

# The road to Smart Olive: investing in a 'Just Transition'



**Shami Nissan**

Head of Sustainability at Actis, a leading global investor in sustainable infrastructure

The Energy Transition is critical for our planet's future. According to the United Nations, the world is likely to exceed 1.5°C of warming above pre-industrial levels within 20 years, even in a best-case scenario of deep cuts in greenhouse gas emissions. This will inevitably lead to even more frequent and extreme weather events such as floods and heatwaves, which will in turn exacerbate global poverty and inequality.

However, while some changes, including a rise in sea levels, may now be irreversible, there is much we can still do to alleviate the worst impacts of climate change. Core to this is reducing our economies' dependence on fossil fuels and implementing net-zero strategies - ensuring we are removing as much carbon from the atmosphere as we are emitting - as early as we can. As the energy sector is currently responsible for 40% of global carbon emissions, successfully transitioning the global energy sector from fossil-based to renewable energy sources is therefore vital in limiting global temperature rise.

But how do we do carry out this transition in a way that is not just effective, but is also fair? As the world moves towards lower carbon means of power generation, it is important that it is carried out in a way that leaves no communities behind and takes account of the impact not just on jobs, but on society as a whole. A full, rapid decarbonisation where poorer countries in particular have to adapt overnight to the priorities of post-industrial nations is neither feasible nor fair. A 'Just Transition' means providing clean, affordable energy access as widely and as equitably as possible.

This issue is of growing importance to investors. There are increasingly vocal calls for divestment from assets which intensify climate change. Many of the people behind the largest institutional investors, such as teachers, police officers and civil servants, worry about this too, and want their money to be used in a long-term, sustainable way.

Meanwhile, mobilising global capital behind the energy transition will be critical if there is to be sufficient funding to enable this transition to occur at the necessary speed across all markets. Energy demand will double over the next 20 years, much of it thanks to the economic growth coming from where 80% of the population lives, such as Asia, Africa and Latin America. A net-zero future will therefore require trillions of dollars to be invested into new renewable power generation and storage infrastructure, and to upgrade and expand electricity networks. Private capital will be crucial in achieving this.

There are other reasons for investors to look at the opportunities in this area. Returns elsewhere are low, so they increasingly need to seek out alternative assets offering long-term, stable transactions with a good yield. But where do they find assets that meet their demand for returns, while also catalysing the energy transition?

'Green' assets - such as wind or solar power - clearly have a vital role to play in achieving a global net-zero economy. Equally clearly, many 'Brown' assets - such as coal and oil - do not. But other assets, such as transport infrastructure or buildings, sit somewhere between the two - they are 'Olive.' The challenge then for investors is how to ensure they invest capital in companies and assets which support, not hinder, the transition.

'Smart Olive' is Actis' own terminology for helping to understand this issue. It is when we invest in assets that can be future proofed, decarbonised, protected from stranded asset risk, and made more efficient and more resilient. These Smart Olive assets are therefore key to accelerating the Energy Transition.

**“Smart Olive assets are those that can be future proofed, decarbonised, protected from stranded asset risk, and made more efficient and more resilient...and are key to accelerating the Energy Transition”**

But how does an investment firm identify them? How do we decide whether an asset which is currently neither Green nor Brown can be adapted for the future? To help us choose, we have developed a Transition Tool to support our decision-making. It guides us through the investment process, identifying the role of an asset during the transition and in a future net-zero economy. It helps us decide whether an asset will turn Brown over time, and hence reduce in value to investors, or can be adapted to have a role in a

low-carbon world, becoming Green and increasing in value in the future.

For example, gas, as the cleanest of the fossil fuels, is an important component of the transition in certain underserved markets. Sustainable renewable power would depend on the wind always blowing or the sun always shining, so is not a reliable source of base-load energy everywhere in the world. There is also currently insufficient battery capacity to store the renewable energy which has been generated. Therefore, there remains a role for natural gas during the period of transition until battery storage can be deployed at scale to balance the intermittency of wind and solar resources. So, when looking at whether to invest in a gas power plant and deciding whether it will in fact support the energy transition, we consider whether it is essential for balancing the grid and whether it will be displacing more carbon intensive power sources. In parallel, we determine whether it can be adapted for carbon capture in the future, or can burn greener fuels such as hydrogen? By assessing the impact of investments like these in such a critical fashion, we can ensure that our capital is supporting the transition and the future value of our investments will be protected.

The need to take measures to support the energy transition has never been more urgent. At COP26, the world talked about its “decade of action.” For our part, Actis is already embarking on our third decade of action and it's our mission to transform infrastructure for a better tomorrow. As a leading global investor in sustainable infrastructure, we continue to invest in technology which is at the forefront of driving the transition, be it in renewables or converting more carbon-intensive power plants to cleaner fuels. We believe in supporting the Just Transition - helping provide clean, affordable and universal energy access.

Actis has recognised for many years that making a positive contribution to sustainability solutions enhances financial returns - we believe values drive value - but the last few years have seen a fundamental shift in investor attitudes towards sustainability, climate change and social impact. There is now a universal recognition that these are fundamental issues that drive value. Investors increasingly understand this new world. Applying a Smart Olive filter to their asset allocation strategies can help investors meet both their financial goals, and those of the world itself.

