

Climate Change: Impact and Investment Opportunities



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Climate change is one of the defining investment issues of our time. We spoke to Casey Clark, CFA, and Rolando Morillo, co-portfolio managers of the Rockefeller Climate Solutions Strategy, about climate change, how it impacts the investing landscape, and where they are finding opportunities.

How does climate change impact economies and markets?

Clark: We call it the climate flow effect. Greenhouse gas emissions from five sources are causing the planet to warm at an unstable rate:

- 31% Making things (cement, steel plastic)
- 27% Plugging in (electricity)
- 19% Growing things (plants, animals)
- 16% Getting around (planes, trucks, cargo ships)
- 7% Keeping warm and cool (heating, cooling, refrigeration)¹

The result is increasing seasonal temperatures and weather events, causing sea levels to rise and permanently changing ecosystems which in turn damages infrastructure, increases air pollution, threatens human health, disrupts power supplies, destabilizes food supplies, threatens water quality, and forces human migration. In response, global policy,

consumer buying preferences, and technologies are transforming, creating new opportunities in environmental markets such as renewables, water, waste, energy efficiency, food and agriculture, and healthcare mitigation.

How are policymakers responding across the globe?

Clark: The European Union is the undisputed global leader with binding policies and frameworks to achieve a 55% greenhouse gas emission reduction by 2030 and carbon neutrality by 2050. In December 2020, EU leaders agreed that 30% of the total expenditure from the EU's budget for 2021-2027 and Next Generation EU would target climate-related projects. In China, President Xi Jinping pledged carbon neutrality before 2060. While this could have an enormous impact, given that China represents almost 30% of global GHG emissions, the lack of details cause some to question the viability of reaching the target. Meanwhile, the

¹ This breakdown is from *How to Avoid a Climate Disaster* by Bill Gates.

The Rockefeller Climate Solutions Strategy is a global equity, high conviction portfolio with a ~9 year track record investing in firms' offering climate mitigation or adaption solutions across eight environmental themes, including renewables and alternative energy, energy efficiency, water infrastructure & technologies, pollution control, waste management & technologies, climate support systems, food & agriculture, and health mitigation. The strategy typically invests in "pure play" companies with at least 50% of revenues dedicated to a climate mitigation or adaption solution or a minimum of 20% revenue exposure if the portfolio managers believe that percentage will increase over time.

The team leverages scientific research collaborators to help bridge the gap between science and investing. For example, our decade-long collaboration with The Ocean Foundation (TOF) has been an important component of the investment process. Led by Mark J. Spalding, TOF brings its deep climate and ocean expertise to provide scientific and policy validation and supports our idea generation, research, and engagement process all to help bridge the gap between science and investing.

US is laying the foundation for noticeable progress in the years ahead. The Administration's commitment to climate and environmental policy will cut across much of the federal government, with National Climate Advisor Gina McCarthy ensuring coordination over interagency processes. She is the domestic counterpart to John Kerry, who was sworn in as the Special Presidential Envoy for Climate to manage the U.S.'s role in global climate action. This is the first time in history that the National Security Council will have a function dedicated entirely to climate change. Other foundational staff additions include:

- Brian Deese, formerly the Global Head of Sustainable Investing at BlackRock, became the Director of National Economic Council, which coordinates domestic and international policies, advises the President, and monitors implementation.
- The Securities Exchange Commission (SEC) named Satyam Khanna the Senior Policy Advisor for Climate and ESG. He will advise the agency on environmental, social, and governance matters and advance related initiatives across its offices and divisions. The SEC also announced the creation of a Climate and ESG Task Force led by Kelly L. Gibson.
- Cecilia Rouse became the chair of Biden's Council of Economic Advisers, often referred to as the White House's chief economist. She is the dean at Princeton's School of Public and International Affairs, was a member of the council under President Barack Obama and worked as an economic adviser to Bill Clinton. Much of her research has focused on closing racial gaps in income, wealth and education which should help lay the groundwork for a just transition.

Examples of potential forthcoming policies may include restoring and extending tax credits for solar and wind production and electric vehicle adoption; reinstating methane emission rules; toughening fuel economy standards; extending of carbon capture, utilization, and sequestration (CCUS) credits; developing electric vehicle infrastructure; and increasing the "social cost of carbon", which allows agencies to incorporate the benefits of reducing emissions in decision making.

