

Impact investing: the role of finance is critical in the race to net zero



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How can finance be a positive driver for change to scale the shift towards a low-carbon economy?

At Tikehau Capital, we believe that the role of finance is critical in the race to net zero. The approach to effectively reduce emissions on a global scale must be a systemic one; if we wish to maintain our way of life, there needs to be an overhaul of the corporate ecosystem that underpins it. The financial sector will need to become an integral part of a country's industrial policy to drive this change.

What role does the asset management industry play in financing the real economy?

We believe that it is our role and responsibility as a global asset manager to invest global savings to scale the shift towards a more resilient and inclusive economy, that aims to create sustainable value for all stakeholders.

The International Energy Agency figures indicate that approximately \$4 trillion per year must be invested into the clean energy value chain, which implies, based on our analysis, a reallocation of 3% per year of the world's savings. We need to redirect global savings and institutional capital to the private sector, which bears 75% of the responsibility to create the systemic shift that is needed to transition to net-zero before the 2030 deadline.

On the one hand, you have global savings that need to be managed and generate returns, and on the other hand you have businesses or assets

that need resources. As an asset manager, we want to act as a link between these savings and the real economy.

What is Tikehau Capital's profitable sustainable development model based on and how does it work in practice? Can you tell us about your "ESG by Design" approach?

Tikehau Capital has developed a proactive ESG-by-design approach that is embedded in its portfolio management process and lies at the heart of its investment philosophy.

In fact, we have been factoring ESG into its core model and ESG is for us an approach by design. In other words, it means non-financial criteria are considered alongside operational and financial criteria when investment opportunities are analysed, and this goes for each of our asset classes.

We are convinced that profitable growth must be sustainable. We look at the human, financial and environmental resources that must be combined with value for the system to last. If we just keep taking, the system collapses.

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In 2021, you finalised the raising of a fund dedicated to the energy transition with more than €1 billion raised. How do you see these thematic and impact strategies evolving compared to more "traditional" strategies?

Thematic investing at Tikehau Capital began in 2018 with the launch of our T2 private equity strategy dedicated to the energy transition, in partnership with TotalEnergies. Our

initial goal was to reach over €750m in commitments - an amount we managed to exceed, with over €1bn raised for this strategy. Of course, when we launched this fund, we committed €100m from our balance sheet, in line with our policy of aligning interests with our clients.

Building on this success, we plan to launch a private equity strategy dedicated to decarbonisation in North America, again in partnership with TotalEnergies. This strategy will aim to help reach the goals of the 2015 Paris Agreement by providing equity capital to companies in North America focused on the fast-growing energy transition sector. The fund's mission will be to accelerate the paradigm shift to a low-carbon economy by the growth of corporate leaders in the energy transition space that are developing solutions to lower energy consumption, increase renewable energy supply, expand low-carbon mobility and reduce greenhouse gas emissions.

The uncertain geopolitical context that characterises the beginning of 2022 is set to undoubtedly accelerate some of the megatrends on which the Group has built a growing exposure over the recent years, in particular energy transition, cybersecurity and the broad range of impact-dedicated strategies which aim at providing sustainable growth and resilience.

Have you implemented impact initiatives in other asset classes?

At the end of 2020, we launched our impact lending private debt strategy, which offers loans with terms that depend on the borrower's ESG performance.

In July 2021, we launched Tikehau Impact Credit, our high yield bond fund. This is a pioneering initiative aimed at introducing impact investing to the bond market. We aim to select green issues and issuers as well as companies that have made strong climate commitments.

All these strategies are classified as "Article 9" under the European regulation aimed at providing greater transparency in terms of environmental and social

responsibility within the financial markets. We will continue to prioritise the launch and deployment of strategies that support sustainable business models and accelerate the decarbonisation of economies.

You have recently pledged to invest €5 billion over the next four years in strategies exclusively dedicated to fighting climate change. How do you plan on reaching this target?

To date, we have already committed more than €1.5 billion to climate issues through our different asset management strategies.

Our priority is to continue to launch "Article 9" strategies, starting with our energy transition fund in North America.

In parallel, we have set up our Climate Action Centre, a financial innovation platform focused on decarbonisation, biodiversity, the circular economy, and sustainable consumption. This initiative brings together ESG experts and investment professionals to coordinate the Group's global climate strategy and foster innovative solutions.

Also, we recently announced the launch of an innovative impact strategy focused on green assets within our private equity business. This fund follows the firm's ambition to accelerate our contribution to address the climate urgency and supports companies promoting decarbonising solutions or companies engaged in ambitious decarbonisation plans. More concretely, it focuses on energy efficiency of building and industrial sites, low carbon mobility, sustainable agriculture, circular economy and clean energy generation. We are also currently working on an initiative around regenerative agriculture, which is an important element in the battle against climate change and will offer environmental, health and social benefits beyond the pure CO2 tunnel vision.

