

# across! #2 the universe

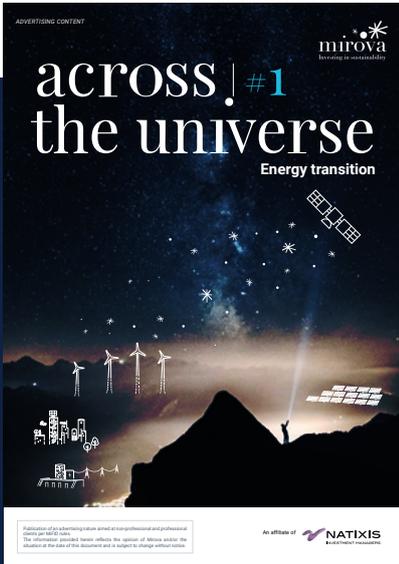
Energy transition



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In this second edition of 'Across the Universe' devoted to the energy transition, Hervé Guez, CIO for Equity, Fixed Income and Socially Responsible Investment, Raphaël Lance, Head of Energy Transition Funds, and Marc Romano, Head of Impact Private Equity at Mirova, discuss the strategic role of investors in channelling financing towards innovation and solutions for the energy transition.



**Hervé Guez**

*CIO for Equities, Fixed Income and Socially Responsible Investment*



**Raphaël Lance**

*Director of Energy Transition Funds*



**Marc Romano**

*Director of impact private equity*



## When it comes to innovation, what areas do you see as important to fund – what does the energy transition needs most?

**Raphaël Lance:** As far as clean energy infrastructure is concerned, developing network storage capacity is vital to compensate for the intermittent nature of clean energy. Green hydrogen will also need funding to become competitive with grey hydrogen. The whole ecosystem needs to be supported if we are to truly scale up the transition. In fact, it's more a question of innovating the scale than innovation per se.

**Marc Romano:** Also, on the growth capital side, we seek to support innovations that can make infrastructure more efficient and promote optimisation. By nature, these are relatively mature innovations. A lot of interesting things are currently happening on that front in the sectors of agriculture, robotics and construction.

**Hervé Guez:** On the listed energy markets, there are a number of emerging issues that are not strictly speaking innovations—such as the use of biogas, which is gaining traction. Another aspect involves addressing major medium- to long-term issues, such as the growing use of rare earths. Greening the primary supply chain, as Imerys is doing with lithium, for instance, is critical. Next, we must build the ecosystem needed to recycle them. I'd say the innovation is coming more from what we're seeing around the circular economy and biodiversity.

*The whole ecosystem needs to be supported if we are to truly scale up the transition. In fact, it's more a question of innovating the scaling than innovation per se.*

**Raphaël Lance,**  
Director of Energy Transition Funds

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## As an investor, do you play an active role in how funds are earmarked and in companies' transition strategy?

**Hervé Guez:** We are indeed trying to encourage the use of green bonds and channelling investment that way. Obviously, it's more difficult to influence the transition trajectory of large companies as a shareholder. In such cases, we look at the overall consistency of their strategy and trajectory. This assessment is simpler when we invest in small- and mid-caps, which tend to have more 'pure player' business models. We also take part in active ongoing engagement with these companies, pushing them to accelerate their environmental and social transition by leveraging our voice as a shareholder.

**Marc Romano:** On the private equity side, we have the advantage of investing in companies with relatively straightforward business models, and we direct our investments towards projects that are virtuous by design. Also, because we are involved in the governance of these companies we interact closely with management. Thanks to our research team, one of the most advanced in the market, we are able to design impact plans together.

**Raphaël Lance:** Our infrastructure team only invests in projects with a high level of commitment to transition, whose carbon impact is easily measured using a proprietary methodology built and continually optimised by our research team in partnership with Carbon4Finance.



*Because we are involved in the governance of these companies we interact closely with management. Thanks to our research team, one of the most advanced in the market, we are able to design impact plans together.*

**Marc Romano,**  
Head of Impact Private Equity

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## What major challenges still exist in terms of measuring impact?

**Hervé Guez:** Access to company data has become much easier in recent years. Nonetheless, comparability must be encouraged, based on the highest standards. Thanks to our proprietary methodology, we are able to obtain robust orders of magnitude for companies' carbon footprints across scopes 1, 2 and 3. This requires resources, means and intelligence, but it is crucial that carbon reporting be carried out for each company or project in which we invest. Avoided emissions, sometimes referred to as 'scope 4', are one such measure. Unlike induced emissions, which rely on a solid methodological foundation, avoided emissions are calculated in various ways by different companies, compromising their credibility and prevents them from

being widely used. This is why we recently launched a collective initiative to develop a database of GHG avoidance factors at the global level and estimate total emissions avoided at company level. Assessing the quality of a transition plan, on the other hand, is more complex. We need to understand whether the company's carbon trajectory will enable it to comply with the objectives of the Paris Agreement in 10 years' time, which means evaluating the quality of its policies, its commitment and the strength of its 'Say on Climate' resolution.<sup>1</sup>

The real challenge in terms of metrics now is measuring companies' impact on biodiversity, a topic we are working on with Iceberg Datalab. Biodiversity contributes to preserving certain climatic conditions, while conversely, climate change has devastating effects on biodiversity, thus the two cannot be decoupled.



