AXA Climate

initiative climat international
Private markets action on climate change

FRANCE INVEST

NOVEMBER 2025

Keys to success for asset managers in decarbonisation

Climate Working Group

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About

AXA Climate

AXA Climate, a subsidiary of the AXA group dedicated to climate change adaptation and transition supports sectors such as agribusiness, industry, finance, and the public sector by offering parametric insurance products, consulting services, over 40 hours of online training, and a suite of digital tools for climate projections.

By leveraging science and data, AXA Climate helps companies and public players to tackle key environmental challenges and enables them to implement concrete adaptation and mitigation strategies tailored to their local contexts and specific needs.

initiative climat international
Private markets action on climate change

The iCI is a global, practitioner-led community of private markets investors that seek to better understand and manage the risks associated with climate change. The iCI counts globally close to 290 members, representing more than US$4 trillion as asset under management as of January 2025. iCI members share a commitment to reduce carbon emissions of private companies and secure sustainable investment performance by recognising and incorporating the materiality of climate risk. In practice, this implies a commitment to effectively analyse and manage climate-related financial risk and greenhouse gas emissions in their portfolios, in line with the recommendations of the Financial Stability Board's Task Force for Climate-related Financial Disclosures (TCFD). Members commit to sharing knowledge, experience, and best practice, working together to develop resources that will help standardise practices across the industry.

The iCI is supported by the PRI, a Supporting Partner of The Investor Agenda, and is open to all private markets firms and investors to join.

FRANCE INVEST

France Invest, a trade association, brings together a community of men and women who bridge the gap between savings and the economy, deploying financial resources and expertise to strengthen French start-ups, SMEs, and mid-sized companies. It is committed to fostering sustainable growth, creating jobs, reindustrialising the country, supporting local economies, and building the infrastructure of tomorrow.

The 460 professional investors who are members of France Invest are close partners, present across the country. As true entrepreneurs speaking to entrepreneurs, they support businesses on their growth journey, helping them navigate strategic shifts and long-term transformations.

Dedicated to reinforcing its industry, France Invest ensures it remains aligned with the expectations of investors, businesses, and society, working to sustainably strengthen the economy and the wealth of the French people.

Edito

The need to decarbonise our economy is becoming more urgent year after year. Businesses and financial institutions find themselves at a crossroads where inaction is no longer a viable option. However, the path to this transition is complex and many barriers make it difficult to grasp: heterogeneity of carbon trajectory tools and methodologies (a comparison of these tools is available in the appendix of this paper), contradictory injunctions from the various stakeholders, costs that are difficult to estimate and assume, etc.
As signatories of the International Climate Initiative (iCI), we are committed to collaborating and sharing our best practices to support private market players in structuring themselves around climate issues. The iCI gives us access to multiple practical guides and a network of dedicated professionals. However, once we embark on the journey, regardless of our level of experience, we quickly encounter numerous questions and challenges to navigate.

Our Goal

This document aims to highlight these limitations, the trade-offs we must make as management companies in our response to climate change, and the key success factors we have identified in addressing them. It is always easier to show theoretically what "should" or "could" work, but focusing on the obstacles encountered and their solutions can be more practical and actionable! This document is therefore first and foremost a call to action, inviting Asset Management companies, investors, and all relevant stakeholders to take a realistic view of the necessary changes.

Who are we talking to?

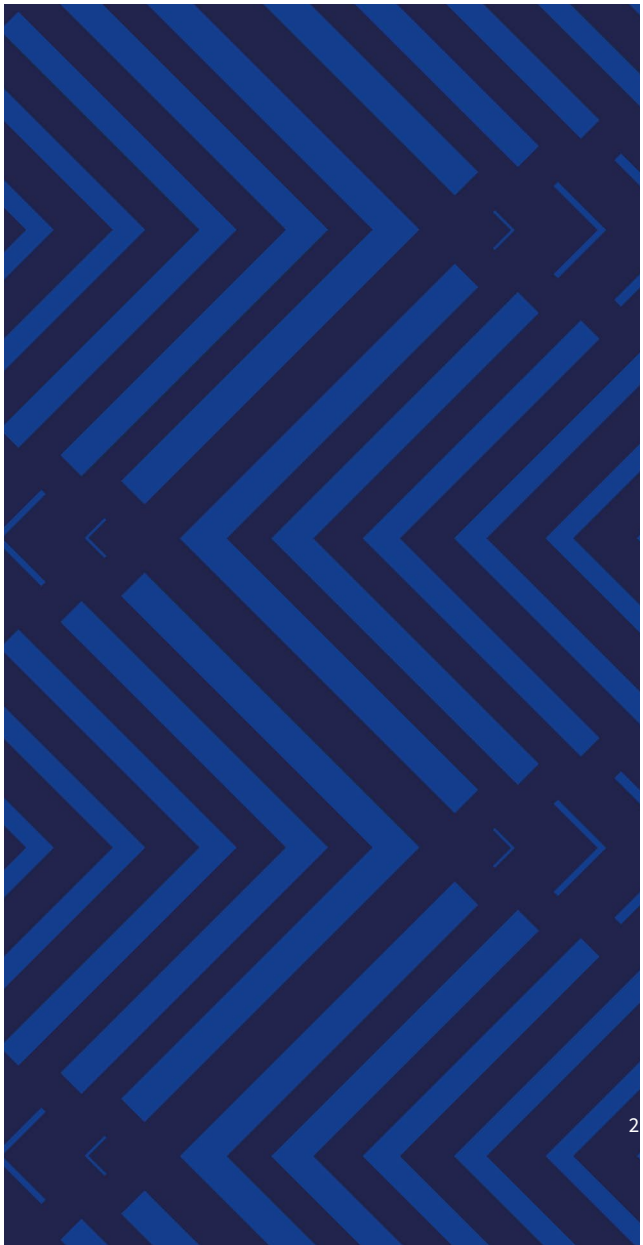
To our peers – private equity, infrastructure and private debt players, to our partners, and to institutional and private investors, investment banks and lenders. We want to create a coalition of committed stakeholders, ready to shape the future of private markets in alignment with the Paris Agreement and decarbonise the real economy.

What are our messages?

To our peers, we say: let's play a role in developing our business / evolving our profession and seize the opportunity to drive the transition to a low-carbon economy. The key success factors outlined in this document, can serve as valuable tools for you. To our investor partners, we provide an overview of current practices, highlight the challenges ahead, and outline the necessary trade-offs required to navigate the diversity of our approaches and models.

Happy reading!

Members of the Climate Working Group



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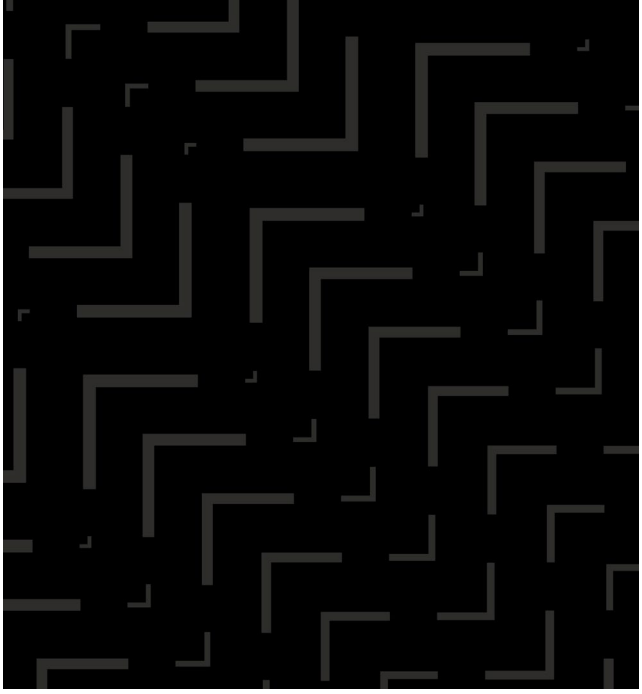


Executive Summary

The climate transition is an imperative for private equity, but its implementation remains complex: diversity of tools, uncertain costs, contradictory injunctions.

