



# Investing in our environment through private markets

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We live in a rich environment, one bountiful in natural resources and awe-inspiring beauty. And there are even plentiful investment opportunities that can help preserve planetary riches while growing the long-term value of investors' portfolios.

Innovative environmental investment opportunities have emerged across multiple subthemes, including reducing greenhouse-gas emissions and controlling pollution, as well as promoting the circular economy, sustainable consumption and clean technology.

## Accessing the environmental innovation opportunity

Because many of the solutions required to solve today's environmental problems mean rethinking current processes, innovators are often starting with a blank sheet of paper. While this has many advantages, it also means much more investment is needed than for other types of innovation before an idea achieves scale. For example, to step up the replacement of petrol- and diesel-run cars, it is not enough to perfect electric motors; one also has to build a network of readily available charging stations, re-train maintenance technicians, etc.

In other words, for a single idea to take off can mean having to innovate simultaneously in different directions. The most highly innovative companies tend to be relatively young and privately held, meaning the best way for investors to access them is through private-asset markets. Since it typically requires committing capital for longer time periods, private-asset investing is a natural fit for investors willing to accept the longer timelines often associated with making revolutionary change.

## We are at the crossroads of several megatrends

The momentum for environmental action has been building on several levels, including legislation and investment regulations.

Climate change is now a key priority among policy makers and business leaders. As of today, 2,671 climate laws and policies have been enacted around the world<sup>1</sup>, while companies with a collective market capitalisation of USD38 trn at end-2021, one third of the world total, have committed to cut their carbon emissions in line with strict climate goals<sup>2</sup>.

Also at end-2021, the Net Zero Asset Managers Initiative, which commits signatories to supporting the goal of achieving net zero greenhouse gas emissions by 2050, represented USD57.5 trn in assets under management<sup>3</sup>. Such commitments suggest that public policy makers, big business and capital allocators have all joined the movement to limit climate change in a meaningful way.

New environmental solutions proliferate. Although many require an extra shot of capital investment to reach scalability, there have been a number of success stories. The past few years have seen a surge in the number of companies focused on environmental innovation, including 46 climate-tech 'unicorns' (privately-held start-up companies valued at over USD1 bn<sup>4</sup>). While largely focused on energy, agriculture and transport, one also finds companies engaged in areas such as sustainable packaging and carbon measurement.

Finally, there is growing public demand for climate action, expressed both in the polling booth and at the check-out.

In the US, President Biden was elected on a strong climate platform in 2020, when an astonishing 52% of Americans polled said protecting the environment should be a top government priority. Australian voters elected a pro-climate prime minister, Anthony Albanese, as well as a host of Greens and pro-climate independents in federal elections in May this year. And in Brazil, the newly elected president, Lula da Silva, has pledged to meet the goal of "net zero deforestation". Consumers, particularly Millennials and members of Gen Z, increasingly demand for brands that promote sustainability and the circular economy, putting pressure on retailers to respond accordingly.

The transformation to a more environmentally friendly and sustainable future will create new sectors and jobs even as it replaces old ones and will yield a multitude of investment opportunities in the process.

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<sup>1</sup> Source: Grantham Research Institute on Climate Change and the Environment

<sup>2</sup> Source: SBTi, 2022

<sup>3</sup> Source: Net Zero Asset Managers, 2022

<sup>4</sup> Source: HolonIQ, 2022