Sustainable Investing

The Inflation Reduction Act (IRA) gave sustainable investments momentum coming into Q4 and helped the US reassert itself as a global leader for mobilizing capital to invest in green energy. The Biden Administration also made a series of announcements linking national security and economic prosperity with progress on climate challenges.

Private markets reacted positively to this continued momentum. According to Climate Tech VC, more than $64 billion was raised for private climate-focused funds by November – surpassing 2021 for the best year ever in terms of dollars raised. Investors poured more than $40 billion into climate companies last year – a 3% drop from 2021 – while deal activity jumped 40%, as more than 1,000 venture and growth-stage climate deals closed in 2022.

Climate companies bucked the broader trend of down rounds and the general pain that impacted broader private markets.

But it wasn't all good news. The enthusiasm for sustainability in private markets did not carry over to public markets in Q4, though it has in the past. Q4 saw the continuation of the broader 2022 controversy surrounding ESG, even as some of the more traditional global private equity firms increased their clean energy investments.

But there were still those who hoped there would be enough momentum headed into November's COP 27 meetings to spur the world's nations to get to work in a coordinated fashion to tackle the climate crisis. Much of this hope was quashed by diplomatic realities long before the first meeting took place. The most economically and environmentally vulnerable nations made it clear that they would be looking for assistance to address their stark realities. The conference ended with a handful of modest wins for vulnerable countries seeking compensation for loss and damage from the impacts of climate change. By and large, however, there was little progress elsewhere. And hopes of a positive step forward to start off 2023 were dashed as the sentiment coming out of Davos was more of the same.

Despite this backdrop, many corporations have recognized the need for substantive action in the climate arena and continued forward with commitments and plans to reduce the risk to their business models from environmental impacts. In November, Accenture published a report highlighting the commitment by over one third of the world's 2,000 largest public and private global companies to achieve net-zero by 2050—the largest percentage ever and a marked increase from 2021. But the report also shows that unless these companies aggressively accelerate their efforts, 93% of them will miss their targets, implying that only around 47 of the world's largest 2,000 companies are on pace to achieve their net-zero goals.

While this is a sobering snapshot of where we are on the road to global climate action, we believe that this also highlights how much opportunity exists in the sustainability sector. The year ahead should see continued acceleration by corporations – regardless of their views on climate issues or the debate on ESG – with ramped up investments in the energy and digital transformation of their businesses. And we continue to believe that companies offering smart, future-focused solutions will be attractive for investment.

And as the financial incentives provided by the IRA come more into focus, both the public and private sector have turned their attention to watching how the language of tax codes and other legal provisions will be interpreted and how the IRA will be spent.

In one early decision, the Biden Administration elected to take a much broader view than initially contemplated of geographies from which minerals used in the EV industry could be sourced to qualify for a lucrative tax credit.

Throughout 2023, Washington D.C. will continue to matter as many other details will be finalized; and investors will be watching each decision closely. This level of targeted investment has been known to spur monumental growth in climate and sustainability sectors in the past. A $465 million low-interest loan from the Department of Energy, funded by the 2010 federal stimulus package, transformed Tesla from a novelty car manufacturer building less than 500 cars a year into the company that we know today, so as the IRA money begins to be spent, investors should be on the lookout.