That is why we, management companies within the France Invest Climate Working Group, have decided to share here concrete **success factors to accelerate decarbonisation**.

We are addressing our peers, clients, and partners in order to bring together a committed coalition in favour of private equity serving the low-carbon transition.

1. See decarbonisation as a business opportunity

More than 50% of LPs in Europe have net-zero commitments. Private equity must therefore structure appropriate strategies by:

- → Supporting the transition of "grey" companies and infrastructures
- → Financing low-carbon solutions that reduce emissions on a large scale

2. Align interests on decarbonisation to drive change

Management companies must integrate climate commitments into their governance to ensure they materialize. A few examples:

- → A climate opinion at the investment stage and the setting of clear objectives
- → An ambitious decarbonisation roadmap
- → Incentives for executives and teams aligned with decarbonisation
- → Climate on the agenda of portfolio companies' boards
- → Annual review of climate target achievement by an external third party

3. Act as competent "sparring partners" for portfolio companies

Small and medium-sized enterprises often lack the time and expertise to structure their transition. Management companies have a role to play through:

- → A well-resourced and skilled ESG team capable of supporting companies operationally in their decarbonisation
- → Tools and external partners to strengthen internal expertise
- → A network among companies to share experiences and best practices

4. Be transparent about approaches and challenges encountered

There is no single framework for implementing decarbonisation. Transparency regarding governance, methodology, and reporting is essential. Management companies can establish a strategic dialogue:

- With LPs, to support their understanding of sector-specific challenges
- With investors and lenders, to align and structure roadmaps and reporting
- With external stakeholders (NGOs, federations, regulators), so that they can contribute to improving methodologies

5. Integrate a long-term perspective to create value through decarbonisation

The low-carbon transition takes place over several investment cycles in order to generate value. Management companies must therefore adapt their time horizon accordingly, with:

- More patient funds, with holding periods beyond the usual 5–10 years, and an innovative return–risk–impact triptych
- Investment and company transformation decisions that take into account 2 or even 3 holding cycles, i.e., over 10 to 15 years
- Exit decisions that include climate criteria

6. Be clear-eyed about the costs of decarbonisation

Decarbonisation requires short-term investments, with a return on investment that is not always immediately tangible. Management companies can innovate through:

- Allocating part of the capital gain to decarbonisation actions, in agreement with their LPs
- Financially valuing climate transition efforts, particularly for SLLs and company valuations
- Mobilizing broader sources of financing: public subsidies (Bpifrance, Ademe, InvestEU), support from large corporations through regulation (CSRD, CS3D), and collaborative initiatives within industry sectors

7. Test an internal carbon price without waiting for new company valuation methods

Private equity funds can thus:

- Quantify and internalize the carbon impact: integrate costs related to regulated quotas and carbon taxes to better anticipate their effect on investments
- Steer investments toward decarbonisation: direct financing toward low-carbon initiatives and value climate solutions at a fair price

And do so through a collective approach, to share learnings with their LPs and peers.

1.
See decarbonisation as a business opportunity

The climate transition is on investors' agenda (52% of LPs in Europe have net zero commitments - source : ilpa.org). They are expressing growing expectations in terms of decarbonisation, rapidly switching from obligations of means to obligations of results aligned with a climate-stabilised world.
For private market players, this is an opportunity to develop and diversify fund offerings. Two paths are possible and can be combined:

1.
Financing the transition of "grey" companies or infrastructures, to boost or accelerate their decarbonisation.

2.
Financing companies and infrastructure known as "solutions" of the climate transition, which contribute to the decarbonisation of economic activities.

These paths can be broken down by asset class: infrastructure equity or debt (whether it is the financing of a "core infrastructure" asset or an infrastructure development company via SPVs), private equity and private debt (small to medium-sized companies), venture capital (deeptech-type R&D and solutions requiring capital to scale). They can also be combined with more mainstream strategies to allocate part of a fund to decarbonisation.

CASE STUDY

SOLUTIONS - Creating an infrastructure investment strategy for the ecological transition - Private equity management company with €4 billion assets under management (private equity, infrastructure, real estate).

OBJECTIVE

Create an investment strategy in favor of impact and ecological transition through the development of resilient green infrastructure.

DESCRIPTION

The first green infrastructure fund was launched in 2021. Investments are focused on financing high value-added green infrastructure in the renewable energy, sustainable mobility solutions, and green data center sectors.

RESULTS

Today, the strategy includes two funds totalling €250-300m of assets under management, 7 portfolio companies. They allow the annual avoidance of nearly 200,000 tCO2e, and the securing of more than 700 MW of renewable energy projects.

CHALLENGES

The funds target SMEs already engaged in activities contributing to the environmental transition. The implementation of additional impact objectives adds significant demands beyond the traditional requirements of business growth and financial performance for companies that already have a virtuous activity. These additional objectives must be set up, monitored and reported, creating a considerable extra workload for businesses that have limited resources due to their size. Achieving these ambitious goals is complex and time-consuming.

CASE STUDY

SOLUTIONS - Investing in sustainable business models - Private equity management company with €1.3 billion assets under management (private equity).

OBJECTIVE

Support entrepreneurs who are developing innovative solutions to accelerate societal and environmental transitions.

DESCRIPTION

Since 2016, the impact fund invested up to €7 million in companies contributing to:

→ **Climate transition**
(reduction of GHG emissions, biodiversity, water management, etc.)

→ **Circular economy**
(eco-design, recycling, bio-sourced materials, etc.)

→ **Human capital**
(training, employment, inclusion, civic engagement, etc.)

→ **Health and well-being**
(quality of life, disability, telemedicine, etc.)

The impact approach is based on five pillars integrated into the application selection phase: intentionality, additionality, measurement of net positive and negative externalities, and financial valuation.

RESULTS

Some concrete results achieved by the portfolio companies on the fund's 4 investment themes for the year 2023 (1 participation on each dimension):

→ Climate transition

6,640 tonnes of CO_2 avoided thanks to real-time measurement sensors

→ Circular economy

182,000 tonnes of CO_2 avoided via anti-food waste tools

→ Human capital

1,160 people supported towards employment through training

→ Health and well-being

17,000 telemedicine procedures performed

CHALLENGES

1/ Support

As the fund invests in innovative, fast-growing but unprofitable companies, the first challenge is to support them in their change of scale by ensuring the sustainability of the activity, while preserving impact objectives. This requires enhanced strategic support.

