BGIS
BERLIN GREEN INVESTMENT SUMMIT

# Press Release

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## 5. Berlin Green Investment Summit

**Investors take on $1tn climate finance gap**

Institutional investors, businesses, scientists and policy makers got together at the quarterly online **Berlin Green Investment Summit,** 25th June 2020, 4pm – 4:45pm. The **key messages** were:

- **Climate change**, a much more serious threat than COVID-19, **can be reversed profitably.**
- Long-term professional investors with sustainable investment strategies that have a positive impact on the climate have also achieved significantly better returns than the market average. The prejudice that one would have to forego returns in order to do good is finally refuted:p
    - France's largest pension fund ERAFPP has delivered 25% better returns than the EU average thanks to sustainable investments over 14 years.
    - The Swedish pension fund AP4 is today by far the largest of the Swedish funds as it exited early from fossil investments.
    - Germany's new sovereign wealth fund KENFO - by excluding companies involved in producing oil and gas by fracking or open-pit coal mining - only suffered about a quarter of the markets' loss when they crashed in the first wave of the Corona crisis; like most ESG-focused funds, KENFO earned about 20% more than the market during the recovery phase.
    - Al Gore's Generation Investment Management's long-only ESG and climate-focused equity funds have achieved one of the best returns over the last 14 years of any long-only equity funds.
    - Wermuth Asset Management's "Long/Short" strategy - excluding fossil energy producers on the "long" side – has earned about 10% per year over the last 13 years, or twice the market return.
    - The impact investors in the Toniic network have consistently posted a better return than the general market, especially in times of crisis; workers at companies which pursue not

only financial but also social or environmental goals are more motivated; this makes their firms crisis resistant.

  - The predecessor fund of the **Climate Endowment Hydropower Fund** (in formation) has earned around 10% per annum in euro terms, in a range between **8 and 14%,** on **1/100th of CO2** emissions compared to the EU electricity sector average and **1/1000th compared to coal-fired electricity.**

- In today's market environment, **it is worthwhile to invest "endowment style"**, ie, to switch to alternative, illiquid, long-term and thus sustainable investments, with a positive impact on the climate:
  - The Harvard and Yale endowments have earned between 10% and 12% per year over the last 20 years.
  - The traditional asset allocation of 60% equities and 40% bonds has earned around 6% over the last 20 years; over the next 20 years such a strategy could yield just 2% per year or even a negative return, caused by low interest rates and the overvaluation of equities.
  - The average European pension fund has earned on average only 3% per annum over the last 15 years.
  - To invest as successfully as Harvard and Yale, you need a certain size and a large team with relevant experience in alternative investments. The Climate Endowment Group was founded to allow European investors to invest successfully in an "endowment style" structure, with a positive impact on the climate. The group will initially set up a fund focused on hydro, solar and wind, as well as on forests. It targets professional investors.
  - Once a critical size has been reached, the Climate Endowment Fund will be listed so that everyone can participate, just as shares in Warren Buffet's investment vehicle Berkshire Hathaway can be bought on the stock exchange today.

- **Investors, companies and citizens need a $CO_2$ -tax that reflects externalities**
  - Renewable energies and zero-emission vehicles are already largely competitive today, compared to fossil fuels and internal combustion engines (which have a maximum efficiency of 35%, compared to 95% for the electric motor).
  - However, since the old industries continue to be supported by subsidies and aggressive publicity and lobbying, the change to a climate-neutral economy is taking far too long.

GermanZero has calculated that if we really want to reach the climate target of 1.5°C, given the remaining per capita budget of $CO_2$ emissions, **Germany should be climate neutral by 2023 - not 2050**.

  - In order to achieve a quick turnaround, clear market signals are needed.
  - The Federal Environment Agency of Germany estimates the costs caused by one tonne of $CO_2$ emitted today to be **640 €/t** over 100 years.
  - **The financial experts who met at the Berlin Green Investment Summit therefore echoed the call of 27 Nobel laureates: a $CO_2$ tax, a $CO_2$ dividend - through which the $CO_2$ tax revenue per capita is distributed to the populations -, and a $CO_2$ duty at the EU's borders are needed immediately. Everyone, every municipality, every state or province, every country as well as the EU can start today. By simply calculating and charging the true cost of activities will quickly change people's behaviour.**

- Under the **EU's Green Deal, all financial transactions should in future comply with the Paris climate target of 1.5 degrees.**

- In order to have **sufficient risk capital for climate solutions in project development, financing of young companies and innovations**, countries should also use the **blended finance** approaches as established by the World Bank:
  - government institutions give private investors preferential returns that are needed **to quickly correct market failures;**
  - for example, many attribute the current success of the venture capital industry in Israel to the Yozma program, in which the state participated in 50% of all investments, with a 3% cap on returns; governments should consider giving private investors a liquidation preference and yields above 3%;
  - an investment that yields 10%, with 50% government and 50% private investor ownership, results in returns of 3% for the government and 17% for the private investor (as the government earns 3 percentage points of the 10% and the private investor earns his or her part of the returns, plus the extra 7 percentage points from the government's share);
  - if the investment were to yield a return of only 3%, both would receive only 3% on their investment;
  - should the investment cause a loss, the private investor would get his money back first, then the government;

- in this way, the government encourages private capital to invest in climate related projects, companies and ideas.
- The experience of "mission innovation" countries was that pure state subsidies are often not efficient. In Paris it had been agreed to double spending on sustainable energy innovation from $15 billion and $30 billion a year - yet there has been little progress on the technologies needed for the 1.5 degree target.

