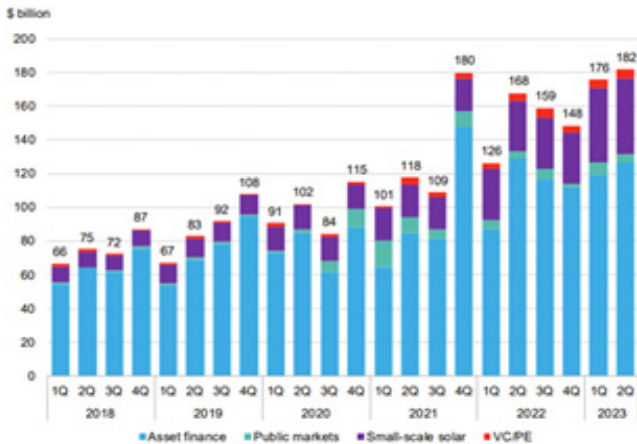


# SUSTAINABLE INVESTING

As the world emerges from a brutal summer with record-breaking heat, we are once again reminded of the importance of the energy transition in reducing fossil fuel dependence. Unpredictable and extreme weather patterns have caused volatility in gas prices, and the falling costs of clean energy has made renewables an attractive opportunity from both a cost and energy security perspective. Despite the challenging economic picture over the last 18 months, the energy transition shift continues to gain momentum as policymakers seek to mobilize private capital and investors seek to take advantage of the emerging opportunities.

New investments into clean energy are expected to reach \$1.7 trillion in 2023, and recent data from BNEF shows that the first half of this year saw a 22% surge in investments to a record-breaking \$358 billion, with solar driving most of the performance (Figure 4). Nearly half of

**Figure 4. Quarterly investments into clean energy continues to grow.**



Source: BloombergNEF. Note: VC/PE = venture capital/private equity.

these investments came from China, but growing policy competition may upend their market dominance. In the US, clarification on incentives provided by the Inflation Reduction Act (IRA) – which marked its one-year anniversary in August – and easing supply chain pressures helped propel US investments to a 75% year-over-year increase to \$35 billion. Other countries are following suit with their own policies to ease their dependencies, but it is important to note



that creating localized supply chains and diversifying supply chains will take significant capital and time to rival that of China, which currently represents 80% of total global solar manufacturing capacity. But as major markets now work to align incentives with regulation on longer-term objectives, we may see a meaningful shift towards a decentralized energy market in the coming years.

Inflation and higher rates have fed into higher financing costs, putting pressure on companies in this space. A slew of earnings among solar stocks that missed expectations last quarter and concerns over supply-chain bottlenecks for offshore wind didn't improve the sentiment. The S&P Global Clean Energy Index – which measures the performance of around 100 companies in the global clean energy industry – declined sharply over the quarter by 20.1%. Sustainability-linked funds continued to suffer outflows over the quarter, particularly for funds with high exposure to clean tech and clean energy stocks that were hit by revaluations. Nevertheless, assets continue to pour into climate funds, particularly for “climate transition” funds that focus on companies with a clear commitment to transition and are well-positioned to transition to the low-carbon future. Climate venture is coming off a difficult first half of the year, but the dry powder for investment remains sizable. While investments into climate tech have largely reflected broader market conditions, the year-over-year decline of 40% in Q3 is much less stark than venture activity in other sectors. And climate tech as a percentage of startups continues to grow, representing just over 11% of startup investments in Q3 from a low of 0.6% just ten years ago. According to Pitchbook, more than \$14 billion of capital deployed over the quarter to climate tech, bringing the year-to-date total to \$43 billion across more than 2,200 deals. And recent estimates suggest there is still \$33 billion of cumulative investable dry power waiting in the wings. Investments are also seeing momentum from some of the largest PE funds that are raising capital dedicated to the climate and energy transition. Though the current environment has slowed the rollout of dealmaking and commitments, there are some trends to watch as we head into the fourth quarter and into 2024, including the move in funding towards late-stage, growth, and private equity as climate tech companies mature.

There are plenty of headwinds in place. The global landscape for clean energy is rapidly evolving. Higher power prices and volatile energy markets; better efficiency, geopolitical concerns, long-run global fiscal support play positively into clean energy investment and adoption. Much of the



discussion around transition investing has focused on developing new technologies. There are huge opportunities to invest in companies with smart commercial solutions and can be deployed today. The growing importance of the “time value of carbon” – whereby carbon reductions today are worth more than carbon reduced in ten years – means there should be a larger focus on adopting existing technologies and solutions that can be scaled rapidly to catalyze the energy transition. This is a space where investment goals and impact goals align well: sales growth comes from deploying energy transition solutions on a larger scale. This is not to say there shouldn’t be any investment in breakthrough technologies, but rallying funds for these efforts takes time and often comes with a slower rate of deployment.