

“The Grey to Green”

transition of SMEs:
why and how?

01 Renewables and green techs won't be enough to stop global warming

Developing renewable energy capacities and encouraging new green technologies to accelerate decarbonisation or carbon sequestration are crucial to the fight against climate change. Wind turbines, solar panels and hydrogen are clearly part of the solution.

But the recent scientific evidence shows that this effort won't be enough to reverse the current trends and mitigate climate change. Indeed, the core of our economies also need to change their “business as usual”. The only way to win the battle is to deeply change the way we produce industrial and consumer goods, food, machinery, build houses and roads, travel, etc.

If large corporations have the resources to think and execute this transformation, a recent World Trade Organization study (“Small business and climate change - research note #3”) evidences the fact that the number 1 barrier preventing small and mid-sized

businesses from accelerating carbon emissions reduction is the lack of knowledge on how to do so – well before the costs, customer acceptance or the ability to drive the changes needed. Yet these small and mid-sized businesses represent 99% of all European companies, over half of our GDP and over 100 million jobs over in Europe. They also contribute to 63% of all CO₂ emissions by European companies*, and the vast majority (72%) do not yet have a concrete strategy in place to reduce their carbon footprint**.

Engaging them as soon as possible in a “Grey to Green” transition should be a high priority if we want to have a chance of winning the battle for a sustainable future.

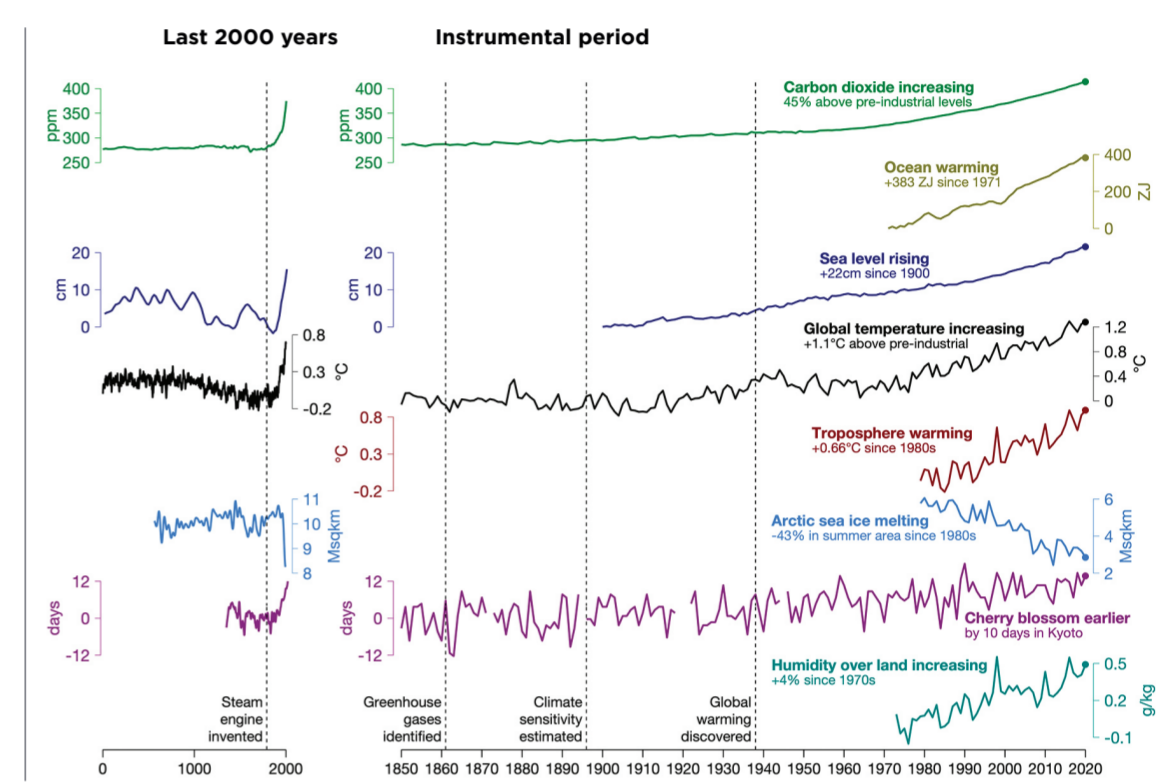
* Source: <https://single-market-economy.ec.europa.eu/news/>
** Flash Eurobarometer 498: “SMEs, green markets and resource efficiency”, March 2022

03 Swift and intensive actions are required

The consequences of human activity on climate change are now widespread, rapid, and intensifying, as clearly shown in the latest Intergovernmental Panel on Climate Change (IPCC) reports. This United Nations body is in charge of preparing comprehensive assessment reports on the state of scientific, technical and socio-economic knowledge on climate change, its impacts and future risks, and options for reducing the rate at which it is taking place. Hundreds of international experts worked on the sixth assessment report made public over the past year.

