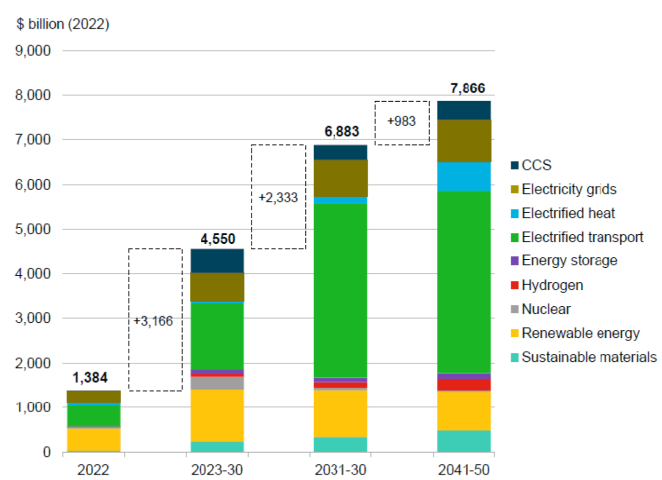
SUSTAINABLE INVESTING

The first quarter saw some encouraging statistics about the current state of investment in the energy transition. According to BloombergNEF, over $1.1 trillion was invested in the global energy transition in 2022—a whopping 31% increase over the prior year. Renewable energy and electrified transport accounted for the majority of this investment. The bulk of this spending emerged from China, which outspent the distant second place US by nearly three times.

An additional $472 billion was spent on key enablers of the energy transition, including investments in the power grid, clean energy factories and supply chains, and in equity financing of energy transition companies. Notably, spending on the energy transition in 2022 caught up to spending on traditional fossil fuels; it is forecasted to surpass fossil fuels spending in 2023 and thereafter.

Tripling spending on the energy transition is a massive undertaking. Investments will come from a growing set of incentives around the world. In the US, as details of the Inflation Reduction Act (IRA) are fleshed out, the expected size of the law is growing: Goldman Sachs' latest estimate is that this package is worth $1.2 trillion, more than three times the original $369 billion Congressional Budget Office estimate when the law was initially announced in 2022. This was complemented by a series of other announcements in Q1: the Department of Housing and Urban Development announced $3.3 billion for companies providing resiliency solutions, the National Park Service released $4.7 billion to states to plug orphan oil and gas wells, and details around $7.5 billion in incentives for EV charging were released. In the Euro area, the Net-Zero Industry Act was passed in March 2023, as a key part of the broader EU Green Deal. This initiative is focused on enabling the energy transition by reducing administrative burdens, simplifying the permitting process,

Figure 3. The investment needed to get on track for net zero must triple this decade



Source: BloombergNEF.

facilitating access to markets, and enhancing the EU's workforce focused on energy transition jobs.

At RockCreek, we see significant opportunity from the spike in demand for energy transition solutions that accompany the increased focus and spending on the energy transition. Companies with smart solutions that enable the energy transition, offer an attractive return-on-investment to customers, and have attractive unit economics will be the biggest winners in the transition. Growth-stage companies are positioned well: they have an opportunity to use their innovation. They also have the solutions that are ready to be deployed now to take advantage of customer preferences and government incentives.

Banking turmoil and volatility during the quarter weighed on markets in the sustainability space. After a strong start in 2023, sustainability-linked funds saw withdrawals in March but despite the turbulence, these funds managed to secure net inflows of $25.5 billion in one of the best performances in over a year. In public markets, the largest US IPO came from the solar world. Nextracker, a hardware and software provider to the solar industry, successfully raised $638 million in an otherwise challenging IPO market.

On the flip side, the climate venture market finally saw a slowdown in line with broader slowdowns in venture deal making. According to Pitchbook, $5.7 billion in transactions across 279 deals were completed during the quarter – a roughly 35% decline year over year, in line with overall trends in the venture space. While many in the industry are still attempting to discern whether this quarter is an anomaly or the sign of a new trajectory, it is worth noting that the downfall of SVB was particularly damaging to the climate tech ecosystem, but the longer-term impacts remain to be seen.

Looking forward, we expect the second quarter to be dominated by a series of announcements providing clarity about how the benefits of the IRA will be rolled out. We also think corporate buyers of commercial energy transition solutions will continue to ramp up spending as they continue to evaluate ways available to reduce their footprint. Therefore, we expect the compelling market opportunity for energy transition solutions to persist for the long-term.