2/ Measurability

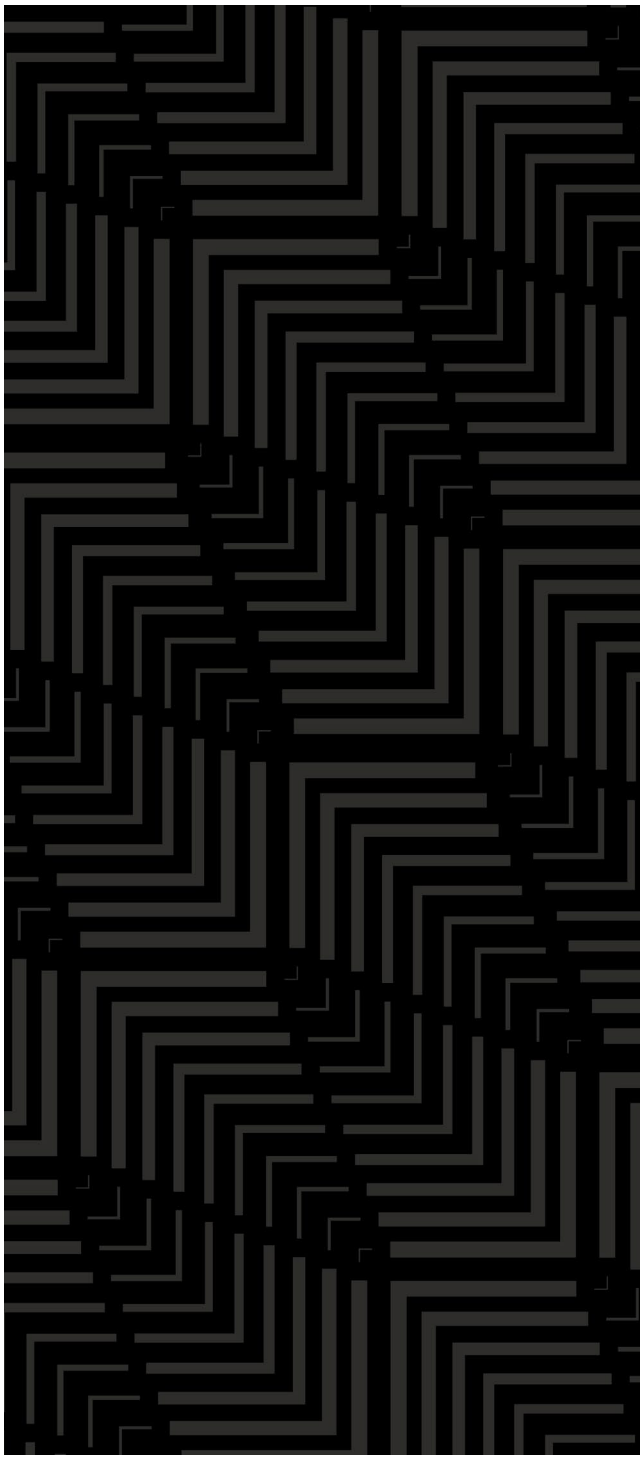
Measuring impact in the sense of the theory of change (outcome) can take time and the fund is not able to quantify the real impacts (changes) on stakeholders in the first year. For example, carbon capture by agricultural soils is measured over 5 years.

3/ Financial valuation

The approach to financial quantification of impact is relatively new and methodologies are still under construction.

In the following, the ideas developed are declined for the two types of financing:

TRANSITION SOLUTIONS



2.

Align interests with decarbonisation to drive change

TRANSITION

Nearly half of SMEs have never measured their carbon footprint and are far from managing it. For companies with a material carbon footprint, private market players must drive the necessary paradigm shift, and act not only as financiers but also as incubators of change, by putting decarbonisation at the heart of their strategy and support. For assets in transition, this translates into governance and alignment of interests between LPs – management companies – portfolio companies integrating climate and decarbonisation. Below are some examples (non-exhaustive or mandatory list):

- A "climate" opinion integrated into the investment decisions, evaluating both the company's direct impact on the climate and its potential to contribute to the transition.
- A roadmap for decarbonisation developed as quickly as possible (depending on the timing and availability of the teams), compatible and integrated with the development plan.
- Climate on the agenda of the boards of the portfolio company.
- Climate objectives in investment and asset management teams' incentives.
- Climate objectives in the incentives of the company's c-levels.
- Support to companies to achieve objectives, through internal or external resources.
- External validation of the climate objectives achievement level each year.

To set the objectives, it is recommended to use market practices (such as SBTI) or concrete actions such as the electric share of the vehicle fleet.
Asset management companies can identify and define objectives, for example an effective reduction in the carbon footprint or the implementation of decarbonisation levers. It is relevant to question the «controllable» part of decarbonisation, both by the companies in the portfolio (what degree of actions on their scope 3?) and by the investors themselves (in the case of a very minority approach, for example, for which the alignment of interests is essential).

Finally, objectives on decarbonisation must not overshadow other non-financial, environmental and social issues. These aspects should be analysed during due diligence and included in a more comprehensive CSR roadmap in the event of red flags.

SOLUTIONS

For funds financing solutions for decarbonisation, financial and climate performance are aligned. The governance and alignment of interests previously proposed remains relevant if it is based on a roadmap aimed at minimizing negative externalities (e.g. biodiversity) and/or maximizing the environmental and social benefits of the solution.

CASE STUDY

TRANSITION - Aligning ESG interests for the climate transition - Private equity platform with €9 billion assets under management (private debt, private equity).

OBJECTIVE

For a flex equity fund with a decarbonisation objective, align financial & extra-financial interests in the structuring of transactions.

DESCRIPTION

As part of its investment in a European software platform for tourism, the investment team defined strategic sustainability objectives with the company's management team: sustainable tourism revenue growth and carbon footprint reduction aligned with the Paris Agreement and validated by SBTi.

These objectives have been integrated in the form of Sustainability Performance Targets into the structuring of the management package, with indicators monitored in the medium term, at the time of exit, and annually via preferred shares.

The criteria are defined before closing to ensure their feasibility and the commitment of the management. The assessment is based on third-party certifications such as SBTi for the climate trajectory and Great Place to Work for the quality of life at work.

RESULTS

After a few months, the participation launched various CSR projects while carrying out structuring acquisitions. In particular, the management measured its carbon footprint and worked on technical specifications for assessing the environmental and social impact of travel.

CHALLENGES

One of the challenges is related to the presence of a CSR manager in the company, to have an informed discussion on ESG KPIs before the transaction, and to ensure that the company has the required bandwidth to implement the CSR actions and strategy from the beginning of the investment. This is why the fund's team, for the 2nd vintage, decided to appoint or recruit a CSR manager for each investment.

CASE STUDY

TRANSITION - Formalising "climate" objectives within investments - Private equity, real estate and private debt management company with €7 billion assets under management (private equity, real estate and private debt).

OBJECTIVE

Ensure that the interests of all stakeholders (management, investors, lenders) converge towards common and ambitious sustainability objectives, and in particular decarbonisation.

DESCRIPTION

On a buyout fund, sustainability-related practices include:

- External ESG due diligence carried out before each acquisition to identify material issues, with special focus on climate change.
- Establishment of an ESG action plan validated by the supervisory board, ensuring that these objectives are monitored and integrated into the company's strategy.
- Inclusion of ESG criteria in the legal documentation of the investment, ensuring that they are integrated into the investment lifecycle.
- Appointment of a CSR manager in each of the companies to ensure that the sustainable transition is rigorously managed.
- ESG discussion at each supervisory board.
- Carbon footprints (based on physical flows) and systematic decarbonisation plans within companies.

Example for an investment - group of private schools.

ESG objectives have been defined in line with management priorities, by including criteria in the management package such as:

- Implementation of a climate plan to limit the environmental impact of campuses, with a decarbonisation plan validated by a third-party organization.
- Creation of an endowment fund to finance scholarships aimed at promoting social diversity.
- Improved student well-being.

With a short-term and medium/long-term alignment:

- Short-term means objectives (such as carrying out a carbon assessment and defining a decarbonisation plan).
- Longer-term outcome targets, focused on implementation and compliance with the decarbonisation plan at the end of the investment.

