mirova
Investing in sustainability

2025 OUTLOOK

PRIVATE ASSETS - JANUARY 2025

Clear Skies Ahead

An affiliate of NATIXIS INVESTMENT MANAGERS

The market for private assets offers attractive investment opportunities at a time when the economy is losing steam and interest rates have recently begun to fall. Investors are increasingly drawn to private assets due to their potential for high returns and effective risk diversification. Additionally, these assets are being leveraged to develop solutions that support the transition towards a more sustainable future. Private assets are still in the process of maturing, backed by significant developments on the regulatory and international fronts.

Energy transition infrastructure

- Still a strong trend towards renewable energies.
- Mergers-acquisitions within the industry have increased sharply.
- Major renewable energy stimulus plans are not under any threat, despite policy changes in the US.

Private Equity

- Recently lower interest rates should encourage divestments and fresh investments in 2025.
- Innovation and technology remain central themes in private equity strategies, particularly TechforGood[1] and technological solutions geared towards the environmental transition.
- Private equity is now more widely available as such investments become more easily accessible to retail investors.

Natural capital

- Control over supply chains is improving.
- A universe bolstered by the international climate and regulatory framework.
- The market for voluntary carbon credits is taking shape and expanding.

1. TechForGood refers to various organisations that are working to address societal issues and that make use of technological innovation for the common good.

Energy transition infrastructure

MARKET PENETRATION ON THE RISE

The renewable energy segment is one of the most promising in the infrastructure market. Mirova boasts strong positions in this segment, with operations and developments extending beyond Europe into Australia, Asia, and Africa. The energy transition not only involves low-carbon electricity generation from wind and solar power plants; it also includes power grids, storage, mobility, hydrogen, charging stations, etc., all of which Mirova considers to be opportunities for investment.

Renewable energies are now no longer merely an option but a fundamental pillar of the world's energy strategy. Their market penetration is on the rise in a reflection of the paradigm shift towards a more environmentally-friendly and sustainable economy. Conditions are ideal for renewable energies as economic operators are equipping themselves with the infrastructure they need to diversify their energy mix or shore up their energy sovereignty.

The market has been rattled on occasion by higher interest rates and higher commodity costs, but this has not undermined the market's depth. Construction delays have posed somewhat of a challenge, but prices have stabilised recently and so visibility has improved and profitability has risen. The market now seems poised to embrace a new phase of growth as it prepares to meet the world's future energy needs.

Another telling sign of the market's momentum in 2024 was the large number of M&A (merger-acquisition) deals that took place. This shows that businesses are keen to consolidate, expand their geographical reach and gain access to new technologies or new markets. For instance, here at Mirova we carried out 229 transactions and committed €500 million in 2024.

SUBTLE DIFFERENCES BETWEEN REGIONS

US

Geopolitics has repercussions for the energy transition infrastructure market. In the US, Donald Trump is renowned for his firmly conservative stand on renewable energies whereas the sector gained a lot of momentum thanks to the support provided under Biden's administration. That said, we do not think the Trump administration will go so far as to discontinue the investment programmes brought in under Biden (such as the IRA[2]), especially as they are benefiting a large number of Republican states.

However, the offshore wind sector might have a rougher ride as the President-elect is opposed to it. A shift back to fossil fuels might also have repercussions for US gas prices, although the effects would not necessarily be felt in the European Union. A trade war with China would affect the prices of components used in the industry and also the prices of solar panels, which China exports on a huge scale.

Asia-Pacific

We continue to invest actively in Australia, where the coal exit timeline is accelerating. The market is also strong in India and South-East Asia, where volumes are massive. But competition in these markets is fierce, with many local banks lending in local currency.

Africa

Africa's population is the fastest growing in the world and is expected to double in size between now and 2050 to over two billion people[3]. If the population's energy needs are to be met, it will be crucial for energy sources to be both cost-efficient and sustainable, not only for the continent's socioeconomic development but also for the purpose of achieving the goals set out in the Paris Agreement.

Blended finance[4] will continue to play a key role here. From an investor's perspective, this type of finance structure creates opportunities for yield while also reducing risk thanks to state support; as far as impact is concerned, meanwhile, blended finance steers resources towards projects that are essential to emerging countries, thereby fostering sustainable development and economic resilience.