Since governments have not yet taken sufficient measures to combat climate change, the Berlin Green Investment Summit is intended to bring together people, institutions and governments. It will now take the form of a quarterly online event at 4pm-4:45pm on the last Thursday of each quarter. It is hosted by the global family office impact investor network **Toniic**, the **Institutional Investor Group on Climate Change** (IIGCC), whose members manage **€30 trillion**, **Stiftung 2 Grad**, a German business network in support of the Paris climate targets, **GermanZero**, a non-partisan climate protection initiative that is working for a 1.5°C legislative package in Germany and has developed a plan on how Germany can become climate neutral by 2030, and climate impact investment consultant **Wermuth Asset Management GmbH**,
The series was launched with the first webinar on 25 June 2020, which dealt with the issue,
**"How to close the climate finance gap".**
The webinar on June 25, 2020 started with **Jochen Wermuth**, **Climate Impact Investor** and member of the Investment Committee of the German **sovereign wealth fund KENFO.** For him, the climate financing gap must urgently be closed. **"Divest-invest" or "fossil-free"** strategies that exclude the 200 largest fossil energy companies (the so-called "carbon 200 underground") have been shown to be profitable. He also emphasised the need for a **$CO_2$ price** that reflects externalities.

**Laurence Tubiana**, **CEO of the European Climate Foundation** & Chair of the Board of Governors, French Development Agency, provided updates on the **EU's Green Deal**, on the UNFCCC **COP26 finance track led by Mark Carney,** and on France's **Convention pour le climat** report to President Macron. She stressed that in the future all finance under the EU's green deal must be compliant with the Paris climate goal.

**Peter Damgaard-Jensen (Chair, Institutional Investor Group on Climate)**, CEO of Denmark's €30bn PKA pension fund, repeated IIGCC's key demands to the G20 and the EU: 1) make sure all stimulus packages are "green", 2) a $CO_2$ price must be put in place reflecting externalities and 3) enterprises and investors must be obliged to report on their $CO_2$ footprints and their plans to get to zero emissions.

**Phillipe Desfossés** (Co-Founder **Climate Endowment** & ex-CEO, **€40bn pension fund** ERAFP), highlighted the historic disparity between the long-term returns of large endowments (10-12%) and EU pension funds (3% on average). Expected returns could now be even lower, threatening the pensions of EU citizens. To achieve higher returns while addressing climate change, he co-founded the “Climate Endowment” which offers long-term, well diversified and illiquid investments to institutional investors. He announced that CE is about to launch its first funds, the “Climate Endowment Run-of-the-River Hydropower Fund” and the “Climate Endowment Forestry Fund”. Asset allocation across all asset classes, all with a positive impact on the environment, will be a feature of a future “Climate Endowment Fund”.
“*Pension funds might not to be able to match their liabilities over the next 20 years without substantial changes to their asset allocation strategy. They can llift returns and abate climate change by moving to alternatives with lower $CO_2$ footprints*” says Phillipe Defossés, co-founder of the Climate Endowment.

**Dr. Gilbert Frizberg** (CEO, F-Energies group, ex member of the Austrian Parliament) introduced the **Climate Endowment Hydropower Fund** for institutional investors, which is to deliver >100x less CO2 emissions per kilowatt-hour than the average EU electricity producer, and an 8% target return.

**Astrid Manroth**, **Director of Climate Finance** at the European Climate Foundation, stressed the need for **blended finance** initiatives. Governments must offer preferred returns to private investors to get them to provide capital for climate innovations, ventures and project development. So far, this well-established mechanism is mainly used for investments in the developing world. It can usefully be applied to scale up investments in climate solutions as well. Those preferred returns are needed to accelerate climate investments and to get a share of the **€150 trillion** global debt & equity markets.
Following the Webinar impulse presentations of the speakers, the participants had the opportunity to exchange information and discuss the issues in break-out sessions. In the future, there will also be a Linked-In group in which the topics will be continuously worked on.

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Background information :

**The Climate Finance Gap:** https://www.ceres.org/initiatives/clean-trillion

**The Ceres Clean Trillion highlights the need for an additional $1 trillion per year in clean energy investment (as estimated by the International Energy Agency and the International Renewable Energy Agency) to limit global temperature rise to below 1.5 degrees Celsius and avoid the worst impacts of climate change.**

Global clean energy transition is both essential and irreversible, and it will generate tens of trillions of dollars of clean energy investment opportunities over the decades to come. Energy market dynamics have shifted in favour of clean energy such as wind and solar, which increasingly out-compete new fossil fuel and nuclear power sources. As the clean energy market continues to mature and expand into a mainstream, large-scale market, there is a growing and diversifying array of investment opportunities.