CHALLENGES AND KEY SUCCESS FACTORS

The success of this transition is based on several factors:

- The appointment of a CSR manager, but also the hiring of senior people in key positions, such as the real estate manager, whose activities have a significant impact on the group's carbon footprint.
- The support of an expert firm with strong sector expertise to guide the development and execution of the decarbonisation plan.
- Internal validation at executive level and by the supervisory board of the decarbonisation plan, with a clear assessment of CAPEX costs and expected OPEX savings, for integration into the business plan and the company's budget.

3.

Be competent sparring partners to help portfolio companies in their decarbonisation

TRANSITION

Portfolio companies often lack the resources, time and skills to properly address climate issues. Asset management companies have a role to play in prescribing and supporting this decarbonisation.
Carrying out a carbon footprint must no longer be the heart of a "climate" approach. But rather the concrete transformation of investments towards economic models that are compatible with a 2°C or even 1.5°C world must. To do this, private market players must raise the bar, and this cannot be done without dedicating resources to the size of the challenge encountered.

How?

- A "Climate" sponsorship from the investment teams, in support of the ESG teams, allowing an alignment of the financial and extra-financial discourse. Decarbonisation must be the subject of strategic reflections discussed in the Board and in the periodic monitoring of portfolio companies.

- An ESG team sized consistently with the number of participations.

- A competent and structured ESG team on climate topic to provide operational support to companies: awareness/training, identification of key contacts & experts, climate materiality analysis and maturity of the company, footprint, trajectory, action plan, Capex costing, strategies, operational choices and monitoring, etc.

- An ecosystem of robust and credible service providers and tools, complementing the manager's skills and resources.

- Inclusion into a community of portfolio companies with similar issues to promote best practices sharing and cooperation/collective intelligence.

Such a position as an active sparring partner on decarbonisation is possible in case of majority stake, or minority stake with a seat on the board of directors, via a strategy of influence through co-investors, the implementation of SLL (sustainability linked loans) /SLB (sustainability linked bonds) for lenders, with review clauses.

CASE STUDY

TRANSITION - Cooperating to better decarbonise carbon-intensive infrastructure - Private debt management company with more than €3 billion assets under management.

OBJECTIVE

Proactively support a borrower in the digital sector in its decarbonisation.

DESCRIPTION

In 2022, the asset management company financed a data center operator through its debt fund dedicated to the sustainable transition through a Sustainability Linked Loan (SLL) mechanism. One of the objectives being to reduce greenhouse gas (GHG) emissions. This mechanism put the topic of decarbonisation at the centre of discussions with the company's top management but also with the Private Equity fund present in the company's capital. These three players pooled their resources to engage the company in the decarbonisation of its business model. The support focused on defining the level of ambition of the group's decarbonisation policy and the selection of a suitable external service provider to define the terms of this transition more practically. The SLL mechanism is particularly relevant here because it allows the fund's teams to discuss the proposed trajectory.

RESULTS

In practice, the company integrated the climate challenge at the highest level of its governance. They recruited a person to manage the group's decarbonisation trajectory, they assessed their carbon footprint, and they dedined an ambitious decarbonisation plan.

CHALLENGES

The time horizons of the different stakeholders - company, equity sponsor, lender - are not always aligned. The SLL/ SLB mechanism operates with annual targets, which implies a significant responsiveness of stakeholders from the beginning of the financing, and the mobilization of resources, particularly human resources. For the data center operating company, the achieving the climate objectives involved the recruitment of an FTE, the selection of an external service provider, the realization of a complete carbon footprint and the validation of a GHG emission reduction trajectory over the first year of financing. It was also necessary to follow the company's growth, and therefore adapt to changes in scope.

CASE STUDY

TRANSITION - Empowering companies on their decarbonisation – Private equity management company with more than €6.5 billion assets under management (private equity).

OBJECTIVE

Enable SMEs and mid-caps in diverse sectors to take ownership of environmental transition issues and launch decarbonisation projects.

DESCRIPTION

The management company, as the majority shareholder, relies on its proximity to support companies in gaining skills and autonomy on decarbonisation issues. Support is provided at several levels:

- **Training:** Since 2023, the fund manager has subscribed to the AXA Climate School platform and offers companies in its portfolio free e-learning courses on the ecological transition and its impact on their businesses. The objective of this training is to establish a "climate" culture within portfolio companies, allowing employees from different teams to speak the same language, and to understand the rationale and objectives for implementing a climate strategy.

- **Carbon footprint estimation:** The asset management company pays for a carbon footprint estimate for all the companies in its portfolio. This estimate allows companies to identify major emission levers and is a first step for them to collect and understand climate issues before conducting a more complete and certified carbon footprint measurement.

- **Support on carbon footprint assessment:** When companies are mature enough to establish their comprehensive carbon footprint, the asset manager supports them in meeting and choosing consulting providers – the investment team pre-selects providers and participates in key stages of the project (kick-off, progress report, feedback).

- **Communication between companies:** The asset management company strives to simplify best practices sharing among between portfolio companies. In autumn 2023, a seminar was organised to bring together companies' CSR managers and operational teams to discuss challenges in terms of decarbonisation.

RESULTS

- **50** CSR leaders and managers gathered at the 2023 ESG seminar.

- **49** companies that provided sufficient information to obtain an estimate of their carbon footprint.

- **14** companies have accessed to the Climate School (a second promotion is being launched).

- **8** webinars organized on ESG topics, including one dedicated to the low-carbon transition.

CHALLENGES

Main challenges for SMEs and mid-caps regarding decarbonisation are:

- Incompressible time to be devoted to upskilling on these technical subjects, while companies have limited staff.

- Resources (human and financial) to be dedicated to the subject, in addition to resourced required to support a strong growth.

- Trade-offs between the business plan and the decarbonisation plan, with time horizons that may differ.

CASE STUDY

TRANSITION - Actively supporting investments in their climate strategy and their low-carbon roadmap - Private equity management company (growth capital and real estate) with €1.5 billion assets under management (private equity and real estate).

OBJECTIVE

Raise awareness, support and engage portfolio companies to adopt a decarbonisation approach based on the Science Based Targets initiative (SBTi).

DESCRIPTION

To accelerate its commitment to the fight against global warming, the asset management company has committed to the SBT initiative with a dual ambition: reduce its own GHG emissions, and encourage its participations to commit to the climate transition and the reduction of their emissions. And to do this, beyond setting an example, it is necessary to support the participations and to position itself as a sparring partner. This support is provided by the management company Sustainability team, within the operational team, which has:

- Trained investment teams on climate issues and the SBT initiative, so that they can support directly their investees.

- Raised awareness among the CEOs towards SBTi during a management seminar.

- Launched pilots on two companies (an industrial Midcap and Smallcap): support from a climate expert, comprehensive carbon assessment, definition of reduction targets, commitment to SBTi, design of decarbonisation roadmap. The objective is to deploy the approach across the entire portfolio, with a target of 100% coverage of eligible assets.

- Included a climate clause in the shareholders' agreements for new deals, making it mandatory to carry out a complete carbon assessment and the development of a decarbonisation roadmap for all new investees in the period following the investment.

As part of a new strategy dedicated to the decarbonisation of French industrial SMEs, addressed via an Article 9 fund, the management company's role as a sparring partner is enhanced with support from the investment and operational teams allowing for local, more precise and effective support for future investments in their transition to a low-carbon economy.

RESULTS

Awareness-raising actions succeeded in mobilizing investees on climate issues and the need for decarbonisation. Pilots helped to structure a robust methodology for engagement in the SBTi process and prove feasibility on real cases. The supported companies will now have to implement their roadmaps to achieve their emission reduction targets.