A WIDE VARIETY OF ASSETS

The electric mobility market

The combustion engine phase-out is an underlying trend within the mobility market, with major milestones having been set for 2035 and 2050. The transition will not be without its challenges for the sector because it will require car makers to transform their entire production chains and will also involve a period of shrinking vehicle sales. There is therefore a great deal of debate within the automotive ecosystem, and in the political sphere as well; but this will not jeopardise such a major transformation in the medium and long term.

However, the sector has seen the last of the state aid schemes, which has resulted in a slowdown in the adoption of electric vehicles and the development of their supporting infrastructure (such as changing stations).

Green hydrogen

Green hydrogen is a form of hydrogen produced from renewable energy sources in a production process that emits no carbon dioxide (CO2); it is therefore crucial to efforts to decarbonise the economy. Green hydrogen projects have experienced delays, but the recent rise in electricity prices means that green hydrogen again looks like a cost-efficient option. This favourable momentum could lead to renewed interest and investment in green hydrogen. The latter makes use of new technologies and innovative business models and therefore has the potential to become an essential component of tomorrow's sustainable energy landscape. We are confident that we have the capacity to carry out deals in this sector in 2025 and thus take up positions on this long-term trend.

Corporate infrastructure finance gaining momentum

The interest rate hikes experienced up until the summer of 2024 thoroughly transformed the way in which energy projects are financed. Firms in the industry have struggled more to secure financing and have had to change their practices. Given the difficulties they have faced in funding individual projects, they are now raising debt at the holding level, which is paving the way for corporate finance opportunities in the infrastructure segment. This model appeals to investors, and the trend has gained real momentum recently; it is all the more attractive as it enables investors to tap into a company's total return.

Energy infrastructure finance is therefore still a long-term investment theme, although it will not prevent specific trends and therefore investment opportunities from emerging in the meantime.

2.Inflation Reduction Act: a US law adopted in August 2022 aimed at tackling inflation, supporting the energy transition and promoting certain healthcare initiatives.
3.Source: "Green energy in Africa presents significant investment opportunities", McKinsey, 2023.
4.See insert on Blended Finance on page 8.

Private Equity

2024: A MIX OF CAUTION AND RESILIENCE

Financing is back as key interest rates have recently eased, but valuations are still struggling to adjust.

In recent years, investors have entered the private equity market at relatively high multiples. However, investors have questioned such high multiples since 2022, as valuations have fallen, due to sluggish growth in the European Union, liquidity has been scarce, and interest rates have been structurally higher. Unsurprisingly, therefore, many investors opted instead to sit back and wait during most of 2024. There was little deal activity, and it was sometimes challenging to reconcile asking prices with bidding prices.

The situation changed in the third quarter when business activity picked up a little along with a rebound in the EV/EBITDA multiples[5] applied in corporate deals.

PRIVATE EQUITY IN A FEW FIGURES

The **Argos Index**[6] fell from 11.6x EBITDA to **8.9x EBITDA** in the space of 3 years.

It bounced back to **9.5x** in the **3rd quarter of 2024**, with progress observed in both the lower and upper mid-market[7].

5. The EV/EBITDA multiple is a valuation multiple used to determine a company's total value relative to its earnings. EBITDA: earnings before interest, taxes, depreciation and amortisation.
6. The Argos Mid-Market Index® tracks the valuation of unlisted eurozone SMEs. The index was launched in late 2006 by Argos Wityu and Epsilon Research, an online platform for managing unlisted merger-acquisition transactions. It is published quarterly and lists acquisitions of mid-market companies made within the previous three months.
7. Source: Argos.

Growing interest from private investors

Retail investors accounted for 20% of the funds raised in France in the first half of 2024[8]. Private equity does hold significant potential for growth among retail investors (who currently allocate only 5% of their savings to private assets), mostly thanks to lower minimum investment tickets, the emergence of online platforms, and more favourable regulations (e.g. ELTIF2[9] and France's Green Industry Law).

More structurally, unlisted companies account for about 90% of all businesses and over 50% of jobs worldwide[10]. By investing in private equity, an investor is thus gaining exposure to a major component of the economy that contributes to local job creation; additionally, such funds are less volatile than listed market funds and have little correlation with them.

