Focus PRIVATE EQUITY

TIKEHAU CAPITAL

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Climate Investing: Myths, Realities and Decarbonising the Economy Through Private Equity

by Pierre Abadie

Group Climate Director & Co-Head of the Private Equity Decarbonisation Strategy

AT A GLANCE

> *Climate action is essential.*
Illusions won't solve real issues.

> *Technology myth.*
Existing solutions can drive decarbonisation —no tech miracle required.

> *Investing at scale.*
Investment in low-carbon energy is already more than twice that of fossil fuels.

> *Emerging markets myth.*
Developed economies have been and remain the major emitters today.

> *Subsidies myth.*
The private sector drives demand; decarbonisation can be profitable.

> *Geopolitical reality.*
Instability is pushing regions towards energy sovereignty.

> *Real barriers.*
Workforce and critical minerals are key constraints.

> *A pivotal role*.
Asset managers like Tikehau Capital have a pivotal role to play in channelling savings into investments that support the transition to a decarbonised economy.

The *Intergovernmental Panel on Climate Change* (IPCC) has been warning us since the 1990s about the urgency of addressing climate change. Today, climate crises and catastrophes frequently make headlines. Despite global challenges like COVID-19, inflation, and geopolitical tensions, climate action cannot be sidelined. In this Q&A, Pierre Abadie, Group Climate Director and Co-head of the Private Equity Decarbonisation Strategy at Tikehau Capital, addresses key questions to explore the myths and realities of climate investment and outlines Tikehau Capital's approach to decarbonisation.

Is it true that only new technology can save us from climate change?

Pierre Abadie: I believe this is a common misconception. While innovation can help, we already have the necessary tools to reduce emissions significantly. Measures like insulating buildings, electrifying transport and generating low-carbon electricity are achievable today with existing technology. What's needed is large-scale implementation, which requires engineering, manufacturing and local labour, rather than waitingfor a breakthrough technology.

Are low-carbon investments too small to make a significant impact?

PA: No, in my opinion, this idea is outdated. In 2023, investments in low-carbon energy exceeded $2 trillion[1], more than doubling what's spent on fossil fuels and surpassing 2018's decarbonisation investments. I believe this shift is comparable to the Industrial Revolution and is expected to grow, with projections indicating that two-thirds of energy spending will go toward low-carbon solutions in the next decade.

Are emerging economies the main problem when it comes to climate change?

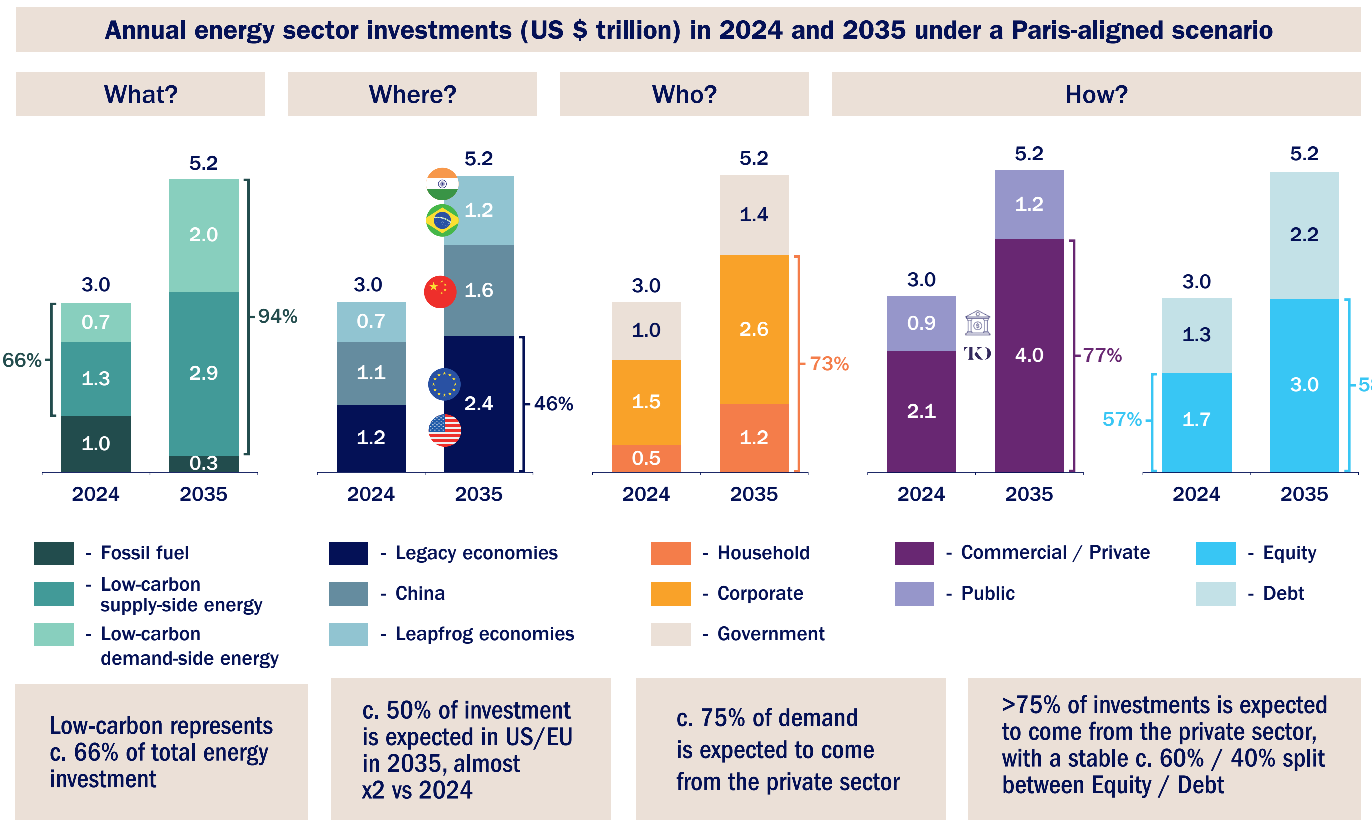
PA: Blaming emerging economies misses the point. Historically, Europe and the U.S. are the largest cumulative carbon emitters. While China is a significant contributor, it mostly produces goods for Western markets. The immediate focus should be on reducing the carbon footprint of existing assets in developed countries, as this is where most decarbonisation investments are already directed.