CHALLENGES

The main challenge is maintaining decarbonisation as a strategic priority for investments, even in situations of high workload, when other operational topics may take over. The operations team plays a crucial role in ensuring the continuous progress of these projects and keeping pace.

4.

Be transparent about the approaches and challenges encountered

TRANSITION

To decarbonise unlisted asset classes, market standards (in the appendix) and regulatory frameworks (SFDR, CSRD, Article 29) can guide management companies. However, there is no universal framework or magic formula. Asset management companies must learn and progress because they are still at the beginning of an operational approach.

They should adopt a posture of transparency and dialogue regarding their approach, methodologies and challenges at three levels:

- With investors (Limited Partners (LPs)), the opportunity is to support them in understanding challenges and practices specific to portfolio companies' businesses.
- With co-investors and lenders, the challenge is to align requests towards portfolio companies in terms of roadmaps and reporting. In this respect, the market reporting format promoted by France Invest in collaboration with Invest Europe is useful.
- With other stakeholders - NGOs, federations, public authorities -, it is more about progressing in applied methodologies.

This transparency should apply to the governance related to decarbonisation, the integration of ESG and engagement principles, the chosen framework, processes and people involved. A clear timeline and action plan should be presented to LPs, as well as encountered challenges and fields of application.
The challenges include the lack of data, sectoral issues and the diversity of governance (in particular the shareholding structure that induces the ability to influence).

SOLUTIONS

A few words about the universe of Venture Capital: through its investment in early-stage companies, it faces very specific challenges. It must be acknowledged that VC fudns, when they focus on decarbonisation, finance solutions that directly contribute to the low-carbon economy, and that these solutions may not be part of a traditional reduction approach. This is true for solutions funds more broadly.

CASE STUDY

TRANSITION - Engaging for climate through science-based targets - Private equity management company with more than €21 billion assets under management (private equity).

OBJECTIVE

Formaliser l'engagement climatique de la société de gestion avec un standard exigeant du marché.

DESCRIPTION

The asset management company was among the first six private equity players to validate a Science-Based Targets commitment in 2021. It is committed to ensuring that 30% of its private equity investments, per capital invested, have set targets validated by science-based targets by 2025 and 100% by 2030.

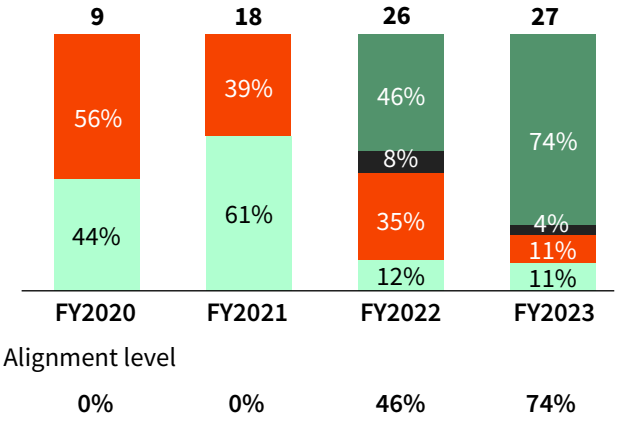
In terms of governance, this translates into:

- Integration of climate into the investment team's individual objectives for 2022 and 2023, which then became an integral part of the company's culture.
- Structured climate governance with annual discussion at the level of the management company's board.
- Climate training for the entire investment team.
- Participation in sectoral initiatives with peers: France Invest, Initiative Climat International, Science-Based Targets Initiative (SBTi), Private Market Decarbonisation Roadmap (PMDR), NZAM, Invest Europe.
- More transparency: publication of climate and TCFD reports.

RESULTS

As of May 2024: 32% of invested capital investments have set targets validated by SBTi.

Private Market Decarbonisation Roadmap (PMDR):



Capturing data : reporting emissions data but currently no plan in place to reduce emissions

Aligning : committed to a decarbonisation plan aligned to a transition pathway

Preparing to decarbonise : planning to reduce emissions in-line with an approach agreed with the GP

Not started : not started to measure emissions or plan how to reduce them

CHALLENGES

- **Change management:** training investment teams and companies on decarbonisation.
- **Data quality:** obtaining accurate data, especially on companies' scope 3, including emissions from the entire value chain.
- **Very technical subject:** requiring support from experts.
- **Changing regulatory environment:** need to continuously adapt to new regulations.
- **Stakeholder expectations:** meeting the expectations of customers, employees, investors, etc.
- **Market dynamics and competitive pressure:** managing challenges related to market trends.
- **Financial implications:** balancing the costs of decarbonisation with the potential long-term benefits.

CASE STUDY

SOLUTIONS - Adopting a transparent approach in the financing of innovative companies that contribute to the preservation of marine ecosystems - Venture capital management company with €1 billion assets under management

OBJECTIVE

Establish a transparent approach towards all stakeholders for a fund dedicated to the blue economy, classified Article 9 SFDR.

DESCRIPTION

The transparency approach actively involving all stakeholders on sustainability involves:

1/ Establishment of a clear governance structure that facilitates the monitoring of sustainability objectives.

2/ Alignment of measurement methods between co-investors allowing for more efficient monitoring of progress.

3/ Provision of external expertise that strengthens the capacity for project evaluation and monitoring.

- **Establishment of a dedicated advisory committee composed of independent experts and Limited Partners which aims to:**
  - Validate companies' sustainability action plans (including KPIs and targets). These indicators must demonstrate the positive impact of the company on at least one of the planetary boundaries.
  - Monitor roadmaps and validate the performance of holdings (including the achievement of the objectives that must be achieved to unlock the ESG-indexed carried interest).
- **Collaboration with the Co-Investors:**
  - Work with co-investors for the joint development of sustainability KPIs. This alignment of interests allows for consistent monitoring of progress. The indicators are reviewed annually at the Board of Directors, which allows strategies to be adjusted if necessary.

→ **External expertise:**

  → To accelerate the development of the fund, the management company has entered into an exclusive partnership with the world's largest network of the marine economy, bringing together more than 3500 members (governments, associations, industrialists, academic institutions, SMEs and mid-caps). This collaboration provides access to a network of specialized experts who provide their technical expertise in project evaluation and support for portfolio companies.

RESULTS

In terms of Governance :

→ A better understanding of the issues by all stakeholders.

→ Regular and documented monitoring of progress.

On the Operational level :

