

October 2024

INVESTING IN SUSTAINABILITY, TECHNOLOGY AND INNOVATION

A net zero perspective

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In an era defined by climate change, technological breakthroughs and a growing emphasis on corporate responsibility, the convergence of sustainability, technology and innovation has become a focal point for forward-thinking investors. This presents opportunities for those willing to navigate its complexities, offering the potential for both financial returns and a meaningful impact on global challenges. We will explore how the Net Zero Investment Framework is shaping investment strategies and how companies at the forefront of sustainable innovation are not only driving change, but also attracting top talent in an increasingly competitive market.

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Edison and Stakeholderz have partnered to enable companies to raise their profile with investors focused on innovation and sustainability in private markets. For further information on the themes and the companies mentioned in this piece, please contact the contributors from Edison and Stakeholderz.

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Stakeholderz

Stakeholderz is a specialist corporate adviser, supporting early-stage and scale-up ventures with fund-raising and M&A advisory services in the private markets. Headquartered in London and operating internationally, the firm focuses on working with innovative technology-enabled, sustainability-driven businesses that are addressing the challenges of the Sustainable Development Goals. It offers relationship-driven services centred on providing venture builders with a clear path for capital, growth and eventual exit.

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As one of the largest issuer-sponsored research firms, we are known for our bottom-up work on individual stocks. However, our thinking does not stop at the company level. Through our regular dialogue with management teams and investors, we consider the broad themes related to the companies we follow. Edison themes aims to identify the big issues likely to shape company strategy and portfolios in the years ahead.

The convergence trend

Sustainability concerns, technological advancements and innovative business models are reshaping industries across the board. Companies like Pallet Earth exemplify this convergence, having created a sustainable and ecologically friendly smart pallet system that aims to revolutionise the supply chain industry. By focusing on the evolution of legacy pallets, Pallet Earth demonstrates how addressing sustainability challenges can lead to tangible reductions in CO₂ emissions, improved global product traceability and significant cost savings.

Opportunities from the Net Zero Investment Framework

The Paris Aligned Investment Initiative's Net Zero Investment Framework provides a roadmap for investors looking to align their portfolios with global net zero emissions goals. The framework, encompassing governance and strategy, targets and objectives, strategic asset allocation, and asset class alignment, guides investors in making informed decisions that support the transition to a low-carbon economy.

Within this context, companies like Weather Trade Net are emerging as key players. The company's AI-powered platform, which provides climate risk management and reporting tools, directly supports businesses in navigating the new wave of carbon reporting standards. By offering forward-looking capability and global data coverage, Weather Trade Net enables companies to make informed decisions about sustainability strategies, asset management and portfolio diversification over extended time horizons.

The opportunities in this space are vast and varied. From renewable energy and clean transportation to sustainable agriculture and circular economy solutions, investors have a wide array of options to consider. The key lies in identifying technologies and business models that promise financial returns as well as contributing to net zero goals.

Navigating sustainability challenges

Investors are grappling with a range of environmental and social issues that drive investment decisions. Climate-related risks, resource scarcity and changing regulations all play a role in shaping the investment landscape. Companies that proactively address these challenges are likely to be better positioned for long-term success.

Terrafend, with its revolutionary Ambimization® cleaning methodology, is a prime example of how innovation can address sustainability challenges. By replacing traditional toxic solvents with proprietary water-based fluids that are non-toxic, non-carcinogenic and low in volatile organic compounds, Terrafend is helping industries transition to more sustainable practices while maintaining efficiency. This approach mitigates environmental risks and positions the end-user favourably in light of increasingly stringent regulations.

The role of technology and innovation in achieving net zero

Technological innovation is at the heart of the transition to a net zero economy. AI, blockchain, the Internet of Things (IoT) and other emerging technologies are enabling new solutions to longstanding sustainability challenges. Weather Trade Net's use of AI to power its climate risk management platform demonstrates how advanced technologies can be leveraged to provide actionable insights for businesses navigating the complexities of climate change.