As UN Secretary-General António Guterres put it, this report is “a code red for humanity”; indeed, over a long period of time, there is a clear and extremely rapid acceleration of various indicators: CO₂ concentration in the atmosphere has increased by 45% since the pre-industrial era and the sea level has risen from 22 cm since 1900. The global average temperature has already risen by +1.1°C since pre-industrial ages.

Changes emerging across the climate system



02 The consequences of global warming have become a reality for all

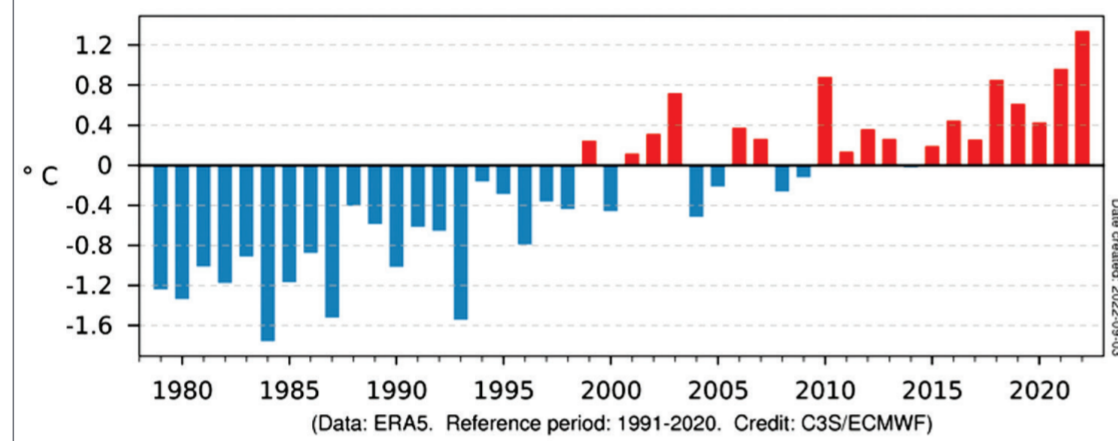
The summer of 2022 was Europe's hottest summer ever. New records were set in many places, with the average temperature being the highest for both the entire summer (from June to August) and for the month of August, according to Copernicus ECMWF's latest data.

Many European cities reached record high temperatures and experienced several months without any rain. The Mediterranean Sea warmed up to over 30°C after unprecedented marine heat waves, driving deep ecological changes and threatening the

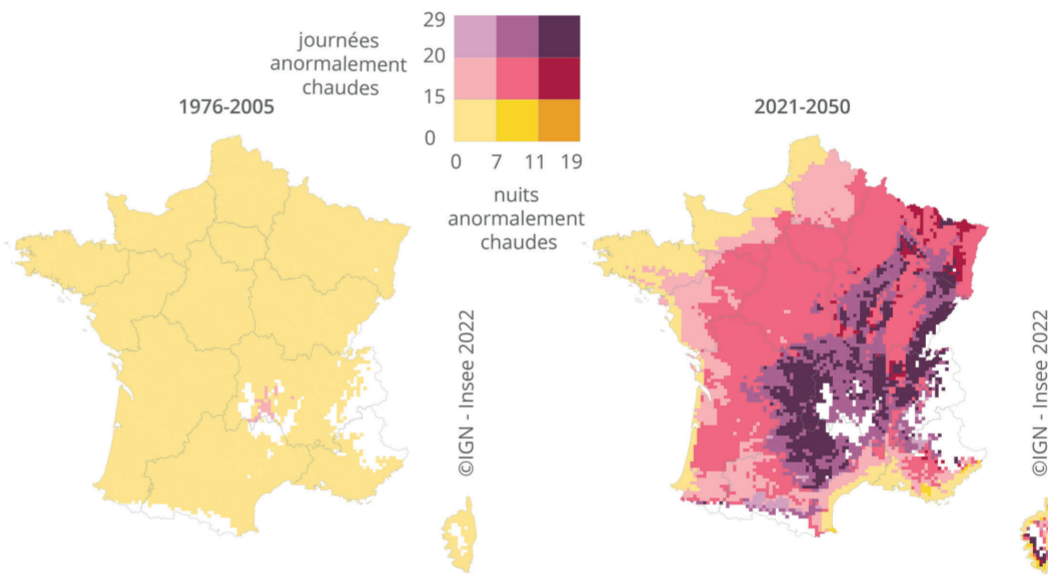
survival of underwater ecosystems and marine life. There were fires in regions that do not usually experience them, such as the Monts d'Arrée in Brittany or in the State of Brandenburg for instance.

