

Mirova accelerates the scale-up of innovative environmental solutions through private equity



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Key Takeaways

- ▶ A new Impact Private Equity activity launched by Mirova
- ▶ The objective: accelerate the scale-up of innovative environmental solutions
- ▶ A funding gap estimated at 2.5 trillion USD per year
- ▶ A multi-thematic and SDG aligned strategy focused on:
 - Renewable energies
 - Natural resources
 - Agri-Agro technology
 - Circular economy
 - Sustainable cities
- ▶ An investment strategy for institutional and private investors

Undisputedly, 2021 will have exposed, more than any year previously, the harsh reality of global warming and the environmental challenges that we all face.

For the world of finance, this observation confirms that the goal should longer be to merely finance the environmental transition to a low carbon future: the aim is to accelerate this transition by financing high-impact solutions that help the world act faster and more powerfully.

In the same way as they do on the stock markets, investors in private equity¹ have an essential role to play in the “decade of action” in which we have less than 10 years to attain the Sustainable Development Goals² and make up a financing shortfall estimated at USD 2,500 billion per year³.

Such is the purpose of the new Impact Private Equity activity launched by Mirova.

Anne-Laurence Roucher, Deputy-CEO, and Marc Romano, Head of Mirova Impact Private Equity, tell us more about how this expertise was created and the prospects it offers for a wide-ranging investor clientele.

Why did you decide to create a new field of expertise at Mirova dealing in environmental impact investment?

ALR : As a pioneer exclusively dedicated to sustainable finance, Mirova is a purpose driven enterprise certified by the B-Corp⁴ label, 100% of whose funds are classified Art.9⁵. For the last 10 years, we have been developing investment solutions that combine robust financial performance and positive environmental and/or social impact.

Ranging from publicly quoted stock to fixed income, social impact investing, infrastructure and natural capital, we cover a broad spectrum which allows us to fulfil the varying expectations of

our clients whilst addressing the many challenges to which we must rise: air and soil pollution, zero-carbon mobility, renewable energy or the protection of natural resources and biodiversity.

Private equity... and more specifically impact private equity, is positioned as the continuity of our expertise in non-liquid assets, rounding out our range of financial solutions available to institutional and private investors.

Among the companies whose business activity seeks to meet the SDGs set by the United Nations, many of them require equity support to boost and mass-develop their innovations and technologies, and therefore successfully scale up. This is the purpose of our new private equity investment strategy.

1. Private equity is defined as the acquisition of equity stakes in unlisted companies.
 2. The United Nations Sustainable Development Goals (SDGs) define 17 priorities for socially equitable, environmentally safe, economically prosperous, inclusive and predictable development by 2030.
 3. Source: United Nations - Sustainable Development Goals Business Forum
 4. B-Corp certifies companies that integrate social, societal and environmental objectives into their business model and operations. To find out more: www.bcorporation.net/about-b-corps/ Mirova has been B-Corp certified since 2020.
 5. The “Sustainable Finance Disclosure Reporting” (SFDR) Regulation aims to provide more transparency in terms of environmental and social responsibility within the financial markets. Funds classified Article 9 have a Sustainable investment objective.

What companies does this apply to?

MR: We invest in companies whose entrepreneurial intelligence and innovation capacity have led to the creation of proven and profitable (or approaching profitable) technologies that contribute a concrete, sustainable and efficient response to environmental issues. These are medium-sized companies - neither start-ups in launch phase, nor major organisations. By increasing their capital, we give them the opportunity to go further, faster and stronger. We boost their ability to generate a true environmental impact while creating more value.

Our investment philosophy is based on a strong conviction: we believe that accelerating and intensifying positive impact fosters solid financial performance. In other terms, impact feeds performance.

When some people advocate “de-growth”, we are convinced that intelligence and innovation are part of the solution to rise to the challenges mentioned by Anne-Laurence.

What investment themes and sectors do you target specifically?

MR: We wanted this strategy to address all the themes linked with the environment: therefore it is a multi-theme strategy, which brings with it three key advantages:

- ▶ a wide impact spectrum which allows investors to contribute to all the Sustainable Development Goals,
- ▶ a handpicked selection of target companies from a profuse and varied range,
- ▶ a better risk/return profile thanks to sector diversification.

We cover five themes in total:

- ▶ 1. *Renewable energy*
- ▶ 2. *Natural resources*
- ▶ 3. *Agri-Agro technology*
- ▶ 4. *Circular economy*
- ▶ 5. *Smart cities*, including mobility for example.

The DNA of this strategy can also be found in its geographical perimeter:

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We invest in companies whose entrepreneurial intelligence and innovation capacity have led to the creation of proven technologies addressing environmental issues.

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Europe. Here is where our roots are, and here is where we finance companies which are on the one hand different in their fields of expertise and on the other hand close to our communities. Hence, we contribute to accelerating the development of many ecosystems by participating in capital increases to acquire minority or majority shareholdings in companies, by sitting on the Boards of Directors and by engaging in sincere dialogue with the founders.

We reserve the possibility of widening our geographical spectrum by investing up to 20% of our assets outside Europe in developed countries that are highly innovative in the sectors (in Israel and North America mainly).

