Just Climate Takes a New Approach to Green Investing: BNEF Q&A

October 28, 2021

'Just Climate' is a new investment business launched by Al Gore's Generation Investment Management. It aims to cap global warming to 1.5 degrees Celsius above pre-industrial levels by focusing on hard-to-abate sectors, such as heavy transport and industry.

"We are looking for catalytic investments, so we won't be investing in regular solar and wind because there is lots of low-cost capital coming in to invest there," says Shaun Kingsbury, chief investment officer of Just Climate and former chief executive officer of the U.K. Green Investment Bank. "We want to look at the hard-to-abate or hard-to-decarbonize areas – those areas that have a disproportionate contribution to carbon emissions but are seeing much less capital investment."

Just Climate's initial pool of capital has attracted some heavyweight backers, including Microsoft's $1 billion Climate Innovation Fund, the entity that oversees Harvard University's endowment, and Ireland's sovereign wealth fund. The amount of capital raised has not been disclosed.

The market for climate and sustainability-related investment vehicles is expanding rapidly. Net inflows into ESG ETFs [environmental, social and governance exchange traded funds] are closing in on $94 billion so far this year. "We are really pleased that all that other capital is flowing," says Kingsbury. "We need lots of money to flow into this space. But it is not sufficient, nor does it always flow into areas which are the most impactful."

Kingsbury says that Just Climate will turn the traditional investment process "on its head", by considering climate impact first, before financial returns. The approach will be to focus on technologies that are currently dismissed as too capital-intensive, unproven at scale, or in challenging geographies, across the sectors of energy, transport, industry, and buildings.

Shaun Kingsbury is the chief investment officer of Just Climate and former chief executive officer of the U.K. Green Investment Bank.

In the following interview, Kingsbury discusses Just Climate's distinctive investment mandate, the type of opportunities it will pursue, and the balance of responsibility between governments, institutional capital, and industry.

Q: A lot of capital has been flowing into ESG, climate and sustainability-related investments and many investment vehicles have been established to capitalize on this growing appetite. What makes Just Climate different?

A: We are really pleased that all that other capital is flowing. We need lots of money to flow into this space. But it is not sufficient, nor does it always flow into areas which are the most impactful. It is doing good, and it needs to scale up and continue, but we really want to turn that approach to investing on its head.

We have reversed the investment process to start with climate first. We start with where the money needs to flow – what are the climate challenges, what needs to be decarbonized to get on a path for 1.5 degrees, and then how will we put money to work in those areas? We start with the climate, and then we look for the appropriate risk-adjusted return for the risks we are taking. We think of that as climate-led investing, rather than financially led investing with an ESG flavor.

Q: You plan to focus on hard-to-abate sectors and geographies. Are there any particular sectors and any technologies directed at those areas that have caught your eye?

A: We are looking for catalytic investments, so we won't be investing in regular solar and wind because there is lots of low-cost capital coming in to invest there. We want to look at the hard-to-abate or hard-to-decarbonize areas – those areas which have a disproportionate contribution to carbon emissions but are seeing much less capital investment.

There are four areas we are really focused on. The first is decarbonizing energy. So, we will be looking at second-generation biofuels, synthetic fuels, hydrogen, floating offshore wind – those types of things. We will look at transport and mobility, but again, we probably won't be spending a lot of time thinking about EVs [electric vehicles] and charging networks because there is lots of capital flowing into that area. We will want to look at aviation, marine, HGV [heavy goods vehicle] trucking – those areas which produce disproportionate amounts of carbon emissions but have not seen much capital.

We will also look at industry. Clearly, the two biggest areas where we see emissions growing is from the production of concrete and the production of steel, but there are other areas like plastics. Finally, we will look at buildings – both new building materials which you can use to change the way we produce buildings with a lower carbon footprint, and the retrofitting of existing building stock that needs significant work.

So hard-to-abate, asset-heavy areas where much less capital is flowing.

Q: Are there any particular countries and regions that are you looking at?

A: For our initial look at those four areas, we expect to find more opportunities in OECD countries. So, for our initial series of investments, we would expect more of those to come in North America and in Europe. But we are able to invest all over the world. As we think about other things that we may do in the future, around nature-based solutions, for example, they may be in more developing areas as you think through how to protect forests, and how you look at sustainable agriculture.

Q: There has been a lot of discussion in the run-up to COP26 about climate financing and the climate financing gap. How attractive are emerging economies for your investment mandate?

A: I was at the BNEF London Summit last week, and we heard lots of people talking about the climate finance gap. But more importantly, there is a climate impact gap. If we put all of the money into the same things, we will make much less progress on those hard-to-abate and hard-to-decarbonize areas. So, you are right to point out the climate finance gap, but I would also like to also add the climate impact gap, which is why we are turning the investment process on its head.