Similarly, Pallet Earth's smart pallet system shows how IoT technology can be integrated into traditionally low-tech products to create significant environmental benefits. By enabling better tracking and managing pallets throughout the supply chain it reduces waste and improves efficiency, contributing to a reduction in overall emissions.

Innovation is not limited to product development; it also extends to business models that disrupt traditional industries with sustainable alternatives. Chorus, a business-to-business SaaS provider offering accredited training and software for safety-critical industries, illustrates how innovative approaches to workforce development can support the energy transition. By bridging the gap between e-learning, compliance and competence management, Chorus is helping to upskill the workforce for a more sustainable future.

Access to capital for net zero initiatives

As the importance of sustainability and net zero goals grows, so does the availability of capital for aligned initiatives. Green bonds, sustainability-linked bonds, climate funds and impact investing can all play a crucial role in funding the transition to a low-carbon economy. However, challenges remain, particularly for early-stage companies and those seeking to fund significant transitions in established industries.

Attracting institutional investors to innovative, sustainable companies is often met with a scale challenge – many of the opportunities, while attractive, are too small. This creates a gap in the market where companies are trying to raise £1m to £50m to further their business ambition. New solution providers such as Stakeholderz are looking to provide answers.

Corporate culture, talent acquisition and net zero goals

One often overlooked aspect of the sustainability transition is its impact on corporate culture and talent acquisition. As awareness of climate issues grows, particularly among younger generations, a company's sustainability credentials and net zero commitments are becoming increasingly important factors in attracting and retaining top talent.

Chorus's focus on providing training for the energy transition supports its clients in upskilling their workforces and positions the company as a forward-thinking employer in its own right. With its focus on preparing the workforce for a sustainable future, we think Chorus is likely to appeal to candidates who are looking to make a meaningful impact in their careers.

Similarly, companies like Weather Trade Net, which supports businesses to manage and report on climate risks, are likely to be seen as employers of choice for individuals passionate about addressing climate change. Their work contributes to global sustainability efforts and offers employees the opportunity to be at the cutting edge of climate technology and policy.

Risk and reward considerations in net zero investing

Investing in the net zero transition requires a careful balancing act between financial returns and impact objectives. While the potential rewards are significant, both in terms of financial gains and positive environmental impact, the risks cannot be ignored. Regulatory changes, technological disruptions and shifting consumer preferences all play a role in shaping the risk landscape for sustainability-focused investments.

An example is Terrafned. While its innovative cleaning technology offers clear environmental benefits and aligns well with the move towards a circular economy, the company must navigate the challenges of introducing a new technology to established industries. The potential rewards are high, but so too are the risks associated with market adoption and scaling.

Weather Trade Net, on the other hand, benefits from the increasing regulatory pressure on companies to disclose and manage their climate risks. However, it must continually innovate to stay ahead in a rapidly evolving field, balancing the need for accurate, actionable insights with the pace of technological change.

Scaling for success in a net zero economy

For sustainability-focused startups and scale-ups, the challenge lies not only in developing innovative solutions but in scaling them effectively to maximise impact. This requires a delicate balance of maintaining alignment with net zero goals while navigating the complexities of rapid growth.

Pallet Earth's journey offers insights into this challenge. As the company seeks to revolutionise the global supply chain with its smart pallet system, it must scale its production and distribution while maintaining the sustainability credentials that are core to its value proposition. This includes considerations around materials sourcing, manufacturing processes and end-of-life management for its products.

Chorus faces a different set of scaling challenges. As it expands its offering to support workforce development across multiple safety-critical industries, it must ensure that its platform remains adaptable to diverse regulatory environments and industry-specific needs while maintaining its focus on supporting the energy transition.

