Simon Mainwaring:

Private equity firms can help make or break a business, but can they also drive the kind of change we need to build a sustainable or even regenerative economy? It's a critical question because with the right financial support, emerging businesses and technologies can much more quickly address some of the most challenging issues about time. Today we'll hear from someone who has spent the last two decades advising and leading the sustainability, environmental, and corporate responsibility efforts of some of the world's most influential companies. And you'll learn why and how this type of investing can help inspire greater change in the way we all do business. So how to invest as and entrepreneurs work together today to grow businesses that serve our future and how do capital markets do this at scale to ensure there's a thriving planet for ourselves and future generations? Let's find out right now.

From We First and Goal 17 Media, welcome to Lead With We. I'm Simon Mainwaring. And each week I talk with purposeful business and thought leaders about the revolutionary mindsets and methods you can use to build your bottom line and the better future for all of us. And today I'm joined by Nelson Switzer, a Managing Partner at Climate Innovation Capital. A private equity firm, enabling companies with the right technology team and ambition to decarbonize the economy as quickly as possible. And we'll discuss how the investor class and capital markets unlock huge opportunities that cause correct our future and how all stakeholders in business make a contribution with the integrity that current crises demand. So Nelson, welcome to Lead with We.

Nelson Switzer:

Thank you so much for having me.

Simon Mainwaring:

Now, you are arguably at the center of the best and worst place to be right now in that you are working at the intersection of carbon and capital. Carbon which is arguably the sort big scary issue out there in terms of the amount of carbon we're putting into the air as well as what's already been sequestered up there in the atmosphere and all the problems that it causes, but also the power of capital to solve for these issues. So what is it like to sit in that position?

Nelson Switzer:

Trying to avoid the notion of hubris here, I'd say that it's a privilege to have. I have spent now more than 20 years trying to figure out how to leverage the capital markets in order to solve the world's big compounding and intractable problems, climate change and carbon being foremost among them. And so I feel very fortunate to have been able to work with exceptional people, fantastic companies over the year that had given me I think a broad enough sense of the demand in the universe, solutions in the universe, and how to execute through the capital markets to really find solutions. So it feels like a great responsibility, but one I am so excited to be able to grab hold of.

Simon Mainwaring:

Let me ask you about that. You've had a very successful corporate career and you're a sustainability leader in Nestle, the largest food company in the world, and then you move to the capital markets. How would you characterize that difference? Because they both leave us for change, right?

Nelson Switzer:

They are. And as a matter of fact, I look at each opportunity that I've had along my career as which lever could I grab, which one was the bigger lever that when I pulled it would have the greatest impact? And while, yes, I was in corporate for many years, a big part of my role within Nestle was identifying solutions technology specifically that could help us solve some of the challenges that we were facing. So what is it that we could invest in, we could buy? You think about all the different mechanisms, but how could we find those solutions and then embed them into our processes, embed them into our supply chains to manage the impact we had?

It was a proposition I called earning our social license to grow, which was I think beyond that notion of social license to operate, which is let's just make sure we can continue to do what we've been doing, but instead, what is it that we can do to grow this enterprise while doing things perhaps differently as part of this transformation? I can certainly go more into it, but the sense of it was in three parts, which was solve the problem that we are part of causing, go further and restore. And then the third part, which is be seen doing it. And while some of my colleagues loved that because they thought, "Hey, we're a marketing company." I looked at it as if we set an example that others can follow, we will inspire a transition that is deeply necessary.

Simon Mainwaring:

I love that because be seeing doing it is counter to what a lot of large or legacy companies will do in the sense that they'll sort let ... "We're humble, we're Midwest and we like to do good and not really point to it." But as you say, your modeling behavior, which is so critical now. So would you advise companies of any size to not in a self-serving or self-directed way, but just in a sort of we're solving for our shared future point to what they're doing?

Nelson Switzer:

I absolutely would. And I would also say that it's okay that you're going to be attacked. And for many companies I've worked for and we advised over the years, that's always been their concern as you pointed out. Is if we do this, if we make any noise, we're painting a bull's eye on our own chest. There's truth to that, absolutely. But there comes a point where you also have to stand up and you have to stand out in order to inspire others around you. And I could certainly tell you that what I've seen is a pretty significant transition where people are looking to use, whether it's sustainability or any other environmental or social element, a values-based argument or values-based initiative to draw people in. And I think it's become more and more compelling for consumers, especially whether it's Gen X and certainly now Gen Z who are searching and hunting for people and companies that reflect their values. So I think if you don't do it, quite frankly, it's not just a missed opportunity. It's likelihood that you will no longer be relevant.