What are the investment opportunities resulting from shifting economic and public policies?

Morillo: We believe that advances in global policy, consumer awareness, and technologies will create

long-term opportunities in environmental markets. Think of companies manufacturing wind blades, producing smart meters, enabling the energy transition, disaster planning, detecting climate change, building infrastructure to make cities more resilient, re-engineering the power grid, deploying technologies to use water more efficiently, or offering testing, inspection, and certifications for buildings, soil, water, air, and food. Our objective is to identify companies operating in these growth areas across our eight environmental themes with distinct competitive moats, strong management teams, resilient business models and viable products or services offered at attractive prices relative to our growth expectations.

With clean energy stocks advancing noticeably in 2020, where do you see opportunities today?

Morillo: While valuations for some renewable and clean-tech companies have become stretched, opportunities remain given the secular growth drivers and transformation needed to achieve net zero commitments by countries and companies. Here are some areas we have been focused on recently: companies that manufacture composite structures for wind blades and electric buses, increase grid efficiency via solar tracker systems and smart meters, offer engineering and consulting services to help cities become more resilient, detect climate change and disaster planning, build the infrastructure to develop and transmit energy, and develop clean energy (reference Europe's "Green Energy Majors"). When thinking of climate "solutions", many people think only of energy. However, 19% of carbon emissions are from "growing things (plants and animals)," according to Bill Gates. The future of food will change noticeably with the advent of plant-based and alternative protein sources, cultured meats, and other sustainable food sources. We are exploring this potential area of growth as an increasing number of sustainable food firms contemplate going public in the years ahead.

How have Rockefeller's networks and scientific partner networks helped to support the investment process?

Clark: Our primary scientific partner and advisor, The Ocean Foundation (TOF), has been instrumental in bridging the gap between science and investing and supporting our research and engagement process. Over the years, they have provided insights or connected

us with experts to understand the public-policy environment for offshore wind, the future of sustainable aquaculture, regulation of ballast water systems and emissions scrubbers, the impacts of hydroelectric power in certain regions and green hydrogen, to name a few. Mark J. Spalding, the President of TOF, has also joined shareholder engagement calls for companies across our thematic equity offerings, helping to inform our approach and offering suggestions for improvement.

Given the success of our longstanding collaboration with TOF, we established a partnership with the World Resources Institute (WRI), a global research organization that spans over 60 countries with offices in the United States, China, India, Brazil, Indonesia and more. WRI

has over 1,000 experts and staff who work closely with leaders to turn ideas into action to sustain our natural resources. Their work focuses on seven critical areas, including climate, energy, food, forests, water, cities, and the ocean. We recently spoke with WRI's US Director who oversees the U.S. climate team about the opportunities and challenges of green hydrogen.

Lastly, we seek to leverage our networks where no formal partnerships exist. For example, we recently exchanged notes with the Rockefeller Foundation about aquaculture, FAIRR (a network of investors focusing on the global food sector) about sustainable and alternative proteins, and an NYU Professor of Chemical and Biomolecular Engineering about green hydrogen.

The background of the lower half of the page is an underwater scene. At the top, there are dark blue ripples on the water's surface. Below that, the water is a deep teal color, and many small, silvery fish are swimming in various directions. The bottom of the image shows a sandy seabed with light rays filtering through the water, creating a shimmering effect.

THE OCEAN FOUNDATION

The Ocean Foundation (TOF), Rockefeller Asset Management's primary scientific partner and advisor, is an international community foundation based in Washington D.C., established in 2003. As the only community foundation for the ocean, its mission is to support, strengthen, and promote organizations dedicated to reversing the trend of destruction of ocean environments around the world. This model enables the foundation to serve donors (expert management of a portfolio of grants and grantmaking), generate new ideas (develop and share content on emerging threats, potential solutions, or better strategies for implementation), and nurture implementors (help them be as effective as they can be). The Ocean Foundation and its current staff have been working on ocean and climate change issues since 1990; on ocean acidification since 2003; and on related "blue carbon" issues since 2007. For more information visit oceanfdn.org.

rockco.com/RAM

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