Mirova's positioning in the market

With the value of money now structurally higher, we as shareholders have paid very close attention to the way in which businesses allocate their resources and to their cash burn rates[11], and we have preferred those that practice financial discipline.

We are also generally keeping a close eye on operational excellence, particularly in such constrained conditions; this is especially true of our holdings that have an industrial dimension and are in the scale-up phase[12], which need to be monitored very closely.

We are minority shareholders in most cases and always have at least one seat on the board of directors (or similar governance body). We work as partners with company management teams and with our co-investors, the aim being to help our portfolio companies develop their industrial / technological and commercial activities but also beef up their financial, HR, impact, and ESG structures.

2025: A NEW LEASE OF LIFE?

Following months of hesitation and a build-up of assets earmarked for sale, a new cycle of interest rate cuts is now in progress which should make it easier for divestments and fresh investments to go ahead in 2025.

Of the sectors to follow, we believe that those exposed to the world's major transitions (environmental, societal, etc.) should fare well. These transitions require adaptation and innovation at all levels of society and offer robust growth prospects for the long term.

With 1,239 deals made and $14.6 billion raised during the 3rd quarter of 2024, global financing for climate technologies is on track to overtake the amount raised in 2023, according to Net Zero Insights[13].

TechforGood[14] also has a key role to play in driving these changes. It is an approach that seeks to place sustainable impact at the very heart of economic growth thanks to new technologies and digital tools. It mostly covers the sectors of healthcare, education, new consumer habits, etc.

These are broad themes. As investors, this allows us a great deal of sectoral agility and enables us to take up different types of positions.

We also expect environmental, social, and governance (ESG) criteria to continue gaining prominence in the private equity arena in 2025, as investors are increasingly aware of the risks surrounding ESG issues. Above and beyond the incentivising regulatory framework that is in place, businesses are also beginning to see the first signs of climate change for themselves, and this is encouraging them to take initiatives and to invest in a more responsible manner.

8. Source: France Invest 2024.
9. The ELTIF2 (European Long-Term Investment Fund 2) refers to a revised European Union regulation seeking to promote long-term investment in private assets.
10. Source: https://www.worldbank.org/en/topic/smefinance
11. Cash burn refers to the rate at which a company consumes its cash to finance its operations, particularly when it is not yet generating a profit, and is a key indicator of its viability and funding needs.
12. A process whereby a company in the growth phase significantly increases its operational capacity and production in response to increased demand.
13. Source: https://netzeroinsights.com/state-of-climate-tech-q3-2024/
14. TechForGood refers to various organisations that are working to address societal issues and that make use of technological innovation for the common good.

Natural capital

AN APPROACH BACKED BY THE CORPORATE WORLD

A top priority is to safeguard food security and secure the supply chains of large global firms, while supporting food production by independent operations in the Southern Hemisphere. Some 500 million small-scale farmers, most of whom are located in emerging markets, currently produce 70% of the world's food[15]. Our Sustainable Land Use strategy is geared precisely towards shoring up their economic resilience by making sure they find outlets for the food they produce, especially among international groups. This also gives us, as investors, an opportunity to take action to promote practices that will support the preservation of natural resources, biodiversity, and human capital.

This investment case is currently extremely popular among large firms as they now fully understand that the long-term survival of their business models hinges on efforts to secure their supply chains and oversee the traceability and quality of their products. Certain agricultural commodities are under strain, supply chains have been disrupted and the effects of climate change and soil erosion are being felt, all of which has already hit certain groups hard; such groups are therefore introducing large-scale measures to address these transformations.

We have been working on these issues for a decade now. We note that businesses are keenly interested in our value proposition as they seek out secure sourcing solutions for supplies obtained from markets that in some cases are still very fragmented. We also promote a more evenly-balanced approach to value sharing, thereby combining economic, social, and ecological benefits.

A FAVOURABLE INTERNATIONAL CLIMATE

Businesses are therefore addressing supply chain security because it is a strategic issue. But they are also doing so because of increasingly stringent regulatory obligations, such as those set out in the CSRD[16] and in the ISSB's[17] IFRS S1 and

15. Source: What Future For Small-Scale Agriculture? Foresight4Food, 2020.
16. Corporate Sustainability Reporting Directive.
17. International Sustainability Standards Board.