Simon Mainwaring:

I agree. It's relevance, it's resonance, it's your ability to reach as many people as you want. And I want our listeners to understand through your unique lens just what's at stake here because I think if we look at the headlines every day, it's almost that these dramatic issues become normalized or we become desensitized to them. There's climate this, there's carbon that, there's biodiversity, this and that. How would you express how important the next three, to five, to 10 years are in terms of the trajectory they set for us as a species in our planet?

Nelson Switzer:

Wow, that's a great question. I'm going to use somebody else's data. I seek a rather reliable source on this. Let's look at the trend that we've seen since ... I don't know about you, but I've been reading the IPCCs reports since I can remember. And the last three have been really, really fascinating in terms of the trends. I promise I'm going to answer your question. In 2018, when the IPCC released their report, it talked about we had just over 10 years to take considerate effort and considered effort in ordered to hit big 1.5 degree future. In 2020, they came out and said, "Actually, it wasn't quite 10 years. We're actually pretty much out of time. We need to do it now." And then I believe it was in March of this year, '22, where they released the report and I think it was for the first time they said, "Not just were we wrong before, but now we have to include carbon capture as a tactic in order to hit 1.5."

Simon Mainwaring:

So this is not just the amount of carbon that we continue. I think it was 14% increase in carbon.

Nelson Switzer:

This is legacy-

Simon Mainwaring:

[inaudible 00:07:49]-

Nelson Switzer:

... that is in our [inaudible 00:07:50].

Simon Mainwaring:

Carbon is already up there.

Nelson Switzer:

That's right.

Simon Mainwaring:

And so tell me this, we have to kind of almost reframe the way we look at the place of humanity in the larger natural systems. We've got to re-engineer the way we do business and in society and so on. You've talked about something called the restoration economy principle. Help people understand what that is because this is not just about growth and moving forward. It's actually restoring, or renewing, or regenerating the damage that's been done in the past. Correct?

Nelson Switzer:

Sure. So the principles of the restoration economy are essentially based on one thing, which is the carrying capacity of the earth. That means how many human beings the earth can support based on the limited resources that we have on [inaudible 00:08:40]. And the notion is that we have to ensure that there is an abundance of water biodiversity and all of the natural capital on which our society depends. The manner in which we currently consume does not allow us to continue along this trajectory. We will not be able to support. We are at 7.9 billion now. We expect to be at 10 billion pretty soon. We will not be able to support humanity's appetite. And so the restoration economy principle talks to how we restore abundance. How we enhance the quality and quantity of water when and where we need it, how we ensure that we can grow crops that can feed the population, how we ensure that biodiversity is available to continue to filter our water, to pollinate our crops, our plants, and so on. So it's a beautiful and complex system that we live on, but it's elegance is only as romantic as the abundance of material that we actually have to rely on.

Simon Mainwaring:

Right. I think one of the most shocking things, I was at a conference recently and I saw Bill [inaudible 00:09:47] who wrote [inaudible 00:09:48] say something, which really stopped me in my tracks. He said, "It's almost as it's humanity has been designing for the end of life." In the sense that if you look at the net consequences of how we've been showing up in the world in the last century and so on, we are literally through loss of species out there, how we compromised the biosphere and everything that makes life possible. It's almost like we're consciously put ourselves out of business. So what do you think is the first starting point for that? Because I'm so intrigued to talk to you also because you wouldn't think that the capital markets, those who traditionally are sort of synonymous with self-serving, wealth creation, and so on would be so instrumental in solving for this. So let me ask you this first. What's the sense or tone amongst the capital markets as to the need to play a role in this? Do they see it as a business opportunity? Do they see it as a responsibility to our shared future? Do they see it as both?

Nelson Switzer:

Well, McKinsey put out a study, and I believe it was February of this year, in which they talked about a 250 trillion market opportunity. That is the cost of the transition between now and 2050. That is an exceptional amount of capital. And you can be sure that anybody who plays in the capital markets is going to want their share of that. So the capital markets are very excited by the notion of this disruptive capital and it's going to be move it all over the place. Because of course most players in the capital markets make their money through the transaction, not necessarily in the value that's greater to it. But I want to take a quick step back and characterize the capital markets first because I think it's important.

The purpose of the capital markets is to try to find the most efficient way of exchanging goods between people, between entities. The idea is supposed to be do so to create value. Not necessarily to create economic value to, but to feed the compulsion, the human compulsion to continue to develop as a species to build communities. The challenges is that there are other players within the capital markets who use it for different gain, which is extraction value. And I've heard that conversation more times than I can even remember of how are we going to extract more value from that contract or how are we going to extract more value from that resource instead of how are we going to create more value? And so what I'm seeing is a really interesting shift over to the creation of value back to I think the first principles of the capital markets. And we're seeing that in all sorts of places, whether it's the commitments that are being made at the UN, or [inaudible 00:12:27], or any of these new collaboratives.

