



IMPACT INVESTING IN A POST COVID ERA - SORTING THE WHEAT FROM THE CHAFF

The Covid-19 crisis led to a reduction in CO₂ emissions that is comparable to the annual effort required to achieve the 2015 Paris Agreement, which would represent an investment of about 5% of GWP for the next decade. Impact Investing in private capital markets represents the largest investment opportunity ever. Pierre Caijo of Adiant Capital, an impact investor since 2000, shares his views on the implications of the Covid-19 crisis on the impact investment outlook.

The Covid-19 sanitary crisis has been so far a rather humbling moment, at a global scale: it has taken many of us out of a mental lethargy by reminding us we are merely mammals vulnerable to environmental factors and it has forcibly put our economy to a standstill. The Covid-19 crisis has remarkable benefits too: assuming a slow recovery scenario, the 2020 global annual CO₂ emissions are expected to be 7-9% lower than what they would have been without the crisis.

Long-term environmental risks

Pierre Caijo, Founder and Chief Investment Officer of Adiant Capital, an impact investment firm, notes that "the CO₂ emissions reduction due to Covid-19 is comparable to the global reductions we need to achieve every year until we reach a net zero carbon economy by mid-century." That is of course if we are serious about reaching the 2015 Paris Agreement of limiting warming potential to below 2 degrees Celsius by the end of the century. While 2°C might sound like a small increment "the world as we know it will have significantly changed by 2100: it will be a liveable world but adapting to changes will not be a walk in the park for our children – including those already born this century" says Mr. Caijo. The next scenario consists in delivering all of the public and private climate change pledges already announced – provided they can be funded. We might then reach +3-4°C warming potential and current and future generations will face more frequent extreme weather events, severe disruption of world food supply and sea level rise – a rather bleak outlook and a world that is not insurable as already announced by insurance group AXA. The worst case scenario consists in continuing on the same trend, possibly reaching +4-7°C warming potential - a "Mad Max scenario" as Mr. Caijo puts it.

Near-term environmental risks

While there is widespread evidence of climate change, climate-related risks are essentially mid- to long-term risks and the planet has so far relatively well coped with the c. +1°C temperature increase over pre-industrial era. On a current to near-term horizon, the primary risk relates to human activity causing the 6th mass extinction of species. This massive collapse of species across ecosystems is independent of climate change and is the direct consequence of the destruction of wilderness areas (e.g. South America has lost 30% of wilderness areas over the last 20 years), the over-exploitation of natural resources (e.g. marine life has declined by 50% over the last 50 years) and the degradation of ecosystems (e.g. air pollution prematurely kills 7m people annually). As the global economy intimately depends on the quality of the environment, its destruction ultimately deteriorates investment returns across all asset classes, in particular by having dramatic effect on the food chain and causing sanitary issues.

Mr. Caijo notes that "the Covid-19 crisis is not only a manifestation of an immediate environmental risk relating to the degradation of natural habitats; it also makes us comprehend the incommensurable scale of the collective effort required to achieve the Paris Agreement. It is a unique opportunity to rethink our world." Having an idea of the nature of the near- to long-term environmental risks, their consequences and the effort required to overcome them, let's quantify them financially.

The largest investment opportunity ever

Looking at the long-term risks mitigation, i.e. climate-related global investments, the Intergovernmental Panel on Climate Change ("IPCC") estimates that achieving the Paris Agreement implies investing amounts totalling up to USD 3,800 billion each year until 2050 for energy supply only. In addition, the Global Commission on Adaptation estimates that funding adaptation to climate change would require USD 180 billion annually until 2030. In total, as much as USD 4 trillion would need be deployed annually over at least the next decade, a level that is about eight-fold the current investment level in climate-related global investments. Investments aiming at addressing the near-term environmental risks would naturally come in addition to this figure.

Who will fund this gigantic investment requirement representing about 5% of the Gross World Product? Private capital markets currently contribute c. 60% of global climate-related investments. "We believe the share of private markets contribution should increase over time, as governments pledges fall short of the amount of capital required to achieve the Paris Agreement and public spending will be limited due to countries balance sheets being generally over-levered. At the same time, climate or environment-related opportunities are increasingly attractive to private investors who are willing to fill the gap left by public capital." said Caijo.