Does decarbonisation require massive government subsidies?

PA: I believe it's a misconception that decarbonisation needs huge government subsidies. Currently, fossil fuels receive more subsidies than renewables. The private sector is already driving 75% of decarbonisation demand[2], with corporations investing due to the economic benefits—energy security and cost reduction—rather than just environmental concerns. Decarbonisation makes financial sense in a world where fossil fuel production is in decline.

Counterintuitively government funds are not the primary source of financing. Private sector investments account for three-quarters of low-carbon investments. Companies are investing in decarbonisation because it aligns with their profitability objectives. Equity funds and debt financing are critical in supporting businesses' carbon footprint reductions, showing that sustainable practices can be financially rewarding without government intervention.

Decarbonising our economy: a new industrial revolution[2]
Investments in the energy sector



[1] Source: International Energy Agency, June 2024.
[2] Source: Tikehau IM analysis, as of 30th September 2024, based on IEA – World Energy Outlook 2024, World Energy Investment 2024 and Net Zero by 2050, 2023. There is no guarantee that investment objectives will be achieved. Investing in private markets involves various risk factors including, but not limited to potential total capital loss, liquidity constraints and lack of transparency. Leapfrog economies include Latin America, Southeast Asia and Africa. Legacy economies include European Union and United States.

Are geopolitical tensions preventing climate action?

PA: Geopolitical tensions are not a barrier; in fact, they could be accelerating the shift to decarbonisation. For example, the war in Ukraine revealed Europe's dependence on fossil fuel imports, spurring efforts toward energy sovereignty. In the U.S., domestic fossil fuel production supports decarbonisation and energy exports, while China is reducing reliance on oil and gas through electrification. Geopolitical instability is pushing nations toward low-carbon energy solutions.

What are the real challenges to decarbonisation?

PA: I think the true barriers are workforce shortages and critical mineral availability. Decarbonisation requires a large, skilled workforce for electrification, retrofitting and infrastructure projects. Additionally, critical minerals like copper are essential for the transition and increasing production is slow and costly. These factors present significant challenges to a rapid transition.

What needs to happen to move forward in addressing climate change?

PA: Moving forward requires practical action based on feasibility, not hopeful promises. The transition from fossil fuels to electricity is a shift from mining fossil fuels to mining critical minerals. To succeed, circular economic models are vital, as the planet's limited resources require sustainable practices.

While the transition is difficult, it is achievable with grounded, practical steps to address workforce shortages and mineral supply issues.

In this evolving landscape, asset managers like Tikehau Capital have a pivotal role to play in channelling savings into investments that support the transition to a decarbonised economy.

What role do you play in decarbonising the economy?

PA: At Tikehau Capital, we have been investing in the energy transition since 2013. Our ambition is to be a leading investor across the decarbonisation theme and to generate attractive long-term capital appreciation for our investors through a private equity investment strategy[3] that will also seek to produce measurable sustainability and impact goals. Our private equity investment strategy takes a two-fold approach: (i) sector-focused, targeting key sectors driving CO_2 emissions, including energy production, industry, buildings and transportation; and (ii) solution-orientated, identifying the most impactful solutions and their key value-adding enablers and components within the value chain of those solutions, such as efficiency, electrification, low-carbon energy & inputs and climate adaptation. We invest in companies generating €20m to €100m EBITDA across Europe and North America.

Since 2013, the firm[4] has invested c. €1.9 billion in 23 companies[5] focused on global electrification, energy efficiency, low-carbon energy and inputs, and climate change adaptation. This makes Tikehau Capital one of the largest private equity players dedicated to supporting companies leading the charge in decarbonising the economy.

[3] Managed by Tikehau IM.
[4] Notably through its main asset management company Tikehau IM. Each investment involves risks, including but not limited to loss of capital.
[5] Source: Tikehau IM, as of the date of this document.

Tikehau Capital and decarbonising the economy: key dates

2013: Tikehau Capital started investing in the energy transition
2018: Launch of the first vintage of the private equity decarbonisation strategy: T2 Energy Transition[6]
2024: Launch of the second vintage of the private equity decarbonisation strategy

[6] T2 Energy Transition is no longer open for subscriptions and reserved for qualified investors only. Each investment involves risks, including but not limited to loss of capital.

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