We actually did some interesting work here at Climate Innovation Capital. I asked one of our associates to do an inventory for me of the principles for responsible investment and all of the various commitments and memberships that you name it, that organizations and institutional investors had signed around the world and it was an astonishing number. So there's no doubt that the signals are there. What's got me concerned is the actual execution because what we're seeing is a lot of people making statements, but not enough people actually putting the capital to work. And that's where we are now. And so the phrase I hear all the time is we're landscaping.

Simon Mainwaring:

Landscaping. What does that mean? What does landscaping mean?

Nelson Switzer:

It means we want to understand the market. I want to understand what a climate investment is, I want to understand what a water investment is, I want to understand all the [inaudible 00:13:25], I want to ... because it's new and they need time. My response to most of those people though is, "It's wonderful and I understand that." As a strategist myself, I understand wanting data in order to inform decision making, but the truth of the matter is the climate is not patient. It's not going to leak for us. And so well, there is a 250 trillion opportunity. If we do not begin to execute by deploying capital right now, there will not be a 250 trillion market opportunity.

Simon Mainwaring:

Right. That totally makes sense. And I think it's almost sounds like they're working out how to position themselves to apply the same mentality before, which might well be to extract rather than create value. But the price of entry here is to create value.

Nelson Switzer:

Well, possibly. So I like the way you finished that. The price of entry is to create value. I don't think that any of those institutional investors go in there saying, "How can I extract value?" I think they're thinking about, how can we ensure that we can fund this pension? How can we ensure that are fully funded as pension so we have to generate value for our pensioners and so on. I think it's people outside of that capital markets segment ... outside of that institutional segment that might think that way. But again, I don't play directly in it. So I'm speculating.

Simon Mainwaring:

Sure. To your point about the intent with which people are starting to move into this area, there's been a lot of dialogue around ESG. Does it mean anything? Does it not mean anything at all? Has it been applied disingenuously? There's been various reports out there that have exposed funds that really aren't doing anything substantially different, but they're characterizing themselves as ESG funds. Do you see this as a unique problem or is this just a necessary step in the sort of maturity and sophistication of the conversation? There's always a bit of a shiny squirrel moment and then it all shakes out and everyone starts to do it more seriously.

Nelson Switzer:

Well, a few ways I can answer that. First I'm going to start off with explaining ESG. ESG has become very convoluted and confused because it's being used as a talking point. ESG, which stands for Environmental, Social and Governance, is simply a series of data points that can be used by investors or others to inform decision making, and that is a good thing. Data plus brains often leads to better decisions. The challenge is how people sometimes use that data, the ESG data. And so where the controversy lies is ESG as a product.

When I build a fund using ESG data, but I might use it as exclusionary criteria, or I'll use it as screening criteria, or some sort of score, you get sometimes unusual results. And so I think the controversy is how people have been applying that data. Obviously with the latest example between Elon Musk and Tesla and Exxon Mobil, which I thought was quite amusing myself.

Simon Mainwaring:

For those who didn't see the story, I think Elon Musk said that ESG is rubbish when they were kind of kicked off a list and if Exxon Mobil could remain further up that list.

Nelson Switzer:

Yes. That's right. So that was the first piece around just defining ESG as it were. The second is, believe it or not, people like me have been working on this for 20 years. Others have been working on it since 1987, since the definition of sustainable development from the Brenton Commission, but really applying it to the capital markets, I think it's started to gain traction maybe over the last five, seven years where we're really seeing people integrate into their decision making and try to create additional value for their investments through it. Now, if you think about that, compared to the conventional capital markets that have been operating for thousands of years, but if we could put it into the current context, we'd get over 100 certainly, and that's still often quite a mess. So for anybody who just come out and say, "It's all rubbish. Throw it out." I think is a little bit shortsighted. It takes time.

Simon Mainwaring:

Yeah. It does take time. And I know that this is a moment in time where you're seeing increased regulation and compliance and it's becoming a much more of a risk in compliance issue than it is sort of voluntary disclosure. How's that going to change the equation do you think?

Nelson Switzer:

How is the application of regulation going to change the perception?

Simon Mainwaring:

Yeah. The rise in regulation that we're seeing, especially here in the United States.

