

INVESTOR BRIEF: A TALE OF TWO SUMMITS

At COP26 last year in Glasgow, we saw big pledges – Net-Zero pledges from countries and companies; \$130 trillion of private capital represented in the GFANZ coalition pledged to accelerate the decarbonization of the economy. But that world, one of easily-available capital and peace in Europe, no longer exists, and we have seen a resetting of expectations from many of the major players, both on the public and private side.

We saw something of a phenomenon this week, where the world effectively had two major climate summits happening at the same time: COP27 in Egypt with a scientific angle and the G20 summit in Indonesia with an economics view. COP27 had the potential to be somewhat either hamstrung or accelerated by the events at the G20. But with President Biden and President Xi Jinping agreeing to resume cooperation on climate change, a much-needed boost to negotiations in Sharm El-Sheikh were tangible. The leaders of the world's two biggest carbon emitting countries indicated that they would "empower key senior officials" on areas of cooperation, including climate change.

Some of the major actionable mandates coming out of COP27 include Brazil, Indonesia, and the Democratic Republic of Congo forming a strategic alliance to coordinate the protection of their forests, the creation of a new global insurance system for countries hit by natural disasters, and the EU raising its target for cutting greenhouse gas emissions by 57% by 2030.

One of the central issues of COP27 was negotiations over loss and damage – how much richer countries, which have been the source of most global warming emissions, owe to poorer countries, who bear much of the burden of climate change. Developed nations haven't kept their end of the 2009 deal to raise \$100 billion annually to help developing nations transition to clean energy and adapt to climate impacts. That was supposed to have happened by 2020, but less than 20% of the funding has been accounted for.

At COP27, negotiators worked to replace that \$100 billion climate finance goal. Mia Mottley, Prime Minister of Barbados, led this effort, and an effort to rewire the global financial system – especially the World Bank and IMF – to free up more than \$1 trillion of financing for poorer, more vulnerable countries. Some of the richest countries are behind this overhaul. Secretary Yellen has called for an overhaul of international financial institutions, and she's given the World Bank until the end of the year to come up with a plan.

One of the most high-profile and – potentially impactful – proposal to come out of Egypt was US Climate Envoy John Kerry's plan to launch the Energy Transition Accelerator, which would design a new carbon credit that would help channel private sector investment to phase out fossil fuels and accelerate renewable energy.

The goal is for corporate players – Bank of America, Microsoft, and PepsiCo have expressed interest – to fund clean energy transition projects in emerging markets, which need roughly \$2.1 trillion in clean energy investment.

Just a few years ago, it was inconceivable to see the U.S. Government working alongside U.S. corporates and foundations to proactively roll out clean energy solutions in emerging markets. And while there is still a long way to go before this becomes put into practice, the fact that private industry is acknowledging the problem and willing to be a part of the solution speaks volumes to the endeavor's viability. Climate is dominating the conversations of world leaders, delegates and investors, and RockCreek sees tremendous opportunity for investors in this space – ranging from renewable energy to clean transportation to sustainable agriculture.

But perhaps the biggest climate news this week didn't come from COP, but from the G20 summit in Bali. A group of countries led by the US and Japan (along with Canada, Denmark, the EU, Germany, France, Norway, Italy, and the UK) organized a \$20 billion package to help Indonesia sharply cut its fossil fuel use and speed up its transition to clean energy. Indonesia is the 4th most populous country in the world and one of the largest consumers and exporters of coal. This funding will help Indonesia source more than a third of its power from renewables by 2030, cutting emissions and helping reshape energy markets in the years ahead.

Unlike the G20 summit, COP27 negotiations went nearly two days past their scheduled deadline as countries struggled to compromise on a plan to reduce global dependence on fossil fuels and a fund to help vulnerable countries pay for recovery after climate damage. Despite the eleventh-hour efforts, the final agreement does not mandate curtailing fossil fuels, but rather encourages "efforts towards the phasedown of unabated coal power and phase-out of inefficient fossil fuel subsidies."

The accord also includes a landmark "loss and damage" financial assistance program for restoration following extreme weather events. Over the next year, countries must iron out the details of the new dedicated fund, but the deal does not set a firm timeline for when funds must be transferred. This, among many other issues, will continue to be topics of conversation over the coming months and into COP28 in Dubai one year from now.