Future outlook

As we look to the future of sustainability, technology and innovation investment, several key trends and considerations emerge, shaped by recent global climate discussions and initiatives:

1. A nuanced approach to climate action: as highlighted at New York Climate Week, not every climate action is universally applicable. Investors and companies must develop strategies that consider the unique contexts of different communities, especially those of indigenous peoples and local communities. A nuanced approach will be crucial in ensuring that sustainability initiatives have positive impacts across diverse populations.
2. Combating misinformation: the battle against climate misinformation is evolving. Investors and companies must develop a critical eye for false narratives, particularly those that cast doubt on proven climate solutions. This skill will be essential in making informed investment decisions and in communicating the value of sustainable technologies and practices.
3. Advancements in climate attribution: rapid improvements in climate attribution science are providing real-time insights into the impacts of climate change. This progress offers investors better tools for assessing climate-related risks and opportunities, potentially leading to more targeted and effective investments in resilience and adaptation technologies.
4. Indigenous rights and local community priorities: there is a growing recognition of the need to support indigenous peoples and local communities in climate action. Future investment strategies may increasingly focus on channelling funds directly to these communities and incorporating their traditional knowledge into sustainable solutions. Companies like Whatimpact, a platform which helps corporate and public-sector clients to localise social value delivery, may play an increasing role here.
5. Corporate transparency and courage: companies are being called on to be more transparent about their sustainability journeys, including both successes and challenges. Investors should look for businesses that demonstrate courage in their climate commitments and are willing to share their learnings openly.
6. Profitability of sustainable business models: the Alliance of CEO Climate Leaders has demonstrated that companies can reduce emissions while growing revenues. Investors are likely to increasingly seeking out businesses that can deliver both an environmental impact and financial returns.
7. Emphasis on collaboration: the future of sustainable innovation lies in collaboration rather than competition. Investors should look for companies and technologies that foster partnerships and shared solutions to address climate challenges.

Looking ahead to future climate conferences, we expect these themes to be further developed. Building on the progress made at COP28 in Dubai, which saw unprecedented agreements on transitioning away from fossil fuels and scaling up renewable energy, future UN Climate Change Conferences are likely to focus on:

- accelerating the implementation of existing commitments,
- enhancing climate finance mechanisms, particularly for developing nations,
- further integrating nature-based solutions into climate strategies,
- advancing technologies for carbon removal and storage, and
- strengthening global collaboration on climate adaptation and resilience.

For COP29, set to occur in Baku, Azerbaijan from November 11-22, 2024, key themes will focus climate action, finance, investment and trade, energy, digitalisation and human development.

Notably, there will be significant discussions on climate finance, aiming to set a robust new financial goal that responds both to the needs of developing countries and addressing the complexities of carbon markets under Article 6 of the Paris Agreement.

The discussions will aim at establishing a new collective quantified goal for climate finance (NCQG), updating from the previous \$100 billion target, and ensuring that financial contributions are more aligned with the actual needs of developing countries.

Additionally, there will be a strong emphasis on Article 6, which relates to carbon markets. The goal is to operationalise this article fully, ensuring that carbon markets contribute effectively to climate goals without enabling greenwashing. This involves setting clearer guidelines for the operation of these markets and ensuring transparency and accountability in their implementation.

COP29 is also expected to focus on specific sector commitments, such as advancing adaptation strategies and strengthening commitments across sectors. Such as energy, which continues to be a significant contributor to greenhouse gas emissions. This will involve not only discussions on reducing emissions but also on sustainable development that integrates energy solutions such as green energy zones and hydrogen.

Companies that can effectively integrate sustainability into their core business models, leverage technology to drive efficiency and transparency, and foster a corporate culture that attracts top talent will be well-positioned to thrive.

Conclusion

The convergence of sustainability, technology and innovation presents a compelling opportunity for investors to generate returns while contributing to the global transition to a net zero economy. By leveraging frameworks like the Net Zero Investment Framework and focusing on companies that demonstrate a clear commitment to sustainability and innovation, investors can play a role in accelerating this transition.

Moreover, the importance of corporate culture and talent acquisition in this space cannot be overstated. Companies that align their business models with sustainability goals and foster a culture of innovation are contributing to environmental and social good as well as positioning themselves as employers of choice in an increasingly competitive talent market.

The ability to navigate the complexities of this converging landscape will be key to success for both investors and companies. Companies that can effectively balance financial returns with positive impact, leverage technology to drive sustainable innovation and attract and retain top talent will be best positioned in the net zero economy of the future.

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