1. "Say on climate" is a resolution tabled at General Meetings by the company itself or by its shareholders, allowing shareholders to vote each year on the climate policy of listed companies and to ensure an ongoing dialogue on environmental issues.

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## Do you also take into account the social impact of your investments in energy transition?

**Raphaël Lance:** Naturally, we assess our investments from a social perspective across the entire value chain. The energy transition players we select, all of which are highly advanced on climate issues, are generally also advanced on the social front. In addition, we attempt to track the number of jobs created by our investments in the European Union.

**Marc Romano:** At Mirova, we take a cross-functional approach and avoid compromising on any aspect, be it environmental or social. My team and I work with very committed entrepreneurs who are aware of all these issues. We analysed 600 applications in the past 18 months; only one of the companies was insufficiently committed social aspects and was ruled out in consequence. We can also put in place an enhanced monitoring system for a specific project, as when a Finnish company we invested in developed a new construction unit in China.

**Hervé Guez:** We may also veto an investment if we have not received sufficient assurance regarding specific social issues, such as the protection of personal data.

*Biodiversity is undoubtedly another major challenge: biodiversity contributes to preserving certain climatic conditions, while conversely, climate change has devastating effects on biodiversity, thus the two cannot be treated separately.*

**Hervé Guez,**  
CIO of Equities, Fixed Income and Social Impact Investing

## What are the main challenges of the coming decade?

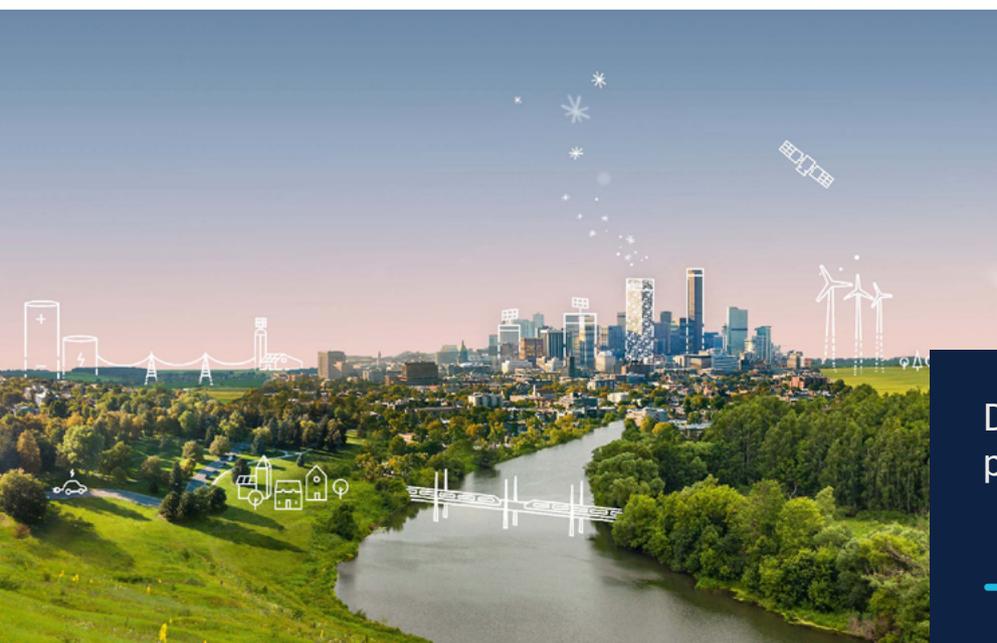
**Marc Romano:** We all agree that it is essential to continue raising capital to finance the energy transition. Both infrastructure and innovation contribute to the solutions we'll rely on tomorrow, and our role is to help finance those who make such solutions a reality.

**Raphaël Lance:** We are all in agreement on the need to channel massive amounts of funding towards the energy transition, which is a long-term challenge. As we head towards higher energy prices, it is essential for investment strategies and industrial policies to be aligned with transition, and to take social implications into account. We also anticipate major financing needs for projects in emerging countries, which need to be involved in the transition. In this context, we need to be vigilant and combat attempts at greenwashing.

**Hervé Guez:** I would also add that preserving biodiversity is undoubtedly another major global challenge on the horizon. It's a global challenge, but one that is being tackled locally, which implies a certain complexity and will require considerable skills. The second major challenge will be that of metrics: the comparability of data and the choice of standards at international level.

Changing regulations do not serve the transition effectively, and Europe has a vision to defend on this issue.

Lastly, I believe that to be effective, the transition must be perceived as a matter of sovereignty and must win the support of the middle class. I am of one mind with Raphaël: transition must go hand-in-hand with jobs and well-being—in short, it must strengthen the fabric of society.



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