S2 accounting standards, which now include requirements for sustainability-related and climate-related disclosures.

Various major international events held in 2024 also helped to raise awareness of the issues surrounding the conservation of and access to natural resources. Prime examples included the various Conferences of the Parties, for instance COP 16 on biodiversity held in Cali, Colombia; COP 29 on climate change held in Baku, Azerbaijan; and COP 16 on desertification held in Riyadh, Saudi Arabia.

The implementation of certain climate regulations was postponed, including the European Union's Deforestation Regulation. However, there is a definite underlying trend underway towards improving traceability and making the production and sourcing of natural resources (particularly food) more resilient. This is a strategic matter for businesses, one that extends beyond ESG considerations and that will affect their resilience in the years ahead.

Investors, too, have grasped the importance of these issues and can also see the potential for value creation. They appreciate the profit-sharing aspect of our Sustainable Land Use strategy, which benefits producers as much as it does listed groups. As these production industries take shape, we can see a new asset class emerging: agroecological infrastructure. Such infrastructure resembles traditional infrastructure in that it consists of physical and tangible assets, supports essential services, and requires long-term investment; in exchange, the associated income and cash-flows that investors receive are predictable and have little correlation with traditional markets. Such infrastructure is clearly pertinent as it is drawing in both public and private capital in blended finance deals which serve as catalysts for the virtuous transformation of value chains.

Blended finance, a catalyst to speed up the transition

Blended finance is a concept that refers to the use of different sources of funding in order to raise private capital in support of development projects, particularly in developing countries. It combines public funds, philanthropic funds, and private investments, with the aim of maximising social or environmental impact while also generating a financial return. Blended finance is a means of pooling and managing the risks associated with projects which can often be deemed too risky for private investors alone. For example, public and philanthropic funds can help to absorb some of a project's financial risk, thereby making the project more appealing to private investors.

TAPPING INTO THE DEVELOPMENT OF NATURE-BASED CARBON SEQUESTRATION SOLUTIONS

Nature-based carbon solutions account for 30% of the potential for global greenhouse gas emissions reductions out to 2030, mostly involving the conservation and restoration of forests and mangroves[18]. Here again, businesses have taken the issue of decarbonisation on board and are working on it from various angles:

- By reducing their carbon footprints along their value chains
- By simultaneously contributing to decarbonisation efforts beyond their value chains via nature-based solutions

This second pillar is a more recent one. Businesses are clearly keen to tackle the issue, even though there is still some debate surrounding the integrity of voluntary carbon credits. Sturdier investment methodologies and approaches, such as the Claims Code for companies in 2023, are helping to place these markets on a structurally stronger footing. COP 29 also added an operational dimension to Article 6.4 of the Paris Agreement. The aim is to reconcile the different carbon mechanisms that exist in different States and voluntary markets, evidence that States are taking a firmer position on this issue. It also shows that the market structuring process continues in a more coherent manner and with greater consultation between businesses, institutional investors and public authorities. Thanks to such progress, we are more confident than ever about the future for nature-based decarbonisation projects.

The market is also taking shape on the asset side. The market for nature-based solutions (consisting of projects aimed at the restoration and conservation of natural areas, such as forests and mangroves) is maturing. We can see that top-quality project developers operating on a large scale are beginning to emerge. We are investing massively in tropical areas, primarily in the basins of the Amazon, South-East Asia, and Sub-Saharan Africa.

18. Source: International Union for the Conservation of Nature (https://iucn.org) .

Editorial Committee

RAPHAËL LANCE
Global Head of Private Assets

ANNE-LAURENCE ROUCHER
Head of Private Equity & Natural Capital

Don't miss out on Mirova's upcoming publications !
Register here

DISCLAIMER

This information is intended for non-professional and professional clients as defined by MiFID. If it is not the case and you receive this document and/or any attachement by mistake, please destroy it and indicate this breach to Mirova immediately.

This document is a non-contractual document for information purposes only.

This document does not constitute or form part of any offer, or solicitation, or recommendation to subscribe for, or buy, or concede any shares issued or to be issued by the funds managed by Mirova investment management company. The presented services do not take into account any investment objective, financial situation or specific need of a particular recipient. Mirova shall not be held liable for any financial loss or for any decision taken on the basis of the information contained in this document, and shall not provide any consulting service, notably in the area of investment services.

