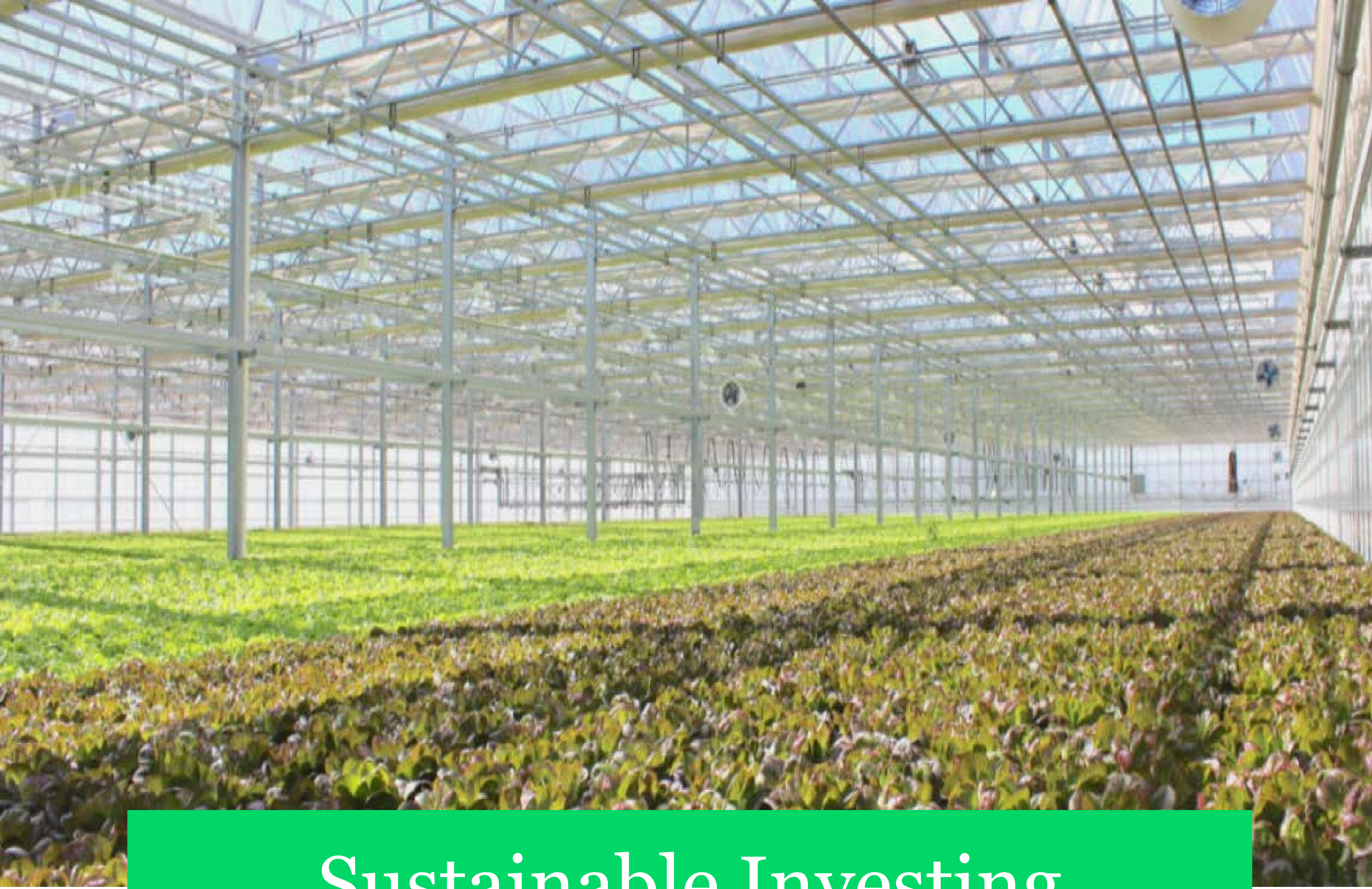

Sustainable Investing

For years, the sustainable investing community has been looking for US politicians to step up and join other nations in making a clear commitment to address climate change. In Q3, that call was answered with the Inflation Reduction Act (IRA).