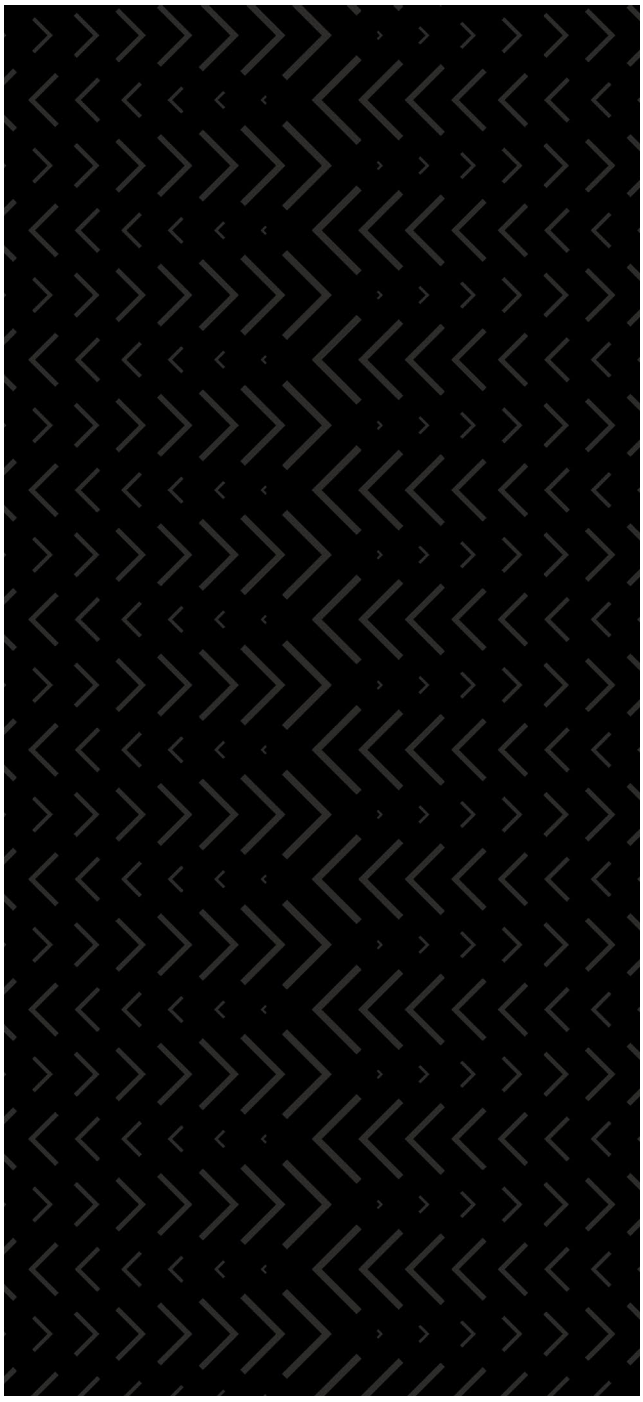
→ Standardization of measurement methods between different investments.

→ More accurate reporting on environmental impacts.

→ Increased capacity to identify and manage risks related to the ecological transition.

CHALLENGES

Finding relevant data sources to assess the positive impact of investments can be difficult, especially when it comes to financing solutions that help decarbonise. The lack of universal standards and clear consensus on avoided emissions makes it difficult to compare investments and to aggregate at portfolio level.



5.

Have a long-term approach to create value through decarbonisation

Investor clients are pushing for decarbonisation. At the same time, their expectations for financial performance remain high. This requires that decarbonisation strategies create value. The good news is that 70% of investment players think this is the case! (source: Global Private Equity Responsible Investment Survey 2023 - pwc.com). However, the challenge is that of time.
The low-carbon transition is a decades-long affair, targeting 2050, with key milestones in 2030 and 2040, and significant short-term investment needs. The resulting J-curve for both solutions and assets in transition may be acceptable in the short term as long as the approach incorporates the long term via:

- More "patient" funds, with holding periods beyond the usual 5 to 10 years and an innovative "return-risk-impact" profile.

- Investment decisions and transformation of portfolio companies considering a horizon of two or even three holding cycles (10 to 15 years), as future buyers will also assess their liquidity accordingly.

- Divestment decisions that take into account the need for continuity in the transition approach by future investors.

As far as temporality is concerned, it must also be acknowledged that some solutions or transitions do not attract funding because they are still too early - solutions have not yet been scaled up or the transition is still too risky. In this case, we must admit that there is more destruction than value creation at the moment.

TRANSITION

With a transition strategy, this long-term approach is all the more justified as the interdependence between extra-financial and financial performance is increasingly demonstrated:

- Improved business outcomes through energy efficiency.

- Strengthened business and operational results through carbon competitiveness compared to peers, in terms of the carbon intensity of products and services and in the company's ability to value its decarbonisation efforts.

- Improvement of CSR competitiveness, strengthening the employer brand and differentiation in calls for tenders.

- In some cases, increased valuations of carbon-competitive companies, attractive to markets seeking assets in transition.

CASE STUDY

TRANSITION - Supporting a leader in low-carbon B2B premium logistics services over several years - Private equity, real estate and infrastructure management company with €1 billion assets under management (real estate, private equity, infrastructure)

OBJECTIVE

Promote low-carbon value-added logistics services to B2B customers and financial players.

DESCRIPTION

For the road freight sector, the challenge of the climate transition is twice complex: it involves reducing greenhouse gas emissions while meeting a rapidly growing demand.

This transition will be achieved by significantly shifting current practices, which are highly dependent on fossil fuels. In this sense, it requires a long-term vision, significant investments from companies and states to enable the transition to electric technologies and alternative fuels, as well as for the implementation of big data solutions to rationalize travel. The management company has been supporting this transition since 2017 for a low-carbon B2B logistics player, with a reinvestment in 2021.

RESULTS

For this participation, decarbonisation drove value creation through:

- Revenue and EBITDA (price power) growth linked to an ability to value a «decarbonising» value proposition for customers and prospects.

- A reduction in costs caused by an optimisation of the use of resources and a reduction in the purchase of consumables (100% reusable packaging).

- An anticipated multi-year fleet transition to avoid regulatory pressures (costs, service interruptions, etc.) related to low emission zones and the Renewable Energy Act.

- A more advantageous cost of capital, through the implementation of ESG criteria to reduce the interest rates on financing.

- An avant-garde positioning and a reputation associated with a "decarbonising" value proposition, making the group attractive to an industrial buyer or an impact fund.

CHALLENGES

The company's transition to greener practices requires significant long-term investments that need to be passed on to end customers. It is therefore important to involve them in the process so that they can perceive the added value of such investments.

CASE STUDY

SOLUTIONS - Creating a fund on critical metals over an industrial time horizon – Asset Management specialising in infrastructure, tech, critical metals and real estate, with €10 billion assets under management (infrastructure, real estate).

OBJECTIVE

Deploy the first private fund in the European Union dedicated to the strategic sector of critical metals.

DESCRIPTION

Critical metals are essential to the energy transition and electrification to realistically develop a low-carbon economy in the long term. To meet the demand for critical metals in the next ten years, investments are estimated at 50 to 60 billion euros.