The information contained in this document is based on present circumstances, intentions and guidelines, and may require subsequent modifications. Although Mirova has taken all reasonable precautions to verify that the information contained in this document comes from reliable sources, a significant amount of this information comes from publicly available sources and/or has been provided or prepared by third parties. Mirova bears no responsibility for the descriptions and summaries contained in this document. No reliance may be placed for any purpose whatsoever on the validity, accuracy, durability or completeness of the information or opinion contained in this document, or any other information provided in relation to the fund. Recipients should also note that this document contains forward-looking information, issued on the date of this presentation. Mirova makes no commitment to update or revise any forward-looking information, whether due to new information, future events or any other reason. Mirova reserves the right to modify or remove this information at any time without notice.

The information contained in this document is the property of Mirova. The distribution, possession or delivery of this document in some jurisdictions may be limited or prohibited by law. Persons receiving this document are asked to learn about the existence of such limitations or prohibitions and to comply with them.

Mirova voting and engagement policy as well as transparency code are available on its website : www.mirova.com.

Non-contractual document, issued in January 2025.

Investing in sustainability

ABOUT MIROVA

Mirova is a global asset management company dedicated to sustainable investing and an affiliate of Natixis Investment Managers. At the forefront of sustainable finance for over a decade, Mirova has been developing innovative investment solutions across all asset classes, aiming to combine long term value creation with positive environmental and social impact. Headquartered in Paris, Mirova offers a broad range of equity, fixed income, multi-asset, energy transition infrastructure, natural capital and private equity solutions designed for institutional investors, distribution platforms and retail investors in Europe, North America, and Asia-Pacific. Mirova and its affiliates had €31.9 billion in assets under management as of September 30, 2024. Mirova is a mission-driven company, labeled B Corp*.

**B Corp Certification is a designation that a business is meeting high standards of verified performance, accountability, and transparency on factors from employee benefits and charitable giving to supply chain practices and input materials. Certified since 2020, Mirova reapplies for the B Corp Certification every three years. The annual fee for maintaining the certification is €30,000 as well as a €250 for a submission fee. Support from Nuova Vista is €15,450. To find the complete B Corp certification methodology, please visit the B Corp website.*

MIROVA
Portfolio Management Company - Anonymous
Company RCS Paris No.394 648 216
AMF Accreditation No. GP 02-014
59, Avenue Pierre Mendes France 75013 Paris Mirova
is an affiliate of Natixis Investment Managers.
Website – LinkedIn

NATIXIS INVESTMENT MANAGERS
French Public Limited liability company
RCS Paris n°453 952 681
Registered Office: 59, avenue Pierre Mendès- France 75013 Paris
Natixis Investment Managers is a subsidiary of Natixis.

MIROVA US LLC
888 Boylston Street, Boston, MA 02199; Tel: 857- 305- 6333
Mirova US LLC (Mirova US) is a U.S.- based investment advisor that is wholly owned by Mirova. Mirova is operating in the U.S. through Mirova US. Mirova US and Mirova entered into an agreement whereby Mirova provides Mirova US investment and research expertise, which Mirova US then combines with its own expertise, and services when providing advice to clients.

MIROVA UK LIMITED
UK Private limited company
Registered office: Quality House by Agora, 5-9 Quality Court, London, WC2A 1HP
The services of Mirova UK Limited are only available to professional clients and eligible counterparties. They are not available to retail clients.
Mirova UK Limited is wholly owned by Mirova.

MIROVA KENYA LIMITED
A company incorporated with limited liability in the Republic of Kenya
KOFISI,
c/o Sunbird Support Service Kenya Limited,
Riverside Square, 10th Floor, Riverside Drive,
P.O. Box 856-00600
Nairobi, Kenya
Mirova Kenya Limited is licensed as an Investment Advisor by the Capital Markets Authority (CMA) under the provisions of the Capital Markets Act (Cap 485A of the Laws of Kenya).
Mirova Kenya Limited is a subsidiary of Mirova Africa Inc.

An affiliate of NATIXIS INVESTMENT MANAGERS