With $369 billion in incentives for scaling solutions across clean energy generation, electrification, energy efficiency, electric vehicles, sustainable agriculture, environmental conservation, and numerous other areas, the U.S. is now on a course to reduce 40% of its emissions by the end of the decade.

What sectors will benefit from the IRA? Kerry Duggan, RockCreek Senior Advisor and former Biden policy director, highlighted that the IRA notably focuses on scaling and deploying existing technologies. During an interview as part of RockCreek Climate Week events Duggan said, “There are ambitious goals for a net zero economy by 2050. You need to deploy what works now while we continue to also invent the technologies of the future.” The IRA relies on a series of incentives, subsidies, and tax code changes to make these solutions more economically attractive and develop complementary ecosystems necessary to support cleaner industries.

For example, solar – already well established and economically attractive in many US zip codes – will receive a boost from an increased tax credit locked in for the next decade. Energy storage solutions will benefit, as many batteries complementing solar systems will now also qualify for tax credits for the first time. The developers, installers, financers, and others up and down the growing value chain will be able to invest in building capacity to install systems, knowing that incentives will last longer than a few years. Workers interested in green jobs will benefit. For more details on the IRA and resulting investment areas, check out RockCreek’s Investor Brief.

Now that the climate bill is law, the real work begins.

Everyone from government agencies to state legislatures are figuring out how to implement the IRA’s provisions to start the hard work of reversing the centuries-long trend of increasing emissions.

If the IRA was a source of optimism, hope, and a celebration, the weather during the third quarter was a sobering reminder that the planet is not impressed by policy alone. This summer brought a dizzying barrage of climate disasters ranging from horrific flooding that submerged nearly a third of Pakistan to wildfires across the Iberian Peninsula to Hurricane Ian damaging Caribbean islands and Florida. Shortly after the quarter ended, Nigeria’s worst flooding in a decade killed more than 600 people and injured 2,400 more; destroyed 200,000 homes; and displaced over 1.4 million people.

The impacts of climate change were not limited to these acute disasters – water levels in Europe’s major rivers dropped so low that they hampered electricity generation in France and supply chains in Germany. These impacts of climate change extend its reach beyond those unfortunate enough to find themselves in the pathway of a climate disaster and deliver it to the doorstep of nearly every person on the planet.

In the effort to fight back, cracks have begun to show among members of The Glasgow Financial Alliance for Net Zero (GFANZ). Morgan Stanley, JPMorgan, and Bank of America are among a number of major banks that are weighing an exit from GFANZ over fears of being sued due the alliance's stringent decarbonization benchmarks. These fears, in part, are stoked by the SEC's proposed rule to require formal disclosures in annual reports about governance, risk-management, and strategy with respect to climate change. Another source of this movement away from GFANZ is the sentiment that major financial institutions are better prepared to set their own climate benchmarks and standards, rather than comply with GFANZ's ever toughening rules and regulations and demands to meet real climate targets.

Strains on energy markets and supply chains continued during the third quarter. As the war in Ukraine trudged on, energy prices around the world spiked. Impacts on sustainability investing were mixed. On the one hand, increased energy prices made economic cases for renewable energy and energy efficiency projects stronger. On the other hand, energy security trumped climate goals in Europe as Germany turned back to coal to power its electric grids in lieu of Russian natural gas. Supply chain tensions were similarly a mixed bag during the quarter; there was some easing for some products (e.g., solar panels), while they remained tight in others (e.g., EVs).

But Q3 closed with some positive news in the sustainable agriculture sector. RockCreek participated in the latest funding round for hydroponic indoor farming company Gotham Greens. The company closed on a $310 million Series E round to rapidly expand its sustainable greenhouses nationally. Placed in close proximity to cities, these greenhouses require significantly less refrigerated shipping to get food to market. They are also proven to use up to 95% less water and 97% less land compared to conventional farms. Sustainable food and agriculture is a sector we will continue to watch in the years to come.