Heatwaves, droughts, and forest fires are now a reality all over Europe. In 2022, we recorded the worst droughts in at least 500 years, putting the European Union's agriculture and energy sector under huge pressure. Wildfires destroyed over 500 000 hectares - more than double the average for the last 15 years.

European surface air temperature anomaly for summer (JJA)



Boreal summer (June to August) averages of European-mean surface air temperature anomalies from 1979-2020. Data source: ERA5. Credit: Copernicus Climate Change Service/ECMWF



As the planet continues to heat up, such extreme weather will keep intensifying in France. For instance, 1 in 7 inhabitants will face at least 20 extreme heat days each summer in average for the next three decades, and another two thirds will face 16 to 20 days of extreme heat each year, according to recent projections by INSEE and IGN.

Furthermore, a major study recently published in Science, which assessed and synthesized over 200 past studies on the topic, shows how the climate crisis has driven the world to the brink of multiple “disastrous” tipping points and why every fraction of degree of warming that can be avoided makes a difference, since it could avoid hitting another one of these “tipping points”.

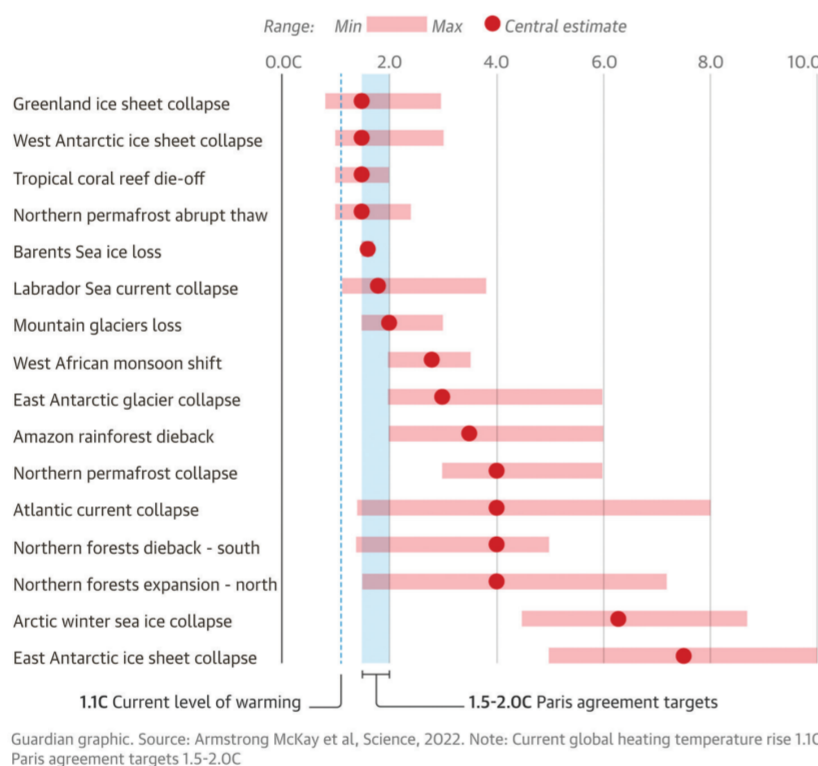
This study shows that, at 1.1°C of global heating already achieved, 5 tipping points with potentially irreversible effects may already have been passed, including the disappearing of Greenland's ice cap and of the tropical coral reef or the abrupt melting of carbon-rich permafrost.

At 1.5°C, which is the minimum level of warming expected even if emissions were rapidly reduced, 4 of these 5 tipping points become likely to happen and an additional 5 become possible, such as the loss of almost all mountain glaciers and of sea currents or deep changes to vast forests.

Above 2°C of global heating, the risks of highly dangerous and irreversible consequences of this warming become very substantial.

The risk of climate tipping points is rising rapidly as the world heats up

Estimated range of global heating needed to pass tipping point temperature



Guardian graphics. Source: Armstrong McKay et al., Science, 2022. Note: Current global heating temperature rise 1.1C. Paris agreement targets 1.5-2.0C.

