



# Sustainable Investing

Many of us at RockCreek have been investing sustainably for years. Even as sustainable investing saw a confluence of factors in the first half of the year, RockCreek clients are increasingly interested in raising the share of their portfolios invested sustainably in terms of environment, social justice, health, and affordable housing.

Final Q1 data showed that global sustainable funds attracted close to \$96 billion of net new capital. The annual trend of inflows into the ESG space has been on a consistent upward trajectory since 2019, and while the second quarter of this year experienced a decline, positive investor sentiment continues to bring attention and new creative strategies to the space.

Regulators, including the SEC, expressed concerns around “green washing” in the market and signaled a desire for increased scrutiny over the accuracy of impact claims by ESG and sustainability investors. We believe this focus will only enhance and improve the sector with more analysis on how best to create both positive impact and financial return by investors.

With the rest of the year being difficult for equity and bond markets, public market sustainable investing flows continue to have long-term tailwinds that can counter the negative pressures in the broader market. According to Morningstar, US sustainable fund flows fell to \$10.6 billion in Q1 2022, while assets in sustainable funds dipped for the first time in two years, to \$343 billion. Despite flows into US sustainable funds dipping 26% compared to Q4 2021, the demand for sustainable flows showed higher resilience than the broader US funds market, which saw flows dip 65% to \$85.7 billion.

**Despite general market uncertainty, Q1-2022 saw 273 VC-backed climate tech rounds worth \$9 billion and angel & seed dollars invested were strong at \$283.3 million – 40% of the total dollars invested in angel and seed climate tech during all of 2021.**

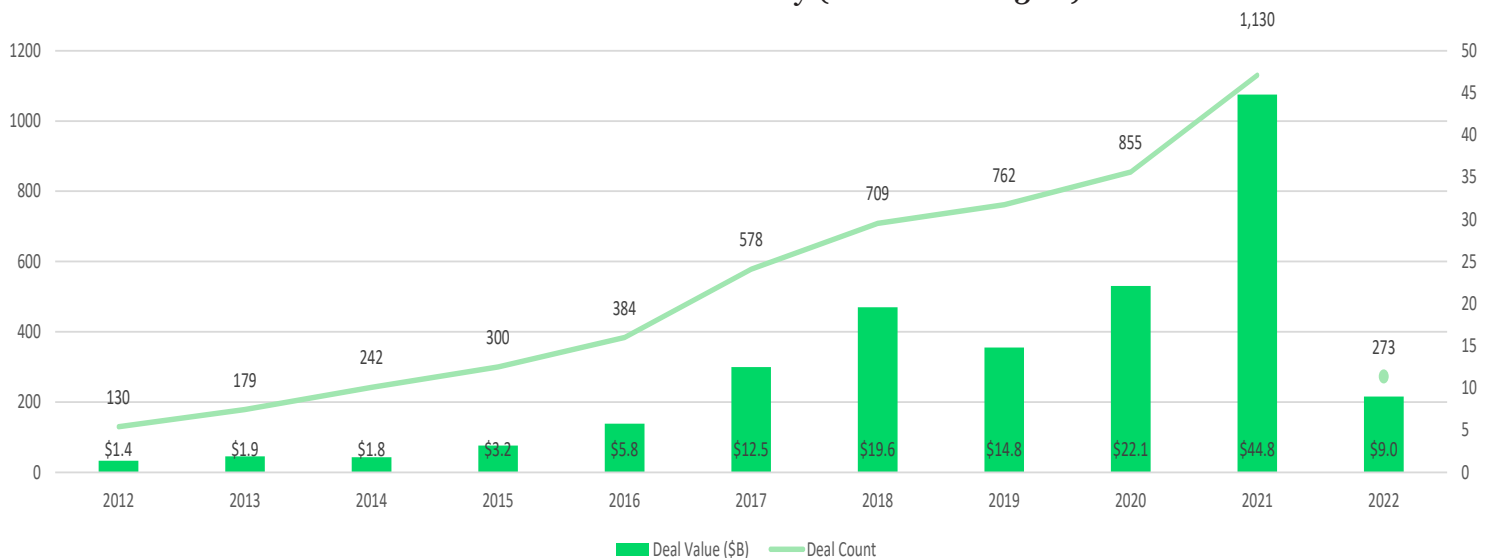
Taking a longer view on renewable energy specifically, over three years, renewables are up 84.8% – more than double the total energy market, which is up 34.5%. Over 5 years, renewables are up nearly 140%, while total energy is up only 41.1%. In the shorter term, renewables are down 15.2% over the past year and total energy is up 39.1%.

The Russian war against Ukraine could, ultimately, accelerate the energy transition. We have said before that the ongoing war has accelerated the renewable transition in Europe more than countless climate summits have. During Q2, the European Commission presented the [RePowerEU plan](#), which aims to end the EU’s dependence on Russian fossil fuels, while at the same time accelerating the transition to sustainable energy to tackle the climate crisis. We [pointed out last quarter](#), Germany, especially, is wrestling with tough decisions such as extending the life of coal and nuclear power plants, while focusing on the transition. As German Chancellor Olaf Scholz said, the short-term needs for diversified energy can dovetail with the long-term transformation. “An LNG terminal that today receives gas can, tomorrow, be used to import green hydrogen,” Chancellor Scholz said.

The push for European energy independence is likely to accelerate climate tech investment, namely hydrogen, solar, batteries, nuclear, and wind. Rising oil and gas prices are making renewable energy and electric vehicles more cost competitive and improving ROIs of energy efficiency solutions. Developments on the private side proved stable during a volatile first half of the year, despite much of the criticism from Elon Musk and others of the ESG space. Climate tech startup companies with focuses on everything from electric scooters to imitation meat products raised \$53.7 billion in 2021. Amid an environment of general pullback in venture capital funding, sustainable companies saw an increasing need to be more conservative with their cash.

Sustainability-focused growth equity and private equity activity has remained strong amid a weak IPO market, which has caused companies to turn to private markets in lieu of public funding, and more dramatically improved pricing that has resulted from the broader market correction.

Climate Tech VC Deal Activity (As Of March 31st)



Source: RockCreek, PitchBook

Although dollars going to climate tech and other sustainable investment themes may be volatile in the second half of the year, long term prospects remain strong across several themes. Rising food and commodity pricing has spurred an increased interest in AgTech, while supply chain woes have been a catalyst for growth in a new wave of technology, logistics, and transportation companies.

At RockCreek, we are looking for opportunities in themes such as: AgTech, climate, clean energy, health, education, workforce, housing, and other sectors. Companies we invest in, along with partners, are operating electric vehicle infrastructure; bringing affordable healthcare to seniors; implementing agronomic and digital farming practices to improve sustainability and maximize crop yields; growing sustainable produce in urban greenhouses; helping millions of learners access education online; recycling food waste, organic waste, and water into renewable natural gas that can be used to power businesses, manufacturing plants, and schools; and building and operating the next generation of smart infrastructure.

In the US, specifically, investment may expand, pushed by the latest White House agenda. In June, the Biden Administration announced a handful of companies investing more than \$700 million to expand the domestic electric vehicle charging infrastructure with the goal of building a national network of 500,000 public charging stations by 2030. Volkswagen-owned Electrify America announced an investment of \$450 million; Siemens announced \$250 million. In June, President Biden issued an executive order that eliminated concerns around near-term tariffs on solar panels from Asia and promoted long-term US panel manufacturing, which may brighten the outlook for domestic solar production in the years ahead, though it has created confusion and additional costs and delays to solar projects.