Powering climate resilience: the role of private equity

Decarbonisation and regenerative agriculture strategies are about more than tackling climate change, they are about creating long-term sustainable value, says Lindee Wong, Director of Climate & Biodiversity at Tikehau Capital.

By *our editorial team*

What role does private equity play in supporting the low-carbon transition, and how do you approach this?
'From an asset management perspective, it's essential to both reduce our portfolio emissions and actively invest in companies that support the low-carbon transition. The key is to identify the companies that will drive the transition and back them, their targets and roadmaps.

Private equity has a crucial role to play in accelerating climate solutions, from investing in decarbonisation technologies in the energy sector to supporting regenerative agriculture that boosts natural carbon reduction, as well as biodiversity. The challenge is to maximise positive impact while ensuring that our investments don't inadvertently create new issues, in line with the EU's principle of 'do no significant harm'.

At Tikehau Capital, our investment approach is aligned with the goal of net-zero emissions by 2050, so we are focusing both on emissions reduction and on supporting nature-based solutions.'

How can private equity lead on decarbonisation efforts in portfolios?
'Energy, buildings, manufacturing and transport are responsible for most greenhouse gas emissions, which we try to address through our decarbonisation strategy. Meanwhile, our regenerative agriculture strategy looks to address emissions from agriculture and land use.

While the global goal is net zero by 2050, halving emissions by 2030 provides a more pragmatic and achievable target for companies. This still requires a lot of scaling up, and the only feasible way to achieve this, is by leveraging the technology currently available today. We need to invest in the know-how we already have in relation to renewable energy, energy efficiency, the electrification of transport, and heat pumps, for example.

We invest in companies that are already profitable and help them scale quickly, looking for opportunities to back the technologies needed to reduce emissions and companies that enable scale up. An example from our portfolio is CEBAT, an Italian infrastructure services provider that specialises in the installation of utility networks to enhance electricity, water and telecoms grids.'

ILLUSTRATION: SHUTTERSTOCK

What unique opportunities does private equity have in driving regenerative agriculture?

'Regenerative agriculture addresses environmental challenges by driving sustainable farming, carbon sequestration, biodiversity enhancement and ecosystem restoration. After oceans, land is the second largest carbon sink, making it significant for addressing climate change.

It is also critical for many industries beyond food, such as fashion and fuel. Those industries are heavily dependent on soil, and yet, according to the Food and Agriculture Organization's 'The State of the World's Land and Water Resources for Food and Agriculture: Systems at Breaking Point (SOLAW 2021) – Synthesis Report', almost a third of the world's croplands are degraded because of increasing intensification of agricultural practices. There are a lot of issues around resilient agriculture, which is why you see many large corporates making commitments to support the transition towards regenerative agriculture.

Our regenerative agriculture strategy invests in the solutions needed to drive this transition. These fall into four buckets: the inputs, such as biopesticides and feeds, equipment, to facilitate things like precision watering, outputs, supporting development of the supply chain from farm to user, and impact measurement. The first investment for our regenerative agriculture strategy was in BioFirst Group, a leader in pollination and integrated biological pest and disease control.'

How can private equity firms scale impact through collaboration?

'One thing we prioritise across our private equity strategies is partnering with corporates to accelerate impact. Those industry players invest their capital alongside us and bring their expertise, on-the-ground knowledge and networks, helping us screen investment opportunities and build value during the holding period. Our strategic partnerships with TotalEnergies in the energy transition sector, and with Unilever and AXA Climate in regenerative agriculture, are valuable as we look to drive impact at scale.

We also partner with other investors to accelerate impact, such as sovereign wealth funds with large, long-term asset pools looking for long-term capital preservation. They often have a focus on intergenerational equity, which makes impact strategies particularly attractive to them. We are involved with the One Planet Sovereign Wealth Fund Network, for example, which was established to accelerate the integration of climate-related financial risks and opportunities into the management of large, long-term asset pools.

Finally, we are part of many industry associations and partnerships that focus on collaboration to drive impact. That is particularly important when it comes to regenerative agriculture, because that area is still somewhat lagging in terms of defining metrics. We are part of the One Planet Business for Biodiversity coalition, focused on scaling up regenerative agriculture, boosting cultivated biodiversity and eliminating deforestation by enhancing the management and restoration of natural ecosystems.'

What role can climate investing play in long-term value creation for investors?

'Clearly, climate impact is important, but our role as an asset manager is to deliver competitive financial returns alongside that impact for our investors. We think climate investing is a long-term secular megatrend that is well underway, and so we see significant upside for investors.

The key issue here is the financing gap that exists in relation to climate change. Around $ 1.8 trillion per year is invested in clean energy globally, but that needs to rise to over $ 4 trillion if we are to meet global targets by 2030, according to the International Energy Agency's 2023 Net Zero Roadmap report. Geopolitical events are driving a renewed focus on energy security, which in turn accelerates the shift towards energy efficiency and renewable energy sources.

With Donald Trump as president of the US, many are watching closely to see how his policies may influence climate and energy policies. But regardless of the outcome, the transition to renewables is unstoppable. It's not just about policy – it's economics. In nearly every country, new electricity generation from wind and solar is now cheaper than fossil fuels, making the shift not just logical, but inevitable.

As a result of all these factors, we see a big opportunity to help drive long-term value creation in both decarbonisation and regenerative agriculture, where we aim to deliver financial returns alongside measurable positive environmental impact.'

Lindee Wong

Director of Climate & Biodiversity, Tikehau Capital

PHOTO: ARCHIVE TIKEHAU CAPITAL

SUMMARY

Private equity can drive climate resilience by investing in decarbonisation and regenerative agriculture.

Halving emissions by 2030 requires significant scaling up and leveraging currently available proven technology.

Strategic partnerships with corporates and sovereign funds help accelerate climate solutions.

Climate investing is a long-term trend, offering strong financial returns and measurable environmental benefits.