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Sustainable Investment Strategy

Harnessing tailwinds from global climate policies

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SUMMARY

In the wake of supply chain debacles and surprise military conflicts that have brought major economies to their knees, countries around the globe are re-embracing long disfavored industrial policy.

Whether it is onshoring the production of computer chips, working to become energy independent of Russia, or the current generation of climate change fighting policies, western governments are picking winners and losers in business rather than relying on the wisdom of the invisible hand.

As environmentalists, policy wonks and economists we have many opinions about the current methods of fighting climate change in the economy. But we are clear on one thing: When governments pick winners and losers, it is important to seek winners.

Time and again, ideological blinders have historically caused investors to miss out on return opportunities. Whether it is partisans assuming markets will tank if their opponent wins an election, or climate change ideologists avoiding investments that don't align with their world view or ideal strategy, when you close your portfolio off from potential opportunity, underperformance is the likely outcome.

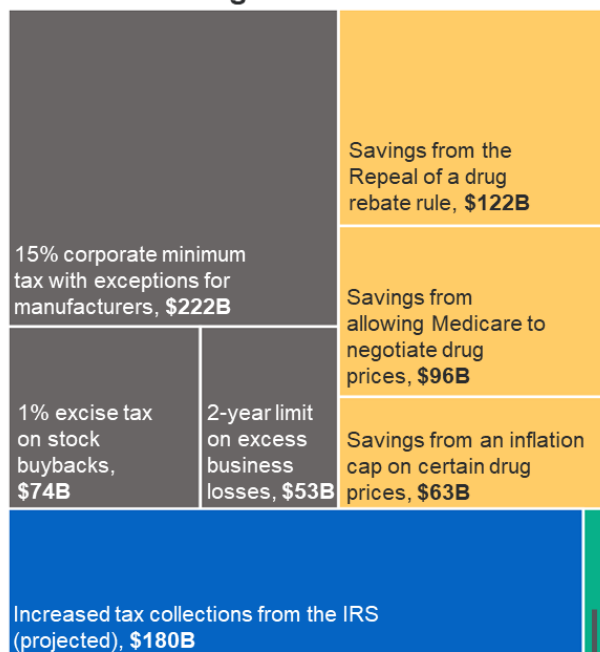
While we currently believe Greening the World is an unstoppable trend in our [Outlook](#), this is neither inevitable nor has it always been the case. However, the rise of activist green industrial policy in capitals around the world makes the case even stronger than it was three years ago when we first elevated this trend to the level of unstoppable.

Follow the wall of money

With the recent passage of the Inflation Reduction Act (IRA), annual gathering of NYC Climate Week, and upcoming 27th Conference of the Parties of the United Nations Framework Convention on Climate Change (COP 27), momentum is strong behind the climate and clean energy movement. Standing to benefit are the secular themes of sustainable energy, decarbonization technologies, and green capital expenditures, including companies focused on solar and wind production, energy storage, electric vehicles and carbon capture technology. These government-directed investment opportunities and incentives are critical for investors to pay attention to as the world takes action to avoid a climate crisis.

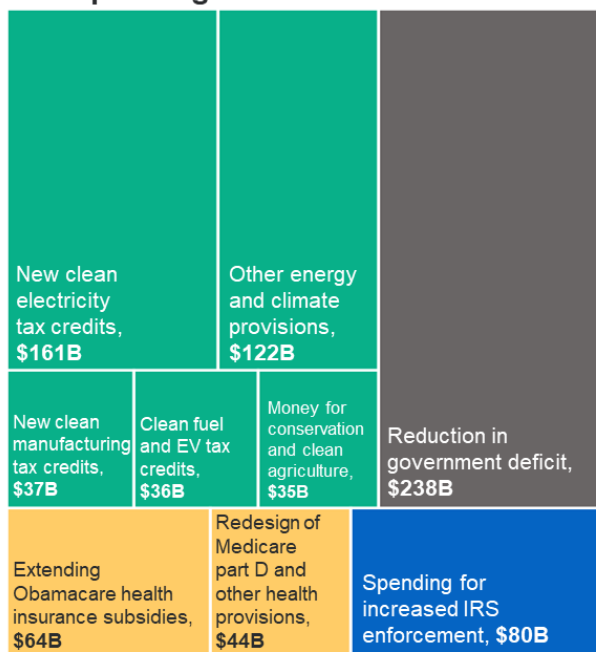
■ Climate/Energy ■ Healthcare ■ IRS ■ Other

IRA Fundraising:



New fees on methane and superfund sites, **\$7B**

IRA Spending:



Source: Committee for a Responsible Federal Budget based on data as of August 3, 2022. IRA Fundraising: Categorizing how the funds for the Inflation Reduction Act will be raised to support its spending initiatives. IRA Spending: Categorizing how the funds for the Inflation Reduction Act will be utilized for the bill's objectives.

The Infrastructure Investment and Jobs Act passed in November 2021 directs \$62 billion in funding towards clean energy initiatives.¹ Subsequently, the more recent IRA provides an additional \$369 billion for climate and green energy initiatives. The bill aims to reduce greenhouse gas emissions by 40% by 2030 from 2005 levels - and represents the US Congress' largest investment in climate change mitigation and adaptation ever taken.²

During a Climate Week New York City panel in September, Australia's minister for climate change and energy, Chris Bowen, expressed his view that in addition to being a driver of economic growth, renewables are an imperative to national resilience and security.³ Compared to domestically produced renewable energy such as solar and wind, fossil fuels are impacted by price increases influenced by geopolitical conflicts.

Looking ahead, Egypt will host the COP 27 this November. It will aim to build on the success of past COPs and advance climate action.⁴ According to the World Bank, October 2019 data indicates that \$90 trillion in infrastructure investments are required over the next 15 years to transition to a green economy – suggesting that every \$1 invested in a successful transition could yield \$4 in value.⁵ Moreover, the 2018 [New Climate Economy Report](#) found that climate action could deliver \$26 trillion in economic gain through 2030 compared to no action.⁵

What does this mean for investment portfolios?

The recent surge in interest from companies and investors to adopt sustainable business plans and decarbonize the economy is still in its early stages. Significant government investments in renewable energy opportunities have directed billions towards clean energy transition and innovation while aiming to fund at the speed and scale required to achieve climate goals.

To avoid the worst impacts from climate change, the Paris Agreement challenges society to limit global warming to 1.5 degree Celsius relative to pre-industrial levels. According to the United Nations, major pension funds and investments firms are recognizing that their portfolios are more aligned with a 3.5 degree future and, in turn, are engaging with their asset managers and portfolio companies to align with net zero Paris targets.⁵

We believe that by swiftly and systematically supporting climate strategies, investors can meaningfully contribute to climate objectives and seek economic and market opportunities that may potentially generate competitive performance in their own portfolios. While stakes have never been higher as governments make transformative investments to combat climate change, create job opportunities and protect our planet – the case for Greening the World seems more timely, relevant and compelling than ever, despite one’s ideological views.

¹ [Infrastructure Investment and Jobs Act \(IIJA\) \(pa.gov\)](#)

² [The biggest thing Congress has ever done to address climate change | Environmental Defense Fund \(edf.org\)](#)

³ [Climate Week NYC 2022 | Canary Media](#)

⁴ [COP27: Delivering for people and the planet | United Nations](#)

⁵ [Climate Finance | United Nations](#)

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