Nelson Switzer:

When it comes to regulations in the United States and other, it really depends on the way the regulation is built, is assembled. What I'm parted by is that the SEC as well as regions around the world are relying on the TCFD or the task force for climate-related financial disclosure, which is a framework that was designed by the central bankers of the ... I believe it was the G20 under the leadership of Mark Carney and I think Michael Bloomberg as well. And what's really interesting is the intent of it is to provide a common apples to apples disclosure set that allows people to understand the climate risk of any particular investment. And so when you're doing that, you could look at different companies and say, "Okay. What are their emissions? How are they managing them? What is their strategy? Who's accountable for? And how are they making decisions around it?" It allows you to understand how these organizations are addressing what is becoming one of their most spectacular financial risks and in many cases also opportunity for these companies.

So if you're relying on the right frameworks, I think great things can happen. What I don't want to see and what I often fear is people who become very good at gaming the system. We saw this many years ago with the Carbon Disclosure Project. The Carbon Disclosure Project was initially put out terrific, a wonderful initiative. And I think it's amazing what they have managed to accomplish. But it was put out in order to get publicly traded companies initially to disclose their carbon emissions and the manner in which they're managing Euro emissions and so on. The problem was is that each year people would just get better at reporting, but not necessarily better at performance. And so what I like about the regulation is ... or the proposed regulation in the US certainly, what the TCFD does is it really pushes you to go beyond that. It's not just about being good at reporting. It's about really disclosing how you're managing your climate risk. And I think that's going to make that a big change in the markets and we'll see a much greater demand for decarbonization solutions as a result of it.

Simon Mainwaring:

Well, I so appreciate you sharing not only the context of the capital markets but this moment in time. And I want to ask then, lead one of the top funds around climate investments. So what is the decarbonization fund exactly and what makes Climate C unique in this context?

Nelson Switzer:

So Climate Innovation Capital or Climate IC, we ... As you said, we're a decarbonization fund. So we call ourselves Gigacorn hunters. What that means is we look for technologies or solutions that have the potential to mitigate over a billion tons of carbon dioxide equivalents while also having an enterprise value greater than a billion dollars. So it's a climate unicorn, if you will. So what we're doing is, as a fund, we look for solutions that can deliver the greatest amount of decarbonization with the highest potential rate of return, but to be delivered in the shortest possible period of time. And the reason, of course, is we are fighting this climate clock. As I said earlier, the climate is not patient. So we are trying to beat the climate clock. The IRR or the financial return, the reason that we're looking to maximize that is a couple, but I think the most important one is because we know or we believe our thesis is that investing in the decarbonization transformation is part of the economy. You're going to see the best returns. And by demonstrating that, we believe that conventional investors will bring that capital off the bench and then will start to deploy it. And so we could accelerate the transformation.

Simon Mainwaring:

Because as I understand it, the market is a [inaudible 00:21:43] with capital and has been in the last several years, but now there's a lot of capital sitting on the sidelines, particularly with a prospect or existence of a recession and it's just waiting for the better deal and it's not being deployed right now. And you're saying, "Well, we're out of time. Let's get it to work for us."

Nelson Switzer:

Yeah. Absolutely. We need to put it to work. We need to get this transformation going. As I said earlier, if we don't get started now, there will not be the [inaudible 00:22:06].

Simon Mainwaring:

Yeah. It is a sort of lose-lose proposition if we don't actually participate. And one of the things that I'm always concerned about is how do you measure the emission reductions? There's just been an alphabet suit. Acronyms out there and different sort of ESG and otherwise metrics and so on. And we do see some consolidation right now without which we can't really benchmark one company against another and we can't really, as investors, institution, or otherwise, make an informed decision. So are we there yet?

Nelson Switzer:

Yeah. So first of all, what we do is we rely on [inaudible 00:22:42]. So we rely on the GHG protocol and we do that because it provides a very systematic methodology for conducting York greenhouse gas accounting. And all of these other standards that are out there, whether it's GRI, or SASB, and ISSB, and all of these folks that are getting together and consolidating value reporting framework and so on, which is great, but most of them rely on and need fundamental accounting procedures. So we rely on those as well. What we do with Climate IC is we take a slightly different tact, which is as we look at each investment, we try to map out the various pathways through which decarbonization can be delivered. We call it carbon reduction potential. So for each investment, we're trying to find what are the various pathways, what's that going to look like on a unit basis? So if somebody is going to sell a widget, how many tons of carbon dioxide are going to be mitigated per year per widget? What's the dollar of our investment? So what's the efficiency of the dollar that we're spending per ton?

So by looking at that and using fundamental accounting principles, we find it becomes very transparent, very easy for us to conduct that preliminary accounting. The challenge, back to your question, comes when you want to true it up. So we measure it, we estimate first based on the data we get from a potential portfolio investment and our own research course, but then each year we sit down with that portfolio company, we say, "Okay. How'd you do? You told us you were going to sell a hundred widgets, which meant you should have delivered 500 tons. So show me what did you deliver?" And then we true that up and we use it as an opportunity to engage with the company. And in some cases that's led our portfolio investments to modify their strategy, not because we're trying to push them in a direction, but because they are able to see or they have seen that they're able to create more value for their company by decarbonizing even more perhaps on a different pathway. So it's been really fascinating that our thesis is playing out and our methodology is working for our portfolio companies.

