80% of marine debris that is plastic, in our view. We also like companies focused on innovation in product design and industrial processes to drive much-needed reduction in pollution at the source.

We see particular merit in so-called ESG engagement strategies. Here, investors can encourage companies to prioritize ocean sustainability, benefiting both the environment and their business models. This approach has the potential to ensure continuous improvement and long-term viability in the blue economy. We think engagement approaches are most likely to deliver financial and societal impact if focused on a smaller number of companies that are small or medium sized. Thematic investment in these types of firms looks most likely to deliver long-term real returns , while creating positive change for oceanic health, in our view.

This focus matches CIO's Message in Focus to look for opportunities in a broadening rally. This encompasses US small-cap stocks which look poised to benefit from the impending global rate-cutting cycle, increased M&A activity, and appealing relative valuations (with the S&P 600 small-cap index trading at a discount of roughly 30% to its large-cap S&P 500 peer based on forward price-to-earnings ratios).

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