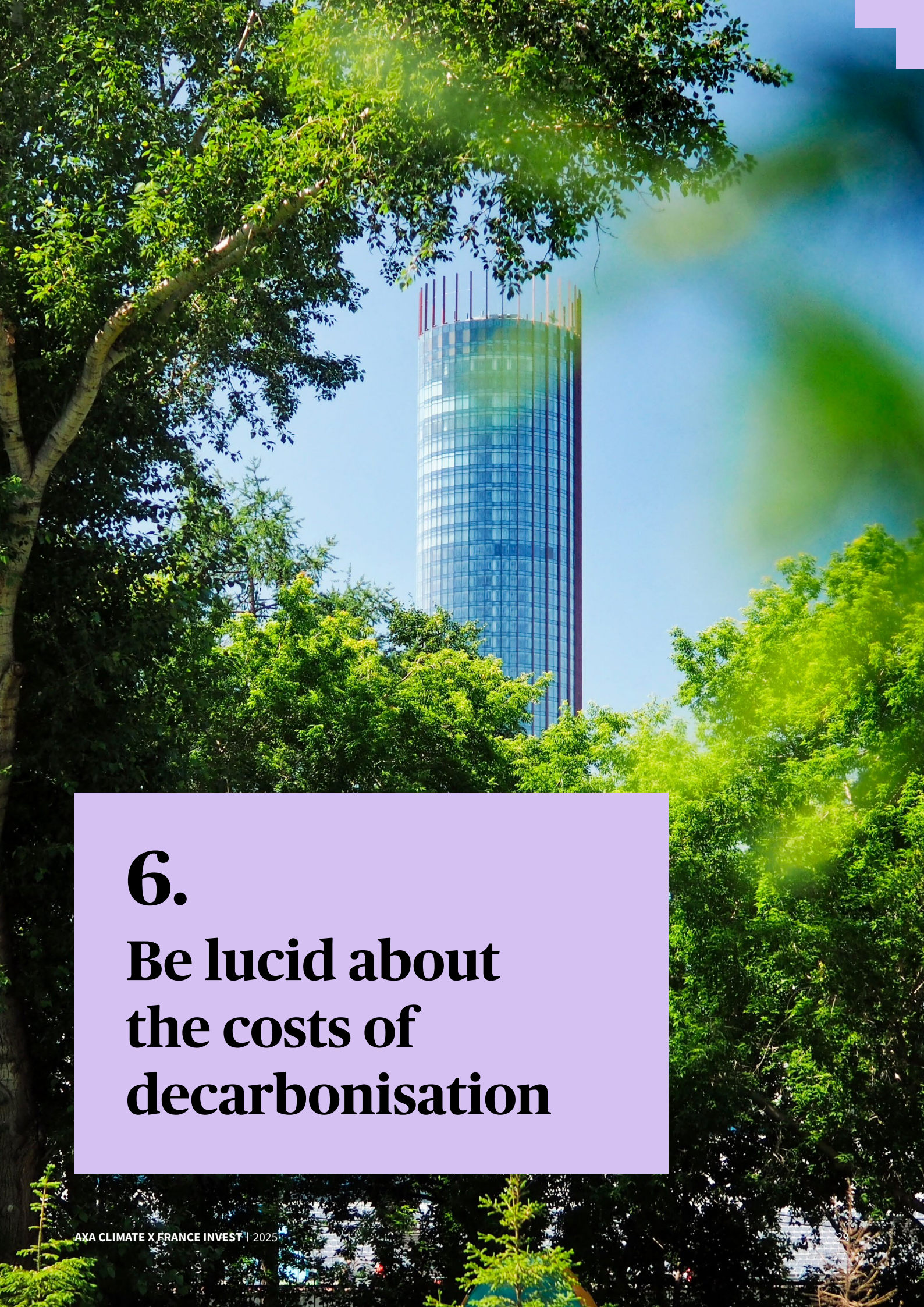
With an initial maturity of 25 years, the fund is geared towards long-term objectives in line with an industrial period. The long and complex timeframe to set up new metal production requires significant planning in advance (a long-term vision) and huge amounts of capital. Adopting a long-term investment stance also mitigates exposure to commodity price fluctuations, as supply and demand always oscillate in an imbalance.

RESULTS

With a strong and progressive profitability objective, this €2 billion fund will count the French State among its main contributors, which will provide €500 million.
The fund's strategy covers 34 critical metals listed by the European Union. In particular, lithium, nickel, cobalt, which is found in electric car batteries, copper, which is essential for circulating energy, aluminium, used in cables, graphite and rare earths, which are used in the manufacture of motors and anodes, manganese, etc.
The investment opportunities are located throughout the value chain. The fund will therefore take minority stakes in mines, refining, processing and recycling infrastructure.

CHALLENGES

With this fund, the French government is leading the way, testing the model. The asset management company is counting on the support of Europe, with its legislation on critical raw materials that puts the topic of metals at the top of the European agenda in order to ensure the energy and digital transition for the coming decades.



6.
Be lucid about the costs of decarbonisation

TRANSITION

In the short term, decarbonisation involves costs and investments for companies. The table below offers a simplified mapping of such costs.

Perceived risk level →

	OPEX (to transform)	CAPEX (to decarbonize operations)	CAPEX (to innovate / R&D)	CAPEX (to scale low carbon activities)	OPEX (to promote decarbonization initiatives)
	Purchase of renewable energies and less carbon-intensive materials, training, recruitment of talents	Electrification of industrial processes, energy efficiency, integration of new technologies	Research and development (new product / services), substitution of processes or value chains, digitalization of processes, artificial intelligence	External growth, organic growth in new, untapped markets	Audit and reporting, data collection, marketing related to the promotion of sustainable offerings
TIMEFRAME	**Short term** 1 to 3 years	**Medium term** 2 to 5 years	**Medium / Long term** 2 to 7 years, depending on how policies / technologies evolve	**Medium / Long term** 2 to 7 years, depending on how policies / technologies evolve	**Short term** 1 to 3 years
FINANCIAL BARRIERS	**Low / Medium** Challenges in terms of shareholders' support to approve budgets; and of transferring costs to customers	**Medium / High, depending on the activities** Financing barriers exist, but the ROI demonstration is often straightforward, and subsidies are available	**High** Particularly in the case of technological / industrial innovations	**Low** Particularly in the case of acquisitions of highly innovative or still unprofitable companies	**Low** Challenges in terms of shareholders' support to approve budgets
IMPACT ON EBITDA	**Direct, moderate**	**Direct, significant**	**Direct, significant**	**Variable** depending on the type of development, but can be major in the case of acquiring highly innovative targets	**Direct, moderate**
IMPACT ON THE DEBT LEVEL	N/A	**Variable** depending on the financing strategy, **potentially significant**	**Variable** depending on the financing strategy, **potentially significant**	**Variable** depending on the financing strategy, **potentially significant**	N/A

To cover these costs, companies must justify a return on investment (ROI). This ROI is almost guaranteed for the quick gains linked to transition OPEX and the valuation of efforts, and sometimes for the CAPEX of decarbonisation of operations. Equity and climate performance linked loans (SLL) can contribute to this type of financing.
For innovative measures, betting on a low-carbon future is necessary because the ROI is difficult to anticipate. New approaches are therefore essential.
Asset management companies have a role to play:

- Create funds dedicated to the transition and decarbonisation, with governance that includes the financing of decarbonisation plans.

- Establish agreements between LPs and management companies reflecting flexibility and a long-term vision to allocate part of the capital gain to decarbonisation actions.

- Financially valuing climate transition efforts, particularly for SLLs and company valuations.

Asset management companies should also help companies mobilize broader financing, including:

- Public subsidies covering industrial decarbonisation CAPEX and measurement-related OPEX (studies, carbon assessments), through programmes such as the industrial decarbonisation programme and aid from Bpifrance and Ademe in France, as well as the InvestEU fund at the European Union level. A recent guide from France Invest about decarbonisation financing mechanisms can help navigate such programmes. (Source : France Invest)

- Financing by large contracting companies, encouraged to act on their value chain by the European CSRD and CS3D regulations.

- Systemic or collaborative initiatives within the production sectors to promote decarbonisation actions.

CASE STUDY

TRANSITION - Energy and climate strategy of a biotech company - Private equity management company with €1.4 billion assets under management (private equity).

OBJECTIVE

Optimize energy efficiency and reduce the carbon and societal footprint of a biotech company.

DESCRIPTION

In 2018, the asset management company invested in a company that specializes in the extraction of amino acids from poultry feathers, mainly for pet nutrition, the pharmaceutical industry and the production of biostimulants for sustainable agriculture.
As the industrial process of producing amino acids requires significant gas and electricity consumption (several tens of GWh per year), the investor and the company decided in 2021 to implement an action plan to reduce energy consumption and carbon emissions.

They focused on two main projects.

- **Energy efficiency**

  Measure: carrying out an energy audit at the beginning of 2022 with the gradual installation of 140 new meters (electricity, steam, water).

  Improve performance: repair of steam and air system leaks, trap audits, replacement of energy-consuming equipment.

  Limiting losses and recovering energy: insulating key infrastructure points and recovering condensate.

