Private Debt Investor

E X P E R T Q & A

Transition finance is complementary to impact investing, say Tikehau Capital's Vincent Lemaitre, head of ESG for private debt and tactical strategies, and Lindee Wong, director of climate and biodiversity

Driving transition through private debt

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Q How do you define transition investing?

Vincent Lemaitre: Transition investing aims to finance companies that are committed to aligning their operations and business model with sustainable development objectives. Unlike impact investing, which focuses on entities providing solutions to tackle specific sustainability challenges, transition investing is an economy-wide approach not limited to particular sectors.

In impact investing, we look for businesses creating products and services that generate positive environmental or social outcomes – like improving energy efficiency, healthcare access or supporting biodiversity.

With transition investing, we drive the shift towards sustainability across the economy. At Tikehau Capital, our transition strategy currently prioritises decarbonisation and we aim to support our private debt portfolio in line with Paris Agreement objectives by deploying sustainability-linked loans. These are legally binding commitments, requiring companies to set and achieve decarbonisation trajectories aligned with science.

Transition and impact strategies are complementary: impact investing supports innovation, scalability and the adaptation of businesses, while transition investing works with the broader market towards net zero and a green economy. Together, they tackle different parts of the climate challenge and strengthen the overall transition to a sustainable economy.

Q How do you select investments for impact and transition strategies and how do you encourage portfolio companies to achieve their impact objectives?

VL: At Tikehau Capital, we take a firm-wide approach to sourcing impact and transition investments. Every member of our investment team is responsible for identifying potential deals that align with our impact and transition goals

To source deals effectively, we actively engage with advisers and industry networks, establishing ourselves as a go-to partner. Our team is engaged with the private debt advisory committee of the UN Principles for Responsible Investment for example, or advocacy groups such as the impact working group of the Sustainable Finance Institute, which helps us to stay connected with companies that share our vision for sustainable transformation. By participating in industry initiatives and staying close to evolving strategies, we keep a finger on the pulse of the broader impact ecosystem.

Then, once we have invested, our role goes beyond financing. Many of our portfolio companies are SMEs that may lack the internal resources or expertise to execute a full-scale transition or impact strategy. We step in to support these companies by sharing our ESG expertise and network, helping them develop actionable climate goals and navigate the complexities of sustainable transformation. This hands-on support serves as a compelling incentive for companies to partner with us, as it accelerates their journey toward meaningful impact.

In addition, we have our own tools to set and monitor financed companies' annual commitments. These tools enable us to track progress with external oversight and adjust loan margins based on whether portfolio companies have met their targets, aligning financial incentives with sustainability goals. As of September, 67 percent of our transactions included a sustainability-linked loan mechanism aligned to Science Based Targets (SBTs).

For some of our investments, we also convene annual or semi-annual meetings with company management and sustainability experts to provide knowledge, insights and sector-specific guidance, reinforcing their capacity to make impactful decisions.

At Tikehau Capital, we aim to make companies more impactful throughout our investment period. By the time a company exits our portfolio, our goal is for it to have significantly advanced its sustainability journey, creating lasting value for both the company and the wider community.

Q Impact investing strategies can target a range of sustainability issues, whereas transition investing generally focuses on decarbonisation. Why?

Lindee Wong: The focus of transition strategies has generally been on decarbonisation, as there is a well-defined long-term trajectory to achieve – guided by the Paris Agreement and scientific consensus. Significant progress has also been made in setting policies and creating actionable road maps, meaning that the steps that most companies need to take to decarbonise are now largely well understood.

Other environmental issues, like nature and biodiversity, lack this level of maturity. For example, while the Kunming-Montreal Global Biodiversity Framework set ambitious goals in 2022, frameworks for target setting are relatively nascent.

The Science Based Targets Network is beginning to create frameworks for environmental issues beyond carbon, such as freshwater withdrawal and land use change, but these are still in the early stages. As these frameworks develop, we anticipate that transition investing could eventually broaden to include more environmental priorities.

Q Can transition investing also support social objectives?

LW: Transition investing should also support specific social objectives. However, in a similar way to environmental objectives, there are challenges in establishing credible milestones and clear pathways to achieve long-term social outcomes, like closing the gender pay gap. Social frameworks are in the early stages. The EU's 2022 social taxonomy proposal has stalled, while the Taskforce on Inequality and Social-related Financial Disclosures, launched in 2024, is working on a reporting framework on social issues.

Despite this, we are setting social KPIs for our portfolio companies. We also note that low-carbon investments indirectly advance social goals by mitigating climate change impacts. Furthermore, the low-carbon transition promotes job creation, with 33 million people globally employed in the clean energy industry, significantly more than in fossil fuels, according to the International Energy Agency. Clean energy investment needs to increase substantially, and there is a diversification in clean energy supply chains due to geopolitical changes. These developments present job creation opportunities worldwide to support a more sustainable future.

Q How can impact and transition investing create long-term value for investors?

VL: First and foremost, it is important to emphasise that we do not pursue impact or transition investing at the expense of overall fund performance. Our conviction is that to be sustainable in the long term these strategies must not result in reduced returns.

Impact investing may have once been perceived as less profitable, often due to earlier strategies that provided lower-cost financing to companies. However, that is no longer the case. Today, these strategies align with market demands and offer returns comparable with traditional investments.

These investment dynamics are generating new investment opportunities linked to the low-carbon transition. We aim to create long-term value for investors by aligning business models with a transitioning economy. By supporting companies in adopting sustainable practices, we aim to position them for resilience and growth in new directions. This, in turn, makes them more attractive to clients and employees, which supports overall credit performance. Each of these factors contributes to value creation for our investors. ■