04 Reaching European CO₂ reduction targets requires multiple initiatives

When confronted to such scientific evidence, stepping up climate action in order to rapidly reduce GHG emissions appears like the only way forward.

As IPCC Chair Hoesung Lee put it: “unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5°C or even 2°C will be beyond reach”. Hence the urgency of aligning all policies and activities on the Paris Agreement requirements.

With reinforced collective awareness after recent disruptions, there is clearly a momentum for strong climate actions. Now is the time for deep shifts in our economies while we can still maintain the global increase of temperatures well below 2 degrees and as close as possible to 1.5 degree.

Despite recent efforts, the European Union (EU) still represents almost 10% of global emissions each year (vs. 6% of world population), and an even greater share of cumulated emissions since the pre-industrial times. Willing to face its responsibilities and to set an example, the EU has decided to commit (through the July 2021 “European Climate Law” and internationally during COP26 in November 2021) to reaching carbon neutrality by 2050 and to reducing GHG emissions by 55% by 2030 (compared to 1990).

To reach these ambitious goals, the EU has launched a “European Green Deal”, which provides a global framework supported by ambitious regulations presented in the “Fit for 55” package and progressively entering into force.

“When life seems hard, the courageous do not lie down and accept defeat; instead, they are all the more determined to struggle for a better future”
Queen Elizabeth II

05 Financial actors have a great role to play in the indispensable rerouting of huge investments towards a greener economy

Financial markets actors have a crucial role to play in the battle for a greener world. Indeed, in order to mitigate global warming and climate disruption and reach these binding European commitments, colossal investments will be required in the next decade. A recent McKinsey study estimates that approximately €840 billion capital spending will be required each year until 2030 in the EU to reach the -55% emissions objective, implying the rerouting of 1/4th of current investments from “grey” to “green” activities, as well as an increase in total investments by 7%.

This means that, each year, 4 GDP pts of investment will need to be redirected towards green investments and an additional 1 GDP pt of “green” capital spending is required. Such a huge

investment means that the European Green Deal will be way larger than the Marshall Plan in the aftermath of World War II and the equivalent each year of the unprecedented Recovery and Resilience Facility adopted after the Covid at European level.

Indeed, shifting swiftly towards a decarbonised European Union will require to invest simultaneously in green techs (such as green hydrogen facilities), green infrastructures (such as renewable energies, that will need to reach at least 40% of our energy mix by 2030), but also in the transformation of the core of our economies. If the former are rather well financed and supported by public policies, the “grey to green” transformation of existing companies has merely started and will require a great boost in the next years, especially for SMEs.

06 Argos Wityu's contribution to shaping a better future: an “Article 9” impact fund to accelerate the “Grey to Green” transformation of European SMEs

With the will of playing a pioneering role in the swift construction of a carbon-free economy and in closing the financing gap for this transition, Argos Wityu has decided to launch a new climate action strategy, which aims at leveraging its 30-year track record of transforming European SMEs. This initiative will facilitate the “Grey to Green” transformation of European companies and therefore contribute to shaping sustainable leaders within their respective industries.

This new impact fund, destined to professional investors, will be registered as “Article 9” under EU Sustainable Finance Disclosure Regulation (SFDR), the most demanding level of environmental

ambition. It will set a clear target of reducing by at least 7.5% per year the intensity of portfolio companies' greenhouse gas emissions (GHG) and align team incentives by tying 1/4 of its carried interest to the achievement of this objective.

Argos' climate action strategy is an extension to the existing platform and leverages its strong network, sourcing capabilities and investment team. It will sit alongside the long-standing flagship funds, which are primarily focused on supporting the accelerated transformation of mid-sized businesses whilst integrating ESG considerations.

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wityu

Climate Action

argos.
wityu

Contact Us

BELGIUM

AVENUE LOUISE 331
1050 BRUSSEL
+32 2 544 12 40

FRANCE

112 AVENUE DE WAGRAM
75017 PARIS
+33 1 53 67 20 50

GERMANY

NEUE MAINZER STR. 52-58
60311 FRANKFURT AM MAIN
+49 69 5977217 30

ITALY

PIAZZA DIAZ 5
20122 MILAN
+39 02 00 660 700

LUXEMBOURG

1-B RUE JEAN PIRET
2350 LUXEMBOURG
+352 2484 01 60

SWITZERLAND

RUE DU RHONE 114
1204 GENEVA

argos.wityu.fund

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