Achieving the Clean Trillion is eminently feasible, and our most recent research points to the significant opportunities for investors to scale up their clean energy investments while meeting their risk-return requirements. Companies likewise are realising the economic benefits of shifting to clean energy as they make commitments to meet their energy demands with renewable energy, energy efficiency, and electrification of vehicle fleets.

**Toniic:** https://toniic.com/

We are a global community of asset owners seeking deeper positive net impact across the spectrum of capital

Our members consist of more than 400 high net worth individuals, family office, and foundation asset owners who are deepening their impact across the spectrum of capital and personal resources in more than 25 countries around the world.

**Institutional Investor Group on Climate Change**: www.iigcc.org

Investors taking action for a prosperous, low carbon future:

Our mission is to mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors.

The investor voice on climate change:

The Institutional Investors Group on Climate Change (IIGCC) is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. IIGCC has more than 240 members, mainly pension funds and asset managers, across 15 countries, with over €33 trillion in assets under management. IIGCC's mission is to mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors. IIGCC works to support and help define the public policies, investment practices and corporate behaviours that address the long-term risks and opportunities associated with climate change.

**Stiftung 2 Grad:** https://www.stiftung2grad.de/

Our mission:
The most important aim of Foundation 2° – German Businesses for Climate Protection is in the name: to limit average global warming to well below two degrees Celsius.
The exclusive and immediate aim of the foundation is to promote climate protection and the sustainable use of natural resources and natural ecosystems.
We are working to support politicians in establishing free-market framework requirements for climate protection, and to activate German businesses to find solutions for climate protection.
Cross-Industry Platform for Active Collaboration: Foundation 2°:
Foundation 2° is more than just an alliance between businesses. It is a platform for active collaboration in which businesses from different industries work together in a solution-oriented manner to find answers to questions of corporate climate protection.

Under the umbrella of a not-for-profit, independent foundation, the supporting businesses can work toward more open outcomes and on more complex issues of climate policy than would be possible in individual businesses. In addition, the supporting businesses consciously form a small and flexible group which can react quickly to political and economic trends and developments.

**German Zero**, https://www.germanzero.de/

The mission of German Zero is to achieve a climate-neutral Germany by 2035 at the latest. We will present a 1.5°C legislative package, including a $CO_2$ tax reform, and a comprehensive package of climate protection measures to be anchored in the German constitution. Together with thousands of taxpayers, we will increase the necessary pressure to ensure that the 1.5°C legislative package is passed with a 2/3 majority in the Bundestag in 2022. This will be the last chance to turn the tide.

**Wermuth Asset Management GmbH,** https://wermutham.com/

Incubated as the principal family's single-family office adviser in 1999, WAM has evolved into a climate impact investment adviser with a focus on high risk-adjusted financial returns alongside positive climate impact across all asset classes.
Our Green Growth Funds invest in "exponential organizations" as defined by Singularity University, companies with the potential to solve a major problem of humanity (climate change in our case) profitably and grow exponentially.
Our forestry strategy turned operations covering 1m hectares, or 4x the size of Luxemburg, into a Forestry Stewardship Council (FSC) compliant profitable operation.
Our long/short divest-invest strategy has returned some 10% per annum long-term.
Through the Climate Endowment Group we aim to offer institutional investors the ability to invest across all asset classes with positive impact on climate abatement. The ultimate aim is to also "democratize" long-term alternative and climate impact investments by listing the assets which the Climate Endowment Fund will hold, allowing any citizen to participate in this long-term endowment-style investment vehicle.

**Climate Endowment Group,** https://climate-endowment.com/

Climate Endowment is a climate-focused investment company employing the multi-asset class endowment style, pioneered by Yale and Harvard university endowments. We aim to achieve both solid long-term risk-adjusted returns and a significant reduction of global $CO_2$ emissions. It was launched by experienced investment professionals and entrepreneurs as an urgent response to the Climate Crisis and to the European voters' demand for a Green Revolution. We seek lower risk and lower return investments than most of the private equity industry and aim to cater to the risk profile of more conservative investors. Climate Endowment focuses on investments in scalable platforms with infrastructure / hard asset characteristics based on proven technologies with significantly lower $CO_2$ emissions.

**Climate Endowment Hydropower Fund**

The "Climate Endowment Hydropower Fund" is the first product of the Climate Endowment Group. It is due to to be launched as a Luxemburg RAIF managed by Hauck-Aufhäuser Luxemburg and available to professional investors from July 2020. The aim is to achieve an 8% IRRs through investments in green- and brown-field mid-sized run-of-the-river hydropower plants. “Run-of-the-river” implies that there is far less negative environmental impact as there is when one closes off whole valleys with large barrages. The assets have a typical live of some 100 years, generate stable cash flows and produce power at less than 1/100$^{th}$ the $CO_2$ footprint per kilowatt-hour produced than the average for EU power production.

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