Can you give us a few examples of companies in which this strategy invests?

MR: While we target companies in each of the sectors, we can also identify some which simultaneously cover two or more of these five themes.

Such is the case with **Ombrea**, a scale-up enterprise based in Aix-en-Provence, which develops highly innovative two-in-one sun shading devices: in addition to sheltering crops from the effects of climate change by creating a controlled microclimate (mitigating the effects of frost,

hail and droughts, protecting fruit and flowers, keeping irrigation needs to a minimum while reducing phytosanitary inputs), the mobile panels that create the shade are fitted with photovoltaic cells that produce carbon-neutral electricity. Ombrea therefore covers both *Renewable energy* and *Agro-technology* themes, reinforcing the positive impact of the investment.

<https://www.ombrea.fr>

Another example is that of **Agronutris**, which covers three themes at the same time: *Natural resources*, *Agro-technology* and *Circular economy*. This French biotech has adopted the mission of feeding and preserving a sustainable world through bioconversion.

Made of dehydrated and defatted black soldier fly larvae, one of their star products, Ultra'in, is an ideal sustainable alternative to fishmeal and pet food. Indeed, this technique can be used as a substitute for the fishmeal used in agriculture today, and reduces both the need for intensive cattle farming and the pollution caused by pet food manufacturing. Finally, with the larvae fed on waste that is generally not recovered (from breweries in particular), the “recipe” contributes to the circular economy.

<https://www.agronutris.com>

On the theme of *Smart cities* and mobility, we are considering a start-up which has developed a revolutionary technology capturing up to 90% of fine particles in suspension emitted by the braking systems of automobiles or trains, thereby addressing a genuine public health issue.

How do you identify these companies, and how are you sure they are solid opportunities?

ALR: This is one of the major strengths at Mirova: our ability to seek out promising stars and firms that can make a difference. We are one of the most active players in private assets dealing in energy transition and natural capital, which gives us a powerful network of partners and preferential access to investment opportunities across our five investment sectors.

Another lever we use for identification and selection: since we are pioneers in sustainable finance - and identified as such – advisory banks specialising in green finance tend to turn to us as a matter of priority to finance some of their corporate clients.

On the quality of the companies identified, we first capitalise on the cross disciplinary expertise of our real asset platform which is worth €2.3 billion and possesses solid experience.

This platform also draws on a sustainable development research team made up of around 20 ESG experts at the cutting edge of environmental issues, solutions and technology, the like of which you won't find anywhere else. As a result, we are able to study the potential of the company and the expected impact in fine detail.

MR: I would add another marker which contributes to the "Mirova touch": our high analytical standards.

We follow a well-defined and selective financial analysis process, with stringent due diligence processes to "scan" the company in depth: quality of management, pertinence of the business model, analysis of technology, study of income generated, etc. In addition to this financial analysis, we conduct impact due diligence: in the same way as we would study a business plan, we draw up an impact plan from indicators that quantify the real impact of the company and its technology (or technologies); we then have this plan validated by an independent impact committee.

On exit, we compare the impact and performance targets that we had set at the time of entry with the actual impact achieved in the end. 50% of Mirova's performance commission depends on meeting these targets, which offers evidence of our commitment and the trust we place in the companies in which we invest.

At whom is this investment strategy aimed?

ALR: In the mission that Mirova has set itself, there is the desire to extend the spectrum of people granted access to this responsible investment. We are naturally targeting institutional investors, but also private "end" cus-

tomers, meaning individuals - which is something that our competitors don't necessarily do across all asset classes. We are therefore rolling out this investment strategy in dedicated offerings that address the needs of major institutionals and distribution partners - private banks, insurers - aimed at individual customers. This new private equity activity aims to be truly open, not just in its investment themes but also in its investor perimeter.

What are your ambitions?

This strategy, just like others to come, is part of our pragmatic vision of impact investment: it must be ambitious enough to generate substantial impact... while also remaining at a volume that will allow us to deploy our investment easily and rapidly. We therefore aim for a target volume of 300 to 400 million in our first round of capital raising⁶.

How do you see the future of Impact Private Equity?

ALR: While it is quite recent, this impact private equity expertise is also, and most importantly, a continuation of Mirova's expertise: it draws on a long-standing history and remains true to the spirit of our firm: being a step ahead of the game... at the right time. It would have been premature to launch this range five years ago. Today is the perfect time. Impact private equity is an important lever in the environmental transition; it is essential to harness it and make more of it than just a niche market.

Looking forward, we are already working on a societal impact private equity strategy dedicated to education, training, healthcare and personal services, which are also major challenges. These are subjects that Covid-19 and its consequences clearly showed are crucial for the future.

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In the mission that Mirova has set itself, there is the desire to extend the spectrum of people granted access to this responsible investment: both institutional and individual investors.

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Find out more at:

[www.mirova.com/
en/private-equity](http://www.mirova.com/en/private-equity)

6. The information and perspective provided reflect Mirova's opinion as of the date of this document and are subject to change without notice. Source: Mirova

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Non-contractual document, issued in September 2021.

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