Simon Mainwaring:

I always struggle with the timeline that we're working against, which isn't static. It's contracting towards us because as things get worse, the time kind get shorter. In addition to the companies that you're investing in, you've also got all the legacy companies, and capital investments, and ways of doing business, and mindsets that inform them. It's kind of like you can't just do another ... put another ever better bandaid on a problem, a root cause that hasn't been addressed. So how do you take those old ways of doing business with you?

Nelson Switzer:

I'm actually going to go back and then I'm going to answer your question.

Simon Mainwaring:

Sure.

Nelson Switzer:

What you said about compounding a problem and it's just getting worse and worse and the timeline getting shorter and shorter, the way we keep thinking about it is currently we emit as a civilization just over 40 gigatons per year. And so the way we keep thinking about it is our ambition, whether it's our fund or in partnership with other funds, is to find 40 Gigacorns, to get 40 Gigacorns working for us so that we can mitigate and reach a point of net zero emissions.

But to go back to your point, we characterize every Gigacorns that we look for. We call it the 3Rs of decarbonization. It's essentially reduction, replacement, and removal. Reduction being emitting less. So that's efficiency. A lot of people love efficiency. Save money right away, it tends to be the lower cost implementation. Then you've got replacement. So think about that wholesale replacement of an emitting technology with something that does not. So the wholesale replacement of fossil fuel is something else. So that's stopping your emissions. And then removal. This is what everybody is looking for. We have, for the first time, surpassed 420 parts per million of CO_2 in our atmosphere. Pre-industrial concentrations are 280 parts per million. We have a lot of carbon we need to bring back down. So that last segment is what brings it down. So you've got those three steps where those three segments of decarbonization enablers, if you will, first of course being stop emitting ... Pardon me. Emit less, stop emitting, and then bring it back down.

Simon Mainwaring:

Yeah. It's not just about turning off the tap of carbon going to the atmosphere. The bath is already half full and we've got to kind of empty that bath. Let me ask you, what would an ideal investor look like and what would an ideally sort of investment look like? So would this [inaudible 00:27:21] and this sort of Gigacorn perspective, how do you source them, how do you find them? Characterize what that looks like.

Nelson Switzer:

We built this rapid scorecard that we use. And the first hurdle we had to get through is first year decarbonization. So we look at the carbon reduction potential. So that is how much carbon can be mitigated over a 10-year period. And we do it in chunks every year. We're looking to it and then figure out what happens over that 10-year period. The second thing we do in the same character is what does the demand in the marketplace look like? And the reason that's so important is because of the distinction between what we refer to as Cleantech 1.0 and climate tech, where we are today. Cleantech 1.0 were a series of solutions that were developed to help solve an environmental problem, which is terrific, it's ethical, it's moral, it's necessary. The challenge was people weren't buying those solutions because they didn't actually solve a business challenge.

Where we are now with climate tech, with the exceptional demand, we now have solutions. We have underinvestment and exceptional demand. So we look to ensure that these potential Gigacorns are actually solving a problem that businesses, governments, or others who have a need will buy. So that's the first characters. How much and is there demand? Then we get into what I would call a little bit more conventional, which is we're looking for commercial opportunities. So those are enterprises that have revenue, they have customers as important. As it is to have academic studies, and research, and angel investment at that type of startup, it is, but there's a lot of capital chasing those higher risk elements with higher technology risk. We are looking for those ones who, again, they're in commercial revenue, they're ready to move, they're ready to scale. But the other thing about that that we like is that they tend to have much lower technology risk and can be deployed faster. Because, again, as I said earlier, we're trying to get to decarbonization as fast as possible.

So if you have 100,000 units in the market and you've had no product returns, that's very compelling for us. That says your product works, people love it. That's probably something that we would want to look at. The third then is we want to understand the operational maturity of the organization. So the management team. Do they understand how to work with KPIs? Are they comfortable being accountable for the performance? A lot of startups don't understand that and haven't gone through it. And is the carbon measurable and can it be used to create additional value for the entity? The last thing we look at, the fourth bucket is we look at the six sectors of the economy called the IPCC Six. So the six sectors of the economy from which all anthropogenic or human induced emissions emanate. We look to see which sectors of the economy does it decarbonize. So once we've looked at the decarbonization, the commercial aspect, the team, and then the sectors, it gives us a really rapid snapshot of whether this investment works for us.

