KEYNOTE INTERVIEW

Developing a green niche

Investors are embracing green solutions in areas ranging from farming to fintech, but early movers with deep domain expertise will have an advantage, says Golding Capital Partners' head of impact, Dr Andreas Nilsson

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Q What opportunities are there to invest in green solutions in Europe and North America?

The shift to a more carbon neutral world is already well underway, with significant implications for investors in capital markets. That trend will intensify as we continue to see natural catastrophes leading to refugee crises and other challenges across the world. With that will come increasing societal pressure on all stakeholders to act, including investors. Regulation will also continue to tighten. That means that, for investors today, the old allocation strategies are no longer sufficient and there is a defensive argument to act on green solutions.

On the other hand, there are opportunities to invest in areas that address these green, sustainability issues and generate attractive returns. Most of the opportunities we see in Europe and North America relate to new business models, new solutions and new technologies, as opposed to simply investing in mature companies and supporting their shift towards becoming more sustainable. We are looking for the technologies that will enable this shift and accelerate the path to a sustainable future.

Most of these new solutions involve cutting-edge technology being developed in the US and Europe, and that is where we see several angles. First, within energy transition there are technologies for more efficient and cleaner energy generation, grid and energy storage, and transportation and mobility solutions.

Another area is the circular economy, which is about reducing waste and finding business models that are not based on using materials for a short period of time but rather reusing or repurposing them. We see strong traction in that market.

A third opportunity is sustainable agriculture, where we need to change how we produce our food in developed markets, because it is currently based on large-scale farming and using vast amounts of pesticides and fertilisers that are detrimental to the soil, water, air and animal life. This is a technology problem again, around creating novel foods and developing more sustainable inputs and farming practices.

There is a lot of capital flowing into all these sectors, but one needs to be knowledgeable about them to invest, because valuations can be an issue in developed economies in particular.

Q Where are the opportunities in emerging markets?

The problems are similar in emerging markets, but the solutions are different. When you look at energy transition in emerging markets, for example, the focus is on access to energy, as well as making that energy sustainable from the start.

The solutions in energy generation are different because solutions such as off-grid solar are more cost-effective in regions like Africa, and they have the potential to open up whole new markets for things like solar systems for homes, commercial and industrial use, as well as mini grids with decentralised electricity generation. There, you can solve two problems in one go – creating social sustainability by helping underserved people get access to electricity and doing so with environmentally-friendly sources. That is both impactful and highly attractive, so we see multinationals investing in that space across regions.

> *"Most of these new solutions involve cutting-edge technology"*

Another area is food and agriculture. The focus here is on making farming more resilient, because farming in emerging markets is threatened by climate change and is massively exposed to droughts, heatwaves and other impacts.

Also, many farmers are less efficient, being smallholders with less investment in production processes. Helping them to not only improve their methods with new technologies but also setting them on course for more sustainable farming opens a huge opportunity. That is about making existing digital farming technologies affordable and accessible. It can be difficult to reach the 130 million farmers in India, but if you can reach them in the right way, it makes a huge impact.

Finally, there are fintech solutions, which can be the most impactful opportunities of all in emerging markets. A high proportion of people are under-banked or underserved, typically because they lack the necessary paperwork for a bank to take them on and it is too costly for the banks to build branches across these markets. That means digital solutions like mobile banking help a lot, because they are cheap and quickly enable people to transfer money, get paid digitally, reduce the risk of corruption and access insurance and credit for the first time.

Again, the financial services sector helps on two levels, because not only does it provide capital but in so doing it also unlocks the doors to other solutions, such as the farming technologies already mentioned.

Q What are the key differences for impact investors between emerging and developed markets, and what characteristics do they share?

The technologies are often developed in mature economies and adapted to meet the affordability requirements of emerging markets, so it is really the price points that vary. Sometimes that affects the type of products that can be rolled out, but it also creates opportunity. On the other hand, competition and valuations are a challenge in developed markets, but less so in developing economies.

What the two have in common is that all those sectors that I mentioned are in themselves very attractive niches and require deep domain expertise for successful investing. Being a generalist does not provide the necessary level of detail and understanding.

The other characteristic they share is that all the technology markets are fairly new but already vibrant, with private equity investors active in each of them. All those sectors have track records where you can see investments have been made and investors have exited well, which is important.

Q What kind of activity and competitive pressures do you expect to see in impact going forward?

There will be a steady stream of investor interest in all these sectors. Demand will increase over time – not overnight – to the point where many more investors see opportunities and there are more active funds. The most successful investors will be those that started early and built a track record and a certain niche, and those will be the ones that LPs seek out.

We can already see that happening in North America, where there are such high valuations, as more money continues to flow into the best-positioned funds and they continue to get access to the best investment opportunities. Those that are already active and have a clear understanding of what they want to invest in will be the winners; this is certainly not a market to wait and see, because the longer you wait, the more difficult it will become to enter. ■