- **Biomethane project:** they studied a biomethane production project to replace nearly half of the natural gas needs.. This project consisted in injecting biomethane into the distribution network and offering significant synergies with existing operations, including heat recovery and wastewater management.

Given the strategic challenges for the group, the company has hired an Energy Manager whose role is to initiate and manage all projects related to the reduction of energy consumption and the optimization of industrial processes.

RESULTS AND CHALLENGES

Between 2021 and 2023, the company managed to reduce its energy consumption by 10%. The optimization of industrial processes and the improvement of energy efficiency improved both the environmental and economic performance of the company. However, the biomethane production project, despite its potential, was set aside due to costs that remain much higher than traditional offers. The company nevertheless remains in line with its objective of reducing its gas and electricity consumption by 30% by 2027 (vs. 2021).

7.

Test an internal carbon price without waiting for new company valuation methods

TRANSITION

In 5 to 10 years' time, it is a safe bet that a carbon-intensive asset without a transition plan and trajectory will see its value diminished. This will be good news because the business case for decarbonisation will materialize.
In the meantime, management companies must move forward and go beyond the current extra-financial approach, which does not lead to a significant change in investor behaviour. Instruments are needed to:

- Anticipate external price changes via a scenario analysis, embodied by regulated allowance trading systems (EU ETS in particular) or carbon taxes, which corresponds to a transition risk and a direct proxy for the potential exposure of the assets in the portfolio.

- Promote decarbonisation initiatives for portfolio companies by finding a tangible ROI, integrating all the real – monetized – impacts of these initiatives. Including the price of emissions, whether they are directly or indirectly subject to a regulated market or a carbon tax.

When considering only the regulatory pricing of emissions, according to the 2024 edition of the World Bank's "State and Trends of Carbon Pricing" report, revenues from carbon pricing exceeded the $100 billion mark in 2023, but only 1% of these emissions are are priced at a level aligned with the ambitions of the Paris Agreement.
The question of the price level therefore arises very concretely. There is no "one-size-fits-all" carbon price. To induce a change in behaviour, the price must be sufficiently incentivising. This amount is around $40 to $80/tCO2e according to I4CE and Institut Montaigne.
A serious commitment to reducing emissions is expected to lead to a substantial increase in the carbon price. According to the latest projections by the Network for Greening the Financial System (NGFS), in the Net Zero 2050 scenario, the unit price of a tonne of CO2 is estimated to be more than $100/tCO2 in 2030, close to $500/tCO2 in 2040, and then well above the $1000/tCO2 mark in 2050.

...And so, concretely?

The carbon price is a very powerful tool for estimating and monetising the risks that the low-carbon transition poses to an investment portfolio.
To anticipate and manage the transition, private market funds can set up an internal carbon price at the scope 1, 2 and 3 level of their investees.

This carbon price allows the company and its investor to:

- Internalize and quantify the impact of a regulatory carbon price, whether through regulated allowance trading systems or carbon taxes.

- Steer investments in decarbonisation initiatives and the development of climate solutions, which will thus be monetised at the right price – by integrating the carbon externality.

An internal price on scope 3 emissions also enables to anticipate the costs passed on to the company's value chain.
Finally, it is recommended to adopt a collective approach to this internal carbon price. First, by sharing learnings with client investors' and peers. And in the medium term, by initiating a project to design a valuation approach aligned with the low-carbon transition (for example within France Invest by associating statutory auditors, and within the framework of the iCI).

CASE STUDY

TRANSITION - Internal carbon pricing scenarios into internal mezzanine debt rating and pricing models - Private equity management company with more than €3.5 billion assets under management (private equity).

OBJECTIVE

Assess the impact of climate transition risks on companies' credit quality within a mezzanine fund.

DESCRIPTION

The fund bases its climate strategy on i) an assessment of climate transition risks through the integration of a carbon price based on a proprietary rating and pricing model; and ii) on-the-ground operational support to portfolio companies for the definition and implementation of the decarbonisation plan.

The decarbonisation plan is the cornerstone of the fund's risk mitigation strategy: by committing to an ambitious trajectory, a company reduces the impact of transition risk on its credit risk and valuation.

To encourage the achievement of the objectives of the decarbonisation plan, the fund's team implements a ratchet climate margin mechanism in each of its operations, consisting of the annual adjustment (upwards or downwards) of mezzanine pricing according to the actual efforts to reduce the carbon intensity of the activity.

To size this incentive mechanism and calibrate the operational support for decarbonisation, the team defined a 6-step process:

1/ Estimation of the company's carbon footprint, if necessary via sector proxy in the absence of a recent carbon footprint.

2/ Use of carbon price trajectories reported by the Network for Greening the Financial System (NGFS).

3/ Estimation of the carbon cost carry-through coefficient or "pass through" corresponding to the transfer of the cost of carbon on the downstream value chain, estimated as a function of the price elasticity of each company.

4/ Calculation of the adjusted rating of the carbon transition risk.

5/ Calibration of the adjusted pricing of the carbon transition risk, the carbon margin grid and the carbon covenants.

6/ Realization of the carbon footprint and definition of the decarbonisation plan (if applicable) reinforced by operational support for decarbonisation led by the Chief Climate Officer of the asset management company.

The carbon cost estimate is calculated as the product of (i) the simulated turnover, (ii) the carbon price, (iii) the carbon intensity, and (iv) the carry-over rate. It has a direct impact on the company's annual expenses and therefore its cash flow. At the maturity horizon of the mezzanine, the impact on EBITDA can be analysed either as a decrease in enterprise value or as an increase in debt through carbon debt; in all cases as a decrease in the value of the securities (including mezzanine).

RÉSULTATS

The use of a proxy to estimate the cost of climate transition risks strengthened the fund's analysis models and understanding of the value creation issues related to decarbonisation. The integration of internal carbon pricing scenarios into internal models also embeds the climate strategy into the fund team's daily operations and facilitates discussions with management teams about investment opportunities.

CHALLENGES

In most cases, investee companies do not have a reliable estimate of their carbon footprint, and the investment memorandum does not outline the main GHG emission drivers. Without precise and stable sectoral databases, estimating the carbon footprint within a timeframe aligned with the financial transaction poses a significant challenge for the asset management team. Engaging experts is crucial.

Appendix

Comparison of standards, frameworks and market tools on decarbonisation

	Science-Based Targets Initiative for PE	Net Zero Transition Plan NZTP	Net Zero Asset Owner Alliance NZAOA	Net Zero Asset Manager Initiative NZAMI	Net Zero Investment Framework NZIF	Assessing Low Carbon Transition ACT (DRAFT)	Carbon Risk Real Estate Monitor CRREM	ICi PMDR
Specific guidance to PE	X				X	X		X
Mapping out 1.5°C pathways	X	X	X	X	X	X	X	
Provides a methodology for net targets	X		X		X	X	X	
Setting both near-term and long-term portfolio targets	X	X	X	X	X	X		X
Financing transition to Low Carbon (shift in activities) / Managed phase out		X	X		X	X		X
Intensity / intensity calculation (type of metric)	X	X	X	X	X		X	NEW
Consideration of Avoided Emissions			Can be used to measure the impact					

Final word

In a context where ESG approaches are being questioned, we see decarbonisation as a key lever for corporate resilience, making companies fit for a future in which limited resource use will represent a clear competitive advantage.

For asset managers, actively supporting this transition with clarity and transparency means not only strengthening long-term performance but also contributing to the very sustainability of our economies.
Decarbonisation is an opportunity—let's turn it into a shared advantage.

See you soon!


AXA Climate
initiative climat international
Private markets action on climate change
FRANCE INVEST