Simon Mainwaring:

I want to sort of point to attention that I see in the breadth and scale of your ambition with these Gigacorns versus the concept of net zero, which is really all that's saying is we are going to do less bad. We are actually going to give future generations nothing. We are just going to do no harm, in a sense, as opposed to net positive and a lot of other concepts out there that are sort much more additive and create value, as you say, and restore, and renew, and regenerate. So is the framing of the type of companies that people are looking to invest in only halfway? Is that how we ended getting half the job done or am I stretching it too far?

Nelson Switzer:

No. If we go back to the 3Rs of decarbonization, what we've seen is the greatest maturity in the spectrum right now is still in reduction. It's inefficiency. And to your point, that's not going to get us there because that's just slowing the water filling the tub. Eventually it's going to overflow, but those are still important because it teaches people, it gets them comfortable. Sometimes you do need to just get comfortable before you could move to the next step. But there are a lot of folks who have moved to the, let's call it the net zero, but it's really to stop. How do we wholesale replace? So I no longer want to be in the coal fire power generating business. I want to be in the solar power business. How do I make that transition? And then there are others who say, "I'm looking to figure out how I can create carbon negative products of any kind or are just capturing this carbon and sequestering it."

Terrific companies that we are investing in, one in which that I really, really like ... I like them all of course, but Groundwork BioAg, which has developed a solution using fungus as a tool basically as a nature-based direct air capture solution and it's incredibly elegant. It's an agricultural inoculate. It's a fungus that you apply your seeds and you sow the seeds in the soil. And as the crop grows, the crop conducts photosynthesis. And it passes the sugar through photosynthesis down into the soil, into the fungus underground called mycorrhizal. And the mycorrhizal converts that into a solid organic compound or a solid organic carbon and it permanently sequesters it under the soil. So it's a carbon negative application and it's very elegant. Well, at the same time, you're growing more robust crops, higher crop yields with much less fertilizer input. So you've got these wonderful and elegant solutions that are out there that are available to the world or that people could be applying today to get us to a net positive or I tend to talk about carbon negative. But either way, net positive, Andrew Winston's term is great too.

Simon Mainwaring:

Yeah. We've been walking past these millions of biological blueprints that are function of evolution at the millions of years and there's so much inherent wisdom in them. I want to ask you if I extrapolate out from that example you gave. At the root of the issue is a reframing of what growth looks like or not wealth so much, but growth. To a fault, we've been sort of believers in this idea that this is a planet of infinite resources and we can all go up and to the right indefinitely. And now that whole sort of vision has come unstuck. So help us understand when you've got investors that are looking through all those different criteria that you mentioned. Yeah. They're looking for upside. At the same time, they don't want any downside. In fact, they want to restore and renew the world on which all of business depends. So I struggle sometimes. I go, "Okay. So what does business growth look like?" Well, how would you frame it?

Nelson Switzer:

I am one person who many years ago I stood up at a conference, I don't remember where it was, but I was ... I don't think people appreciated what I was trying to say. So I'm glad it's just you and me on this conversation.

Simon Mainwaring:

You never know.

Nelson Switzer:

What I said was nobody should have to suffer for sustainability. So if I like to eat beef, why should I not be able to eat beef? I know it's a carbon intensive product and there are lots of challenges with it from a carbon perspective. I want to run my air conditioner. Why can't I run my air conditioner? I keep thinking to myself is I know that there are solutions that can allow us to operate so efficiently and within our carbon budget. We just haven't quite figured it out yet. So I don't know if that really answers your question, but back to the investor portion, investors don't necessarily look for upside and worry about downside. Some of them are looking for ... they all look for different things. Some investors are looking for impact alone, some investors are looking for returns alone, some are looking for a balance between the two. It really depends on the context they come from.

There are corporate investors who say, "I just want to be able to market this because that's important to me because I want to inspire others." Or, "I needed to help sell a product." Some corporates say, "I want to be a part of this because I can use it within my own operations and decarbonize my operations and my supply chain." Institutional investors, there's a very different type of ... Every investor is accountable to a different type of stakeholder. And so that tends to drive their demands and their needs, whether it's going to be an impact driver, or a financial driver, or reputational driver, and more.

Simon Mainwaring:

Yeah. That's interesting. Yeah. There are different investors with different motives. Absolutely. How would you characterize and not to oversimplify? You always hear that textiles, fashion footwear, apparel, and food and the energy sector are kind of the three sort of bad actors in a sense that they had the biggest of carbon footprint and so on. But would you characterize, are there any industries that are leading the way to the future? Are there any that are really falling behind? Is there any sort of topography there that you could just share with us?