When you look at emerging markets, there is a need for some of that capital to flow into some of these harder-to-abate areas. But there is also a need there for capital to flow into the areas where we see much more capital flows in the OECD – so, wind, solar, energy storage and offshore wind, where we have seen much less opportunity to invest.

But all of this will need to come over time. We are starting with where the emissions are happening first. For the moment, those four areas in developed nations are the areas we see producing the most carbon emissions, which are not being abated yet at sufficient scale. As you know, we have got to cut these in half by 2030. So, we want to focus on those areas so that we can start to show that we can scale up finance. More important than closing the finance gap is closing that impact gap.

Q: Will your investments be largely focused on the private sector? For example, if a big listed company were to turn its attention to developing a solution for a hard-to-abate sector, would that draw your interest?

A: It will be both. We will have two styles of investing. We will invest in companies, where those companies are playing a leading role and need capital to really scale their climate solutions, and we can invest in projects. We will have long-dated, flexible capital, and that is the type of capital I had when I ran the Green Investment Bank. It is hugely useful, because you can start with where's the opportunity, where's the need, and then you can structure the capital and financing solution, around what is needed.

If you raise money in a very tight box that has to hit a certain return, or can only invest in companies or levered projects, you just automatically exclude a whole bunch of areas that need capital. So, as we think about the capital we have at Just Climate, it is long-dated and flexible, allowing us to invest in companies and projects, to do equity, company equity, infrastructure equity, and even infrastructure debt, and to scale those solutions to really match the climate impact that we need.

Q: When do you plan to make your first investment and what sort of time horizon are you looking at to generate returns?

A: We would expect to make our first investment in the first half of next year. In terms of the horizons over which we look, we are really focused on that period between now and 2030. Why? Because that is critical. There is a concept of the time value of carbon – the sooner you can reduce those emissions, the more value you have to stop that building up in the atmosphere. So, we have a real sense of urgency to move quickly, and we are prioritizing those climate solutions that can make a significant contribution before the end of the decade.

Q: You have some heavyweight strategic partners, including the Microsoft Climate Innovation Fund and the manager of Harvard University's Endowment. In terms of attracting partners, did you find there was a lot of appetite for your investment mandate? As you have said, your approach is quite different, looking at the impact of your potential investments before the financial metrics.

A: People are looking for a new way to participate. The general ESG theme has been fantastic. It has worked really well and it is absolutely necessary. But as I said at the beginning, it is not sufficient. People are looking for a deep green solution for ways to really participate.

If we are to succeed in scaling capital, we need to produce a great green impact and a great climate impact, but we also need to produce great risk-adjusted returns. Everything we do will be entirely commercial, there will be no selling of any concessional capital. We will make the appropriate risk-adjusted return for the risks that we take. We are led by where we make climate impact and where that can be the highest. But everything we will do will demonstrate that this is a great place to deploy money for investors so that we can scale, bring in more capital and try and create a new asset class – a climate transition asset class where people who invest in the space, whether alongside us or alongside folks who copy us when we succeed, will be able to say that they have delivered impact and great risk-adjusted returns. That is the key to scaling capital.

Q: In terms of the investments and assets you are looking at, they are likely to be more nascent technologies that are fairly far away from their tipping points. Do you have a cut-off point for when they need to pan out, say five or 10 years?

A: We are trying to be a step ahead of the market, but not so far ahead that these things cannot scale by 2030 to actually have a positive impact. So, we are trying to capture those hard-to-abate, hard-to-decarbonize areas just at, or just before, you hit that tipping point. If there are things that are going to scale in the 2030s or 2040s, that will be too late. We will look at areas that others won't look at, because we are driven, first of all, by our research that talks about where we see the technologies and innovative business models that will deliver these changes. But we are not looking to be so early that it will take many years to develop a technology or see market adoption. If we do that, we just won't be able to have the impact that we aspire to have before the end of the decade.

Q: The launch of Just Climate comes just before COP26. What do you hope will come out of the summit, and when it comes to Just Climate, could and should governments be doing more to tackle these hard-to-abate sectors?

A: I hope that we reach agreements around the contributions that each of the countries are hoping to make. And I hope that we see a real focus on carbon pricing and maybe even carbon taxing that will really make these more innovative, cleaner, greener solutions work more quickly. I think governments need to show leadership over the next couple of weeks and set aside some of the challenges that they all have, especially post-pandemic, to focus on something that we really need to deliver. We are running out of time.

I believe in collaborating together. Private capital has to play a role. There is a role for governments to set the regulations and to support the market processes. But they do not have enough capital. Only private institutional capital has sufficient scale to solve this problem. So, we need to work with governments, but we need to see our responsibility here. Industry needs to really lead on bringing forward these innovations and new technologies. But finance has a key role to play. If we need innovation in industry, we also need innovation in finance. That type of innovation is what we hope to bring with the way we set about thinking about our investment process, how we set about thinking that climate impact comes first, and the way we collaborate with others.

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