Impact Investing Opportunities

This is where so called "Impact Investing" comes into play. Impact investing is generally defined as investments that have a net positive outcome on the environment such as climate mitigation, biodiversity protection or natural resources preservation. "We have seen a turning point in 2019 with public opinion, regulators and businesses shifting to massive support in favour of the environment. The Covid-19 crisis made that sentiment only stronger – it is really widespread." noted Caijo. He further defines Impact Investing as follows: "we believe and have proven that having a positive impact on the environment does not preclude us from delivering attractive financial performance. As an example, one of our impact investment products has delivered a gross IRR greater than 30% investing in well-proven solar infrastructure." When asked if he would consider liquid investment strategies, Mr. Caijo indicated that "Adiant Capital rules out ESG-type investment in liquid markets because such opportunities provide limited environmental benefits, as listed companies are rarely pure impact players and are generally flawed by legacy liabilities and business models. We see much greater impact potential in private markets pursuing opportunities in the zero carbon economy, circular economy or sustainable living areas."

What implications for investors?

With demand for Impact Investing stemming from a very wide and diverse investor base, players such as insurance companies, pension funds, family offices and private banks must adapt their revenue models and develop new strategies and products. "This is where Adiant Capital experience can be relevant for this type of client." continued Mr. Caijo. "Adiant Capital focuses on private market impact investing since 2011 and personally I have been active in the sector for more than 20 years. Our clients are typically new to the impact investment sectors and are genuinely committed to addressing UN SDGs. But investing in and exiting illiquid companies or infrastructure assets can be quite complex and technical. We bring this missing long-standing investment experience to our clients. What makes us unique is that we put client financial and environmental objectives at the core of our client-specific strategies. We typically work under mandates, which offer more flexibility than investment fund products."

With only about two decades to act, investors should start taking into account near to long-term environmental risks and reallocate their capital in order to mitigate such risks. Mr. Caijo indicates that "a range of private markets impact investing strategies are possible including: investing in adaptation opportunities to lower the vulnerability of existing assets and businesses; investing in mitigation opportunities to hedge transition risks by investing in renewable energies; and investing in product and service companies preserving ecosystems and natural resources."

The Covid-19 crisis has not only highlighted how fragile our economy is, but it has also shown how positively the environment can react to the reduction of human activity and footprint. This confirms that the environment can be changed positively, but we need to act now, at scale, and this starts by choosing where we invest our money.

About Adiant Capital

Adiant Capital is an impact investment firm driven by a visionary commitment to sustainability of more than 20 years.

Adiant Capital's principals have deployed EUR 3bn in private equity and infrastructure investments since 2012 in their current and previous roles. The firm has realised a renewable energy portfolio that will generate 37 million tons of CO2 savings while it has delivered gross IRR in excess of 30% on certain investment products.

Adiant Capital invests capital in private companies and assets on behalf of institutional investors, corporates, insurance companies, private banks and family offices. The firm develops and implements client-specific investment strategies to achieve financial performance and a net positive impact on the environment.

Adiant Capital builds a sustainable future by investing in the zero carbon economy, the circular economy and sustainable living opportunities.

Adiant Capital is a carbon negative company.

www.adiant-capital.com



About Pierre-Loïc CAÏJO

Founder & CIO of Adiant Capital
Chairman of the Board



Pierre has over 20-year experience in private markets impact investing, an industry he has spent his entire career in, as an investor, adviser, board member and entrepreneur.

Pierre specialises in investing in sustainable infrastructure and technologies, and developing innovative investment solutions to achieve financial and environmental performance.

He currently serves as Chief Investment Officer and Chairman of the Board at Adiant Capital, an impact investment firm he founded in 2011. In his tenure as CIO, he developed Adiant Capital's award-winning solar construction fund product and oversaw the realisation of a renewable energy portfolio yielding millions of tons of CO2 savings.

Formerly, Pierre was a Vice-President of Climate Change Capital and co-founder of its Private Equity fund focusing on cleantech. Previously, he worked with Power Capital as energy infrastructure project developer and with Goldman Sachs' Principal Investment Area, where he covered power technologies.

Pierre holds a MSc. in Mechanical Engineering earned at EPFL and the Massachusetts Institute of Technology and a MBA from INSEAD. Pierre held various board positions at portfolio companies throughout his career.



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