Nelson Switzer:

Well, I think there's no doubt that everybody would point to transportation and say it's been very impressive to see the speed at which we're now seeing all these commitments to electrification. I think if you look even in mining, there's a huge transformation to try to electrify mining operations, which is difficult to abate sector. Steel is trying, concrete and cement is trying, but they're difficult to abate sectors. So it's not that one sector is necessarily better than another. They all have different challenges. So the way I try to look at it is the level of effort they're putting in relative to the challenge that they have. I think it would be very interesting research. And if I was still a consultant, that might be something I'd want to [inaudible 00:37:05].

Simon Mainwaring:

Sometimes that's the work we do with clients. They say, "How and where do we lead?" And you have to really do a landscape order or a competitive audit and really see where people are showing up and see where those opportunities are. But that's the thing.

Nelson Switzer:

Sorry, Simon. But is that the question that they should be asking? Which is, where can we lead? Or is it, what is our opportunity to deliver some additional value? I keep coming back to that. What lever can we pull that will result in us having the greatest decarbonization possible? I think the challenges for sometimes it's not marketable. It's not very marketable and sexy to talk about the fact that you're using smart thermostats, but it could be very effective. I don't know though. I wish I had that answer.

Simon Mainwaring:

Well, actually that's a really good point because I want to push in on that a little bit because I'm worried about a rubber band and the ability of that rubber band to break. What do I mean? There are a lot of folk leaning in and more and more every day to solve for our future. At the same time, we'd be naive not to recognize there are legacy industries that are very well served by keeping things how they are. There's an aspiring middle class in many markets around the world that want their days at the bank banquet table of capitalism and have all the toys that they would want for themselves as that same folks in other markets have and there also the vast majority of people around the world for whom they can't even think about solving for the future because they're just trying to put food on the table or get access to clean water. So how do we take all of those other groups with us? Because if we don't, we're not solving the roof problem of course and also at some point there's going to be the most dramatic and devastating expression of the have and have nots in a sense.

Nelson Switzer:

Wow. A simple question. To me, the principle of sustainable development, restoration economy, regeneration, whatever monitor you want to slap on this means three important things. One, environmental restoration. So that is how we operate within our interior capacity. Two, social equity, and three, shared prosperity. We need to have all three of those things working in order to ensure that we do not leave people behind. Now, I'm not saying that there are going to be those who have more than others. There always will be, and that's okay, but I am saying that we have to do our best to ensure that those at the bottom of this pyramid have what they need in order to meet their satisfaction of happiness. They have to feel fulfilled. And so I think once we're there, we will not be faced as much with that challenge.

So as we go forward with these investments, we need to think about what a just transition looks like as they say. The fair and just transition to this next economy is my concern. Is that as we make this transition to a decarbonized economy, there are going to be people who will be left behind. So how do we ensure we retrain, we help, we assessed, and we bring them along with us?

Simon Mainwaring:

Gosh, the mindset component of all of us can't be overstated. A, because we've got to embrace this idea of taking everybody with us, but also there's barriers. When I think about the investor class, I think that, again, the risk of oversimplifying. There's a lot of risk aversion with the larger institutional investors. How do you overcome that risk aversion which they experience as responsibility to their investors or contributors? And at the same time, you've got consumers out there in the world who still want the cheapest cup of coffee as quickly as possible when they want and how they want it. How do we overcome these emotional drivers and service of ultimately what is our wellbeing, but we're just not seeing it because we're sort of a little bit shortsighted, so we say.

Nelson Switzer:

Well, I'd say this. When the logic of economic gravity takes hold, these things will happen. When it comes to investors and to your question about the risk that they're willing to take, the biggest risk that an investor worries about is the risk of losing their existing profit. So what I have seen is when investors finally understand the scale of, for example, climate risk and what that might do to their portfolio, they take considerable notice. If we think about Shell's write down of their oil reserves and what that did to their balance sheet as well as many other oil and gas companies around the world, that was a huge event. And these things are going to continue to happen. And that is what it's making investors sit up, take notice and develop, whether you want to call it, ESG, climate, or other sustainability investing work streams.

They're also changing the way they're investing. Many invest as a sector, I invest in energy or I invest in agriculture, or they'll invest in various themes or stages. When you're investing in things like climate though, it's become a little bit different because they're very cross-sectoral. So they just need a little bit more time I think to figure out how to make those investments. Where to fit it in with their existing framework or how to modify. Some of them are doing it more successfully than others, but it is happening. I think the risk of loss is the biggest drive.

Simon Mainwaring:

I, in my personal opinion, think that we are arguably coming to the end of the carrot phase where you get incentivized and rewarded for showing up in new ways. There's a biggest stick coming down where you're going to be penalized and there's going to be climate justice lawsuits and the relevance that you talked about at the top. You won't have that relevance. You're going to be penalized in ways that are seen and unseen. Do you feel it's that way? Are the issues becoming so acute that we're going to see a shift in tone as to the expectation of business and investors?

Nelson Switzer:

Well, I think we've already seen that shift just through the political polarization that we're seeing around the world. The fact that climate and any of these issues are held up as political issues and values based issues has caused some of that already. And that's something that I think we need to dial down that rhetoric. And when I say, I'm not talking about me. Many need to dial that down and recognize that there is still a tremendous amount of opportunity here.

Listen, when it comes to change, change is the only thing that is constant in this world, but is also the only thing that people constantly fear. And if we could somehow bring a sense of comfort, I think we would be resolved globally around whether it's investment or anything, however you ought to frame it. But helping facilitate this transition like we're trying to do through capital markets.

Simon Mainwaring:

And as we look to sort of recharacterize these crises and challenges as opportunities and breathtaking opportunities, what sort of technologies, or solutions, or shifts are you're seeing that really kind of get you excited that just make you feel optimistic about the future?

Nelson Switzer:

Great question. There is no shortage. When we first started this fund, I started to think to myself, "What's the ..." My partners and I discussed, what's the optimal size for our fund? And we bated around a few numbers and then we started doing some research and we realized that our fund could never be too big because there are so many investible opportunities. Whether it's in carbon capture, whether it's in battery storage, whether it's in grid resilience, whether it is in agriculture, whether it is in soil restoration, there is so much that can be done. And the reason is because we are a deeply diversified world in terms of the services and the products that we all need and want every day. And so there is so much that needs to be decarbonized or that needs to be built in order to stimulate the decarbonization of our economy, the electrification of our economy and more. So there is no shortage of opportunities. Every day I see something that just, if I had hair, I would say it blows my hair back. So cool.

Simon Mainwaring:

I want to ask you a question that is absurd and yet I feel compelled to ask it, which is we are lucky enough to have been close to this space for a little while, so we probably had a better line of sight than many folks out there. And if you were to cast your eye down the road like 2050, a number that a lot of folks are throwing around for various reasons, I actually personally think we're on the cusp of the most breathtaking renaissance in business where we start to just unlock all these sort of latent opportunities and we just explore them and explode them and just suddenly realize that we can work with nature rather than against it. What is business going to look like in 20 years time?

Nelson Switzer:

In 20 years time, I certainly hope that it's a contributor to a future utopia. We're at a time right now where people seem to be enjoying themselves telling the dystopian future story. I think that the future is utopic and I think that business is going to be a considered driver of it for a few reasons. Number one, the sheer amount of capital they have available to them. Number two, to your point, this renaissance is being driven by an understanding of value creation and the value that your stakeholders, your customers, your consumers, your supply chain, your investors, that if you can align with them, you survive and you thrive better. So I think the cause of all of these drivers that they're faced with, we're going to see business play a building role. I hope to see it in partnership with community. I think that we're going to see businesses become more local in context rather than global. And we're going to see an explosion in small and medium size enterprises that we have not seen for 150 years. Part of that is going to be driven by decentralized power generation, decentralized transportation and manufacturing because these are all the trends that are needed in order for us to have a decarbonized economy. And so I think that's going to lead to a local sense of economies building up all around the world and an explosion of small and medium size enterprises to support it.

Simon Mainwaring:

Nelson, if someone wanted to kind of play a role that's going to be substantive and meaningful to them in terms of investing, what do they do? Where should they put their attention and their dollars?

Nelson Switzer:

Well, I'd certainly recommend investing in a fund plan like us here at Climate IC. Institutional investors, corporate investors, and high net worth investors, which really is what makes up our LP community, our limited partnership community now. It'd be terrific to have additional capital. The more capital we have, the faster and the more significant the impact is that we can have. So I'd say to anybody looking to invest and get involved, reach out. I'd be more than happy to respond. You should reach out on our website and we can have a conversation.

Simon Mainwaring:

Nelson, I can't thank you enough not only for your sustained leadership in both the corporate and now the capital market world, but also the breadth of ambition that you and your team at Climate IC are bringing in terms of expectation from business. These Gigacorns. I think that is a big unlock for our future and there is absolutely no limit of what we can achieve when we set these high order goals. So thank you for the insights and the time today. I really appreciate it.

Nelson Switzer:

It's been my pleasure. Thank you so much. And we're just at the beginning of our journey. Our fund is still very young, we're still fundraising and we're investing at the same time. So it's very exciting.

Simon Mainwaring:

Well, thanks so much, Nelson. And to be continued by both of us.

Nelson Switzer:

I hope so. Thanks so much, Simon.

Simon Mainwaring:

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